



CITY OF *Los Angeles*
DEFERRED COMPENSATION PLAN

Board Report 20-30

Date: August 4, 2020
 To: Board of Deferred Compensation Administration
 From: Staff
 Subject: Quarterly Staffing Reimbursements – Second Quarter 2020

Board of Deferred Compensation Administration
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Recommendation:

That the Board of Deferred Compensation Administration (Board) approve reimbursements from the Deferred Compensation Plan (DCP) Reserve Fund to the Personnel Department in the amount of **\$169,306.26** and to the City Attorney in the amount of **\$33,625.58** totaling **\$202,931.84**, inclusive of the second quarter of calendar year 2020 ending June 30, 2020, for staff providing direct support of the DCP.

Discussion:

A. Quarterly Staffing Cost Reimbursements – Second Quarter 2020

The proposed reimbursements identified in this report include the total staffing costs (direct and indirect) of Personnel Department and City Attorney positions providing direct support of the DCP during the second quarter of 2020 beginning April 1, 2020 and ending June 30, 2020 as follows:

Summary of Staffing Cost Reimbursements for Second Quarter 2020 (April 1, 2020 to June 30, 2020)	
Personnel Department Direct Costs	\$87,401.92
Personnel Department Indirect Costs @ 93.71%	\$81,904.34
Total Reimbursement to Personnel Department	\$169,306.26
City Attorney Direct Costs	\$18,476.61
City Attorney Indirect Costs @ 81.99%	\$15,148.97
Total Reimbursement to City Attorney	\$33,625.58
TOTAL PERSONNEL DEPARTMENT/CITY ATTORNEY STAFFING COSTS REIMBURSEMENTS	\$202,931.84

Calculations for the second quarter 2020 include direct costs (actual salaries for all positions presently supporting the DCP) and indirect costs as calculated according to the City Controller’s Special Rates for Indirect Cost Centers (“Special Rates”). These Special Rates are established on a fiscal year basis. Unique rates are identified by department categories. The most recently published rate report includes Special Rates 42 for Fiscal Year (FY) 2019-20, which identifies staffing cost reimbursement percentages for the Personnel Department and City Attorney as **93.71%** and **81.99%**, respectively. Calculation details including quarterly activity in the DCP’s revenue/expenditure accounts are provided in **Attachment A**.

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 (Fund 896), from which office and administrative expenses, travel, and equipment purchases are made. Together, these two accounts comprise the DCP Reserve Fund.

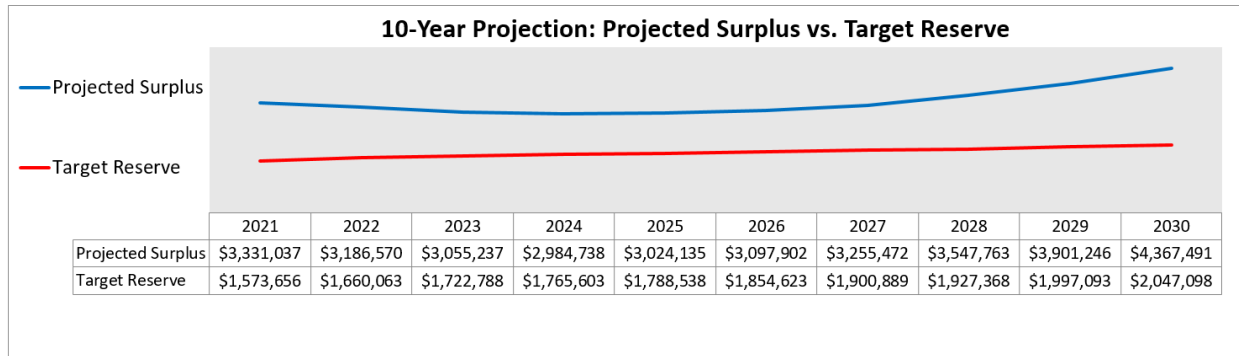
To maintain stability within the DCP Reserve Fund and participant fees, the Board has established a target reserve amount of 50% of annual DCP operating expenses. Each quarter, when staff submits its accounting and recommendations for reimbursing administrative costs, a long-term projection is updated using assumptions for key variables that have been considered by the Board. This information is generated for the Board to compare the long-term projected reserve to the target reserve.

The Board last reviewed and approved long-term assumptions for DCP revenues and expenditures at its February 18, 2020 meeting, following a fee review and recommendations submitted by the DCP Plan Governance & Administrative Issues Committee. The current key variables used in long-term projections are summarized below:

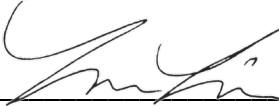
<i>Expenses Inflation Adjustment Factor</i>	<i>Enrollment Adjustment Factor</i>	<i>Asset Growth Adjustment Factor</i>	<i>Stable Value Funds Interest Assumption</i>	<i>Basis Points Charged Against Participant Accounts</i>	<i>Fee Cap</i>	<i>Personnel Avg. Special Rate</i>	<i>City Attorney Avg. Special Rate</i>
2.0%	3.0%	7%	2.0%	0.09%	\$115	115.0%	115.0%


With each quarterly review, staff provides a ten-year projection of the DCP Reserve Fund balance. The Board last reviewed the DCP ten-year forecast of the DCP Reserve Fund balance at its May 19, 2020 meeting which contained data as of March 31, 2020. This data reflected a decrease in plan assets and corresponding participant fee revenue due to the impact of the COVID-19 pandemic. As noted in Board Report 20-29, the global financial markets have rebounded significantly and DCP assets have recovered almost all of their value. DCP assets totaled \$7.0 billion as of June 30, 2020 and are at \$7.2 billion as of the time of writing this report.

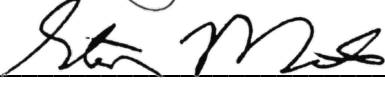
Following is the rolling-ten year forecast of the DCP Reserve Fund balance updated with data as of June 30, 2020. The forecast includes the approval of a one-time 50% reduction in the quarterly fee assessed on participant accounts (“fee holiday”) approved by the Board in February 2020 and subsequently deferred to the fourth quarter of 2020 per the Board’s action at its April 27, 2020 meeting. The fee holiday is expected to generate approximately \$372,000 in participant savings.



As indicated in the chart above, the reserve fund balance is projected to be above the target reserve over the entire ten-year period. The lowest projected surplus amount above the target reserve is approximately **\$3 million** in 2024, increasing to approximately **\$4.4 million** in 2030. The lowest projected difference between the projected surplus and the target reserve is approximately **\$1.2 million** in 2024, increasing to approximately **\$2.3 million** in 2030.

Submitted by: 
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Reviewed by: 
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Approved by: 
Steven Montagna, Chief Personnel Analyst

DEFERRED COMPENSATION PLAN QUARTERLY REVIEW OF REVENUES & EXPENSES				
	Pending	Adopted	Adopted	Adopted
	Ending	Ending	Ending	Ending
REVENUE & EXPENSE LINE ITEMS	6/30/2020	3/31/2020	12/31/2019	9/30/2019
STARTING BALANCE				
City Fund 896 Starting Balance	\$ 108,236.86	\$ 114,548.51	\$ 122,858.82	\$ 34,810.04
TPA Fund Starting Balance	\$ 4,095,338.70	\$ 3,965,355.25	\$ 3,951,373.34	\$ 3,916,787.82
Total	\$ 4,203,575.56	\$ 4,079,903.76	\$ 4,074,232.16	\$ 3,951,597.86
REVENUES				
Interest Earnings on Fund 896	\$ 1,078.99	\$ 680.85	\$ 594.63	\$ 707.42
Fund 896 Deposit: Salary Reimbursements	\$ 582,477.62	\$ -	\$ -	\$ 388,106.76
Fund 896 Deposit: Other	\$ -	\$ -	\$ -	\$ 100,000.00
Miscellaneous Credits To Fund 896	\$ -	\$ -	\$ -	\$ -
Interest Earnings on TPA Fund	\$ 24,856.30	\$ 26,288.94	\$ 26,839.70	\$ 26,921.80
Revenue from Fees Deducted from Participant Accounts	\$ 674,583.83	\$ 710,288.80	\$ 692,392.59	\$ 686,920.78
Miscellaneous Credits to TPA Fund	\$ -	\$ 7,099.01	\$ -	\$ -
Total Revenue/Fees	\$ 1,282,996.74	\$ 744,357.60	\$ 719,826.92	\$ 1,202,656.76
TOTAL ASSETS (STARTING BALANCE + REVENUE/FEEES)	\$ 5,486,572.30	\$ 4,824,261.36	\$ 4,794,059.08	\$ 5,154,254.62
EXPENDITURES				
2130 Travel/Training/Education	\$ -	\$ -	\$ (8,347.01)	\$ (8,165.37)
6010 Consulting Costs	\$ -	\$ (5,992.50)	\$ -	\$ -
6010 Office and Administrative: Reimb Staff Support	\$ (582,477.62)	\$ -	\$ -	\$ (388,106.76)
6010 Office and Administrative: Other	\$ (5,911.23)	\$ (1,000.00)	\$ (557.93)	\$ (4,493.27)
Contractual Fees Paid to TPA	\$ (405,956.75)	\$ (400,900.75)	\$ (395,612.75)	\$ (390,868.75)
Transfer to Fund 896: Salary Reimbursements	\$ (397,481.17)	\$ (184,996.45)	\$ -	\$ (187,523.31)
Transfer to Fund 896: Other	\$ -	\$ -	\$ -	\$ (100,000.00)
Consulting Costs	\$ (44,156.57)	\$ (27,796.10)	\$ (300,697.63)	\$ -
Communications	\$ -	\$ -	\$ (8,340.00)	\$ (865.00)
Training/Education/Travel Paid by TPA	\$ -	\$ -	\$ (600.00)	\$ -
Elections Administration	\$ (48,201.51)	\$ -	\$ -	\$ -
TOTAL EXPENDITURES	\$ (1,484,184.85)	\$ (620,685.80)	\$ (714,155.32)	\$ (1,080,022.46)
Actual City Fund 896 Ending Balance	\$ 103,404.62	\$ 108,236.86	\$ 114,548.51	\$ 122,858.82
Actual TPA Fund Ending Balance	\$ 3,898,982.83	\$ 4,095,338.70	\$ 3,965,355.25	\$ 3,951,373.34
ACTUAL TOTAL ENDING BALANCE	\$ 4,002,387.45	\$ 4,203,575.56	\$ 4,079,903.76	\$ 4,074,232.16
ENCUMBRANCES/LIABILITIES				
Outstanding Reimbursements from Prior Quarter(s)	\$ (0.00)	\$ (184,996.45)	\$ (184,996.45)	\$ (0.00)
Quarterly Personnel Department Direct/Indirect Costs	\$ (169,306.26)	\$ (320,911.15)	\$ -	\$ (154,833.03)
Quarterly City Attorney Direct/Indirect Costs	\$ (33,625.58)	\$ (76,570.02)	\$ -	\$ (30,163.42)
Net Ending Balance Owed	\$ (202,931.84)	\$ (582,477.62)	\$ (184,996.45)	\$ (184,996.45)
Funds in Transit from TPA Fund to City Fund 896	\$ -	\$ 184,996.45	\$ -	\$ -
TOTAL ENDING BALANCE LESS LIABILITIES	\$ 3,799,455.61	\$ 3,806,094.38	\$ 3,894,907.30	\$ 3,889,235.70

Summary of Staffing Cost Reimbursements for Second Quarter 2020	
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Quarterly City Attorney Direct/Indirect Costs Subtotal	\$ 33,625.58

Legend
City Fund 896
TPA Reserve Fund

TOTAL PERSONNEL DEPARTMENT/CITY ATTORNEY STAFFING COSTS REIMBURSEMENTS	\$ 202,931.84
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