

DEFERRED COMPENSATION PLAN

ANNUAL REPORT

BOARD OF DEFERRED COMPENSATION ADMINISTRATION

2005

ELECTED OFFICIALS

of the
CITY OF LOS ANGELES
CALIFORNIA

ANTONIO R. VILLARAIGOSA
MAYOR

ROCKARD J. DELGADILLO
CITY ATTORNEY

LAURA CHICK
CONTROLLER

MEMBERS OF THE CITY COUNCIL

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PRESIDENT
THIRTEENTH DISTRICT

WENDY GREUEL
PRESIDENT PRO TEMPORE
SECOND DISTRICT

JAN PERRY
ASSISTANT PRESIDENT PRO TEMPORE
NINTH DISTRICT

ED REYES
First District

DENNIS P. ZINE
Third District

TOM LABONGE
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ALEX PADILLA
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Tenth District

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Twelfth District

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Fourteenth District

JANICE HAHN
Fifteenth District

**BOARD OF
DEFERRED COMPENSATION
ADMINISTRATION**

for the

**CITY OF LOS ANGELES
DEFERRED COMPENSATION PLAN**

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Representing the Los Angeles City Employees' Retirement System

JOYA C. DE FOOR

Vice-Chairperson

City Treasurer

EUGENE K. CANZANO

Representing Department of Water and Power Retirement Plan Board

DON KEITH

Representing Fire & Police Pension System

RICHARD KRAUS

Certified Organized Labor Representative

BILL STEIN

Representing Retired Plan Participants

MARGARET M. WHELAN

General Manager Personnel Department

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MARGARET M. WHELAN

CITY OF LOS ANGELES
CALIFORNIA



ANTONIO R. VILLARAIGOSA
MAYOR

**PERSONNEL DEPARTMENT
EMPLOYEE BENEFITS DIVISION**
200 NORTH SPRING STREET, ROOM 867
LOS ANGELES, CA 90012
(213) 485-4846

April 1, 2006

The Honorable Antonio R. Villaraigosa, Mayor
Honorable Council of the City of Los Angeles
Deferred Compensation Plan Participants

On behalf of the Board of Deferred Compensation Administration, I am pleased to submit the City of Los Angeles Deferred Compensation Plan Annual Report for 2005. The past year saw the Plan make significant headway in efforts to engage Plan participants in charting the future course of the Plan. The highlight of these efforts was issuance of a broad-based survey to all participants. The survey generated a strong response – just under 20%, or 6,200 individuals responded. The results provided invaluable information on key issues such as Plan satisfaction, fees, automated services and investment advice.

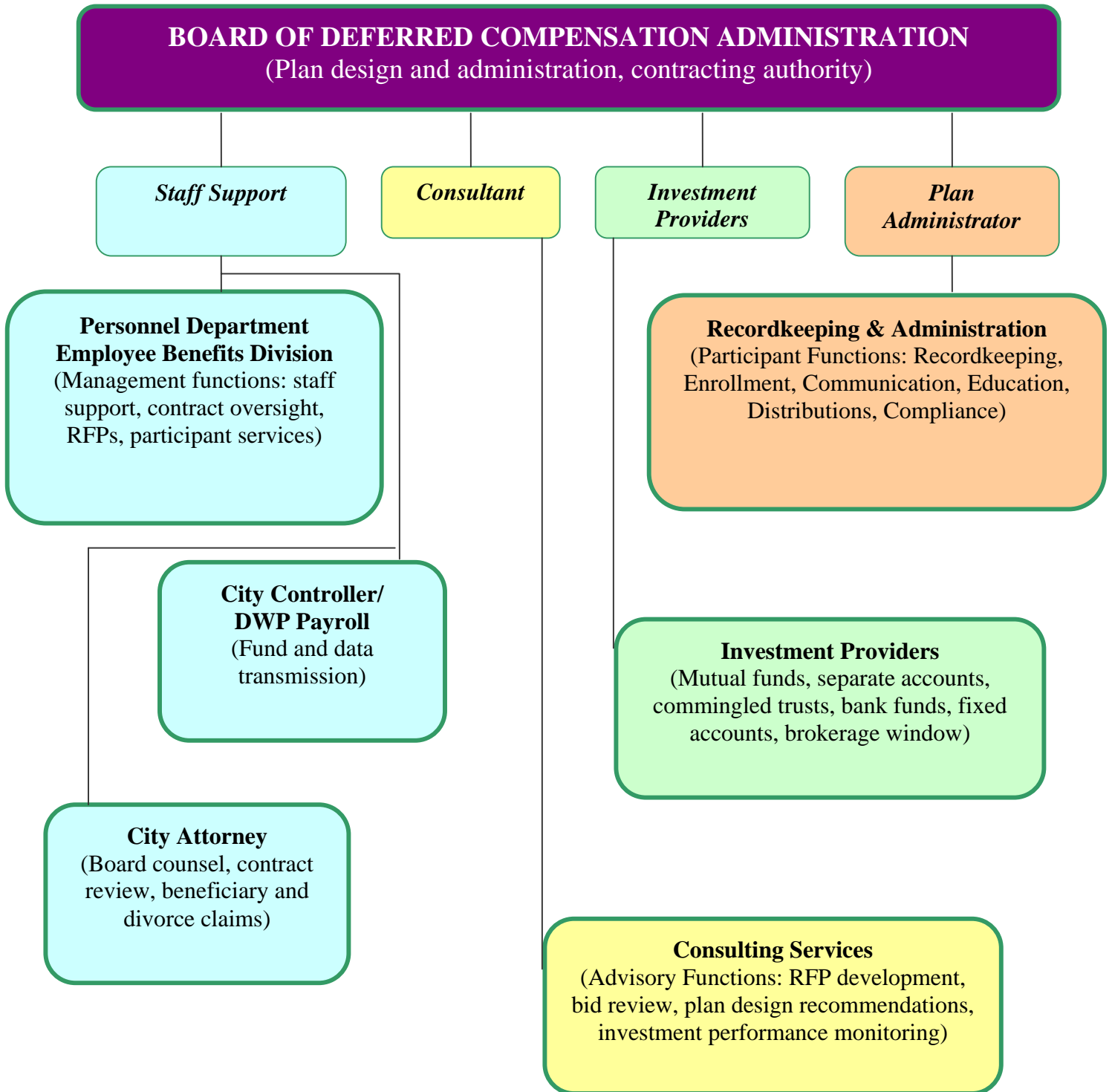
In response to last year's recommendations from the City Council, the Board also took steps towards improving the governance structure of the Plan and its processes for soliciting proposals for various Plan service contracts. Further progress in these areas is expected in 2006.

Plan assets ended the year at the highest level ever recorded, \$2.2 billion. For yet another year, participation also increased to record levels. The City's low-cost Plan continues to be a leader nationwide and a model of user-friendly, cost-effective administration.

Respectfully submitted,

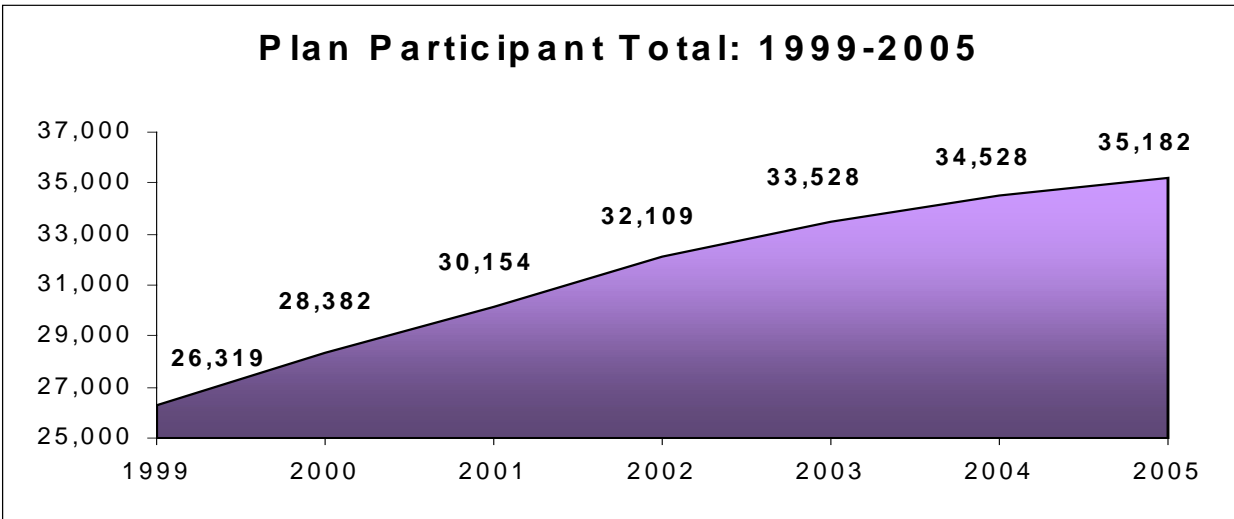
Shelley I. Smith, Chairperson
Board of Deferred Compensation Administration

DEFERRED COMPENSATION PLAN ADMINISTRATIVE STRUCTURE

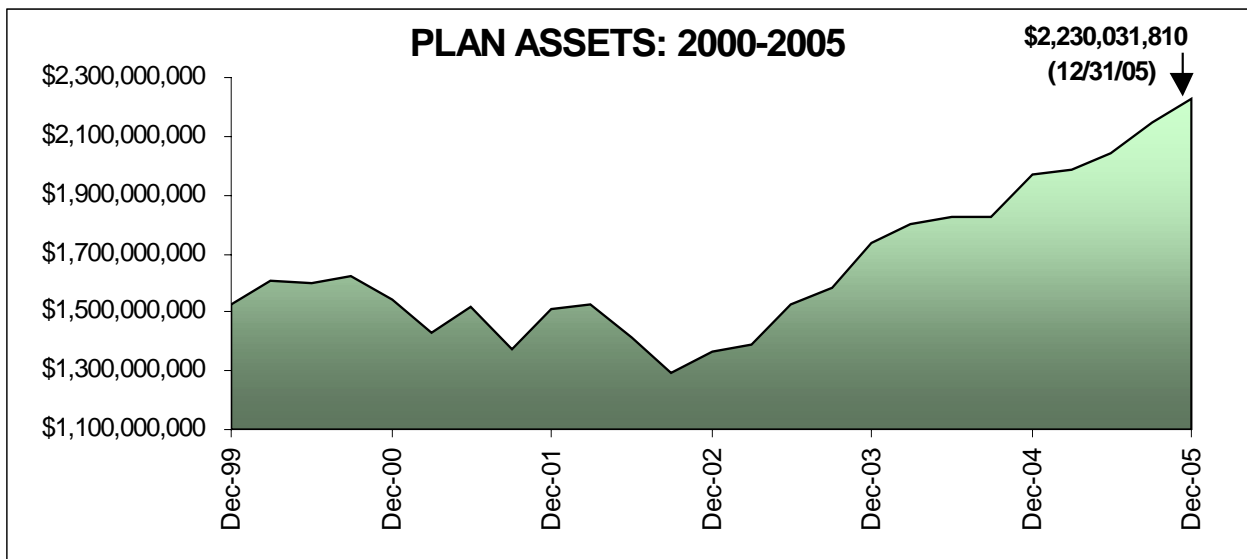


ACTIVITIES & STATISTICS

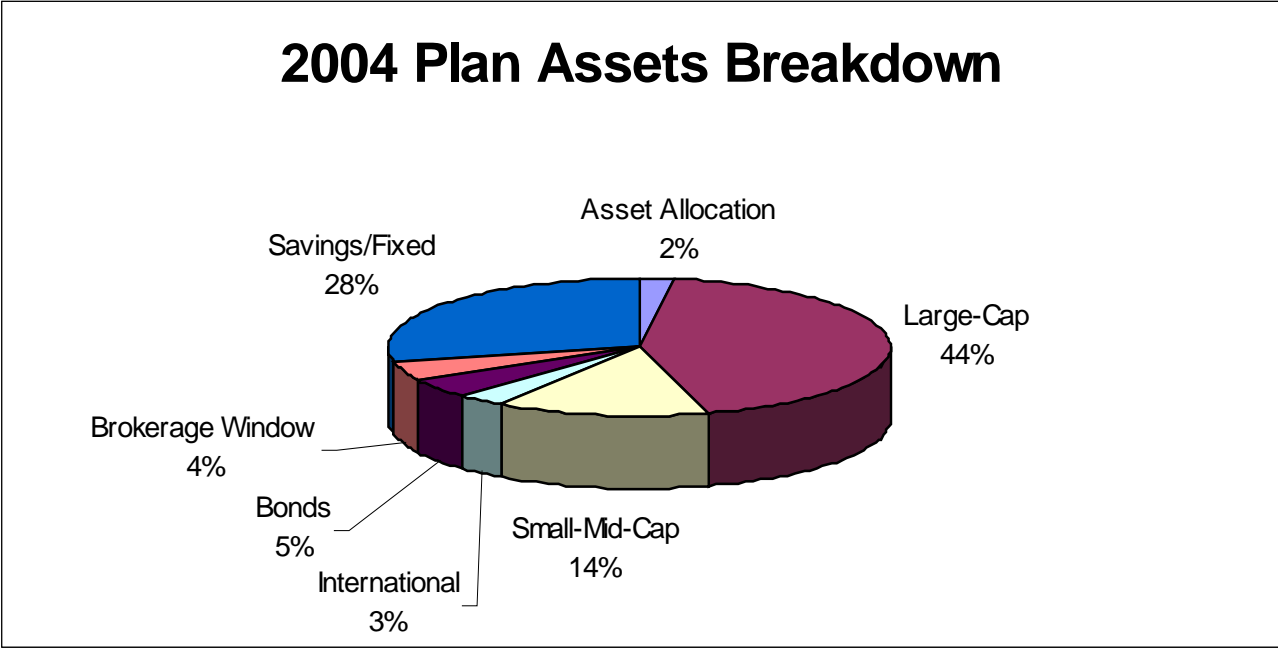
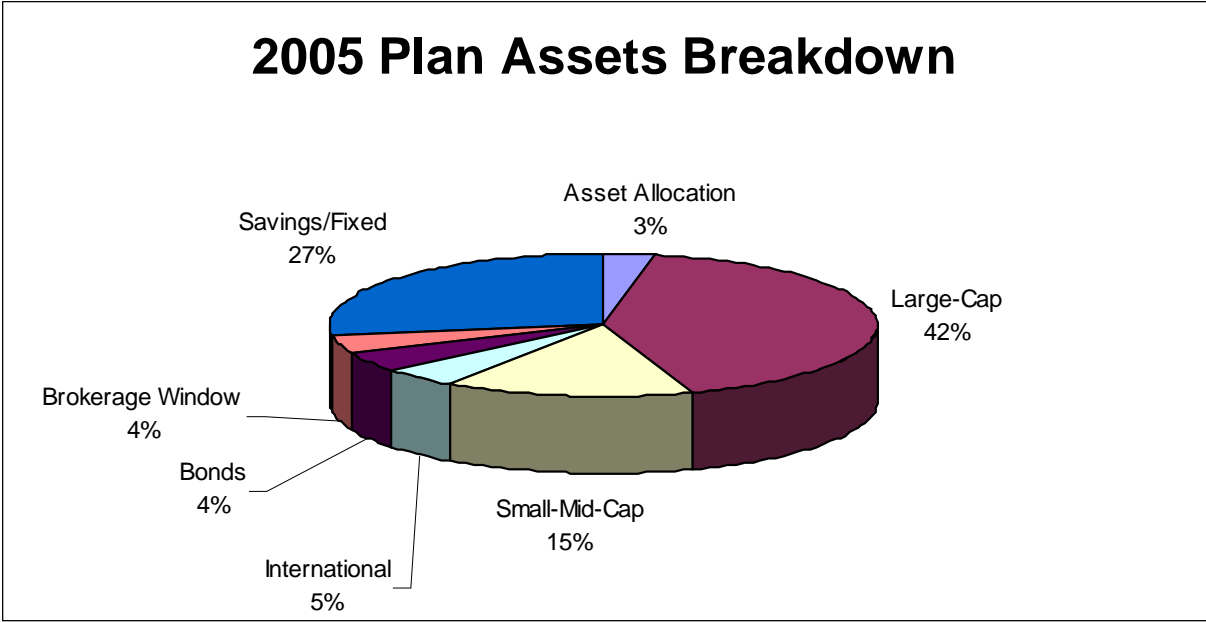
Participation - As of December 31, 2005, the City's Plan had a total of 35,182 participant accounts, a 1.9% increase from the prior year. The Plan Administrator recorded 1,556 new enrollments during this period. The total number of contributing participants represents 59.2% of the eligible employee population (a breakdown of departmental participation rates is provided as Appendix A to this report). The chart below indicates the steady increase in total enrollment levels from 1999 through 2005:



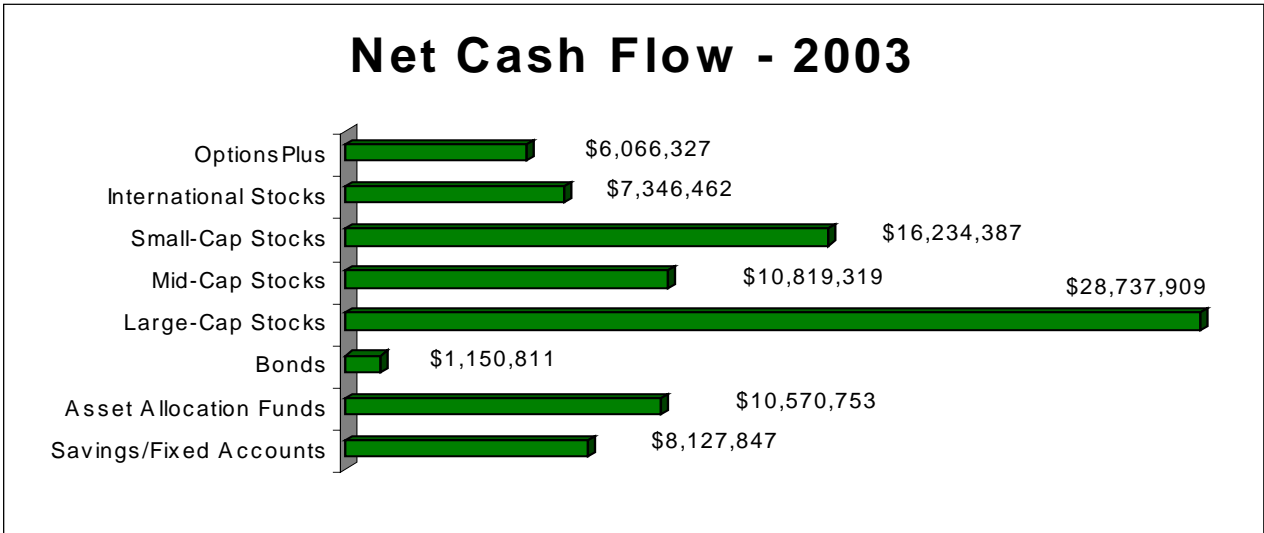
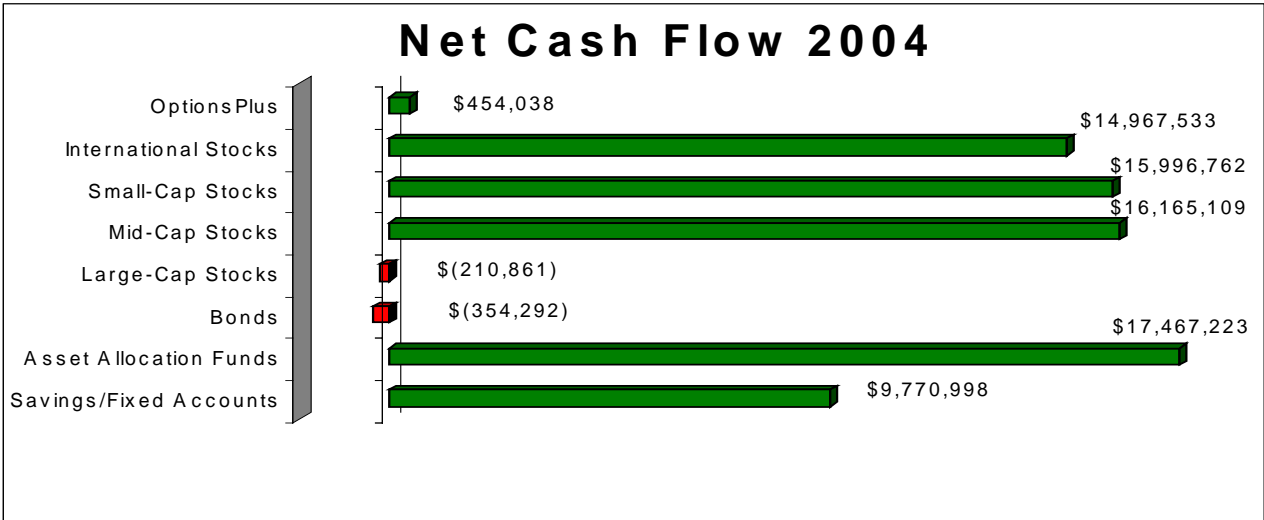
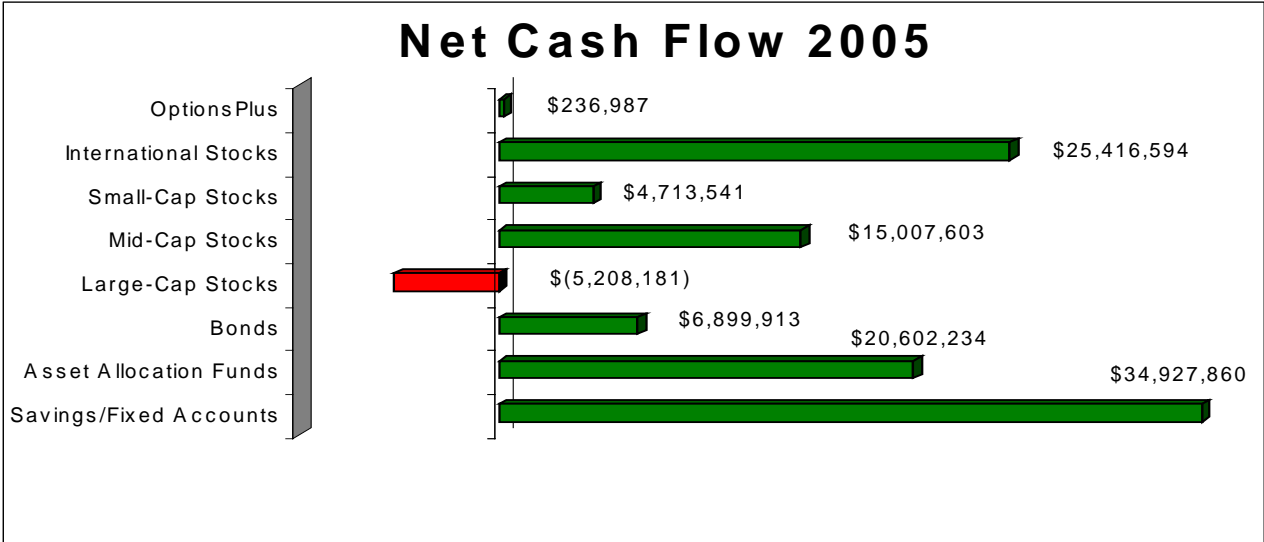
Plan Assets - Year-end total Plan assets were \$2,230,031,810, vs. \$1,973,665,625 at year-end 2004. This represents a 13% year-over-year increase and is the highest total ever recorded for the City's Plan.



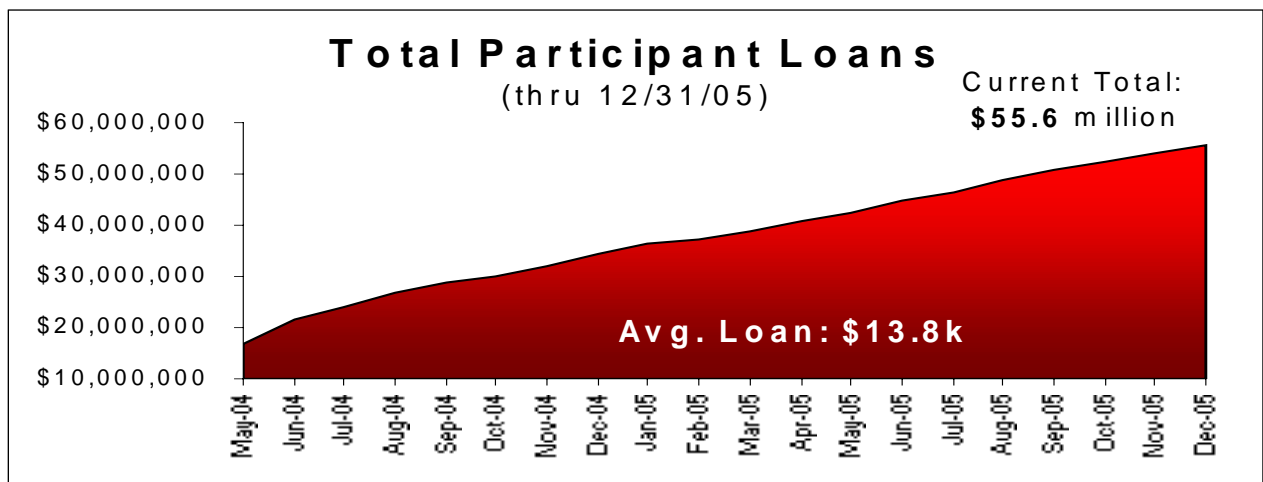
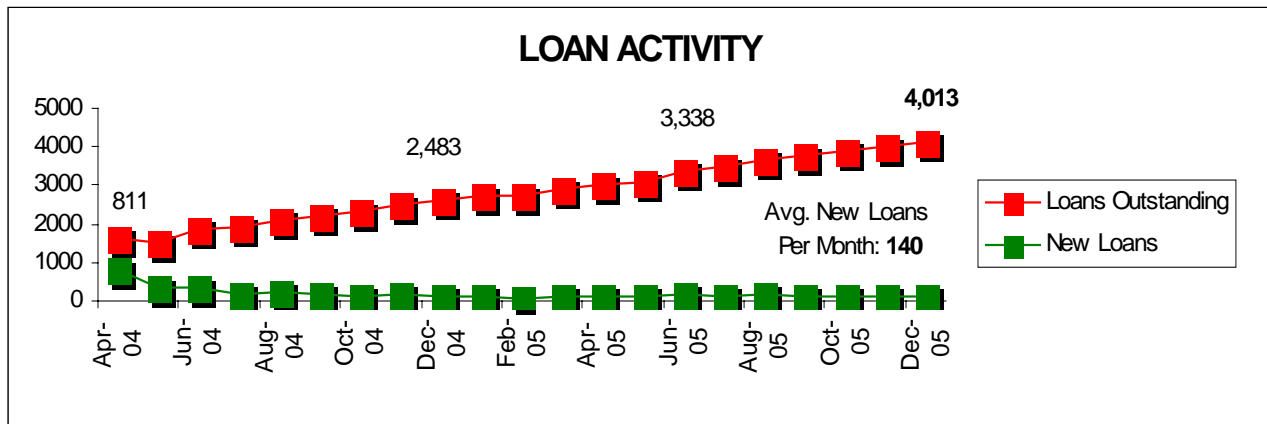
Asset Allocation – The Plan’s overall asset allocation continued to broaden in 2005. The largest pieces of the City’s portfolio pie, Large-Cap Stocks and the Savings/Fixed Account products, both declined by a cumulative 3%, on top of a 4% decline in 2004. Growth occurred in the Small-Cap, International and Asset Allocation categories.



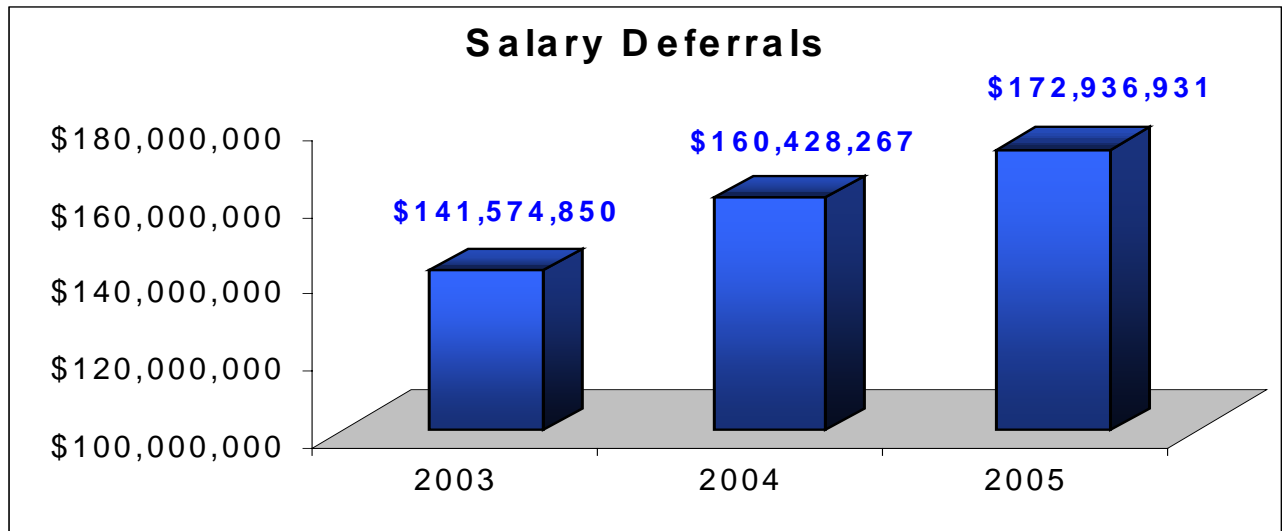
Net Cash Flows – The charts below indicate the changes in net cash flow activity over the past three years. In 2005, the strongest cash flows were to the Plan’s savings/fixed account products, international stocks and asset allocation funds.



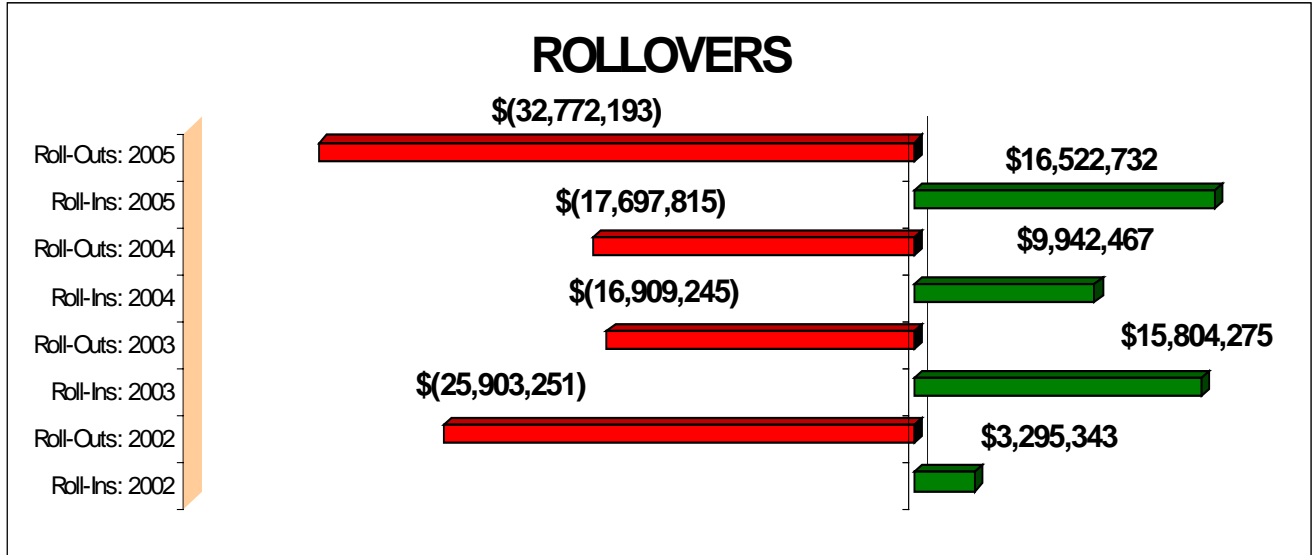
Loan Program – The City’s loan program, introduced in 2004, continues to generate significant participant activity. However, the percentage of Plan assets loaned out is still small relative to the Plan as a whole – \$55.6 million, or 2.5% of Plan assets (vs. 1.7% at year-end 2004).



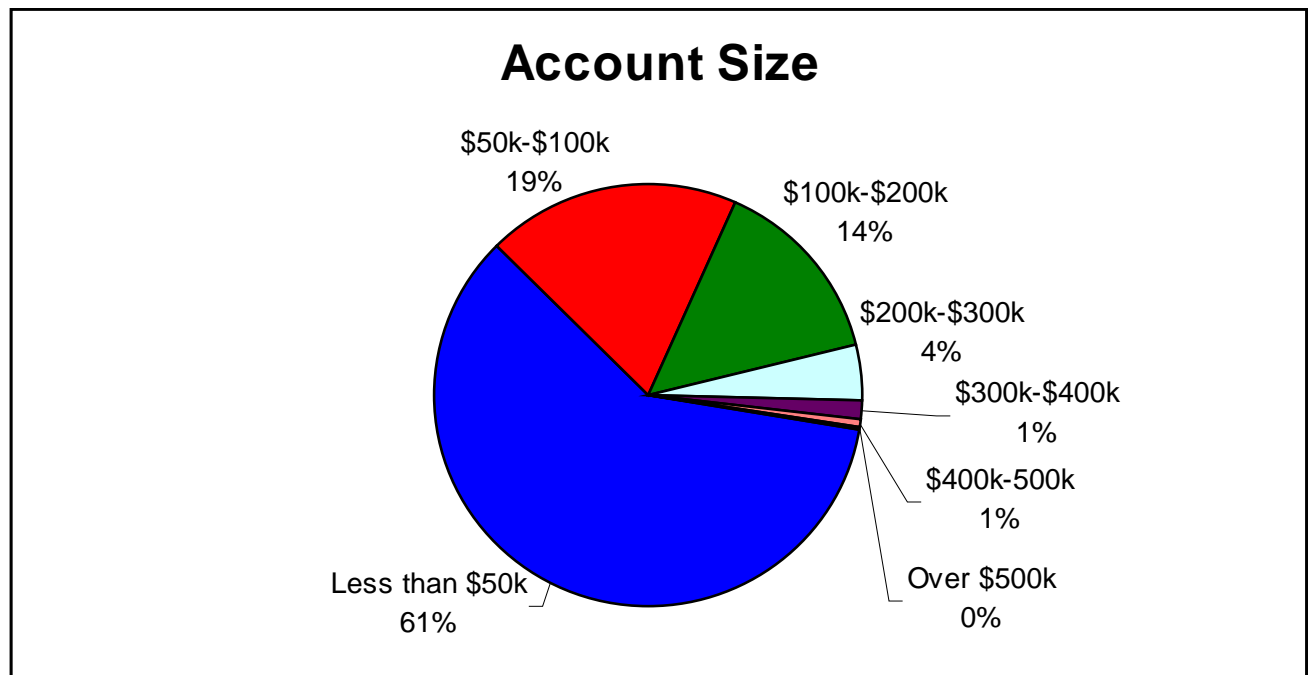
Contributions – Salary deferrals rose 7.8% in 2005 as participants took advantage of the second to final year of higher annual limit increases provided for under 2001 tax legislation. After 2006, further annual limit increases will be tied to inflation and will most likely occur every 2-3 years.



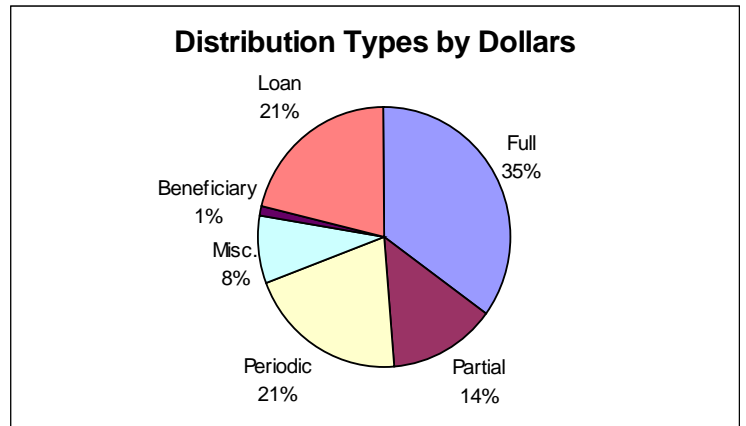
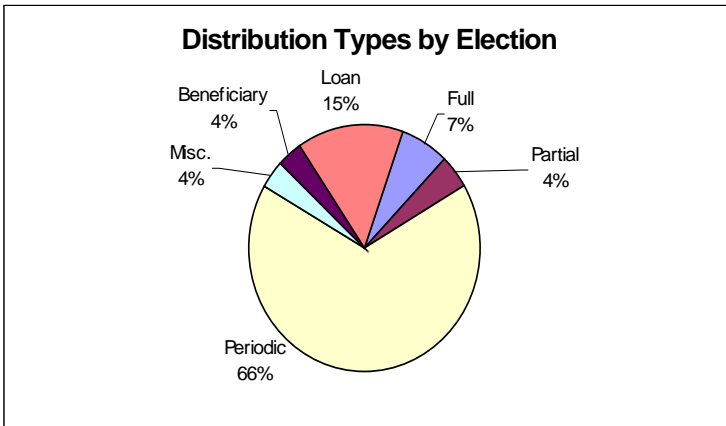
Rollovers – Rollover activity increased in 2005, with the total dollar amount of funds rolled out, as well as rolled in, surpassing previous records. On a net basis, 0.73% of assets rolled out of the Plan, vs. 0.39% in 2004, but this was not a record - the highest percentage occurred in 2002, at 1.7%.



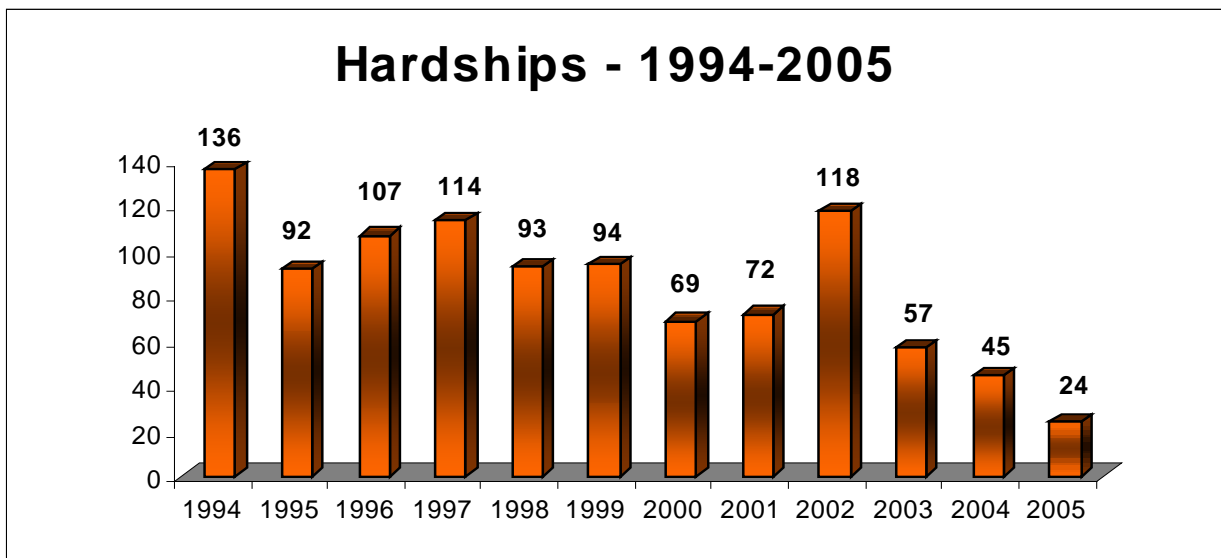
Plan Assets by Participant/Balance Levels – The graph below breaks down Plan assets by the number of participants at particular balance levels. Relative to the prior year, the percentage of participants with less than \$50,000 decreased from 63% to 61% and several of the mid-level categories grew slightly. This continues a trend in place over the last few years indicating rising average account balances.



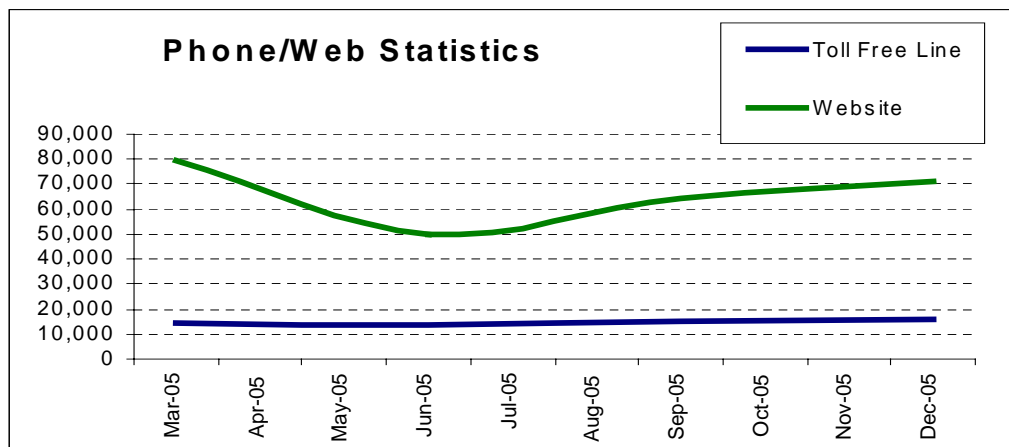
Distributions - The table below breaks down distribution types by election and by dollars. The vast majority of participants elect periodic payments. However, full withdrawals comprise the largest segment of total dollars distributed. Loans are taking increasingly larger shares of both distribution elections and dollars.



Hardships – Staff processed 24 hardship applications in 2005, down from 45 the prior year, continuing a steep decline in the number of cases since introduction of the loan program in 2004. Of these, 23 were approved and one was denied. The graph below indicates the number of hardship applications reviewed by the Board from 1994 through 2005.

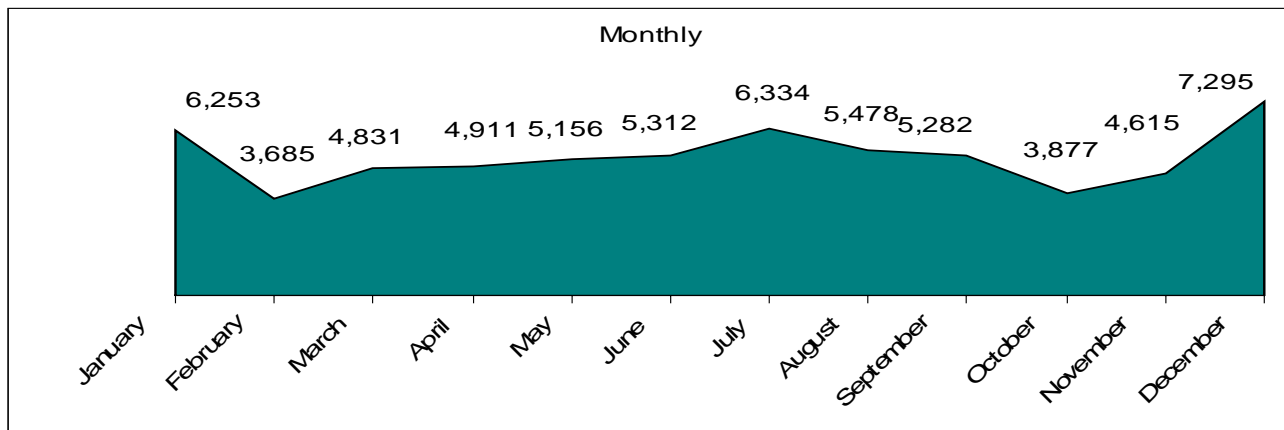


Phone Line/Website Statistics – The following graph compares participant activity via the primary toll-free line as well as the Plan website in 2005. As the graph indicates, participants utilize the website to a much greater extent than they do the toll free line.

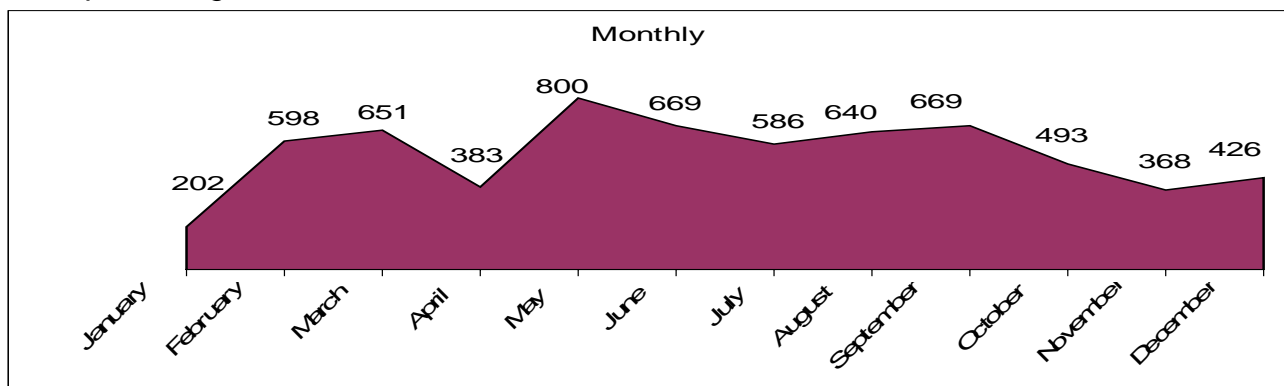


Local Service Statistics – For 2005, the following charts indicate total local participant contact (including phone calls to the local service center and walk-in-person meetings); group meeting attendance; individual counseling sessions; and local office phone calls:

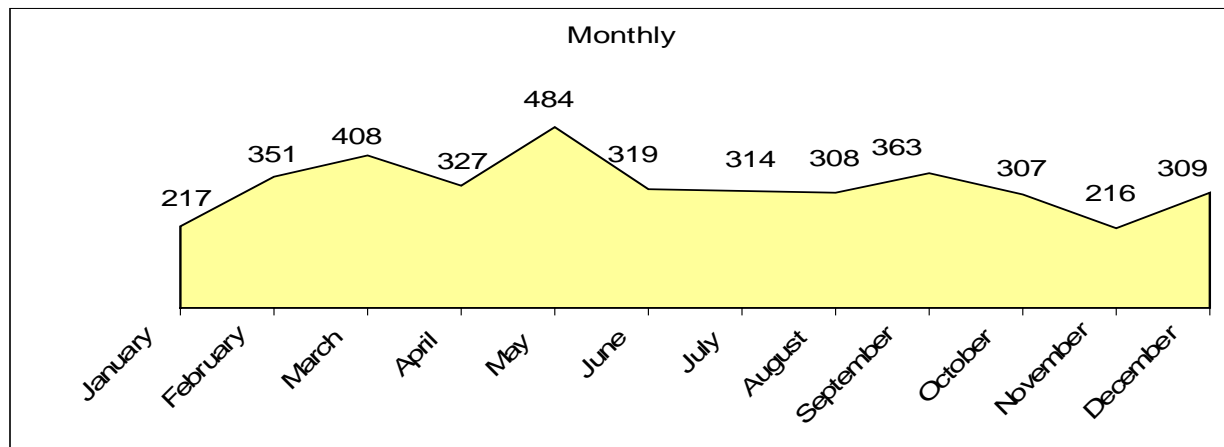
Total Local-Office Participant Contact:



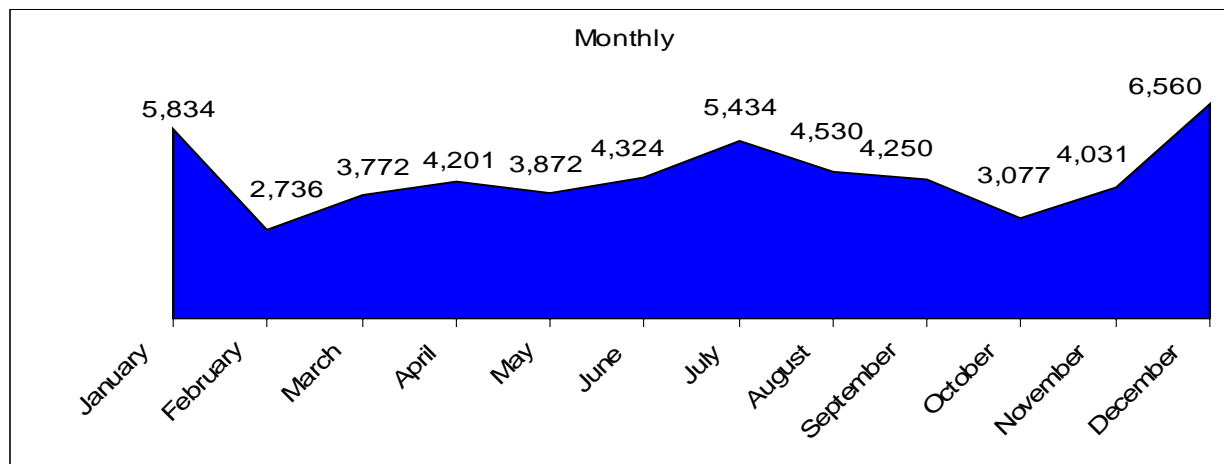
Group Meeting Attendance



Individual Counseling Sessions:



Local Office Phone Calls:



Plan Survey – In 2005 the Board conducted a broad-based survey of Plan participants. Generally, the survey results highlighted several broad themes of sentiment:

- Participants are widely satisfied with the Plan;
- Participants are more familiar with some Plan services than others, but appear to utilize and prefer three primary information outlets: print materials, the website and the toll-free phone line;
- Participants by a wide margin place an emphasis on lower costs vs. new services that may involve a mandated additional cost;
- A majority of participants are interested in new services such as automatic deferral increases and automated investment reallocations, but majorities are ambivalent about automatic enrollment, investment advice and managed accounts.

Complete results are provided in Appendix B to this report.

Performance Returns – As a whole, the overall participant return for all Plan assets in 2005 was **5.03%**. The following table provides performance returns for calendar year 2005 as well as three, five and ten year periods:

SAVINGS ACCOUNTS	Annualized Yield for Quarter				
	12/31/2005	9/30/2005	6/30/2005	3/31/2005	
Washington Mutual Liquid Account	3.75%	3.26%	2.85%	2.06%	
1-yr CD	3.98%	3.66%	3.49%	2.35%	
2-yr CD	4.08%	3.85%	3.92%	2.69%	
3-yr CD	4.13%	3.96%	4.15%	2.89%	
4-yr CD	4.19%	4.03%	4.31%	3.07%	
5-yr CD	4.24%	4.10%	4.42%	3.23%	
FIXED ACCOUNTS	Average Annualized Returns				
	1 Year	3 Years	5 Years	10 Years	Since Inception
Galliard Stable Value Fund	4.29%	4.36%	5.01%	5.62%	6.75%
	12/31/2004	9/30/2004	6/30/2004	3/31/2004	
Hartford General Account (declared "new money" rates only)	4.10%	4.30%	4.30%	4.30%	n/a
STOCK & BOND FUNDS	Average Annualized Returns				
	1 Year	3 Years	5 Years	10 Years	Since Inception
BONDS					
MSIF Fixed Income Fund INST	4.81%	5.03%	6.39%	6.57%	9.07%
Vanguard Total Bond Market Index Fund	2.53%	3.66%	5.56%	6.01%	6.30%
BALANCED					
Hartford Advisers HLS	7.34%	9.76%	1.72%	8.07%	n/a
LARGE-CAP STOCKS					
Hartford Stock HLS	9.73%	13.15%	-0.71%	8.94%	n/a
Investment Company of America	6.87%	14.01%	3.87%	10.79%	12.82%
Fidelity Magellan Fund	6.42%	12.61%	-0.75%	7.43%	18.70%
Growth Fund of America	14.23%	19.34%	3.06%	13.33%	9.61%
Capital Guardian U.S. Equity Fund	6.09%	6.09%	n/a	n/a	15.75%
Vanguard Institutional Index Fund	4.90%	14.38%	0.54%	9.13%	10.79%
MID-CAP STOCKS					
Hartford Capital Appreciation HLS	15.66%	25.35%	8.08%	14.68%	n/a
SMALL-CAP STOCKS					
Lotsoff Small Capital Equity	-0.65%	n/a	n/a	n/a	25.48%
State Street Russell 2000 Index Trust Fund C	4.20%	21.48%	7.65%	n/a	8.34%
INTERNATIONAL STOCKS					
Fidelity Diversified International Fund	17.23%	25.93%	9.51%	12.93%	11.80%
Scudder EAFE Equity Index Fund	13.57%	22.77%	3.84%	n/a	5.60%
PROFILE PORTFOLIOS					
Conservative	3.99%	8.25%	n/a	n/a	5.77%
Moderate	4.82%	11.63%	n/a	n/a	6.55%
Aggressive	5.64%	14.54%	n/a	n/a	7.19%
BENCHMARK INDICES					
Lehman Brothers Aggregate Bond	2.43%	3.62%	5.87%	6.16%	n/a
MSCI EAFE	13.54%	23.68%	4.55%	5.84%	n/a
Russell 2000	4.55%	22.13%	8.22%	9.26%	n/a
Standard & Poor's 500	4.91%	14.38%	0.54%	9.07%	n/a

Administrative Fee Trust Fund - The Deferred Compensation Plan Administrative Fee Trust Fund ended 2005 with a surplus of \$341,196, up 18% from the prior-year balance of \$288,862. An activity summary and comparison of recent years follows:

ADMINISTRATIVE FEE TRUST FUND				
CALENDAR YEAR-ENDING 12/31/05				
	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>
REVENUES/FEES				
Prior Year-End Balance	\$ 437,964	\$ 330,720	\$ 335,630	\$ 376,919
Total City Admin Fees	\$ 270,319	\$ 273,017	\$ 258,270	\$ 249,109
Total DWP Admin Fees	\$ 67,752	\$ 57,654	\$ 53,934	\$ 50,122
Total Interest Earned	\$ 14,142	\$ 11,566	\$ 16,332	\$ 15,349
TOTAL REVENUE/FEES	\$ 790,176	\$ 672,957	\$ 664,165	\$ 691,498
EXPENDITURES				
Reimbursements to Treasurer/Personnel	\$ (250,040)	\$ (100,865)	\$ (226,931)	\$ (196,452)
Contractual Services	\$ (79,647)	\$ (118,201)	\$ (42,488)	\$ (139,561)
NAGDCA/Education	\$ (22,079)	\$ (14,082)	\$ (18,951)	\$ (15,727)
Office & Admin	\$ (1,618)	\$ (1,845)	\$ (6,475)	\$ (4,130)
Auditor	\$ -	\$ -	\$ (38,600)	\$ -
TOTAL EXPENDITURES	\$ (353,383)	\$ (234,993)	\$ (333,445)	\$ (355,869)
ACTUAL BALANCE AS OF YEAR-END	\$ 436,793	\$ 437,964	\$ 330,720	\$ 335,630
ENCUMBRANCES/LIABILITIES				
Reimbursements to Treasurer/Personnel	\$ (95,596.29)	\$ (149,102)	\$ (52,701)	\$ (89,693)
TOTAL LIABILITIES	\$ (95,596)	\$ (149,102)	\$ (52,701)	\$ (89,693)
REVENUES LESS EXPENDITURES/LIABILITIES	\$ 341,196	\$ 288,862	\$ 278,019	\$ 245,936

Conclusion

2005 proved to be a year of continuing excellence and milestone achievements for the Deferred Compensation Plan. The Board will continue its mission of ensuring that the Plan provides quality service at a reasonable cost.

CONTRIBUTION RATES BY DEPARTMENT CODE - 2005								
Department Name	Previous Eligible 1/05	Previous Contrib 1/05	Previous % Contrib	Current Eligible 1/06	Current Contrib 1/06	Current % Contrib.	% Difference	# Difference
AIRPORTS	2,881	1,217	42.2%	2,986	1,353	45.3%	3.07%	136
ANIMAL SERVICES	254	123	48.4%	283	121	42.8%	(5.67%)	(2)
AGING	52	35	67.3%	52	38	73.1%	5.77%	3
BUILDING & SAFETY	838	435	51.9%	863	436	50.5%	(1.39%)	1
CITY ADMIN OFFICER	116	82	70.7%	124	85	68.5%	(2.14%)	3
STATUS OF WOMEN	12	8	66.7%	12	6	50.0%	(16.67%)	(2)
CITY ATTORNEY	960	541	56.4%	948	566	59.7%	3.35%	25
EMERGENCY PREPAREDNESS	15	12	80.0%	16	10	62.5%	(17.50%)	(2)
CITY CLERK	142	86	60.6%	155	95	61.3%	0.73%	9
RETIREMENT SYSTEM	107	70	65.4%	109	74	67.9%	2.47%	4
CDD	418	205	49.0%	354	174	49.2%	0.11%	(31)
PERSONNEL	410	273	66.6%	479	306	63.9%	(2.70%)	33
DEPT ON DISABILITY	20	11	55.0%	21	13	61.9%	6.90%	2
COLISEUM	2	2	100.0%	32	17	53.1%	(46.88%)	15
COMM ON CHILD & YOUTH	12	4	33.3%	13	7	53.8%	20.51%	3
CULTURAL AFFAIRS	64	35	54.7%	54	30	55.6%	0.87%	(5)
CONTROLLER	167	125	74.9%	168	124	73.8%	(1.04%)	(1)
ITA	726	510	70.2%	740	513	69.3%	(0.92%)	3
COUNCIL	343	83	24.2%	332	80	24.1%	(0.10%)	(3)
EMPLOYEE RELATIONS	3	1	33.3%	3	1	33.3%	0.00%	0
FIRE - FIREFIGHTERS	3,495	2,877	82.3%	3,486	2,840	81.5%	(0.85%)	(37)
FIRE CIVILIAN	310	167	53.9%	328	182	55.5%	1.62%	15
HARBOR	642	323	50.3%	686	339	49.4%	(0.89%)	16
GENERAL SERVICES	1,996	836	41.9%	2,116	847	40.0%	(1.86%)	11
LIBRARY	1,143	326	28.5%	810	346	42.7%	14.19%	20
MAYOR	131	38	29.0%	133	24	18.0%	(10.96%)	(14)
ENVIRONMENTAL AFFAIRS	30	18	60.0%	34	20	58.8%	(1.18%)	2
HOUSING	440	259	58.9%	447	236	44.4%	(14.42%)	(23)
L A CONVENTION CENTER	159	85	53.5%	168	84	50.0%	(3.46%)	(1)
EL PUEBLO	14	8	57.1%	20	11	55.0%	(2.14%)	3
PLANNING	269	165	61.3%	269	160	59.5%	(1.86%)	(5)
POLICE OFFICERS	8,968	7,027	78.4%	9,314	7,060	75.8%	(2.56%)	33
POLICE CIVILIAN	2,953	1,628	55.1%	3,064	1,696	55.4%	0.22%	68
NEIGHBORHOOD EMPOWER.	44	22	50.0%	42	25	59.5%	9.52%	3
HUMAN RELATIONS COMM	11	7	63.6%	15	8	53.3%	(10.30%)	1
FIRE POLICE PEN	83	50	60.2%	82	51	62.2%	1.95%	1
PUBLIC WORKS	4,712	2,391	50.7%	4,778	2,459	51.5%	0.72%	68
RECREATION & PARKS	1,686	514	30.5%	1,834	539	29.4%	(1.10%)	25
TRANSPORTATION	1,489	832	55.9%	1,554	831	53.5%	(2.40%)	(1)
TREASURER	359	243	67.7%	370	245	66.2%	(1.47%)	2
LOS ANGELES ZOO	205	80	39.0%	224	93	41.5%	2.49%	13
DWP	7,870	4,603	58.5%	7,888	4,727	59.9%	1.44%	124
TOTALS---->	44,551	26,357	59.2%	45,406	26,872	59.2%	0.02%	515