

Deferred Compensation Plan BOARD REPORT 17-04

Date: January 6, 2017

To: Board of Deferred Compensation Administration

From: Staff

Subject: Deferred Compensation Plan:

- Budget Status Report & Reimbursements - Quarter Ending 09/30/16
- Proposed 2017 Budget

Board of Deferred
Compensation Administration

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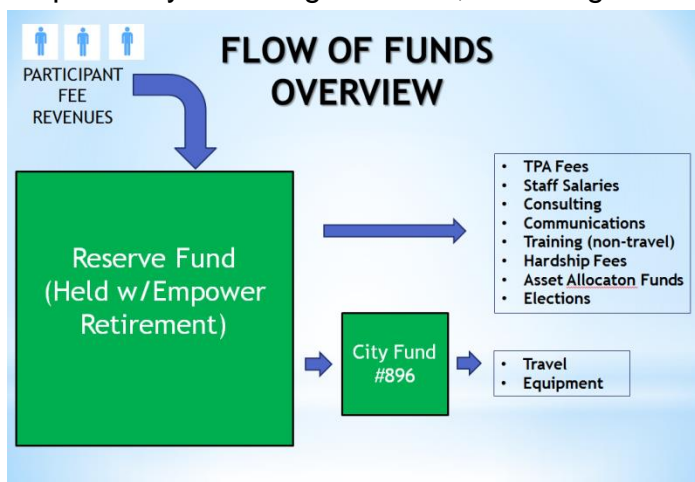
Recommendation:

That the Board of Deferred Compensation:

- (a) Approve reimbursements from the Deferred Compensation Plan Reserve Fund accounts to the Personnel Department for **\$93,094.18** and City Attorney for **\$7,069.74** for the quarter ending 09/30/16, including incorporating all fiscal year adjustments to indirect cost calculations; and
- (b) Adopt the proposed Deferred Compensation Plan budget for year 2017.

Discussion:

Reimbursements - Staff recommends reimbursement from the Deferred Compensation Plan Reserve Fund accounts to the Personnel Department for **\$93,094.18** and City Attorney for **\$7,069.74** for the quarter ending 09/30/16. Quarterly activity in the Plan's revenue/expenditure accounts is included in Attachment A. Calculations for the current quarters include salaries for all positions presently servicing the Plan, including direct salary and indirect costs as calculated in the City Controller-calculated Special Rates Calculation for Indirect Cost Centers ("Special Rates"). These rates are subject to revision by the Controller. If they are revised, staff will address the adjustment in a future quarterly reconciliation. Special Rates (39) for Personnel and City Attorney are presently 89.37% and 84.04% respectively for the FY 16/17.



(A) Adjustments

The calculations of indirect costs for quarters ending 09/30/15 through 06/30/16, previously adopted by the Board, were developed using draft Special Rates 37 as provided by the City Controller for FY 14/15. Since then the Controller has provided staff with Special Rates 38 for FY 15/16, which revised the rates for Personnel and City Attorney downward. Consistent with past practice, staff has therefore recalculated the reimbursement amounts for the four quarters in FY 15/16 and applied the credits to the reimbursements for quarter ending 09/30/16.

FY	Quarter Ending	FY 14-15 Published Special Rate (37)				FY 15-16 Published Special Rate (38)				Reimbursement Difference	
		Total Personnel Amount Reimbursed under Published Special Rate 37	Applied Special Rate	Total City Attorney Amount Reimbursed under Published Special Rate 37	Applied Special Rate	Total Personnel Reimbursement Amount Calculated Per Published Special Rate 38	Applied Special Rate	Total City Attorney Reimbursement Amount Calculated Per Published Special Rate 38	Applied Special Rate	Difference Personnel	Difference City Attorney
15-16	9/30/2015	\$ 146,859	91.51%	\$ 29,220	93.09%	\$ 142,849	86.28%	\$ 26,369	74.25%	\$ 4,011	\$ 2,851
	12/31/2015	\$ 139,627	91.51%	\$ 31,691	93.09%	\$ 135,814	86.28%	\$ 28,599	74.25%	\$ 3,813	\$ 3,092
	3/31/2016	\$ 122,049	91.51%	\$ 29,905	93.09%	\$ 118,716	86.28%	\$ 26,987	74.25%	\$ 3,333	\$ 2,918
	6/30/2016	\$ 118,946	91.51%	\$ 28,001	93.09%	\$ 115,698	86.28%	\$ 25,269	74.25%	\$ 3,248	\$ 2,732
Totals										\$14,405	\$11,593

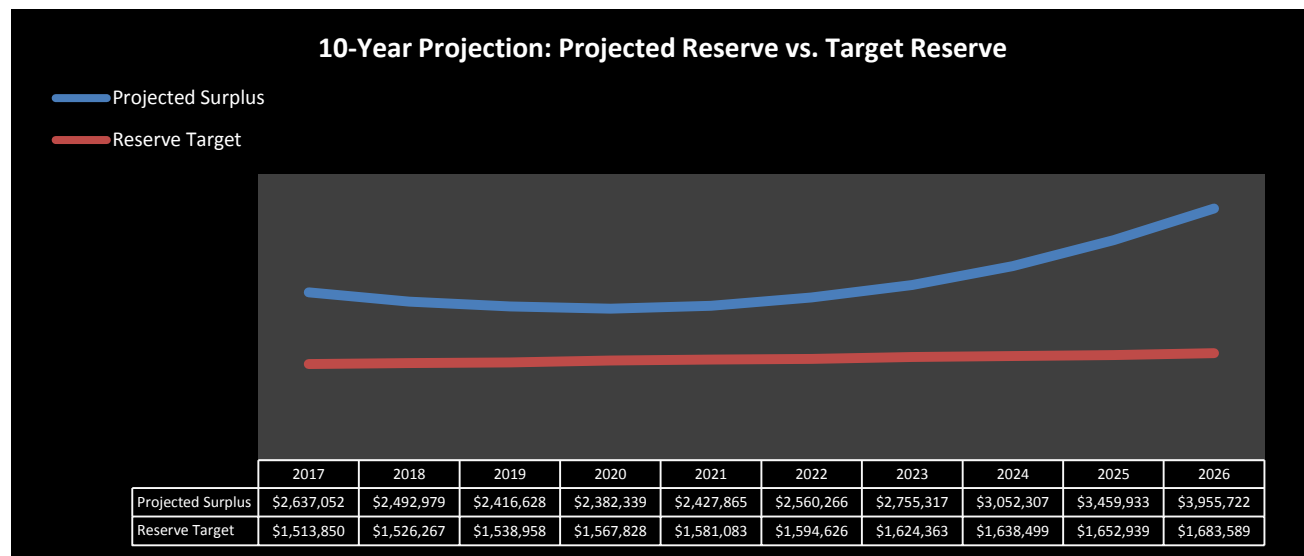
Reserve Fund Projection – All of the City's internal administrative costs are required to be paid by participant fees. Two accounts are used to pay expenses: a fund held with the Plan administrator which acts as a repository for participant fees and from which most Plan expenses are paid; and a fund held within the City, from which travel and equipment purchases are made, as illustrated in the graphic on the right.

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 its long-term assumptions for Plan revenues/expenditures at its November 2013 Strategic Plan review. The Board adopted assumptions and key variables as reflected below. These assumptions are being reviewed again by the Plan Governance and Administrative Issues Committee, which met on December 7, 2016, and will meet again as part of developing its recommendations to the Board.

Expenses Inflation Adjustment Factor	Enrollment Adjustment Factor	Asset Growth Adjustment Factor	Stable Value Funds Interest Assumption	Basis Points Charged Against Participant Accounts	Fee Cap	Personnel Avg. Cap Rate	City Attorney Avg. Cap Rate
2.0%	1.0%	6.5%	2.75%	0.10%	\$125	1.15	0.75

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 significantly above the target reserve over the entire period. The lowest projected amount above the target reserve is **\$815,000** in 2020, increasing to \$2.3 million above target in 2026. This information is being considered by the Plan Governance & Administrative Issues Committee as it is in the process of developing its recommendations to the Board regarding assumptions, expenses, and participant fees.

(B) Plan Budget 2016

The Board's Deferred Compensation Plan Governance Policies and Bylaws/Fiscal Administration Policy, Section 5.2, provides that:

“At the beginning of each calendar year staff will present, for adoption by the Board, a recommended budget for the Trust Fund for that Plan Year. The Board, in structuring this budget, will maintain a long-term balance between revenues and expenditures that is consistent with avoiding volatility in the collection of participant fees. In furtherance of that objective, the Board shall maintain a prudent reserve in the Trust Fund to protect against fluctuations in Plan assets. The Board's Plan Year budgets shall be consistent with ongoing 5-year revenue/expense reviews as described in Section 5.1.”

Staff is recommending that the Board adopt staff's proposed budget for the Plan's 2017 calendar year as included in **Attachment B**. This attachment includes a narrative description of the assumptions and other relevant factors regarding each budgetary item.

The annual budget supplements the quarterly reconciliations of the Plan's fee revenues and internal administrative expenses. In addition, the annual budget reflects the unique circumstances of the upcoming one-year time period, as opposed to the more generalized ten-year forecasts that are incorporated in the quarterly reconciliations.

As the Board is aware, annual budgets may incorporate some level of an assumed deficit as the Plan's long-term surplus is calibrated to be in alignment with the long-term targeted reserve. The projected **annual** operating deficit for 2017 is estimated to be approximately \$106,826, a decrease from the prior budget year and an amount in line with the long-term reserve objective.

Staff recommends that the Board adopt the proposed budget for calendar year 2017.

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	9/30/2016	6/30/2016	3/31/2016	12/31/2015
STARTING BALANCE				
Payroll Fee Trust Fund Ending Balance	\$ 56,540	\$ 56,249	62,314	71,967
Administrative Fee Reserve Fund Balance	\$ 3,573,953	\$ 3,469,964	3,308,222	3,073,495
Total	\$ 3,630,494	\$ 3,526,213	3,370,535	3,145,462
REVENUES/FEES				
Interest Earnings on Payroll Fee Trust Fund	\$ 91	\$ 261	191	106
Payroll Fee Trust Fund Deposit: Travel	\$ -	\$ -	-	-
Payroll Fee Trust Fund Deposit: Salary Reimbursements	\$ 610,948	\$ -	(15,717)	-
Interest Earnings on Administrative Fee Reserve Fund	\$ 15,328	\$ 16,149	14,728	14,404
Revenue from Fees Deducted from Participant Accounts	\$ 654,937	\$ 651,085	642,818	640,669
CAP Adjustment Credits	\$			
Miscellaneous Credits	\$ 14	\$ 30	15,814	27
Total Revenue/Fees	\$ 1,281,318	\$ 667,525	657,834	655,206
TOTAL ASSETS (STARTING BALANCE + REVENUE/FEES)	\$ 4,911,812	\$ 4,193,739	4,028,370	3,800,668
EXPENDITURES				
Participant Administrative Fees Paid to TPA	\$ (391,910)	\$ (389,285)	(386,503)	(383,952)
Prior Quarter Departmental Staffing Reimbursements	\$ (1,221,866)	\$ -	-	-
Consulting Costs	\$ (14,247)	\$ (140,460)	(1,170)	(121)
Plan Administrator Hardship Administration	\$ (16,500)	\$ (14,500)	(15,750)	(18,250)
Plan Administrator Asset Allocation Fund Management	\$ (17,750)	\$ (17,750)	(37,750)	(14,250)
Communications	\$ (786)	\$ -	(53,463)	(1,950)
2130 Travel/Training/Education	\$ (5,307)	\$ -	(2,007)	(9,759)
Travel/Training/Education - Payment-Step toe - Training	\$ -	\$ -	-	(600)
Elections Administration	\$ -	\$ -	-	-
Wells Fargo Custodial Fees	\$ (1,250)	\$ (1,250)	(1,250)	(1,250)
6010 Office and Administrative	\$ -	\$ -	(4,264)	-
4160 Governmental Meetings	\$ -	\$ -	-	-
TOTAL EXPENDITURES	\$ (1,669,616)	\$ (563,245)	(502,157)	(430,132)
Actual Payroll Fee Trust Fund Ending Balance	\$ 51,339	\$ 56,540	56,249	62,314
Actual Administrative Fee Reserve Fund Ending Balance	\$ 3,190,857	\$ 3,573,953	3,469,964	3,308,222
ACTUAL TOTAL ENDING BALANCE	\$ 3,242,196	\$ 3,630,494	3,526,213	3,370,536
ENCUMBRANCES/LIABILITIES				

Net From Prior Quarter	\$ -	\$ (762,887)	(610,933)	(439,616)
Personnel Direct/Indirect Cost (38 Special Rate Calc Adjustment) for FY 15-16	\$ 14,405.29			
City Attorney Direct/Indirect Cost (38 Special Rate Calc Adjustment) for FY 15-16	\$ 14,594.33			
Prior Quarter Departmental Staffing Reimbursements 03/31/16	\$ (151,953.93)			
Prior Quarter Departmental Staffing Reimbursements 06/30/16	\$ (146,947.46)			
Quarterly Personnel Direct/Indirect Costs (Retro Adjustment Applied)	\$ (93,094.18)	\$ (118,946)	(122,049)	(139,627)
Quarterly City Attorney Direct/Indirect Costs (Retro Adjustment Applied)	\$ (7,069.74)	\$ (28,001)	(29,905)	(31,691)
Net Ending Balance Owed	\$ (399,065)	\$ (909,834)	(762,887)	(610,933)
TOTAL ASSETS LESS LIABILITIES	2,843,131	2,720,660	2,763,326	2,759,603

Notes: All staffing reimbursement amounts pending as of quarter ending 06/30/16 were processed in November 2016.

DEFERRED COMPENSATION PLAN		
PROJECTED REVENUES/EXPENDITURES		
Plan Year 2017		
REVENUES		
Projected Starting Balance on 01/01/17	\$	2,791,611
Estimated Annual Administrative Fee Revenue	\$	2,764,758
Estimated Interest Earnings	\$	56,863
Opening Balance Plus Projected Revenues	\$	5,613,232
EXPENDITURES		
Participant Administrative Fees Owed to Empower	\$	(1,196,756)
Participant Administrative Fees Owed to Voya	\$	(341,872)
Estimated Personnel Department Reimbursements	\$	(724,759)
Estimated City Attorney Reimbursements	\$	(134,182)
Estimated Consulting Costs	\$	(185,000)
Plan Administrator Hardship Administration	\$	(100,000)
Plan Administrator Asset Allocation Fund Management	\$	(78,000)
Communications	\$	(75,000)
2130 Travel/Training/Education	\$	(59,178)
Elections Administration	\$	(21,200)
Wells Fargo Custodial Fees	\$	(5,000)
6010 Office and Administrative	\$	(7,000)
4160 Governmental Meetings	\$	(500)
Total Estimated Expenditures	\$	(2,928,447)
Annual Revenues Less Annual Expenditures	\$	(106,826)
Projected Ending Balance on 12/31/17	\$	2,684,785

Detail regarding budget items and assumptions included therein:

REVENUES

- **Projected Starting Balance on 01/01/17** – The projected starting balance includes amounts held in both the Empower Reserve Fund account and the City's Administrative Fee Trust Fund account.
- **Administrative Fee Revenue** – Projections for administrative fee revenues (amounts collected from participant accounts) reflect an increase in Plan assets. The one-year Plan assets growth rate assumption is 6.5% as established in the Strategic Plan revised by the Board in November 2013. Plan assets are impacted by both investment gains as well as participant contributions/rollovers.

- **Interest** – The Board had previously adopted a long-term average rate of return for the Stable Value Fund of 2.75%. However, for calendar year 2017, based on current returns and the present interest rate environment, staff is estimating that this return will be approximately 2%.

EXPENDITURES

- **Participant Administrative Fees Owed to Plan Administrator** – The City's contractual obligation to the Plan Administrator is \$36.97 per participant. Voya is expected to take over as the Plan's TPA effective 4Q 2017. Their per participant fee is expected to be \$32.00. The long-term projected participant growth rate is 1%.
- **Estimated Personnel Department and City Attorney Reimbursements** – The City's Plan reimburses for direct and indirect staffing costs for its various positions. The estimated expenditures for these positions for 2017 takes into account current paygrade levels and other factors. These rates reflect the Special Rate as adopted through Board Report 16-03.
- **Estimated Consulting Costs** – The Board has contracts for various consulting services (investment, plan administration, and communications consulting), and also pays for tax consulting services on an as-needed basis via a contract administered by the City Attorney's Office. Staff projects a total of \$185,000 in consulting expenditures for 2017.
- **Plan Administrator Hardship Administration** – Staff is projecting approximately 400 hardship cases to be processed next year at a cost of \$250 per completed case.
- **Plan Administrator Asset Allocation Fund Management** – This category includes charges from the Plan Administrator for recordkeeping and unitization services for the Plan's asset allocation funds and custom Plan-branded funds.
- **Communications** – This category includes special communication costs over and above the amounts already included within the Plan Administrator budget (e.g. for enhancements to the Plan's Retirement Income Projection Calculator).
- **Travel/Training** – For Plan Year 2016, the Board adopted an annual training/travel amount of \$59,178. Actual training expenditures have consistently been significantly below adopted budget amounts. Staff does not recommend an increase of this amount for 2017. This amount should be considered the upper range of potential expenditures if all Board members and staff availed themselves of all training opportunities provided for within the Board's adopted training program.