

**CITY OF LOS ANGELES
BOARD OF DEFERRED COMPENSATION ADMINISTRATION**

PROPOSED MINUTES
REGULAR MEETING OF APRIL 16, 2024
700 E. TEMPLE STREET, ROOM 350
LOS ANGELES, CA 90012

BOARD MEMBERS

Present:

Thomas Moutes, Chair
Neil Guglielmo, Vice Chair
Jeremy Wolfson, First Provisional Chair
Joseph Salazar, Second Provisional Chair
Matthew Benham, Third Provisional Chair
Carl Lurvey
Simboa Wright

Not Present:

Dana H. Brown
Linda P. Le

PERSONNEL DEPARTMENT

Esther Chang, Defined Contribution Plan Manager

OFFICE OF THE CITY ATTORNEY

Charles Hong, Deputy City Attorney IV

1. CALL TO ORDER

Mr. Moutes called the meeting to order at 9:01 a.m.

2. PUBLIC COMMENTS

There were no public comments.

3. MINUTES

Board Member Comments/Questions & Responses:

There were no comments or questions from the Board.

Board Action:

A motion was made by Mr. Salazar, and seconded by Mr. Wolfson, to approve minutes of the March 5, 2024 special Board meeting; the motion was unanimously adopted.

4. BOARD REPORT 24-16: INVESTMENTS COMMITTEE UPDATE AND RECOMMENDATION FOR GOVERNMENT MONEY MARKET OPTION MUTUAL FUND SEARCH AND REQUEST FOR INFORMATION RELATED TO THE FDIC-INSURED SAVINGS ACCOUNT OPTION

Presentation Highlights:

Ms. Chang introduced the report and provided the following highlights:

- The Investments Committee recommended that the Board retain the Stable Value Fund and consider a government money market mutual fund as an alternative to the current FDIC-Insured Savings Account option.
- Concurrently, the Investments Committee recommended disseminating an RFI to determine potential banks' interest in submitting a proposal for the FDIC-Insured Savings Account option to gauge interest in the current market environment.

Board Member Comments/Questions & Responses:

Mr. Guglielmo noted that while the FDIC-Insured Savings Account option is a less common offering, it has proven effective for the DCP; he also acknowledged Mercer's data indicated that it is comparable to the more popular government money market option.

Mr. Wolfson asked if there would be time to extend the current contracts with the banks serving as the underlying providers of the FDIC-Insured Savings Account option. Ms. Chang indicated that the current contracts expire in September, which would likely require an extension; timing would depend on the path the Board would choose.

Mr. Benham asked if there is a rate change for depositors in switching to a government money market option. Mr. Muir stated that while there is a slight rate change compared to the FDIC-Insured Savings Account, the primary focus of discussion was rather on operational risk, as the FDIC-Insured Savings Account option ideally envisions three underlying banks executing a contract with the DCP to provide this stability of income fund option for participants; in the previous procurements, obtaining three providers successfully has not been accomplished.

Board Action:

A motion was made by Mr. Guglielmo, and seconded by Mr. Wolfson, to provide approval to: (1) conduct a mutual fund search to review government money market funds; (2) release a Request for Information (RFI) to evaluate the depth and attractiveness of the FDIC bank provider market; and (3) authorize staff to negotiate contract extensions with the current underlying bank providers of the FDIC-Insured Savings Account as needed to ensure continuity of services, as forwarded from the Investments Committee for consideration; the motion was unanimously adopted.

5. BOARD REPORT 24-17: PLAN GOVERNANCE & ADMINISTRATIVE ISSUES COMMITTEE UPDATE AND REQUEST TO FILL POSITIONS

Presentation Highlights:

Ms. Chang introduced the report and provided the following highlights:

- The Plan Governance & Administrative Issues Committee (PG-AIC) recommended bringing approval of positions to the Board to ensure appropriate staff support before the HRP launch.
- PG-AIC continues to discuss fee structures and expenses.
- The work processes in the new HRP system (Workday) are more manual and require greater staff involvement. If the Board approves, staff can pursue onboarding positions earlier.

Board Member Comments/Questions & Responses:

Mr. Moutes indicated that no vote was taken at the PG-AIC meeting as it was agendized as a discussion. Mr. Moutes noted that the PG-AIC was comfortable reviewing fees and expenses in the normal course of business in its annual review, and was supportive of filling positions to provide support in advance of the HRP transition. Mr. Moutes asked if the DCP has any exempt positions to provide support if there are issues with HRP. Ms. Chang stated that staff can review with HR and determine if there are as-needed classes that can be utilized.

Mr. Wolfson indicated that the DCP is one of the largest defined contribution plans in the country and it is critical to provide the necessary support in filling positions. Mr. Wolfson asked if the positions would be 100% dedicated to the DCP. Ms.Chang indicated they would be.

Mr. Guglielmo stated that there is a need to maintain strong fiscal reserves while also reviewing the budget, staffing needs, and fees annually. Mr. Guglielmo noted that the DCP is staffed by a small but dedicated team, servicing a large participant base, and in anticipation of future projects and/or issues, stressed the importance of filling the positions as quickly as possible prior to the HRP transition.

Mr. Benham stated that he is supportive of filling the positions but remains concerned about how the positions will be paid for on a long-term basis, noting that the DCP currently operates at near break-even annually. Mr. Benham stated that positions should not be paid for with surplus funds, which he considers “one-time funds,” and that surplus or excess reserve funds should be returned to members. Mr. Benham stated that he has asked for reports detailing fee review, budgets, and expenses, but has yet received sufficient information. Mr. Moutes encouraged that the information be brought forward for review during the annual fee and reserve fund review process.

Mr. Guglielmo stated that a discussion on adjusting fees and reviewing the fiscal reserve be held with the PG-AIC. Ms. Chang stated that staff is analyzing various scenarios and compiling additional information for the PG-AIC to review.

Board Action:

A motion was made by Mr. Guglielmo, and seconded by Mr. Salazar, to provide approval to fill one Senior Benefits Analyst I and one Benefits Specialist position upon inclusion in the 2024-25 City budget, or to otherwise identify a way to bring on these positions and fill to ensure appropriate staff support prior to the upcoming payroll system conversion scheduled for June 2024, as forwarded from the Plan Governance & Administrative Issues Committee for consideration; the motion was adopted by six (6) Board members (Guglielmo, Lurvey, Moutes, Salazar, Wolfson, Wright) and opposed by one (1) Board member (Benham).

6. BOARD REPORT 24-18: RETENTION OF OUTSIDE FIDUCIARY LAW COUNSEL

Presentation Highlights:

Ms. Chang and Mr. Hong introduced the report and provided the following highlights:

- A Request for Proposal (RFP) is being issued by the City Attorney's Office, which would support the City's other defined benefit retirement plans (Retirement Plans) to solicit fiduciary law counsel services, amongst other services, with responses due by April 19, 2024.
- The DCP has the opportunity to leverage the RFP already being issued and add external fiduciary law counsel to supplement the existing fiduciary advisory resources.
- Staff and the Deputy City Attorney (DCA) Hong have been invited to participate in the selection process.
- If the RFP process does not result in a firm that can provide requested external fiduciary law counsel services, the DCP can consider the opportunity to issue a separate RFP.

Board Member Comments/Questions & Responses:

Mr. Woflson noted that he is already on the RFP panel of reviewers and asked if there is any conflict in representing both DWP and DCP needs. Mr. Hong stated that there is no conflict and that each query acts independently.

Mr. Guglielmo indicated that the RFP is to solicit a bench of outside fiduciary law counsel services and that if any Retirement Plan has an issue, they would solicit from the selected bench to receive the assistance needed. Mr. Hong noted that the panel would review each response from potential outside fiduciary law counsel. Mr. Woflson added that no fees are charged until a Retirement Plan engages with the firms as needed. Mr. Hong stated that each Retirement Plan would pay only for the services solicited.

Mr. Lurvey asked if the RFP for Fiduciary Liability Insurance Side A coverage has been released and if this RFP process has any impact. Ms. Chang stated that the Fiduciary Liability Insurance RFP has not yet been released and there would be no immediate impact other than the Board needing to consider multiple RFPs simultaneously. Mr. Moutes noted that the presence of outside fiduciary law counsel should also appease potential insurance companies.

Mr. Moutes asked whether the outside fiduciary law counsel services need to have a depth of knowledge of IRC Section 457. Mr. Hong stated that the IRS code establishes the plan and establishes the predicate that the IRC is fundamental to the establishment of the DCP. Mr. Moutes clarified that any contracts for outside fiduciary law counsel services would be made through the City Attorney's Office.

Board Action:

A motion was made by Mr. Guglielmo, and seconded by Mr. Wright, to consider and approve the recommendations to: (a) receive and file information regarding the process for the selection and retention of outside counsel for the provision of fiduciary advice and (b) direct Staff to participate in the selection process being managed by the Office of the City Attorney and return to the Board with a recommendation for further action; the motion was unanimously adopted.

7. ORAL PRESENTATION

Presentation Highlights:

Mr. Hong presented the following highlights reviewing Brown Act rules.

- Remote participation in Brown Act Board Meetings requires specific procedures.
 - Emergency Circumstances: The Board must already have an in-person quorum. The Board member requesting remote participation must be experiencing a family or medical emergency. The action must be approved by the Board as a voted agenda item. The location from which the Board member is participating remotely must not have anyone in the room over the age of 18, otherwise, their presence must be announced. This situation may only be used for three (3) months consecutively.
 - Just Cause: The Board must already have an in-person quorum. The Board member requesting remote participation must be experiencing childcare needs, illness, or physical or mental reasons preventing them from attending physically. The Board member must notify staff immediately, and it must be announced at the Board meeting.
- There must be arrangements for two-way communication (video and audio) and if any transmission issues occur, the meeting must be paused until it is corrected.

Board Member Comments/Questions & Responses:

Mr. Guglielmo stated that the intent of the Brown Act to promote transparency is excellent, but the current implementation of the rules does not sufficiently match the new environment of hybrid work schedules.

Mr. Woflson asked if any groups are lobbying for Brown Act reform. Mr. Hong noted that certain matters can be brought to the State government for review.

Mr. Wright asked for clarification on the agendized vote for remote participation. Mr. Hong stated that it should be an agendized item, but if it occurred at the last minute, an announcement could be made at the meeting for an emergency item.

8. BOARD REPORT 24-19: HUMAN RESOURCES & PAYROLL (HRP) PROJECT UPDATE

Presentation Highlights:

Ms. Chang introduced the report and provided the following highlights:

- Staff is currently undergoing data validation within the mock builds and cleaning up data.
- Year-to-date contribution history is not currently loaded into parallel testing. This is essential information to account for year-to-date contributions and Special Catch-Up calculations.
- Accrued leave deferrals were not loaded into Cycle 1 nor Cycle 2, though requested by DCP staff. Staff is also working to confirm that Accrued Leave deferrals are taken only from eligible termination pay and biweekly deferrals are taken from eligible biweekly pay.
- Special Catch-Up requires the creation of custom objects to track enrollment, which will also provide the ability to report on these fields in Workday.

- DWP payroll processing is slightly different compared to standard City payroll processing, but DCP staff is working to establish similar processes across both systems in Workday (though both City and DWP will be converting Workday, each will continue with separate payroll systems). There are security limits between the City and DWP that restrict DCP staff access to DWP's payroll system, which will also continue to a certain extent upon Workday transition.

Board Member Comments/Questions & Responses:

Mr. Guglielmo stated that payroll history for those who left City service and then returned has not been moved into the new system and that statuses in Workday with history need to be carried over. Mr. Guglielmo also stated that LACERS has requested a small working group from HRP focusing on the defined benefit retirement plans and is looking into contracting with a consultant to receive additional support.

9. PLAN ADMINISTRATOR QUARTERLY REVIEW: DECEMBER 31, 2023

The following Voya representatives presented this item:

- Deltra Hayes, Senior Vice President, Leader Government Markets
- Deirdre Jones, Vice President, Strategic Relationship Management
- Drew Russell, Director of Strategic Initiatives
- La Tanya Harris, Lead Local Retirement Counselor

Presentation Highlights:

- Page 7-8: A new Participant Website dashboard has been launched that includes a feature to aggregate participant financial accounts.
- Page 9: High-risk transactions now require real-time authentication in the form of a one-time passcode via text to provide greater security.
- Page 11: Voya Retirement Advisors are now powered by Morningstar to provide advice. This is not a service that is offered by DCP, but is provided for awareness of Voya's available services.
- Page 25: The DCP surpassed \$10 billion in assets in January 2024. 90% of participants with a balance have a named beneficiary.
- Page 34: A potential communication outreach is being planned to encourage participants who are invested in multiple risk portfolios or are invested in all options to gain education on how to use the plan and its investment options.
- Page 37: Increase in beneficiary distributions and partial distributions in Q4 are likely due to Required Minimum Distributions.
- Page 39: Rollovers to the Self Directed Brokerage Account has increased from \$6.9 million to \$17 million over one year.

Board Member Comments/Questions & Responses:

Mr. Wolfson asked about the security of accounts for the aggregator feature. Ms. Hayes explained that Voya has an industry standard security protocol to ensure no information is shared or sold.

Mr. Moutes asked whether the Voya Retirement Advisors act as full fiduciaries. Ms. Jones noted that they do, but the DCP is not currently opted into the experience and it is not enabled for the City.

Mr. Benham asked if the chart on page 31 is the average balance for participants invested in each fund. Ms. Jones confirmed.

After Mr. Russell provided the communications overview, Mr. Guglielmo noted that an important HRP communication item is to encourage participants to review their contributions on their pay stubs after the transition to the new system.

Mr. Wright asked about communications with employees who are not enrolled in the DCP and the expansion of auto-enrollment. Mr. Benham asked if the addition of auto-enrollment of participants with \$0 balance accounts would lead to increased costs. Ms. Hayes stated there would be increased administrative costs and that overall plan health could appear less healthy than it actually might be, as for example, the \$0 balances could weigh against average account balances. Mr. Benham asked if there are metrics for participant rates for the City. Mr. Guglielmo indicated interest in the expansion of auto-enrollment. Ms. Hayes noted that the industry's best practice is generally to enroll participants at about a 3% contribution rate and slowly increase to 10%. Mr. Benham asked if it is possible to implement without automatic contributions. Ms. Hayes confirmed but noted that it would not be in the best interest for participants as they would not be making any contributions.

10. QUARTERLY INVESTMENT & ECONOMIC REVIEW: FOURTH QUARTER 2023

The following Mercer representatives presented this item:

- Devon Muir, Principal
- Ana Tom Chow, Associate

Presentation Highlights:

- Page 15: The DCP has experienced remarkable growth and returns over the past five (5) years.
- Page 18: Mercer has over 200 researchers conducting due diligence on all investment managers.
- Page 19: Provided a breakdown of asset allocations for the DCP.
- Page 21: The DCP continues to maintain competitive fees when evaluating effective net expense ratios that take into account expense ratios, particularly when compared to the City's peer group.
- Page 22-25: Performance Summary of all DCP assets.

Board Member Comments/Questions & Responses:

There were no comments or questions from the Board.

11. BOARD REPORT 24-20: DCP PROJECTS AND ACTIVITIES REPORT: FEBRUARY AND MARCH 2024

Presentation Highlights:

Ms. Chang and Mr. Eric Lan (DCP Benefits Analyst) introduced the report and provided the following highlights:

- Payroll file errors were identified on the March 22, 2024 payroll changes files for processing on the April 3, 2024 paycheck.
 - File transmission errors for the DWP payroll changes file occurred, leading to a delay in loading into DWP's payroll system.
 - 16 participants were affected by the inclusion of erroneous contribution amounts in the file. Staff has communicated with affected participants, issued applicable refunds, and set up agreements to make up for any missed amounts.
 - An additional error caused new or changed amounts to not be transmitted on the file. Notification will be sent to all impacted participants with instructions and options for corrections.
- The DCP Election for the Active WPERP Participant Representative and Retired and Separated Participant Representative is underway with a May 10, 2024 election day.
- Eight (8) participants received their first Required Minimum Distribution in April 2024, as part of the automated process.
- A Voya participant website outage occurred on March 20, 2024 that impacted mobile, web, and call center access. Staff alerted Voya and posted notices on LA457.com, and directed participants to Local Retirement Counselors for assistance.
- Customized communications to eligible but not enrolled participants were sent to highlight the DCP's partnership with the City's three pension systems, encouraging employees to enroll in the DCP.

Board Member Comments/Questions & Responses:

Mr. Benham asked if the payroll file errors were over-contributions or under-contributions. Ms. Chang stated that both situations occurred. Mr. Benham asked how Voya would resolve lost earnings. Ms. Jones stated that Voya would be investigating and reporting back to the Board.

Ms. Jones stated that the error was caused by a human error in a missed step during conversion from the prior OMNI platform to the new one.

Mr. Moutes noted that the transition is not an ongoing process. Ms. Jones confirmed that the transition was a one-time occurrence to implement a system enhancement meant to prepare for future SECURE 2.0 options.

Mr. Wolfson asked whether human error was a part of the transition. Ms. Jones confirmed and also noted a coding defect that has been addressed. Ms. Jones noted that reviews have been incorporated into all future procedures. Mr. Wolfson asked if there are internal controls for future protection to implement lessons learned as a result of the error. Ms. Jones stated that all quarterly releases will have the new review processes. Ms. Jones also noted that City staff were the ones to identify the error and alert Voya, stating that there was no immediate correction.

Mr. Wolfson asked how quickly the issue was identified and whether the over-contributions were resolved. Ms. Chang stated that a DWP participant noticed the contributions on their paycheck were incorrect and alerted DCP staff, at which point DCP staff conducted its internal analysis. Ms. Chang indicated that a small number of participants with erroneous contribution amounts on file were issued overnight checks by Voya and the remainder were issued refunds on their next payroll check. Ms. Chang stated that DCP staff also emailed and conducted outreach to all 16 participants impacted by the erroneous contribution amounts on file.

Ms. Chang noted that the second group with new or changed amounts missing from the file affected over 400 participants and that staff is working with Voya to coordinate communications to impacted participants. Mr. Wolfson asked if there were tax implications for over-contributions between pre-tax or Roth (after-tax) contributions. Ms. Chang stated that corrections done through payroll will automatically correct the W-2 for the participant, but any refunds issued by Voya will need a manual W-2 adjustment.

Mr. Wolfson asked if there are automated processes or human reviews that could be implemented to allow Voya to catch errors and alert staff instead of relying on DCP staff. Ms. Jones stated that while the platform migration is a one-time process, Voya is now looking at specific procedures to implement when there are changes. Ms. Jones states that Voya is still undergoing a full root cause and analysis and will report back to the Board. Mr. Wolfson stated that it is concerning when an employee is the first to identify the error and alert DCP staff and Voya.

Mr. Salazar asked whether staff has been tracking the additional time spent identifying and resolving the errors, as the Board may want to consider asking Voya for reimbursement for the time spent. Ms. Chang stated that staff has spent considerable time researching and reviewing, and will provide an estimate. Ms. Chang indicated that Voya has agreed to provide additional support to review each payroll file for the next two or three pay periods to ensure no additional errors occur.

Mr. Guglielmo suggested that any future updates or enhancements should include a contributions report that checks amounts before and after the enhancement as a validation test.

Upon reviewing the current Committee membership, Mr. Moutes noted that there is space on three of the Committees for an additional member and that any interested Board members should contact him.

12. REQUESTS FOR FUTURE AGENDA ITEMS

Mr. Benham requested a report on the DCP fees and expenses, auto-enrollment process for \$0 balance participants, updates to Voya's error review process, and an update on Voya's reimbursement of funds and covering loss of gains.

13. NEXT MEETING DATE

A regular meeting was noted for May 21, 2024 at 9:00 a.m.

14. ADJOURNMENT

The meeting was adjourned at 11:16 a.m.

Minutes prepared by staff member Eric Lan.