

DEFERRED COMPENSATION PLAN BOARD REPORT 13-16

Date: March 4, 2013
To: Board of Deferred Compensation Administration
From: Staff
Subject: Deferred Compensation Plan Budget Status Report:
Quarter Ending 12/31/12

Members
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John R. Mumma, Vice-Chairperson
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Recommendation:

That the Board of Deferred Compensation Administration (a) receive and file the following status report on Deferred Compensation Plan budget accounts for the quarter ending **12/31/12**; (b) for this same quarter, approve reimbursements from the Deferred Compensation Plan Reserve Fund accounts to the Personnel Department for **\$125,468.12**; and City Attorney for **\$33,935.46**.

Discussion:

Reimbursements - Staff is recommending reimbursement from the Deferred Compensation Plan Reserve Fund accounts to the Personnel Department for \$125,468.12 and City Attorney for \$33,935.46 for the quarter ending 12/31/12. The calculations for the current quarter reimbursement include salaries for all positions presently servicing the Plan, including direct salary and indirect costs as calculated in the City Controller's Cost Allocation Plan (CAP) rates.

The draft CAP 34 rates, which cover FY 11-12, have been released. These rates are subject to revision by the Controller. If they are revised, staff will address the adjustment in a future quarterly reconciliation.

The indirect costs, including CTO for Personnel and City Attorney are 124.69% and 76.46% respectively. Quarterly activity in the Plan's revenue/expenditure accounts is included in Attachment I.

Rolling Five-year Projected Income/Expenses - Following is a rolling five-year forecast of revenue/expenses for the Deferred Compensation Plan budget accounts. This forecast incorporates assumptions discussed at the Board's September 20, 2011 Board meeting, and Plan data as of 12/31/12. It also incorporates the funding of an additional Senior Management Analyst I position for the Plan.

PROJECTED REVENUE/EXPENSES: 1/01/13-12/31/17

Quarter Ending:	12/31/2013	12/31/2014	12/31/2015	12/31/2016	12/31/2017
Starting Balance	\$ 2,487,112	\$ 2,138,201	\$ 1,824,468	\$ 1,518,207	\$ 1,254,017
Estimated Interest Earnings	\$ 74,613	\$ 64,146	\$ 54,734	\$ 45,546	\$ 37,621
Estimated Participant Fee Revenue	\$ 2,359,624	\$ 2,428,534	\$ 2,500,399	\$ 2,575,362	\$ 2,653,572
Estimated Total Revenue	\$ 2,434,237	\$ 2,492,680	\$ 2,555,133	\$ 2,620,908	\$ 2,691,193
Estimated Expenses	\$ (2,783,148)	\$ (2,806,414)	\$ (2,861,394)	\$ (2,885,098)	\$ (2,909,335)
Difference between revenue/expenses	\$ (348,911)	\$ (313,733)	\$ (306,261)	\$ (264,190)	\$ (218,142)
Estimated Surplus Balance	\$ 2,138,201	\$ 1,824,468	\$ 1,518,207	\$ 1,254,017	\$ 1,035,875
Reserve Target (50% Annual Operating Expenses)	\$ 1,391,574	\$ 1,403,207	\$ 1,430,697	\$ 1,442,549	\$ 1,454,667
Estimated Balance Over/Under Reserve	\$ 746,627	\$ 421,261	\$ 87,510	\$ (188,532)	\$ (418,792)

ASSUMPTIONS TABLE SUMMARY

Basis Points	0.100%	Fee Cap	\$ 125	Asset Growth Adjustment Factor	5.0%
Expenses Inflation Adjustment Factor	2.0%	Enrollment Adjustment Factor	1.0%	Stable Value Funds Interest Assumption	3.0%

PROJECTED FEE REVENUES DETAIL

Account Size	Participants	Account Values	Fee Revenue Estimates				
			12/31/2012	12/31/2013	12/31/2014	12/31/2015	12/31/2016
Less than \$25k	15,715	\$ 157,517,467	\$ 165,393	\$ 173,663	\$ 182,346	\$ 191,463	\$ 201,037
\$25k-\$50k	6,503	\$ 234,900,908	\$ 246,646	\$ 258,978	\$ 271,927	\$ 285,524	\$ 299,800
\$50k-\$75k	3,720	\$ 229,374,382	\$ 240,843	\$ 252,885	\$ 265,530	\$ 278,806	\$ 292,746
\$75k-\$100k	2,627	\$ 228,342,916	\$ 239,760	\$ 251,748	\$ 264,335	\$ 277,552	\$ 291,430
\$100k-\$125k	2,043	\$ 228,771,466	\$ 240,210	\$ 252,221	\$ 264,832	\$ 278,073	\$ 291,977
\$125k-\$150k	1,623	\$ 222,224,355	\$ 204,904	\$ 206,953	\$ 209,022	\$ 211,113	\$ 213,224
\$150k-\$175k	1,412	\$ 228,633,616	\$ 178,265	\$ 180,048	\$ 181,848	\$ 183,667	\$ 185,503
\$175k-\$200k	1,147	\$ 214,428,235	\$ 144,809	\$ 146,257	\$ 147,719	\$ 149,197	\$ 150,689
\$200k-\$300k	3,194	\$ 778,511,313	\$ 403,243	\$ 407,275	\$ 411,348	\$ 415,461	\$ 419,616
\$300k-\$400k	1,238	\$ 423,940,082	\$ 156,298	\$ 157,860	\$ 159,439	\$ 161,033	\$ 162,644
\$400k-\$500k	501	\$ 221,669,592	\$ 63,251	\$ 63,884	\$ 64,523	\$ 65,168	\$ 65,820
Over \$500k	602	\$ 410,370,576	\$ 76,003	\$ 76,763	\$ 77,530	\$ 78,305	\$ 79,089
Total-->	40,325	\$ 3,578,684,908	\$ 2,359,624	\$ 2,428,534	\$ 2,500,399	\$ 2,575,362	\$ 2,653,572

PROJECTED EXPENSES DETAIL

Annual Expenses	12/31/2013	12/31/2014	12/31/2015	12/31/2016	12/31/2017
Admin Fees Owed to GWRS	\$ 1,505,723	\$ 1,520,781	\$ 1,535,988	\$ 1,551,348	\$ 1,566,862
Salary/Related Costs	\$ 848,138	\$ 865,101	\$ 882,403	\$ 900,051	\$ 918,052
Consulting Costs	\$ 185,000	\$ 185,000	\$ 185,000	\$ 185,000	\$ 185,000
Training/Education	\$ 54,636	\$ 55,729	\$ 56,843	\$ 57,980	\$ 59,140
Hardship Administration Costs	\$ 100,000	\$ 100,000	\$ 100,000	\$ 100,000	\$ 100,000
Quarterly-Fee Allocation Funds	\$ 72,000	\$ 72,000	\$ 72,000	\$ 72,000	\$ 72,000
Election Administration	\$ -	\$ 21,200	\$ 10,600	\$ -	\$ 21,200
Office/Admin/Equipment	\$ 7,650	\$ 7,803	\$ 7,959	\$ 8,118	\$ 8,281
Total-->	\$ 2,773,148	\$ 2,827,614	\$ 2,850,794	\$ 2,874,498	\$ 2,930,535

The Board will note that the five-year projection indicates that the surplus may decline to approximately \$1.0 million after five years. This decline has been anticipated in staff's internal spreadsheet monitoring, which actually expands the projection period to ten years.

As previously indicated to the Board, our ten-year projections of the surplus indicate that it may gradually decline to approximately \$550,000 after nine years and then, in the tenth year, begin to expand again. However, because even five-year, much less ten-year, projections are so speculative (because of the large number of deviations from our projections which can occur over such a large time period), and because staff's projections of costs are generally conservative, it is possible the surplus would not decline to that level.

For example, our assumed growth rate is currently projected at 5.0%, however an additional 1.0% increase to the average growth rate would add \$200,000 to the estimated surplus balance. The 2012 growth rate in Plan assets was 12.7%. As noted in the 2012 Annual Report, 2.7% of that growth was attributable to participant contributions/rollovers.

This is a matter that will be reviewed in detail by the Plan Governance & Administrative Issues Committee when it revisits the 5-year Strategic Plan later this year. Options for the Committee and the Board include changes to the Plan's revenue/expense structure or continuing to closely monitor the projected surplus over the near- and intermediate term.

Submitted by: _____
Natasha Gameroz

Reviewed by: _____
Steven Montagna

Approved by: _____
Alejandrina Basquez

DEFERRED COMPENSATION PLAN QUARTERLY BUDGET REVIEW		
ADMINISTRATIVE AND OPERATING EXPENSES		
QUARTER ENDING 12/31/12		
STARTING BALANCE		
Payroll Fee Trust Fund Ending Balance - 9/30/12	\$	29,993
Administrative Fee Reserve Fund Balance - 9/30/12	\$	2,664,868
Total	\$	2,694,861
REVENUES/FEES		
Interest Earnings on Payroll Fee Trust Fund	\$	177
Payroll Fee Trust Fund Deposit: Travel	\$	-
Payroll Fee Trust Fund Deposit: Salary Reimbursements	\$	119,409
Interest Earnings on Administrative Fee Reserve Fund	\$	16,528
Revenue from Fees Deducted from Participant Accounts	\$	572,453
Miscellaneous Credits	\$	(74,760)
Total Revenue/Fees	\$	633,807
STARTING BALANCE + REVENUE/FEES	\$	3,328,668
EXPENDITURES		
2130 Travel/Training/Education	\$	(11,729)
4160 Governmental Meetings	\$	-
6010 Office and Administrative	\$	-
7300 Office Furniture & Equipment	\$	-
Participant Administrative Fees Paid to Great-West	\$	(371,937)
Unforeseen Emergency Withdrawal Service	\$	(26,250)
Prior Quarter Departmental Staffing Reimbursements	\$	(137,328)
Travel/Training/Education - Transfer to Payroll Fee Trust Fund	\$	-
Consulting Costs	\$	-
Special Mailing/Marketing Expenses	\$	-
GWRS Quarterly Fee - Asset Allocation Fund Management	\$	(14,250)
Wells Fargo Custodial Fees	\$	(1,250)
TOTAL EXPENDITURES	\$	(562,743)
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	\$	2,646,515
ENCUMBRANCES/LIABILITIES		
Reimbursements: 3 Mos. Ending 12/31/12	\$	(159,404)
TOTAL LIABILITIES	\$	(159,404)
ASSETS LESS EXPENDITURES/LIABILITIES	\$	2,487,112
Personnel Reimbursement Summary - 3 Months Ending 12/31/12		
Personnel - Salaries + Related Costs @ 124.69%	\$	125,468.12
City Attorney - Salaries + Related Costs @ 76.46%	\$	33,935.46
Total Reimbursements	\$	159,403.58