



CITY OF *Los Angeles*

DEFERRED COMPENSATION PLAN (DCP)

Board Report 19-10

Date: March 19, 2019

To: Board of Deferred Compensation Administration (Board)

From: Staff

Subject: Staffing Costs Reimbursements Fourth Quarter 2018

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Recommendation:

That the Board approve reimbursements from the Reserve Fund to the Personnel Department for **\$159,226.41** and City Attorney for **\$30,496.54** for the quarter ending December 31, 2018, including prior quarter adjustments to indirect cost calculations.

Discussion:

A. Quarterly Staffing Cost Reimbursements – Quarter Ending December 31, 2018

Staff recommends reimbursement from the DCP Reserve Fund to the Personnel Department for **\$159,226.41** and City Attorney for **\$30,496.54** for the quarter ending December 31, 2018. Quarterly activity in the DCP's revenue/expenditure accounts is included in **Attachment A**. Calculations for the current quarter include salaries for all positions presently servicing the DCP, including direct salary and indirect costs as calculated in the City Controller's Special Rates for Indirect Cost Centers ("Special Rates"). These rates are subject to revision by the City Controller. For the quarter ending December 31, 2018, staff is using Special Rates (41) for FY 18-19. The Special Rates (41) indicate that indirect cost reimbursement percentages for the Personnel Department and City Attorney are presently **99.39%** and **87.45%**, respectively.

B. Adjustments

The calculation of indirect costs for the quarter ending September 30, 2018, previously adopted by the Board at its December 18, 2018 meeting, were developed using Special Rates (40) as provided by the City Controller for FY 17-18. The City Controller has since provided staff with Special Rates (41) for FY 18-19, which revised the rates for Personnel and City Attorney. Consistent with past practice, staff recalculated the reimbursement amounts for quarter ending September 30, 2018, to identify any necessary adjustments. As Special Rates (41) were slightly lower than Special Rates (40), a credit was identified and applied to the net reimbursements for quarter ending December 31, 2018.

FY	Quarter Ending	FY 17-18 Published Special Rate (40)				FY 18-19 Published Special Rate (41)				Credit Reimbursement	
		Total Personnel Amount Reimbursed under Published Special Rate 40	Applied Special Rate	Total City Attorney Amount Reimbursed under Published Special Rate 40	Applied Special Rate	Total Personnel Reimbursement Amount Calculated Per Published Special Rate 41	Applied Special Rate	Total City Attorney Reimbursement Amount Calculated Per Published Special Rate 41	Applied Special Rate	Credit Personnel	Credit City Attorney
18-19	9/30/2018	\$ 182,216	102.34%	\$ 37,732	104.67%	\$ 179,559	99.39%	\$ 34,557	87.45%	\$ 2,657	\$ 3,175

The reconciliation adjustment for the quarter ending September 30, 2018, includes a credit from the Personnel Department for \$2,657 and City Attorney for \$3,175 to the DCP.

C. Reserve Fund Projection

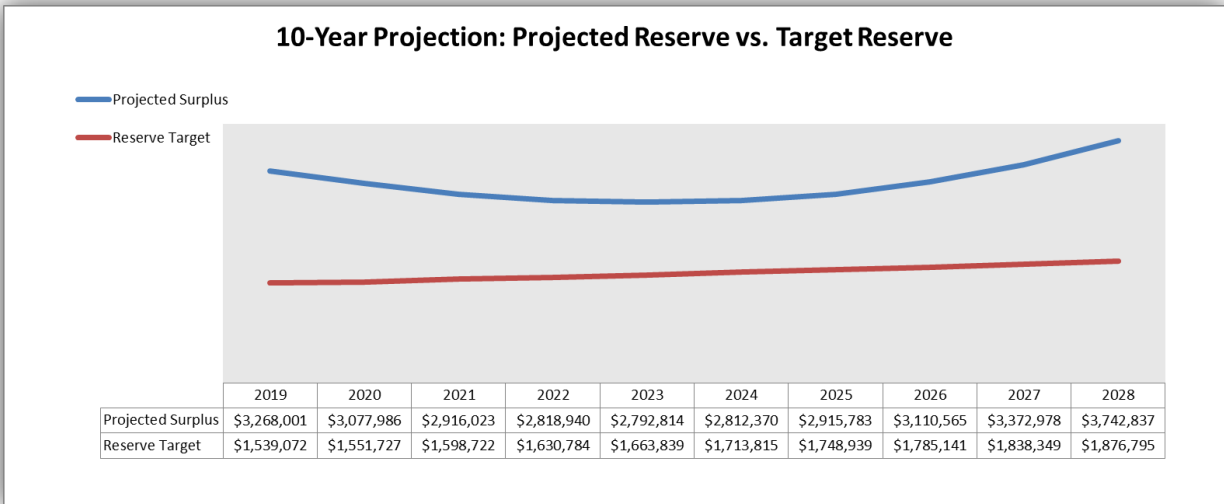
Pursuant to Los Angeles Administrative Code Division 4, Chapter 14, all of the City’s internal administrative costs are required to be paid by participant fees. Two accounts are used to pay expenses: (1) an account held with the Third-Party Administrator (TPA), which acts as a repository for participant fees and from which most DCP expenses are paid; and (2) an account held within the City, from which travel and equipment purchases are made. Together, these two accounts comprise the DCP Reserve Fund.

To maintain stability within the DCP Reserve Fund and participant fees, the Board has established a target reserve amount of 50% of annual DCP 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 February 19, 2019 meeting, the Board reviewed and approved long-term assumptions for DCP revenues and expenditures following a fee review and recommendations submitted by the DCP Plan Governance & Administrative Issues Committee. The Board approved the revision of assumptions used in projections for the DCP Reserve Fund to include increasing the assumption of annual net growth in participation from **2%** to **3%** and increasing the assumption of annual indirect salary reimbursement rates from **100%** to **115%**. The current key variables used in long-term projections are summarized 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. Special Rate</i>	<i>City Attorney Avg. Special Rate</i>
2.0%	3.0%	6.5%	2.0%	0.09%	\$115	115.0%	115.0%

With each quarterly review, staff provides a ten-year projection of the Reserve Fund balance. Following is the rolling ten-year forecast of the DCP’s Reserve Fund balance updated with data as of December 31, 2018.



As indicated in the chart above, the surplus is projected to be above the target reserve over the entire ten-year period. The lowest projected amount above the target reserve is approximately **\$1.1 million** in 2024, increasing to approximately **\$1.9 million** above target in 2028. The projection does not assume the impact of any potential market downturn over the next ten years that could reduce DCP assets and therefore revenues from participant fees, or unanticipated expenses.

Submitted by: _____
 Kevin Hirose

Reviewed by: _____
 Isaias Cantú

Approved by: _____
 Steven Montagna

DEFERRED COMPENSATION PLAN QUARTERLY REVIEW OF REVENUES & EXPENSES				
	Pending	Adopted	Adopted	Adopted
	Ending	Ending	Ending	Ending
REVENUE & EXPENSE LINE ITEMS	12/31/2018	9/30/2018	6/30/2018	3/31/2018
STARTING BALANCE				
Payroll Fee Trust Fund Ending Balance	\$ 57,869	18,042	20,495	30,927
Administrative Fee Reserve Fund Balance	\$ 3,618,423	3,598,265	3,707,608	3,232,973
Total	\$ 3,676,292	3,616,308	3,728,103	3,263,900
REVENUES/FEES				
Interest Earnings on Payroll Fee Trust Fund	\$ 131	404	211	187
Payroll Fee Trust Fund Deposit: Travel	\$ -	50,000	0	0
Payroll Fee Trust Fund Deposit: Salary Reimbursements	\$ -	183,159	339,929	154,269
Interest Earnings on Administrative Fee Reserve Fund	\$ 24,829	23,260	22,611	17,221
Revenue from Fees Deducted from Participant Accounts	\$ 674,759	663,021	718,549	720,785
CAP Adjustment Credits	\$ -	-	0	0
Miscellaneous Credits	\$ 146	73	255,958	0
Total Revenue/Fees	\$ 699,865	919,917	1,337,257	892,463
TOTAL ASSETS (STARTING BALANCE + REVENUE/FEES)	\$ 4,376,157	4,536,225	5,065,360	4,156,363
EXPENDITURES				
Participant Administrative Fees Paid to TPA	\$ (379,149)	(380,261)	(414,233)	(359,535)
Prior Quarter Departmental Staffing Reimbursements	\$ -	(183,159)	(339,929)	(154,269)
Consulting Costs	\$ (12,939)	(24,482)	(51,218)	(14,827)
Plan Administrator Hardship Administration	\$ -	-	0	0
Plan Administrator Asset Allocation Fund Management	\$ -	-	0	0
Communications	\$ (1,976)	(558)	(480)	(5,217)
Travel/Training/Education	\$ (14,191)	(9,411)	0	0
Elections Administration	\$ -	(27,664)	(28,474)	0
6010 Office and Administrative	\$ -	(1,240)	(4,314)	(10,619)
4160 Governmental Meetings	\$ -	-	0	0
TOTAL EXPENDITURES	\$ (408,254)	(626,774)	(838,647)	(544,467)
Actual Payroll Fee Trust Fund Ending Balance	\$ 44,425	57,869	8,042	20,495
Actual Administrative Fee Reserve Fund Ending Balance	\$ 3,923,478	3,618,423	3,598,265	3,437,131
ACTUAL TOTAL ENDING BALANCE	\$ 3,967,903	3,676,292	3,606,308	3,457,626
ENCUMBRANCES/LIABILITIES				
Outstanding Reimbursements from Prior Quarter(s)	\$ (219,947)	0	0	(166,879)
Quarter end 09/30/18 Personnel Adjustments (Special Rate 41)	\$ 2,656.60	n/a	n/a	n/a
Quarter end 09/30/18 City Attorney Adjustments (Special Rate 41)	\$ 3,174.57	n/a	n/a	n/a
Quarterly Personnel Direct/Indirect Costs	\$ (159,226.41)	(182,216)	(147,320)	(149,675)
Quarterly City Attorney Direct/Indirect Costs	\$ (30,496.54)	(37,732)	(35,838)	(23,375)
Net Ending Balance Owed	\$ (403,839)	(219,947)	(183,159)	(339,929)
TOTAL ASSETS LESS LIABILITIES	3,564,064	3,456,345	3,423,149	3,117,697