CITY OF LOS ANGELES
BOARD OF DEFERRED COMPENSATION ADMINISTRATION

MINUTES
MEETING OF DECEMBER 20, 2005 – 9:00 A.M.
700 E. TEMPLE, ROOM 350

Board Members:
Present:
Shelley Smith, Chairperson
Joya De Foor, Vice-Chairperson
Richard Kraus
Bill Stein
Maggie Whelan
Eugene K. Canzano
Not Present:
Don Keith

Staff:
Personnel: Maryanne Keehn, Personnel
Steven Montagna, Personnel
Fernando Campos, Personnel
Joann Dominguez, Personnel

1. CALL TO ORDER

The Chairperson called the meeting to order at 9:03 a.m.

2. PUBLIC COMMENTS

Shelley Smith welcomed Board member Eugene K. Canzano as the new representative for the Department of Water and Power.

Ms. Smith asked if there were any public comments. There were no public comments.

3. MINUTES

Richard Kraus asked if John Hill used the words “resourceful information” when referring to page one, paragraph one, under public comments. Fernando Campos indicated that Mr. Hill did use “resourceful information” when addressing the Board.

Mr. Kraus indicated that he had some corrections to the October 18, 2005 minutes. The amendments were as follows:

- Page 3, 2nd Paragraph, 5th sentence: change sentence to "Mr. Kraus responded that he shared Mr. Bledsoe's confidence but having the information would be useful."
- Page 4, 3rd Paragraph, 2nd sentence: change from "….not parallel of benefit to cost" to "…not parallel in terms of cost."
- Page 6, Board Report 05-29: Add that Mr. Kraus indicated that the proposed Mercer fees are uneven and that they create big jumps rather erratically.
- Page 6, 5th Paragraph, 2nd sentence: rephrase "…asked if the committees would be on a volunteer basis" to "…asked if the committees included participants, would they be on a volunteer basis."

Following the amendments, **a motion was made by Bill Stein and seconded by Richard Kraus, approving the minutes of the October 18, 2005 meeting as amended; the motion was unanimously adopted.**

4. BOARD REPORT 05-34: PLAN STAFFING/2006 BUDGET

Mr. Kraus indicated that he agreed that the Plan needs more staff but was concerned with the source of funding. Mr. Kraus asked about the reserve fund ground rules when it was first created in terms of its intended purpose. He stated he was concerned about the reserve funds being sustainable and asked if there could be future discussion about fees. Mr. Kraus indicated that he would like to have more knowledge and understanding about fee structure to better understand how the Plan finances things. He asked if the Plan was paying its full share for services and not subsidizing it in other ways. Maggie Whelan asked if Mr. Kraus could clarify what he meant. Mr. Kraus indicated that he recalled discussions of services provided to the Plan from other departments that ere not compensated. Steven Montagna indicated that the only previous discussions along these lines were in terms of City Attorney services but that was not part of this recommendation.

In response to the first question, Mr. Montagna indicated that the reserve fund was set up as a repository for fee revenues that are collected from the Plan. He indicated that the way the Plan charges participants are different than how Great West Retirement Services ("GWRS") is paid. Mr. Montagna indicated that back in 1999 when the Plan transitioned from the old Plan design to the new one, the Board avoided a per-participant flat fee model that would have resulted in a fee increase for Plan participants with relatively small account balances. Mr. Montagna referred the Board to the graph on page 2 of the staff report indicating that over time the Plan's reserve funds have increased. He stated that the purpose of the reserve fund is to capture excess fee revenue; however, that money belongs to the participants. He further indicated that the Board can take two actions with the surplus; (1) return the excess revenue back to the participants in the form of decreasing fees or (2) spend the excess revenue on services that would benefit participants. He stated that the rationale in staff's recommendation was that the increase in staffing is a benefit to participants. He further indicated that there is no language that explicitly tells the Board what to do with the excess revenue.

In response to question two, Mr. Montagna indicated that staff is comfortable with spending some of the excess revenue to meet staffing needs. He indicated that if it had been two or three years ago, staff would not be comfortable with making such a recommendation. He indicated that the reserve fund has been in effect since 1999 and staff has always been very conservative with its revenue and expense projections. Now the reserve fund is likely at a level where the Board must either identify service needs or reduce fees.

Ms. Smith indicated that the question is what we view as critical mass because there will be a time that total Plan assets will go down but hopefully not as low as in 2001. She indicated that additional staff and resources would be appropriate to meet the growing needs for the Plan. Mr. Kraus indicated that one item that had not been established is a baseline to cover the fees with GWRS. Mr. Montagna indicated that the Plan's reserve fund has exceeded the $1 million level and that the reserve has grown over time and even during the bear market. He indicated that budget projections use very conservative assumptions and that revenues are exceeding expenses. He further indicated that the request for additional staffing would not be effective until July 2006 at the earliest and new staff would be hired at a lower level. He stated that as a result, actual expenses were likely to be less than those projected He stated that this gradual approach allows the Board to proceed cautiously.

Joya De Foor indicated that the Plan may need more staffing but as a department head when she has submitted similar requests she has been denied and asked to wait until she can demonstrate that a need exists. Ms. De Foor indicated that many of the projections used by staff are speculative and asked if staff had considered a delay of the recommendation in which perhaps the Board could make a one-time rebate for the equivalent of six-months worth of staff salary and assess the budget again mid-year. She indicated that it isn't that she did not believe staff but the justifications should be looked at the same way as any other City department. Ms. Whelan asked why the Plan would want to operate the same way as the City. Ms. Smith indicated she agreed with Ms. Whelan. Ms. Smith indicated that there may be challenges with staffing in other City departments but participants of the Plan deserved staffing if they are paying for it. She stated that the Plan should not be compared to other City departments because taxpayers pay for those services and in our Plan, the participants pay for their services. Ms. De Foor indicated that she would like to see a rebate back to the Plan in addition to staffing.

Mr. Montagna indicated that many of the changes creating staffing needs have already occurred. In fact, since 1995 when the Plan was transferred from the Treasure's office to the Personnel Department, Plan assets have tripled and participation rates have almost doubled. He further indicated that since 2001, tax laws regulating the Plan are much more complicated and new services have been added. In addition, Mr. Montagna indicated that the investment products have changed. He indicated that prior to 1999, investment products were bundled with the Plan Administrator, whereas now those products require their own Requests For Proposal ("RFP's"). Mr. Montagna reminded the Board that the report from the City Administrative Office ("CAO") regarding the 2004

Plan Administrator RFP stated that the Board should look at internal staffing resources for some local staffing needs rather than relying solely on the Plan administrator. He indicated that staff's recommendation was consistent with the CAO report and that one of many reasons for an increase in staff is that part of the professional staff could be dedicated to local communication efforts and outreach. Ms. Whelan indicated that the Plan should have as many experienced individuals as possible in the event of staff turnover.

Bill Stein asked if staff could clarify the increase in the budget request. Mr. Montagna indicated that an increase of $200,000 was for contractual services and an increase of $85,000 was for new staff. Mr. Stein reminded the Board that in addition to the legislative changes, the Board recently created ad-hoc committees that would require a considerable amount of time from staff. He further indicated the Board should keep in mind housekeeping issues to be addressed such as an Ethics Policy and that anything that the Board will ask for will require staff support. Mr. Stein indicated that in learning about other plans during NAGDCA, he was surprised to see a higher amount of staff support in other plans compared to the City.

Mr. Kraus indicated that he had no problem with the staffing needs but was concerned with the funding of it. He indicated that perhaps the issue could be looked at in a structured or layered way. He indicated that the first step is to establish the amount of money that should be required to be in the reserve account. The second step is to establish which expenditures need to be paid through phases, such as phase one would be immediate expenditures, phase two would be consulting fees, then staffing, and then what ever comes after that. He further indicated that the Board could set aside a block of money for appropriate expenses and gradually phase in other expenditures. Mr. Montagna indicated that staff had essentially already done that in its proposal. He stated the Board could adopt the current reserve level as its base. He stated that some portion of the consulting fees are obligated because of the Plan survey cost which will be due in a couple of months, and that the Third-Party Administrator RFP must be issued sometime early next year. He further indicated that other RFPs would also need to be issued besides the current one and that if the budget were approved, staff would need to submit the request for new positions to Council and ask if the new positions could be included in next year's budget request. He indicated that before staff actually hires, staff could report back to the Board and provide an additional opportunity to reassess the request.

Eugene K. Canzano indicated that the Plan's budget situation appears to be very conservative and that the reserve account is at a reasonable level. He indicated that now that we have the reserve account at the level that it is, the Board can concentrate on what may cause a decrease to the reserve. He asked what caused the dips in surplus in June 2003 and September 2005. Ms. Smith replied that many factors contribute to that on a quarterly basis, such as market conditions, rollovers, distributions, or contributions. Mr. Montagna indicated that another factor is the timing of payments made to the record-keeper or audit reconciliation. Ms. De Foor indicated that she was in support of additional staffing in recognition of the need for continuity in staffing resources. Mr. Kraus indicated that he was concerned about transparency to the participants and that he was not sure what amount of the reserve fund should be set aside as a reserve. Mr. Montagna indicated that if the Board was looking for a recommendation, then perhaps $1 million was a reasonable threshold, plus or minus modest fluctuations. He further indicated that staff reports to the Board regarding the reserve account would be provided, which would give the Board the opportunity to make adjustments going forward.

Ms. Smith indicated that the $1 million target may be revisited at any time. She indicated that this amount would help maintain a prudent reserve and that she would encourage the Board to view the reserve as Plan protection. She further indicated that the fees participants pay is reasonable and low for the industry. Mr. Kraus indicated that an alternative would be to eliminate the fifty-cent fee and that this would give the Plan an opportunity to give back to participants. Mr. Montagna indicated the staffing structure recommended is intended for addressing participant service needs over the next five-year cycle. He further indicated that if the Plan continued to grow and revenues continued to exceed expenses, it is likely that staff would come back and revisit decreasing the fifty-cent fee. He agreed this should be the first target for any fee reduction. Ms. Smith indicated that the latter issue could be referred to the Plan Governance Committee for further discussion.

Following the discussion, **a motion was made by Bill Stein, seconded by Richard Kraus, approving the Plan Staffing/2006 Budget and setting a target reserve in the amount of $1 million plus or minus 10% (ten percent) for market fluctuation; the motion was unanimously adopted.**

5. BOARD REPORT 05-35: PLAN DOCUMENT

Mr. Montagna indicated staff asked Mercer, the Plan's consultant, to make modifications to the Plan document to fully comply with recent federal regulations imposed for section 457 plans. He indicated that in the process of identifying the recommended changes, Richard Bobb of the City Attorney's office discussed other modifications that may need to be made. He indicated that the changes may be referred to the Plan Governance Committee. Ms. De Foor asked if the City Attorney's Office had indicated the length of time it would take to develop the other changes needed. Mr. Montagna indicated a project of this size might take six months. Mr. Kraus asked if the Board could be confident that the Plan document with the recommended modifications meets the year-end legal requirements. Mr. Montagna replied that it could. Ms. De Foor indicated that she would like to request that staff report back within 90 days regarding other re-write efforts.

Following this discussion, **a motion was made by Joya De Foor, seconded by Eugene K. Canzano, approving the Plan Document changes and a report within 90 days from staff regarding other re-write efforts; the motion was unanimously adopted.**

6. BOARD REPORT 05-36: REQUEST FOR PROPOSAL ("RFP") FOR INVESTMENT MANAGEMENT SERVICES

Mr. Montagna indicated that very few proposals were received in response to the Board's RFP for Investment Management Services for a Core Mid-Cap Fund and Core Bond Fund. As a result, staff was recommending that the Board authorize the Plan consultant, Mercer Investment Consulting, to conduct an investment manager search.

Ms. De Foor indicated that based on her experience some of the best providers would like to do business with the City but opt not to do so because of the burdens imposed by the City's Standard Provisions. Mr. Montagna indicated the City Attorney's Office commented that a consultant provider search was acceptable so long as the Board had made a good faith effort in going out to bid and had not received an adequate number of responses. Ms. Smith indicated that she appreciated the effort to encourage vendor competition and that the Plan's first priority was the achieve "best of class" options.

Mr. Montagna indicated that the recommended alternative search process would likely be less expensive than continuing with the review of the RFP responses. Mr. Kraus asked how the results of the search would be presented to the Board. Mr. Montagna indicated that staff's intent was to present Mercer's recommendation and that if the recommendation was acceptable to the Board, the Board could make a selection and cancel the RFP. Ms. Smith indicated that staff and Mercer should make themselves available to providers that would want to participate in the consultant search. Mr. Kraus asked if there would be any possibility to mandate the Core Mid-Cap search to include index funds. Ms. Smith indicated that this would represent a completely different investment strategy. She indicated that if there was an interest in adding an index fund, the matter could perhaps be referred to the Plan's Investment Committee.

Following the discussion, **a motion was made by Bill Stein, seconded by Maggie Whelan, suspending further consideration of responses to the RFP for Investment Management Services, and authorizing the Plan consultant, Mercer Investment Consulting, to conduct a provider search for Core Mid-Cap and Core Bond investment managers; the motion was unanimously adopted.**

7. GREAT-WEST QUARTERLY STATISTICAL REPORT: 09/30/05

Usha Archer of Great-West Retirement Services ("GWRS") presented the 3rd quarter 2005 Plan statistics. She began by indicating that Plan assets increased 5% to $2.14 billion. She indicated that assets rose substantially in the Hartford Life General Account followed by Growth Fund of America. Ms. Archer further indicated that the number of Plan participants increased to 35,013, with 427 newly enrolled participants in the quarter due to the lift in the City's hiring freeze. Mr. Stein asked if GWRS had an idea of how many of those who are non-contributing participants had severed employment. Ms.

Archer indicated roughly 5,000 of the 8,089. She stated that the participation rate is approximately 59%.

She next reviewed participant transfer activity, net transfer activity, and asset distribution by asset class for the 3rd quarter. Mr. Kraus asked if Ms. Archer could change the slide title on page 12 from “Asset Distribution…” to “Asset Allocation.” Mr. Canzano asked if GWRS could add labels to the pie chart on page 12 indicating the asset class. Ms. Smith stated that an additional slide would make the chart easier to read.

Ms. Archer continued her presentation by indicating that the average account balance was at a little over $61,000. Mr. Kraus asked if GWRS could break down the average account balance by percentile. Ms. Archer indicated that GWRS would look into Mr. Kraus’ request and perhaps come up with a new table.

Ms. Archer continued by discussing local office activity. She indicated that the local office had over 47,000 participant contacts year-to-date and that participants were clearly comfortable calling the local office for assistance. She indicated that the Ontario Airport and Harbor Departments are a part of GWRS outreach efforts. Ms. Archer stated that twice a month a GWRS representative is available at the main Department of Water and Power building on Hope Street, daily at City Hall, quarterly in Van Nuys, and monthly at the Los Angeles International Airport (“LAX”). She continued by discussing the number of meetings year-to-date, types of meetings held, meeting attendees by month and department, individual counseling sessions, and local office phone call activity. She indicated that many of the local phone calls are from retirees. Ms. Archer stated that 37% of all distributions processed during the 3rd quarter were full account distributions at approximately $9.5 million followed by loan distributions at approximately $5.9 million.

Ms. Archer continued by indicating that partial distribution requests are gaining popularity and that participants were notified of the maximum deferral amount increase for 2006 via e-mail, pay stuffer on December 7, 2005, and the 3rd quarter newsletter. Ms. Smith asked if the rollover figures included any rollovers from the DROP program. Ms. Archer replied yes. Mr. Canzano asked if there is a regulation that required participants to make deferral changes during the month of December or could someone make a deferral change several months in advance with an effective date in the future. Ms. Archer replied that GWRS was currently working on an automatic increase feature along with an automatic feature to maximize deferral amounts. Mr. Kraus asked GWRS to change the word “forfeiture” to “reserve” on page 28 and incorporate the graph from page 33 onto page 24. Ms. Archer concluded by indicating that the reserve balance is over $1.2 million and discussed the 3rd quarter fee reconciliation.

8. BOARD REPORT 05-37: ADMINISTRATIVE FEE TRUST FUND RECONCILIATION/REIMBURSEMENT 09/30/05

Mr. Montagna indicated that this report was generally a routine item for the Board. He stated that the Administrative Fee Trust Fund was the repository for the fifty-cent fee paid by Plan participants to fund the City's internal administration of the program. Mr. Kraus asked if staff was concerned with the decrease in the projected surplus. Mr. Montagna indicated that the decrease was modest and not a concern. **A motion was made by Bill Stein, seconded by Richard Kraus, approving reimbursement from the Deferred Compensation Plan Trust Fund # 896 to the Personnel Department for $48,837.98 for the quarter ending 09/30/05; the motion was unanimously adopted**.

9. BOARD REPORT 05-38: STAFF REPORT & INFORMATION ITEMS

Ms. Smith indicated that prior to moving forward to the report, she would like to announce her appointments of Board members to specific Plan committees. She appointed Joya De Foor, Richard Kraus, and herself to the Investment Committee and Maggie Whelan, Bill Stein, and Don Keith or Eugene K. Canzano to the Governance Committee. Ms. Smith asked if any of the Board members had any objection to these appointments. No objections were made.

Mr. Montagna indicated, for the benefit of the newest Board members, that this was a routine monthly statistical report. He indicated that the information contained in the report is general. He asked if any of the Board members had any questions related to the report or information items. Mr. Kraus inquired about the Plan survey response rate and asked if staff had any preliminary figures as of December 2005. Mr. Montagna indicated that the response rate was approximately 20% and that the statistical information may be available by early January. **A motion was made by Bill Stein, seconded by Richard Kraus, to receive and file the report; the motion was unanimously adopted.**

10. HARDSHIPS

Ms. Smith indicated that Case No. 05-17 and Case No. 05-18 were submitted for informational purposes only and that Case No's. 05-19, 05-21, 05-23, and 05-24 needed approval. **A motion was made by Joya De Foor, seconded by Bill Stein, approving full hardship distributions in Case No's. 05-19, 05-21, 05-23, and 05-24; the motion was unanimously adopted.**

Ms. Smith asked those in attendance at the Board meeting who were not parties to the non-routine hardship applications to voluntarily leave the room for consideration of Case No. 05-20 and Case No. 05-22.

Ms. Smith asked if the applicant in Case No. 05-20 was present. Mr. Campos indicated that the applicant was not present. Ms. Smith asked if staff provided information to the applicant regarding the right to appeal in Case No. 05-20. Mr. Campos indicated that he had done so. **A motion was made by Joya De Foor, seconded by Richard Kraus,**

denying the partial hardship withdrawal request in Case No. 05-20; the motion was unanimously adopted.

Ms. Smith asked if the applicant in Case No. 05-22 was present. Mr. Campos introduced the applicant’s spouse. Ms. Smith indicated that the Board had reviewed the items in Case No. 05-22 and asked if the applicant’s spouse would like to take the opportunity to explain her situation. The applicant’s spouse indicated that she had researched, prepared a business plan, and consulted a business analyst to assist in the pre-stages of opening her business. She indicated that she had experience working in the field of sales and marketing but that she and others franchises were victims of fraud. The applicant’s spouse further indicated that her home was in foreclosure.

Ms. De Foor asked about one particular debt obligation and indicated that she would like to see some sort of independent finding, such as a report from the Better Business Bureau or State of California Attorney General’s Office, regarding the issue of fraud. Mr. Kraus indicated that the applicant appeared to have a high debt load and would like to see what the applicant’s debt load was before and after the financial emergency.

Ms. Smith indicated that it appeared that the investment is a direct cause for the financial emergency and asked each Board member whether or not they were in favor of the staff recommendation. Mr. Stein, Ms. Smith, and Mr. Canzano indicated they were in favor of approving the application and Mr. Kraus and Ms. De Foor indicated they were not in favor. The applicant’s mother asked if she could approach the Board. The applicant’s mother asked for clarification of the concerns about approving the hardship request. Ms. De Foor indicated that she would need some sort of independent findings of complaints against the company. Mr. Kraus indicated he concurred with Ms. De Foor and would also like to see the before and after debt load. Mr. Montagna indicated the Board could grant an approval contingent upon receipt of documentation for the requested information. Ms. Smith volunteered to review the documentation before disbursement of funds. As a result, **a motion was made by Bill Stein, seconded by Richard Kraus, approving a full hardship distribution in Case No. 05-22 conditional upon receipt of documentation establishing complaints against the company and information indicating the applicant’s debt before and after investment in the franchise; the motion was unanimously adopted.**

13. NEXT MEETING DATE: JANUARY 17, 2006

14. ADJOURNMENT

A motion was made by Maggie Whelan, seconded by Bill Stein, to adjourn the meeting; the motion was unanimously adopted and the meeting adjourned at 11:22 a.m.

* Minutes prepared by Staff member Fernando Campos