

CITY OF LOS ANGELES
BOARD OF DEFERRED COMPENSATION ADMINISTRATION

ADOPTED MINUTES
REGULAR MEETING JULY 19, 2016 - 9:00 A.M.
700 E. TEMPLE STREET, ROOM 350

BOARD MEMBERS:

Present:

John R. Mumma, Chairperson
Michael Amerian, Vice-Chairperson
Raymond Ciranna, Second Provisional Chair
Wendy G. Macy, Third Provisional Chair
Thomas Moutes
Robert Schoonover

Not Present:

Cliff Cannon, First Provisional Chair
Linda P. Le
Don Thomas

Staff:

Personnel:	Gregory Dion	Steven Montagna	Matthew Vong
	Esther Chang	Daniel Powell	Angela Yin

City Attorney: Curtis Kidder

1. CALL TO ORDER

John Mumma called the meeting to order at 9:02 a.m.

He welcomed and introduced the Plan's new staff member Angela Yin. Steven Montagna indicated Ms. Yin's work would initially focus on learning participant interfaces pertaining to the City's payroll system as well as the Third-Party-Administrator.

2. PUBLIC COMMENTS

Lisa Tilley, Senior Director of Partner Strategy and John Borne, Vice President of Government Markets at Empower Retirement (Empower) discussed the Request for Proposal (RFP) scoring and provided commentary on behalf of Empower.

Curtis Kidder stated that Empower's presentations may be more appropriate under Item #4 of the meeting agenda, in which case dialogue between the Board and the speakers would be placed in the record. The speakers agreed to provide their comments after item #4 was presented.

3. MINUTES

A motion was made by Michael Amerian, seconded by Raymond Ciranna, to approve the May 17, 2016 meeting minutes; the motion was unanimously adopted.

4. BOARD REPORT 16-23: DEFERRED COMPENSATION PLAN REQUEST FOR PROPOSAL THIRD PARTY ADMINISTRATOR SELECTION

Mr. Montagna presented staff's report regarding the Request for Proposals (RFP) for Third-Party Administrative (TPA) services to the Board. He stated that he, Esther Chang, and the Plan's administrative consultant from Segal, Wendy Young-Carter, served as the three raters on the RFP panel. He provided a brief background of the RFP process and indicated that one of staff's goals was to communicate the Plan's objectives and values clearly to the vendor community while ensuring a fair and accurate assessment of information provided by potential vendors. He noted that as part of the RFP process, six hours of performance exams were administered for each vendor, providing for opportunities to focus on and discuss particular administrative issues and/or challenges that were important to the Plan.

Mr. Montagna stated that the rating panel received responses from two vendors regarded as capable of administering a plan as large as the City's. He emphasized that both vendors, Empower and Voya, scored closely in the overall RFP Summary Findings. Mr. Montagna stated both vendors displayed different relative strengths in different areas. He indicated the detail provided in the attachments demonstrated at a high level where one vendor may have received a relative scoring advantage over the other in certain categories and vice versa. He summarized the reasons for staff's recommendation to select Voya. He indicated that the panel concluded Voya possessed the ability to provide greater customization as well as internal administrative process and recordkeeping flexibility. He stated that despite having a different retirement readiness web theory and platform, Voya is willing to integrate the City's customized core participant retirement readiness success methodology, including the Retirement Income Projection Calculator, into their web platform. He stated that Voya's proposal included a new full-time Senior Communications Development local staff position within its price proposal. He emphasized the importance of communications and marketing strategies in driving participant outcomes and noted that Voya's proposal was distinctive in that area as well.

Mr. Montagna presented the summary of the RFP findings and scoring pertaining to Organizational Strength, Recordkeeping, and Plan Sponsor Services. He stated a scoring advantage was given to Empower with respect to organizational experience in working with larger plans. Mr. Mumma asked how Empower gained 311 Public Sector plans within a year. Mr. Borne from Empower stated that the figure included small-plan

cities that chose to join their state-sponsored plans. Raymond Ciranna asked if the panel discovered a particular reason why Voya's five-year Client Retention rate of 92.9% was lower than Empower's 95.2%. Mr. Montagna stated that Voya had gone through a number of organizational changes in terms of their ownership structure within that five-year window and had probably lost a number of clients as a result. He stated that Voya is now its own entity and has been making more of an effort to acquire business. Mr. Ciranna noted that one of the clients Voya lost was the City of Austin, and asked whether staff had reached out to them regarding their decision to change vendors. Mr. Montagna stated he had and that most of the feedback received from plan sponsor contacts regarded both sponsors highly but noted that price was the driving factor behind the change. He indicated that the City of Austin's Stable Value Fund was bundled into their contract, and that the pricing on that product was one of reasons the City of Austin made a decision to switch TPAs. He stated that the plan sponsor feedback indicated both of the vendors were regarded as capable administrators and that there were no indications they were being changed out because of serious deficiencies.

Thomas Moutes asked Mr. Montagna if there were advantages and/or disadvantages of having a partnership with a vendor with a greater number of large clients. Mr. Montagna replied that since the City's Plan would be one of Voya's few large plans, it may receive a high level of attention and willingness for customization. He stated that Ms. Young-Carter had previously emphasized the pricing pressures all record-keepers currently experience. He stated that the unbundling process and other regulatory actions make it more challenging for vendors to administer programs profitably. He indicated both vendors are very capable, but noted that the existing tension to be able to operate profitably requires some limits on customization because customization tends to be expensive. Mr. Mumma directed the same question to the Plan's investment consultant, Devon Muir from Mercer Investment Consulting of Los Angeles. Devon shared his perspective by stating that a benefit of selecting a smaller firm is greater attention from the vendor and a disadvantage is having a smaller body of work and knowledge to share across the client book. He stated that both Empower and Voya are institutionalized, highly capable record-keeping providers and that Mercer has worked successfully with both firms across public and corporate plans.

Bob Schoonover asked whether the Plan's investment options would stay the same if the Plan decided to change their TPA to Voya. Mr. Montagna stated with one exception the investment options would remain the same. He stated that the Plan currently has a Voya managed fund, and that the Plan has historically made sure that the contracted TPA does not manage money for the Plan, and thus staff would work to find a replacement manager for that particular fund if a change to Voya were to occur.

Mr. Ciranna inquired about the vendors' website functionality and Empower's "NextGen" web platform. Mr. Montagna stated that one of staff's concerns that came from Empower's RFP response as well as discussions with their staff, was that Empower's web platform, which is still in development, appears to be creating an alternate retirement income projection method that the City's Plan would not be able to customize. He indicated, however, that the City's calculator could be placed somewhere

on their website, but the focus of information for when participants initially logged in would be directed to Empower's alternative way of looking at retirement income. He stated that in contrast, Voya's theory, methodology, and platform is different from the City's as well, but Voya indicated that they could successfully integrate as well as place front and center the City's vision and methodology onto their website.

Mr. Ciranna inquired about both vendors' security protocols. Mr. Montagna replied that there was general information provided by both vendors. He stated that the panel received more information from Empower about disaster recovery procedures, but they indicated that disaster planning and prevention information was proprietary and non-disclosable. Mr. Moutes stated that general security information could and should be provided. Mr. Mumma asked staff to provide more detailed information to the Board at the next meeting. Esther Chang stated that Empower has recovery procedures and processes in place, including periodic trial runs of disaster simulations. She indicated that both firms also have backup location data-recovery centers and that their security protocols are fairly similar.

Mr. Mumma asked Mr. Montagna to elaborate on imaging and document storage, in particular when information may be requested from prior record keepers on an as-needed basis. Mr. Montagna stated that not all records could be transferred over from one recordkeeper to another. He stated that when the City transitioned over to Empower in 1999, the City was unable to absorb the beneficiary information from the prior recordkeeper. He stated that when requests for old beneficiary information were received, the City had for many years requested documentation from prior recordkeepers. He indicated that many vendors have policies in place that set accessibility limits on old records. He stated that there have been instances in past years when participant records were irretrievable due to the passing of time. Mr. Mumma asked if the City contacts a prior recordkeeper solely for beneficiary information. Ms. Chang stated the Plan, on occasion, receives requests for information related to divorce proceedings. She stated that a participant might want to know when his or her first contribution was or how much he or she contributed in a particular year. She indicated that a greater passing of time presents the challenge of retrieving specific records. Mr. Mumma asked whether conversion expenses were factored into the final cost contained in the report. He asked if the City would request that Empower transfer all the data they have accumulated in the past 17 years to Voya. Mr. Montagna replied that the pricing information in the back of the report did not include potential conversion costs and that the panel had not addressed specific conversion issues as part of its evaluation. Mr. Mumma asked the panel to prepare potential conversion costs for the next Board meeting.

Wendy G. Macy asked for an elaboration on staff's assessment of Voya's participant service issues management. Ms. Chang responded that Voya stated when a call comes into the call center and the participant's issue is not resolved immediately, it is then escalated to a client's services manager. She stated that they have a protocol in place to resolve participant complaint calls within 24 hours. She also indicated Voya has a separate department within their customer service to respond to participants in writing.

Ms. Chang indicated Empower also has their established processes, but noted that Voya appears to have a good timeframe in which customers get their issues resolved. She stated that Voya appears to have efficient, systematic call-tracking procedures.

Mr. Montagna pointed out the Plan's ongoing issue regarding administering a periodic payment option with cost-of-living adjustments. He stated that the City's Plan included a provision that allows participants to choose a periodic payment, a flat dollar amount, which increases with the cost-of-living adjustments every year. He stated that Empower had discontinued the cost-of-living adjustments to periodic payments in some years past. He stated this was an issue that needed resolution, and thus was included as a question in the RFP in order to determine that the provision could be administered by the vendors.

Mr. Montagna reviewed the Auto Enrollment Capabilities as well as Recordkeeping and Administrative Efficacy categories. He then presented the RFP summary findings of Empower and Voya in the category of Participant Services. He emphasized the significance of Voya's proposed full-time Communications Development Specialist position. He stated that the position is intended to improve participant outcomes (participation rates, contribution rates, retention rates, etc.) in addition to communications. He indicated that Empower indicated in their response that they may be open to establishing such a position at a potential additional cost. He stated that the exact compensation cost from both vendors is unknown. Mr. Ciranna questioned whether the point-scales on Account Contribution History and Retiree Loan Administration categories were accurate. Mr. Mumma added that the Enrollment Guide category included an erroneous calculation of the point-scale as well. Ms. Macy stated that there were miscalculations under News/Messaging/Interactive Capabilities and Electronic Records & Storage. Mr. Montagna noted that an adjustment may be needed for those calculations and stated that the scores would be reviewed and revised.

Mr. Montagna continued his presentation and stated that both vendors scored well in the performance exam portion regarding success metrics, confirming their understanding that this area is important to the City. He noted that Empower does have a higher level of training requirements and longer tenures for local staff. He stated that there was an error under the Local Service Center Resources section and noted that the corrected sentence should read, "Voya's response indicated they will provide for 15% increase in local contacts versus 5.6% for Empower without a change to their cost proposal." Mr. Ciranna asked Mr. Montagna to elaborate on the mobile apps provided by both vendors. Mr. Montagna replied that Voya's app appeared to be more current and user-friendly, and that Empower's is in the process of development and enhancement. Mr. Ciranna asked whether Mr. Montagna was comfortable with either vendors' capabilities to track metrics in order to have a clear understanding of how participants are being serviced. Mr. Montagna stated that to a large degree, metrics challenges are more a result of the exchange of information between the City's payroll system and the TPA. He stated that if access could be enhanced, and more information could be provided from the City's Payroll system to the vendor, the Plan would be in a better place to do reporting as well as create targeted campaigns.

Mr. Ciranna stated that Voya is not currently able to accommodate a one-time payroll increase, which may be a concern for sworn personnel that wish to make large one-time contributions. He asked if that was an option Voya was considering to offer in the future. Mr. Montagna stated the RFP did not include an answer to the question. Mr. Mumma requested a follow-up answer be provided on this issue.

Mr. Montagna discussed the third performance exam, which pertained to distributions, rollovers, and loans. He stated that clear, customized loan policy communication with participants is an ongoing issue for the City. He noted that both vendors have areas that may be improved upon with regards to communications and disclosure in order to help people navigate through what is inherent complexity in the rules established by the IRS.

Mr. Montagna stated both vendors utilize Charles Schwab as their brokerage window provider and that neither vendor was given a scoring advantage in that area. He stated both vendors are able to provide trustee services to make sure the Plan is in compliance with Federal requirements that all Plan assets be held in trust. Mr. Montagna presented fee analysis for both vendors. He reviewed the fee differentials of both vendors and noted that Voya's per participant fee was lower than Empower's. He stated that Voya's loan administration fee and the fee for sending a loan check via overnight mailing were higher than Empower's. He indicated Empower charges an annual rollover maintenance fee for any account balances rolled into the Plan where Voya does not. He stated that after review of all projected revenues by both Vendors over a 5-year term, Voya would collect approximately \$800,000 less revenue, which is an 8% differential from Empower. He indicated the RFP asked the vendors to indicate what portion, if any, of their per participant fee represented implementation costs. He stated the question was not applicable to the incumbent, however, Voya had indicated a \$4.61 per participant implementation fee would be collected over the course of a 5-year contract. He stated that this implied (all other things being equal), once the conversion costs have been recovered, the per participant fee could potentially reduce from \$32.00 to \$27.39. Mr. Montagna added that Voya indicated a high degree of flexibility on performance guarantees and that they offered to place up to \$200,000 at risk for not meeting service standards agreed upon by Voya and the City.

Mr. Mumma recapped Board members' requested follow-ups which included: revisiting the point-scale scoring for both firms; information regarding the imaging and documents storage; information on security protocols, disaster recovery and guarantees; information on capabilities in processing special contributions; and consideration that potential record-keeping transfer fees, if applicable, be factored in the overall cost assessment.

Mr. Montagna indicated that due to the significance of this decision, staff wanted to ensure that there was an opportunity for the Board to hear from all RFP panel members. He stated Wendy Young-Carter would attend the next meeting and would also provide a report describing key considerations regarding the transitioning of TPA service providers.

Mr. Moutes recommended that the Board ask for best and final offer on fee proposals from the vendors at the following Board meeting. Curtis Kidder stated since a provision was not included in this RFP, the Board is constrained in seeking information regarding additional cost proposals from the responders. Mr. Moutes suggested that in the future this issue be discussed at the Board level prior to initiating other RFPs.

Mr. Mumma requested that staff contact the three Board members that could not attend the July Board meeting and inform them of the discussions that took place and address their questions. Mr. Kidder stated this was permissible so long as deliberations do not occur and the aspect of a serial meeting is avoided pursuant to the Brown Act. Mr. Amerian suggested that the meeting minutes be expedited, as it would contain a relatively detailed account of what was discussed at the meeting. Mr. Kidder stated that was a good idea as the minutes are a public document that would be open to all Board members for review. Mr. Montagna indicated that staff wanted to make sure there was sufficient time to prepare the requested information from the Board, and stated that if there were any issues with staff completing their research as well as the minutes, the next meeting may have to be postponed. He stated the Board would be notified of any changes to the meeting schedule.

Empower presented their comments for discussion. Ms. Tilley addressed several items in the RFP. She gave a brief history of Empower and the City's partnership and emphasized the importance of the City as a client. She reviewed accomplishments that were made in the past 17 years, including the increase of participation by 63% and plan assets by 246%. She discussed the projects created through the partnership, including the investment menu structure, the custom process for retiree loans, and the custom process of auto-enrollment by bargaining unit. She indicated that Empower strives to create solutions specific to the City. She stated that Empower's and City staff received 16 different awards, including an increased enrollment award for the Department of Transportation, a Communicators Award, and a Hermes honorable mention. She indicated that the long-term tenure of their local staff is also significant. She highlighted Empower's long relationship, close collaborations, and desire to continue their partnership with the City.

John Borne, Vice-President of the Western region for Empower Retirement, thanked Plan staff for administering a very thorough RFP process. He, however, discussed his concerns pertaining to the weighting of certain RFP categories. He indicated that Empower had superior vendor experience. He stated that 21 large, government plan sponsors terminated their relationships with the competing firm in the last 10 years, and 14 of the sponsors transitioned to Empower for its superior record-keeping abilities. He stated that the 4 large government plans, including the city of Austin that previously terminated with Empower to move to the competing firm for a lower price, have all returned to Empower after one contract term. He indicated that the return was due to Empower's record-keeping system and ability to customize to a large plan sponsor need. He stated that Empower was unaware of the City's desire to opt out of the "NextGen" platform until the performance exams. He offered a potential solution of

setting the City's calculator front-and-center on their website. He stated that Empower is willing to collaborate with the City to resolve a perceived impasse in technology solutions.

Brent Neese, Senior Vice-President of Public Markets for Empower Retirement, indicated his respect for the thoroughness of the TPA selection process, however, challenged the weighting of the RFP scores. He highlighted Empower's experience and financial integrity and indicated that during the financial crisis of 2008, Empower Retirement/Great West was the only publicly traded company that did not downgrade. He stated experience including financial rating was 2% of the RFP scoring, but noted that sustainability of a business was normally weighted at 20-25% in other RFPs related to similarly sized plans. He stated that the competing vendor entered a bail-out deal with the Dutch government for 10 billion euros, and it was ultimately spun off as an IPO in the past few years. He stated that the competing vendor was an organization that has gone through substantial change in their structure and balance sheet. He stated Empower currently has the highest or second-highest ratings from each of the four independent rating agencies and that those ratings are substantially higher than those of the vendor the Board is considering hiring. He noted Empower's ability for sustainability in pricing. He indicated that the superior assets of Empower include their financial integrity, commitment to innovation and investment, and experienced staff.

Gavin Greenberg of Voya stated that he would appreciate the opportunity to present an opposing view in a structured environment. Mr. Montagna suggested that there be a fair opportunity for both vendors to answer questions and provide information publicly. The Board agreed that both vendors be permitted to address the Board's RFP questions and comments at the next Board meeting. Mr. Mumma asked that time be set aside at the next meeting for both vendors to provide their input. Mr. Kidder stated that bid-enhancement is prohibited and that the opportunity for vendors to speak should only allow for clarification of information that had been previously provided.

Mr. Ciranna requested that staff provide more information regarding both vendors' websites and asked that more information be provided regarding how communications are being proposed by both vendors. Mr. Mumma requested that a written executive summary of the most important issues the Plan faces as well as an explanation of the Board's decision be provided following the conclusion of the decision process. Mr. Moutes and Mr. Amerian commended staff for the hard work, time, and effort put into the RFP process. Mr. Montagna stated that staff would work with Mr. Kidder to ensure that the report-backs are within policy.

Mr. Mumma emphasized the difficulty of the Board's upcoming decision. He expressed appreciation for the vendors and staff on behalf of the Board. He noted that the scoring differentials between the vendors are slight and that both vendors would provide a similar service in a similar way. He stated at the Board must select the most suitable vendor for benefit of the Plan's participants.

Mr. Kidder stated that Empower had provided a letter to the Board. He stated that before it is distributed, he would review the language to ensure that it did not constitute a bid enhancement.

5. BOARD REPORT 16-24: PLAN PROJECTS & ACTIVITIES REPORT

Matthew Vong presented the staff report and updated the Board on the status of pending Communications, Operations, Administration and Governance projects for the month of May and June. He stated 2nd quarter newsletter content was finalized and expected that the newsletter and statements would be sent out by the end of July. He indicated Plan and Empower staff continued to work on the new employee welcome packets. He indicated Empower had offered to coordinate a targeted e-mail campaign regarding updating beneficiaries, and stated that the e-mail, pending minor revisions, would be sent out shortly. He stated staff approved revisions to the Retirement Income Projection Calculator to account for Los Angeles City Employees' Retirement System (LACERS) Tier 3 and Water & Power Employees' Retirement Plan (WPERP) Tier 2 employees, and indicated the updated tool was expected to go live at the end of July.

Mr. Vong continued his presentation and indicated that in preparation for National Retirement Security Week, scheduled to occur October 16-22, staff was preparing a marketing proposal and strategy for its campaign, which would be shared at the next meeting. He then turned the presentation over to Mr. Montagna for staffing updates.

Mr. Montagna informed the Board that newly appointed staff member Ana Chavez would be providing resource support and supervision with respect to the Deferred Compensation Plan until her expected retirement in March 2017. He stated Ms. Chavez has valuable experience in regards to the City's payroll system (PAYSR), and hoped that she could help the Plan make progress with respect to implementation of the auto-enrollment program. He indicated that Ms. Chavez's interim appointment gave the Plan additional time to continue a search for the right individual to step into this oversight role. Mr. Mumma asked when Ms. Chavez would begin working with the Plan. Mr. Montagna stated she would be start at the end of September.

Mr. Ciranna requested a status update on the Union Bank contract. Mr. Montagna stated staff continued to work on the contract and noted that a couple of versions of the contract were exchanged with the provider. He indicated the pending issues to be addressed, as common with many contracts, involved the general contracting requirements as opposed to actual services.

A motion was made by Mr. Schoonover, seconded by Mr. Amerian, to receive and file staff's update on Plan projects and activities during May and June 2016; the motion was unanimously adopted.

6. REQUESTS FOR FUTURE AGENDA ITEMS

None.

7. FUTURE MEETING DATES – October 18, 2016

8. ADJOURNMENT

A motion was made by Mr. Ciranna, seconded by Mr. Amerian, to adjourn the meeting; the motion was unanimously adopted.

The meeting adjourned at 11:01 a.m.

Minutes prepared by staff member Angela Yin.