

BOARD OF DEFERRED
COMPENSATION
ADMINISTRATION

SHELLEY SMITH
CHAIRPERSON

JOYA C. DE FOOR
VICE-CHAIRPERSON

SGT. THOMAS A. DAWSON, Ph.D.
RICHARD KRAUS
BETTY J. PORTER
JAVIER ROMERO
MARGARET M. WHELAN

DEFERRED COMPENSATION PLAN BOARD REPORT 05-10



Date: April 5, 2005
To: Board of Deferred Compensation Administration
From: Staff
Subject: Deferred Compensation Plan Annual Report

Recommendation:

That the Board of Deferred Compensation Administration approve the draft 2004 annual report for the City of Los Angeles Deferred Compensation Plan.

Discussion:

Submitted for the Board's approval is a draft annual report for the Deferred Compensation Plan. Once approved, in keeping with prior years, copies will be distributed to all elected officials and employee organizations.

Submitted by: _____
Steven Montagna

Approved by: _____
Maryanne Keehn

DEFERRED COMPENSATION PLAN

ANNUAL REPORT

BOARD OF DEFERRED COMPENSATION ADMINISTRATION

2004

ELECTED OFFICIALS

of the
**CITY OF LOS ANGELES
CALIFORNIA**

JAMES K. HAHN
MAYOR

ROCKARD J. DELGADILLO
CITY ATTORNEY

LAURA CHICK
CONTROLLER

MEMBERS OF THE CITY COUNCIL

ALEX PADILLA
PRESIDENT
SEVENTH DISTRICT

CYNTHIA MISCIKOWSKI
PRESIDENT PRO TEMPORE
ELEVENTH DISTRICT

ERIC GARCETTI
ASSISTANT PRESIDENT PRO TEMPORE
THIRTEENTH DISTRICT

ED REYES
First District

WENDY GREUEL
Second District

DENNIS P. ZINE
Third District

TOM LABONGE
Fourth District

JACK WEISS
Fifth District

TONY CARDENAS
Sixth District

BERNARD PARKS
Eighth District

JAN PERRY
Ninth District

MARTIN LUDLOW
Tenth District

GRIEG SMITH
Twelfth District

ANTONIO VILLARAIGOSA
Fourteenth District

JANICE HAHN
Fifteenth District

**BOARD OF
DEFERRED COMPENSATION
ADMINISTRATION**

for the

**CITY OF LOS ANGELES
DEFERRED COMPENSATION PLAN**

SHELLEY I. SMITH

Chairperson

Representing the City Employees' Retirement System

JOYA C. DE FOOR

Vice-Chairperson

City Treasurer

SGT. THOMAS A. DAWSON, Ph.D.

Representing Fire & Police Pension System

RICHARD M. KRAUS

Certified Organized Labor Representative

BETTY J. PORTER

Representing Retired Plan Participants

JAVIER ROMERO

Representing Department of Water and Power Retirement Plan Board

MARGARET M. WHELAN

General Manager Personnel Department

CITY OF LOS ANGELES
CALIFORNIA

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

SHELLEY SMITH
CHAIRPERSON
JOYA C. DE FOOR
VICE-CHAIRPERSON
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SGT. THOMAS A. DAWSON, Ph.D.
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BOARD OF DEFERRED COMPENSATION ADMINISTRATION



JAMES K. HAHN
MAYOR

April 25, 2005

The Honorable James K. Hahn, 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 2004. The past year was one of consolidation and added investment gains coming off the bear market recovery year of 2003. Plan assets ended the year at the highest level ever recorded for the Plan. Plan participants also took more positive steps towards broader diversification of their assets, improving the overall asset allocation markedly vs. 2003.

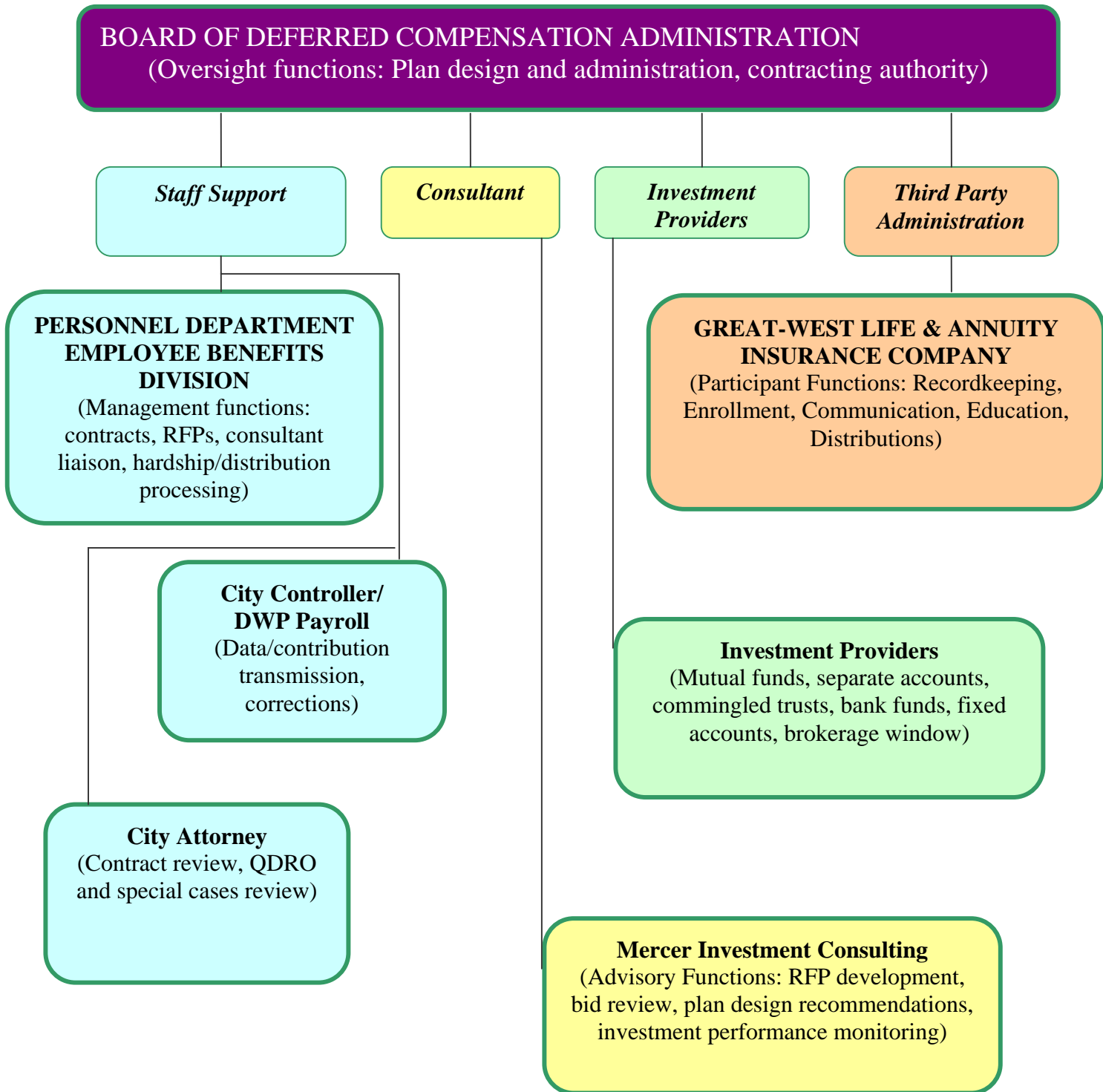
For yet another year, participation also increased to record levels. Introduction of a new loan program for the City's Plan was helpful, as many participants took advantage of this new feature to help achieve other financial objectives such as home purchase or debt consolidation.

Despite recent controversies, the City's Plan continues to be popular with participants and a model of user-friendly, cost-effective administration. In 2005 the Board will be eager to work together with elected officials to maximize the benefit of the Plan to its participants.

Respectfully submitted,

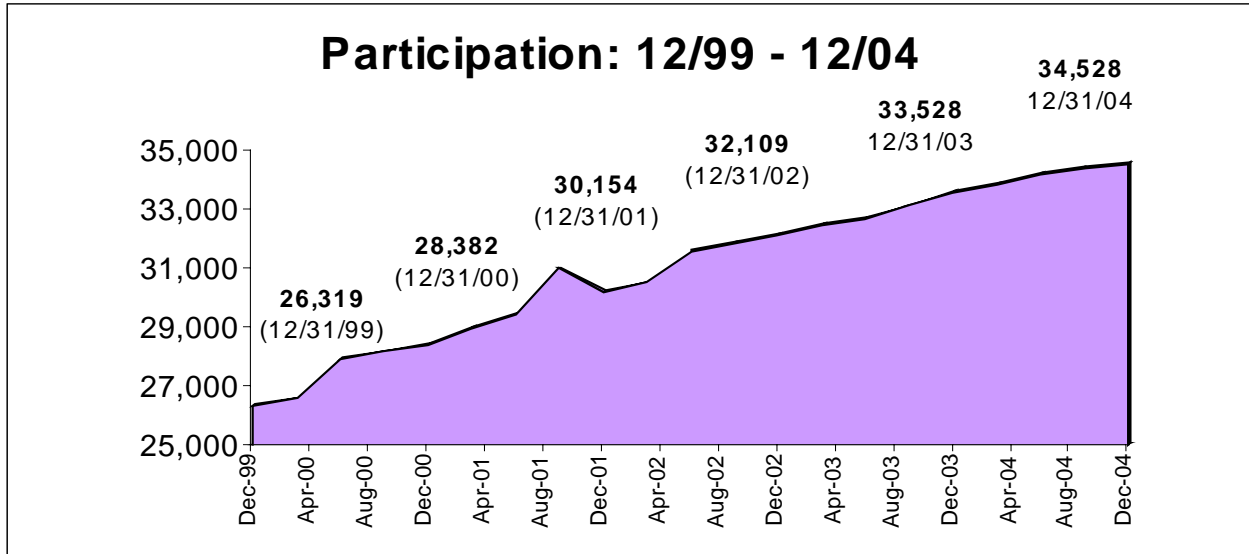
Shelley I. Smith, Chairperson
Board of Deferred Compensation Administration

DEFERRED COMPENSATION PLAN ADMINISTRATIVE STRUCTURE



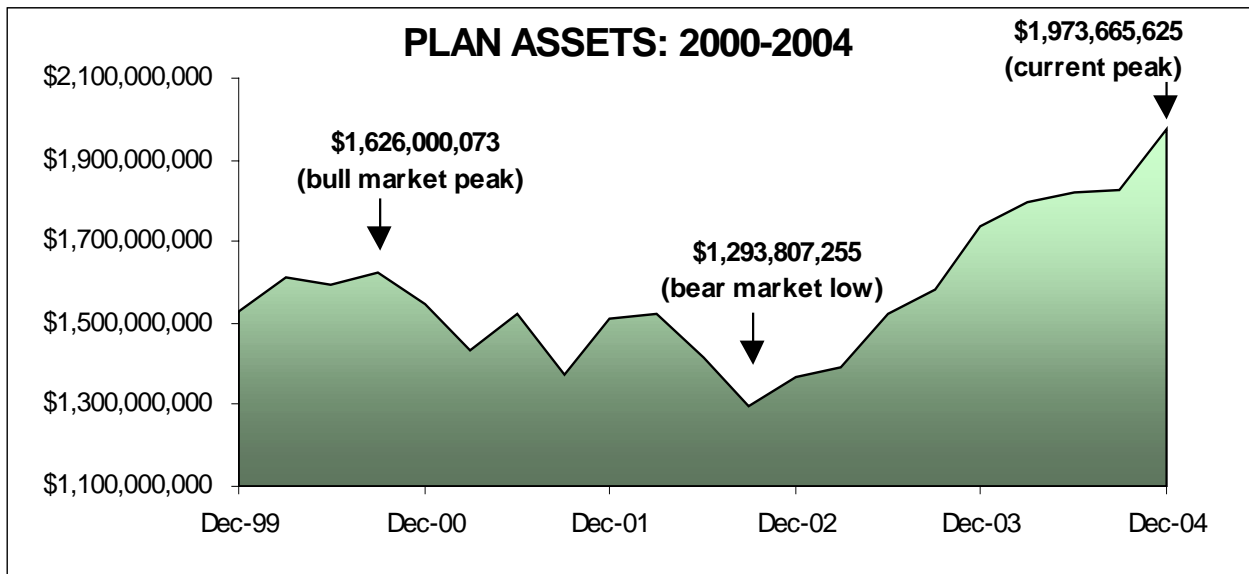
ACTIVITIES & STATISTICS

Participation - As of December 31, 2004, the City's Plan had a total of 34,528 participant accounts, a 2.9% increase from the prior year. Great-West recorded 1,887 new enrollments during this period. The total number of contributing participants represents 59.3% of the eligible employee population, up from the prior-year percentage of 56.7% (a complete breakdown of departmental participation rates is provided as an Appendix to this report). The chart below shows total enrollment



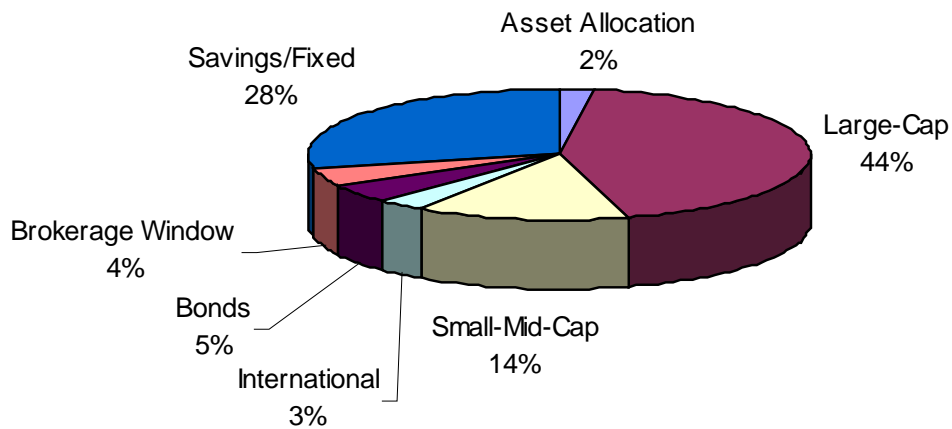
levels from 1999 through 2004:

Plan Assets - Year-end total Plan assets were \$1,973,665,625, vs. \$1,737,260,679 at year-end 2003. This is the highest asset total ever recorded for the City's Plan and reflects increasing contributions as well as modest returns in the equity markets in 2004. The previous asset total peak occurred in 2000, shortly before the '00-'02 bear market.

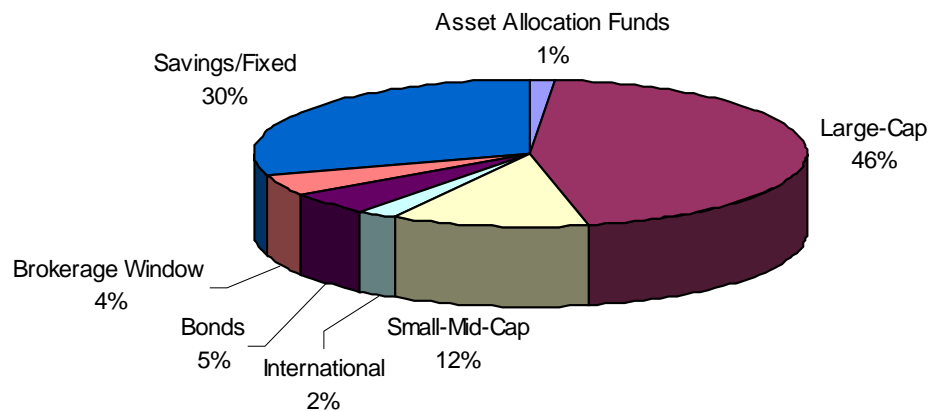


Asset Allocation – The Plan’s overall asset allocation broadened in 2004, a sign that Plan participants are achieving broader diversification within their portfolios. As the graph comparison of 2004 vs. 2003 indicates, the largest pieces of the City’s portfolio pie, Large-Cap Stocks and Savings/Fixed, both declined by a cumulative 4%. Growth occurred in the Small-Cap and International categories. Additionally encouraging was the doubling of the Asset Allocation segment from 1% to 2%.

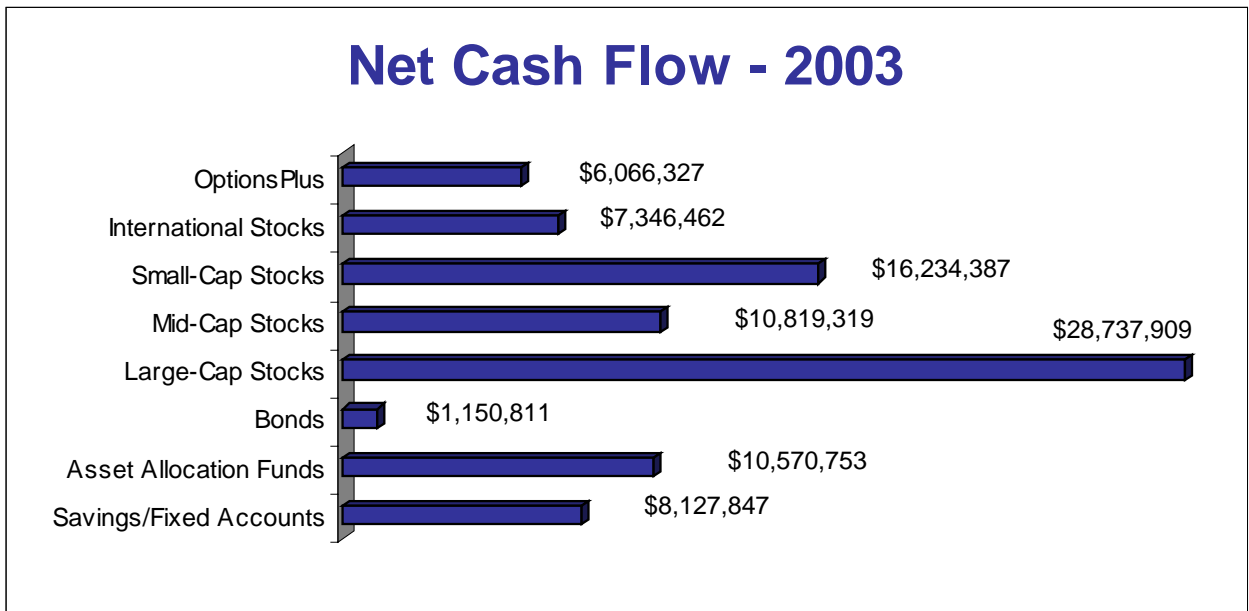
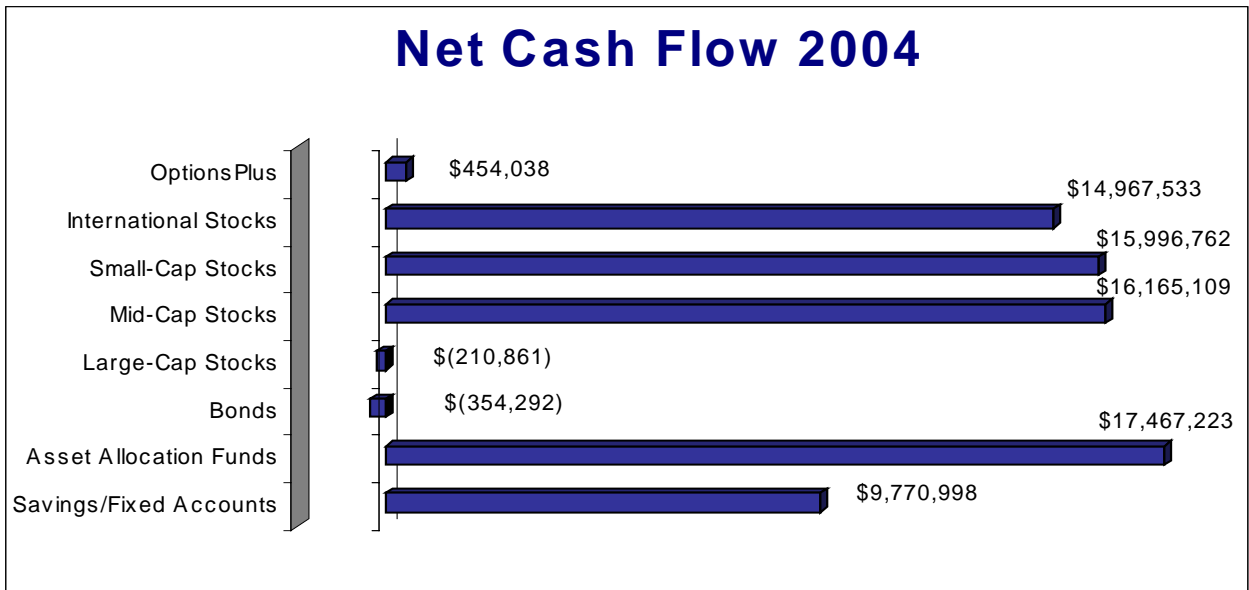
2004 Plan Assets Breakdown



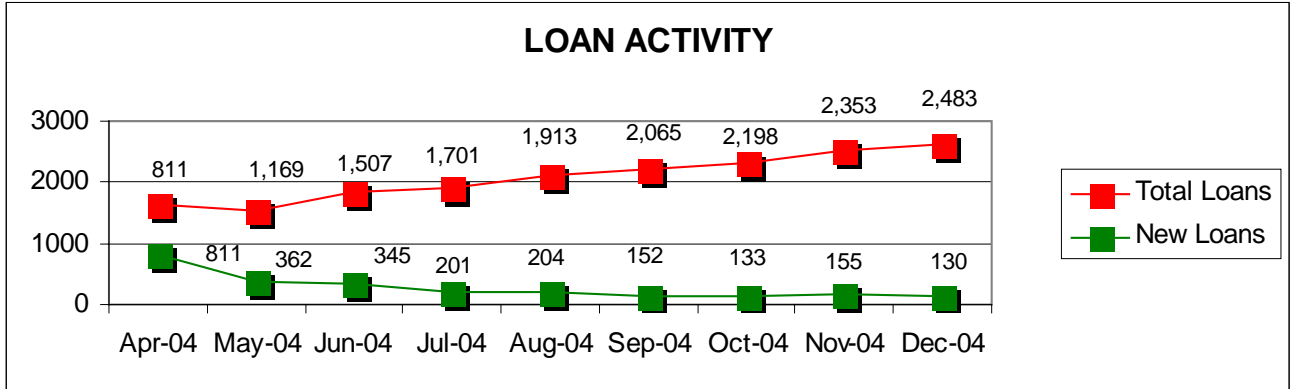
2003 Plan Assets Breakdown



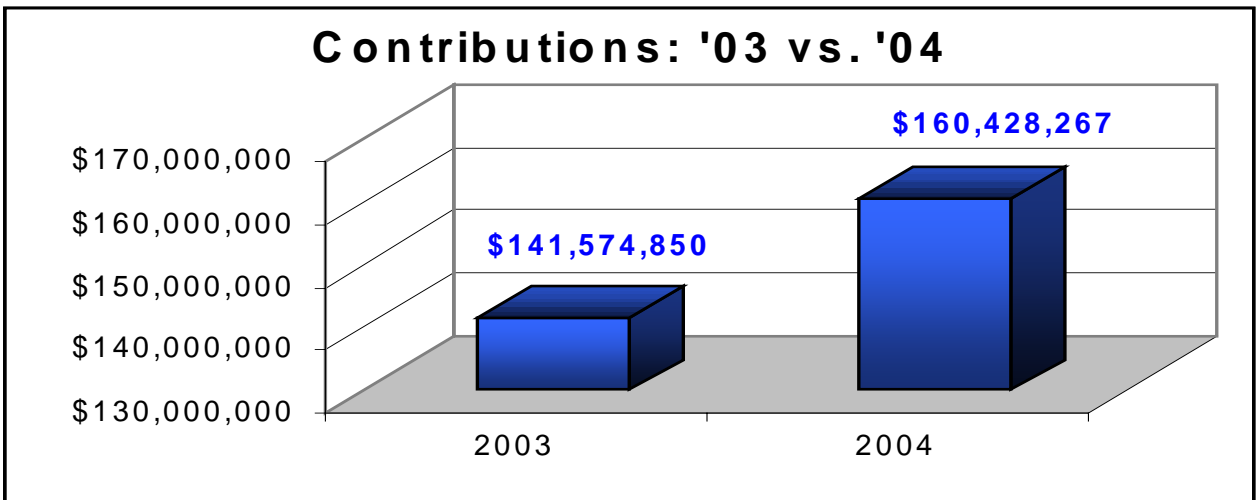
Net Cash Flows – Another promising indicator with respect to diversification was a dramatic change in 2004 with respect to cash flows. The charts below effectively indicate where participants are directing new money. In 2004 the Plan’s Asset Allocation Funds, for the first time, attracted more new money than any other category. In addition, International Stocks, Small-Cap Stocks and Mid-Cap Stocks all experienced strong positive cash flows as participants shifted money out of Large-Cap Stocks. All of these are strong indicators of growing diversification within the Plan and the success of the local outreach and education effort which has encouraged participants to strive for diversity in their investments.



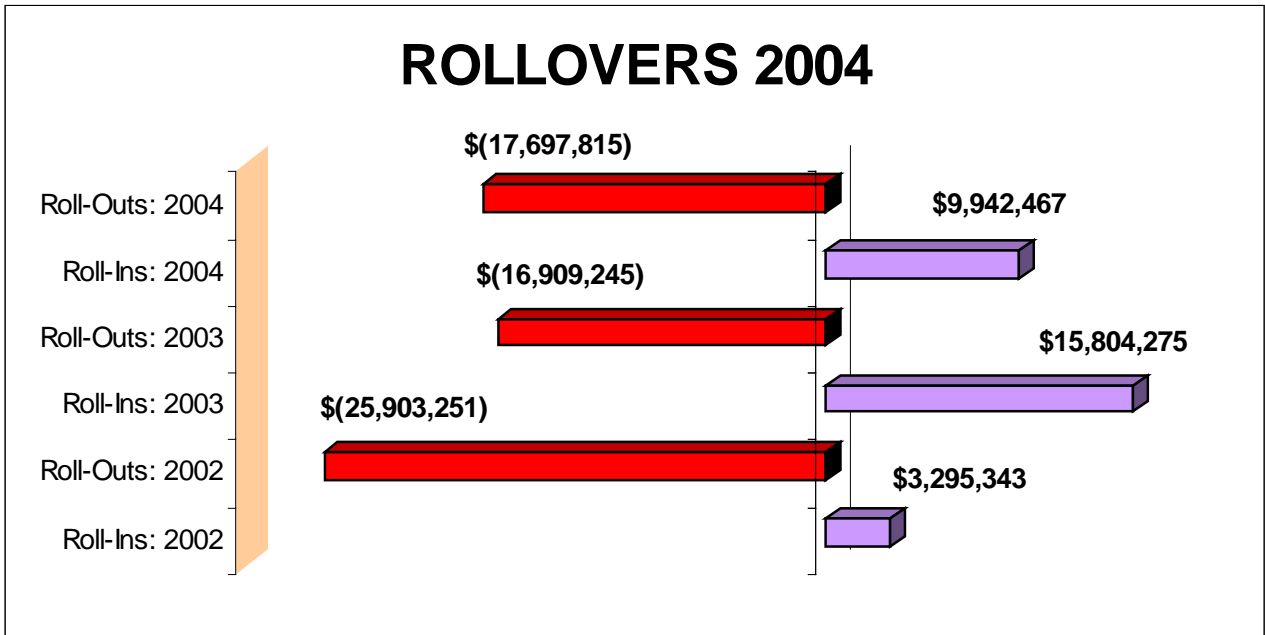
Loan Program – In 2003 new federal regulations were issued providing Section 457 plans with the opportunity to implement loan programs. The City’s Plan introduced its loan program April 1, 2004. There was significant interest in the loan program from inception, with the number of new loans rising steadily in the first eight months to close the year at 2,483, or 9.5% of all participants. However, the percentage of Plan assets loaned out is very small relative to the Plan as a whole – \$34.4 million, or just 1.7% of total Plan assets.



Contributions – Salary deferrals rose 13% in 2004 as participants took advantage of another year of higher annual limits. Cumulative salary deferrals were \$160 million. Both 2005 and 2006 will see further \$1,000 increases in the limits for regular annual deferrals, age-50 Catch-up and Traditional Catch-up. 2006 will be the final year for the phased-in increases provided for under 2001 federal tax legislation.

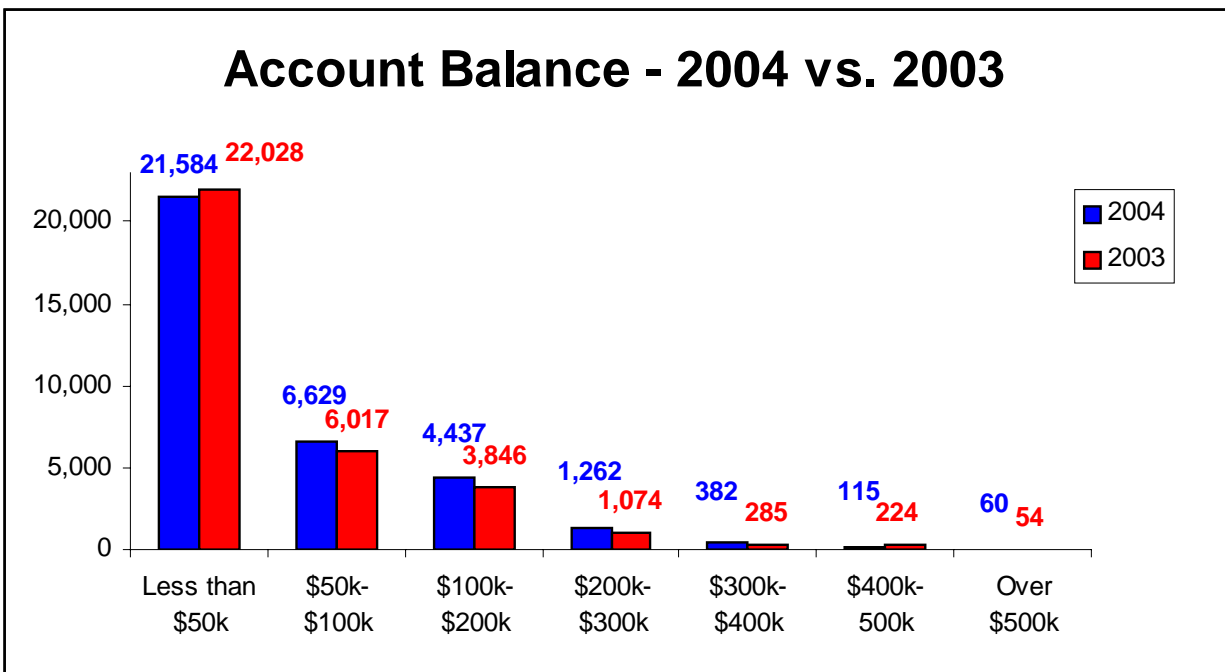


Rollovers – Of all Plan rollovers, approximately 2/3 were rolled out of the Plan while 1/3 rolled in. However, overall the City lost very little in Plan assets to rollovers – on a net basis, less than half a percent of total Plan

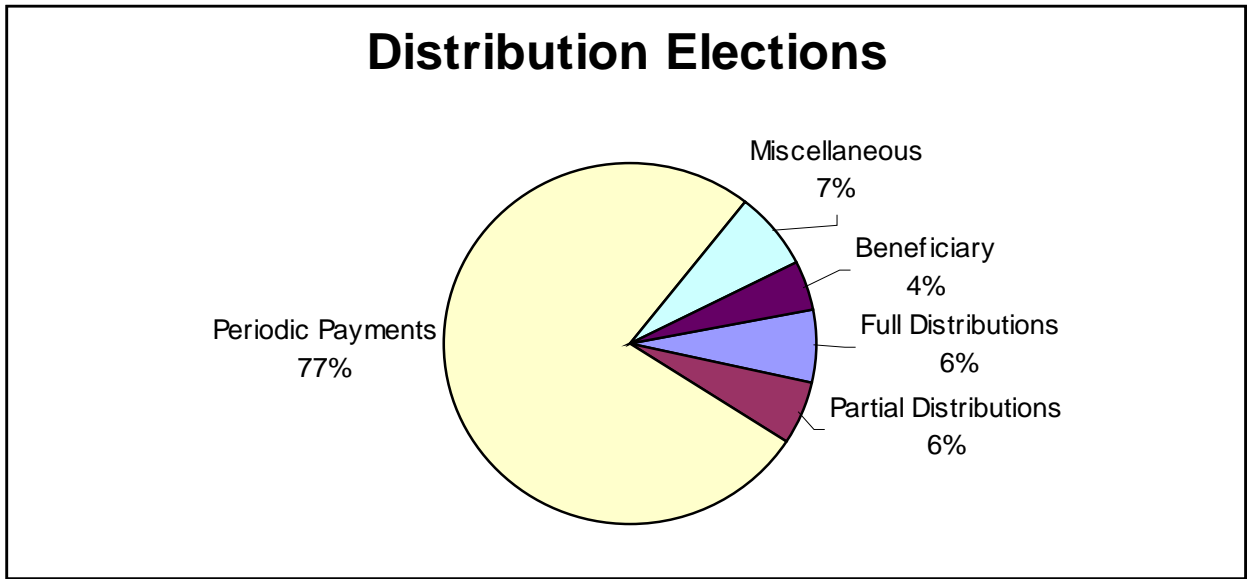


assets.

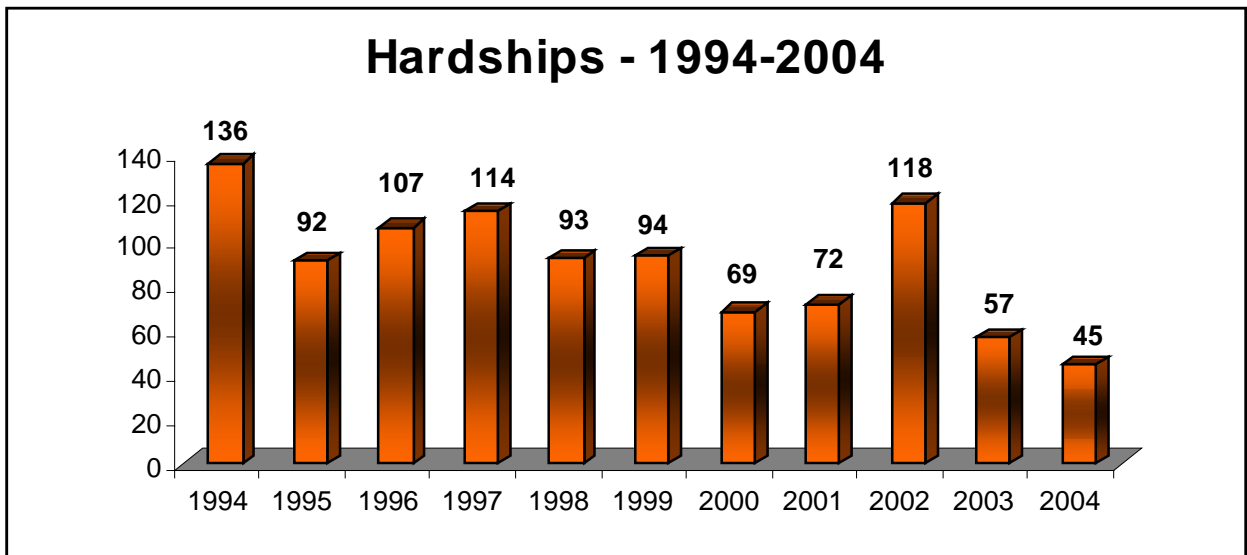
Plan Assets by Participant/Balance Levels – The graph below breaks down Plan assets by the number of participants at particular balance levels. Relative to the prior year, the number of participants with less than \$50,000 shrank slightly while all other categories grew, an indication of continued rising account values.



Distributions - The table below breaks down distribution elections by type. As the chart indicates, the vast majority of participants elect some type of periodic payment.



Hardships - Staff processed 45 hardship applications in 2004, down from 57 the prior year (the decline is the result of introducing the loan program). Of these, 40 were approved and 5 were denied. The graph below indicates the number of hardship applications reviewed by the Board from 1994 through 2004.



Performance Returns – As a whole, the overall participant return for all Plan assets in 2004 was **7.95%**. The following table provides performance summary returns for the Plan for calendar year 2004 as well as three, five and ten year periods:

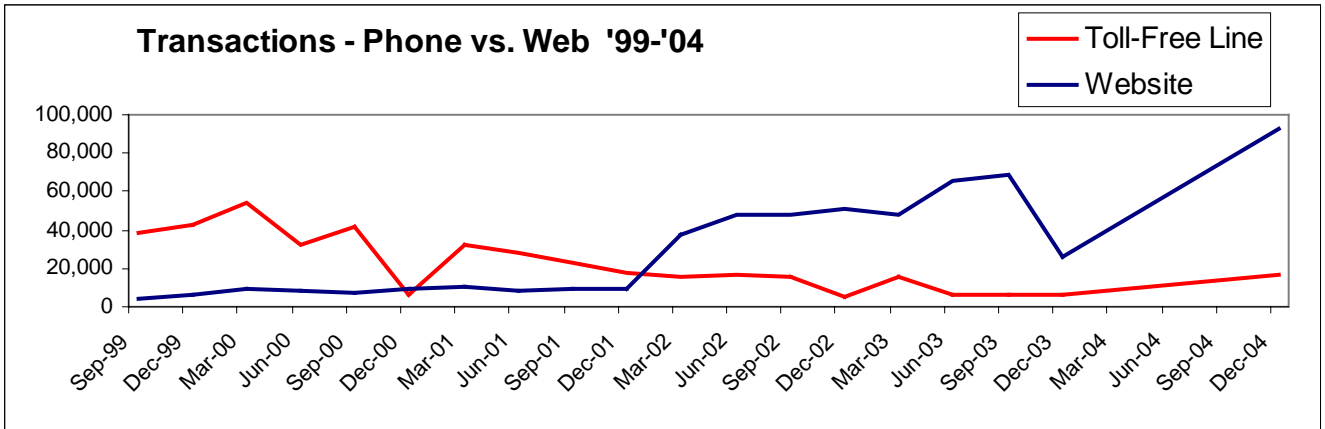
SAVINGS ACCOUNTS	Annualized Yield for Quarter				
	12/31/2004	9/30/2004	6/30/2004	3/31/2004	
Washington Mutual Liquid Account	1.08%	0.66%	0.28%	0.32%	
1-yr CD	1.58%	1.76%	0.55%	0.71%	
2-yr CD	2.10%	2.49%	1.09%	1.42%	
3-yr CD	2.90%	3.04%	1.60%	2.05%	
4-yr CD	2.84%	3.43%	2.03%	2.60%	
5-yr CD	3.18%	3.82%	2.47%	2.99%	
FIXED ACCOUNTS	Average Annualized Returns				
	1 Year	3 Years	5 Years	10 Years	Since Inception
Galliard Stable Value Fund	4.15%	4.79%	5.40%	5.81%	6.88%
	<i>Declared New Money Rates Only</i>				
	12/31/2004	9/30/2004	6/30/2004	3/31/2004	
Hartford General Account	4.45%	4.45%	4.45%	4.45%	n/a
STOCK & BOND FUNDS	Average Annualized Returns				
	1 Year	3 Years	5 Years	10 Years	Since Inception
BONDS					
MSIF Fixed Income Fund INST	4.62%	5.63%	7.59%	7.93%	9.29%
Vanguard Total Bond Market Index Fund	4.36%	5.63%	7.35%	n/a	6.71%
BALANCED					
Hartford Advisers HLS	3.85%	2.05%	0.16%	10.03%	n/a
LARGE-CAP STOCKS					
Hartford Stock HLS	4.27%	0.03%	-3.93%	11.16%	n/a
Investment Company of America	9.78%	5.85%	3.28%	13.04%	n/a
Fidelity Magellan Fund	7.49%	0.80%	-3.87%	10.16%	19.01%
Growth Fund of America	11.95%	5.08%	1.81%	14.79%	15.62%
Capital Guardian U.S. Equity Fund	9.48%	n/a	n/a	n/a	N/a
Vanguard Institutional Index Fund	10.87%	3.61%	-2.26%	12.13%	11.21%
MID-CAP STOCKS					
Hartford Capital Appreciation HLS	19.48%	11.03%	7.64%	16.06%	n/a
SMALL-CAP STOCKS					
Lotsoff Small Capital Equity	38.07%	n/a	n/a	n/a	n/a
State Street Russell 2000 Index Trust Fund C	18.04%	10.93%	n/a	n/a	8.86%
INTERNATIONAL STOCKS					
Fidelity Diversified International Fund	19.66%	15.58%	4.11%	13.00%	11.39%
Scudder EAFE Equity Index Fund	19.42%	10.75%	-2.06%	n/a	4.74%
PROFILE PORTFOLIOS					
Conservative	7.42%	n/a	n/a	n/a	6.44%
Moderate	9.84%	n/a	n/a	n/a	7.20%
Aggressive	11.92%	n/a	n/a	n/a	7.78%

Administrative Fee Trust Fund - The Deferred Compensation Plan Administrative Fee Trust Fund ended 2004 with a surplus of \$288,862, a slight increase from the prior-year balance of \$278,019. An activity summary follows:

ADMINISTRATIVE FEE TRUST FUND			
CALENDAR YEAR-ENDING 12/31/04			
	<u>2004</u>	<u>2003</u>	<u>2002</u>
REVENUES/FEES			
Prior Year-End Balance	\$ 330,720	\$ 335,630	\$ 376,919
Total City Admin Fees	\$ 273,017	\$ 258,270	\$ 249,109
Total DWP Admin Fees	\$ 57,654	\$ 53,934	\$ 50,122
Total Interest Earned	\$ 11,566	\$ 16,332	\$ 15,349
TOTAL REVENUE/FEES	\$ 672,957	\$ 664,165	\$ 691,498
EXPENDITURES			
Reimbursements to Treasurer/Personnel	\$ (100,865)	\$ (226,931)	\$ (196,452)
Contractual Services	\$ (118,201)	\$ (42,488)	\$ (139,561)
NAGDCA/Education	\$ (14,082)	\$ (18,951)	\$ (15,727)
Office & Admin	\$ (1,845)	\$ (6,475)	\$ (4,130)
Auditor	\$ -	\$ (38,600)	\$ -
TOTAL EXPENDITURES	\$ (234,993)	\$ (333,445)	\$ (355,869)
ACTUAL BALANCE AS OF YEAR-END	\$ 437,964	\$ 330,720	\$ 335,630
ENCUMBRANCES/LIABILITIES			
Reimbursements to Treasurer/Personnel	\$ (149,102)	\$ (52,701)	\$ (89,693)
TOTAL LIABILITIES	\$ (149,102)	\$ (52,701)	\$ (89,693)
REVENUES LESS EXPENDITURES/LIABILITIES	\$ 288,862	\$ 278,019	\$ 245,936

Plan Services Statistics – The following table breaks out primary Plan services statistics (e.g. phone calls, web hits, local calls, etc.) for 2004, while the graph which follows illustrates how Plan participants have, since 1999, utilized the “Keytalk” phone line vs. the Plan website for account inquiries/transactions. As the graph indicates, web usage increased sharply in 2004:

Plan Services Statistics - 2004	1Q '04	2Q '04	3Q '04	4Q '04	Total
"Keytalk" (transactional toll-free line)	6,309	9,862	12,120	16,548	44,839
Website Transactions	98,047	85,381	69,128	92,921	345,477
L.A. Service Center (local staff toll-free line)	13,570	7,817	12,631	14,660	48,678
Walk-ins	623	507	487	545	2,162
Number of Meetings	34	39	29	40	142
Attendance at Meetings	698	1,086	1,091	751	3,626
Enrollments	581	542	393	344	1,860



Conclusion

2004 proved to be another broadly successful year for Plan participants and the Plan as a whole. Growing enrollment, diversification and account values all point to continued excellence in the City's Plan.

DEFERRED COMPENSATION PLAN CONTRIBUTION RATES BY DEPARTMENT - 2005

Department Name	Current Eligible 1/04	Previous Contrib 1/04	Previous % Contrib 1/04	Current Eligible 1/05	Current Contrib. 1/05	Current % Contrib. 1/05	% Difference	# Difference
AIRPORTS	2,823	1,074	38.0%	2,881	1,217	42.2%	4.20%	143
ANIMAL SERVICES	266	123	46.2%	254	123	48.4%	2.18%	0
AGING	61	36	59.0%	52	35	67.3%	8.29%	(1)
BUILDING & SAFETY	737	369	50.1%	838	435	51.9%	1.84%	66
CITY ADMIN OFFICER	122	82	67.2%	116	82	70.7%	3.48%	0
STATUS OF WOMEN	13	6	46.2%	12	8	66.7%	20.51%	2
CITY ATTORNEY	1,005	544	54.1%	960	541	56.4%	2.22%	(3)
EMERGENCY PREPAREDNESS	15	12	80.0%	15	12	80.0%	0.00%	0
CITY CLERK	152	90	59.2%	147	87	59.2%	(0.03%)	(3)
RETIREMENT SYSTEM	101	58	57.4%	107	70	65.4%	7.99%	12
CDD	356	203	57.0%	351	207	59.0%	1.95%	4
PERSONNEL	397	258	65.0%	410	273	66.6%	1.60%	15
DEPT ON DISABILITY	23	7	30.4%	20	11	55.0%	24.57%	4
COLISEUM	2	2	100.0%	2	2	100.0%	0.00%	0
COMM ON CHILD & YOUTH	17	5	29.4%	12	4	33.3%	3.92%	(1)
CULTURAL AFFAIRS	73	38	52.1%	64	35	54.7%	2.63%	(3)
CONTROLLER	176	129	73.3%	167	125	74.9%	1.55%	(4)
ITA	740	492	66.5%	726	510	70.2%	3.76%	18
COUNCIL	331	67	20.2%	340	82	24.1%	3.88%	15
EMPLOYEE RELATIONS	3	1	33.3%	3	1	33.3%	0.00%	0
FIRE - SWORN	3,405	2,732	80.2%	3,495	2,877	82.3%	2.08%	145
FIRE - CIVILIAN	310	156	50.3%	310	167	53.9%	3.55%	11
HARBOR	614	304	49.5%	642	323	50.3%	0.80%	19
GENERAL SERVICES	1,962	774	39.4%	1,986	833	41.9%	2.49%	59
LIBRARY	1,138	293	25.7%	1,143	326	28.5%	2.77%	33
MAYOR	143	42	29.4%	131	38	29.0%	(0.36%)	(4)
ENVIRONMENTAL AFFAIRS	33	21	63.6%	30	18	60.0%	(3.64%)	(3)

HOUSING	453	248	54.7%	440	259	53.8%	(0.90%)	11
L A CONVENTION CENTER	156	81	51.9%	159	85	53.5%	1.54%	4
EL PBLO LA HIST MNT AUT	33	8	24.2%	14	8	57.1%	32.90%	0
PLANNING	253	148	58.5%	269	165	61.3%	2.84%	17
POLICE - SWORN	9,037	6,944	76.8%	8,968	7,027	78.4%	1.52%	83
POLICE - CIVILIAN	3,094	1,544	49.9%	2,953	1,628	55.1%	5.23%	84
NEIGHBORHOOD EMPOWERMENT	48	20	41.7%	44	22	50.0%	8.33%	2
HUMAN RELATIONS COMM	11	6	54.5%	11	7	63.6%	9.09%	1
FIRE POLICE PEN	84	51	60.7%	83	50	60.2%	(0.47%)	(1)
PUBLIC WORKS	4,823	2,328	48.3%	4,802	2,463	51.3%	3.02%	135
RECREATION & PARKS	1,753	523	29.8%	1,686	514	30.5%	0.65%	(9)
TRANSPORTATION	1,500	804	53.6%	1,489	832	55.9%	2.28%	28
TREASURER	356	222	62.4%	359	243	67.7%	5.33%	21
LOS ANGELES ZOO	212	77	36.3%	205	80	39.0%	2.70%	3
DWP	8,010	4,500	56.2%	7,870	4,603	58.5%	2.31%	103
TOTALS---->	44,841	25,422	56.7%	44,566	26,428	59.3%	2.61%	1,006