

# DEFERRED COMPENSATION PLAN BOARD REPORT 10-43

Date: December 1, 2010  
To: Board of Deferred Compensation Administration  
From: Staff  
Subject: 2011 Deferred Compensation Plan Budget

Members

*Eugene K. Canzano, Chairperson  
Richard Kraus, Vice-Chairperson  
Sangeeta Bhatia  
Cliff Cannon  
Tom Moutes  
John R. Mumma  
Michael Perez  
Robert Schoonover  
Maggie Whelan*

Recommendation:

That the Board of Deferred Compensation Administration adopt staff's proposed budget for the 2011 calendar year.

Discussion:

Staff is recommending that the Board adopt a budget for the Plan's 2011 calendar year. 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 immediate time period, as opposed to the more generalized five-year forecasts incorporated in the quarterly reconciliations.

In 2007 the Board adopted a revised fee structure intended to gradually reduce the surplus in the Plan's reserve accounts. There are two reserve accounts: one held with the Plan Administrator, Great-West Retirement Services (GWRS), and the other held with the City. Both of these accounts hold excess fee revenue. The Board's objective was to reduce fees on a schedule that would maintain a target surplus of approximately \$1.5 million over time.

For 2011, staff is projecting that the Plan's surplus will remain flat at approximately \$3.3 million. The surplus is not expected to decline this year, primarily due to salary savings. For example, where our quarterly report five-year projections assume the position authorities of a Management Analyst II as well as a Benefits Specialist, these positions are currently filled by the lower paying classification(s) of a Management Assistant and Clerk Typist.

A summary of projected revenues and expenses is attached to this report. Please note the following regarding the assumptions included therein:

- *Administrative Fee Revenue* – Projections for administrative fee revenue (amounts collected from participant accounts) reflect the increase in Plan assets, which have moved from a recent low of \$2.75 billion in June 2010 to approximately \$3.03 billion as of November 2010, with a one-year Plan assets growth-rate assumption of 9.0%. The actual growth-rate in 2009 was 19.4% and the growth-rate for 2010 (year-to-date) is 6.8%.
- *Interest* – Staff projects a 3.5% rate of return, which coincides with the current rate of return for the Plan's Stable Value Fund (where the reserve assets are invested).

- *Participant Administrative Fees Owed to Great-West* – Given current budget conditions and reduced hiring, we’re assuming that the average number of participants in 2011 will be 40,299, or an amount consistent with a flat annual participant growth rate.
- *Estimated Personnel Department Reimbursements* – Assumes that direct salary and indirect related costs for the two incumbent positions (Management Analyst II and Benefits Specialist) will remain occupied in calendar year 2011 by a Management Assistant and a Clerk Typist respectively. Should either or both of the positions become filled by a higher classification (i.e. Management Analyst II and/or Benefits Specialist respectively), the actual costs would exceed staff’s forecast.
- *Estimated City Attorney Reimbursements* - Includes direct salary and indirect related costs, specific information regarding current salary levels, and the projected reduction of salary expenses due to furloughs for the two City Attorney positions supporting the Plan.

At the November 9, 2010 Plan Governance Committee meeting, there was discussion regarding setting aside certain funding for use of outside legal counsel. Staff has not incorporated this into the budget because the Board has not had an opportunity to discuss and reach a policy position on this concept.

- *Estimated Consulting Costs* – The Mercer contract is a three-year agreement totaling \$450,000, which equates to an annual expenditure of \$150,000. However, as indicated in a separate report, consulting costs related to procurement processes conducted in 2011 might increase this expenditure by as much as \$175,000. A number of decisions related to this topic are yet to be resolved. This represents a maximum expenditure, and actual costs may end up being significantly below this amount.
- *Travel/Training/Education* – Per Board report 08-12, an annual travel/training/education budget of \$50,000 was established and adopted by the Board in April 2008 that included an upward adjustment of 2% each calendar year. An amount of \$54,105 was calculated for calendar year 2011.
- *Governmental Meetings* – This includes all incidental costs tailored for special Board meetings. A nominal amount has been budgeted, but no specific expenditures are expected at this time.
- *Office and Administrative* – This expense is generally utilized for unique supplies. A nominal amount has been budgeted, but no specific expenditures are expected at this time.
- *Office Furniture and Equipment* – This category is primarily used for computer equipment; the amount represents an estimate of costs for computer and software upgrades.

- *GWRS Asset Allocation Fund Management* – This category reflects the \$6,000 per fund fee for each of the Plan’s five asset allocation funds and the FDIC-Insured Savings Option.
- *GWRS Hardship Administration* – In 2009, the total number of hardships processed was 324. As of 3<sup>rd</sup> Quarter of 2010, the total number of hardships processed has been 306. Therefore, staff is estimating 400 hardship cases will be processed next year at a cost of \$250 per completed case.
- *Elections Administration* – This amount reflects the estimated costs of administering the elections for the Fire/Police Pensions representative and Los Angeles City Employees Retirement System representative in 2011.

Submitted by: \_\_\_\_\_  
Natasha Gameroz

Reviewed by: \_\_\_\_\_  
Steven Montagna

Approved by: \_\_\_\_\_  
Alejandrina Basquez

<b>DEFERRED COMPENSATION PLAN</b>		
<b>PROJECTED REVENUES/EXPENDITURES</b>		
<b>01/01/11-12/31/11</b>		
<b>REVENUES</b>		
Estimated Annual Administrative Fee Revenue	\$	2,712,396
Estimated Interest Earnings	\$	115,213
Total Revenue	\$	<b>2,827,609</b>
<b>EXPENDITURES</b>		
Participant Administrative Fees Owed to Great-West	\$	(1,601,885)
Estimated Personnel Department Reimbursements	\$	(572,390)
Estimated City Attorney Reimbursements	\$	(127,108)
Estimated Consulting Costs	\$	(325,000)
2130 Travel/Training/Education	\$	(54,105)
4160 Governmental Meetings	\$	(500)
6010 Office and Administrative	\$	(500)
7300 Office Furniture & Equipment	\$	(7,500)
GWRS Asset Allocation Fund Management	\$	(36,000)
GWRS Hardship Administration	\$	(100,000)
Elections Administration	\$	(20,000)
TOTAL ESTIMATED EXPENDITURES	\$	<b>(2,844,988)</b>
Annual Revenues Less Annual Expenditures	\$	<b>(17,379)</b>
<b>TRUST FUND SUMMARY</b>		
Estimated Starting Trust Fund Balance on 1/1/11	\$	<b>3,279,990</b>
Estimated 2011 Revenues	\$	<b>2,827,609</b>
Estimated 2011 Expenditures	\$	<b>(2,844,988)</b>
Estimated Closing Trust Fund Balance on 12/31/11	\$	<b>3,262,611</b>