CITY OF Los Angeles
DEFERRED COMPENSATION PLAN

Board Report 20-29

Date: August 4, 2020

To: Board of Deferred Compensation Administration

From: Staff

Subject: 2020 Fee Holiday Update

Recommendation:
That the Board of Deferred Compensation Administration (Board) receive and file an update regarding the 2020 fee holiday.

Discussion:

A. Background

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.

At its **April 27, 2020** meeting, staff provided a status update to the Board regarding the volatility of domestic and financial markets due to the COVID-19 pandemic. Staff indicated that market movements and account balance valuations both up and down were unusually large over the course of the last month and that this volatility and the potential for future declines may negatively impact fee revenues. Subsequently, the Board adopted staff's recommendation 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.

This report provides an update on the timing and advisability of the fee holiday.

B. Plan Assets Update

Deferred Compensation Plan (DCP) assets totaled $7.1 billion as of December 31, 2019. In a span of three months since that time, DCP assets totaled $6.2 billion as of March 31, 2020 representing a decline of 13.2% from the previous quarter. This decline was largely the result of the impact of the COVID-19 pandemic on equity markets. Since the Board last reviewed this topic in April, the global financial markets have rebounded significantly and DCP assets have recovered almost of their value. DCP assets totaled $7.0 billion as of June 30, 2020 and are at $7.2 billion as of the date of this report. The rebound in equities may be attributable to the enormous amount of liquidity that has been injected into the economy by the Federal Reserve and through federal stimulus, as well as anticipation of a post-COVID-19 economic rebound.

C. Conclusion

At the time staff recommended, and the Board approved, temporary suspension of the fee holiday, it was unclear whether the extreme equity declines of March might continue. However, given that global financial markets have recovered most of their losses, and that DCP assets have regained their pre-March 2020 value, proceeding with the fourth quarter 2020 fee holiday appears reasonable. As the Board previously acted to defer the fee holiday until the fourth quarter of 2020, no further action is required. Unless there are concerns from the Board, staff will proceed with the administrative and communications development process for the fee holiday. The fee holiday is expected to generate approximately $372,000 in participant savings (based on plan assets data as of June 30, 2020).

As the COVID-19 pandemic is a fluid situation, staff will continue to work with Mercer to monitor the financial markets closely. Should there be another sharp market downturn in the coming months, the Board has until November 16, 2020 to postpone the fee holiday beyond the fourth quarter of 2020. Otherwise, the reduction would be applied on December 31, 2020 and reflected on participant fourth quarter statements to be issued in January 2021.

Submitted by: ______________________________
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