

Deferred Compensation Plan BOARD REPORT 15-14

Date: February 4, 2015
 To: Board of Deferred Compensation Administration
 From: Staff
 Subject: Deferred Compensation Plan Budget Status
 Report: Quarters Ending 12/31/14

*Board of Deferred
 Compensation Administration
 Eugene K. Canzano, Chairperson
 John R. Mumma, Vice-Chairperson
 Cliff Cannon, First Provisional Chair
 Tom Moutes, Second Provisional Chair
 Michael Amerian, Third Provisional Chair
 Ray Ciranna
 Linda P. Le
 Wendy G. Macy
 Robert Schoonover*

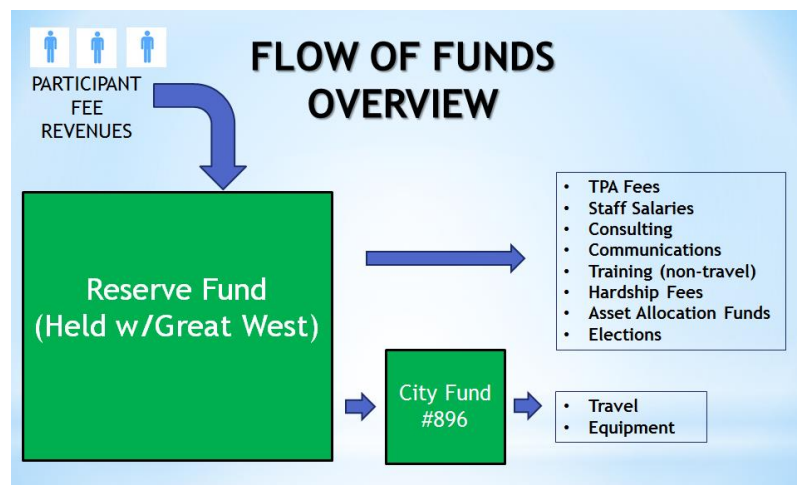
Recommendation:

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 **12/31/14**; and (b) approve reimbursements from the Deferred Compensation Plan Reserve Fund accounts to the Personnel Department for **\$144,876.81**, and City Attorney for **\$25,387.11**.

Discussion:

Reimbursements - Staff recommends reimbursement from the Deferred Compensation Plan Reserve Fund accounts to the Personnel Department for \$144,876.81 and City Attorney for \$25,387.11 for the quarter ending 12/31/14. Quarterly activity in the Plan’s revenue/expenditure accounts is included in Attachment I. Calculations for the current quarter 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, using CAP 35 figures. These rates are subject to revision by the Controller. If they are revised, staff will address the adjustment in a future quarterly reconciliation. Indirect costs for Personnel and City Attorney are 143.69% and 58.56% respectively.

Reserve Fund Projection – All of the City’s internal administrative costs are required to be paid by participant fees. Two accounts are used to pay expenses: a fund held with the Plan administrator which acts as a repository for participant fees and from which most Plan expenses are paid; and a fund held within the City, from which travel and equipment purchases are made, as illustrated in the graphic on the right.

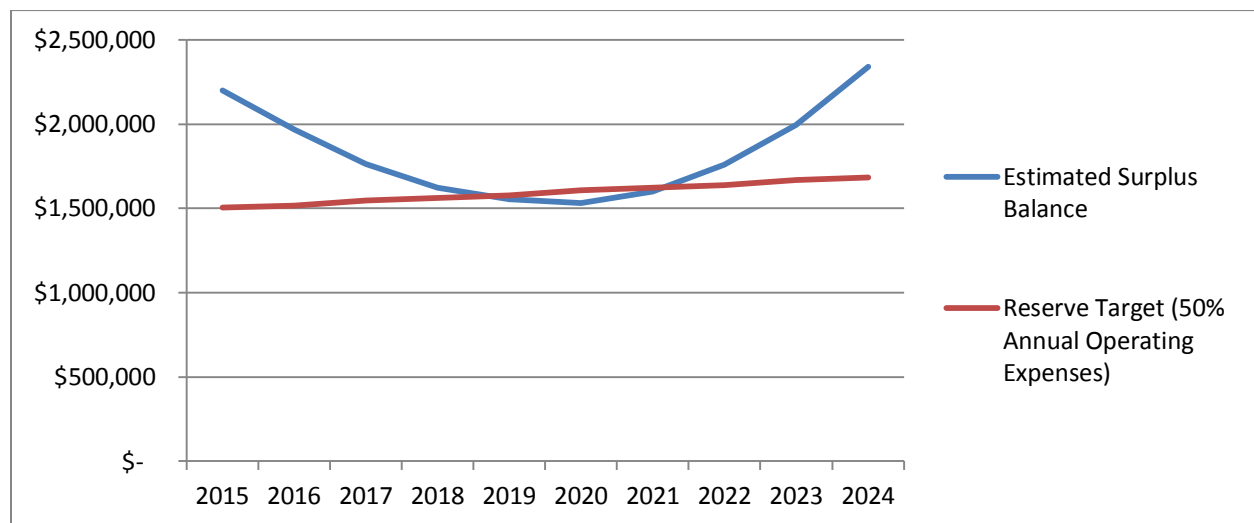


In order to maintain stability within the fee structure, the Plan maintains a reserve balance. The target reserve amount is 50% of annual Plan operating expenses. Each quarter when staff submits its accounting and recommendations for reimbursing administrative costs, a long-term projection is updated using assumptions for key variables that have been considered by the Board. This information is generated so that the Board can compare the long-term projected reserve to the target reserve.

At its November 2013 Strategic Plan meeting, the Board reviewed and modified its assumptions and key variables as reflected below:

<i>Expenses Inflation Adjustment Factor</i>	<i>Enrollment Adjustment Factor</i>	<i>Asset Growth Adjustment Factor</i>	<i>Stable Value Funds Interest Assumption</i>	<i>Basis Points Charged Against Participant Accounts</i>	<i>Fee Cap</i>	<i>Personnel Avg. Cap Rate</i>	<i>City Attorney Avg. Cap Rate</i>
2.0%	1.0%	6.5%	2.75%	0.10%	\$125	1.15	0.75

At this meeting it was agreed that staff's reports would include a ten-year projection of the reserve fund balance. As a result, following is a rolling ten-year forecast of the Deferred Compensation Plan's reserve fund balance. Supporting data for this chart is included in Attachment II.



This long-term review indicates that the projected actual reserve will fall below the target reserve, with the lowest balance amount in the range of \$1,532,000 before trending higher.

Submitted by: _____
Paul Makowski

Reviewed by: _____
Esther Chang

Approved by: _____
Steven Montagna

SUPPORTING DATA FOR PLAN RESERVE FUND PROJECTION

DEFERRED COMPENSATION PLAN QUARTERLY BUDGET REVIEW		Prior Quarters			
ADMINISTRATIVE AND OPERATING EXPENSES		Ending	Ending	Ending	Ending
QUARTER ENDING 12/31/14		9/30/2014	6/30/2014	3/31/2014	12/31/2013
STARTING BALANCE					
Payroll Fee Trust Fund Ending Balance - 9/30/14	\$ 208,102	42,082	42,240	202,456	58,302
Administrative Fee Reserve Fund Balance - 9/30/14	\$ 2,647,722	2,686,381	2,689,594	2,751,928	2,863,906
Total	\$ 2,855,824	2,728,463	2,731,834	2,954,384	2,922,208
REVENUES/FEEES					
Interest Earnings on Payroll Fee Trust Fund	\$ 169	49	225	214	115
Payroll Fee Trust Fund Deposit: Travel	\$ -	-	-	-	-
Payroll Fee Trust Fund Deposit: Salary Reimbursements	\$ 172,710	380,487	-	197,061	159,616
Interest Earnings on Administrative Fee Reserve Fund	\$ 11,348	10,352	10,695	10,425	12,469
Revenue from Fees Deducted from Participant Accounts	\$ 637,040	633,469	624,942	615,503	606,738
Miscellaneous Credits	\$ 817	3,011	-	-	1
Total Revenue/Fees	\$ 822,084	1,027,368	635,861	823,202	778,940
TOTAL ASSETS (STARTING BALANCE + REVENUE/FEEES)	\$ 3,677,908	3,755,831	3,367,695	3,777,587	3,701,148
EXPENDITURES					
Participant Administrative Fees Paid to Great-West	\$ (376,697)	(375,329)	(374,330)	(373,295)	(375,079)
Prior Quarter Departmental Staffing Reimbursements	\$ -	(207,777)	(172,710)	(197,061)	(160,216)
Consulting Costs	\$ (61,049)	(41,454)	(59,558)	(19,574)	(139,584)
Plan Administrator Hardship Administration	\$ (21,000)	(20,000)	(16,750)	(22,750)	(24,500)
Plan Administrator Asset Allocation Fund Management	\$ (14,250)	(14,250)	(14,250)	(14,250)	(14,250)
Communications	\$ -	(5,300)	-	(60,082)	(15,000)
2130 Travel/Training/Education	\$ (10,370)	(12,169)	(398)	(860)	(15,592)
Travel/Training/Education - Payment-Steptoe - Training	\$ -	(7,785)	-	-	(1,308)
Elections Administration	\$ -	(41,983)	-	-	-
Wells Fargo Custodial Fees	\$ (1,250)	(1,250)	(1,250)	(1,250)	(1,250)
6010 Office and Administrative	\$ -	-	-	-	-
4160 Governmental Meetings	\$ -	-	-	-	-
TOTAL EXPENDITURES	\$ (11,620)	(63,187)	(1,648)	(2,110)	(18,150)
Actual Payroll Fee Trust Fund Ending Balance (12/31/14)	\$ 19,776	208,102	42,082	42,240	202,456
Actual Administrative Fee Reserve Fund Ending Balance (12/31/14)	\$ 2,822,682	2,647,722	2,686,381	2,689,594	2,751,928
ACTUAL TOTAL BALANCE AS OF 12/31/14	\$ 2,842,457	2,855,824	2,728,463	2,731,834	2,954,384
ENCUMBRANCES/LIABILITIES					
Prior Quarter Departmental Staffing Reimbursements: 9/30/14	\$ (184,728.20)	(163,389)	(178,140)	(172,710)	(197,061)
Current Quarter: Personnel - Salaries + Related Costs @ 143.69%	\$ (144,876.81)	(146,044)	(135,262)	(155,050)	(155,518)
Current Quarter: City Attorney - Salaries + Related Costs @ 58.56%	\$ (25,387.11)	(38,684)	(28,127)	(23,090)	(17,193)
TOTAL LIABILITIES	\$ (354,992)	(348,117)	(341,529)	(350,851)	(369,771)
TOTAL ASSETS LESS LIABILITIES					
\$ 2,487,465		2,507,707	2,386,934	2,380,983	2,584,614

SUPPORTING DATA FOR PLAN RESERVE FUND PROJECTION

10 YEAR PROJECTIONS

Quarter Ending:	12/31/2015	12/30/2016	12/30/2017	12/31/2018	12/31/2019	12/30/2020	12/30/2021	12/31/2022	12/31/2023	12/30/2024
Starting Balance	\$ 2,487,465	\$ 2,199,893	\$ 1,966,399	\$ 1,761,015	\$ 1,620,965	\$ 1,553,019	\$ 1,532,676	\$ 1,598,729	\$ 1,759,628	\$ 1,992,674
Estimated Interest Earnings	\$ 68,405	\$ 60,497	\$ 54,076	\$ 48,428	\$ 44,577	\$ 42,708	\$ 42,149	\$ 43,965	\$ 48,390	\$ 54,799
Estimated Participant Fee Revenue	\$ 2,652,205	\$ 2,741,127	\$ 2,834,995	\$ 2,934,121	\$ 3,038,839	\$ 3,149,503	\$ 3,266,492	\$ 3,390,208	\$ 3,521,080	\$ 3,659,563
Estimated Total Revenue	\$ 2,720,610	\$ 2,801,624	\$ 2,889,071	\$ 2,982,549	\$ 3,083,415	\$ 3,192,211	\$ 3,308,641	\$ 3,434,173	\$ 3,569,470	\$ 3,714,362
Estimated Expenses	\$(3,008,182)	\$(3,035,119)	\$(3,094,455)	\$(3,122,599)	\$(3,151,362)	\$(3,212,554)	\$(3,242,588)	\$(3,273,274)	\$(3,336,424)	\$(3,368,448)
Difference between revenue/expenses	\$ (287,572)	\$ (233,495)	\$ (205,384)	\$ (140,050)	\$ (67,946)	\$ (20,343)	\$ 66,053	\$ 160,899	\$ 233,046	\$ 345,913
Estimated Surplus Balance	\$ 2,199,893	\$ 1,966,399	\$ 1,761,015	\$ 1,620,965	\$ 1,553,019	\$ 1,532,676	\$ 1,598,729	\$ 1,759,628	\$ 1,992,674	\$ 2,338,588
Reserve Target (50% Annual Operating Expenses)	\$ 1,504,091	\$ 1,517,560	\$ 1,547,227	\$ 1,561,299	\$ 1,575,681	\$ 1,606,277	\$ 1,621,294	\$ 1,636,637	\$ 1,668,212	\$ 1,684,224
Estimated Balance Over/Under Reserve	\$ 695,803	\$ 448,839	\$ 213,787	\$ 59,666	\$ (22,662)	\$ (73,601)	\$ (22,565)	\$ 122,991	\$ 324,463	\$ 654,364

PLAN EXPENSES

Annual Expenses	12/31/2015	12/30/2016	12/30/2017	12/31/2018	12/31/2019	12/30/2020	12/30/2021	12/31/2022	12/31/2023	12/30/2024
Admin Fees Owed to GWRS	\$ 1,527,418	\$ 1,542,692	\$ 1,558,119	\$ 1,573,700	\$ 1,589,437	\$ 1,605,331	\$ 1,621,385	\$ 1,637,599	\$ 1,653,975	\$ 1,670,514
Direct Salary Costs: Personnel	\$424,158.30	\$ 432,641	\$ 441,294	\$ 450,120	\$ 459,123	\$ 468,305	\$ 477,671	\$ 487,225	\$ 496,969	\$ 506,908
Direct Salary Costs: City Attorney	\$ 79,392.92	\$ 80,981	\$ 82,600	\$ 84,252	\$ 85,937	\$ 87,656	\$ 89,409	\$ 91,198	\$ 93,021	\$ 94,882
Indirect Related Costs: Personnel	\$ 487,782	\$ 497,538	\$ 507,488	\$ 517,638	\$ 527,991	\$ 538,551	\$ 549,322	\$ 560,308	\$ 571,514	\$ 582,945
Indirect Related Costs: City Attorney	\$ 59,545	\$ 60,736	\$ 61,950	\$ 63,189	\$ 64,453	\$ 65,742	\$ 67,057	\$ 68,398	\$ 69,766	\$ 71,161
Consulting Costs	\$ 185,000	\$ 185,000	\$ 185,000	\$ 185,000	\$ 185,000	\$ 185,000	\$ 185,000	\$ 185,000	\$ 185,000	\$ 185,000
Training/Education	\$ 54,636	\$ 55,729	\$ 56,843	\$ 57,980	\$ 59,140	\$ 60,323	\$ 61,529	\$ 62,760	\$ 64,015	\$ 65,295
Hardship Administration Costs	\$ 100,000	\$ 100,000	\$ 100,000	\$ 100,000	\$ 100,000	\$ 100,000	\$ 100,000	\$ 100,000	\$ 100,000	\$ 100,000
Quarterly-Fee Allocation Funds	\$ 72,000	\$ 72,000	\$ 72,000	\$ 72,000	\$ 72,000	\$ 72,000	\$ 72,000	\$ 72,000	\$ 72,000	\$ 72,000
Election Administration	\$ 10,600	\$ -	\$ 21,200	\$ 10,600	\$ -	\$ 21,200	\$ 10,600	\$ -	\$ 21,200	\$ 10,600
Office/Admin/Equipment	\$ 7,650	\$ 7,803	\$ 7,959	\$ 8,118	\$ 8,281	\$ 8,446	\$ 8,615	\$ 8,787	\$ 8,963	\$ 9,142
Total-->	\$ 3,008,182	\$ 3,035,119	\$ 3,094,455	\$ 3,122,599	\$ 3,151,362	\$ 3,212,554	\$ 3,242,588	\$ 3,273,274	\$ 3,336,424	\$ 3,368,448