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# DEFERRED COMPENSATION PLAN BOARD REPORT 05-30



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Date: October 4, 2005

To: Board of Deferred Compensation Administration

From: Staff

Subject: Board Committees

Recommendation:

That the Board of Deferred Compensation Administration approve the establishment of three standing Board Committees (**Investments & Plan Design, Governance & Communication**) to consist of and be chaired by Board members appointed by the Board Chairperson.

Discussion:

Staff has given consideration recently to some of the long-term issues affecting the Deferred Compensation Plan and their relationship to the structure of the administrative oversight and staff support for the Plan. In part this review has been prompted by the initial success of the participant-led Task Forces, which have provided a fresh perspective on the specific issues they've been asked to address.

Staff has further begun work on a project of developing draft by-laws for the Board. As part of this project staff is reviewing some of the bylaws used by other similar Boards and found that it is more typical for these entities to have standing committees to help them wade through more complex issues.

As the Board is likely already aware, the City's Plan has grown in complexity over recent years. With the benefits expansion provided by changes in 2001 federal/state legislation, Section 457 plans have expanded dramatically in scope and responsibility: loan programs, qualified plan rollovers, service credit purchases, and changes to state requirements regarding beneficiary designations are just a few examples of new benefits and responsibilities which the Plan has assumed in the last few years.

Additionally, the Plan has had to adapt to a proliferation of new products in the investment world. In the early 1980's, when 457 plans were in their infancy, the practical investment universe was largely limited to bundled insurance products and mutual funds. Now plan sponsors must consider possibilities for brokerage windows, life-cycle funds, directly

contracted investment products such as separate accounts and commingled funds, and even pension-fund styled hiring of investment managers. Beyond this, new trends have emerged in the plan sponsor community (e.g. negative enrollment, default asset allocation funds, managed accounts, etc.) which demand plan sponsor consideration.

Given the expansion of both benefits and workload, staff believes that it is important to adapt the administrative structure so that it can most effectively meet the challenges ahead. Towards that end, staff is recommending two broad changes:

- (1) Creating a new permanent Committee structure for the purpose of expanding Board involvement in analysis/consideration of broad, complex issues affecting the Plan; and
- (2) Expanding/restructuring staffing so that it is commensurate with the size and complexity of the Plan.

Staff will address staffing issues in a separate report to be presented at the Board's November 15 meeting. The current report solely concerns the creation of Board Committees.

As a result of attempting to group the broad categories of issues facing the Plan, staff is recommending that the Board Chairperson establish three standing Committees – **Investments & Plan Design**, **Governance** and **Communications**. Under staff's proposal, these Committees would have the following broad responsibilities:

- **Investments & Plan Design** – working with staff and the Plan consultant to consider ongoing changes to the investment menu including both core options and the brokerage window; develop recommended policies for investment review and monitoring; and consider other broad issues related to the overall design and scope of the Plan.
- **Governance** – working with Personnel Department and City Attorney staff to generate and revise bylaws for the Board; conduct regular Plan Document review; draft proposed Administrative Code changes; consider ethics issues; and address other matters related to the governance of the Deferred Compensation Plan.
- **Communications** – working with staff and the Plan Administrator to develop strategies for enrollment, education and marketing, including development of new communication pieces and review of concepts like “negative enrollment” and other strategies for fostering the maximum benefits of the Plan to City employees.

Composition – Staff suggests that each Committee be composed of the following:

1. A minimum of one but not more than two Board members, to be appointed by the Board Chairperson, and with one of those individuals to be designated as Committee Chairperson;
2. Personnel Department staff;
3. (Depending on the Committee) Any combination of City Attorney staff, the Plan consultant and the Plan recordkeeper, as needed; and
4. Up to two volunteer Plan participants, periodically solicited and randomly selected, which would represent an extension of the “Task Force” model that will hopefully continue to provide for the Board a valuable “grass-roots” perspective on Plan issues.

It should be noted that staff does NOT recommend the involvement of any Board Committee in the review of responses to Requests for Proposal. As noted in the City Administrative Officer (CAO) report to the City Council regarding the decision-making process during the last RFP for Plan Administrative Services, and as further supported by the Mayor's recent directive to City Commissions, it is not a best practice to have direct Board review/analysis/scoring of vendor proposals. Staff finds that this function is best relegated to whatever review committee the Board wishes to designate (e.g. composed of staff, consultant, outside reviewers, etc.) but not to include individual members of the Board.

Staff anticipates that the creation of permanent Board Committees will play a vital role in helping the Plan take advantage of the many opportunities and meet the many challenges of the coming years. Staff believes that the Committees will further assist in demonstrating the Board's commitment to an inclusive decision-making process that this will best serve the interests of Plan participants going forward.

Submitted by: \_\_\_\_\_  
Steven Montagna

Approved by: \_\_\_\_\_  
Maryanne Keehn