

CITY OF LOS ANGELES



DEFERRED COMPENSATION PLAN

ANNUAL REPORT

BOARD OF DEFERRED COMPENSATION ADMINISTRATION

2007

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

ERIC GARCETTI
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
Fourth District

JACK WEISS
Fifth District

TONY CARDENAS
Sixth District

RICHARD ALARCON
Seventh District

BERNARD PARKS
Eighth District

HERB J. WESSON, JR.
Tenth District

BILL ROSENDAHL
Eleventh District

GREIG SMITH
Twelfth District

JOSE HUIZAR
Fourteenth District

JANICE HAHN
Fifteenth District

**BOARD OF
DEFERRED COMPENSATION
ADMINISTRATION**

for the

**CITY OF LOS ANGELES
DEFERRED COMPENSATION PLAN**

MARGARET WHELAN

Chairperson

General Manager Personnel Department

BILL STEIN

Vice-Chairperson

Representing Retired Plan Participants

EUGENE K. CANZANO

Representing Department of Water and Power Retirement Plan Board

MICHAEL CARTER

Representing Fire & Police Pension System

JOYA C. DE FOOR

City Treasurer

RICHARD KRAUS

Certified Organized Labor Representative

RICK ROGERS

Representing the Los Angeles City Employees' Retirement System

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COMPENSATION
ADMINISTRATION**

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RICK ROGERS

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, 2008

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 2007.

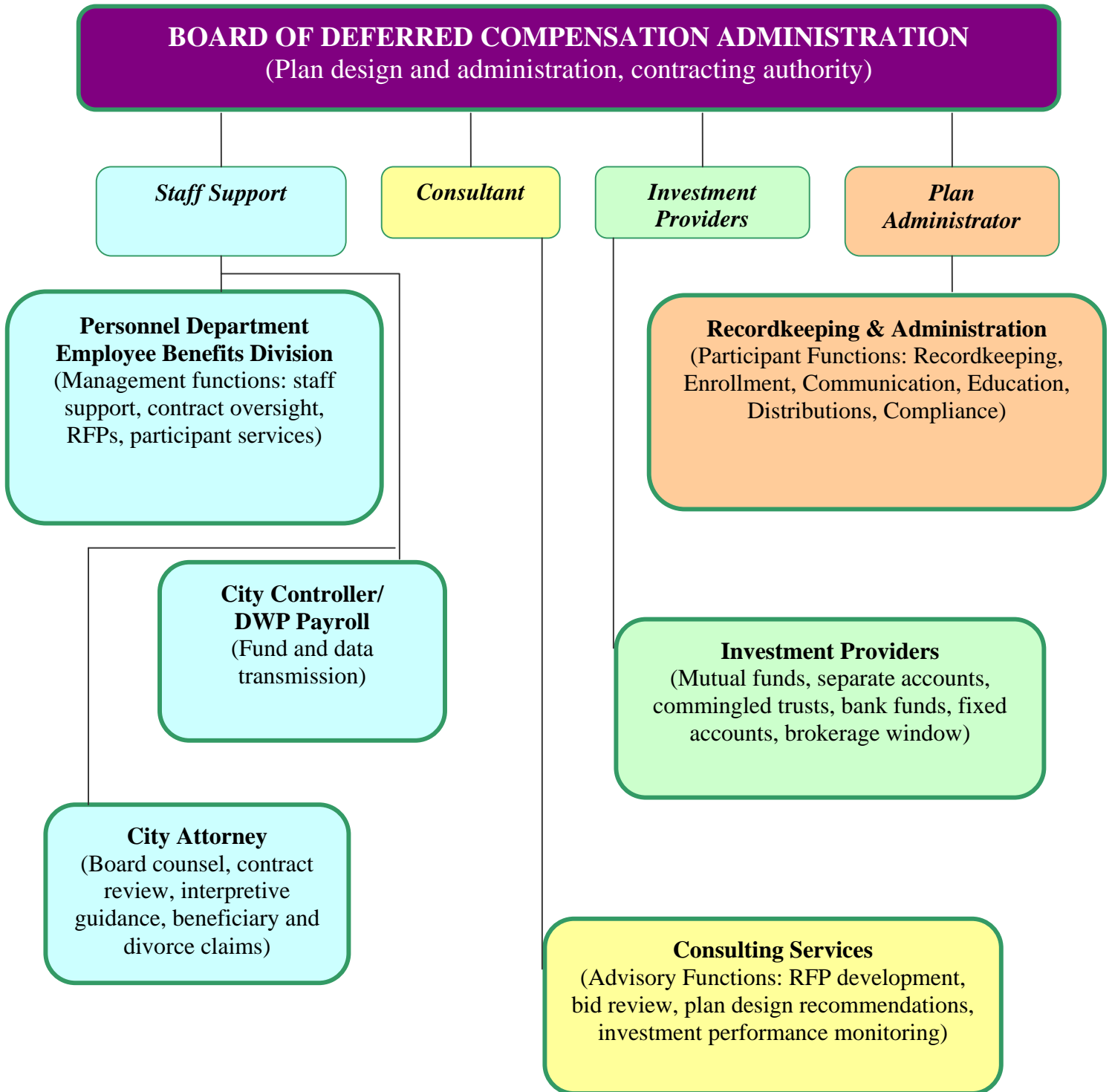
A number of important events occurred over the past year. First, Plan assets and participation reached just under three billion for the first time, and participation grew to a record 38,733 members. In addition, the Board was also able to pass along a significant fee reduction, capping annual administrative fees and eliminating a separate contribution fee. The Board also added two new asset allocation funds to further promote the goal of investment diversification. Finally, the Plan implemented an Accrued Leave Deferral Option, allowing retiring participants to make contributions to the Plan out of their final vacation and sick leave payouts.

In difficult economic times the City's Plan stands as a steady source of long-term financial security for our participants. We will continue to search for ways to improve and expand the benefits available under the Plan to better serve our participants, now and in the future.

Respectfully submitted,

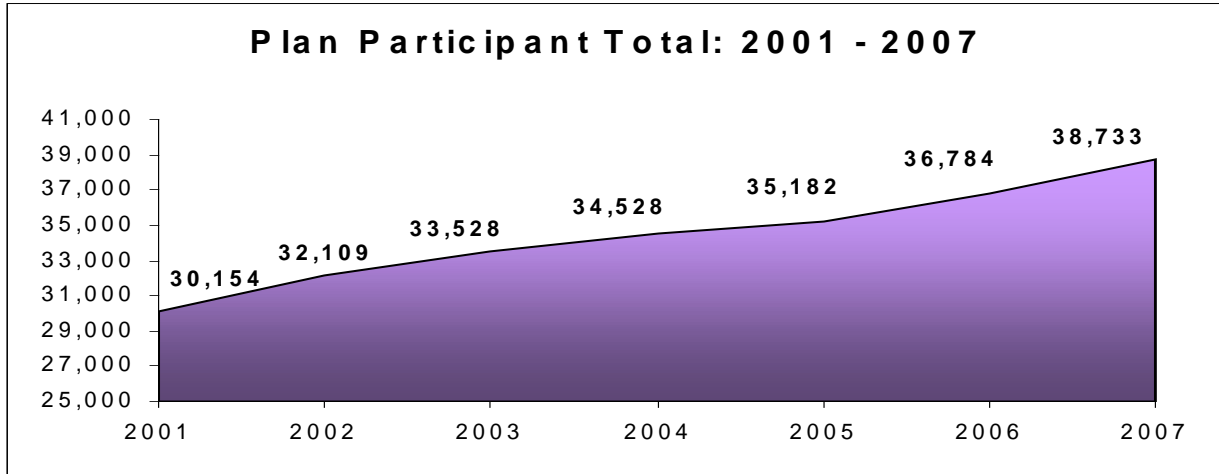
Margaret Whelan, Chairperson
Board of Deferred Compensation Administration

DEFERRED COMPENSATION PLAN ADMINISTRATIVE STRUCTURE

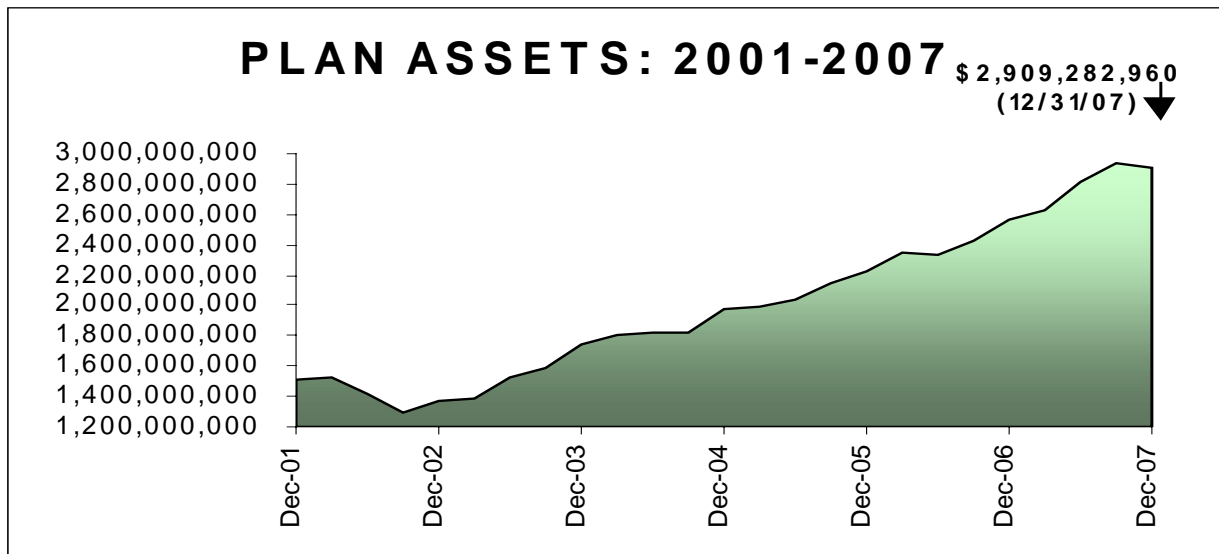


ACTIVITIES & STATISTICS

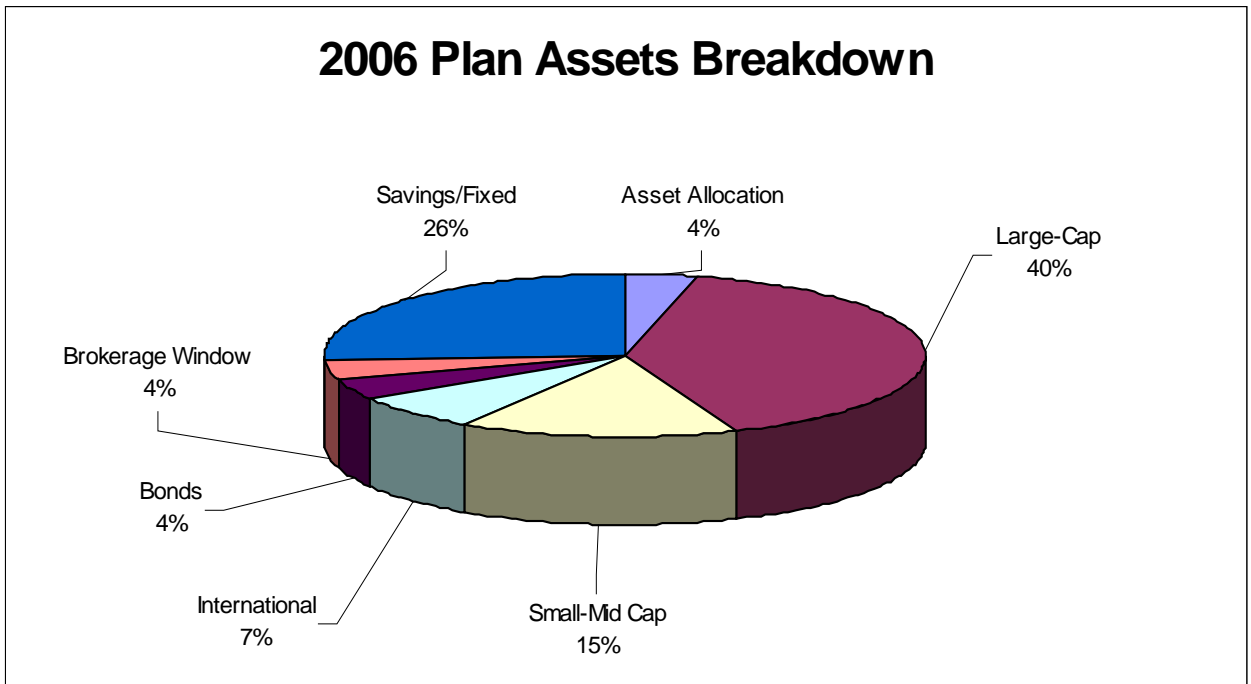
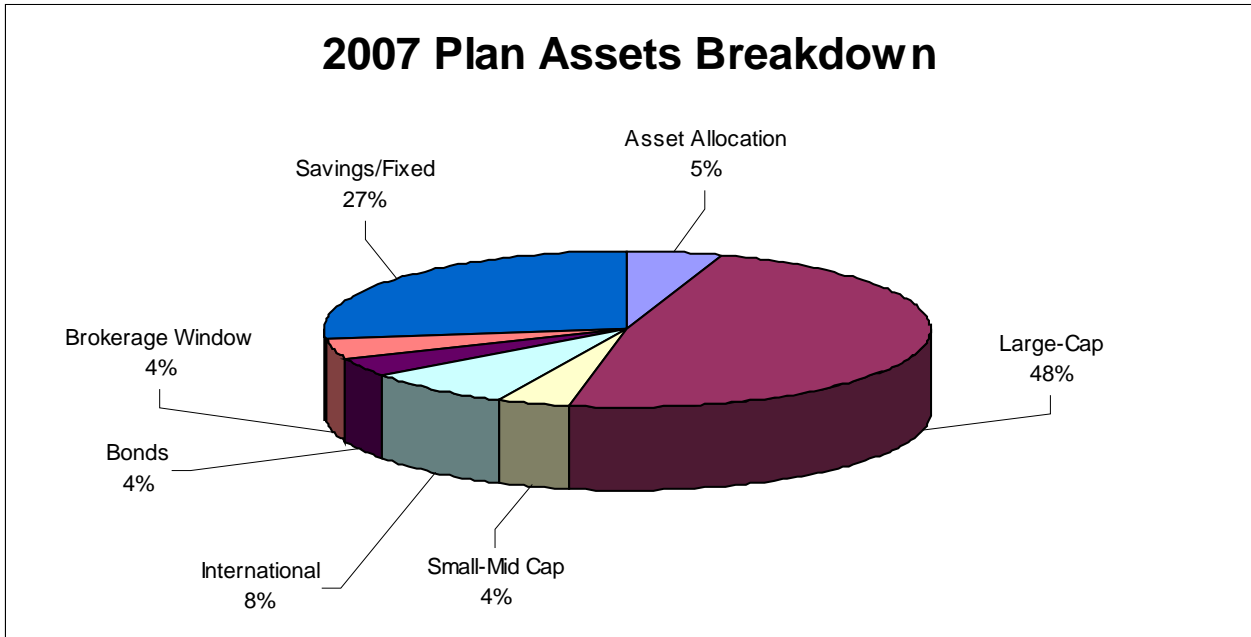
Participation - As of December 31, 2007, the City's Plan had a total of 38,733 participant accounts, an unexpectedly large 5.3% increase from the prior year. The Plan Administrator recorded 2,860 new enrollments during this period. The total number of contributing participants represents 60.9% of the 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 2001 through 2007:



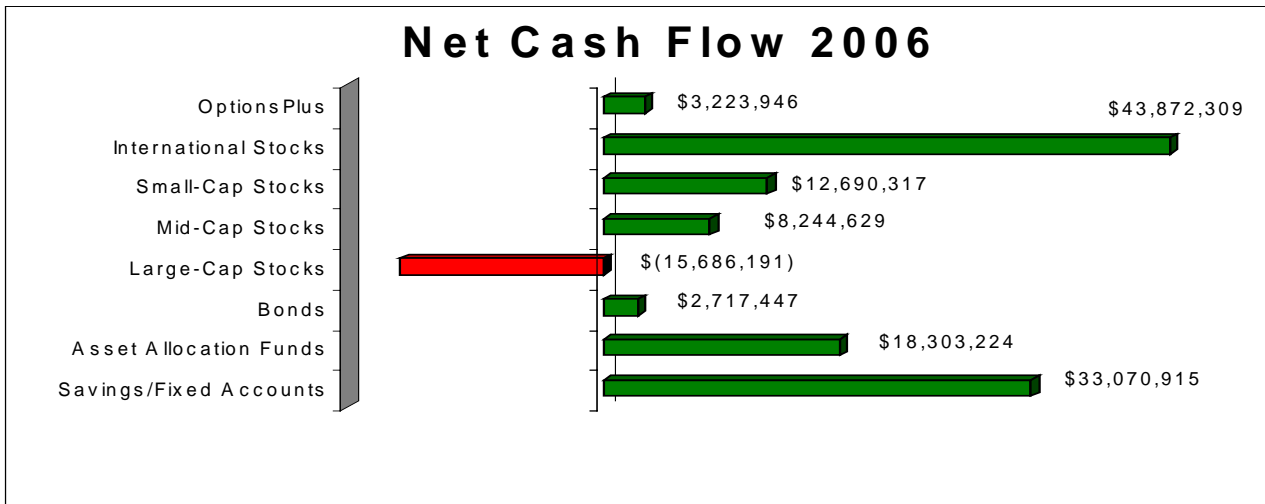
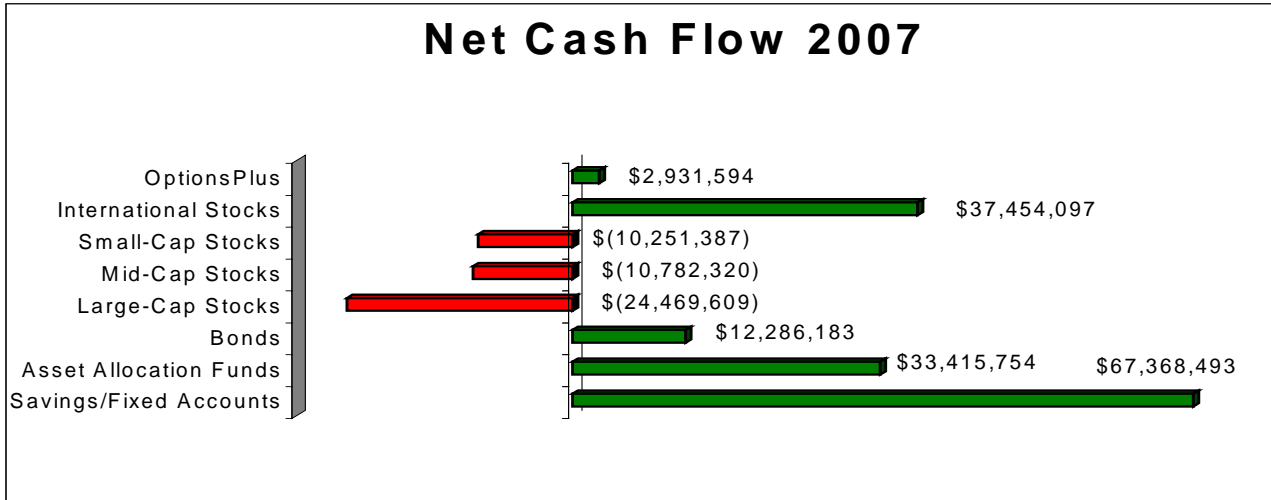
Plan Assets - Year-end total Plan assets were \$2,909,282,960, vs. \$2,566,734,158 at year-end 2006. This represents a 13.3% year-over-year increase and is the highest total ever recorded for the City's Plan.



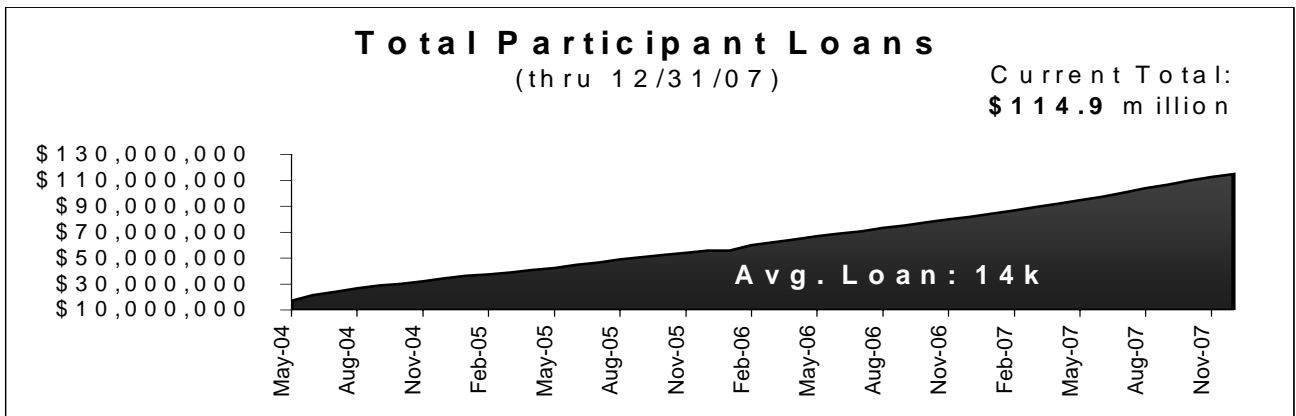
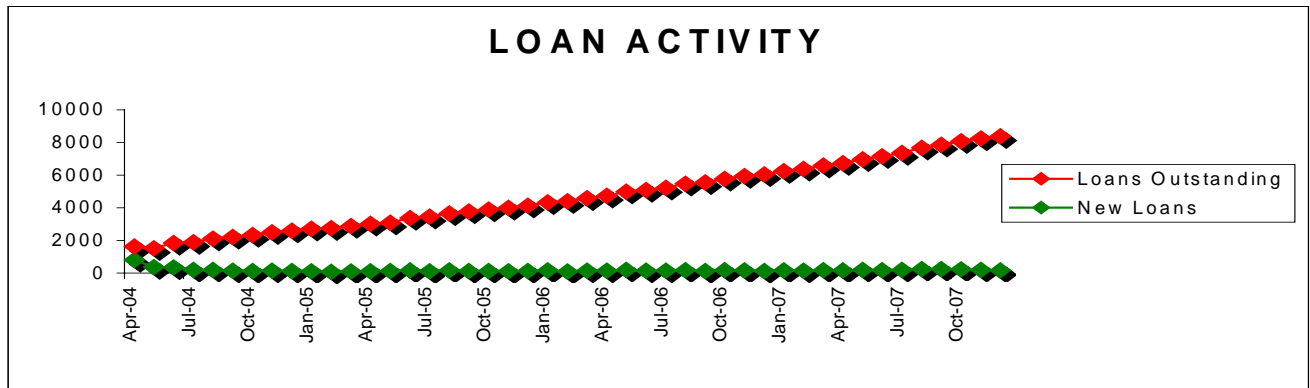
Asset Allocation – Changes in the Plan’s overall asset allocation reflected significant events in the economy and markets in 2007. Market leadership returned to Large-Cap Stocks, and more assets were directed to International stocks, as concerns about the U.S. economy began to take hold throughout the year. The Plan’s Asset Allocation funds also saw growth as they offered easy diversification and less volatility than other Plan investments.



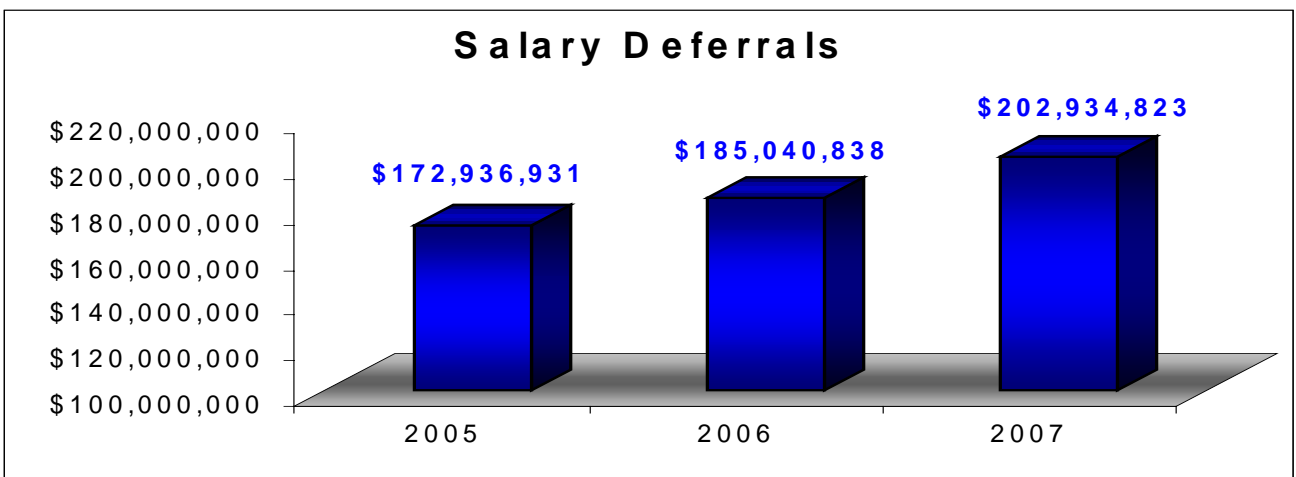
Net Cash Flows – The charts below indicate changes in net cash flow activity over the past two years. In 2007, the strongest cash flows were to the Plan’s savings/fixed account products, international stocks and asset allocation funds, with investors seeking more stability and safety as market volatility grew.



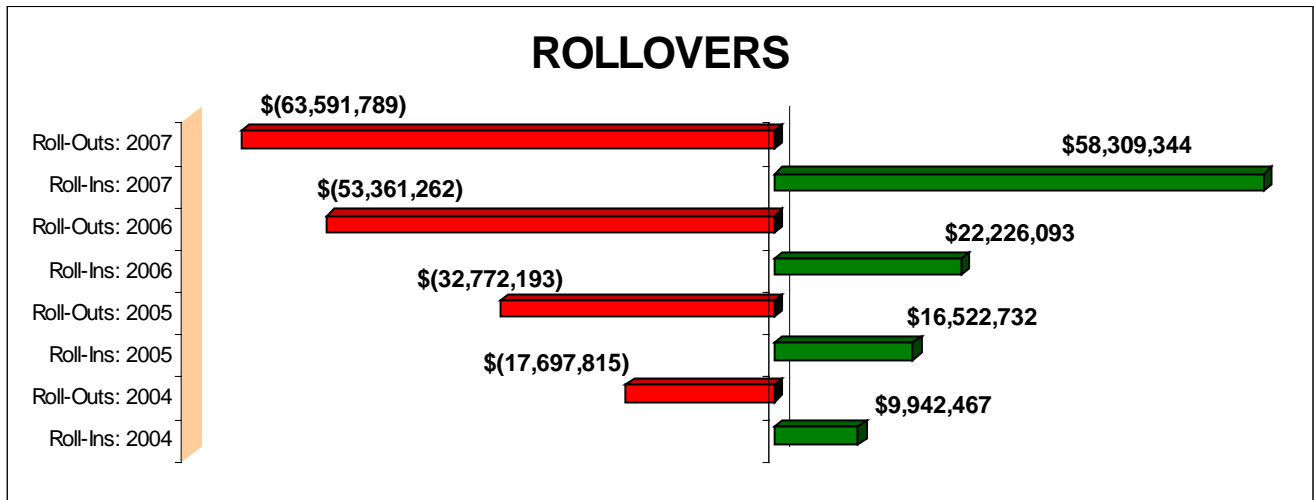
Loan Program – The City’s loan program, introduced in 2004, continues to generate significant participant activity. However, the percentage of Plan assets loaned out is still small relative to the Plan as a whole – \$114.9 million, or 3.9% of Plan assets (vs. 3.2% at year-end 2006). Currently 28.8% of participants have outstanding loans against their accounts.



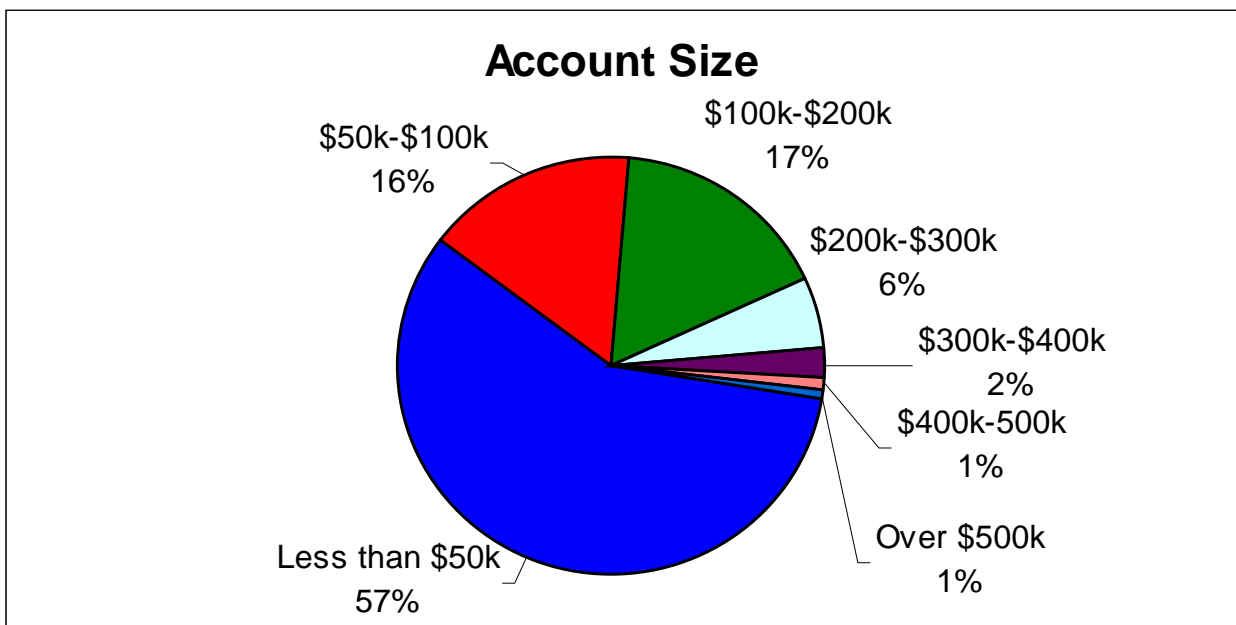
Contributions – Salary deferrals rose 9.7% in 2007 as participants took advantage of the final year of higher annual limit increases provided for under 2001 tax legislation. All further annual limit increases will be tied to inflation increases.



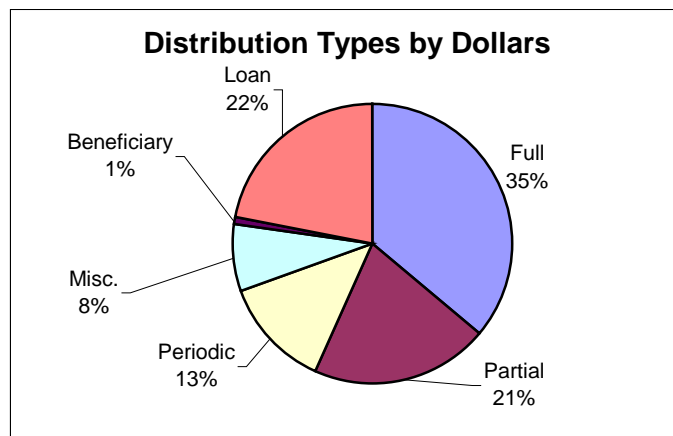
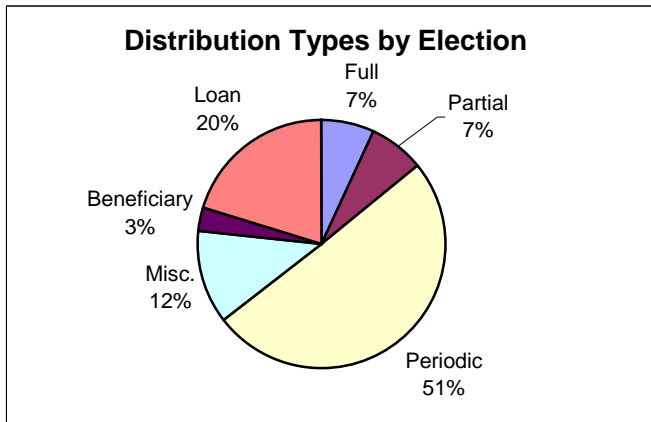
Rollovers – Rollover activity increased in 2007, with the total dollar amount of funds rolled out, as well as rolled in, surpassing previous records. On a net basis, only **0.18%** of assets rolled out of the Plan, vs. 1.2% in 2006. Many of the funds rolling in came from sworn participants in the City’s Deferred Retirement Option Plan (“DROP”).



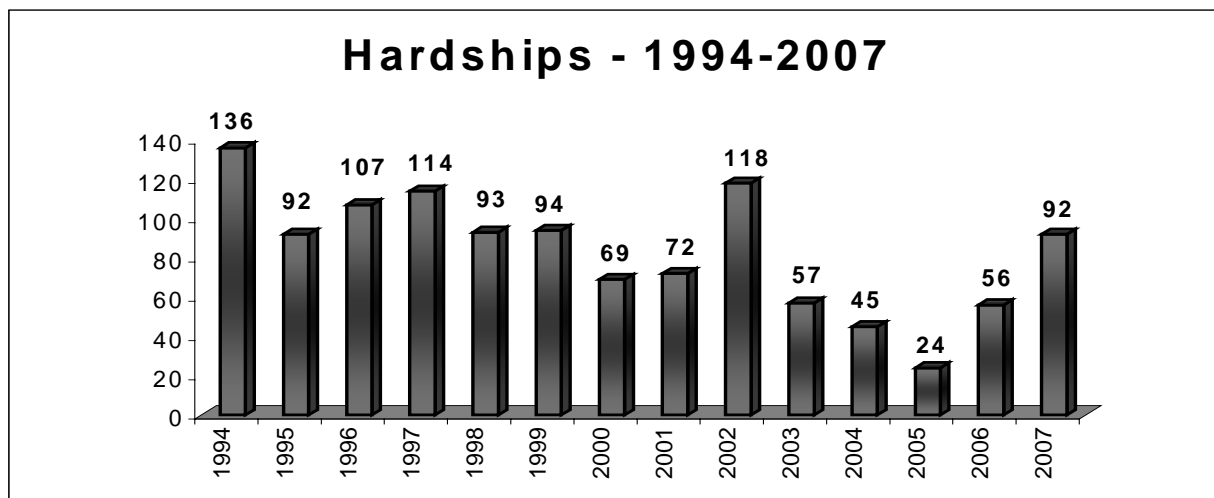
Plan Assets by Participant/Balance Levels – The graph below breaks down Plan assets by the number of participants at particular balance levels. Relative to the prior year, the percentage of participants with less than \$50,000 decreased from 58% to 57% and several of the mid-level categories grew slightly. This continues a trend in place over the last few years indicating rising average account balances.



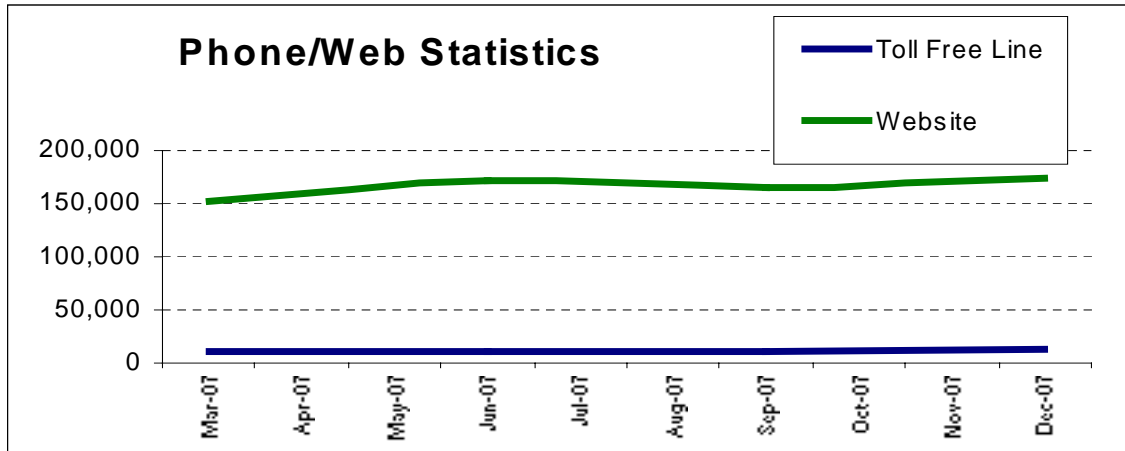
Distributions - The table below breaks down distribution types by election and by dollars. The vast majority of participants elect periodic payments. However, full withdrawals comprise the largest segment of total dollars distributed. Loans are taking increasingly larger shares of both distribution elections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



Hardships - Staff processed 92 hardship applications in 2007, up from 56 the prior year, the largest increase since introduction of the loan program in 2004. Of these, 83 were approved and nine were denied. The graph below indicates the number of hardship applications reviewed by the Board from 1994 through 2007.

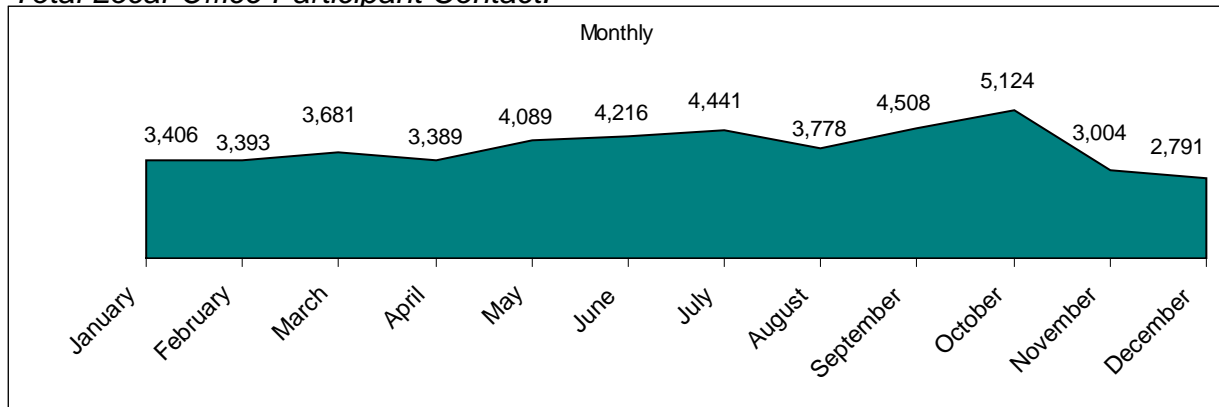


Phone Line/Website Statistics – The following graph compares participant activity via the primary toll-free line as well as the Plan website in 2007. As the graph indicates, participants utilize the website to a much greater extent than they do the toll free line.

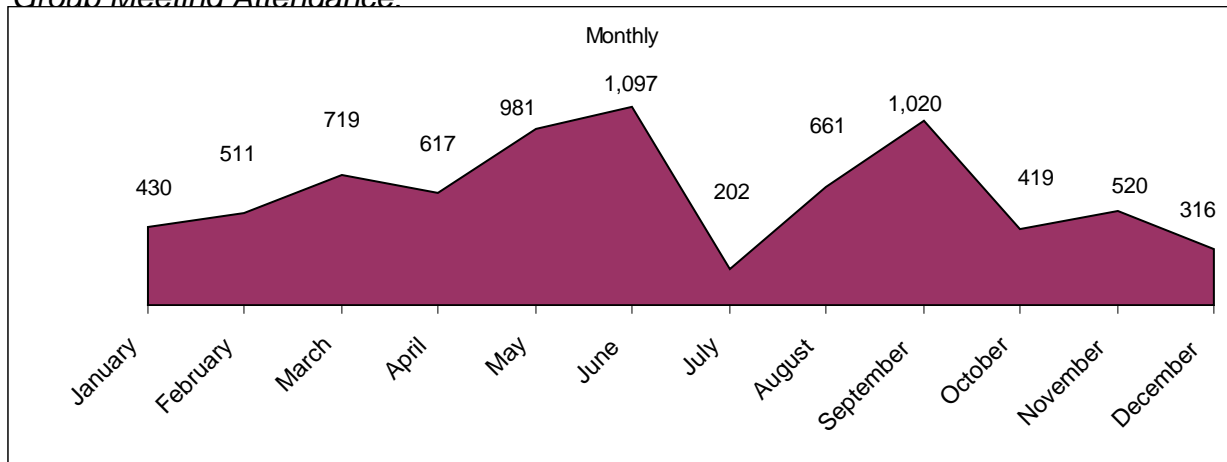


Local Service Statistics – For 2007, the following charts indicate total local participant contact (including phone calls to the local service center and walk-in-person meetings); group meeting attendance; individual counseling sessions; and local office phone calls:

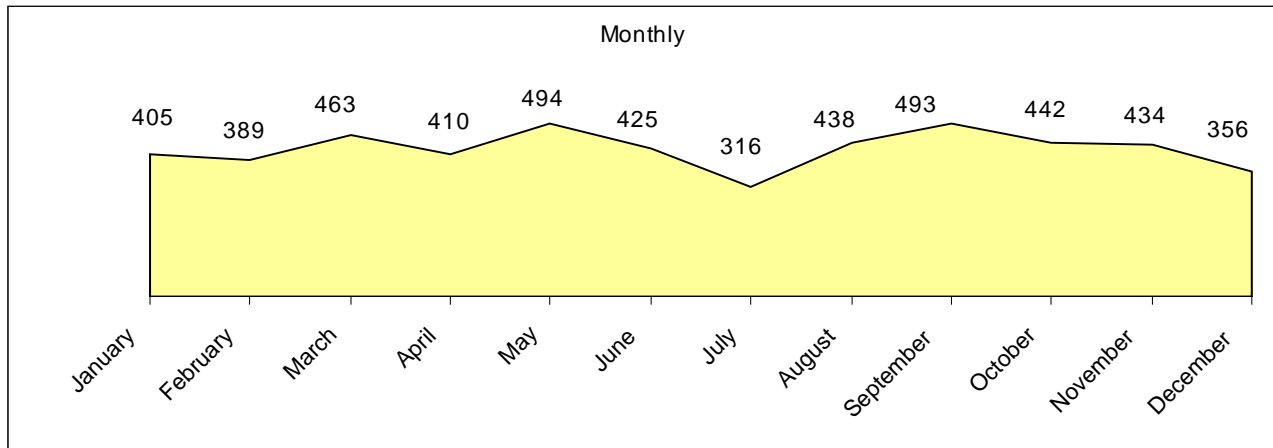
Total Local-Office Participant Contact:



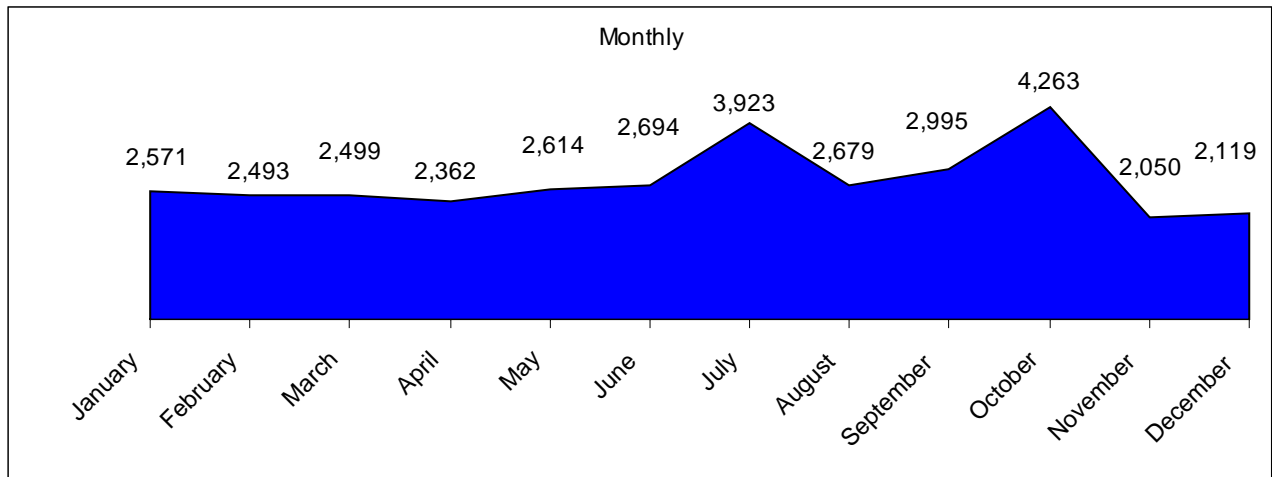
Group Meeting Attendance:



Individual Counseling Sessions:



Local Office Phone Calls:



Performance Returns – As a whole, the overall participant return for all Plan assets in 2007 was 7.64%. The following table provides performance returns for calendar year 2007 as well as three, five and ten year periods:

SAVINGS ACCOUNTS	<i>Annualized Yield for Quarter</i>			
	<u>12/31/2007</u>	<u>9/30/2007</u>	<u>6/30/2007</u>	<u>3/31/2007</u>
Washington Mutual Liquid Account	5.66%	5.58%	5.30%	5.31%
1-yr CD	4.80%	5.30%	4.98%	5.09%
2-yr CD	4.46%	5.36%	4.79%	4.82%
3-yr CD	4.45%	5.40%	4.73%	4.73%
4-yr CD	4.51%	5.44%	4.72%	4.71%
5-yr CD	4.58%	5.48%	4.75%	4.71%
GENERAL ACCOUNT	<i>Annualized Yield for Quarter</i>			
	<u>12/31/2007</u>	<u>9/30/2007</u>	<u>6/30/2007</u>	<u>3/31/2007</u>
Hartford General Account (declared "new money" rates only)	4.10%	4.10%	4.10%	4.10%
STABLE VALUE ACCOUNT	<i>Average Annualized Returns</i>			
	1 Year	3 Years	5 Years	10 Years/Since Inception
Galliard Stable Value Fund	4.84%	4.59%	4.51%	5.32%
STOCK & BOND FUNDS	<i>Average Annualized Returns</i>			
	1 Year	3 Years	5 Years	10 Years/Since Inception
BONDS				
PIMCO Total Return Fund	9.07%	5.28%	5.31%	6.73%
Vanguard Total Bond Market Index Fund	7.05%	4.64%	4.48%	5.84%
BALANCED				
Hartford Advisers HLS	6.74%	8.29%	9.36%	5.86%
LARGE-CAP STOCKS				
Hartford Stock HLS	6.01%	10.11%	12.00%	5.76%
Investment Company of America	5.94%	9.49%	12.73%	8.25%
Fidelity Magellan Fund	18.83%	10.68%	12.71%	6.31%
Growth Fund of America	10.95%	12.03%	15.91%	11.44%
Capital Guardian U.S. Equity Fund	-0.69%	5.31%	N/A	N/A
Vanguard Institutional Index Fund	5.50%	8.63%	12.84%	5.98%
Hartford Capital Appreciation HLS	16.94%	16.44%	21.87%	13.76%
MID-CAP STOCKS				
Lazard Mid Cap Institutional	-2.93%	6.67%	14.38%	9.61%
SMALL-CAP STOCKS				
Lotsoff Small Capital Equity	-11.41%	N/A	N/A	N/A
State Street Russell 2000 Index Trust Fund C	-1.92%	6.37%	15.67%	6.47%
INTERNATIONAL STOCKS				
Fidelity Diversified International Fund	16.03%	18.56%	23.21%	13.39%
DWS EAFE Equity Index Fund-Inst.	10.71%	16.48%	20.83%	8.12%
PROFILE PORTFOLIOS				
Conservative	6.11%	6.35%	7.97%	6.39%
Moderate	5.82%	7.64%	10.60%	7.43%
Aggressive	5.48%	8.72%	12.82%	8.27%
BENCHMARK INDICES				
Lehman Brothers Aggregate Bond	6.97%	4.56%	4.42%	5.97%
MSCI EAFE	11.17%	16.83%	21.59%	8.66%
Russell 2000	-1.57%	6.80%	16.25%	7.08%
Russell 1000 Value	-0.17%	9.32%	14.63%	7.68%
Russell 1000 Growth	11.81%	8.68%	12.11%	3.83%
Standard & Poor's 500	5.49%	8.62%	12.83%	5.91%

Budgetary Accounts – The Plan maintains budget accounts to fund the costs of administration, both internal and external. In 2007 the Board was in the fortunate position of being able to pass along a significant fee reduction to participants. The fee reduction was the result of both lower fees in a new contract with the Plan Administrator as well as asset and participation growth. The fee reduction took the form of a reduction in the annual asset-based fee from 0.11% to 0.10%; a fee cap of \$125 annually for those account balances over \$125,000; and elimination of the bi-weekly payroll, or “Fifty Cent” fee that participants were formerly charged with each contribution. Following is a summary of Plan revenue/expenses as well as the current surplus.

DEFERRED COMPENSATION PLAN YEARLY BUDGET REVIEW		
ADMINISTRATIVE AND OPERATING EXPENSES		
YEAR ENDING 12/31/07		
STARTING BALANCE		
Payroll Fee Trust Fund Ending Balance - 12/31/06	\$	410,439
Administrative Fee Reserve Fund Balance - 12/31/06	\$	2,291,462
Total	\$	2,701,901
REVENUES/FEES		
City Payroll Administrative ("Fifty Cent") Fees	\$	187,534
DWP Payroll Administrative ("Fifty Cent") Fees	\$	39,116
Interest Earnings on Payroll Fee Trust Fund	\$	18,876
Administrative Fee Reserve Fund Deposits	\$	1,140,005
Interest Earnings on Administrative Fee Reserve Fund	\$	138,900
Total Revenue/Fees	\$	1,524,431
STARTING BALANCE + REVENUE/FEES	\$	4,226,332
EXPENDITURES		
Personnel Department Reimbursements	\$	(248,532)
Consulting Costs	\$	(93,724)
NAGDCA	\$	(20,941)
Office & Admin	\$	60
Miscellaneous Administrative Expenses	\$	(27,386)
TOTAL EXPENDITURES	\$	(390,523)
Actual Payroll Fee Trust Fund Ending Balance (12/31/07)	\$	292,827
Actual Administrative Fee Reserve Fund Ending Balance (12/31/07)	\$	3,542,981
ACTUAL TOTAL BALANCE AS OF 12/31/07	\$	3,835,808
ENCUMBRANCES/LIABILITIES		
Reimbursements: (Personnel: 3 Mos. Ending 9/30/07)	\$	(119,970)
Reimbursements: (City Attorney: 3 Mos. Ending 9/30/07)	\$	(23,922)
Reimbursements: (DWP: 3 Mos. Ending 9/30/07)	\$	(2,707)
Reimbursements: (Personnel: 3 Mos. Ending 12/31/07)	\$	(109,350)
Reimbursements: (City Attorney: 3 Mos. Ending 12/31/07)	\$	(23,922)
Reimbursements: (DWP: 3 Mos. Ending 12/31/07)	\$	(2,707)
TOTAL LIABILITIES	\$	(282,577)
ASSETS LESS EXPENDITURES/LIABILITIES	\$	3,553,232

Conclusion

Despite the return of economic uncertainty and market volatility in 2007, the City's Plan continued to attract new participants at an exceptional rate. The Plan is a unique resource for City employees – not only can they use it to promote their long-term financial security, but they can also use their accounts during their working years, through the loan program, as a resource for maintaining financial stability. The Board's focus will continue to be on looking at ways to improve the flexibility and utility of the Plan, and to be as responsive as possible to the needs of our participants.

Appendix A

CONTRIBUTION RATES BY DEPARTMENT CODE - 2007

Department Name	Current Eligible 1/07	Current Contrib 1/07	Previous % Contrib	Current Eligible 1/08	Current Contrib 1/08	Current % Contrib.	% Difference	# Difference
AIRPORTS	3,189	1,502	47.1%	3,321	1,611	48.5%	1.41%	109
ANIMAL SERVICES	327	143	43.7%	367	140	38.1%	(5.58%)	(3)
AGING	52	38	73.1%	52	43	82.7%	9.62%	5
BUILDING & SAFETY	920	471	51.2%	975	489	50.2%	(1.04%)	18
CAO	121	87	71.9%	124	88	71.0%	(0.93%)	1
CITY ATTORNEY	974	575	59.0%	968	590	61.0%	1.92%	15
CITY CLERK	166	111	66.9%	164	108	65.9%	(1.01%)	(3)
CDD	319	157	49.2%	298	159	53.4%	4.14%	2
COLISEUM	32	17	53.1%	33	19	57.6%	4.45%	2
COMMISSION-CHILD & YOUTH	9	6	66.7%	15	7	46.7%	(20.00%)	1
COMMISSION-HUMAN RELATIONS	15	8	53.3%	16	9	56.3%	2.92%	1
COMMISSION-STATUS OF WOMEN	10	5	50.0%	12	6	50.0%	0.00%	1
CONTROLLER	175	136	77.7%	177	132	74.6%	(3.14%)	(4)
CONVENTION CENTER	151	88	58.3%	156	87	55.8%	(2.51%)	(1)
COUNCIL	358	94	26.3%	358	102	28.5%	2.23%	8
CULTURAL AFFAIRS	64	31	48.4%	69	35	50.7%	2.29%	4
DEPT ON DISABILITY	21	13	61.9%	19	11	57.9%	(4.01%)	(2)
DWP	7,901	4,878	61.7%	8,154	5,135	63.0%	1.24%	257
EL PBLO LA HIST MNT AUT	18	11	61.1%	18	8	44.4%	(16.67%)	(3)
EMERGENCY PREPAREDNESS DEPT	17	12	70.6%	24	15	62.5%	(8.09%)	3
EMPLOYEE RELATIONS	3	1	33.3%	3	1	33.3%	0.00%	0
ENVIRONMENTAL AFFAIRS	32	21	65.6%	32	19	59.4%	(6.25%)	(2)
FIRE - FIREFIGHTERS	3,631	2,979	82.0%	3,705	3,047	82.2%	0.20%	68
FIRE CIVILIAN	342	192	56.1%	369	210	56.9%	0.77%	18
GENERAL SERVICES	2,272	941	41.4%	2,343	1,016	43.4%	1.95%	75
HARBOR	758	374	49.3%	826	436	52.8%	3.44%	62
HOUSING	486	263	54.1%	530	294	55.5%	1.36%	31
ITA	728	511	70.2%	740	522	70.5%	0.35%	11
LACERS	117	82	70.1%	128	94	73.4%	3.35%	12
LIBRARY	811	358	44.1%	828	373	45.0%	0.91%	15
MAYOR	131	25	19.1%	169	38	22.5%	3.40%	13
NEIGHBORHOOD EMPOWERMENT	42	27	64.3%	45	30	66.7%	2.38%	3
PENSIONS	94	62	66.0%	101	63	62.4%	(3.58%)	1
PERSONNEL C S 1	495	318	64.2%	495	333	67.3%	3.03%	15
PLANNING	290	177	61.0%	290	185	63.8%	2.76%	8
POLICE OFFICERS	9,428	7,195	76.3%	9,608	7,524	78.3%	1.99%	329
POLICE CIVILIAN	3,257	1,832	56.2%	3,270	1,922	58.8%	2.53%	90
PUBLIC WORKS	5,746	2,740	47.7%	5,835	2,892	49.6%	1.88%	152
RECREATION & PARKS	2,034	633	31.1%	1,976	748	37.9%	6.73%	115
TRANSPORTATION	1,628	847	52.0%	1,593	861	54.0%	2.02%	14
TREASURER	383	250	65.3%	386	255	66.1%	0.79%	5
LOS ANGELES ZOO	234	96	41.0%	232	106	45.7%	4.66%	10
TOTALS-->	47,811	28,318	59.2%	48,856	29,774	60.9%	1.71%	1,456

