

# Deferred Compensation Plan BOARD REPORT 12-38

Date: July 5, 2012  
To: Board of Deferred Compensation Administration  
From: Staff  
Subject: 2011 Deferred Compensation Plan Annual Report

*Board of Deferred  
Compensation Administration  
Eugene K. Canzano, Chairperson  
John R. Mumma, Vice-Chairperson  
Cliff Cannon, First Provisional Chair  
Tom Moutes, Second Provisional Chair  
Sangeeta Bhatia, Third Provisional Chair  
Michael Amerian  
William Raggio  
Robert Schoonover  
Margaret M. Whelan*

Recommendation:

That the Board of Deferred Compensation Administration approve staff's draft 2011 Annual Report for the City's Deferred Compensation Plan.

Discussion:

Pursuant to Division 4, Chapter 14 of the City of Los Angeles Administrative Code, the Board is required to report annually to the City Council on the administration and financial condition of the Plan. This takes the form of an annual report, a draft of which is attached to this report.

Staff has updated this report to include certain data which was part of the Board's January 2012 training event providing demographic comparisons of the Deferred Compensation Plan to the City's three defined benefit plans. Staff has also added a summary of significant achievements in 2011.

Upon adoption, this report will be transmitted to the City's elected officials. The report is also provided to the City's labor organizations.

Submitted by: \_\_\_\_\_  
Steven Montagna

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

# CITY OF LOS ANGELES



## **DEFERRED COMPENSATION PLAN**

**ANNUAL REPORT**

**BOARD OF DEFERRED COMPENSATION ADMINISTRATION**

**2011**

# **ELECTED OFFICIALS**

of the  
**CITY OF LOS ANGELES**  
**CALIFORNIA**

**ANTONIO R. VILLARAIGOSA**  
MAYOR

**CARMEN A. TRUTANICH**  
CITY ATTORNEY

**WENDY GREUEL**  
CONTROLLER

## **MEMBERS OF THE CITY COUNCIL**

**HERB J. WESSON, JR.**  
PRESIDENT  
TENTH DISTRICT

**ED P. REYES**  
PRESIDENT PRO TEMPORE  
FIRST DISTRICT

**TOM LABONGE**  
ASSISTANT PRESIDENT PRO TEMPORE  
FOURTH DISTRICT

**PAUL KREKORIAN**  
Second District

**DENNIS P. ZINE**  
Third District

**PAUL KORETZ**  
Fifth District

**TONY CARDENAS**  
Sixth District

**RICHARD ALARCON**  
Seventh District

**BERNARD PARKS**  
Eighth District

**JAN PERRY**  
Ninth District

**BILL ROSENDAHL**  
Eleventh District

**MITCHELL ENGLANDER**  
Twelfth District

**ERIC GARCETTI**  
Thirteenth District

**JOSE HUIZAR**  
Fourteenth District

**JOE BUSCAINO**  
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

**JOHN R. MUMMA**

*Vice-Chairperson*

Fire and Police Pensions Participant Representative

**CLIFF CANNON**

*First Provisional Chair*

Retired Participant Representative

**TOM MOUTES**

*Second Provisional Chair*

General Manager of Los Angeles City Employees' Retirement System

**SANGEETA BHATIA**

*Third Provisional Chair*

Retirement Plan Manager  
Department of Water and Power Retirement

**MICHAEL AMERIAN**

Los Angeles City Employees' Retirement System Participant Representative

**WILLIAM S. RAGGIO**

General Manager of Fire and Police Pensions

**BOB SCHOONOVER**

Organized Labor Representative

**MARGARET WHELAN**

General Manager of Personnel Department

**BOARD OF DEFERRED  
COMPENSATION  
ADMINISTRATION**

EUGENE K. CANZANO  
CHAIRPERSON

JOHN R. MUMMA  
VICE-CHAIRPERSON

MICHAEL AMERIAN  
SANGEETA BHATIA  
CLIFF CANNON  
TOM MOUTES  
MICHAEL A. PEREZ  
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

August 1, 2012

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 2011 Annual Report for the City of Los Angeles Deferred Compensation Plan. This report provides a review of important Plan data and activities over the 2011 calendar year.

Notwithstanding volatile financial markets and modest investment returns, 2011 was nevertheless a year of significant achievements for the Plan. The Board introduced an exciting new savings opportunity for Plan participants in the form of "Roth 457," a post-tax option for accumulating retirement assets. The Board also created important new governance tools and award-winning communication materials to help solidify the City's status as a leader in the governmental defined contribution field.

The City's Plan is a crucial component of the retirement benefits provided to City employees. Its value and importance only continue to grow during this ongoing period of financial uncertainty. The Board is committed to helping Plan participants develop the resources necessary to provide for their future retirement security.

Respectfully submitted,

Eugene K. Canzano, Chairperson  
Board of Deferred Compensation Administration

# **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 2011 participants were eligible to contribute up to \$16,500 from their regular wages if below age 50; up to \$22,000 if age 50 or older; and up to \$33,000 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.

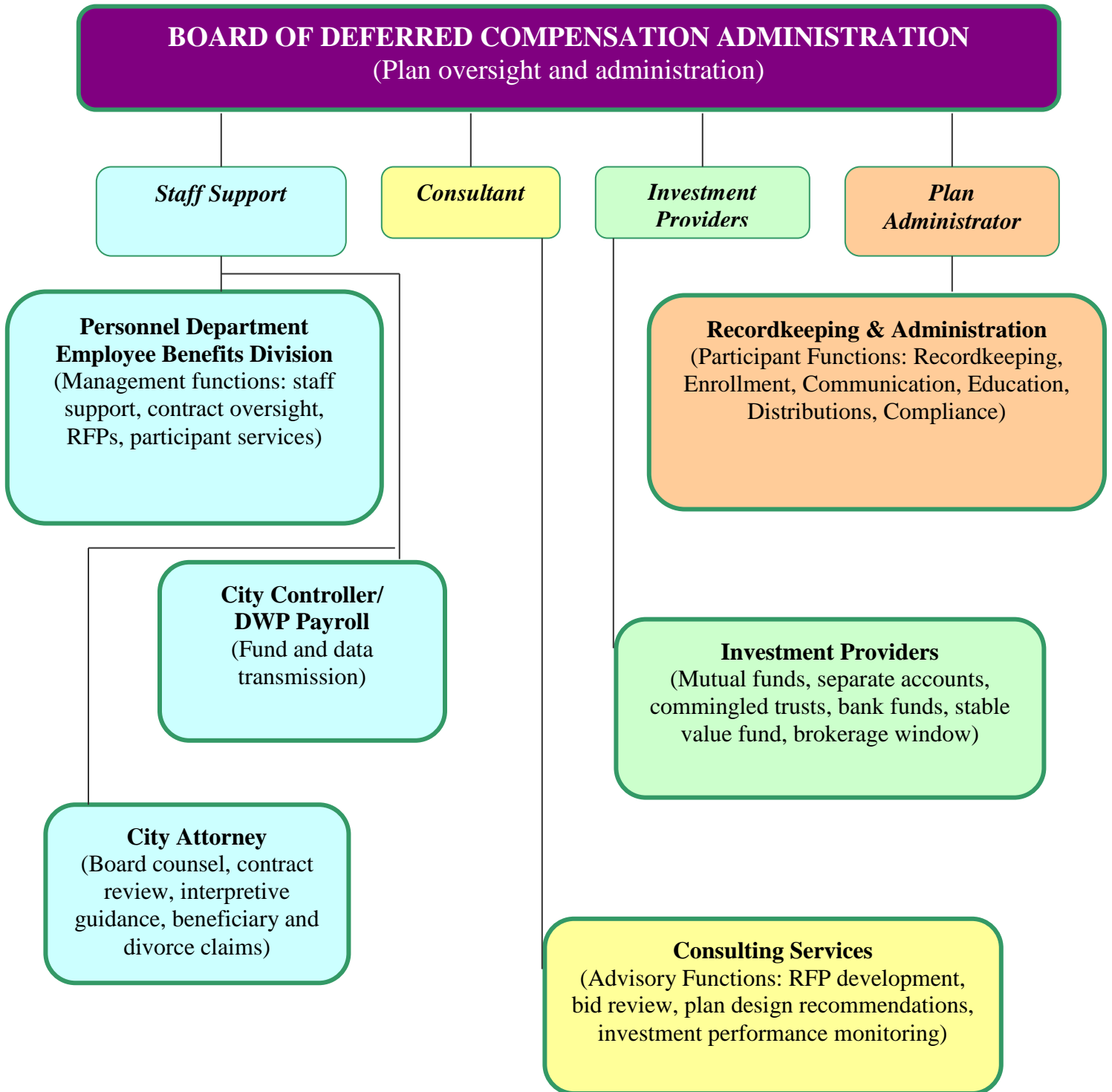
## **How Can the Funds Be Invested?**

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 worked on a host of projects during 2011. Among the most significant achievements were the following:

## **Administration**

- **Roth 457 Implementation** – On July 1, 2011, the City’s Plan was one of the first governmental plans to implement “Roth 457,” which provides participants the option of saving after-tax dollars and not paying tax on interest earnings.

## **Investments**

- **Investment Policy Statement** – The Board created a new Investment Policy Statement incorporating changes to the Plan investment menu, a revised methodology for fund removal, and procurement schedule.

## **Governance**

- **Board Bylaws** – The Board implemented a Plan governance best practice by establishing bylaws detailing how Board meetings will be conducted; roles and responsibilities for those involved in governance/administration of the Plan; ethical standards related to procurement; and other items.
- **Board Elections** – Elections were held for active employee/participant LACERS and Fire/Police Pensions representatives on the Board.

## **Communications**

- **Communications** – The Board places a high priority on Plan communications. In 2011 the Plan created or modified a wider range of unique communication pieces. The communications materials used in introducing the Roth 457 savings option have already received several awards from national organizations for communications excellence.

## **Financial Resources**

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

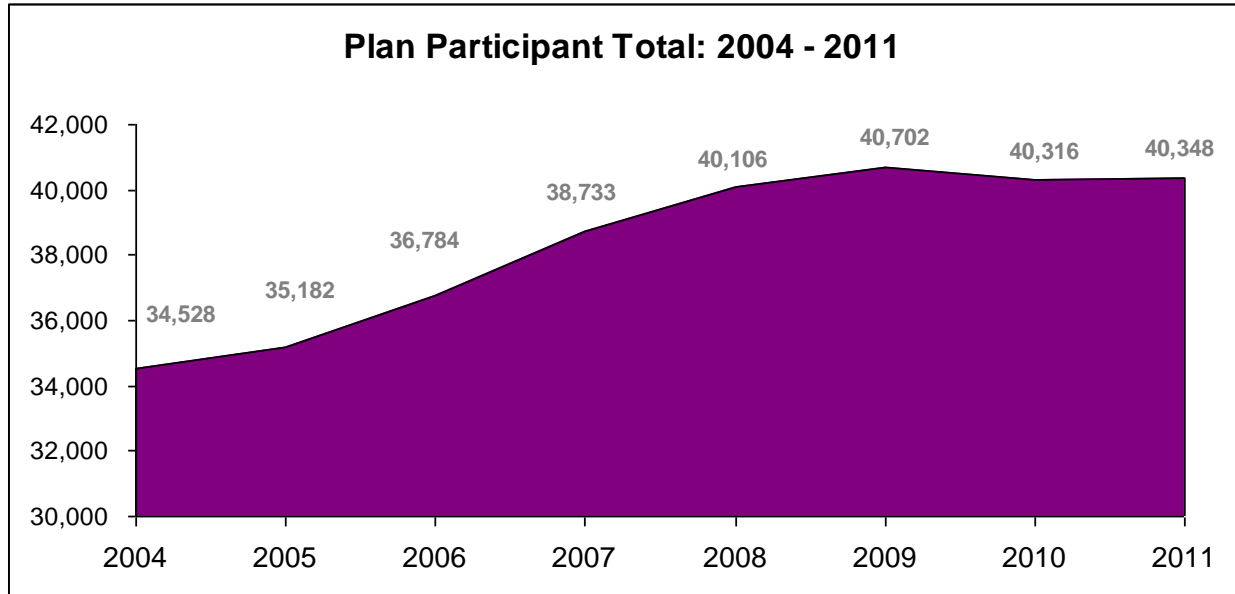
## **Intellectual Resources**

- **Training/Education** – Most Board members/staff attended at least one annual national conference for training; in addition, staff participated in three meetings of a California regional network of defined contribution plan sponsors.

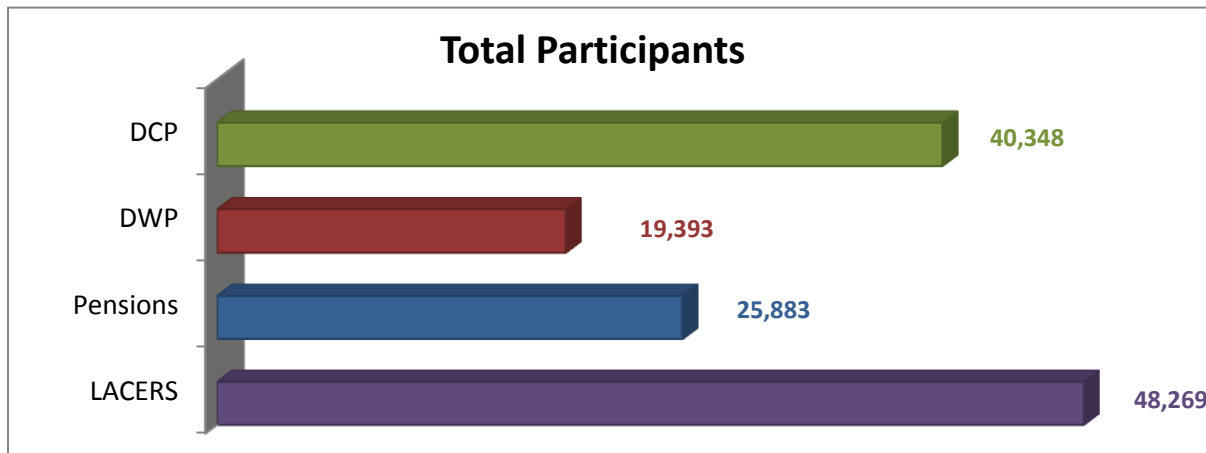


## STATISTICS

**Participation** – As of December 31, 2011, the City’s Plan had a total of **40,348** participant accounts, a slight 0.08% increase from the prior year. The City’s Plan Administrator recorded 908 new enrollments between January 1<sup>st</sup> and December 31<sup>st</sup> 2011. The total number of contributing participants represents approximately 61.9% 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 2004 through 2011:

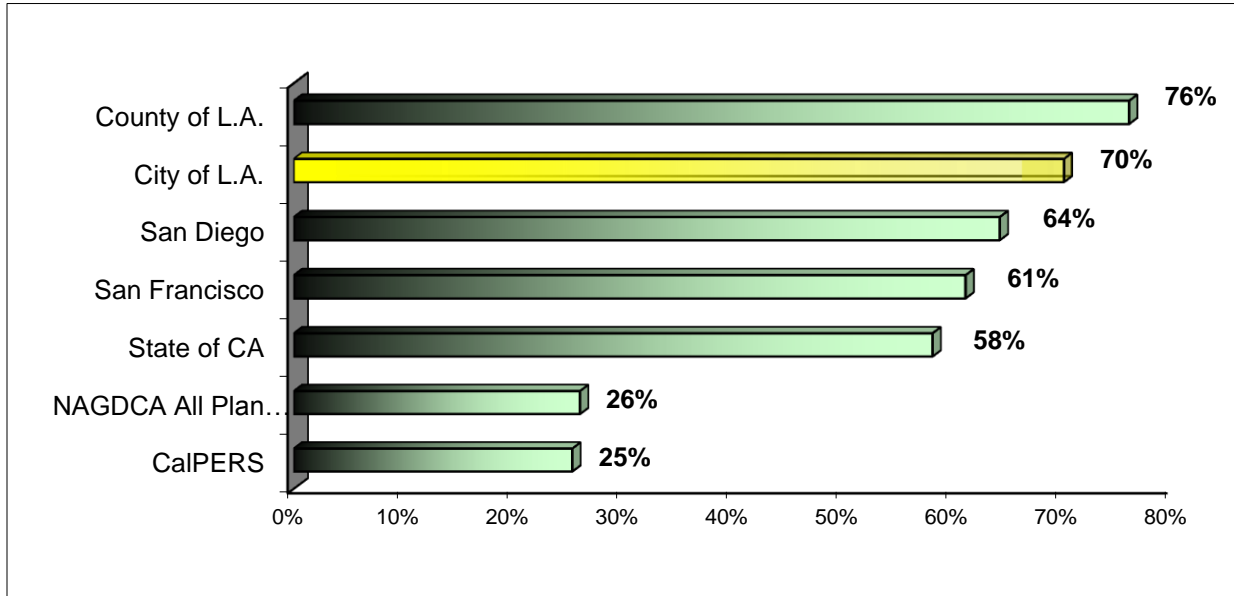


Relative to the City’s other three retirement programs, the Deferred Compensation Plan ranks second in terms of total members:

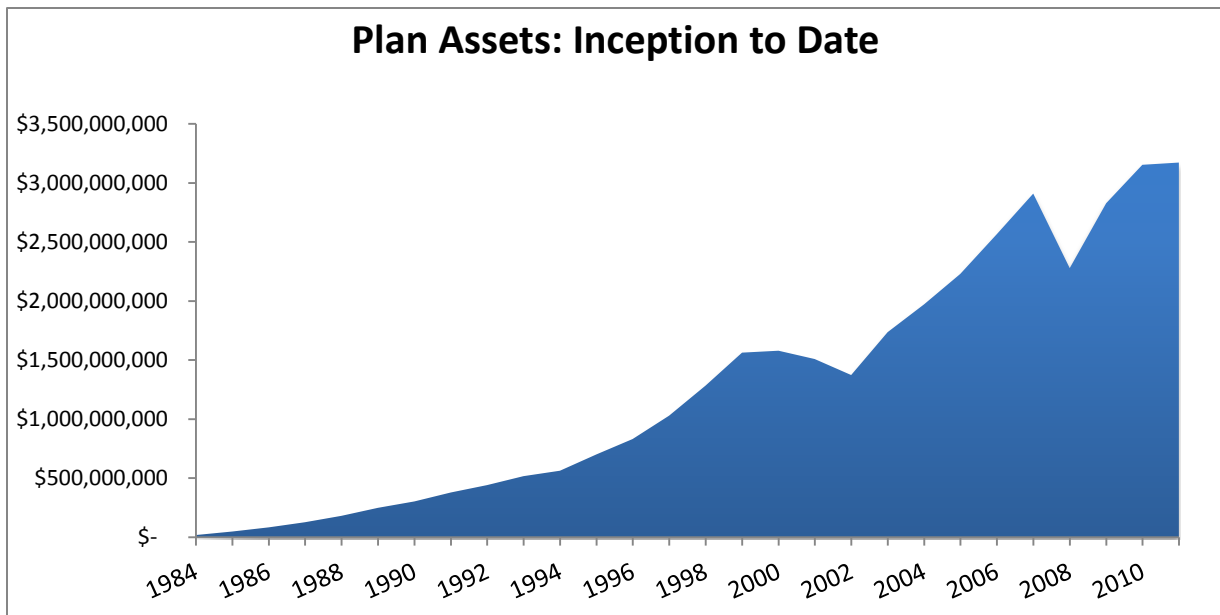


\* DWP, Pensions, LACERS as of 6/30/11; DCP as of 12/31/11

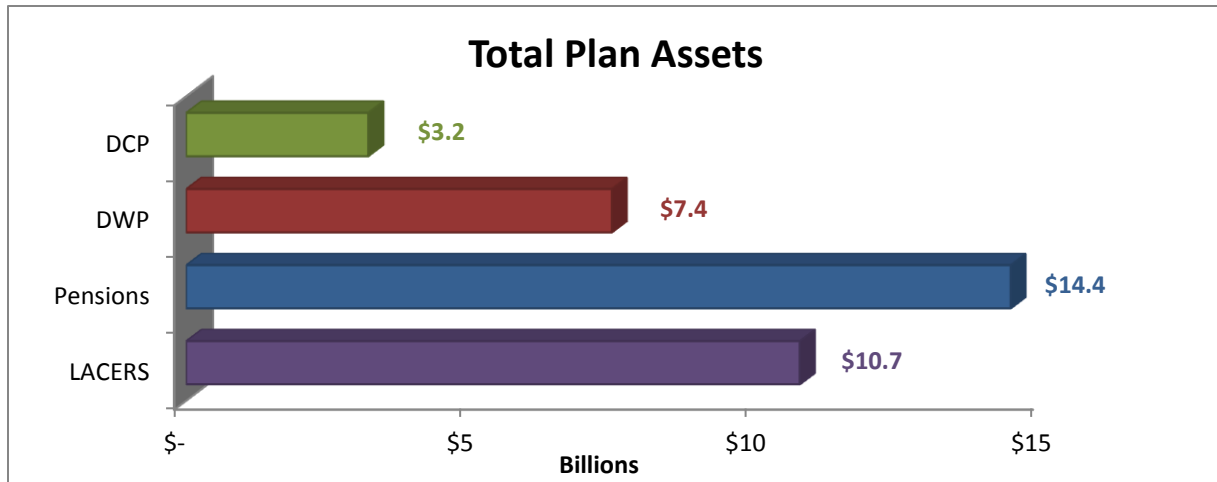
The City's Plan has one of the highest participation rates among its large peers within the State of California. In fact, of the larger plans, the City's participation rate is second only to the County of Los Angeles, which has a match program (which the City does not).



**Plan Assets** – Year-end total Plan assets were **\$3,174,274,110** in comparison to \$3,154,860,910 at year-end 2010. This represents a slight increase of 0.62% fueled by a total of \$71,636,913 in net participant contributions/withdrawals offsetting market losses of \$52, 223,713.



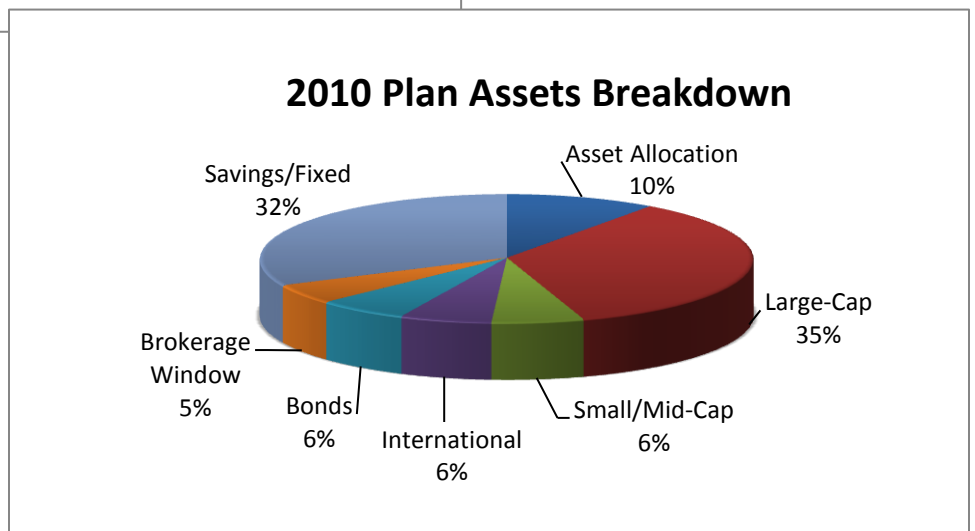
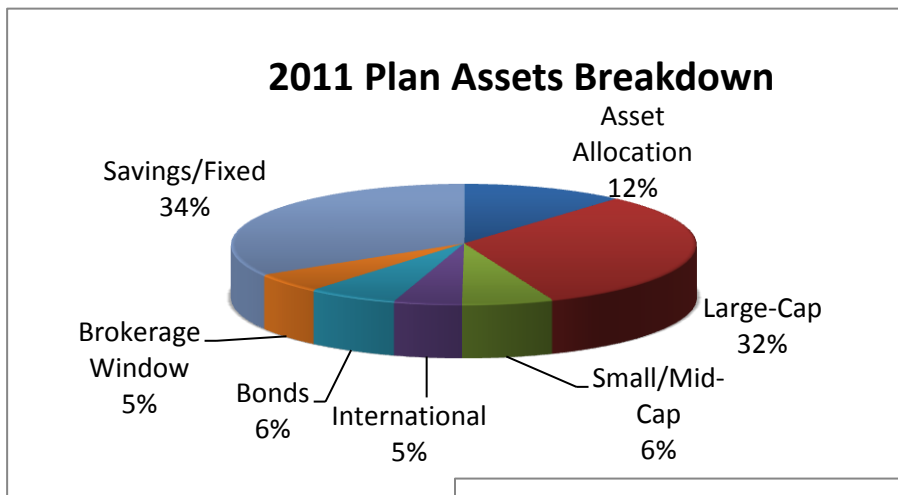
Relative to the City's other three retirement programs, the Deferred



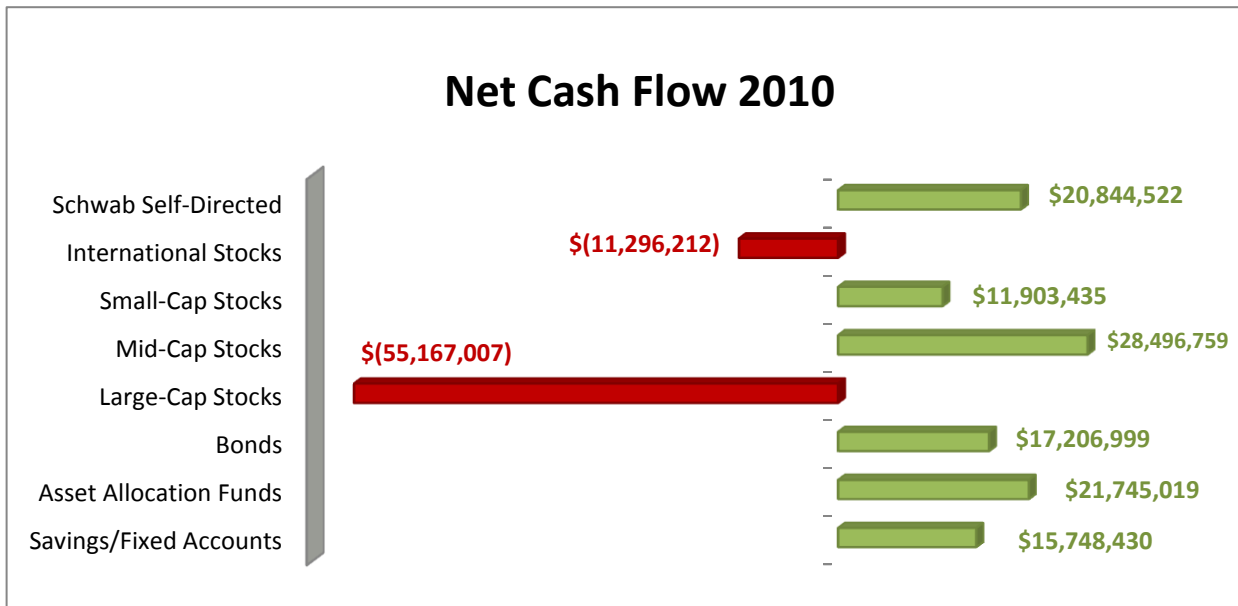
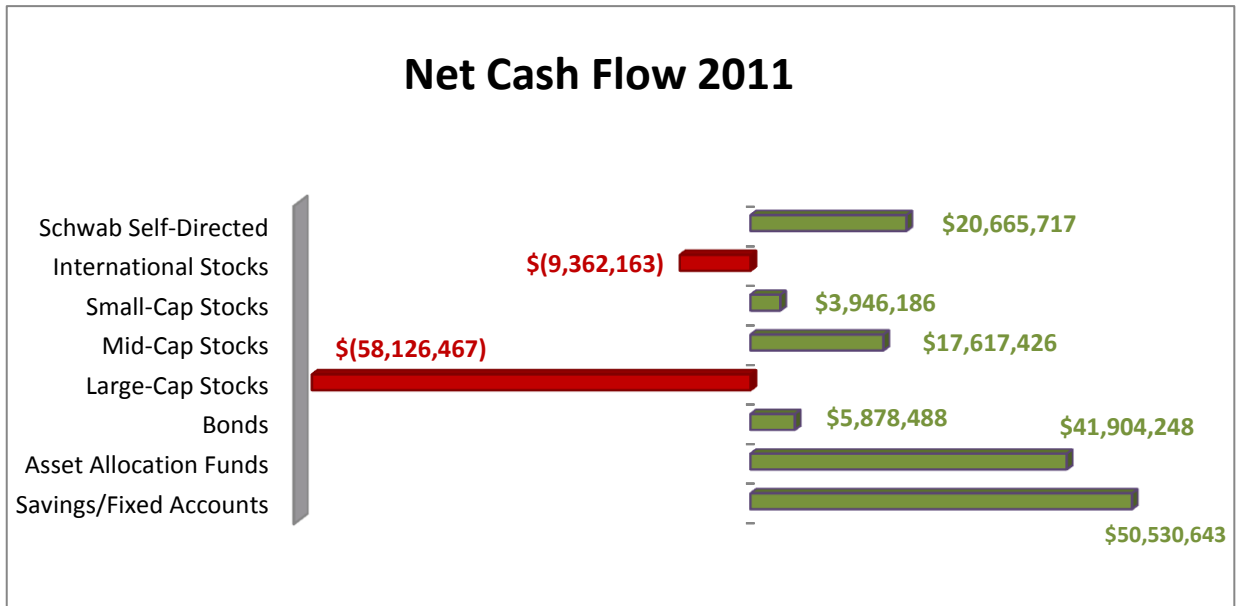
Compensation Plan ranks fourth in terms of total assets:

*\* DWP, Pensions, LACERS as of 6/30/11; DCP as of 12/31/11*

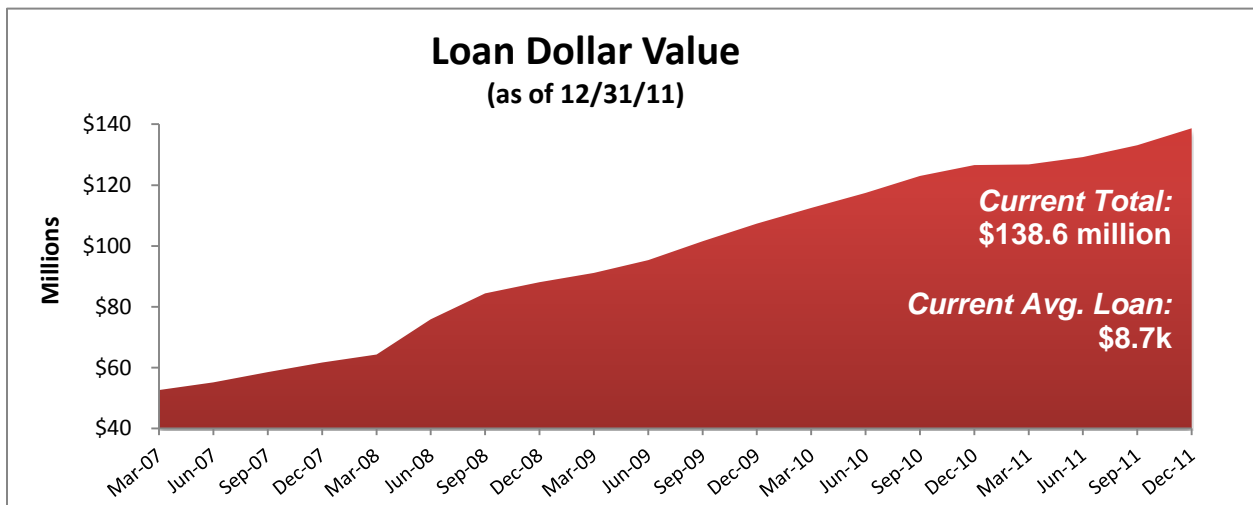
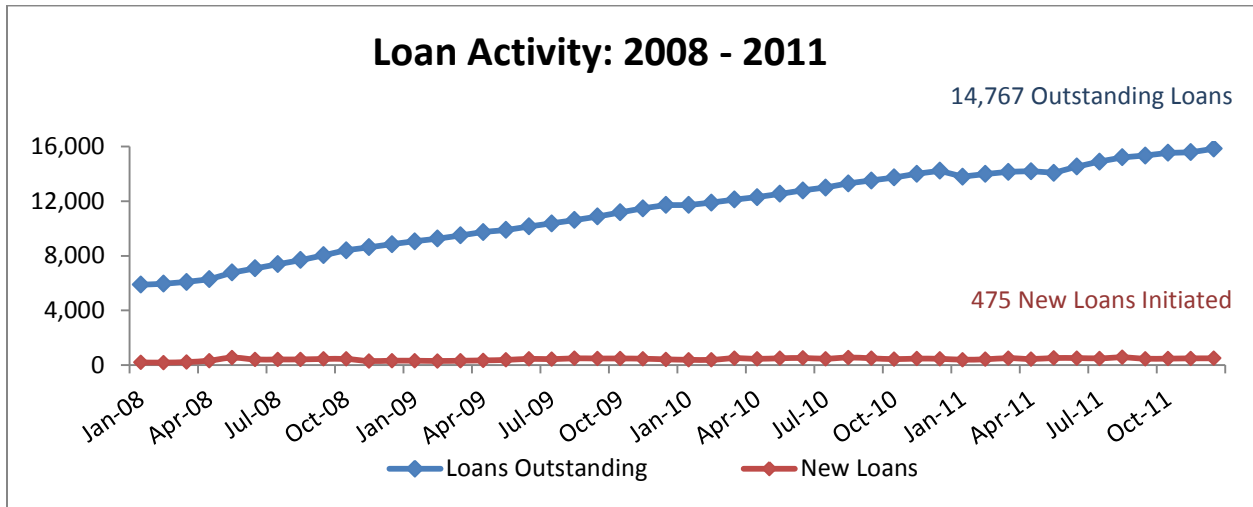
**Fund Class Changes and Asset Allocation** – 2011 was a volatile year in the financial markets, and Plan participants reacted to this by making modest shifts away from risk assets and into the Plan's savings options and asset allocation funds. Below is a summary comparison of how assets shifted by asset class from 2010 to 2011:



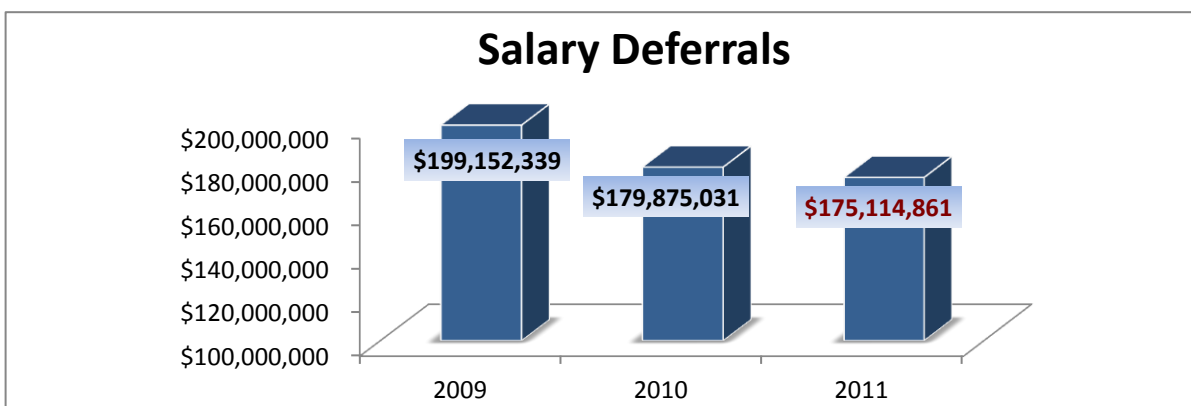
**Net Cash Flows** – The charts below compare changes in net cash flow activity over the past two years. Continuing a trend beginning in 2010, in 2011 the strongest cash flows were to the Plan’s asset allocation funds and savings/fixed income accounts, with large outflows coming from large-cap funds and international funds.



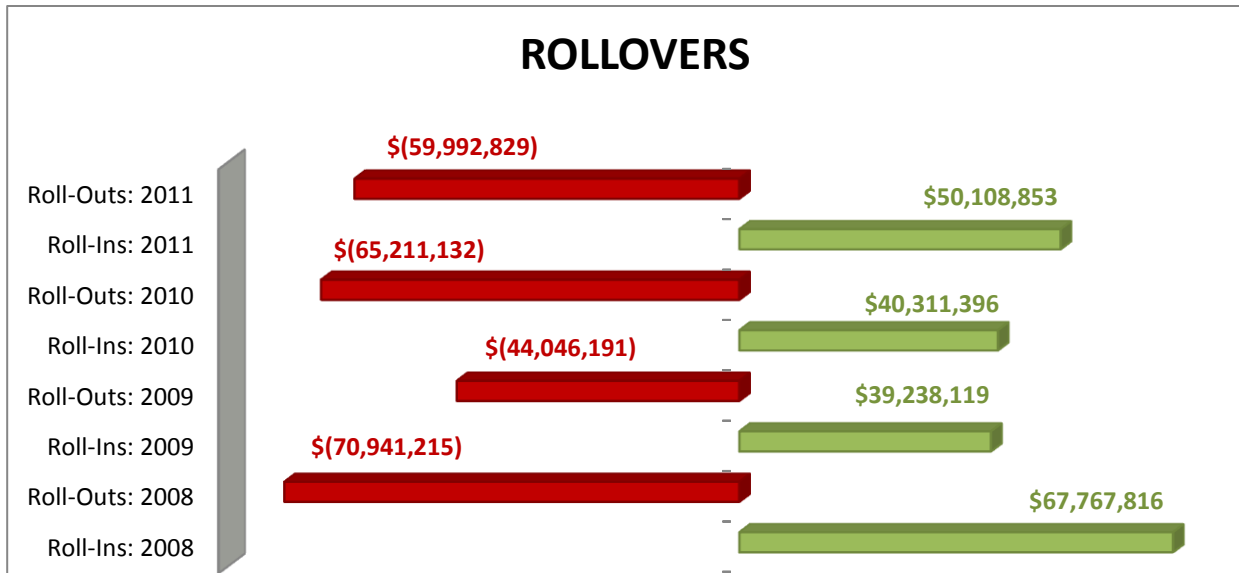
**Loan Program** – The City’s loan program, introduced in 2004, continues to generate significant participant activity, with 15,845 loans outstanding as of 12/31/11. A maximum of two loans per participant is allowed. The amount loaned to participants is **\$138.6 million**, or **4.4%** of total Plan assets (versus 4.0% at year-end 2010).



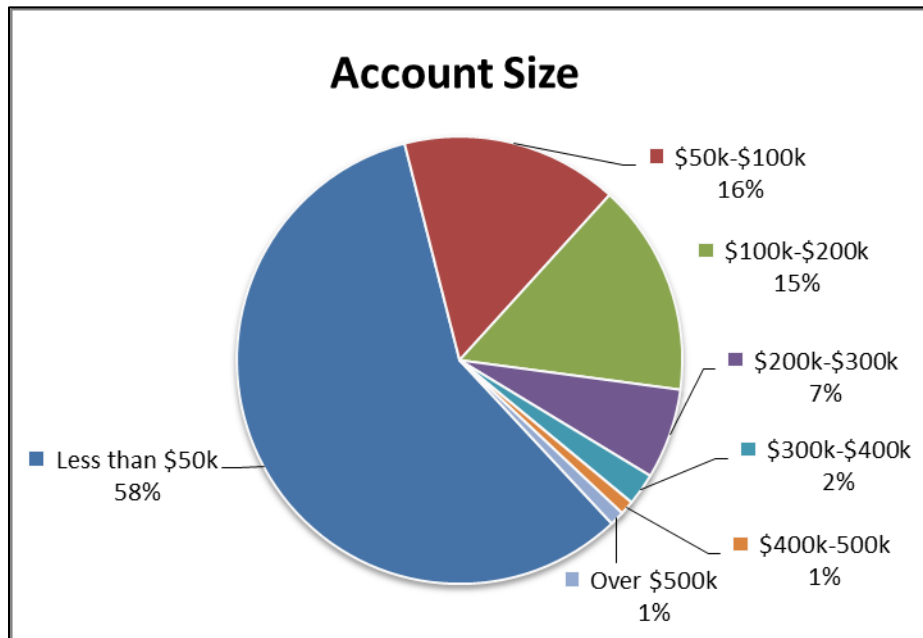
**Contributions** – Total salary deferrals in 2011 fell 2.6% in 2011 compared to the prior year. This correlates to a 2.5% decline in the number of full-time City positions over this time period.



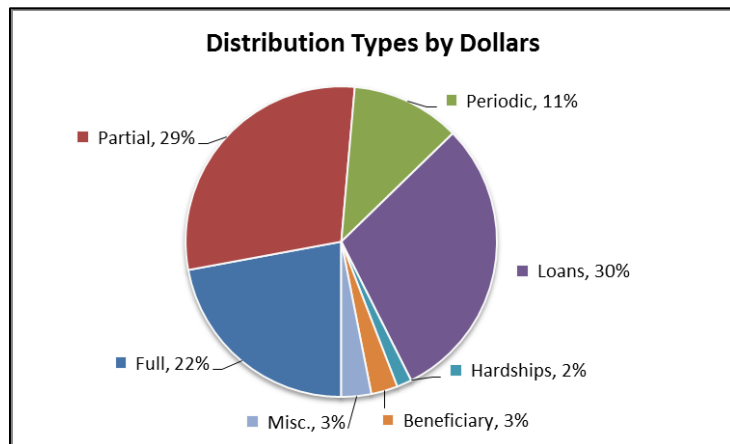
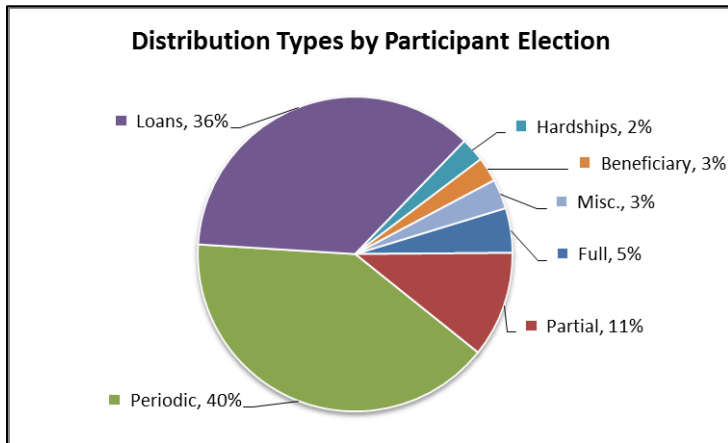
**Rollovers** – On a net basis, 0.31% of assets were rolled out of the Plan in 2011, versus 0.79% in 2010.



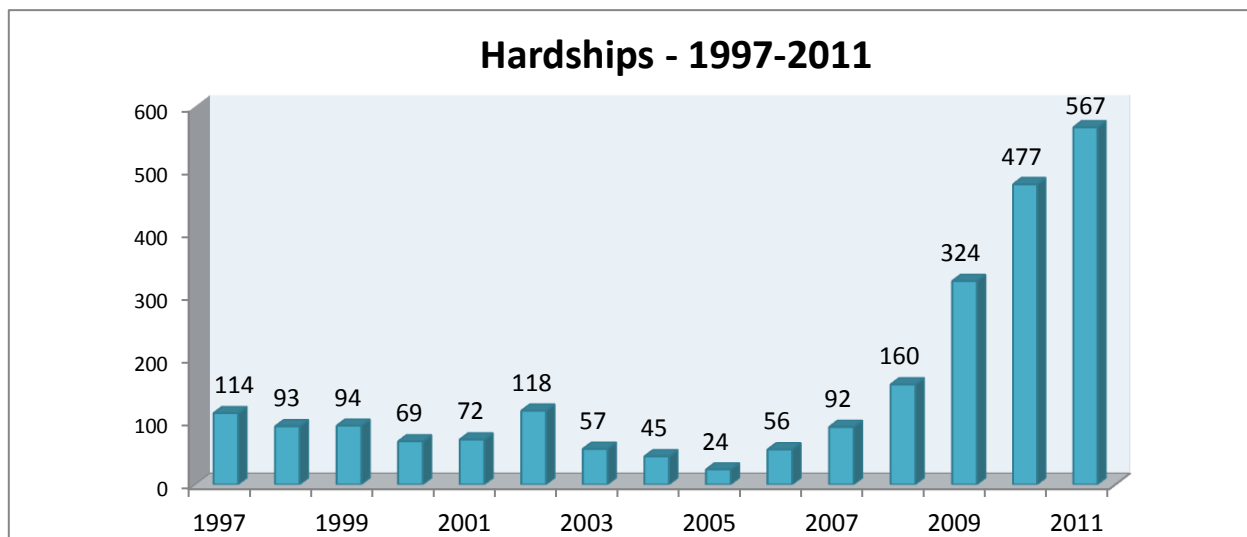
**Plan Assets by Participant/Balance Levels** – The graph below separates 2011 Plan assets by the number of participants and account balances. These statistics were little changed relative to the prior year, although the number of participants with account balances between \$200,000-\$300,000 grew 1%.



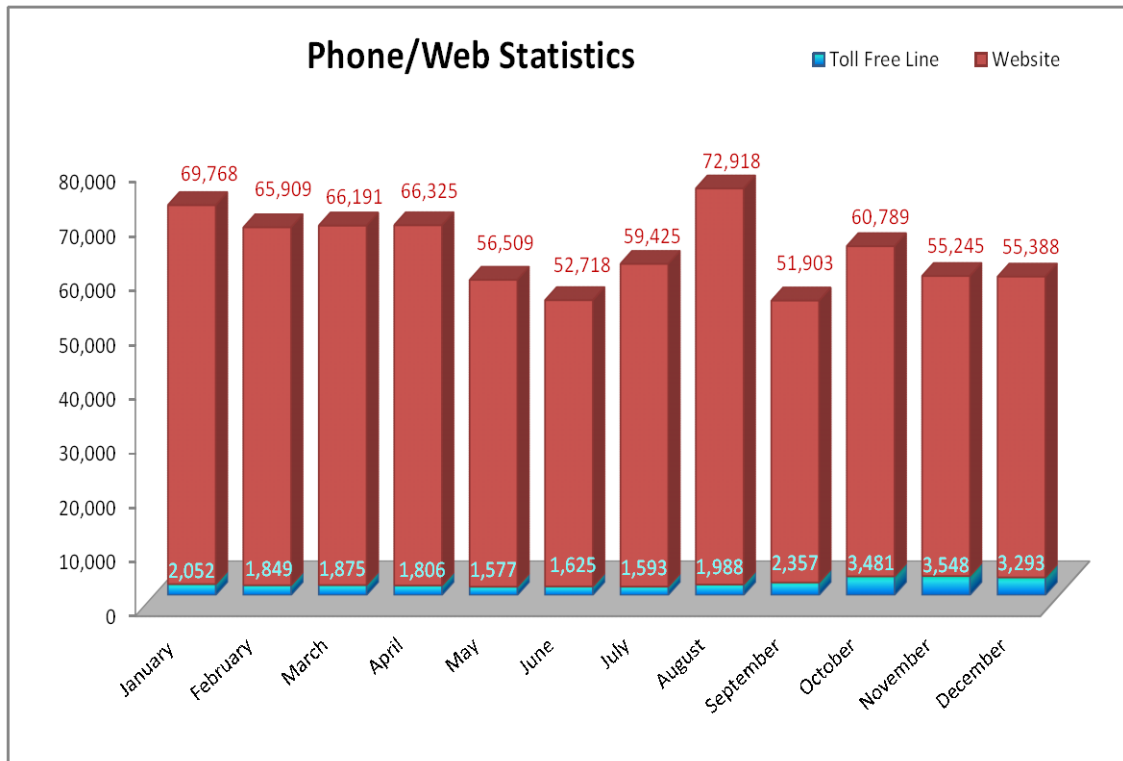
**Distributions** - The table below breaks down participant distributions by distribution type and amount.



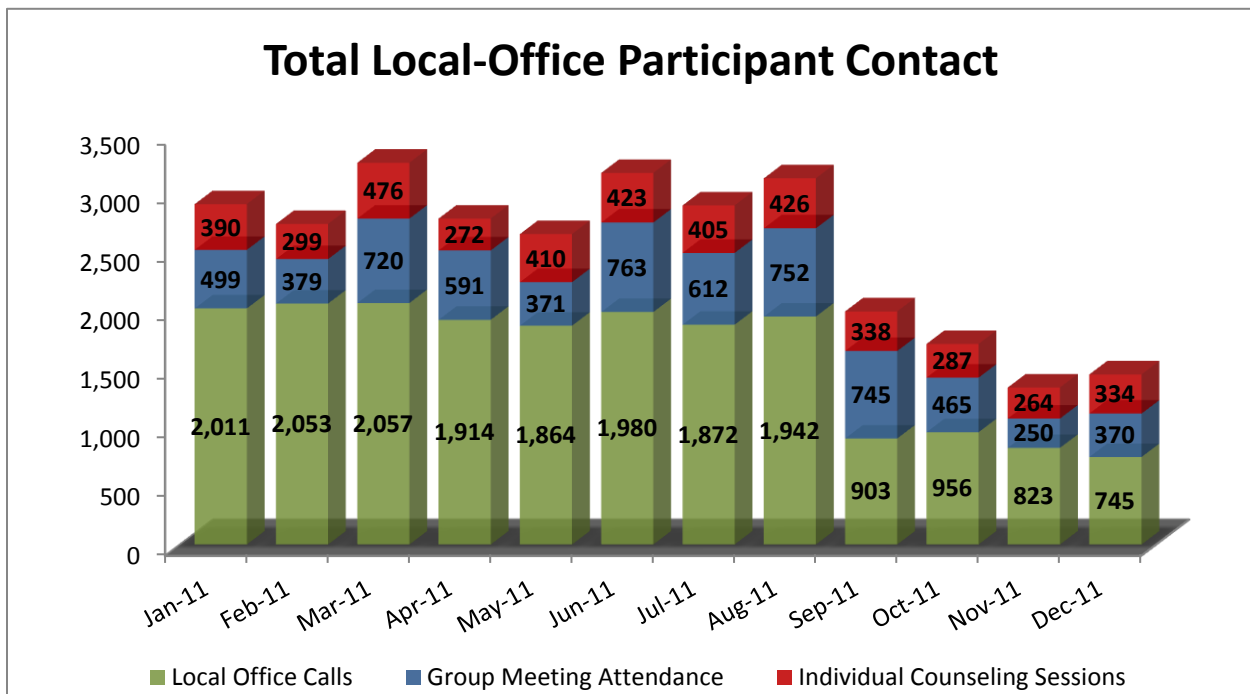
**Hardships** – Hardship activity continued to climb, with Great-West processing 567 hardship applications in 2011, a 19% increase compared to 2010. The graph below indicates the number of hardship applications reviewed from 1997 through 2011.



**Phone Line/Website Statistics** – The following chart indicates 2011 website “hits” and telephone inquiries via the Plan’s toll-free line.



**Local Service Statistics** – The Plan places a heavy emphasis on local contact, whether telephonically, one-on-one counseling, or group meeting education. The chart below indicates various local activity counts for 2011.





**Performance Returns** – Altogether, the overall 2011 participant return for all Plan assets was -2.55%. The following table indicates individual investment option performance for calendar year 2011 as well as three, five and ten year periods:

SAVINGS ACCOUNTS	Annualized Yield for Quarter			
	12/31/2011	9/30/2011	6/30/2011	3/31/2011
FDIC-Insured Savings Account	0.41%	0.31%	0.21%	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	Average Annualized Returns			
	1 Year	3 Years	5 Years	10 Years/Since Inception
Deferred Compensation Stable Value Fund	3.21%	3.69%	4.15%	4.41%
STOCK & BOND FUNDS	Average Annualized Returns			
	1 Year	3 Years	5 Years	10 Years/Since Inception
BONDS				
PIMCO Total Return Fund	4.16%	8.87%	8.09%	6.80%
Vanguard Total Bond Market Index Inst. Plus Fund	7.76%	6.75%	6.44%	5.52%
LARGE-CAP STOCKS				
Investment Company of America	-1.45%	11.77%	-0.70%	3.56%
Growth Fund of America	-4.53%	13.17%	-0.41%	3.72%
Vanguard Institutional Index Plus Fund	2.12%	14.18%	-0.20%	2.97%
Hartford Capital Appreciation HLS	-11.41%	14.56%	-0.90%	5.80%
MID-CAP STOCKS				
Lazard Mid Cap Institutional	-5.58%	17.30%	-0.69%	5.24%
Vanguard Mid Cap Index Institutional	-1.96%	20.07%	1.38%	6.76%
SMALL-CAP STOCKS				
SSgA Russell Small Cap Index NL Fund	-4.17%	15.39%	-0.04%	5.27%
INTERNATIONAL STOCKS				
Fidelity Diversified International Fund	-13.78%	7.60%	-4.55%	5.79%
DWS EAFE Equity Index Institutional Fund	-12.39%	6.83%	-4.93%	4.18%
PROFILE PORTFOLIOS				
Ultra-Conservative	4.42%	6.76%	N/A	4.57%
Conservative	2.92%	8.48%	3.75%	5.04%
Moderate	0.86%	10.58%	2.24%	4.88%
Aggressive	-1.06%	11.72%	0.62%	4.53%
Ultra-Aggressive	-3.02%	12.76%	N/A	-1.28%
BENCHMARK INDICES				
Barclays Capital Aggregate Bond	7.84%	6.77%	6.50%	5.78%
MSCI EAFE	-12.14%	7.65%	-4.72%	4.67%
MSCI US Mid Cap 450	-1.91%	20.10%	1.37%	6.86%
Russell 2000	-4.18%	15.63%	0.15%	5.62%
Russell 1000 Value	0.39%	11.55%	-2.64%	3.89%
Russell 1000 Growth	2.64%	18.02%	2.50%	2.60%
Standard & Poor's 500	2.11%	14.11%	-0.25%	2.92%
Russell Mid Cap	-1.55%	20.17%	1.41%	6.99%

**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.

<b>DEFERRED COMPENSATION PLAN YEARLY BUDGET REVIEW</b>		
<b>ADMINISTRATIVE AND OPERATING EXPENSES</b>		
<b>YEAR ENDING 12/31/11</b>		
<b>STARTING BALANCE</b>		
Payroll Fee Trust Fund Ending Balance - 12/31/10	\$	134,375
Administrative Fee Reserve Fund Balance - 12/31/10	\$	2,816,263
Total	\$	2,950,638
<b>REVENUES/FEES</b>		
Interest Earnings on Payroll Fee Trust Fund	\$	2,322
Administrative Fee Reserve Fund Deposits	\$	605,175
Interest Earnings on Administrative Fee Reserve Fund	\$	88,913
Administrative Fees Deducted from Participant Accounts	\$	2,158,756
Miscellaneous Revenues	\$	13,534
Total Revenue/Fees	\$	2,868,700
<b>STARTING BALANCE + REVENUE/FEES</b>		<b>\$ 5,819,338</b>
<b>EXPENDITURES</b>		
Participant Administrative Fees Paid to Great-West	\$	(1,602,739)
Unforeseen Emergency Withdrawal Service	\$	(113,750)
Staff Reimbursements	\$	(644,053)
Consulting Costs	\$	(165,017)
Election Costs	\$	(25,690)
Travel/Training/Education	\$	(23,881)
Special Mailing - Communications	\$	(1,561)
GWRS Quarterly Fees - Asset Allocation Fund Management	\$	(36,000)
TOTAL EXPENDITURES	\$	(2,612,691)
Actual Payroll Fee Trust Fund Ending Balance (12/31/11)	\$	527,626
Actual Administrative Fee Reserve Fund Ending Balance (12/31/11)	\$	2,679,021
<b>ACTUAL TOTAL BALANCE AS OF 12/31/11</b>		<b>\$ 3,206,647</b>
<b>ENCUMBRANCES/LIABILITIES</b>		
Staffing Reimbursements: 3 Mos. Ending 09/30/11	\$	(121,685)
Staffing Reimbursements: 3 Mos. Ending 12/31/11	\$	(155,587)
TOTAL LIABILITIES	\$	(277,272)
<b>ASSETS LESS EXPENDITURES/LIABILITIES</b>		<b>\$ 2,929,375</b>

## CONTRIBUTION RATES BY DEPARTMENT CODE - 2011

Department Name	Eligible 1/11	Contrib. 1/11	Previous % Contrib.	Current Eligible 1/12	Current Contrib. 1/12	Current % Contrib.	% Difference	# Difference
AIRPORTS	3,273	1,611	49.22%	3,282	1,590	48.45%	(0.77%)	(21)
ANIMAL SERVICES	326	145	44.48%	315	138	43.81%	(0.67%)	(7)
AGING	38	26	68.42%	39	26	66.67%	(1.75%)	0
BUILDING & SAFETY	736	385	52.31%	731	372	50.89%	(1.42%)	(13)
CAO	104	75	72.12%	102	73	71.57%	(0.55%)	(2)
CITY ATTORNEY	885	544	61.47%	847	499	58.91%	(2.56%)	(45)
CITY CLERK	95	65	68.42%	104	65	62.50%	(5.92%)	0
CITY ETHICS	21	13	61.90%	17	12	70.59%	8.68%	(1)
CDD	274	138	50.36%	274	142	51.82%	1.46%	4
COLISEUM	28	11	39.29%	31	10	32.26%	(7.03%)	(1)
CONTROLLER	157	120	76.43%	152	115	75.66%	(0.78%)	(5)
CONVENTION CENTER	114	69	60.53%	113	65	57.52%	(3.00%)	(4)
COUNCIL	331	88	26.59%	321	82	25.55%	(1.04%)	(6)
CULTURAL AFFAIRS	40	17	42.50%	39	17	43.59%	1.09%	0
DEPT ON DISABILITY	15	11	73.33%	13	8	61.54%	(11.79%)	(3)
DWP	9,383	5,768	61.47%	9,001	5,707	63.40%	1.93%	(61)
EL PBLO LA HIST MNT AUT	11	4	36.36%	11	5	45.45%	9.09%	1
EMERGENCY PREPAREDNESS DEPT	23	15	65.22%	23	12	52.17%	(13.04%)	(3)
EMPLOYEE RELATIONS	3	1	33.33%	3	1	33.33%	0.00%	0
FIRE - FIREFIGHTERS	3,525	2,971	84.28%	3,400	2,802	82.41%	(1.87%)	(169)
FIRE CIVILIAN	298	161	54.03%	303	158	52.15%	(1.88%)	(3)
GENERAL SERVICES	1,768	808	45.70%	1,687	763	45.23%	(0.47%)	(45)
HARBOR	947	563	59.45%	946	560	59.20%	(0.25%)	(3)
HOUSING	532	302	56.77%	545	296	54.31%	(2.45%)	(6)
ITA	538	387	71.93%	498	345	69.28%	(2.66%)	(42)
LACERS	127	94	74.02%	121	87	71.90%	(2.11%)	(7)
LIBRARY	669	306	45.74%	657	299	45.51%	(0.23%)	(7)
MAYOR	180	31	17.22%	179	32	17.88%	0.65%	1
NEIGHBORHOOD EMPOWERMENT	19	14	73.68%	19	13	68.42%	(5.26%)	(1)
PENSIONS	100	65	65.00%	109	65	59.63%	(5.37%)	0
PERSONNEL C S 1	377	256	67.90%	378	230	60.85%	(7.06%)	(26)
PLANNING	237	147	62.03%	231	141	61.04%	(0.99%)	(6)
POLICE OFFICERS	9,898	7,826	79.07%	9,924	7,641	77.00%	(2.07%)	(185)
POLICE CIVILIAN	2,864	1,647	57.51%	2,833	1,628	57.47%	(0.04%)	(19)
PUBLIC WORKS	4,880	2,473	50.68%	4,742	2,414	50.91%	0.23%	(59)
RECREATION & PARKS	1,493	635	42.53%	1,453	631	43.43%	0.90%	(4)
TRANSPORTATION	1,390	760	54.68%	1,356	748	55.16%	0.49%	(12)
TREASURER	358	210	58.66%	358	208	58.10%	(0.56%)	(2)
LOS ANGELES ZOO	192	72	37.50%	205	80	39.02%	1.52%	8
<b>TOTALS--&gt;</b>	<b>46,249</b>	<b>28,834</b>	<b>62.35%</b>	<b>45,362</b>	<b>28,080</b>	<b>61.90%</b>	<b>(0.44%)</b>	<b>(754)</b>

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