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DEFERRED COMPENSATION PLAN PLAN GOVERNANCE COMMITTEE REPORT 06-01



Date: June 1, 2006

To: Board of Deferred Compensation Administration Plan Governance Committee

From: Staff

Subject: Governance/Elections for Board of Deferred Compensation Administration

Recommendation:

That the Board of Deferred Compensation Administration/Ad Hoc Plan Governance Committee consider the following information concerning recommendations of the Plan Governance Task Force in regard to restructuring governance of the Board of Deferred Compensation Administration.

Discussion:

At a meeting of the Board of Deferred Compensation Administration held April 18, 2006, the Board considered recommendations generated by the Plan Governance Task Force, a group of volunteer Plan participants asked by the Board to develop recommendations for improving the governance structure of the Board of Deferred Compensation Administration. At this meeting, the Board took several actions in response to the work of the Task Force:

- ◆ Endorsed the proposition that the Retired Participant Representative position on the Board be elected by retired Plan participants;
- ◆ Endorsed the proposition that all elected Board members as well as the Labor Representative on the Board be required to be Plan participants; and
- ◆ Requested that its ad hoc Plan Governance Committee schedule a meeting with members of the Task Force, to be publicly noticed as a full meeting of the Board in the event other Board members wished to attend, to consider in more detail the Task Force recommendations, including specifically changes to the composition of the Board and issues involved in holding elections.

Governance – The following is provided for discussion purposes and to recap some of the information included in the original Task Force report.

The Task Force identified key constituencies that the Board under its current structure has attempted to represent. These constituencies include the following:

- The City of Los Angeles as Plan Sponsor
- Active Civilian Participants
- Active Sworn Police & Fire Participants
- Active DWP Participants
- Employee Labor Organizations
- Retired Participants (Civilian, Sworn & DWP)

The Task Force examined the current Board structure in the context of these constituencies to determine how effectively each was represented by the current position, with a particular focus on addressing participant concerns expressed during the controversies associated with the 2004 Request for Proposal for Plan Administration. The Task Force defined the following objectives to frame its recommendations:

- I. Create greater accountability of the Board to the membership of the Plan; and
- II. Identify optimal representation for each constituent group.

I. Accountability - Under the current governance structure, the Task Force determined that perhaps the most significant deficiency was the lack of direct accountability to the membership for any current Board position. None of the positions are directly elected, nor can they be removed, by Plan participants, as indicated in the following table:

Board Member	Constituency	How Held on Board	Directly Accountable to Participants?
General Manager Personnel Department	City as Plan Sponsor	By virtue of position	No
City Treasurer	City as Plan Sponsor	By virtue of position	No
LACERS Elected Representative	LACERS Employees	By virtue of position held w/LACERS	No
Pensions Elected Representative	Sworn Employees	By virtue of position held w/Pensions	No
DWP Retirement Board Elected Representative	DWP Employees	By virtue of position held w/DWP	No
Labor Representative	Represented Employees	Appointed by labor coalition	No
Retired Participant Representative	Retired Participants	Appointed by Board	No

One of the concerns expressed by Plan participants during the 2004 RFP controversy was that participants had no direct recourse with Board representatives. In reviewing alternatives for structuring the Board, the Task Force therefore looked at ways in which a greater level of accountability to the membership could be built into Board governance.

II. Optimal Representation - The Task Force next undertook a critical review of how the constituent groups it had identified could most logically be represented and developed the following recommended Board governance structure (with deleted positions indicated in strikethrough format):

Board Member	Constituency	How Held on Board	Directly Accountable to Participants?
General Manager Personnel Department	City as Plan Sponsor & Staff Support for Plan	By virtue of position	No
City Treasurer	City as Plan Sponsor	By virtue of position	No
General Manager LACERS	City as Plan Sponsor	By virtue of position	No
General Manager Pensions	City as Plan Sponsor	By virtue of position	No
General Manager DWP Retirement	City as Plan Sponsor	By virtue of position	No
LACERS Elected Representative	LACERS Employees	By virtue of position held w/LACERS	No
Pensions Elected Representative	Sworn Employees	By virtue of position held w/Pensions	No
DWP Retirement Board Elected Representative	DWP Employees	By virtue of position held w/DWP	No
Active LACERS Member/DCP Participant	Active LACERS Employees	Elected by active LACERS DCP Participants	Yes
Active Pensions Member/DCP Participant	Active Sworn Employees	Elected by active Sworn DCP Participants	Yes
Active DWP Member/DCP Participant	Active DWP Employees	Elected by active DWP DCP Participants	Yes
Labor Representative	Represented Employees	Appointed by labor coalition	No
Retired Participant Representative	Retired Participants	Elected by retired Plan participants	Yes

City as Plan Sponsor – The Task Force found that the City of Los Angeles in its role as Plan Sponsor appropriately represents a discrete interest on the Board by virtue of the fact that the City of Los Angeles has ultimate fiduciary liability for the program. Looking first at the General Manager Personnel Department, the Task Force determined that this position needs to be maintained on the Board because the Personnel Department provides primary staff support to the Plan, those staff require operational oversight, and staff should be accountable both within and outside the Plan governance structure to Personnel Department management.

With respect to the City Treasurer position, the Task Force was aware that prior to 1995 the staff support provided to the Plan came from the City Treasurer’s Office. Post-1995, the position was maintained on the Board in part to maintain continuity in the transition of staff support (originally the Treasurer’s Office continued to perform some reconciliation functions for the Plan), and in part to continue to represent the City’s interests as Plan sponsor.

After discussion and analysis of various alternatives, the Task Force determined that a more effective representation of the City’s Plan Sponsor interests would come from replacing the Treasurer’s position with the General Managers of the City’s three retirement/pension systems. The General Managers were determined to be a more logical fit in this role because (1) they can represent the City Plan Sponsor interests from the vantage point of their own fiduciary roles in a directly related field, and (2) their presence on the Board would add the potential for creating greater synergy between the City’s defined benefit and defined contribution plans in retirement planning, education and communications.

Active Civilian/Sworn/DWP Participants – Under the current Board structure, the Civilian, Sworn and DWP populations are represented by elected positions from the boards of each of the City’s three primary retirement/pension plans. Although these positions are elected by the membership of those retirement/pension plans, they are not directly accountable to participants in the Deferred Compensation Plan because Plan participants do not directly elect them.

The Task Force believed that direct election of these positions to the Board by Plan participants would be the most effective means of providing for direct accountability. Further, the Task Force believed that the elections should not be held “at large,” but rather held within each respective constituent group (e.g. the Active Civilian representative would be elected by Active Civilian Plan participants/members of LACERS).

Finally, the Task Force believed that it should be a requirement that any individual serving in these positions be a participant in the Plan. Currently there is no requirement that the retirement system representatives be Plan participants.

Employee Labor Organizations – The Task Force recommended that this position be maintained on the Board. The Task Force believed the position represented an important constituency and played an important role in providing a liaison to the leadership of labor organizations which may from time to time wish to take positions on matters affecting the terms and conditions of participation in the Plan. The Task Force did believe, however, that the Labor representative should be required to be (1) a participant in the Plan; (2) an active City employee; and (3) certified bi-annually by the coalition of recognized employee organizations in order to maintain his/her position on the Board.

Retired Participants Representative – The Task Force recommended that this position be maintained on the Board. The Task Force believed that it represented an important constituency with unique concerns within the Plan. The Task Force did believe, however, that the Retired representative should be directly elected by the retired participant population, as opposed to the current status whereby the Board appoints this position. As indicated previously, the Board endorsed this proposition.

These findings are expected to be further discussed between members of the Plan Governance Task Force and Plan Governance Committee at this meeting.

Elections - Since the Board meeting, staff has contacted the City Clerk’s Elections Division to obtain information regarding the costs involved in holding elections. The Elections Division requested certain parameters from staff regarding some specific election scenarios, but has not yet responded with firm cost estimates due to their present workload and staffing shortfalls. However, they were able to provide some preliminary information telephonically in reference to a recent election held for LACERS. Based on that information, staff has generated some very preliminary assumptions about the potential costs of an election involving three separate mailings (for a solicitation, primary and runoff), three print jobs and

the cost of services for Elections. However, it is important to note that these are speculative calculations and have not been reviewed by Elections Division staff.

BOARD OF DEFERRED COMPENSATION ADMINISTRATION HYPOTHETICAL ELECTION PARAMETERS/COSTS								
Board Member Position	Estimated Mailing Population	Estimated Number of Mailings (solicitation, primary, runoff)	Expected Response Rate	Estimated Number Items Returned Per Mailing	Mailing Costs for 3 Mailings	Printing Costs for 3 Printing Orders	Election Division Services Cost (including petition checking, voter verification, ballot tallying)	Total Cost
LACERS Representative	15,400	3	25%	3,850	\$ 19,481	\$ 16,170	\$ 8,000	\$ 47,501
DWP Representative	4,800	3	25%	1,200	\$ 6,072	\$ 5,040	\$ 3,800	\$ 16,112
Pensions Representative	10,375	3	25%	2,594	\$ 13,124	\$ 10,894	\$ 6,000	\$ 32,612
Retired Representative	6,000	3	25%	1,500	\$ 7,590	\$ 6,300	\$ 4,500	\$ 19,890
								\$ 116,115

The Task Force initially recommended that the terms of the elected positions be for two years, and that elections be staggered such that each year an election would be held for two of the positions. However, the preliminary cost estimates generated by staff invite further discussion over the frequency of elections.

Submitted by: _____
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