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DEFERRED COMPENSATION PLAN BOARD REPORT 06-24



Date: June 7, 2006

To: Board of Deferred Compensation Administration

From: Plan Governance Committee/Staff

Subject: Recommendations from Plan Governance Committee

Recommendation:

That the Board of Deferred Compensation Administration approve recommendations to the City Council to take the following actions with respect to governance of the Deferred Compensation Plan:

- (1) Add the three retirement/pension system managers for LACERS, Fire/Police Pensions and DWP Retirement to the Board of Deferred Compensation Administration;
- (2) Delete the City Treasurer position on the Board;
- (3) Retain the General Manager Personnel Department position on the Board;
- (4) Include language within the Administrative Code strongly encouraging individuals in the three retirement/pension system manager positions, as well as the General Manager Personnel Department, to be Deferred Compensation Plan participants;
- (5) Delete the three current Board positions representing LACERS, Fire/Police Pensions and DWP Retirement, and replace them with three new positions which would be directly elected by Deferred Compensation Plan participants who are members of these respective constituent groups;
- (6) Establish the term length for all elected positions on the Board at three years;
- (7) Establish that in the event a vacancy occurs in one of the LACERS, Fire/Police Pensions or DWP Retirement positions, the respective LACERS/Pensions/DWP Retirement boards should be allowed to fill the position from their membership, providing the member is a participant in the Deferred Compensation Plan, with the replacement being permitted to serve out the remainder of the term;
- (8) In addition, separate from the Administrative Code changes, the Committee recommends that the Board take action to request more specific information from the coalition of employee organizations regarding its protocols for appointing its representative to the Board.

Staff further recommends that, for those recommendations to be made to City Council, the Board direct staff to return to the Board with its proposed transmittal report and draft language changes to the Administrative Code.

Discussion:

A special meeting of the Board of Deferred Compensation Administration Ad Hoc Plan Governance Committee was held on June 6, 2006. Also present at this meeting were members of the Plan Governance Task Force. The purpose of the meeting was to discuss in more detail the recommendations of the Task Force concerning potential changes to the composition of the Board (see attached Committee report 06-01).

This report will address the discussion/recommendations developed by the Committee regarding the following governance issues:

- Plan Sponsor Representatives on the Board
- Constituent Representatives on the Board
- Terms/Elections
- Vacancies of Elected Positions
- Labor representative selection protocols

Plan Sponsor Representatives on the Board – Committee members discussed with Task Force members the merits of replacing the City Treasurer position with the three managers of the retirement/pension systems. Committee members Maggie Whelan and Bill Stein were supportive of this concept on the basis that these managers were likely to bring related experience and continuity to the Board, as well as create synergy and dialogue around issues which could benefit each of the retirement systems. Committee member Eugene Canzano indicated his concern that adding three additional manager representatives, who would be on the Board by virtue of their position, would dilute the objective of making the Board more accountable to the membership.

There was discussion regarding the merits of an alternative approach, namely adding a single rotating retirement/pension system manager position. However, by a 2-1 vote (Whelan/Stein in favor, Canzano opposed) the Committee approved a recommendation to the Board to add the three retirement/pension system managers to the full Board.

There was further debate regarding the question of whether the Plan Sponsor representatives on the Board should be required to be participants in the Plan. Mr. Canzano believed that this should be a requirement, but Ms. Whelan and Mr. Stein favored as an alternative some type of formal acknowledgement that participation in the Plan for individuals in these positions is strongly encouraged. By a 2-1 vote, (Whelan/Stein in favor, Canzano opposed) the Committee supported recommending to the Board that the Administrative Code language concerning the retirement/pension manager and General Manager Personnel Department positions formally acknowledge that participation in the Deferred Compensation Plan for individuals in these positions is strongly encouraged.

The full Committee unanimously supported a recommendation that the City Treasurer position be eliminated from the Board. The full Committee unanimously supported a recommendation that the General Manager Personnel Department position be retained on the Board.

Constituent Representatives on the Board – Following discussion with members of the Task Force, the Committee was unanimously supportive of recommending to the full Board that the three current Board positions representing the Los Angeles City Employees Retirement System (LACERS), Fire/Police Pensions (Pensions) and the DWP Retirement Plan be replaced by three new positions which would be directly elected by Deferred Compensation Plan participants who are members of these constituent groups.

Terms/Elections – The Committee debated the merits of various term lengths. There was concern that, for the elected positions on the Board, two-year terms might be too short in order to allow sufficient time for the representative to acquire experience and have an impact on the Board. There was also concern about the potential expense of elections (an estimate of those costs is detailed in the Committee report).

As a result, the Committee unanimously supported recommending 3-year terms for elected positions on the Board, with Mr. Canzano emphasizing his belief that three years should be the minimum length. The Committee further unanimously supported recommending plurality elections to avoid the additional complexity/cost of runoff elections.

Vacancies for Elected Positions – The Committee discussed the question of what would happen in the event vacancies occurred in the LACERS/Pensions/DWP Retirement constituent positions. The Committee elected to unanimously recommend to the Board that, in the event a vacancy occurred, rather than waiting until the next election to fill the position, the respective LACERS/Pensions/DWP Retirement boards should be allowed to fill the position from their membership, providing the member was a participant in the Deferred Compensation Plan.

The Committee separately considered the question of whether a vacancy filled by appointment in this situation should be for a limited time in advance of a special election, or through the end of the current term. By a 2-1 vote (Whelan/Stein in favor, Canzano opposed), the Committee elected to recommend to the Board that filling of the vacancy should be through the end of the current term, and that no special election should be required.

Labor Selection Protocols – The Committee discussed its interest in obtaining more specific information from the coalition of employee organizations regarding its protocols for appointing its representative to the Board. As a result, the Committee elected to recommend that the Board take action to request that the coalition provide this information to the full Board.

Next Steps

Any proposed changes to the governance of the Board will require an action of the City Council by ordinance. As a result, staff recommends that, for those recommendations to be made by the Board to the City Council, the Board direct staff to first return to the Board with its proposed transmittal report and draft language changes to the Administrative Code.

Submitted by: _____
Steven Montagna

Approved by: _____
Maryanne Keehn