



CITY OF *Los Angeles*

DEFERRED COMPENSATION PLAN

Board Report 20-16

Date: April 27, 2020

To: Board of Deferred Compensation Administration

From: Staff

Subject: Annual Budget Adoption and Timing of Fee Holiday

Board of Deferred Compensation Administration

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Recommendation:

That the Board of Deferred Compensation Administration (Board) (a) adopt the proposed budget for the Deferred Compensation Plan's (DCP) 2020 Plan Year and (b) direct staff to defer the fee holiday until at least the fourth quarter of 2020, but reassess the timing and advisability of the fee holiday after the conclusion of the second quarter of 2020.

Discussion:

The Board's Governance Policies/Bylaws, Fiscal Administration Policy, Section 5.2, requires that the Board adopt a budget for each Plan Year. 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: (1) an account held with the Third-Party Administrator (TPA), which acts as a repository for participant fees and from which most DCP expenses are paid; and (2) an account held within the City, from which travel and equipment purchases are made. Together, these two accounts comprise the DCP Reserve Fund ("Reserve Fund"). To maintain stability within the fee structure, the DCP seeks to maintain a Reserve Fund balance representing 50% of the DCP's annual expenses. As of December 31, 2019, the Reserve Fund balance was \$3.7 million versus the target balance of \$1.4 million.

In accordance with the Board's Governance Policies/bylaws, staff has prepared a proposed budget for the DCP's 2020 Plan Year (**Attachment A**). The attachment includes a narrative description of the assumptions and other relevant factors regarding each budget item.

At its **February 18, 2020** meeting, following a fee review and recommendations submitted by the DCP Plan Governance & Administrative Issues Committee, the Board approved certain Growth, Expense, and Fee variable assumptions for use in projecting future Reserve Fund balances. In addition, to reduce the excess Reserve Fund balance, the Board further approved a one-time 50% reduction in the quarterly fee assessed on participant accounts ("fee holiday") to be effective for the third quarter of 2020.

In less than one month since the Board’s last meeting in February, the 2019 novel coronavirus (COVID-19) pandemic has caused significant disruptions in the global economy, employment, education, and social activity. In March of 2020, domestic and international financial markets experienced significant volatility due to global concerns about the economic impact of efforts to contain COVID-19. DCP total participant assets fell 13.2% in the first quarter of 2020.

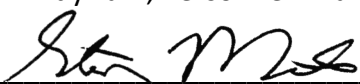
To provide the most up-to-date projections, staff incorporated participant account balance values as of March 31, 2020, into its budget calculations for 2020, as smaller participant account balances result in reduced fee revenue. However, market movements and account balance valuations both up and down have been unusually large over the course of the last month. Given this volatility and the potential for future declines that may negatively impact fee revenues, staff recommends deferring the fee holiday until at least the fourth quarter of 2020. Deferring the fee holiday will provide additional time to assess the ongoing impact of investment market volatility on DCP revenues. Staff would provide an updated review of the timing of the fee holiday at the Board’s July 21, 2020 meeting (following the conclusion of the second quarter of 2020). Staff therefore recommends that the Board (a) adopt the proposed budget for the DCP’s 2020 Plan Year and (b) direct staff to defer the fee holiday until at least the fourth quarter of 2020, but reassess the timing and advisability of the fee holiday after the conclusion of the second quarter of 2020.

Submitted by:



Mindy Lam, Personnel Analyst

Approved by:



Steven Montagna, Chief Personnel Analyst

DEFERRED COMPENSATION PLAN	
PROJECTED REVENUES/EXPENDITURES	
Plan Year 2020	
REVENUES	
Starting Balance on 01/01/20	\$ 3,694,500
Estimated Annual Administrative Fee Revenue	\$ 2,502,006
Estimated 2020 Interest Earnings (2%)	\$ 73,890
Opening Balance Plus Projected Revenues	\$ 6,270,396
EXPENDITURES	
Participant Administrative Fees Owed to TPA	\$ (1,637,552)
Estimated Personnel Department Reimbursements	\$ (928,814)
Estimated City Attorney Reimbursements	\$ (191,209)
Estimated Investment Consulting Costs	\$ (190,000)
Estimated Plan Administration Consulting Costs	\$ (20,000)
Estimated Outside Tax Counsel Consulting Costs	\$ (15,000)
Plan Audit	\$ (45,000)
Communications	\$ (50,000)
Travel/Training/Education	\$ (33,000)
Elections Administration	\$ (42,000)
Office and Administrative	\$ (7,000)
Governmental Meetings	\$ (500)
Total Estimated Expenditures	\$ (3,160,075)
Annual Revenues Less Annual Expenditures	\$ (584,179)
Projected Ending Balance on 12/31/20	\$ 3,110,321

The following details are provided regarding each budget item and related assumptions:

Revenues

- **Starting Balance on 01/01/20** – The starting balance includes amounts held in both the Third-Party Administrator’s Reserve Fund account and the City’s Administrative Fee Trust Fund account. Additionally, the figure factors in liabilities of outstanding reimbursements.
- **Estimated Annual Administrative Fee Revenue** – Projections for administrative fee revenues (amounts collected from participant accounts) reflect DCP assets as of March 31, 2020 to factor in recent market volatility. The one-year growth rate assumption is 7%. DCP assets are impacted by both investment gains, participant contributions/rollovers, and the Third-Quarter Fee Holiday approved for 2020.

- **Estimated 2020 Interest** – The assumed 2020 average rate of return for the Stable Value Fund is 2.0%.

Expenditures

- **Participant Administrative Fees Owed to TPA** – The City’s contractual obligation to the DCP TPA is \$32.00 per participant. The long-term projected participant growth rate is 3%.
- **Estimated Personnel Department and City Attorney Reimbursements** – The DCP funds certain percentages of direct and indirect costs for staff positions. Estimated expenditures for these positions for 2020 include current paygrade levels and other factors. These rates reflect the most current Special Rate information for calculating indirect costs.
- **Estimated Investment, Plan Administration, and Outside Tax Counsel Consulting Costs** – The DCP has contracts for various consulting services, including tax consulting services on an as-needed basis via contracts administered by the City Attorney’s Office. Staff projects a total of \$225,000 in consulting expenditures for 2020.
- **Plan Audit** – The projected cost of the 2020 DCP audit will be \$45,000.
- **Communications** – This category includes special communication costs funded directly by the DCP outside of communications expenditures absorbed by the DCP TPA.
- **Travel/Training/Education** – This category includes training/travel expenditures in a not-to-exceed amount of \$33,000, although it is noted that presently a travel ban of unknown duration is in effect.
- **Elections Administration** – This category includes the costs of administering elections; in 2020 those elections include seats for the LACERS and LAFPP representatives.
- **Office and Administrative** – This category includes costs for staff equipment and other incidental administrative costs.
- **Governmental Meetings** – This category includes incidental costs for the conduct of governmental meetings.