

# CITY OF LOS ANGELES



## **DEFERRED COMPENSATION PLAN**

**ANNUAL REPORT**

**BOARD OF DEFERRED COMPENSATION ADMINISTRATION**

**2008**

# **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**

**EUGENE K. CANZANO**

*Chairperson*

Department of Water and Power Retirement Participant Representative

**BILL STEIN**

*Vice-Chairperson*

Retired Participant Representative

**RICHARD KRAUS**

*First Provisional Chair*

Los Angeles City Employees' Retirement System Participant Representative

**SHELLEY SMITH**

*Second Provisional Chair*

Certified Organized Labor Representative

**MARGARET WHELAN**

*Third Provisional Chair*

General Manager of Personnel Department

**SANGEETA BHATIA**

Retirement Plan Manager

Department of Water and Power Retirement

**SALLY CHOI**

General Manager of Los Angeles City Employees' Retirement System

**MICHAEL A. PEREZ**

General Manager of Fire and Police Pensions

**KURT A. STABEL**

Fire and Police Pensions Participant Representative

**BOARD OF DEFERRED  
COMPENSATION  
ADMINISTRATION**

EUGENE K. CANZANO  
CHAIRPERSON

BILL STEIN  
VICE-CHAIRPERSON

SANGEETA BHATIA  
SALLY CHOI  
RICHARD KRAUS  
MICHAEL A. PEREZ  
SHELLEY SMITH  
KURT A. STABEL  
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

May 1, 2009

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 2008. This report provides a review of the Plan, its holdings, and participant activities for the 2008 calendar year.

The past year has been a challenging one for our participants. Unprecedented economic events and the resulting investment market turmoil have caused many participants to re-assess their long-term investing goals and strategies. Our responsibility has been to provide our participants with the resources they need to make sound decisions.

The City's Plan has always placed a strong emphasis on its local, personalized counseling services. Personalized service allows us to talk with our membership about their unique circumstances and concerns, and is particularly important during periods of market volatility. In 2008 the Plan's local operation registered 41,007 personal contacts involving either individual personal/telephonic counseling sessions or as part of group meetings. This type of direct service has helped our participants navigate through this difficult period.

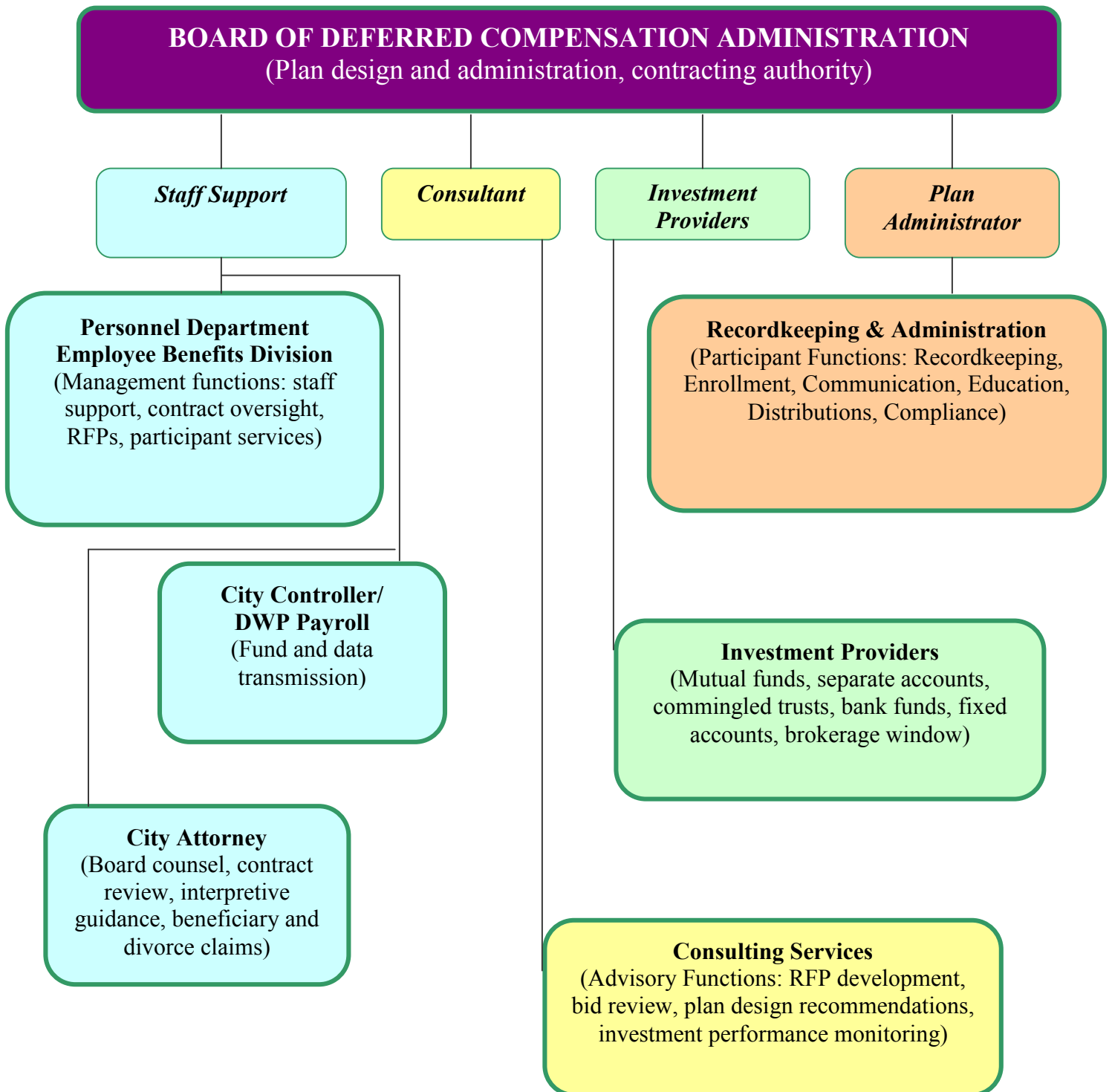
Despite the difficult economic environment and asset declines, membership continued to grow, passing a milestone of over 40,000 total participants. This again is a testament to the resources devoted to our local services. Declining markets present opportunities for new investors to take advantage of relatively cheaper asset prices, and our focus has been on reminding new participants of their long-term interest in joining the Plan.

Our focus is on the future and the opportunities it provides. We continue our work to offer our participants a program which can help them achieve long-term financial success.

Respectfully submitted,

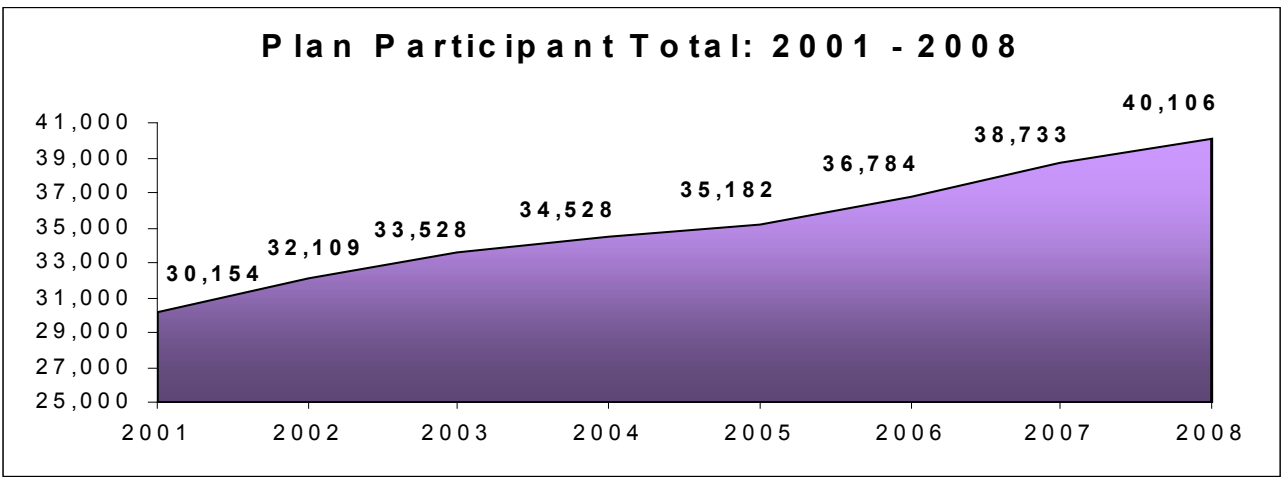
Eugene Canzano, Chairperson  
Board of Deferred Compensation Administration

# **DEFERRED COMPENSATION PLAN ADMINISTRATIVE STRUCTURE**

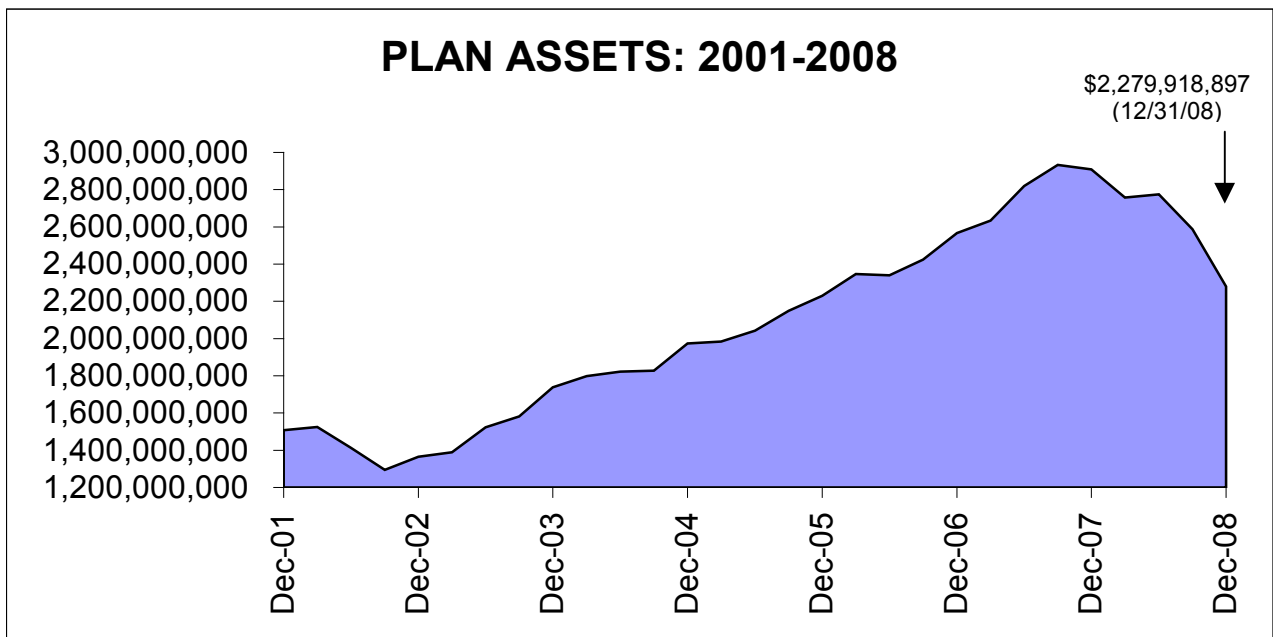


## ACTIVITIES & STATISTICS

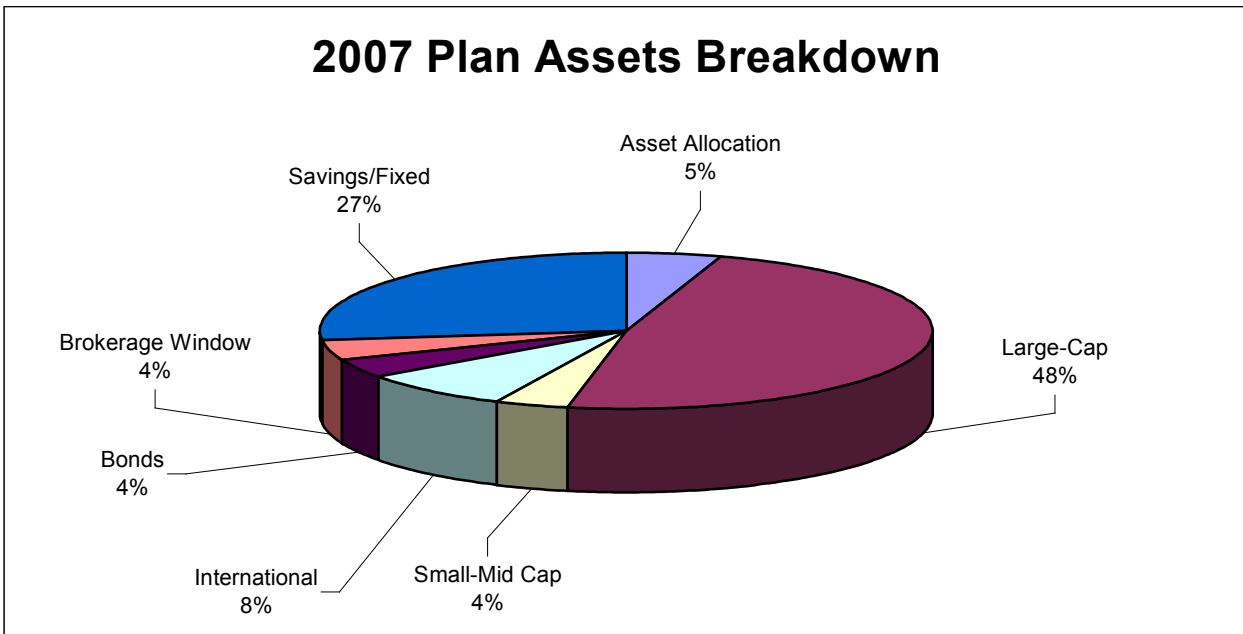
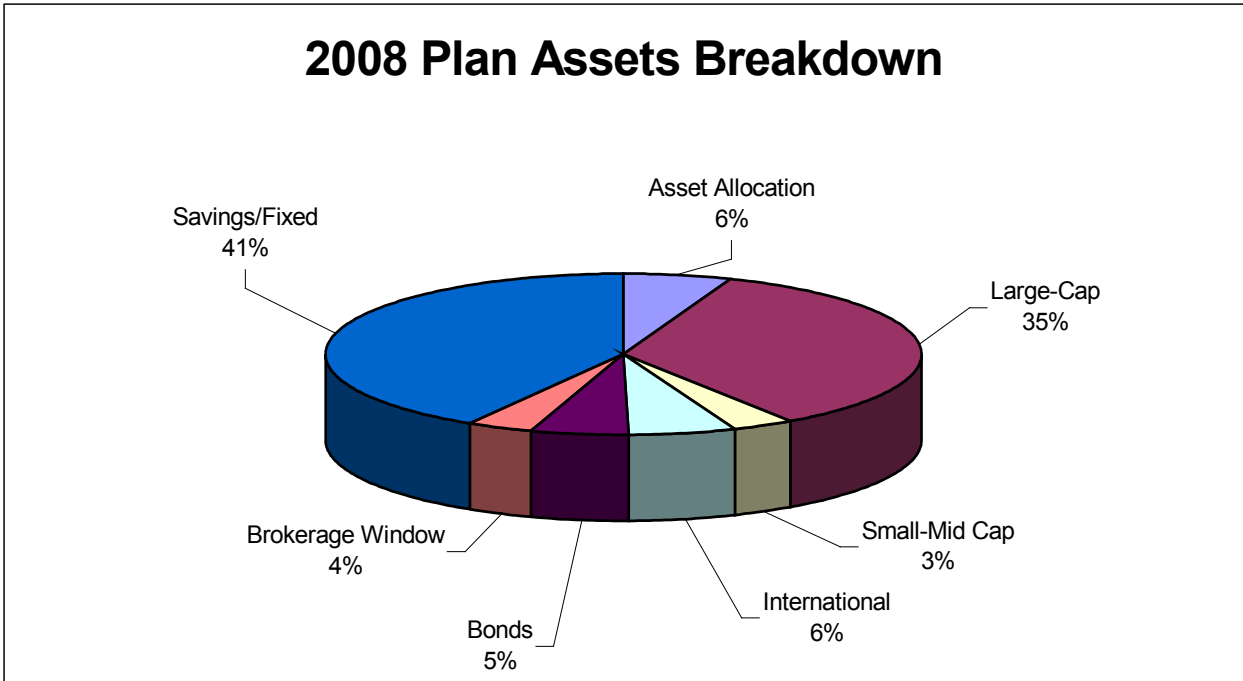
**Participation** - As of December 31, 2008, the City's Plan had a total of 40,106 participant accounts, a 3.5% increase from the previous year. The Plan Administrator recorded 2,314 new enrollments between January 1<sup>st</sup> and December 31<sup>st</sup> 2008. The total number of contributing participants represents 61% 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 2008, which represents an increase of 33%.



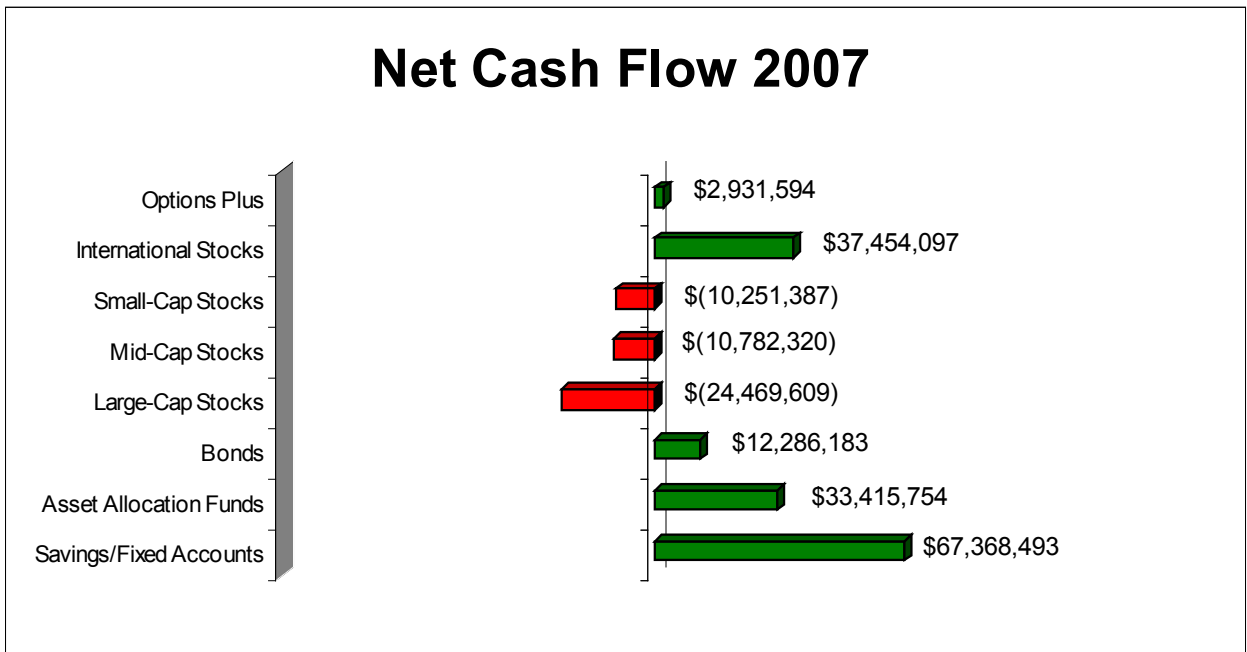
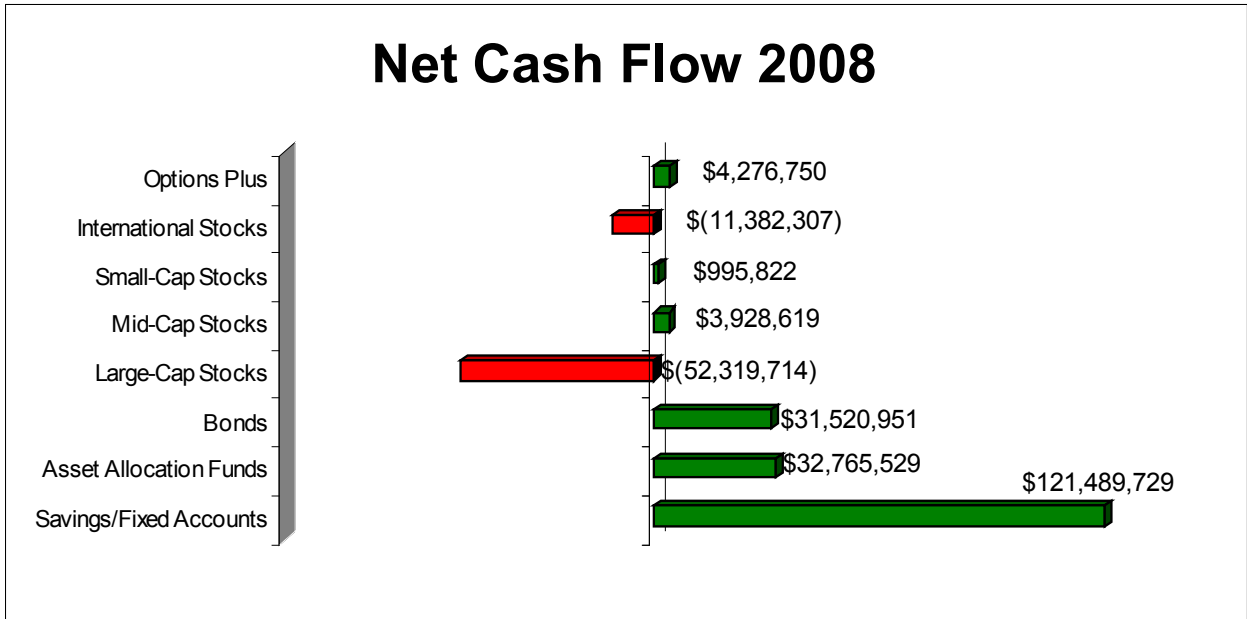
**Plan Assets** - Year-end total Plan assets were \$2,279,918,897, in comparison to \$2,909,282,960 at year-end 2007. This represents a 21.6% year-over-year decrease. The decrease is primarily due to the declining markets.



**Asset Allocation** – Changes in the Plan’s overall asset allocation were a reflection of significant events transpiring throughout the economy and world markets. Assets moved towards Savings/Fixed accounts and bonds as equities faced strong headwinds. An encouraging development was growth in the Plan’s Asset Allocation funds, as they offered easy diversification and less volatility than other Plan investments.

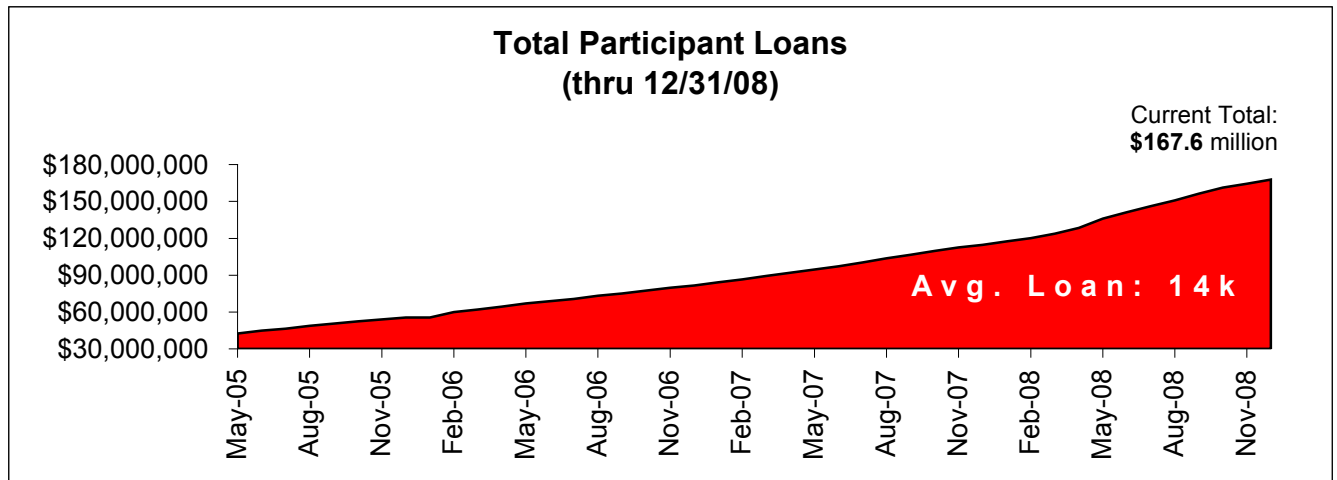
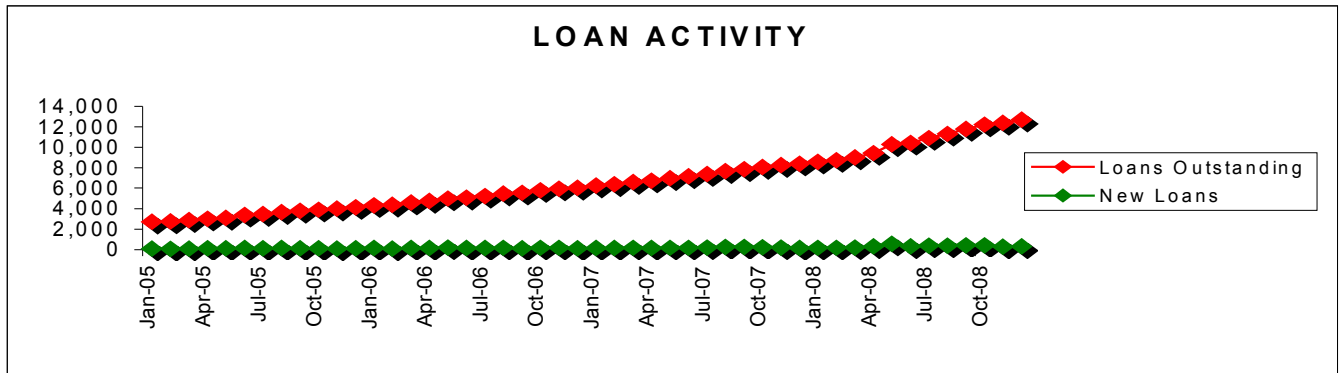


**Net Cash Flows** – The charts below indicate changes in net cash flow activity over the past two years. In 2008, the strongest cash flows were to the Plan’s Savings/Fixed account products, bond funds and asset allocation funds, with investors seeking more stability and safety as a result of an increase in market volatility.

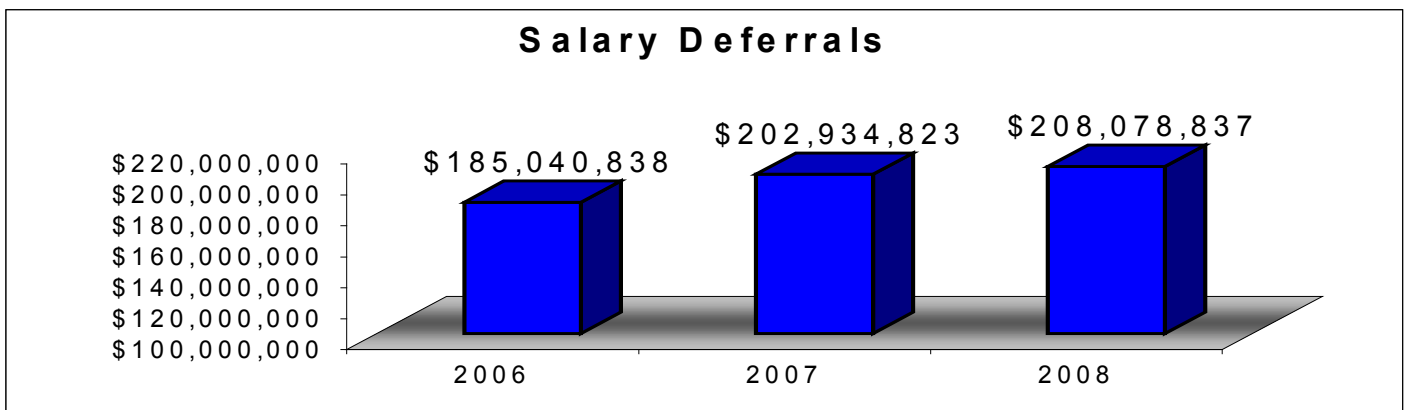




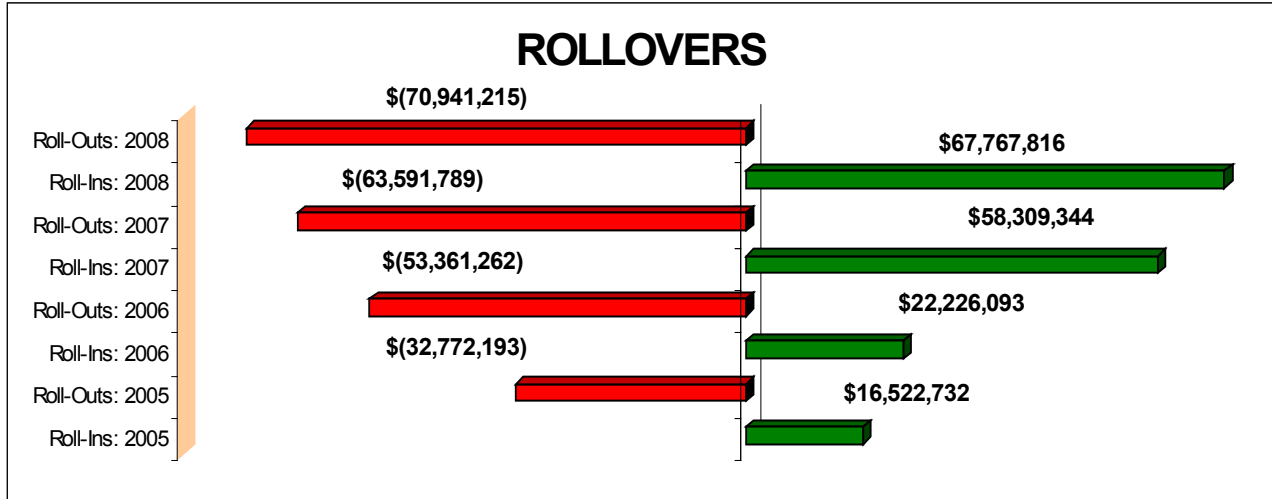
**Loan Program** – The City’s loan program, introduced in 2004, continues to generate significant participant activity. In 2008, the Plan implemented the opportunity for each participant to have two loans simultaneously. This was done to provide greater flexibility to participants in managing other financial pressures. As a result, the percentage of Plan assets loaned to participants has almost doubled over the past year. However, it is still small relative to the Plan as a whole – \$167.6 million or 7.4% of Plan assets (versus 3.9% at year-end 2007).



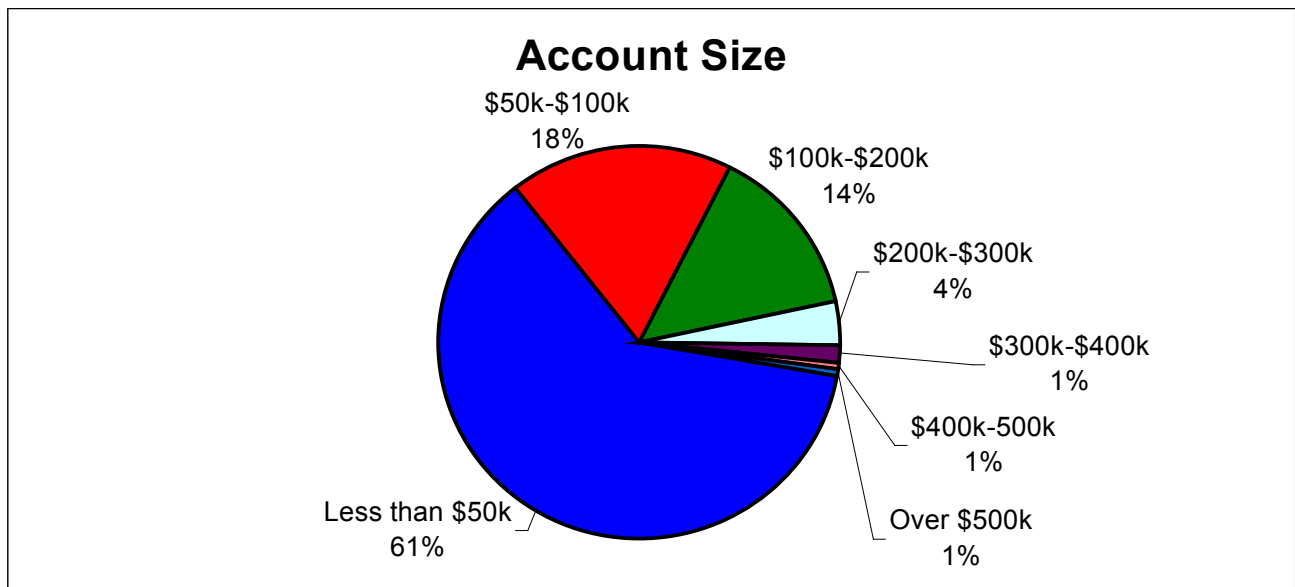
**Contributions** – Despite no increase in contribution limits, salary deferrals rose 2.5% in 2008 as participants took advantage of being able to purchase investments at a lower cost.



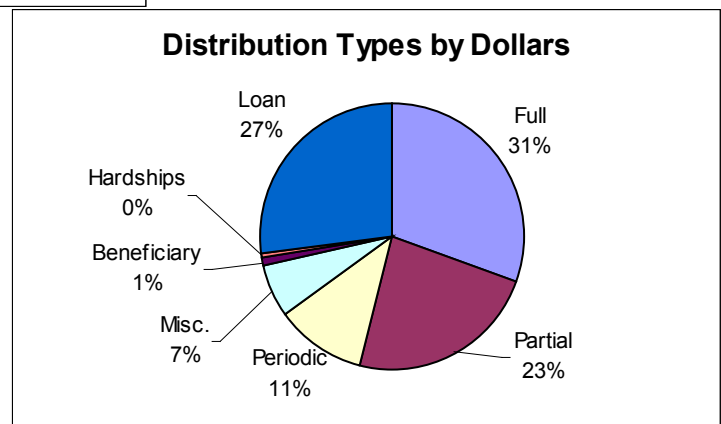
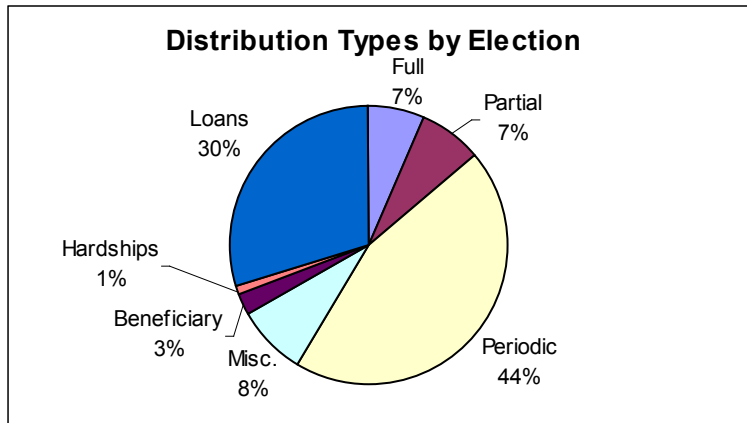
**Rollovers** – In 2008, rollover activity increased, with the total dollar amount of funds rolled out, as well as rolled in, surpassing previous records. On a net basis, only 0.14% of assets were rolled out of the Plan in 2008, versus 0.18% in 2007. Many of the funds entering the Plan came from sworn participants in the City’s Deferred Retirement Option Plan (“DROP”).



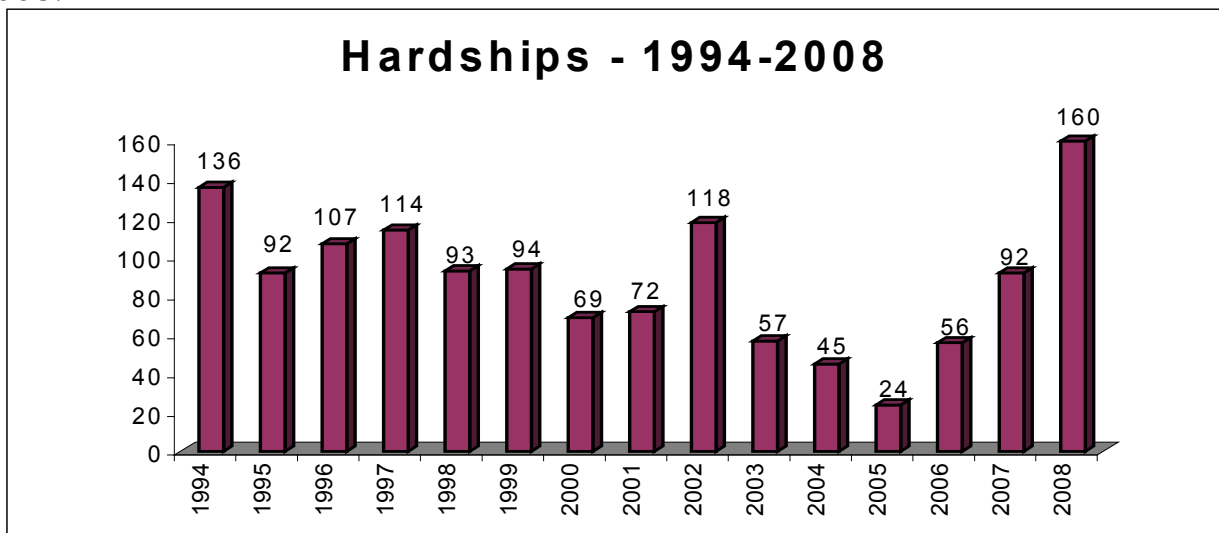
**Plan Assets by Participant/Balance Levels** – The graph below separates Plan assets by the number of participants and account balances. Relative to the prior year, the percentage of participants with less than \$50,000 increased from 57% to 61%. Several of the mid-level categories slightly decreased. This indicates a descending average account balance for 2008 reflecting declining market values.



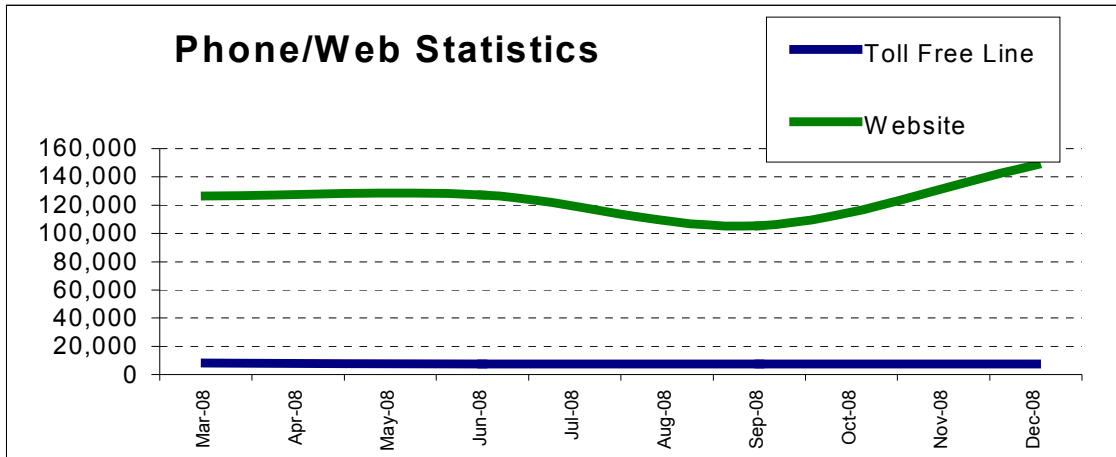
**Distributions** - The table below breaks down distribution types by election and dollars. The vast majority of participants elect periodic payments. However, full withdrawals comprise the largest segment of total dollars distributed.



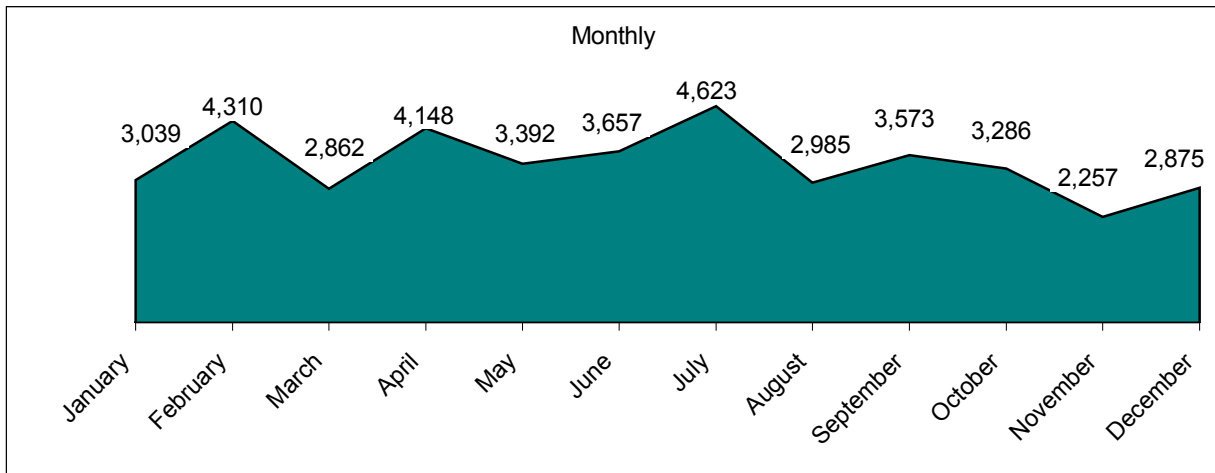
**Hardships** - In 2008, the processing of hardships transitioned from City staff to Great-West. As a likely result of the difficult economic climate, Great-West processed 160 hardship applications in 2008, up from 92 the previous year, a 74% increase and the largest number since the introduction of the Plan. Of these applications, 138 were approved and 22 were denied. The graph below indicates the number of hardship applications reviewed from 1994 through 2008.



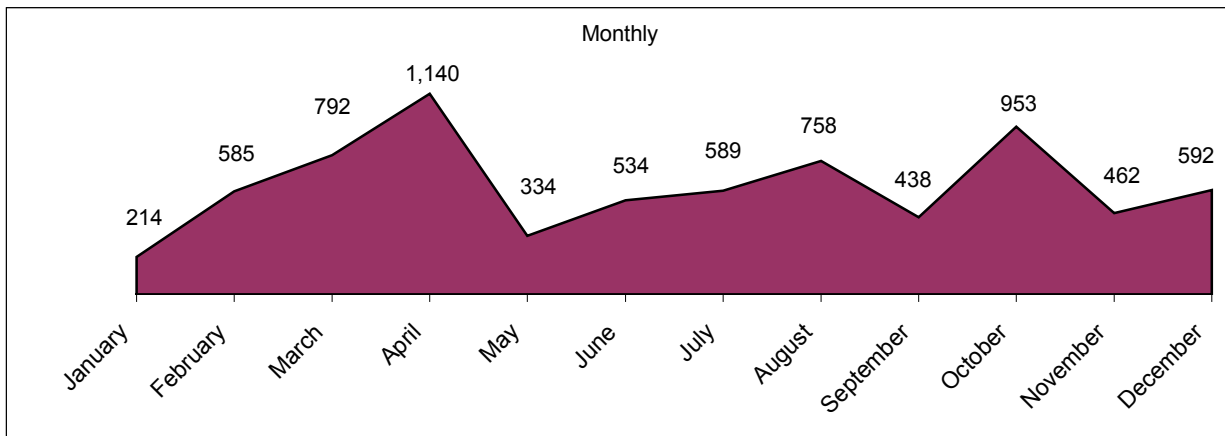
**Phone Line/Website Statistics** – The following graph demonstrates 2008 participant activity via the primary toll-free line as well as the Plan website. As the graph indicates, participants utilize the website to a much greater extent than the toll free line, and usage is growing.



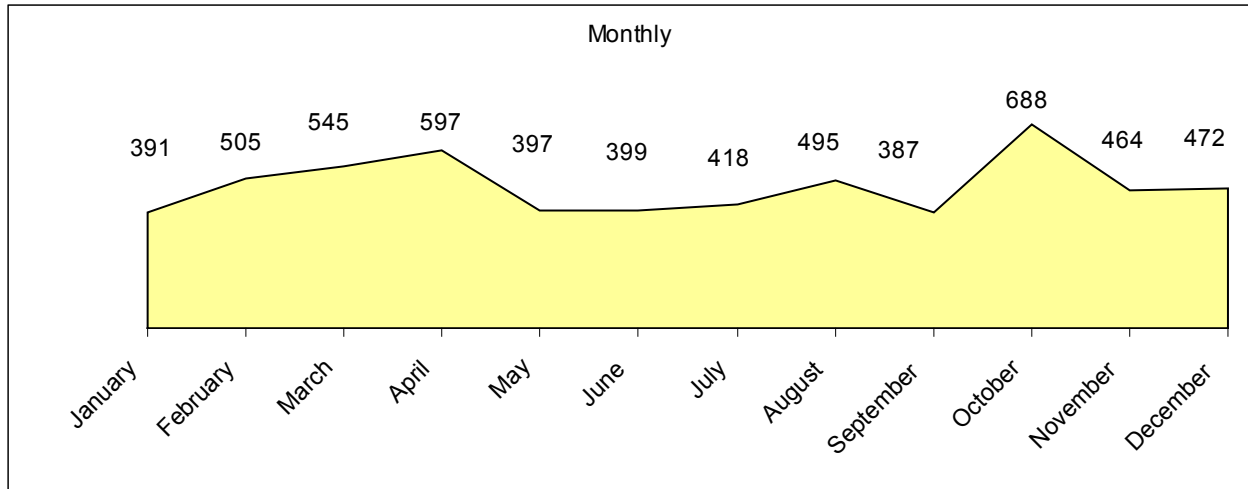
**Local Service Statistics** –The following charts indicate total 2008 local participant contact (including phone calls to the local service center and walk-in-person meetings); group meeting attendance; individual counseling sessions; and local office phone calls:



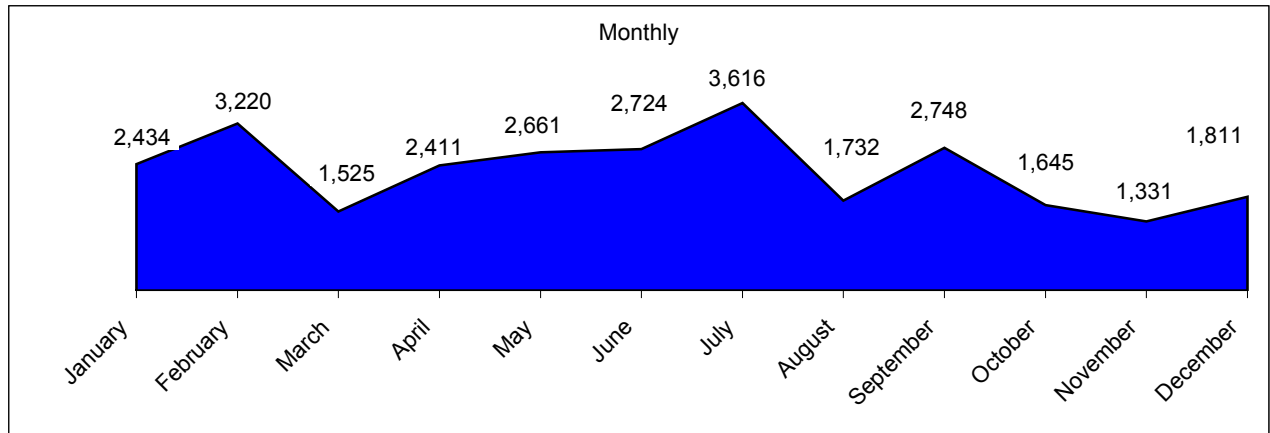
*Group Meeting Attendance:*



*Individual Counseling Sessions:*



*Local Office Phone Calls:*



**Performance Returns** – Altogether, the overall 2008 participant return for all Plan assets was -32.16%. The following table indicates the performances for calendar year 2008 as well as the three, five and ten year periods:

<b>SAVINGS ACCOUNTS</b>	<i>Annualized Yield for Quarter</i>			
	<u>12/31/2008</u>	<u>9/30/2008</u>	<u>6/30/2008</u>	<u>3/31/2008</u>
Washington Mutual Liquid Account	2.68%	2.68%	2.63%	4.95%
1-yr CD	2.83%	3.54%	2.15%	4.16%
2-yr CD	2.76%	3.73%	1.98%	3.88%
3-yr CD	3.10%	4.08%	2.31%	3.94%
4-yr CD	3.35%	4.29%	2.65%	4.06%
5-yr CD	3.54%	4.43%	2.94%	4.19%
<b>GENERAL ACCOUNT</b>	<i>Annualized Yield for Quarter</i>			
	<u>12/31/2008</u>	<u>9/30/2008</u>	<u>6/30/2008</u>	<u>3/31/2008</u>
Hartford General Account (declared “new money” rates only)	4.35%	4.35%	4.35%	4.35%
<b>STABLE VALUE ACCOUNT</b>	<i>Average Annualized Returns</i>			
	1 Year	3 Years	5 Years	10 Years/Since Inception
Galliard Stable Value Fund	4.82%	4.77%	4.56%	5.17%
<b>STOCK &amp; BOND FUNDS</b>	<i>Average Annualized Returns</i>			
	1 Year	3 Years	5 Years	10 Years/Since Inception
<b>BONDS</b>				
PIMCO Total Return Fund	4.82%	5.94%	5.16%	6.24%
Vanguard Total Bond Market Index Fund	5.19%	5.54%	4.70%	5.49%
<b>BALANCED</b>				
Hartford Advisers HLS	-31.64%	-6.90%	-2.13%	-0.41%
<b>LARGE-CAP STOCKS</b>				
Hartford Stock HLS	-43.13%	-11.61%	-4.64%	-2.99%
Investment Company of America	-34.73%	-7.10%	-1.22%	1.61%
Growth Fund of America	-39.07%	-9.14%	-0.83%	3.16%
Vanguard Institutional Index Fund	-36.94%	-8.32%	-2.16%	-1.32%
Hartford Capital Appreciation HLS	-45.59%	-9.50%	0.44%	5.41%
<b>MID-CAP STOCKS</b>				
Lazard Mid Cap Institutional	-38.33%	-11.74%	-1.32%	4.06%
<b>SMALL-CAP STOCKS</b>				
State Street Russell 2000 Index Trust Fund C	-33.75%	-8.53%	-1.20%	2.53%
<b>INTERNATIONAL STOCKS</b>				
Fidelity Diversified International Fund	-45.21%	-7.99%	1.79%	5.34%
DWS EAFE Equity Index Fund-Inst.	-42.46%	-7.14%	1.66%	0.48%
<b>PROFILE PORTFOLIOS</b>				
Ultra-Conservative	N/A	N/A	N/A	-1.84%
Conservative	-11.26%	0.87%	2.77%	3.54%
Moderate	-21.91%	-2.42%	1.35%	2.41%
Aggressive	-29.85%	-5.15%	0.18%	1.45%
Ultra-Aggressive	N/A	N/A	N/A	-33.73%
<b>BENCHMARK INDICES</b>				
Barclays Capital Aggregate Bond	5.24%	5.51%	4.65%	5.63%
MSCI EAFE	-43.38%	-7.35%	1.66%	0.80%
Russell 2000	-33.79%	-8.29%	-0.93%	3.02%
Russell 1000 Value	-36.85%	-8.32%	-0.79%	1.36%
Russell 1000 Growth	-38.44%	-9.11%	-3.42%	-4.27%
Standard & Poor's 500	-37.00%	-8.36%	-2.19%	-1.38%
Russell MidCap	-41.46%	-10.68%	-0.71%	3.18%

**Budgetary Accounts** – The Plan maintains several accounts to fund the costs of administration, both internal and external. Presently, Plan participant accounts are assessed an annual asset based fee of 0.10%, with a fee cap of \$125 annually for those account balances over \$125,000. These revenue sources reimburse the Plan’s contractual obligations to the Plan Administrator as well as address the City’s internal costs. A reserve is maintained to guard against fluctuations of Plan assets. The following is a summary of Plan revenue/expenses as well as the status of the current surplus.

<b>DEFERRED COMPENSATION PLAN YEARLY BUDGET REVIEW</b>	
<b>ADMINISTRATIVE AND OPERATING EXPENSES</b>	
<b>YEAR ENDING 12/31/08</b>	
<b>STARTING BALANCE</b>	
Payroll Fee Trust Fund Ending Balance - 12/31/07	\$ 292,827
Administrative Fee Reserve Fund Balance - 12/31/07	\$ 3,542,891
Total	\$ 3,835,718
<b>REVENUES/FEES</b>	
Interest Earnings on Payroll Fee Trust Fund	\$ 13,031
Administrative Fee Reserve Fund Deposits	\$ 627,346
Interest Earnings on Administrative Fee Reserve Fund	\$ 166,990
Total Revenue/Fees	\$ 807,367
<b>STARTING BALANCE + REVENUE/FEES</b>	<b>\$ 4,643,085</b>
<b>EXPENDITURES</b>	
Personnel Department Reimbursements	\$ (208,070)
City Attorney Reimbursements	\$ (96,613)
DWP Reimbursements	\$ -
Consulting Costs	\$ (103,341)
2130 Travel/Training/Education	\$ (36,327)
4160 Governmental Meetings	\$ -
6010 Office and Administrative	\$ (2,146)
7300 Office Furniture & Equipment	\$ -
GWRS Quarterly Fees - Asset Allocation Fund Management	\$ (24,000)
TOTAL EXPENDITURES	\$ (470,496)
Actual Payroll Fee Trust Fund Ending Balance (12/31/08)	\$ 164,372
Actual Administrative Fee Reserve Fund Ending Balance (12/31/08)	\$ 3,582,738
<b>ACTUAL TOTAL BALANCE AS OF 12/31/08</b>	<b>\$ 4,172,589</b>
<b>ENCUMBRANCES/LIABILITIES</b>	
Reimbursements: (Personnel: 3 Mos. Ending 9/30/08)	\$ (158,770)
Reimbursements: (City Attorney: 3 Mos. Ending 9/30/08)	\$ (25,286)
Reimbursements: (DWP: 3 Mos. Ending 9/30/08)	\$ (2,795)
Reimbursements: (Personnel: 3 Mos. Ending 12/31/08)	\$ (154,904)
Reimbursements: (City Attorney: 3 Mos. Ending 12/31/08)	\$ (19,880)
Reimbursements: (DWP: 3 Mos. Ending 12/31/08)	\$ (2,795)
TOTAL LIABILITIES	\$ (364,430)
<b>ASSETS LESS EXPENDITURES/LIABILITIES</b>	<b>\$ 3,808,159</b>

**Conclusion**

The Plan is a unique and valued resource for City employees – not only can they promote their long-term financial security and future retirement, they can also use their accounts to manage economic difficulties during their working years through the loan program. We encourage our participants to utilize their accounts in ways that make sense for the specific circumstances of their lives.



## Appendix A

**CONTRIBUTION RATES BY DEPARTMENT CODE - 2008**

Department Name	Eligible 1/08	Contrib. 1/08	Previous % Contrib.	Current Eligible 1/09	Current Contrib. 1/09	Current % Contrib.	% Difference	# Difference
AIRPORTS	3,321	1,611	48.5%	3,402	1,643	48.3%	1.41%	109
ANIMAL SERVICES	367	140	38.1%	365	139	38.1%	(5.58%)	(3)
AGING	52	43	82.7%	45	36	80.0%	9.62%	5
BUILDING & SAFETY	975	489	50.2%	961	494	51.4%	(1.04%)	18
CAO	124	88	71.0%	126	91	72.2%	(0.93%)	1
CITY ATTORNEY	968	590	61.0%	986	587	59.5%	1.92%	15
CITY CLERK	164	108	65.9%	165	75	45.5%	(1.01%)	(3)
CDD	298	159	53.4%	276	147	53.3%	4.14%	2
COLISEUM	33	19	57.6%	30	13	43.3%	4.45%	2
COMMISSION-CHILD & YOUTH	15	7	46.7%	16	9	56.3%	(20.00%)	1
COMMISSION-HUMAN RELATIONS	16	9	56.3%	10	4	40.0%	2.92%	1
COMMISSION-STATUS OF WOMEN	12	6	50.0%	2	1	50.0%	0.00%	1
CONTROLLER	177	132	74.6%	183	135	73.8%	(3.14%)	(4)
CONVENTION CENTER	156	87	55.8%	152	80	52.6%	(2.51%)	(1)
COUNCIL	358	102	28.5%	359	109	30.4%	2.23%	8
CULTURAL AFFAIRS	69	35	50.7%	62	31	50.0%	2.29%	4
DEPT ON DISABILITY	19	11	57.9%	18	12	66.7%	(4.01%)	(2)
DWP	8,154	5,135	63.0%	8,860	5,522	62.3%	1.24%	257
EL PBLO LA HIST MNT AUT	18	8	44.4%	17	9	52.9%	(16.67%)	(3)
EMERGENCY PREPAREDNESS DEPT	24	15	62.5%	27	17	63.0%	(8.09%)	3
EMPLOYEE RELATIONS	3	1	33.3%	3	1	33.3%	0.00%	0
ENVIRONMENTAL AFFAIRS	32	19	59.4%	28	18	64.3%	(6.25%)	(2)
FIRE - FIREFIGHTERS	3,705	3,047	82.2%	3,719	3,111	83.7%	0.20%	68
FIRE CIVILIAN	369	210	56.9%	364	203	55.8%	0.77%	18
GENERAL SERVICES	2,343	1,016	43.4%	2,248	972	43.2%	1.95%	75
HARBOR	826	436	52.8%	969	541	55.8%	3.44%	62
HOUSING	530	294	55.5%	525	288	54.9%	1.36%	31
ITA	740	522	70.5%	726	512	70.5%	0.35%	11
LACERS	128	94	73.4%	130	94	72.3%	3.35%	12
LIBRARY	828	373	45.0%	830	380	45.8%	0.91%	15
MAYOR	169	38	22.5%	174	33	19.0%	3.40%	13
NEIGHBORHOOD EMPOWERMENT	45	30	66.7%	42	32	76.2%	2.38%	3
PENSIONS	101	63	62.4%	104	63	60.6%	(3.58%)	1
PERSONNEL C S 1	495	333	67.3%	475	311	65.5%	3.03%	15
PLANNING	290	185	63.8%	301	186	61.8%	2.76%	8
POLICE OFFICERS	9,608	7,524	78.3%	9,844	7,707	78.3%	1.99%	329
POLICE CIVILIAN	3,270	1,922	58.8%	3,192	1,853	58.1%	2.53%	90
PUBLIC WORKS	5,835	2,892	49.6%	5,693	2,843	49.9%	1.88%	152
RECREATION & PARKS	1,976	748	37.9%	1,881	746	39.7%	6.73%	115
TRANSPORTATION	1,593	861	54.0%	1,595	817	51.2%	2.02%	14
TREASURER	386	255	66.1%	403	252	62.5%	0.79%	5
LOS ANGELES ZOO	232	106	45.7%	217	91	41.9%	4.66%	10
<b>TOTALS----&gt;</b>	<b>48,856</b>	<b>29,774</b>	<b>60.9%</b>	<b>49,525</b>	<b>30,208</b>	<b>61.0%</b>	<b>1.71%</b>	<b>1,456</b>

