



BOARD REPORT 18-54

Date: December 18, 2018
To: Board of Deferred Compensation Administration (Board)
From: Staff
Subject: Staffing Cost Reimbursements Third Quarter 2018

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Recommendation:

That the Board approve reimbursements from the Reserve Fund to the Personnel Department for \$182,215.72 and City Attorney for \$37,731.65 for the quarter ending 09/30/18.

Discussion:

A. Quarterly Staffing Cost Reimbursements – Quarter Ending 09/30/18

Staff recommends reimbursement from the Deferred Compensation Plan (DCP) Reserve Fund to the Personnel Department for **\$182,215.72** and City Attorney for **\$37,731.65** for the quarter ending 09/30/18. Quarterly activity in the DCP's revenue/expenditure accounts is included in **Attachment A**. Calculations for the current quarter include salaries for all positions presently servicing the DCP, including direct salary and indirect costs as calculated in the City Controller's Special Rates for Indirect Cost Centers ("Special Rates"). For the purpose of the quarter ending 09/30/18, staff is using Special Rates (40) for FY 17/18, as the City Controller has yet to release Special Rates (41) for application in FY 18/19. As a result, any adjustments required after the final rate is adopted for Special Rates (41) will be addressed in a future quarterly reconciliation. Special Rates (40) indirect cost reimbursement percentages for the Personnel Department and City Attorney are presently 102.34% and 104.67%, respectively.

B. Reserve Fund Projection

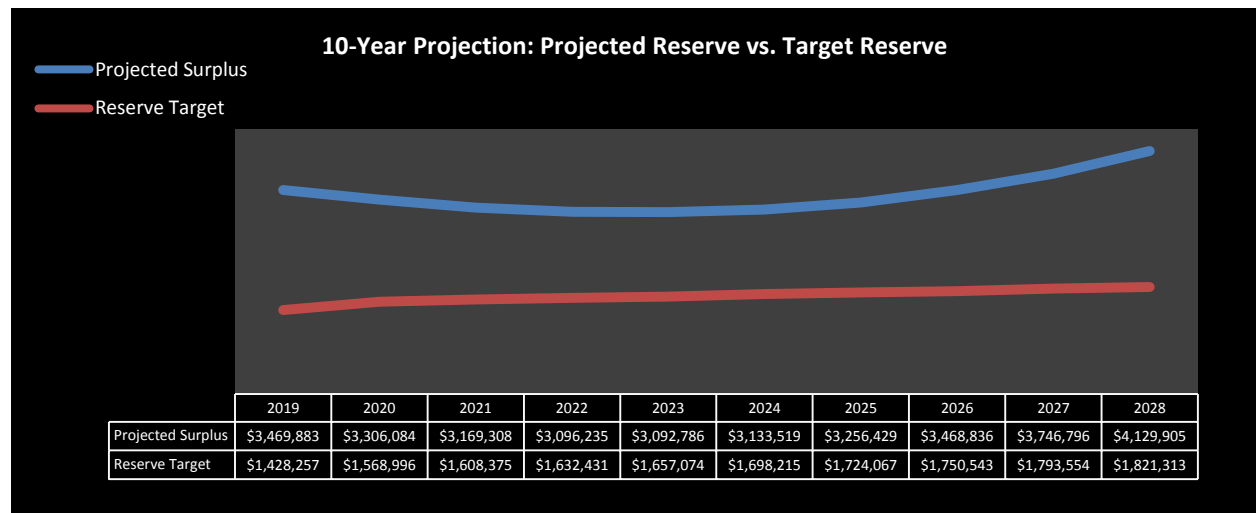
Pursuant to Los Angeles Administrative Code Division 4, Chapter 14, all of the City's internal administrative costs are required to be paid by participant fees. Two accounts are used to pay expenses: a fund held with the DCP Third-Party Administrator (TPA), also known as the Reserve Fund, which acts as a repository for participant fees and from which most DCP expenses are paid; and an administrative fund held within the City used for processing certain internal DCP payments such as travel.

In order to maintain stability within the fee structure, the DCP maintains a reserve balance. The target reserve amount is 50% of annual DCP operating expenses. Each quarter, when staff submits its accounting and recommendations for reimbursing administrative costs, a long-term projection is updated using assumptions for key variables that have been considered by the Board. This information is generated so that the Board can compare the long-term projected reserve to the target reserve.

The Board last reviewed and approved long-term assumptions for DCP revenues/expenditures at its April 2017 meeting. In addition, at its March 2018 meeting, following a fee review and recommendations submitted by the Board’s DCP Governance and Administrative Issues Committee, the Board approved certain participant fee reductions. These fee reductions included a decrease in the DCP administrative fee assessed on all participant account balances (by one basis point, from .10% to .09%); and a decrease in the administrative fee cap (from \$125 to \$115). Current key variables used in long-term projections are summarized as follows:

<i>Expenses Inflation Adjustment Factor</i>	<i>Enrollment Adjustment Factor</i>	<i>Asset Growth Adjustment Factor</i>	<i>Stable Value Funds Interest Assumption</i>	<i>Basis Points Charged Against Participant Accounts</i>	<i>Fee Cap</i>	<i>Personnel Avg. Cap Rate</i>	<i>City Attorney Avg. Cap Rate</i>
2.0%	2.0%	6.5%	2.0%	0.09%	\$115	1.0	1.0

With each quarterly review, staff provides a ten-year projection of the Reserve Fund balance. Following is the rolling ten-year forecast of the DCP’s Reserve Fund balance updated with data as of 09/30/18.



As indicated in the chart above, staff has calculated the projected surplus relative to the targeted reserve amount over a ten-year period. Presently, the surplus is projected to be above the target reserve over the entire period. The lowest projected amount above the target

reserve is approximately **\$1.44** million in 2024, increasing to **\$2.31** million above target in 2028. The projection does not assume the impact of any potential market downturn over the next ten years which could reduce DCP assets and therefore revenues from participant fees, or additional structural expenses (such as annual audit costs – see Board Report 18-51).

At its March 20, 2018 meeting, the Board directed the Plan Governance and Administrative Issues Committee to convene on an annual basis to review and conduct DCP fee and revenue analyses. The next review will be scheduled within the first quarter of 2019.

Submitted by: _____
Matthew Vong

Approved by: _____
Steven Montagna

DEFERRED COMPENSATION DCP QUARTERLY REVIEW OF REVENUES & EXPENSES				
	Pending	Pending	Adopted	Adopted
REVENUE & EXPENSE LINE ITEMS	Ending 9/30/2018	Ending 6/30/2018	Ending 3/31/2018	Ending 12/31/2017
STARTING BALANCE				
Payroll Fee Trust Fund Ending Balance	\$ 18,042	20,495	30,927	37,094
Administrative Fee Reserve Fund Balance	\$ 3,598,265	3,707,608	3,232,973	3,251,090
Total	\$ 3,616,308	3,728,103	3,263,900	3,288,184
REVENUES/FEES				
Interest Earnings on Payroll Fee Trust Fund	\$ 404	211	187	155
Payroll Fee Trust Fund Deposit: Travel	\$ 50,000	0	0	0
Payroll Fee Trust Fund Deposit: Salary Reimbursements	\$ 183,159	339,929	154,269	126,056
Interest Earnings on Administrative Fee Reserve Fund	\$ 23,260	22,611	17,221	17,448
Revenue from Fees Deducted from Participant Accounts	\$ 663,021	718,549	720,785	0
CAP Adjustment Credits	\$ -	0	0	0
Miscellaneous Credits	\$ 73	255,958	0	30
Total Revenue/Fees	\$ 919,917	1,337,257	892,463	143,689
TOTAL ASSETS (STARTING BALANCE + REVENUE/FEES)	\$ 4,536,225	5,065,360	4,156,363	3,431,873
EXPENDITURES				
Participant Administrative Fees Paid to TPA	\$ (380,261)	(414,233)	(359,535)	(31)
Prior Quarter Departmental Staffing Reimbursements	\$ (183,159)	(339,929)	(154,269)	(126,056)
Consulting Costs	\$ (24,482)	(51,218)	(14,827)	(34,044)
DCP Administrator Hardship Administration	\$ -	0	0	0
DCP Administrator Asset Allocation Fund Management	\$ -	0	0	0
Communications	\$ (558)	(480)	(5,217)	(890)
Travel/Training/Education	\$ (9,411)	0	0	(4,564)
Elections Administration	\$ (27,664)	(28,474)	0	0
6010 Office and Administrative	\$ (1,240)	(4,314)	(10,619)	(2,658)
4160 Governmental Meetings	\$ -	0	0	0
TOTAL EXPENDITURES	\$ (626,774)	(838,647)	(544,467)	(167,973)
Actual Payroll Fee Trust Fund Ending Balance	\$ 57,869	8,042	20,495	30,927
Actual Administrative Fee Reserve Fund Ending Balance	\$ 3,618,423	3,598,265	3,437,131	3,232,973
ACTUAL TOTAL ENDING BALANCE	\$ 3,676,292	3,606,308	3,457,626	3,263,900
ENCUMBRANCES/LIABILITIES				
Outstanding Reimbursements from Prior Quarter(s)	\$ 0	0	(166,879)	(154,269)
Quarter end 09/30/17 Personnel Adjustments (Special Rate 40)	n/a	n/a	n/a	(9,123)
Quarter end 09/30/17 City Attorney Adjustments (Special Rate 40)	n/a	n/a	n/a	(2,362)
Quarterly Personnel Direct/Indirect Costs	\$ (182,215.72)	(147,320)	(149,675)	(132,222)
Quarterly City Attorney Direct/Indirect Costs	\$ (37,731.65)	(35,838)	(23,375)	(23,172)
Net Ending Balance Owed	\$ (219,947)	(183,159)	(339,929)	(321,148)
TOTAL ASSETS LESS LIABILITIES	\$ 3,456,345	3,423,149	3,117,697	2,942,752