

CITY OF LOS ANGELES



DEFERRED COMPENSATION PLAN

ANNUAL REPORT

BOARD OF DEFERRED COMPENSATION ADMINISTRATION

2012

**BOARD OF DEFERRED
COMPENSATION
ADMINISTRATION**

EUGENE K. CANZANO
CHAIRPERSON

JOHN R. MUMMA
VICE-CHAIRPERSON

MICHAEL AMERIAN
SANGEETA BHATIA
CLIFF CANNON
TOM MOUTES
WILLIAM RAGGIO
BOB SCHOONOVER
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) 978-1621

May 1, 2013

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, it is my pleasure to submit the 2012 Annual Report for the City of Los Angeles Deferred Compensation Plan. This report provides a review of important Plan data and activities over the 2012 calendar year.

2012 was another year of significant achievements for the Plan. The Board adopted an industry best practice by simplifying its core investment menu and reducing the number of investment choices to a level consistent with good decision-making by participants. The Board also implemented or began developing several groundbreaking initiatives to help solidify the City's status as a leader in the governmental defined contribution field.

The City's Plan plays a vital role in helping City employees to develop future retirement and income security. We maintain our commitment to the highest level of diligence in overseeing the Plan and developing new benefits which can enhance the value of the program to its participants.

Respectfully submitted,

Eugene K. Canzano, Chairperson
Board of Deferred Compensation Administration

BOARD OF DEFERRED COMPENSATION ADMINISTRATION AND STAFF

for the

CITY OF LOS ANGELES DEFERRED COMPENSATION PLAN

CURRENT BOARD MEMBERS		
<p>EUGENE K. CANZANO <i>Chairperson</i></p> <p>Department of Water and Power Retirement Representative</p>	<p>JOHN R. MUMMA <i>Vice-Chairperson</i></p> <p>Fire and Police Pensions Participant Representative Participant</p>	<p>CLIFF CANNON <i>First Provisional Chair</i></p> <p>Retired Participant Representative</p>
<p>TOM MOUTES <i>Second Provisional Chair</i></p> <p>General Manager Los Angeles City Employees' Retirement System</p>	<p>SANGEETA BHATIA <i>Third Provisional Chair</i></p> <p>Retirement Plan Manager Department of Water and Power Employees' Retirement Plan</p>	<p>MICHAEL AMERIAN</p> <p>Los Angeles City Employees' Retirement System Participant Representative</p>
<p>WILLIAM S. RAGGIO</p> <p>Interim General Manager Fire and Police Pensions Department</p>	<p>BOB SCHOONOVER</p> <p>Organized Labor Representative</p>	<p>MARGARET WHELAN</p> <p>General Manager Personnel Department</p>

STAFF OF THE DEFERRED COMPENSATION PLAN

PERSONNEL DEPARTMENT STAFF	
<p>DAVID LUTHER Assistant General Manager Personnel Department</p>	<p>ALEJANDRINA BASQUEZ Chief Personnel Analyst</p>
<p>STEVEN MONTAGNA Senior Personnel Analyst II</p>	<p>NATASHA GAMEROZ Management Analyst II</p>
<p>ESTHER CHANG Personnel Analyst II</p>	<p>CLAUDIA GUEVARA Clerk Typist</p>
CITY ATTORNEY STAFF	
<p>CURTIS KIDDER Assistant City Attorney</p>	<p>VICKY WILLIAMS Legal Assistant</p>

PLAN OVERVIEW

What is the Deferred Compensation Plan?

The City of Los Angeles Deferred Compensation Plan is a non-qualified tax-deferred savings program established in 1983 under IRC Section 457 and City of Los Angeles Administrative Code, Division 4, Chapter 14. It is open to all full-time employees who are members of one of the City's defined benefit retirement/pension systems, and is intended as a supplement to those plans. Contributions and earnings are tax-deferred until funds are withdrawn.

How Much Can Be Contributed to the Plan?

In 2012 participants were eligible to contribute up to \$17,000 from their regular wages if below age 50; up to \$22,500 if age 50 or older; and up to \$34,000 if eligible for and enrolled in special "Catch-Up" provisions. The City does not provide a matching contribution. Plan assets are protected by being held in trust for the exclusive benefit of Plan participants.

How and When Can Funds Be Distributed?

Funds can be withdrawn without penalty at any age so long as a participant has separated from service. In addition, active employees can withdraw funds through hardship withdrawal or by meeting certain de minimis withdrawal provisions. Active employees are further eligible to borrow from their accounts through a loan program.

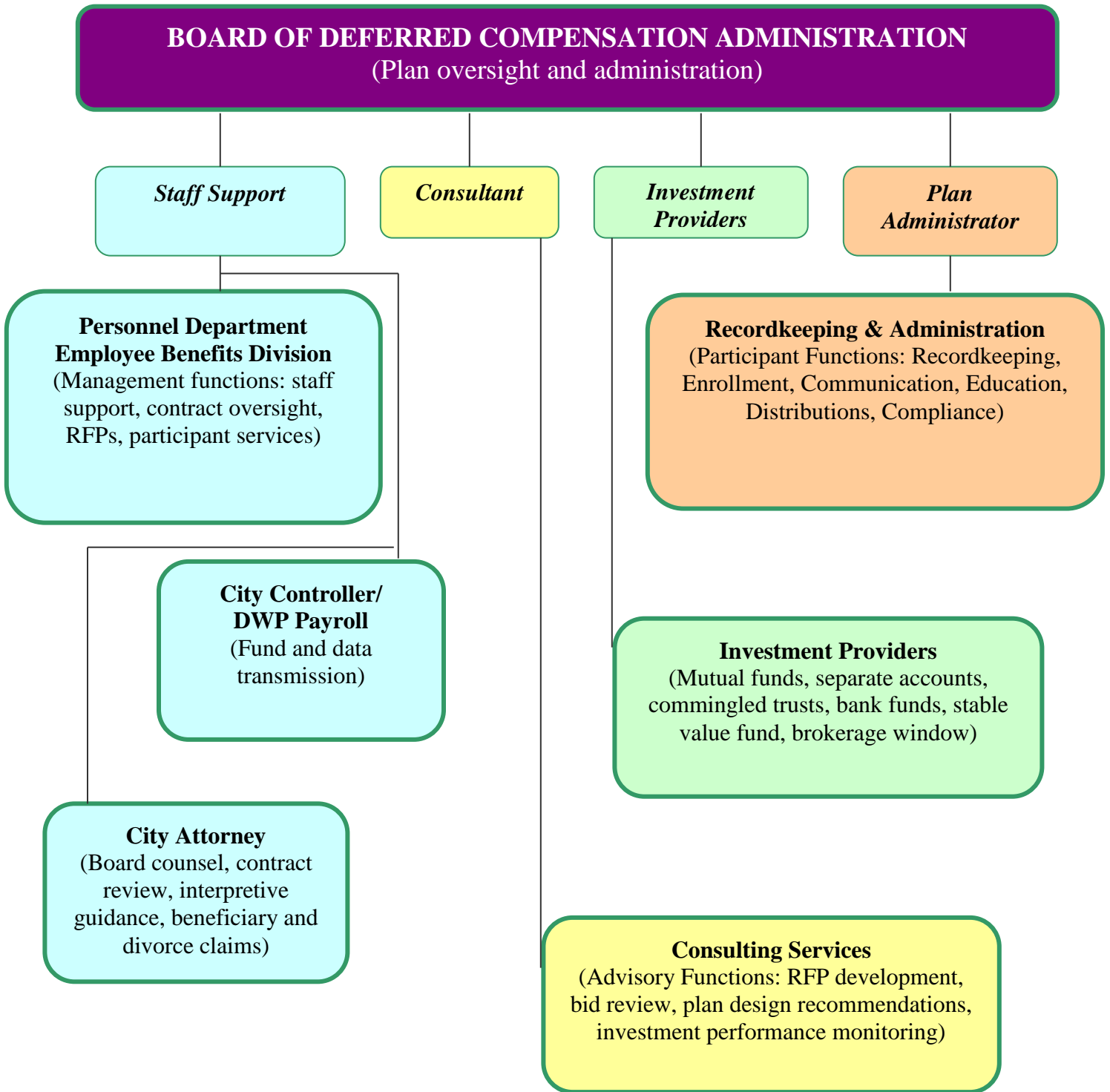
How Can the Funds Be Invested?

The Plan provides participants with a variety of investment choices including savings options, bond funds and stock funds. The Plan also offers a Self-Directed Brokerage Option providing access to additional mutual funds, exchange-traded-funds, stocks, bonds, and Certificates of Deposit.

How is the Plan Governed?

The City Council established the Board of Deferred Compensation Administration to provide administrative oversight of the Plan. The nine-member Board includes the General Manager City Employees' Retirement System; General Manager Fire and Police Pension Plan; Plan Manager of the Department of Water and Power Employees' Retirement Plan; three elected employee representatives from each of the afore-mentioned plans; a Certified Union Representative; a retired participant representative; and the General Manager Personnel Department. The Board has support staff and contracted entities to carry out Plan administration, as indicated on the following page.

ADMINISTRATIVE STRUCTURE



ACTIVITIES

Significant Projects – The Board and its staff, consultant and third-party-administrator accomplished a number of important objectives during 2012, including the following:

Administration

- **Retiree Loan Implementation** – On November 1, 2012, the City’s Plan was one of the first governmental plans in the nation to expand its loan program to retirees and other participants who have separated from service. This new benefit provides these participants with an important option of being able to access their account for a short-term need without having to take away from the longer-term value of their account as a retirement supplement resource.

Investments

- **Streamlining Investment Menu** – The Board simplified the Plan’s investment menu in April 20, 2012 by creating three new funds identified by asset class rather than by investment manager (a plan Bond Fund, Large-Cap Stock Fund, and Mid-Cap Stock Fund). At the same time, a number of redundant funds were eliminated. This reduced the Plan’s core menu to 12 choices, a level which research has indicated should not be exceeded in order to encourage participant understanding and diversification.

Governance

- **Board Elections** – Elections were held for active employee/participant DWP representative and retired participant representative on the Board.

Communications

- **Communications** – The Board initiated development of two groundbreaking new tools to assist participants in projecting their retirement income and managing their accounts – these accounts are expected to launch in 2013.

Financial Resources

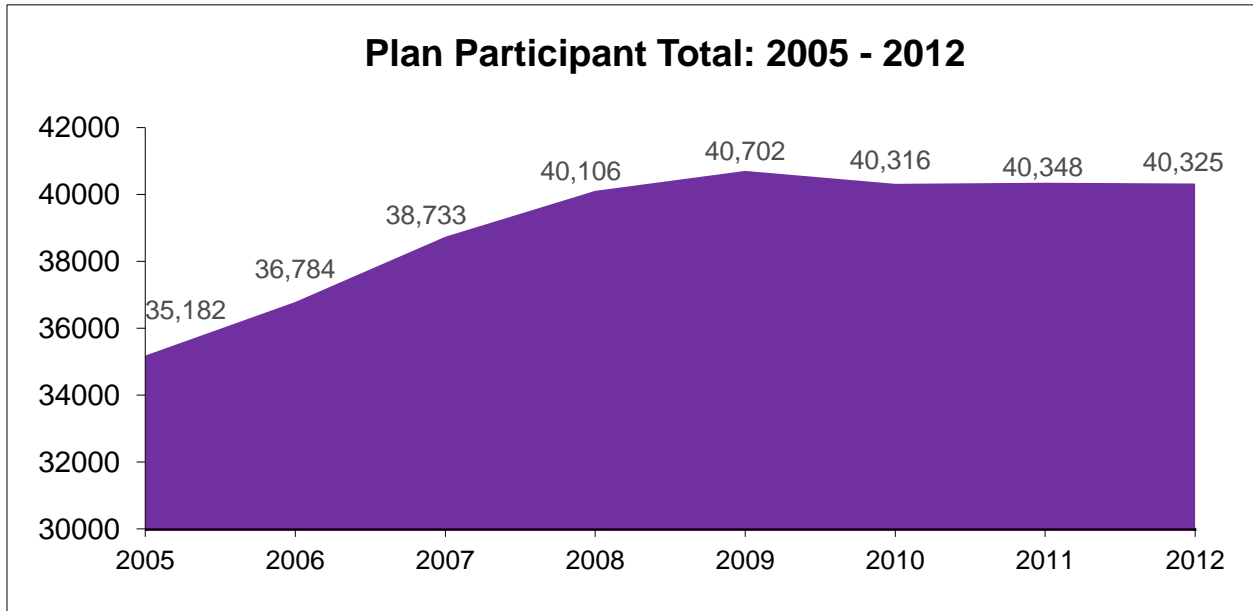
- **Budget** – The Board executed an annual budget for the Plan reimbursing City internal administrative costs while maintaining a prudent reserve.

Intellectual Resources

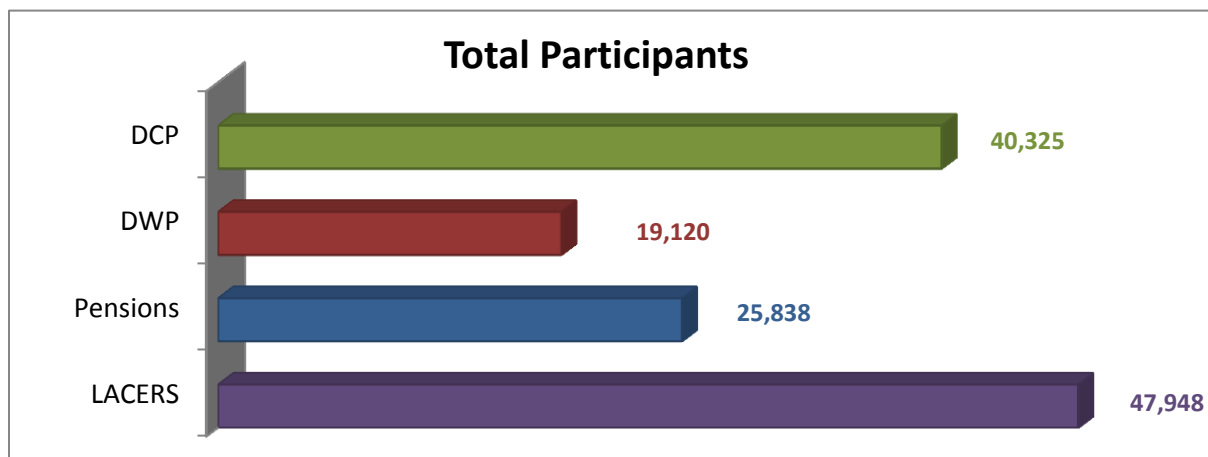
- **Training/Education** – Most Board members/staff attended at least one annual national conference for training; in addition, staff participated in meetings of a California regional network of defined contribution plan sponsors.
- **NAGDCA Board Membership** – The Plan Manager for this program joined the board of the National Association of Government Defined Contribution Administrators (NAGDCA), a national group representing governmental plan sponsors of defined contribution plans. This provides the City with a valuable opportunity to participate in decisions at a national level impacting these types of plans.

STATISTICS

Participation – As of December 31, 2012, the City’s Plan had a total of **40,325** participant accounts, a slight 0.06% decrease from the prior year. The City’s Plan Administrator recorded 827 new enrollments between January 1st and December 31st 2012. The total number of contributing participants represents approximately 70% of the eligible employee population (a breakdown of departmental contribution rates is provided as Appendix A to this report). The chart below indicates total enrollment levels from 2005 through 2012:

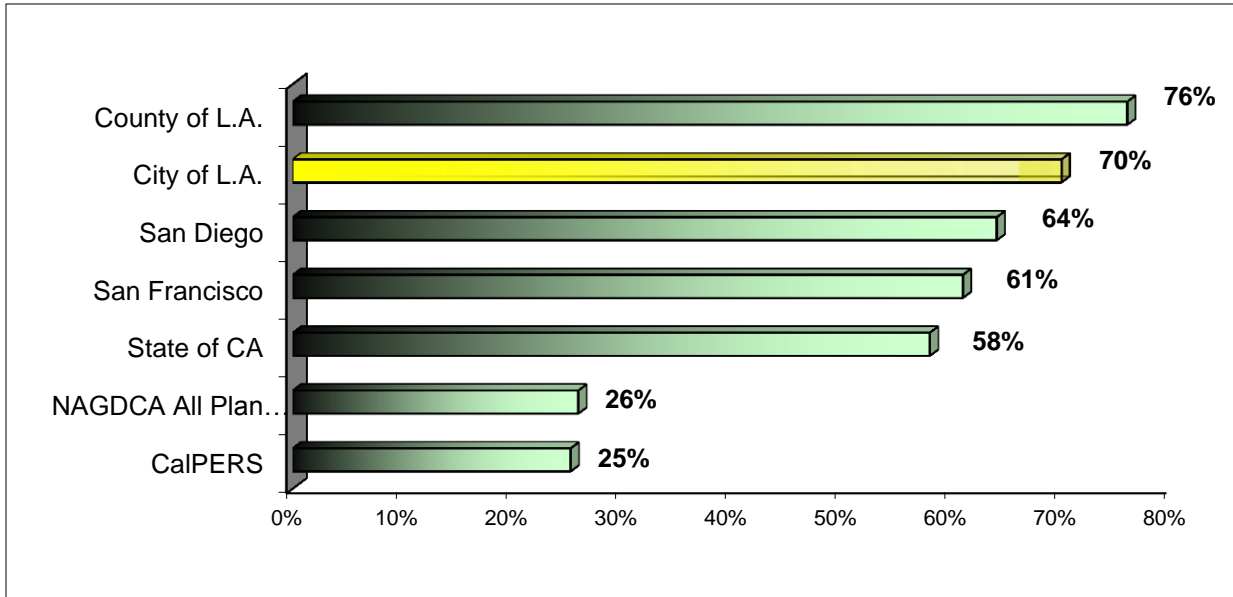


Relative to the City’s other three retirement programs, the Deferred Compensation Plan ranks second in terms of total members:

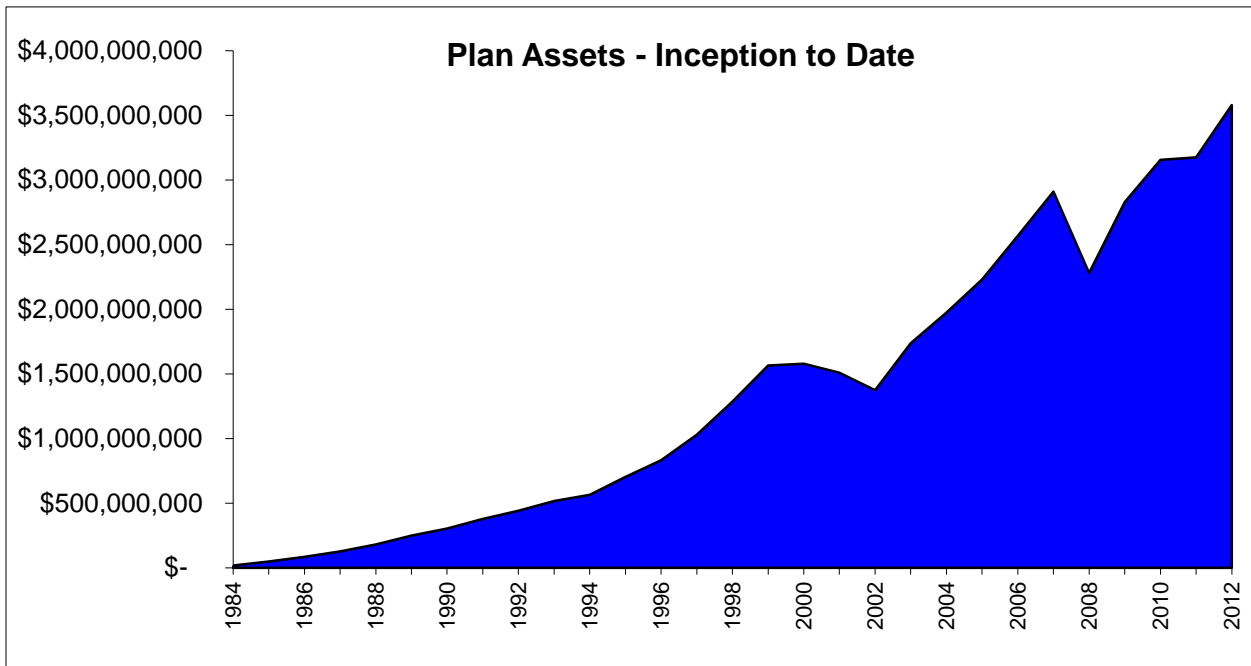


* DWP, Pensions, LACERS as of 6/30/12; DCP as of 12/31/12

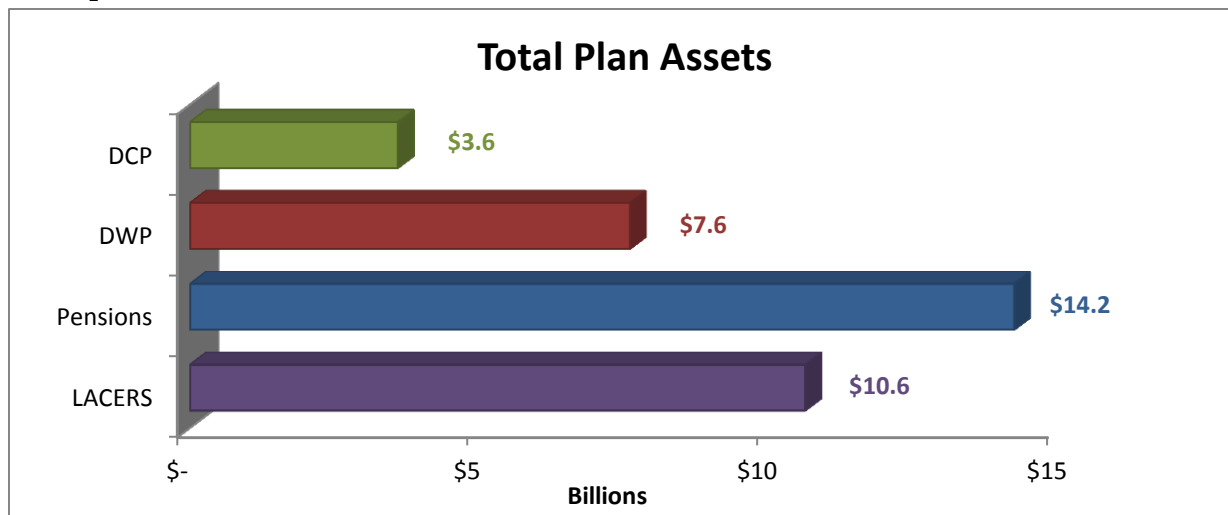
The City's Plan has one of the highest participation rates among its large peers within the State of California. In fact, of the larger plans, the City's participation rate is second only to the County of Los Angeles, which has a match program (which the City does not).



Plan Assets – Year-end total Plan assets were **\$3,578,684,906** in comparison to \$3,174,274,110 at year-end 2011. This represents an increase of 12.74% year-over-year, of which 10.06% was attributable to market returns and 2.68% to participant contributions/rollovers.

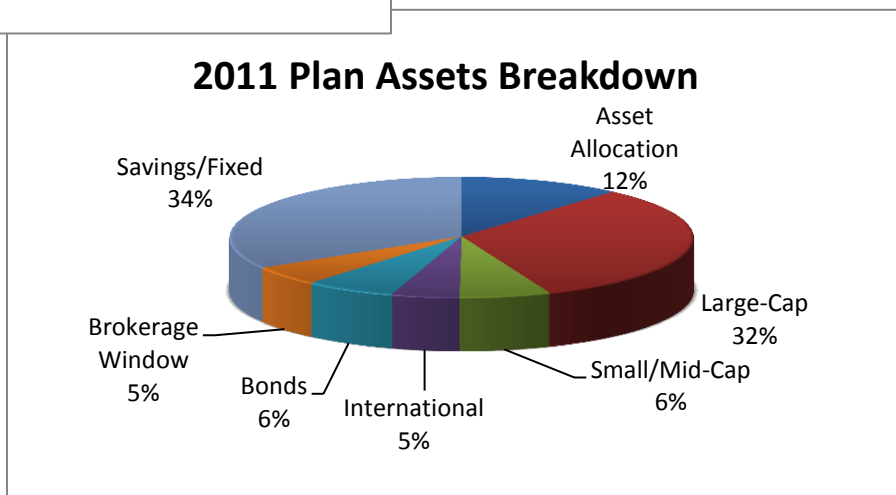
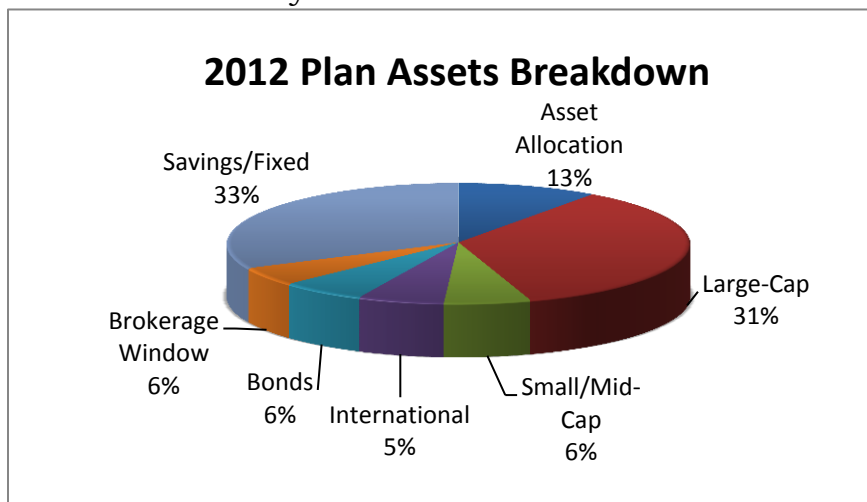


Relative to the City's other three retirement programs, the Deferred Compensation Plan ranks fourth in terms of total assets:

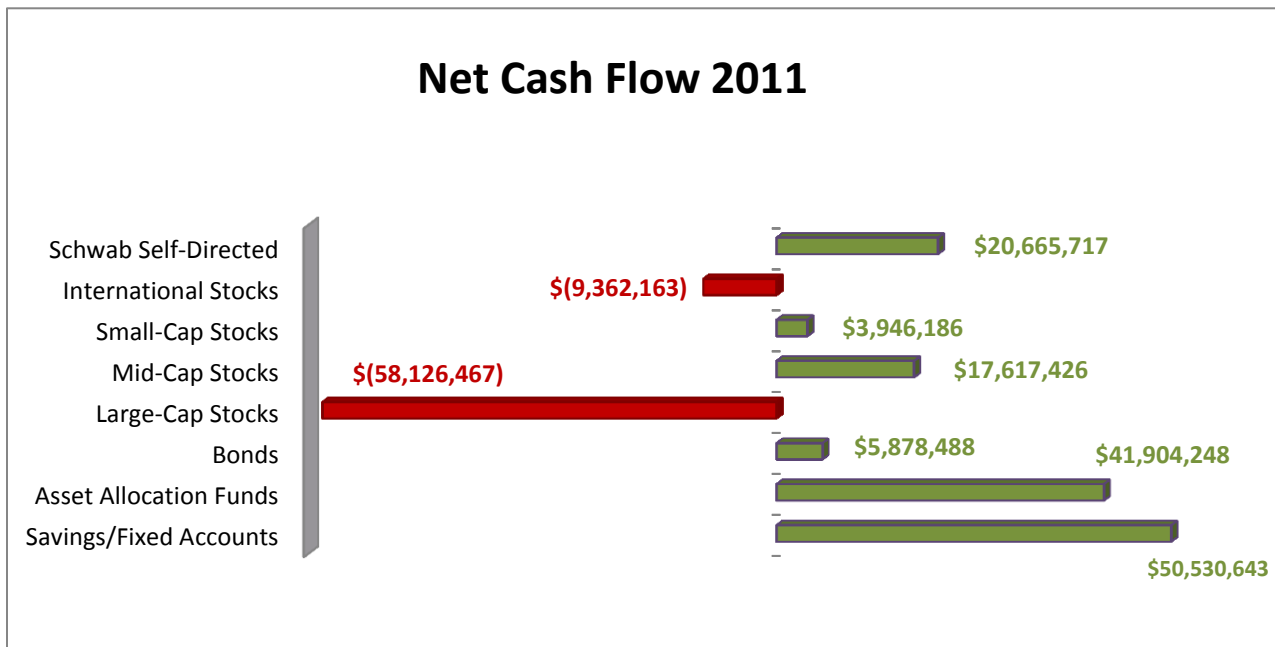
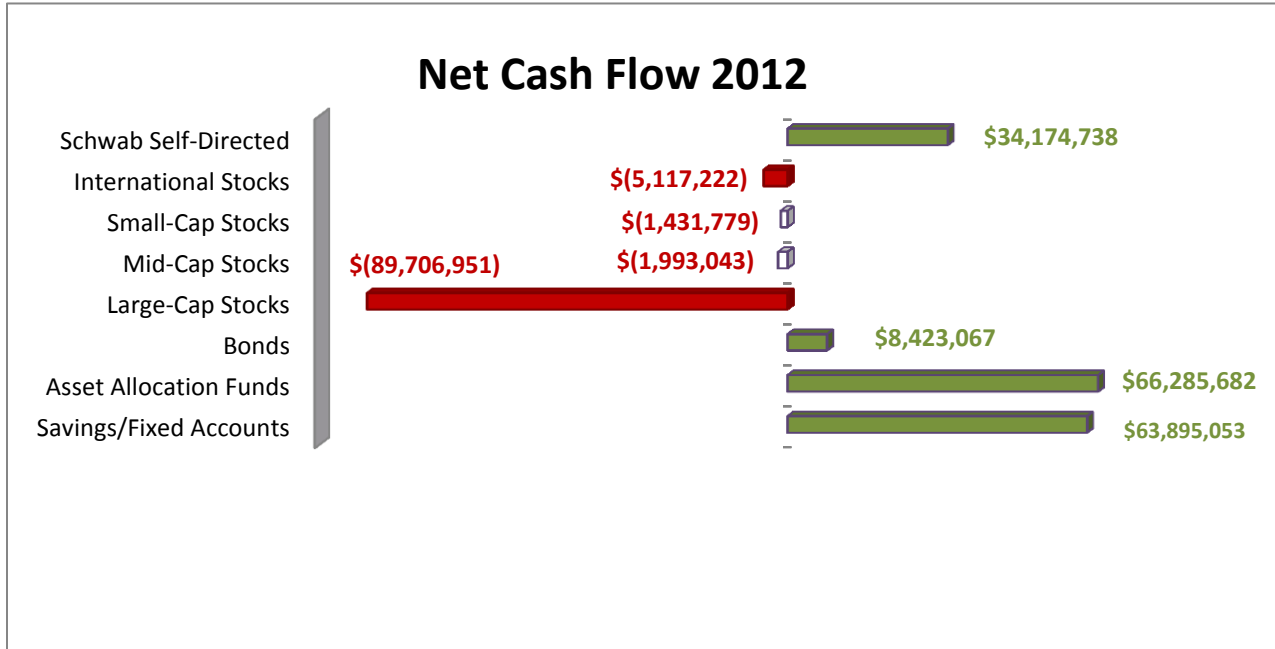


* DWP, Pensions, LACERS as of 6/30/12; DCP as of 12/31/12

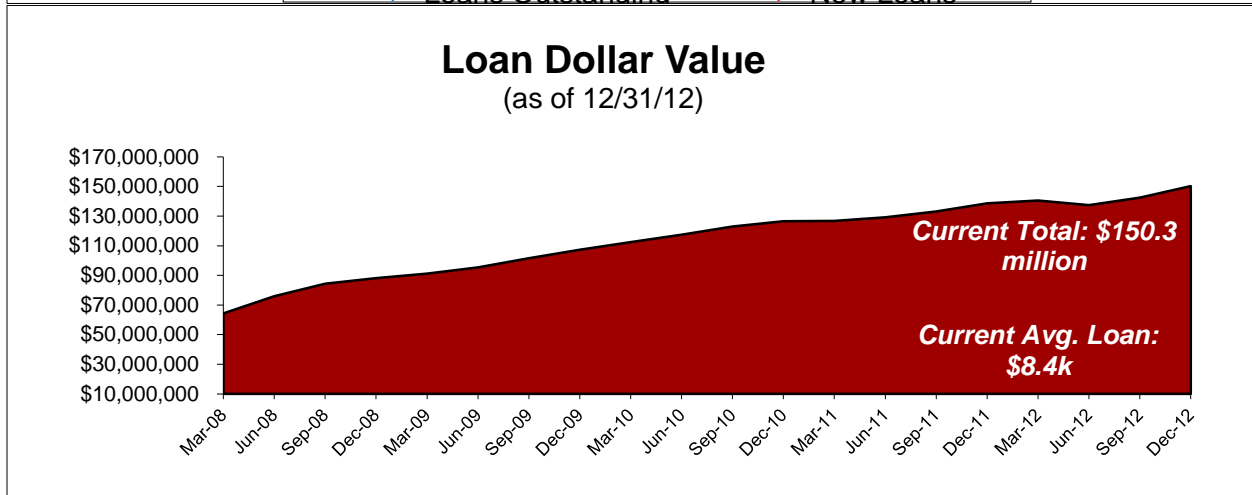
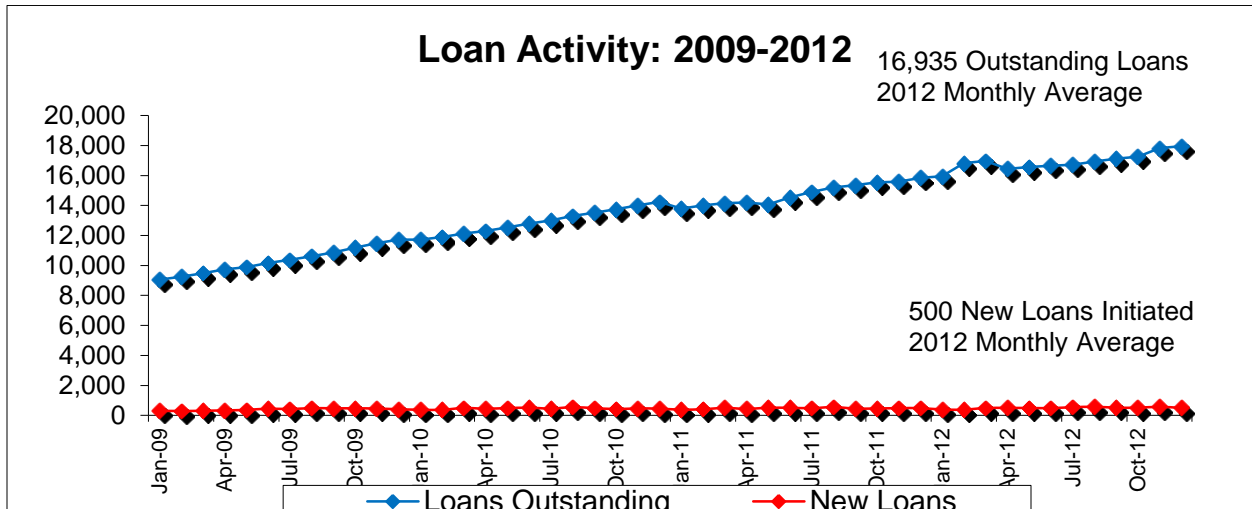
Fund Class Changes and Asset Allocation – 2012 was a volatile year which began with uncertainty due to the nation's fiscal crisis but ended with strong returns in most asset classes. Overall, participant allocation of their assets was little changed from the prior year. Below is a summary comparison of how assets shifted by asset class from 2011 to 2012:



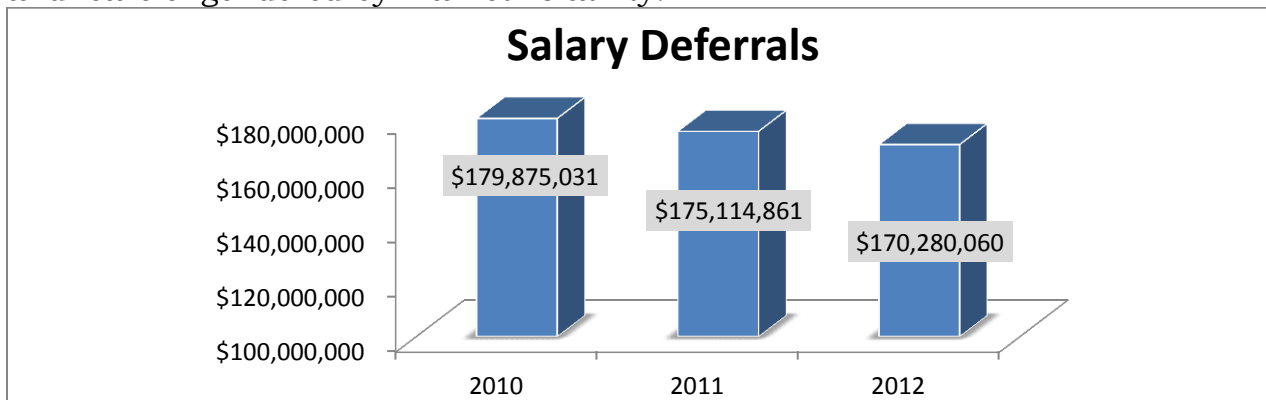
Net Cash Flows – The charts below compare changes in net cash flow activity over the past two years. In 2012 the strongest cash flows were to the Plan’s asset allocation funds, savings/fixed income accounts, and brokerage window, with large outflows from equity funds. This suggests participant reaction to equity volatility during the year, even though equities finished strongly.



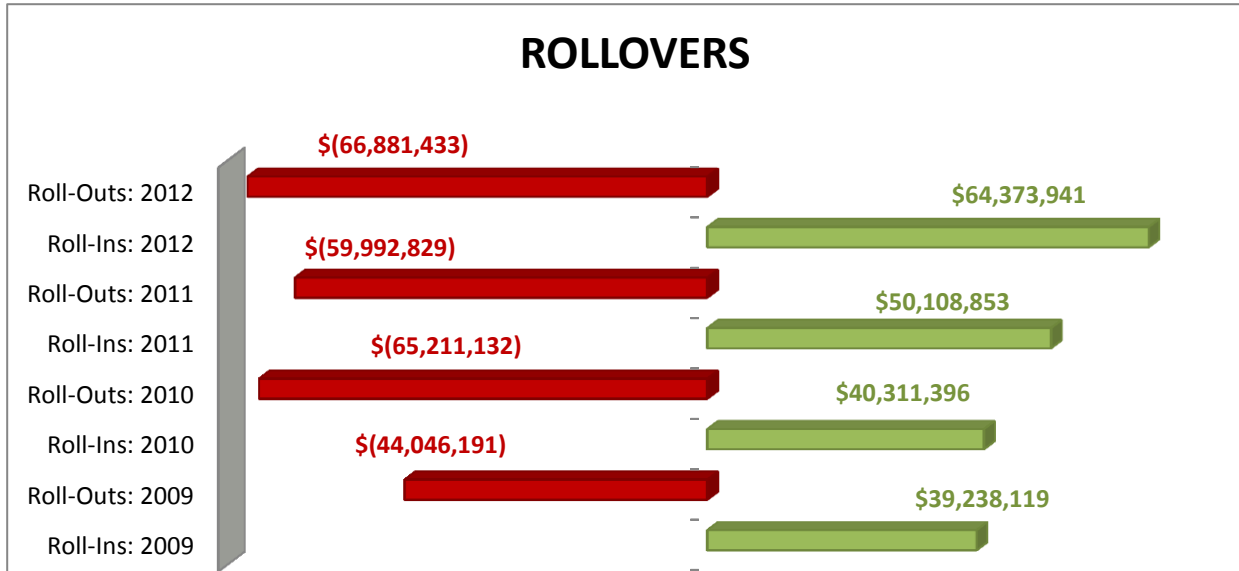
Loan Program – The City’s loan program, introduced in 2004, continues to generate significant participant activity, with 17,952 loans outstanding as of 12/31/12. A maximum of two loans per participant is allowed. The amount loaned to participants is **\$150.3 million**, or **4.2%** of total Plan assets (versus 4.4% at year-end 2011).



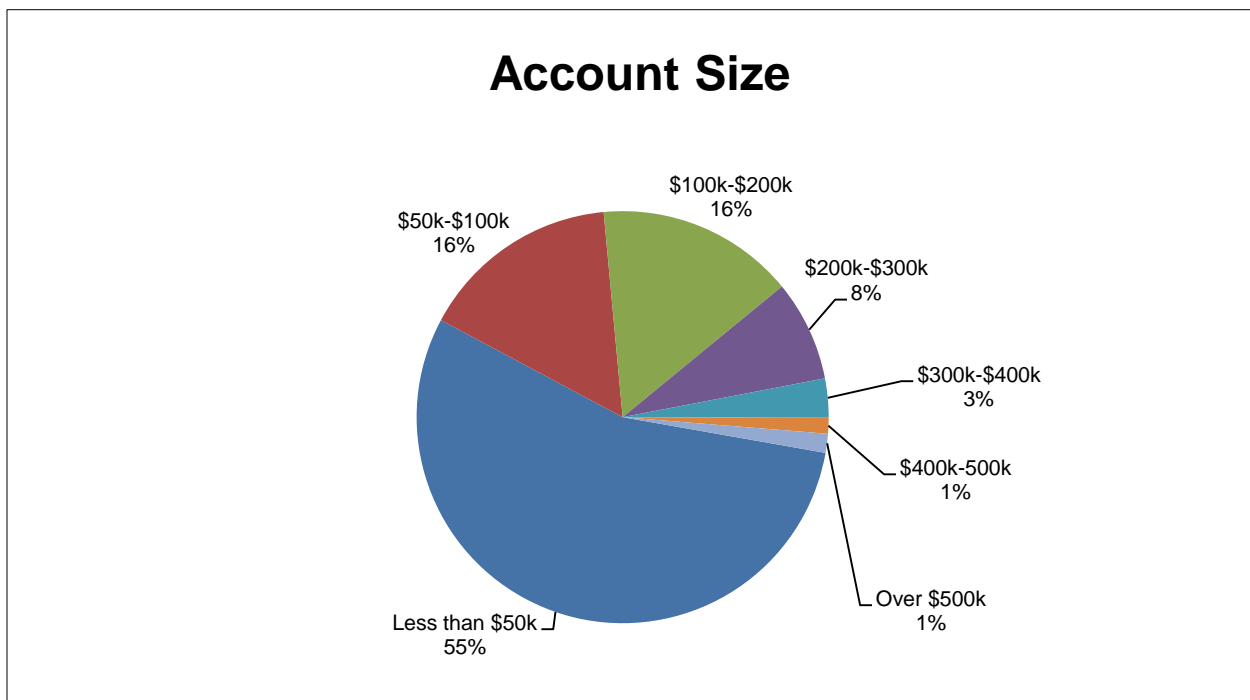
Contributions – Total salary deferrals continued to fall as they had in 2011, decreasing 2.8% in 2012, likely due to a smaller workforce, wage pressures, and fears engendered by market volatility.



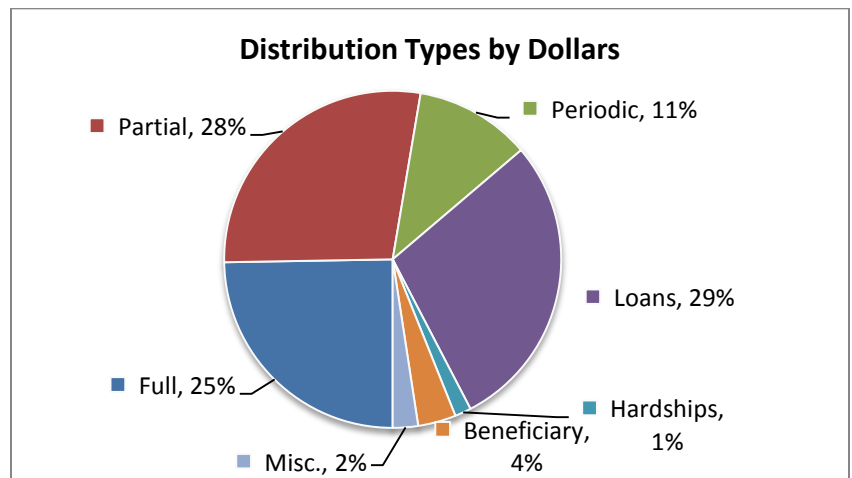
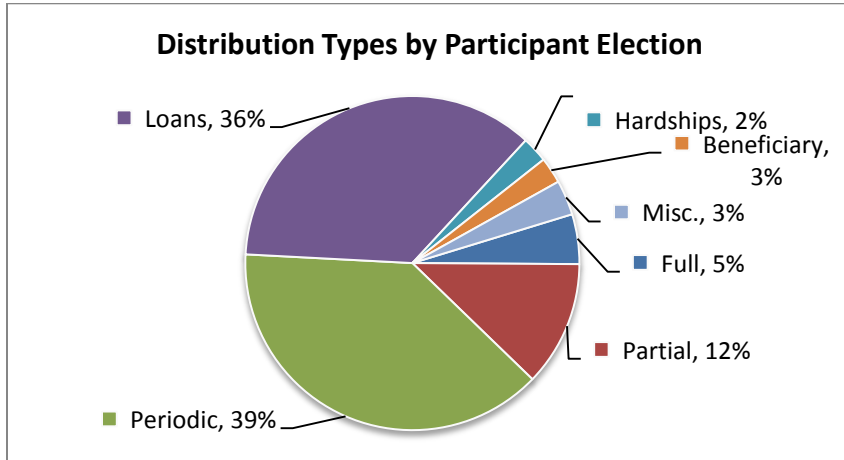
Rollovers – Participants can roll in assets from outside plans, such as 401(k), IRA, and Deferred Retirement Option Plan (“DROP”) accounts. In 2012, amounts rolled into the plan almost matched amounts rolled out, an historically unusual occurrence. On a net basis, 0.07% of assets rolled out in 2012 vs. 0.31% in 2011.



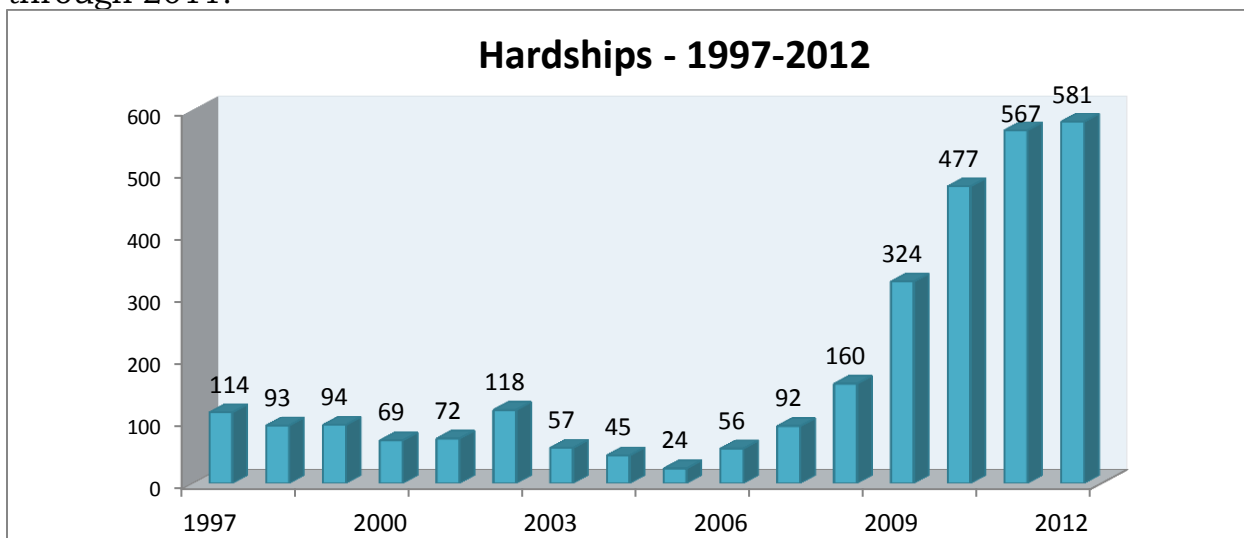
Plan Assets by Participant/Balance Levels – The graph below breaks out 2012 Plan assets by account balance. Those with balances less than \$50,000 decreased by 3% while those with balances between \$200-\$300,000 and \$300-\$400,000 grew each by 1%, a positive indication of overall growth.



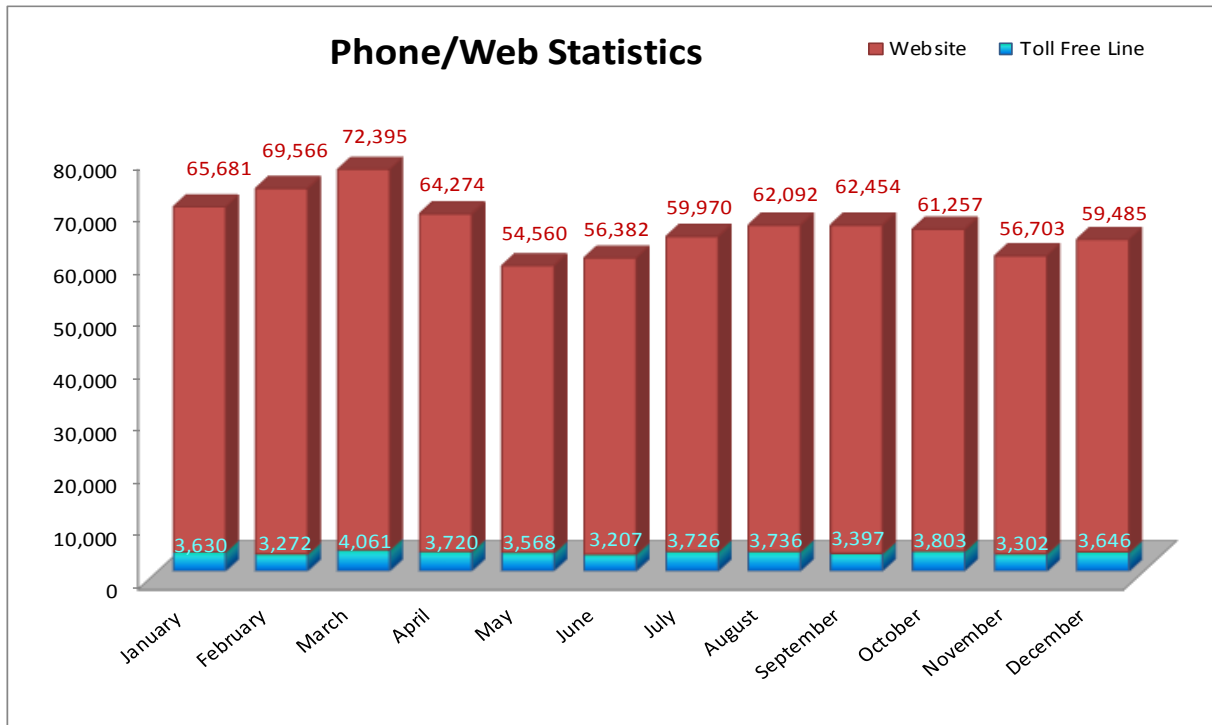
Distributions - The table below breaks down participant distributions by distribution type and amount.



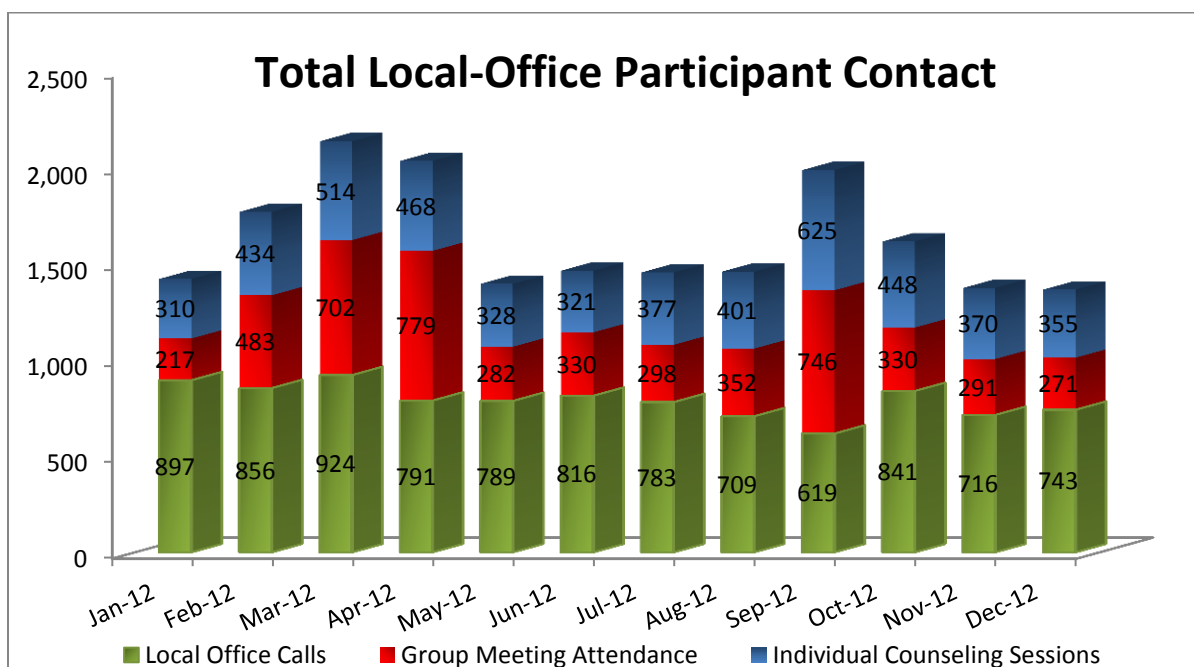
Hardships – Hardship activity continued to climb, with Great-West processing 581 hardship applications in 2012, a 2% increase compared to 2011. The graph below indicates the number of hardship applications reviewed from 1997 through 2011.



Phone Line/Website Statistics – Phone and web interaction measures participant engagement, an important component of ensuring participants are effectively managing their accounts. The following chart indicates 2012 website “hits” and telephone inquiries via the Plan’s toll-free line.



Local Service Statistics – An even more significant measure of engagement is personal contact. The City’s Plan has historically dedicated significant resources to its local service operation, which provides for one-on-one counseling, group education, and local phone access. The chart below indicates various local activity counts for 2012.



Performance Returns – Altogether, the overall 2012 participant return for all Plan assets was **10.06%**. The following table indicates individual investment option performance for calendar year 2012 as well as three, five and ten year periods:

SAVINGS ACCOUNTS	<i>Annualized Yield for Quarter</i>			
	<u>12/31/2012</u>	<u>9/30/2012</u>	<u>6/30/2012</u>	<u>3/31/2012</u>
FDIC-Insured Savings Account	0.42%	0.31%	0.20%	0.10%
1-yr CD	N/A	N/A	N/A	N/A
2-yr CD	N/A	N/A	N/A	N/A
3-yr CD	N/A	N/A	N/A	N/A
4-yr CD	N/A	N/A	N/A	N/A
5-yr CD	N/A	N/A	N/A	N/A
STABLE VALUE ACCOUNT	<i>Average Annualized Returns</i>			
	1 Year	3 Years	5 Years	10 Years/Since Inception
Deferred Compensation Stable Value Fund	2.88%	3.25%	3.75%	4.13%
STOCK & BOND FUNDS	<i>Average Annualized Returns</i>			
	1 Year	3 Years	5 Years	10 Years/Since Inception
BONDS				
DCP Bond Fund	7.28%	6.96%	7.12%	5.97%
LARGE-CAP STOCKS				
DCP Large Cap Fund	16.00%	10.88%	1.72%	7.14%
MID-CAP STOCKS				
DCP Mid Cap Fund	16.01%	12.64%	3.18%	10.07%
SMALL-CAP STOCKS				
SSgA Russell Small Cap Index NL Fund	16.25%	12.15%	3.42%	9.37%
INTERNATIONAL STOCKS				
Fidelity Diversified International Fund	19.41%	4.13%	-4.00%	8.75%
DWS EAFE Equity Index Institutional Fund	18.35%	3.74%	-3.65%	7.90%
PROFILE PORTFOLIOS				
Ultra-Conservative	6.46%	5.99%	N/A	4.94%
Conservative	9.30%	7.16%	4.36%	6.15%
Moderate	12.09%	8.37%	3.43%	6.95%
Aggressive	13.92%	8.95%	2.19%	7.37%
Ultra-Aggressive	15.73%	9.46%	N/A	1.92%
BENCHMARK INDICES				
Barclays Capital Aggregate Bond	4.21%	6.19%	5.95%	5.18%
MSCI EAFE	17.32%	3.56%	-3.69%	8.21%
Russell 2000	16.35%	12.25%	3.56%	9.72%
Standard & Poor's 500	16.00%	10.87%	1.66%	7.10%
Standard & Poor's MidCap 400 Index	17.88%	13.62%	5.15%	10.53%

Budgetary Accounts – The Plan maintains accounts to fund administrative costs. Presently participants are assessed an annual asset based fee of 0.10% with a fee cap of \$125 for accounts over \$125,000. These revenue sources reimburse the Plan’s contractual obligations to the Plan Administrator as well as the City’s internal costs. A reserve is maintained to guard against fluctuations of Plan assets. Following is a summary of Plan revenue/expenses and of the status of the current reserve.

DEFERRED COMPENSATION PLAN YEARLY BUDGET REVIEW		
ADMINISTRATIVE AND OPERATING EXPENSES		
YEAR ENDING 12/31/12		
STARTING BALANCE		
Payroll Fee Trust Fund Ending Balance - 12/31/11	\$	527,626
Administrative Fee Reserve Fund Balance - 12/31/11	\$	2,679,021
Total	\$	3,206,647
REVENUES/FEES		
Interest Earnings on Payroll Fee Trust Fund	\$	4,725
Payroll Fee Trust Fund Deposit: Travel	\$	27,000
Payroll Fee Trust Fund Deposit: Salary Reimbursements	\$	547,056
Interest Earnings on Administrative Fee Reserve Fund	\$	71,365
Revenue from Fees Deducted from Participant Accounts	\$	2,222,921
Miscellaneous Credits	\$	52,643
Total Revenue/Fees	\$	2,925,710
STARTING BALANCE + REVENUE/FEES	\$	6,132,357
EXPENDITURES		
2130 Travel/Training/Education	\$	(21,581)
4160 Governmental Meetings	\$	-
6010 Office and Administrative	\$	-
7300 Office Furniture & Equipment	\$	(6,482)
Participant Administrative Fees Paid to Great-West	\$	(1,518,543)
Unforeseen Emergency Withdrawal Service	\$	(123,500)
Prior Quarter Departmental Staffing Reimbursements	\$	(564,975)
Travel/Training/Education - Transfer to Payroll Fee Trust Fund	\$	(27,000)
Consulting Costs	\$	(71,951)
Special Mailing/Marketing Expenses	\$	(8,253)
GWRS Quarterly Fees - Asset Allocation Fund Management	\$	(75,404)
Wells Fargo Custodial Fees	\$	(8,250)
TOTAL EXPENDITURES	\$	(2,425,939)
Actual Payroll Fee Trust Fund Ending Balance (12/31/12)	\$	18,441
Actual Administrative Fee Reserve Fund Ending Balance (12/31/12)	\$	2,628,075
ACTUAL TOTAL BALANCE AS OF 12/31/12	\$	3,706,418

ENCUMBRANCES/LIABILITIES		
Reimbursements: (Personnel: 3 Mos. Ending 9/30/12)	\$	(127,421)
Reimbursements: (City Attorney: 3 Mos. Ending 9/30/12)	\$	(16,554)
Reimbursements: (Personnel: 3 Mos. Ending 12/31/12)	\$	(125,468)
Reimbursements: (City Attorney: 3 Mos. Ending 12/31/12)	\$	(33,935)
TOTAL LIABILITIES	\$	(303,378)
ASSETS LESS EXPENDITURES/LIABILITIES		
	\$	3,403,040

Elections and Governance Changes – In 2012 only one change occurred in the membership of the Board. Michael Perez, the General Manager of Los Angeles Fire and Police Pensions retired on May 5th. He was replaced by William Raggio, who is the Interim General Manager of Los Angeles Fire and Police Pensions. Also as part of the election cycle, Eugene Canzano was reelected to his position representing active employee Plan participants who are members of the Water and Power Employees’ Retirement Plan and Cliff Cannon was reelected to his position representing retired employee Plan participants.

CONTRIBUTION RATES BY DEPARTMENT CODE - 2012								
Department Name	Eligible 1/12	Contrib. 1/12	Previous % Contrib.	Current Eligible 1/13	Current Contrib. 1/13	Current % Contrib.	% Difference	# Difference
AIRPORTS	3,282	1,590	48.45%	3,368	1,613	47.89%	(0.55%)	23
ANIMAL SERVICES	315	138	43.81%	299	132	44.15%	0.34%	(6)
AGING	39	26	66.67%	38	27	71.05%	4.39%	1
BUILDING & SAFETY	731	372	50.89%	739	376	50.88%	(0.01%)	4
CAO	102	73	71.57%	104	76	73.08%	1.51%	3
CITY ATTORNEY	847	499	58.91%	830	511	61.57%	2.65%	12
CITY CLERK	104	65	62.50%	100	66	66.00%	3.50%	1
CITY ETHICS	17	12	70.59%	19	12	63.16%	-7.43%	0
CDD	274	142	51.82%	265	133	50.19%	(1.64%)	(9)
COLISEUM	31	10	32.26%	28	10	35.71%	3.46%	0
CONTROLLER	152	115	75.66%	146	116	79.45%	3.79%	1
CONVENTION CENTER	113	65	57.52%	138	63	45.65%	(11.87%)	(2)
COUNCIL	321	82	25.55%	337	89	26.41%	0.86%	7
CULTURAL AFFAIRS	39	17	43.59%	46	20	43.48%	(0.11%)	3
DEPT ON DISABILITY	13	8	61.54%	15	7	46.67%	(14.87%)	(1)
DWP	9,001	5,707	63.40%	8,876	5,688	64.08%	0.68%	(19)
EL PBLO LA HIST MNT AUT	11	5	45.45%	16	5	31.25%	(14.20%)	0
EMERGENCY MGMT. DEPT	23	12	52.17%	22	14	63.64%	11.46%	2
EMPLOYEE RELATIONS	3	1	33.33%	3	1	33.33%	0.00%	0
FINANCE	358	208	58.10%	336	203	60.42%	2.32%	(5)
FIRE - FIREFIGHTERS	3,400	2,802	82.41%	3,168	2,707	85.45%	3.04%	(95)
FIRE CIVILIAN	303	158	52.15%	299	163	54.52%	2.37%	5
GENERAL SERVICES	1,687	763	45.23%	1,512	656	43.39%	(1.84%)	(107)
HARBOR	946	560	59.20%	949	586	61.75%	2.55%	26
HOUSING	545	296	54.31%	525	312	59.43%	5.12%	16
ITA	498	345	69.28%	475	325	68.42%	(0.86%)	(20)
LACERS	121	87	71.90%	124	89	71.77%	(0.13%)	2
LIBRARY	657	299	45.51%	951	311	32.70%	(12.81%)	12
MAYOR	179	32	17.88%	171	41	23.98%	6.10%	9
NEIGHBORHOOD EMPOWER.	19	13	68.42%	25	11	44.00%	(24.42%)	(2)
PENSIONS	109	65	59.63%	106	70	66.04%	6.40%	5
PERSONNEL C S 1	378	230	60.85%	429	294	68.53%	7.68%	64
PLANNING	231	141	61.04%	235	143	60.85%	(0.19%)	2
POLICE OFFICERS	9,924	7,641	77.00%	9,718	7,698	79.21%	2.22%	57
POLICE CIVILIAN	2,833	1,628	57.47%	2,880	1,735	60.24%	2.78%	107
PUBLIC WORKS	4,742	2,414	50.91%	4,513	2,362	52.34%	1.43%	(52)
RECREATION & PARKS	1,453	631	43.43%	2,955	623	21.08%	(22.34%)	(8)
TRANSPORTATION	1,356	748	55.16%	1,494	723	48.39%	(6.77%)	(25)
LOS ANGELES ZOO	205	80	39.02%	225	86	38.22%	(0.80%)	6
TOTALS-->	45,362	28,080	61.90%	46,479	28,097	60.45%	(1.45%)	17

*Note – the overall participation rate (70%) is higher than the contribution rate because participants periodically suspend their contributions.