



CITY OF *Los Angeles* DEFERRED COMPENSATION PLAN

BOARD REPORT 18-20

Date: April 17, 2018

To: Board of Deferred Compensation Administration

From: Staff

Subject: Plan Reimbursements Fourth Quarter 2017

Board of Deferred Compensation Administration

John R. Mumma
Chairperson

Vacant

Vice-Chairperson

Raymond Ciranna
First Provisional Chair

Robert Schoonover
Second Provisional Chair

Wendy G. Macy
Third Provisional Chair

Cliff Cannon

Neil Guglielmo

Linda P. Le

Don Thomas

Recommendation:

That the Board of Deferred Compensation approve reimbursements from the Deferred Compensation Plan Reserve Fund accounts to the Personnel Department for **\$141,344.73** and City Attorney for **\$25,534.01** for the quarter ending 12/31/17, including prior quarter adjustments to indirect cost calculations.

Discussion:

A. Quarterly Staffing Cost Reimbursements – Quarter Ending 12/31/17

Staff recommends reimbursement from the Deferred Compensation Plan Reserve Fund to the Personnel Department for \$141,344.73 and City Attorney for \$25,534.01 for the quarter ending 12/31/17. Quarterly activity in the Plan's revenue/expenditure accounts is included in **Attachment A**. Calculations for the current quarter include salaries for all positions presently servicing the Plan, including direct salary and indirect costs as calculated in the City Controller's Special Rates for Indirect Cost Centers ("Special Rates"). These rates are subject to revision by the City Controller. Special Rates (40) for FY 17/18 indicate indirect cost reimbursement percentages for the Personnel Department and City Attorney as 102.34% and 104.67%, respectively.

B. Adjustments

The calculations of indirect costs for quarter ending 09/30/17, previously adopted by the Board at its January 16, 2018 meeting, were developed using Special Rates (39) as provided by the City Controller for FY 16/17. Since then, the City Controller has provided staff with Special Rates (40) for FY 17/18, which revised the rates for Personnel and City Attorney upward. Consistent with past practice, staff recalculated the reimbursement amounts for quarter ending 09/30/17 and applied the balances owed to the reimbursements for quarter ending 12/31/17.

FY	Quarter Ending	FY 16-17 Published Special Rate (39)				FY 17-18 Published Special Rate (40)				Reimbursement Difference	
		Total Personnel Amount Reimbursed under Published Special Rate 39	Applied Special Rate	Total City Attorney Amount Reimbursed under Published Special Rate 39	Applied Special Rate	Total Personnel Reimbursement Amount Calculated Per Published Special Rate 40	Applied Special Rate	Total City Attorney Reimbursement Amount Calculated Per Published Special Rate 40	Applied Special Rate	Difference Personnel	Difference City Attorney
17-18	9/30/2017	\$ 133,195	89.37%	\$ 21,074	84.04%	\$ 142,318	102.34%	\$ 23,436	104.67%	\$ (9,123)	\$ (2,362)

C. Reserve Fund Projection

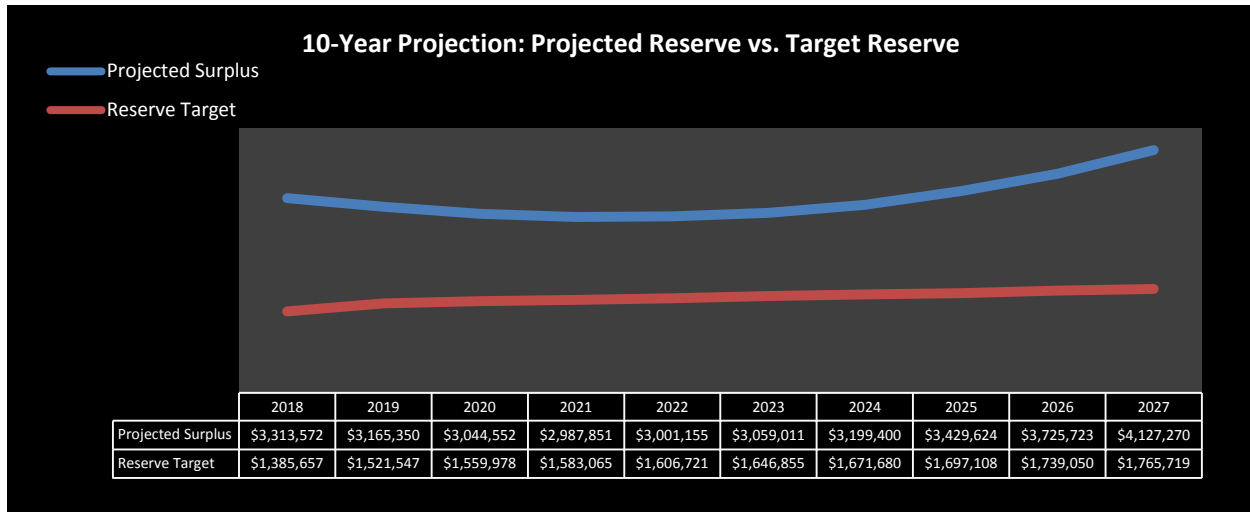
Pursuant to Los Angeles Administrative Code Division 4, Chapter 14, all of the City's internal administrative costs are required to be paid by participant fees. Two accounts are used to pay expenses: a fund held with the Plan administrator which acts as a repository for participant fees and from which most Plan expenses are paid; and a fund held within the City used for certain internal Plan costs such as travel.

In order to maintain stability within the fee structure, the Plan maintains a reserve balance. The target reserve amount is 50% of annual Plan 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 long-term assumptions for Plan revenues/expenditures at its April 2017 meeting. At its March 2018 meeting, the Board approved participant fee reductions, including a decrease in the Plan's administrative fee presently assessed on all participant account balances by one basis point (0.01%), from .10% to .09%; and a decrease in the Plan's current 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. As a result, following is a rolling ten-year forecast of the Deferred Compensation Plan's reserve fund balance.



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 **\$1.39** million in 2022, increasing to **\$2.36** million above target in 2027. At the Board's direction, the Plan Governance & Administrative Issues Committee will conduct annual fee and revenue analyses in order to update the status of long-term projections and evaluate whether additional adjustments should be contemplated.

Submitted by: _____
Matthew Vong

Approved by: _____
Steven Montagna

DEFERRED COMPENSATION PLAN QUARTERLY REVIEW OF REVENUES & EXPENSES				
	Pending	Adopted	Adopted	Adopted
	Ending	Ending	Ending	Ending
REVENUE & EXPENSE LINE ITEMS	12/31/2017	9/30/2017	6/30/2017	3/31/2017
STARTING BALANCE				
Payroll Fee Trust Fund Ending Balance	\$ 37,094	40,695	41,012	44,304
Administrative Fee Reserve Fund Balance	\$ 3,251,090	3,269,431	3,075,538	3,104,611
Total	\$ 3,288,184	3,310,126	3,116,550	3,148,915
REVENUES/FEES				
Interest Earnings on Payroll Fee Trust Fund	\$ 155	87	163	461
Payroll Fee Trust Fund Deposit: Travel	\$ -	0	0	0
Payroll Fee Trust Fund Deposit: Salary Reimbursements	\$ 126,056	118,351	132,946	100,164
Interest Earnings on Administrative Fee Reserve Fund	\$ 17,448	16,227	14,569	13,806
Revenue from Fees Deducted from Participant Accounts	\$ 720,785	698,095	688,845	675,824
CAP Adjustment Credits	\$			
Miscellaneous Credits	\$ 30	227	0	15
Total Revenue/Fees	\$ 864,474	832,987	836,524	790,270
TOTAL ASSETS (STARTING BALANCE + REVENUE/FEES)	\$ 4,152,658	4,143,113	3,953,074	3,939,185
EXPENDITURES				
Participant Administrative Fees Paid to TPA	\$ (359,535)	(405,228)	(401,356)	(398,130)
Prior Quarter Departmental Staffing Reimbursements	\$ (126,056)	(236,701)	(132,946)	(333,274)
Consulting Costs	\$ (34,044)	(16,172)	(59,296)	(32,885)
Plan Administrator Hardship Administration	\$ -	(19,500)	(16,250)	(19,500)
Plan Administrator Asset Allocation Fund Management	\$ -	(17,750)	(17,750)	(17,750)
Communications	\$ (890)	(536)	0	(16,078)
2130 Travel/Training/Education	\$ (3,694)	(3,688)	0	(599)
Travel/Training/Education	\$ (600)	0	0	0
Elections Administration	\$ -	(28,047)	(13,620)	0
Wells Fargo Custodial Fees	N/A	(1,250)	(1,250)	(1,250)
6010 Office and Administrative	\$ (2,658)	0	(575)	(3,169)
4160 Governmental Meetings	\$ -	0	0	0
TOTAL EXPENDITURES	\$ (527,477)	(728,872)	(643,042)	(822,635)
Actual Payroll Fee Trust Fund Ending Balance	\$ 30,927	37,094	40,600	41,012
Actual Administrative Fee Reserve Fund Ending Balance	\$ 3,594,254	3,377,146	3,269,431	3,075,538
ACTUAL TOTAL ENDING BALANCE	\$ 3,625,181	3,414,240	3,310,032	3,116,550
ENCUMBRANCES/LIABILITIES				
Outstanding Reimbursements from Prior Quarter(s)	\$ (154,269.36)	(126,056)	(118,351)	(132,946)
Quarter end 09/30/17 Personnel Adjustments (Special Rate 40)	\$ (9,122.58)	n/a	n/a	n/a
Quarter end 09/30/17 Attorney Adjustments (Special Rate 40)	\$ (2,362.29)	n/a	n/a	n/a
Quarterly Personnel Direct/Indirect Costs	\$ (141,344.73)	(133,195)	(113,829)	(108,597)
Quarterly City Attorney Direct/Indirect Costs	\$ (25,534.01)	(21,074)	(12,227)	(9,754)
Net Ending Balance Owed	\$ (332,633)	(280,325)	(244,407)	(251,297)
TOTAL ASSETS LESS LIABILITIES	\$ 3,292,548	3,133,915	3,065,625	2,865,253