



CITY OF *Los Angeles*

DEFERRED COMPENSATION PLAN

Board Report 24-02

Date: January 16, 2024

To: Board of Deferred Compensation Administration (Board)

From: Staff

Subject: Deferred Compensation Plan Budget Adoption for Plan Year 2024

Board of Deferred Compensation Administration
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Recommendation:

That the Board adopt the proposed Deferred Compensation Plan budget for Plan Year 2024 and authorize staff to make any technical adjustments as directed.

Discussion:

A. Background

The Board's [Governance Policies/Bylaws, Fiscal Administration Policy, Section 5.2](#), requires that the Board adopt a budget for each Plan Year. Pursuant to [Los Angeles Administrative Code Division 4, Chapter 14](#), all Deferred Compensation Plan (DCP) 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 education-related travel and equipment purchases are made. Together, these two accounts comprise the DCP Reserve Fund ("Reserve Fund"). To maintain stability within the fee structure, the DCP seeks to maintain a Reserve Fund balance representing 50% or six months of the DCP's annual expenses over a ten-year period. As of September 30, 2023, the reserve balance less liabilities (outstanding reimbursements and encumbrances set aside to pay for contracted services rendered to-date) was \$5.52 million versus the target balance of \$1.48 million, with a resulting surplus of \$4.04 million.

B. 2024 Budget Adoption

In accordance with the Board's Governance Policies/Bylaws, staff has prepared a proposed DCP Budget for Plan Year 2024, which is included below and in **Attachment A**.

DCP Proposed Budget Plan Year 2024

(A) Starting Account Balance on January 1	\$5,764,384
REVENUES	
Annual Administrative Fee Revenue	\$ 3,354,015
Interest/ Earnings	\$ 110,719
Miscellaneous	
Total Annual Revenues	\$ 3,464,734
EXPENDITURES	
Participant Administrative Fees Owed to TPA	\$ (1,749,305)
Staffing Reimbursements	\$ (1,320,502)
Consulting Costs*	\$ (225,000)
Plan Audit	\$ (45,000)
Fiduciary Liability Insurance - Side A	\$ (60,000)
Communications	\$ (20,000)
Travel/Training/Education	\$ (40,000)
Elections Administration	\$ (48,000)
Office and Administrative	\$ (20,000)
Governmental Meetings	\$ (500)
Total Annual Expenditures	\$ (3,528,307)
(B) Total Annual Revenues Less Total Annual Expenditures	\$ (63,573)
(C) Inter-Fund Transfers**	\$ -
Ending Account Balance on December 31 (A) + (B) + (C)	\$ 5,700,811

Since the establishment of a target reserve balance in 2007 ([Board Report 07-07](#)), the DCP budget has incorporated a level of assumed deficit in order to calibrate the DCP’s long-term surplus in alignment with the long-term target reserve balance. The projected annual operating deficit for 2024 is estimated to be approximately \$63,572.

The following details are provided regarding each budget item and related assumptions:

At its **September 19, 2023** meeting, following the annual DCP resource review and recommendations submitted by the DCP Plan Governance & Administrative Issues Committee, the Board approved certain Growth, Expense, and Fee variable assumptions for use in projecting future Reserve Fund balances (**Attachment B**). These assumptions are incorporated in the 2024 Plan Year proposed budget.

Revenues

- **Starting Balance on January 1st** – For Plan Year 2024, the starting balance includes amounts held in both the Third-Party Administrator’s Participant Fee account and the City’s Administrative Fee Trust Fund account that make up the DCP Reserve Fund. Plan Year 2023 revenues and expenditures are projected through Fourth Quarter 2023 to provide an estimated starting balance for January 1, 2024, as the Fourth Quarter Reserve Fund review is pending.
- **Estimated Annual Administrative Fee Revenue** – Projections for administrative fee revenues (amounts collected from participant accounts, which is 0.09% of participant assets up to an annual maximum of \$115 and deducted quarterly) reflect DCP assets as

of September 30, 2023, as the Fourth Quarter Reserve Fund review is pending. The one-year growth rate assumption is 5.5% for the 2024 plan year. DCP assets are impacted by both investment gains and participant contributions/rollovers.

- **Estimated 2024 Interest Earnings** – The assumed 2024 rate of return for the Stable Value Fund is 2.0%; there is no change to this assumption.

Expenditures

- **Participant Administrative Fees Owed to TPA** – The City’s contractual obligation to the DCP TPA is \$30.00 per participant annually, with quarterly statement archive maintenance and administrative fees of \$7,228.75. The long-term projected participant growth rate applied is 3.0%.
- **Estimated Staffing Reimbursements - Personnel Department and City Attorney** – The DCP funds direct and indirect costs for staff positions. Estimated expenditures for these positions for 2024 assume the plan is fully staffed, including positions with current incumbents and the Senior Benefits Analyst II position, which is expected to be filled in early 2024. Additionally, one quarter of staffing costs for one additional Senior Benefits Analyst I and one additional Benefits Specialist are included. At its September 19, 2023 meeting, the Board approved a recommendation to request these position authorities in the City’s proposed budget for Fiscal Year 2024-2025. Should these position authorities be approved in the budget and hiring is approved by the Board following a further review of the impact on DCP’s ten-year Reserve Fund projections (to be conducted at a later date), the earliest these positions could be filled is the last quarter of 2024.

Indicated rates reflect the most current Special Rate information for calculating indirect costs as set by the City Controller’s Office.

- **Estimated Consulting Costs - Investment, Plan Administration, and Outside Tax Counsel** – The DCP has contracts for various consulting services, including investments, plan administration, and outside tax counsel consulting (via a contract administered by the City Attorney’s Office). Staff projects a total of \$225,000 in investment, administrative, and outside tax counsel consulting expenditures for 2024.
 - Investment Consulting: \$190,000
 - Plan Administration Consulting: \$20,000
 - Outside Tax Counsel \$15,000

There is no change from the 2023 budget amount. It should be noted however, that it is expected that an amount above the proposed 2024 budget amount will actually be expended due to a backlog of consulting invoices from Mercer that were pending while a contract was being finalized. As these expenditures would be for prior year services, in upcoming quarterly resource reviews, staff will show them as expended from prior year budgeted amounts.

- **Plan Audit** – The projected cost of a DCP audit is \$45,000. This is carried over from last year. Staff will take steps to begin setting up an audit plan for the DCP and will work with its contractor in 2024.
- **Fiduciary Liability Insurance, Side A** – At its December 19, 2023 meeting, the Board conveyed its desire to procure Side A fiduciary liability insurance, or Directors & Officers

insurance. While it is not clear at this time how much the premium would be for a DCP policy, staff recommends budgeting an amount of \$60,000 to cover potential costs (based on premiums paid by the other City pension plans). Should more funding be required, staff will find other available budget line items to pull from.

- **Communications** – This category includes special communication costs funded directly by the DCP, which are separate from communications expenditures absorbed by the DCP TPA. From 2019 through 2021, the DCP has spent an average of about \$5,000 annually from this account, with a maximum expenditure of about \$10,000 in 2019. As such, staff recommends decreasing the budgeted amount to \$20,000 for 2024 as the communications resources provided by the TPA will cover the planned campaigns for the year. A contingent amount is recommended to be kept for potential printing costs the DCP may need to cover directly. Staff will continue to monitor this line item.
- **Travel/Training/Education** – This category includes projected travel/training expenditures of \$40,000, which is a \$5,000 increase from the 2023 budgeted amount of \$35,000. As organizations/associations have now resumed their in-person events, and the Board has a number of newer members who may wish to leverage available training, it is anticipated that in 2024 additional funds will be required. Ongoing training opportunities for existing DCP analysts and Board members were also considered, including training needed for fiduciary responsibilities and review of the Investment Policy Statement (both occur every three years per the Board's bylaws and will need to happen in 2024).
- **Elections Administration** – This category includes the costs of administering Board Elections. In May of 2024, a regular election will be held for the Active Participant WPERP Representative and Retired/Separated Participant Representative seats, for which the current terms are expiring on June 30, 2024. A total of \$48,000 is recommended to cover the costs paid to the Office of the City Clerk – Election Division to administer the elections.
- **Office and Administrative** – This category includes costs for staff and Board equipment, materials, and other incidental and administrative costs. To cover the cost of new equipment purchases expected in 2024, it is recommended to increase the budget to \$20,000, an increase of \$1,500 over the 2023 budget.
- **Governmental Meetings** – This category includes incidental costs for the conduct of governmental meetings.

Staff recommends that the Board adopt the proposed DCP budget for Plan Year 2024.

Submitted by: Mindy Lam, Benefits Analyst

Approved by: Esther Chang, Defined Contribution Plan Manager

**DEFERRED COMPENSATION PLAN
PROPOSED BUDGET PLAN YEAR 2024**

	Plan Year 2024	Plan Year 2023		Plan Year 2022		Plan Year 2021		Plan Year 2020		Plan Year 2019	
	PROPOSED	BUDGET	ESTIMATED	BUDGET	ACTUAL	BUDGET	ACTUAL	BUDGET	ACTUAL	BUDGET	ACTUAL
(A) Starting Account Balance on January 1	\$ 5,764,384		\$ 5,257,758		\$ 4,492,859		\$ 4,487,439		\$ 4,079,904		\$ 3,967,903
REVENUES											
Annual Administrative Fee Revenue	\$ 3,354,015	\$ 3,168,525	\$ 3,157,371	\$ 3,281,245	\$ 3,087,730	\$ 3,067,683	\$ 3,094,216	\$ 2,502,006	\$ 2,848,124	\$ 2,800,925	\$ 2,709,149
Interest/ Earnings	\$ 110,719	\$ 94,312	\$ 90,068	\$ 87,289	\$ 94,527	\$ 78,860	\$ 82,328	\$ 73,890	\$ 119,596	\$ 86,409	\$ 106,487
Miscellaneous			\$ 110		\$ 42,100						
Total Annual Revenues	\$ 3,464,734	\$ 3,262,837	\$ 3,247,549	\$ 3,368,535	\$ 3,224,356	\$ 3,146,543	\$ 3,176,544	\$ 2,575,896	\$ 2,967,720	\$ 2,887,334	\$ 2,815,636
EXPENDITURES											
Participant Administrative Fees Owed to TPA	\$ (1,749,305)	\$ (1,685,049)	\$ (1,581,521)	\$ (1,669,885)	\$ (1,670,971)	\$ (1,657,624)	\$ (1,649,811)	\$ (1,637,552)	\$ (1,625,371)	\$ (1,517,368)	\$ (1,555,451)
Staffing Reimbursements	\$ (1,320,502)	\$ (1,296,431)	\$ (1,080,849)	\$ (1,272,504)	\$ (743,746)	\$ (1,087,875)	\$ (832,186)	\$ (1,120,023)	\$ (785,409)	\$ (917,773)	\$ (797,777)
Consulting Costs*	\$ (225,000)	\$ (225,000)	\$ (5,560)	\$ (225,000)	\$ (30,341)	\$ (225,000)	\$ (531,164)	\$ (225,000)	\$ (92,336)	\$ (225,000)	\$ (306,991)
Plan Audit	\$ (45,000)	\$ (45,000)	\$ -	\$ (45,000)	\$ -	\$ (45,000)	\$ -	\$ (45,000)	\$ -	\$ (45,000)	\$ -
Fiduciary Liability Insurance - Side A	\$ (60,000)	<i>n/a</i>	<i>n/a</i>	<i>n/a</i>	<i>n/a</i>	<i>n/a</i>	<i>n/a</i>	<i>n/a</i>	<i>n/a</i>	<i>n/a</i>	<i>n/a</i>
Communications	\$ (20,000)	\$ (50,000)	\$ (3,000)	\$ (50,000)	\$ (8,269)	\$ (50,000)	\$ (7,396)	\$ (50,000)	\$ (256)	\$ (50,000)	\$ (10,053)
Travel/Training/Education	\$ (40,000)	\$ (35,000)	\$ (17,975)	\$ (20,000)	\$ (11,444)	\$ (20,000)	\$ (2,600)	\$ (33,000)	\$ (1,700)	\$ (33,004)	\$ (25,721)
Elections Administration	\$ (48,000)	\$ (48,000)	\$ (33,018)	\$ -	\$ -	\$ (30,000)	\$ (50,590)	\$ (42,000)	\$ (48,202)	\$ -	\$ -
Office and Administrative	\$ (20,000)	\$ (17,500)	\$ (19,000)	\$ (17,500)	\$ (10,929)	\$ (17,500)	\$ (8,215)	\$ (7,000)	\$ (6,911)	\$ (7,000)	\$ (8,140)
Governmental Meetings	\$ (500)	\$ (500)	\$ -	\$ (500)	\$ -	\$ (500)	\$ -	\$ (500)	\$ (500)	\$ (500)	\$ -
Total Annual Expenditures	\$ (3,528,307)	\$ (3,402,480)	\$ (2,740,924)	\$ (3,300,390)	\$ (2,475,701)	\$ (3,133,499)	\$ (3,081,962)	\$ (3,160,075)	\$ (2,560,185)	\$ (2,795,645)	\$ (2,704,134)
(B) Total Annual Revenues Less Total Annual Expenditures	\$ (63,573)	\$ (139,643)	\$ 506,626	\$ 68,145	\$ 748,655	\$ 13,044	\$ 94,582	\$ (584,179)	\$ 407,535	\$ 91,689	\$ 111,502
(C) Inter-Fund Transfers**	\$ -	\$ -	\$ -	\$ -	\$ 16,244	\$ -	\$ (89,162)	\$ -	\$ -	\$ -	\$ -
Ending Account Balance on December 31 (A) + (B) + (C)	\$ 5,700,811		\$ 5,764,384		\$ 5,257,758		\$ 4,492,859		\$ 4,487,439		\$ 4,079,405

* Actual payments may be reflected in a following quarter/year due to timing of contract/amendment approvals.

** Outstanding staffing reimbursements or Inter-Fund Transfers in transit (funds transferred out of the TPA fund for deposit to the City 896 fund were in transit for deposit in the following quarter).

Growth, Expense, and Fee Variable Assumptions Approved by the Board of Deferred Compensation September 19, 2023

At its **September 19, 2023** meeting, following the annual DCP resource review and recommendations submitted by the DCP Plan Governance & Administrative Issues Committee for the 2024 Resource Review, the Board approved the following Deferred Compensation Plan (DCP) Growth and Expense variable and Fee variable assumptions for use in projecting future DCP Reserve Fund balances:

- (1) DCP Assets Growth Rate - 5.5%
- (2) Net Participation Growth Rate - 3.0%
- (3) Annual Administrative Expenses Growth Rate - 3.0%
- (4) Special Rates Increase Factor: Personnel - 85.0%
- (5) Special Rates Increase Factor: City Attorney - 85.0%
- (6) Stable Value Fund Average Rate of Return - 2.0%
- (7) Participant Fees: Annual Basis Point Charge - 0.09%
- (8) Participant Fees: Annual Dollar Cap - \$115