

DEFERRED COMPENSATION PLAN BOARD REPORT 13-04

Date: January 3, 2013
To: Board of Deferred Compensation Administration
From: Staff
Subject: 2013 Deferred Compensation Plan Budget

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

Recommendation:

That the Board of Deferred Compensation Administration adopt staff's proposed budget for the 2013 calendar year.

Discussion:

Staff is recommending that the Board adopt staff's proposed budget for the Plan's 2013 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 upcoming one-year 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: 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 remain a target surplus of approximately \$1.5 million over time. On September 20, 2011, staff proposed that this reserve objective be refined and expressed rather as 50%, or six months, of the Plan's annual operating expenses. Using this refined calculation produces a number relatively close to the Board's previously approved \$1.5 million target.

For 2013, staff is projecting that the Plan's surplus will slightly decrease from \$2.35 million to \$2.12 million. The decrease is due to the assumption that the Senior Management Analyst I position will be filled for 2013.

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 \$3.39 billion on June 30, 2012 to

approximately \$3.56 billion as of December 31, 2012. The one-year Plan assets growth rate assumption is 5.0%. The actual growth rate in 2012 was 7.4%.

- *Interest* – Staff projects a 3.0% rate of return for the Plan’s Stable Value Fund (where 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 2013 will be 40,644, or an amount consistent with a 1.0% annual participant growth rate.
- *Estimated Personnel Department Reimbursements* – Assumes that direct salary and indirect related costs for the incumbent position (Benefits Specialist) will remain occupied in calendar year 2013 by a Clerk Typist. Should that position become filled by a higher classification (i.e. Benefits Specialist respectively), the actual costs would exceed staff’s forecast. At the July 17, 2012 Board meeting, the Board approved funding a new Senior Management Analyst I position as part of Personnel Department staffing for the City’s Deferred Compensation Plan. Therefore, staff has included the funding for this position in staff’s assumptions for this budget. Initially the position is likely to be filled in-lieu at a lower level (e.g. Management Analyst II), but staff has retained the estimate of the Senior M.A. I funding in the event advancing the position occurs at some point during the calendar year.
- *Estimated City Attorney Reimbursements* – Includes direct salary and indirect related costs, and specific information regarding current salary levels.
- *Estimated Consulting Costs* – The Board has contracts with Mercer Investment Consulting and Buck Consultants for various consulting services (Investment, Plan Administration, and Communications) Consulting, at an annual total of \$175,000. In addition, staff is proposing setting aside \$10,000 annually for tax counsel services, for a total of \$185,000 in consulting expenditures.
- *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 includes an upward adjustment of 2% each calendar year. An amount of \$56,287 is calculated for calendar year 2013. In addition, an estimated \$33,607 will carry over from 2012 and is added to the 2013 available balance.
- *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. A nominal amount has been budgeted, but no specific expenditures are expected at this time.
- *GWRS Asset Allocation Fund Management* – This category reflects the \$6,000 per fund fee for each of the Plan’s five asset allocation funds, the FDIC-Insured Savings Option, the DCP Stable Value Fund, the DCP Bond Fund, the DCP Large-Cap Fund, DCP Mid-Cap Fund, DCP Small-Cap Fund, and the DCP International Fund.
- *GWRS Hardship Administration* – In 2011, the total number of hardships processed was 464. As of 3rd Quarter of 2012, the total number of hardships processed has been 325. Therefore, staff is estimating 400 hardship cases will be processed next year at a cost of \$250 per completed case.
- *Elections Administration* – Staff has not included any costs for administering Board elections, since there are no scheduled elections to take place in 2013. Should there become a vacancy with the Retired, DWP, LACERS, or Fire/Police Pension Participant Representatives, the actual costs would exceed staff’s forecast.

Staff recommends that the Board adopt staff’s proposed budget for the 2013 calendar year.

Submitted by: _____
Natasha Gameroz

Reviewed by: _____
Steven Montagna

Approved by: _____
Alejandrina Basquez

DEFERRED COMPENSATION PLAN		
PROJECTED REVENUES/EXPENDITURES		
01/01/13-12/31/13		
REVENUES		
Estimated Annual Administrative Fee Revenue	\$	2,459,687
Estimated Interest Earnings	\$	72,944
Total Revenue	\$	2,532,631
EXPENDITURES		
Participant Administrative Fees Owed to Great-West	\$	(1,502,609)
Estimated Personnel Department Reimbursements	\$	(689,710)
Estimated City Attorney Reimbursements	\$	(130,899)
Estimated DWP Reimbursements	\$	-
Estimated Consulting Costs	\$	(185,000)
2130 Travel/Training/Education	\$	(89,894)
4160 Governmental Meetings	\$	(500)
6010 Office and Administrative	\$	(500)
7300 Office Furniture & Equipment	\$	(500)
GWRS Asset Allocation Fund Management	\$	(72,000)
GWRS Hardship Administration	\$	(100,000)
Elections Administration	\$	-
TOTAL ESTIMATED EXPENDITURES	\$	(2,771,613)
Annual Revenues Less Annual Expenditures	\$	(238,982)
TRUST FUND SUMMARY		
Estimated Starting Trust Fund Balance on 1/1/13	\$	2,268,041
Estimated 2013 Revenues	\$	2,532,631
Estimated 2013 Expenditures	\$	(2,771,613)
Estimated Closing Trust Fund Balance on 12/31/13	\$	2,029,060