



TO: THE HONORABLE MEMBERS OF THE PERSONNEL COMMITTEE	DATE: _____, 2006
REFERENCE:	COUNCIL FILE:
SUBJECT: DEFERRED COMPENSATION PLAN GOVERNANCE	

RECOMMENDATION

That the City Council approve recommendations from the Board of Deferred Compensation Administration for changes to the Board's governance structure, and instruct the City Attorney to transmit the necessary ordinance.

FINDINGS

On October 5, 2004, in response to numerous protests over a contract award decision made by the Board of Deferred Compensation Administration, the City Council exercised its authority under City Charter Section 245 and vetoed the Board's contractor selection. Along with that action, Council endorsed several recommendations developed by the City Administrative Officer (CAO) after it reviewed the Board's selection process, including canceling the 2004 Request for Proposal (RFP) for Plan Administration, conducting a survey of Deferred Compensation Plan participants, issuing a new RFP for Plan Administration, instituting improvements to its RFP selection processes, and considering certain recommended changes to Plan governance.

Since that time the Board has taken the following actions in support of the Council's recommendations:

- The 2004 RFP for Plan Administration was canceled;
- A volunteer participant-led Administrative Issues Task Force was created to develop a broad-based participant survey, which was issued in November 2005 and which resulted in a 20% participant response rate;
- Survey results were used to fashion a new RFP, released June 2006, which reflected an emphasis in participant sentiment towards lower cost over the addition of new services; and
- Changes were incorporated into the RFP review process so as to be fully reflective of the recommended best practices generated by the CAO.

MARGARET M. WHELAN, Chairperson

BILL STEIN, Vice-Chairperson

Board of Deferred Compensation Administration

Board Governance

The last of the City Council recommendations, i.e. improvements upon the governance structure for the Board of Deferred Compensation Administration, is now being addressed as well. In 2004, the CAO had recommended two specific improvements to the Board's governance structure: (1) providing for direct election of the Board's Retired Participant Representative by retired Plan participants; and (2) establishing terms for other positions on the Board in addition to the term set for the Retired Participant Representative. Beyond that, the CAO found that Board staff, in consultation with the City Attorney, should undertake a more thorough review of governing Administrative Code language in order to develop further recommendations for improvements.

The Board believed that in order for a review of its governance structure to be successful it was crucial to have grass-roots participant involvement in the process. As a result, the Board established a volunteer participant "Plan Governance Task Force." This Task Force was composed of randomly selected Plan participants who had expressed an interest in helping the Board address these issues.

The Task Force conducted its research over a period of months. It eventually developed a series of recommendations which, in the view of a majority of Board members, were well-considered, balanced and will help create a more democratic and accountable Board. The Board studied these recommendations both in sub-committee and full-board venues, and in the end made only modest adjustments to the recommendations developed by the Task Force members.

The proposed changes have been included within draft changes to Los Angeles Administrative Code Section 4.1407 (attached), which represents the legal authority for establishing the City's Plan. The following discussion details in narrative form the substance of those changes and how the proposed Board structure would differ from the current structure.

Recommended Changes to Board Membership:

- **Directly Elected Constituent Positions** – The Board supports the Task Force goal of building greater accountability and a more direct participant role on the Board. Therefore, the Board proposes establishing four directly elected positions, the eligible voting membership of which would be Plan participants within the following four constituent groups:
 - Active member Plan participants of the Los Angeles City Employees Retirement System
 - Active member Plan participants of Fire/Police Pensions
 - Active member Plan participants of the DWP Retirement Plan
 - Retired Plan participants

These positions would replace four positions on the Board whose members currently serve by virtue of appointment, or by election to other Boards (and are therefore not directly elected by Deferred Compensation Plan participants):

Deferred Compensation Board Constituent Group Representatives			
	Current		Proposed
Delete-->	LACERS rep elected to LACERS Board, appointed by LACERS Board to Deferred Comp Board	Replace With-->	LACERS rep directly elected by LACERS members who are Deferred Comp Plan participants
Delete-->	Pensions rep elected to Pensions Board, appointed by Pensions Board to Deferred Comp Board	Replace With-->	Pensions rep directly elected by Pensions members who are Deferred Comp Plan participants
Delete-->	DWP rep elected to DWP Retirement Board, appointed by DWP Retirement Board to Deferred Comp Board	Replace With-->	DWP rep directly elected by DWP retirement plan members who are Deferred Comp Plan participants
Modify-->	Retired participant representative selected other Board members	Replace With-->	Retired Participant Representative Position selected through direct election by retired Plan participants

- Plan Sponsor Representatives** – – The Board supports the Task Force goal of ensuring that the City’s interests as plan sponsor are fully represented on the Board, and further supports Task Force findings that (a) this role is best filled by including the managers of the City’s three retirement/pension systems; and (b) that by doing so, considerable additional benefit could flow to the City by providing a regular opportunity for administrators of the City’s four retirement programs to share ideas/resources and coordinate services. Therefore, the Board proposes that the City Treasurer position be deleted from the Board and replaced with the managers of the three retirement/pension system managers:

Deferred Compensation Board Plan Sponsor Representatives			
	Current		Proposed
Delete-->	City Treasurer	Replace With-->	-LACERS General Manager -Pensions General Manager -DWP Retirement Plan Manager

- Labor Representative** – The Board supports the Task Force goal of ensuring that City labor unions have a representative on the Board. The Labor Representative plays an important role in speaking to the interests of City organized labor regarding a benefit program of great value to its membership. The Board further supports the Task Force goal of ensuring that the Labor representative is both a participant in the Plan and is certified by the coalition of employee labor unions on at least a bi-annual basis.
- General Manager Personnel Department** – The Board supports the Task Force goal of retaining the General Manager Personnel Department position on the Board, given that Personnel Department staff provide primary staff support to the Board.

In summary, the proposed restructured 9-member Board of Deferred Compensation Administration would include:

1. General Manager Personnel Department
2. General Manager Los Angeles City Employees Retirement System
3. General Manager Fire/Police Pensions
4. Retirement Plan Manager – DWP Retirement Plan
5. LACERS Directly Elected Representative
6. Pensions Directly Elected Representative
7. DWP Directly Elected Representative
8. Labor Representative
9. Retired Participant Directly Elected Representative

Miscellaneous Changes

The Board is recommending several other related changes to Board governance, all of which were either generated by or are consistent with recommendations developed by the Plan Governance Task Force:

1. All Board members would be required to be participants in the Plan – if an ex officio member (e.g. the General Manager Personnel Department or one of the three retirement/pension system managers) is not a participant in the Plan, that individual would be disqualified from serving so long as he or she was not a participant in the Plan;
2. The terms for all the elected Board positions would be set at three years, but no term limits would apply to any of these positions; and
3. In the event a vacancy occurs in one of the elected positions, a special election would be held in the event that the balance of the remaining term was two years or greater – if one year or less, the position would be filled by one of the elected members of the retirement/pension boards from within whose constituent group the vacancy occurred or, in the case of the Retired Participant Representative, appointed by the Board.

Charter Section 245

In its study of the 2004 RFP selection process, the CAO included a recommendation that Administrative Code provisions governing the Plan be modified to bring it into accordance with City Charter Section 245. Those draft changes have been prepared in the attached proposed modifications to LAAC Section 4.1407.

Conclusion

The controversy of the Board's 2004 RFP for Plan Administration resulted in a chain of events which brought needed scrutiny to the Deferred Compensation Plan. As Councilmembers will recall, it was the actions of ordinary Plan participants that caused the Council to not only veto a controversial Board decision, but to go further and recommend improvements to the Board's selection processes and governance.

Perhaps the sentiment most frequently expressed by Plan participants at that time was that an important decision had been made by the Board without obtaining participant feedback and without leaving participants any direct recourse. Council wisely stepped in with the goal

of ensuring that the Board would be responsive to participants, both for the decision regarding the Plan Administrator contract as well as in future matters. The Board believes that these proposed changes are fully consistent with that goal and will promote participant involvement in the Plan and accountability in decision-making, and a stronger Plan going forward.