



CITY OF *Los Angeles*

DEFERRED COMPENSATION PLAN (DCP)

Board Report 19-30

Date: August 20, 2019

To: Board of Deferred Compensation Administration (Board)

From: Staff

Subject: Quarterly Reimbursements Q2 2019

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Recommendation:

That the Board approve reimbursements from the DCP Reserve Fund to the Personnel Department for **\$151,180.71** and City Attorney for **\$36,342.60** for the quarter ending June 30, 2019.

Discussion:

A. Quarterly Staffing Cost Reimbursements – Quarter Ending June 30, 2019

Staff recommends reimbursement from the DCP Reserve Fund to the Personnel Department for **\$151,180.71** and City Attorney for **\$36,342.60** for the quarter ending June 30, 2019. 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 according to 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 June 30, 2019, staff is using Special Rates (41) for FY 2018-19. 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. Reserve Fund Projection

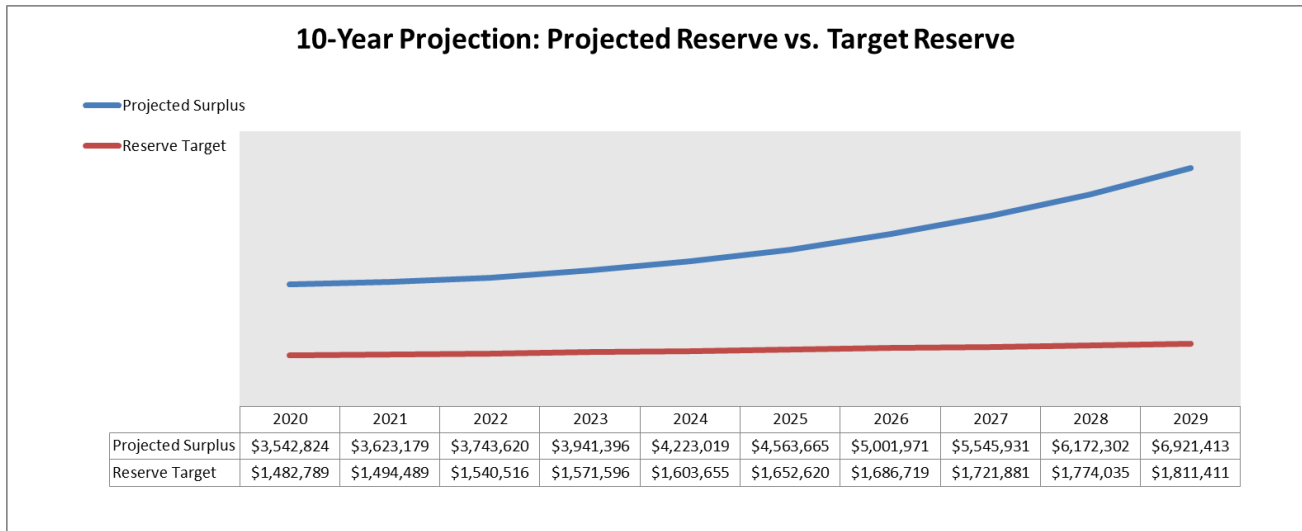
Pursuant to Los Angeles Administrative Code Division 4, Chapter 14, all of the City's internal administrative costs are required to be paid by participant fees. Two accounts are used to pay expenses: (1) an account held with the Third-Party Administrator (TPA), which acts as a repository for participant 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.

The Board last reviewed and approved long-term assumptions for DCP revenues/expenditures at its February 19, 2019 meeting, following a fee review and recommendations submitted by the DCP Plan Governance & Administrative Issues Committee. The Board-approved revision of assumptions used in projections for the DCP Reserve Fund included 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:

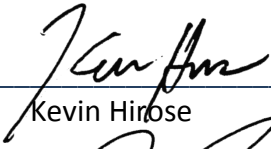
| <i>Expenses Inflation Adjustment Factor</i> | <i>Enrollment Adjustment Factor</i> | <i>Asset Growth Adjustment Factor</i> | <i>Stable Value Funds Interest Assumption</i> | <i>Basis Points Charged Against Participant Accounts</i> | <i>Fee Cap</i> | <i>Personnel Avg. Special Rate</i> | <i>City Attorney Avg. Special Rate</i> |
|---|-------------------------------------|---------------------------------------|---|--|----------------|------------------------------------|--|
| 2.0% | 3.0% | 6.5% | 2.0% | 0.09% | \$115 | 115.0% | 115.0% |

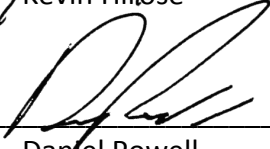
With each quarterly review, staff provides a ten-year projection of the Reserve Fund balance. Following is the rolling ten-year forecast of the DCP’s Reserve Fund balance updated with data as of June 30, 2019.



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 **\$2 million** in 2020, increasing to approximately **\$5 million** above target in 2029. 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: 
Daniel Powell

Approved by: 
Steven Montagna

| DEFERRED COMPENSATION PLAN QUARTERLY REVIEW OF REVENUES & EXPENSES | | | | |
|---|---------------------|---------------------|---------------------|------------------|
| | Pending | Adopted | Adopted | Adopted |
| | Ending | Ending | Ending | Ending |
| REVENUE & EXPENSE LINE ITEMS | 6/30/2019 | 3/31/2019 | 12/31/2018 | 9/30/2018 |
| STARTING BALANCE | | | | |
| Payroll Fee Trust Fund Ending Balance | \$ 446,654 | \$ 44,425 | \$ 57,869 | 18,042 |
| Administrative Fee Reserve Fund Balance | \$ 3,801,532 | \$ 3,801,532 | \$ 3,618,423 | 3,598,265 |
| Total | \$ 4,248,186 | \$ 3,845,957 | \$ 3,676,292 | 3,616,308 |
| REVENUES/FEEES | | | | |
| Interest Earnings on Payroll Fee Trust Fund | \$ 196 | \$ 340 | \$ 131 | 404 |
| Payroll Fee Trust Fund Deposit: Travel | \$ - | \$ - | \$ - | 50,000 |
| Payroll Fee Trust Fund Deposit: Salary Reimbursements | \$ - | \$ 409,670 | \$ - | 183,159 |
| Interest Earnings on Administrative Fee Reserve Fund | \$ 26,184 | \$ 24,872 | \$ 24,829 | 23,260 |
| Revenue from Fees Deducted from Participant Accounts | \$ 676,989 | \$ 651,631 | \$ 674,759 | 663,021 |
| CAP Adjustment Credits | \$ - | \$ - | \$ 0 | 0 |
| Miscellaneous Credits | \$ 1,048 | \$ - | \$ 146 | 73 |
| Total Revenue/Fees | \$ 704,417 | \$ 1,086,513 | \$ 699,865 | 919,917 |
| TOTAL ASSETS (STARTING BALANCE + REVENUE/FEEES) | \$ 4,952,603 | \$ 4,932,470 | \$ 4,376,157 | 4,536,225 |
| EXPENDITURES | | | | |
| Participant Administrative Fees Paid to TPA | \$ (386,485) | \$ (382,485) | \$ (379,149) | (380,261) |
| Prior Quarter Departmental Staffing Reimbursements | \$ (409,670) | \$ - | \$ - | (183,159) |
| Consulting Costs | \$ - | \$ (6,294) | \$ (12,939) | (24,482) |
| Plan Administrator Hardship Administration | \$ - | \$ - | \$ - | - |
| Plan Administrator Asset Allocation Fund Management | \$ - | \$ - | \$ - | - |
| Communications | \$ (848) | \$ - | \$ (1,976) | (558) |
| Travel/Training/Education | \$ (2,659) | \$ (5,950) | \$ (14,191) | (9,411) |
| Elections Administration | \$ - | \$ - | \$ - | (27,664) |
| 6010 Office and Administrative | \$ (1,258) | \$ (1,831) | \$ - | (1,240) |
| 4160 Governmental Meetings | \$ - | \$ - | \$ - | - |
| TOTAL EXPENDITURES | \$ (800,920) | \$ (396,560) | \$ (408,254) | (626,774) |
| Actual Payroll Fee Trust Fund Ending Balance | \$ 34,312 | \$ 446,654 | \$ 44,425 | 57,869 |
| Actual Administrative Fee Reserve Fund Ending Balance | \$ 3,916,788 | \$ 3,801,532 | \$ 3,923,478 | 3,618,423 |
| ACTUAL TOTAL ENDING BALANCE | \$ 3,951,100 | \$ 4,248,186 | \$ 3,967,903 | 3,676,292 |
| ENCUMBRANCES/LIABILITIES | | | | |
| Outstanding Reimbursements from Prior Quarter(s) | \$ (200,583) | \$ (403,839) | \$ (219,947) | 0 |
| Quarter end 09/30/18 Personnel Adjustments (Special Rate 41) | n/a | n/a | \$ 2,657 | n/a |
| Quarter end 09/30/18 City Attorney Adjustments (Special Rate 41) | n/a | n/a | \$ 3,175 | n/a |
| Quarterly Personnel Direct/Indirect Costs | \$ (151,181) | \$ (170,535) | \$ (159,226) | (182,216) |
| Quarterly City Attorney Direct/Indirect Costs | \$ (36,343) | \$ (30,048) | \$ (30,497) | (37,732) |
| Net Ending Balance Owed | \$ (388,107) | \$ (604,423) | \$ (403,839) | (219,947) |
| TOTAL ASSETS LESS LIABILITIES | 3,562,993 | 3,643,764 | 3,564,064 | 3,456,345 |