

DEFERRED COMPENSATION PLAN BOARD REPORT 14-03

Date: January 15, 2013
To: Board of Deferred Compensation Administration
From: Staff
Subject: 2014 Deferred Compensation Plan Budget

Members
Eugene K. Canzano, Chairperson
John R. Mumma, Vice-Chairperson
Cliff Cannon, First Provisional Chair
Tom Moutes, Second Provisional Chair
Sangeeta Bhatia, Third Provisional Chair
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Ray Ciranna
Robert Schoonover
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Recommendation:

That the Board of Deferred Compensation Administration adopt staff's proposed budget for the 2014 calendar year.

Discussion:

Staff is recommending that the Board adopt staff's proposed budget for the Plan's 2014 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 that are incorporated in the quarterly reconciliations.

As the Board is aware, annual budgets incorporate some level of an assumed deficit as the Plan's overall surplus is gradually reduced to be in alignment with the long-term targeted reserve. The projected deficit for 2014 is approximately \$290,000, an amount in line with the long-term reserve objective.

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 revenues (amounts collected from participant accounts) reflect the increase in Plan assets, which have now exceeded \$4 billion as of December 2013. The one-year Plan assets growth rate assumption is 6.5% as set in the Strategic Plan which was revised by the Board in November 2013. The actual growth rate in 2013, which saw notably strong growth in the 1st and 4th quarters, was approximately 19.6%.
- **Interest** – Per the Board's adoption of an ongoing rate of return for the Stable Value Fund, this report assumes a 2.75% rate of return for the Plan's Stable Value Fund, the fund in which reserve assets are invested.
- **Participant Administrative Fees Owed to Great-West** – Given current budget conditions and the continued trend of limited hiring, the overall number of plan participants is expected to remain relatively flat. If an auto enrollment program is introduced in 2014, this may slightly increase participation depending upon the timing and pace of implementation as well as the number of interested employee labor

organizations who adopt participation in the program during the calendar year. Staff projects a 1% growth rate.

- **Estimated Personnel Department Reimbursements** – Includes direct salary and indirect related costs (at 143.69%) for various percentages of a Chief Personnel Analyst, Senior Personnel Analyst II, Senior Management Analyst I, two Management Analyst IIs, and a Clerk Typist (in lieu of a Benefits Specialist). The actual hours worked within these positions in service of the Deferred Compensation Plan, the timing of filling vacancies, etc. may create variation between the budgeted amount and actual expenditures.
- **Estimated City Attorney Reimbursements** – Includes direct salary and indirect related costs (at 58.56%), for various percentages of an Assistant City Attorney and Legal Assistant. The actual hours worked within these positions in service of the Deferred Compensation Plan, the timing of filling vacancies, etc. may create variation between the budgeted amount and actual expenditures.
- **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. The Board also sets aside \$10,000 annually for tax consulting services with Steptoe and Johnson for a total of \$185,000 in estimated consulting expenditures.
- **Communications** – In addition to contracts with Mercer and Buck for communications consulting, the third-party-administrator contract with Great-West assumes certain communications-related expenditures related to development of newsletters, communications and educational documents, communications technology (e.g. the retirement projection calculator and account management tool, etc.), and other items. As the development of communications projects has accelerated and the use of new technologies (e.g. webinars, videos, etc.) is contemplated to increase, staff is recommending setting aside an additional \$50,000 of communications-related expenditures. All special communications projects will, as always, be brought to the Board for prior approval.
- **Travel/Training/Education** – In July 2013, the Board adopted Board report 13-23 which included a 2013/14 training budget of \$55,756 and proposed 2014/15 fiscal year travel expenditures of \$62,600. The proposed calendar year 2014 budget amount is the average of the Board adopted fiscal year 13/14 and 14/15 budgeted amounts. These amounts do not include any unused balance amounts that may carry over from 2013 to 2014 – those amounts will not be known until staff completes its 12/31/13 quarterly budget review.
- **Governmental Meetings** – This includes all incidental costs tailored for special Board meetings. A nominal amount has been budgeted. Any expenditure in this category will reduce the dollar amount of the indirect cost reimbursement.
- **Office and Administrative** – This expense is generally utilized for smaller office supply purchases. An amount of \$10,000 has been budgeted to cover computer and

software purchases/upgrades and other office equipment. Any expenditure in this category will reduce the dollar amount of the indirect cost reimbursement.

- ***GWRs Asset Allocation Fund Management*** – This category reflects the \$6,000 per fund fee for each of the Plan’s five asset allocation funds (Ultra-Aggressive to Ultra Conservative Portfolio Options), FDIC-Insured Savings Option, DCP Stable Value Fund, DCP Bond Fund, DCP Large-Cap Fund, DCP Mid-Cap Fund, DCP Small-Cap Fund, and International Fund.
- ***GWRs Hardship Administration*** – Staff is projecting approximately 400 hardship cases to be processed next year at a cost of \$250 per completed case.
- ***Elections Administration*** – Staff has included costs for administering Board elections for the LACERS and Fire/Police Pensions Representatives.

Staff recommends that the Board adopt staff’s proposed budget for the 2014 calendar year.

Submitted by: _____
Paul Makowski

Reviewed by: _____
Steven Montagna

Approved by: _____
Alejandrina Basquez

| DEFERRED COMPENSATION PLAN | | |
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| PROJECTED REVENUES/EXPENDITURES | | |
| 01/01/14-12/31/14 | | |
| REVENUES | | |
| Projected Starting Balance on 01/01/14 | \$ | 2,511,969 |
| Estimated Annual Administrative Fee Revenue | \$ | 2,498,774 |
| Estimated Interest Earnings | \$ | 70,552 |
| Opening Balance Plus Projected Revenues | \$ | 5,081,295 |
| EXPENDITURES | | |
| Participant Administrative Fees Owed to Great-West | \$ | (1,498,320) |
| Estimated Personnel Department Reimbursements | \$ | (762,949) |
| Estimated City Attorney Reimbursements | \$ | (106,134) |
| Communications | \$ | (50,000) |
| Estimated Consulting Costs | \$ | (185,000) |
| 2130 Travel/Training/Education | \$ | (59,178) |
| 4160 Governmental Meetings | \$ | (500) |
| 6010 Office and Administrative | \$ | (5,000) |
| GWRS Asset Allocation Fund Management | \$ | (72,000) |
| GWRS Hardship Administration | \$ | (100,000) |
| Elections Administration | \$ | (21,200) |
| Total Estimated Expenditures | \$ | (2,860,281) |
| Annual Revenues Less Annual Expenditures | \$ | (290,955) |
| Projected Ending Balance on 12/31/14 | \$ | 2,221,014 |