



CITY OF *Los Angeles*
DEFERRED COMPENSATION PLAN

Board Report 21-16

Date: March 16, 2021
To: Board of Deferred Compensation Administration
From: Staff
Subject: Deferred Compensation Plan Contracts

Board of
Deferred Compensation
Administration

Thomas Moutes
Chairperson

Raymond Ciranna
Vice-Chairperson

Robert Schoonover
First Provisional Chair

Wendy G. Macy
Second Provisional Chair

WPERP Representative
Vacant

Joshua Geller

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Baldemar J. Sandoval

Recommendation:

That the Board of Deferred Compensation Administration (Board) authorize the Board Chairperson to sign and submit the attached letter from the Board to the Mayor's Office and Office of the City Administrative Officer (CAO) regarding pending Deferred Compensation Plan (DCP) contracts.

Discussion:

At the Board's last meeting on **February 16, 2021**, staff provided an update on the status of the development and execution of DCP contracts. Staff reported that two pending contract extensions and one new contract have not been executed for providers Galliard Capital Management, Mercer Investment Consulting, and Segal Consulting. The Board requested that staff draft a letter from the Board to the Mayor's Office and the CAO regarding expediting contract approval and execution. Staff has prepared a draft of this communication in **Attachment A** for the Board's review and approval. Staff recommends that the Board authorize the Board Chairperson to sign and submit the letter to be sent from the Board to the Mayor's Office and CAO.

Submitted by:



Jenny M. Yau, Senior Management Analyst II

Approved by:



Steven Montagna, Chief Personnel Analyst



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Personnel Department | Employee Benefits Division
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Board of Deferred Compensation
Administration

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March X, 2021

The Honorable Mayor Garcetti
Mayor, City of Los Angeles
Room 303, City Hall
Los Angeles, CA 90012

Attention: Raoul Mendoza, Budget Director
Lidia Manzanares, Director of Operations, Executive Team
Heleen Ramirez, Legislative Coordinator

Subject: Pending City of Los Angeles Deferred Compensation Plan Contracts

In support of the City's Deferred Compensation Plan (DCP), the Board of Deferred Compensation Administration (Board) respectfully requests expedited processing of pending contracts for providers Galliard Capital Management, Mercer Investment Consulting, and Segal Consulting. These contracts, pending Mayoral approval for 5-8 months, are necessary to maintain vital services to support the DCP and ensure the City is properly and timely fulfilling its duties and obligations as plan sponsor.

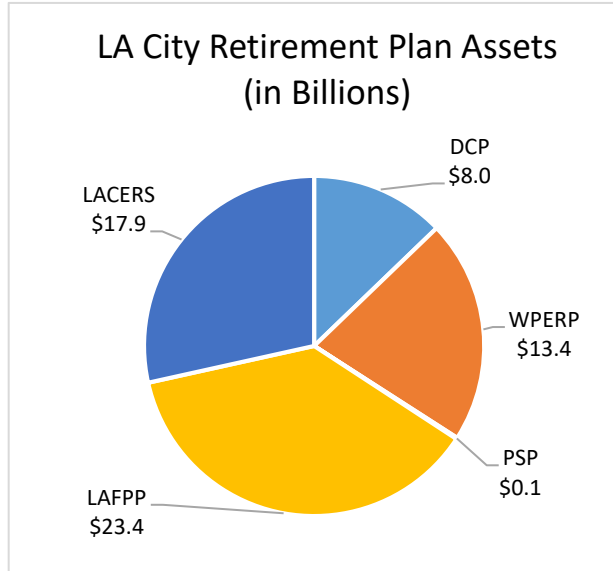
Background

In 1983, the City of Los Angeles established the DCP under Internal Revenue Code Section 457 and City of Los Angeles Administrative Code (LAAC) Division 4, Chapter 14, as a voluntary supplemental retirement savings program for all employees who are members of one of the City's three primary defined benefit retirement plans. The DCP allows employees to set aside a portion of their compensation (up to applicable annual Federal contribution limits) on a tax-advantaged basis to supplement their retirement/pension and enhance their retirement income security.

Per LAAC Division 4, Chapter 14, all of the City's internal administrative costs in support of the DCP, including all fees paid to contracted service providers, are required to be fully paid by participant fees; the City's General Fund makes no contribution in support of administration of the DCP. In addition, no City funds are contributed to participant accounts.

The Board, established by the City Council to oversee the DCP, has broad program oversight and administrative responsibilities, including contracting authority. The Board is supported by the Personnel Department's Employee Benefits Division and the Office of the City Attorney.

As of December 31, 2020, the DCP held approximately **\$8.0 billion in assets** with over **50,000** active employee and retired participants. DCP assets represent approximately **12.8%** of total City of Los Angeles defined benefit and defined contribution retirement assets.



DCP assets are required under federal law to be held in trust for the exclusive benefit of DCP participants and their beneficiaries. The City has certain fiduciary and administrative obligations in its role as plan sponsor. In performing the wide variety of functions required to properly administer the DCP, the City, the Board, and staff are legally required to act in the best interests of DCP participants.

DCP Contracts Pending Approval

The following DCP contract and contract extensions have previously been submitted for Mayoral review and approval:

- 1) Galliard Capital Management (Galliard) and Mercer Investment Consulting (Mercer) – Contracts with both vendors expired on June 30, 2020. The Board approved extension of these contracts through December 31, 2021. The proposed contract extensions were transmitted by the Personnel Department to the Mayor’s Office in July 2020. The Office of the City Administrative Officer (CAO) confirmed completion of its review and is awaiting approval from the Mayor’s Office. The contract extensions also require transmittal to the City Council for further approval as the terms of both contracts exceed five years.
- 2) Segal Consulting (Segal) – The new five-year contract has not been executed. The proposed contract was transmitted by the Personnel Department to the Mayor’s Office in October 2020. The contract was subsequently referred by the Mayor’s Office to the CAO for its review and report back to the Mayor’s Office with a recommendation. Council approval of the contract is not required as the term does not exceed five years.

Mercer Investment Consulting Services – The Board’s investment consultant, Mercer, acts in a fiduciary capacity to the DCP supporting the Board’s monitoring and selection of investment options. Among its important duties, Mercer generates, at a minimum, quarterly performance and due diligence reviews of all incumbent investment managers. In addition, Mercer is currently performing critical, extensive work assisting the Board with multiple search and procurement processes involving \$6.5 billion of DCP assets and virtually the entire investment menu (excluding only the previously completed Bank Deposit FDIC Fund procurement and Self-Directed Brokerage Account assets). The contract with Mercer expired June 30, 2020. As the contract extension is pending approval, Mercer has not been paid for services rendered since July 1, 2020 despite having worked approximately 400 hours supporting the Board in various tasks. Mercer’s ability

to continue providing vital services to the City in support of the City's role as plan sponsor may be in jeopardy if the City is not able to promptly execute its contract and provide payment.

Galliard Contract Extension – Galliard is the incumbent manager for the DCP Stable Value Fund (SVF) which holds approximately \$1.4 billion, or 17%, of participant assets. At its meeting on February 16, 2021, the Board reselected Galliard. Galliard continues to provide its investment management services even though the contract expired on June 30, 2020. Although Galliard collects its fees from assets under management, it is, nevertheless, crucial that the contract extension be executed immediately to ensure that this significant amount of participant assets is properly held under contract by the City.

Segal Contract – The Board's plan administration consultant, Segal, provides important support to the Board in a broad range of administrative responsibilities including regulatory guidance, plan design analysis, and evaluation of current and potential contracted services. The Board approved a new contract with Segal effective August 5, 2020. Segal has not been paid for services rendered since the start of the new contract despite having worked numerous hours supporting the Board in various tasks. Segal's ability to continue to provide vital services to the City in support of the City's role as plan sponsor may be in jeopardy if the City is not able to promptly execute its contract and provide payment.

Conclusion

The Board recognizes the challenging times currently facing the City in the wake of the COVID pandemic and all its fiscal and human resource consequences. Both the Board and DCP staff stand ready to support the Mayor's Office and CAO in whatever capacity is needed in order to complete the City's contract review process and execute pending agreements. To avoid any unnecessary risks to the City due to delays in DCP contract processing, we therefore respectfully request that the CAO work in partnership with DCP staff to immediately approve and execute pending contracts for DCP providers Galliard, Mercer, and Segal.

Sincerely,

Thomas Moutes, Chairperson
Board of Deferred Compensation Administration

Cc: Richard Llewellyn, City Administrative Officer – Office of the CAO
Ben Ceja, Assistant City Administrative Officer – Office of the CAO
Melissa Fleming, Chief Administrative Analyst – Office of the CAO
Robert Roth, Senior Administrative Analyst II – Office of the CAO
Wendy G. Macy, General Manager – Personnel Department
Paula Dayes, Assistant General Manager – Personnel Department