

CITY OF LOS ANGELES
BOARD OF DEFERRED COMPENSATION ADMINISTRATION

ADOPTED MINUTES
REGULAR MEETING FEBRUARY 16, 2016 - 9:00 A.M.
700 E. TEMPLE STREET, ROOM 350

BOARD MEMBERS:

Present:

John R. Mumma, Chairperson
Raymond Ciranna, Second Provisional Chair
Wendy G. Macy, Third Provisional Chair
Linda P. Le
Thomas Moutes

Not Present:

Michael Amerian, Vice-Chairperson
Cliff Cannon, First Provisional Chair
Robert Schoonover
Don Thomas

Staff:

Personnel: Gregory Dion Steven Montagna Alexandra Castillo
Esther Chang Matthew Vong

City Attorney: Curtis Kidder

1. CALL TO ORDER

John Mumma called the meeting to order at 9:15 a.m.

2. PUBLIC COMMENTS

None.

3. MINUTES

A motion was made by Thomas Moutes, seconded by Linda Le, to approve the January 19, 2016 Meeting minutes; the motion was unanimously adopted.

4. BOARD REPORT 16-08: STRATEGIC PRIORITIES 2016

Steven Montagna indicated the Plan was in the process of moving forward with a number of initiatives that had a cumulative focus on the Plan's core mission and measuring success. He provided a proposed list of strategic priorities for the year broken into two major categories, one regarding Plan administration and the other pertaining to participant related goals. He stated the administrative priorities include

analyzing Plan processes and aspects that enable the Plan to function properly. He stated the participant category would discuss analyzing metrics and utilizing strategies to achieve set objectives in order to create success for participants.

Mr. Montagna continued his presentation by highlighting and summarizing notable portions of his report. He reviewed the strengths of the Plan, which include the Board and Plan staff maintaining a strong collaborative relationship, the Plan having a strong governance infrastructure, and the Plan maintaining a clear sense of mission while fostering innovation. He also noted that a very high number of Plan survey respondents affirmed their trust in the Plan and confidence in their retirement income security. He also noted that one of the areas the Plan would like to see improvement was in the low-participation rates of the difficult-to-reach City employee populations. He then reviewed the financial resources available to the Plan and indicated there was an expected large surplus stretched out into future years. He stated that if the Board wished to do so, these resources could provide additional financial flexibility to fund the different components of the strategic plan going forward.

Mr. Montagna turned his presentation to the review of the administrative priorities contained in the strategic plan. He stated the first priority was completing the administration of the TPA RFP. He stated the second priority of the Plan pertained to communications and marketing innovations. He noted that a “messenger” or advocate is a key to promoting the program. He suggested a potential proposal to create an independent web-based resource for advocates, which would enable them to monitor how well their peers were doing in the Plan as well as provide tools for them to share information with other advocates. He stated staff would come back to the Board with additional information and proposals specific to how the Plan could move forward.

Mr. Montagna continued his report and stated the third administrative priority pertained to the implementation of the auto-enrollment program. He indicated the fourth priority pertained to convening the Plan Governance & Administrative Committee to explore the idea of creating a separate data management service or resource for the Plan. He stated that looking forward, the Plan should explore the ability to have control over those resources in order to customize the Plan’s needs.

Mr. Moutes asked if the Plan had made any updates of the Plan’s retirement income projection calculator to reflect Tier 3 City employee population. Mr. Montagna indicated staff had yet to make the updates but would be working on it.

Mr. Montagna indicated the final administrative priority would be to review and update the primary governing documents of the plan, which include the Investment Policy Statement, Plan Document and bylaws.

Mr. Montagna transitioned to the participant priorities of strategic plan and indicated the first priority was the promotion of the retirement calculator and the concept of measuring participant success. He indicated another core objective was in creating specific targets and employing different strategies to increase enrollment. He indicated that analyzing

contribution rates were a priority in terms of obtaining and monitoring information to determine whether or not individuals are contributing at a rate that would be consistent with meeting the retirement security objective. He stated another priority was to set an objective to reduce the amount of balances that roll out of the Plan. He stated this was an area in which the Plan should create strategies on how to inform participants of the benefits of keeping their money in the Plan.

Mr. Ciranna asked if the Plan had ever received public records requests from outside investment firms for participant information. Mr. Montagna indicated the Plan had not.

He concluded his report by stating that the final participant priority was to research distribution behaviors in order to answer the questions pertaining to defining retirement success.

A motion was made by Raymond Ciranna, seconded by Mr. Moutes, to (a) adopt staff's proposed strategic administrative and participant priorities for the City's Deferred Compensation Plan for 2016; (b) refer consideration of new benchmarking and data management resource options for review by and recommendations from the Plan Governance & Administrative Issues Committee; (c) refer review of the Plan's Investment Policy Statement to the Investments Committee; and (d) refer review of the Plan Document and Bylaws to the Plan Governance & Administrative Issues Committee; the motion was unanimously adopted.

4. BOARD REPORT 16-09: RESERVE FUND REIMBURSEMENT/ADJUSTMENTS AND 2016 ANNUAL BUDGET

Alexandra Castillo indicated the Board had, at its previous meeting, approved a staff recommendation to change the methodology used in calculating the Deferred Compensation Plan's indirect salary costs for personnel staff and City Attorney staff. She briefly presented and identified the net adjustments in costs dating from 2007 - 2014. She then presented the outstanding quarterly reimbursement amounts.

Mr. Mumma commented that the special rate for the City Attorney's office had increased over the years and asked if it was an aberration or whether staff anticipated it would continue to increase. Ms. Castillo stated that though the special rate had shown increases for the past 8 years, it did not compare to the increases associated with the CAP rate the Plan had previously used to calculate reimbursements. She indicated staff did not expect the amount to continue to increase significantly.

Mr. Mumma commented that the report indicated the one-year Plan assets growth rate assumption was 6.5%, and inquired how lower-than-expected future growth rates would potentially affect the Plan's surplus of funds. Mr. Montagna noted that staff did, at a past meeting, provide the Board with a historical perspective pertaining to the assumptions made to estimate the asset growth rate. He noted significant economic downturns were

included as part of the overall growth rate assumption, which included considerations for the economic downturns due to the technology bubble and the market crash in 2008. He reminded the Board that the asset growth rates also included anticipated participant contributions as well as actual earnings. Mr. Mumma asked that staff report back to the Board if there were any major changes to the asset growth rate.

Mr. Ciranna added it would be helpful to have 3-4 years of historical expenditures in order to analyze trends. Mr. Ciranna also asked whether staff had a work order report that could detail how much time is spent on projects of the Plan. Mr. Montagna indicated that only one payroll code is assigned for working on the program. Mr. Ciranna stated that for purposes of long term outlook and comparison, in particular to the development as well as improvement of the communications program, it would be good to know how much is being spent on the communications program currently. Mr. Mumma concurred. Mr. Montagna suggested these issues could be discussed further in a future Plan Governance & Administration committee meeting.

A motion was made by Mr. Mumma, seconded by Mr. Moutes, to approve reimbursements from the Deferred Compensation Plan Reserve Fund accounts to the Personnel Department for \$389,068 and City Attorney for \$221,865 for the quarters ending 03/31/15 through 12/31/15 and incorporating all prior year adjustments to indirect cost calculations; the motion was unanimously adopted.

A second motion was made by Mr. Moutes, seconded by Ms. Macy, to adopt the proposed Deferred Compensation Plan budget for plan year 2016; the motion was unanimously adopted.

5. BOARD REPORT 16-10: TRAVEL POLICY

Esther Chang provided a review of the Plan's training and travel policy process and explained that all travel approvals are provided by the Personnel Department's Administrative Services Division and are bundled in with the Personnel's Department's fiscal year budget requests. She stated the current process placed the Plan in an awkward position in that while the Board does have the sole authority over Plan assets, approval of travel and reimbursements are processed through the Personnel Department with Mayoral approval. She stated the Board had previously expressed concerns, particularly pertaining to the timeliness of reimbursement process, which can often require excessive staff resources to resolve. She indicated staff was bringing this to the attention of the Board to see if they would like to clarify which entity has authority over the Plan's travel approval and expenses as well as explore the feasibility and merits of creating an independent travel policy much like the ones seen with the Los Angeles Fire and Police Pensions (LAFPP) system and the Los Angeles City Employees' Retirement System (LACERS). She stated both entities had already created separate, independent and detailed travel policies.

Mr. Moutes stated LACERS had coordinated discussions with the Controller's Office to ensure that nothing in their travel policy violated applicable rules and regulations. He

indicated he was appreciative of staff looking into this issue for the Plan. He suggested that when staff creates the new travel policy that it be renamed as an “Education & Travel” policy. He stated it was a more accurate and appropriate title. Mr. Ciranna echoed Mr. Moutes’s comments. Mr. Mumma encouraged staff to work with LACERS and LAFPP in development of the Plan’s new travel policy.

A motion was made by Mr. Moutes, seconded by Mr. Ciranna, to direct staff to conduct analysis and develop proposals for improvements to Plan travel administration to address: (a) clarifying which entity has final administrative authority over Plan travel expenditures; (b) the process of securing Plan travel budget authority; (c) travel arrangement and reimbursement policies; and (d) the feasibility/merits of creating an independent travel policy; the motion was unanimously adopted.

Mr. Mumma moved the meeting forward to item 8.

6. PLAN ADMINISTRATOR QUARTERLY REPORTS – 9/30/15 AND 12/31/15

Mr. Mumma asked that Empower staff’s presentation focus on the 4th quarter report.

Joan Watkins, Client Relationship Director with Empower Retirement, reviewed the Plan Overview section of the quarterly report and highlighted assets, contributions and participant account balances in the Plan. She indicated assets had grown by 3.5% for the quarter. She stated contributions decreased slightly, as was usual when participants make the bulk of their contributions earlier in the year. She indicated assets in Roth balances continued to increase. She indicated overall assets in the Plan had shown an increase of 173% since 2001.

Ms. Watkins continued to review participation information, account balances and asset allocations in the Plan. She stated the total number of new participants added in the 2015 year was 1,856. She stated participants with Roth accounts increased to 4,789, an 8% increase from the previous quarter. She provided a historical look at the number of participants in the Plan, indicating that since 2001 there has been a 33% increase; currently, there are 41,818 participants. She stated the highest percentage of Plan assets are invested in the DCP Large-Cap Fund, or a total of 33% of Plan assets, followed by the DCP Stable Value Fund at 20%, and the profile portfolios at 17%. She stated the number of participants with average account balances of up to \$50,000 continued to be about 50.5% of the participant population. She stated the participants with million dollar accounts had increased to 119.

Lisa Tilley, National Accounts Director at Empower Retirement, provided an Administrative Overview and stated there was a spike in distributions attributable to required minimum distributions during the 4th quarter of 2015. She also noted there was a fairly large number of death claim distributions, slightly higher than what is normally seen. She indicated that in terms of money transfers, the Plan had finished the 2015

calendar year on a positive note with approximately \$9 million more rolled into the Plan than out. She provided an insight as to where the rollover assets were going and noted that Schwab and JP Morgan had received the bulk of the rolled out funds.

Ms. Tilley reviewed information on loan activity and noted there was a decrease in the number of participants with one loan outstanding. She indicated the overall amount in outstanding loans was \$188 million and noted the average loan balance was just under \$9,000. She stated there was approximately \$6.7 million in defaulted loans, comprising 3.5% of the total number of loans. She indicated a continued interest by participants to convert their loans into retiree loans, as there were 429 conversions since inception of the option and 24 conversion requests in the 4th quarter alone. She stated loan initiations were lower in 2015 compared to the previous year. She reviewed hardship activity and noted there was a 23% reduction quarter over quarter. She noted six hardship request denials were due to non-qualifying events.

Ms. Tilley indicated participants may have become accustomed to recent market volatility, as indicated by a 5% decrease in inquiries made to the participant services number as compared to the previous quarter. She noted however that inquiries made via the internet had increased by 23%. She indicated over 30% of Plan participants currently received an online statement, which was indicative of the Plan's success in messaging regards to encouraging statements to be securely received over the web.

La Tanya Harris of Empower Retirement reviewed statistics regarding participant contacts, meetings/facility visits, and group meetings. She reported on local office activity and indicated Empower representatives had met with over 9,300 participants, with much of the meetings involving enrollments, deferral changes and transactions related to DROP. She indicated that due to increased hiring, there were many requests for group meetings from the Department of Water & Power and Airports. She indicated Empower representatives continued to conduct numerous table service sessions, totaling 110 for the quarter. She stated there was an average of over 1,800 per month in calls made to the local office number at City Hall during the 4th quarter. She concluded her report by reviewing the results for new participant enrollments attributed to the Plan's targeted enrollment initiative with the Department of Transportation (DOT). Mr. Mumma asked if the Plan had achieved its target for new enrollments with DOT. Mr. Montagna stated that the target of a 3% increase in enrollment for that department was met.

7. BOARD REPORT 16-11: CONTRACTS AND PROCUREMENTS UPDATE

Ms. Chang provided the Board a status update on Plan contracts. She stated minor language changes were being applied to the Galliard Capital Management contract and it was expected to be finalized soon. She indicated the Mercer Investment Consulting and Segal Consulting contracts were already complete but were pending approval from the Mayor and CAO before they could be executed. She listed the current standing contracts with the Plan and noted the new TPA search was already in progress. She

stated the Steptoe & Johnson contract was administered by the City Attorney, and a determination as to whether the contract would be extended would be followed by further discussion with the City Attorney's office.

Mr. Ciranna expressed his concern regarding the delayed contract approval process and asked the Board counsel for legal advice regarding the issue, particularly as it related to the pending consulting services contracts. Board counsel Curtis Kidder noted that while the consultants technically were not in contract with the City, this was not unusual in the City contracting and procurement process - though not a best practice. Mr. Ciranna indicated he would like the Board to discuss this issue further. Mr. Montagna suggested that the Board could potentially send a direct communication to the Mayor and CAO, as was done with the issue with the implementation of auto-enrollment, which could help convey the Board's interest in moving the consulting contracts forward for execution. Mr. Moutes voiced his support for Mr. Ciranna's comments, indicating he also wanted a more in-depth review to identify efficiencies to the contract approval process. He additionally suggested an exploration of the Board's authority related to contracting authority in order to improve and streamline the contract approval process. Mr. Mumma asked that these items be added to the agenda for a future Plan Governance & Administration Meeting.

A motion was then made by Mr. Moutes, seconded by Ms. Macy, to receive and file the quarterly report regarding the status of Deferred Compensation Plan Contracts; the motion was unanimously adopted.

8. BOARD REPORT 16-12: PLAN PROJECTS & ACTIVITIES REPORT

Ms. Chang presented the staff report and updated the Board on the status of pending Communications, Operations, Administration and Governance projects for the month of January. She indicated the 4th quarter newsletter and statements were mailed and posted to online accounts. She stated an annual review was conducted for the Plan's print communication materials.

Ms. Chang transitioned to the operations portion of her report and indicated staff and Empower representatives were present for approximately six DROP exit meetings held in January. She stated Empower had mailed out 1099-R tax forms to participants. She indicated staff continued to assist participants with questions pertaining to Plan transactions. She then provided an update on plan administration and stated the TPA RFP was posted on February 5, 2016. She noted staff had also shared, at the Board's request, the TPA contracting opportunity with the financial industry trade publications Pensions & Investments (P&I) and Financial Investment News. She indicated that the Plan's consultant had also notified staff that the RFP had also made its way on to Onvia, a subscription service that many vendors use to be notified of public RFPs.

Ms. Chang concluded her presentation by stating that Plan staff member Paul Makowski had recently transferred to another City department. She also noted that a

newly hired Benefits Specialist would begin working for the Plan the following week. Mr. Mumma, on behalf of the Board, conveyed appreciation for Mr. Makowski's work and service to the Plan.

A motion was made by Mr. Ciranna, seconded by Mr. Moutes, to receive and file staff's update on Plan projects and activities during January 2016; the motion was unanimously adopted.

Ms. Le left the meeting at 10:45 a.m. Mr. Mumma moved the meeting back to item 7.

9. REQUESTS FOR FUTURE AGENDA ITEMS

Mr. Mumma, at the request of Mr. Moutes, asked that the Plan's Retirement Projection Calculator be updated to reflect LACERS retirement tier changes. Mr. Mumma asked for a future report that monitors the rollout of Plan funds sorted by pension plan and/or employee classification.

10. FUTURE MEETING DATES – March 15, 2016

11. ADJOURNMENT

Quorum no longer existed after Ms. Le left the meeting at 10:45 a.m. Without a motion and vote to adjourn, the meeting concluded at 10:56 a.m.