

DEFERRED COMPENSATION PLAN BOARD REPORT 09-52

Date: December 7, 2009
To: Board of Deferred Compensation Administration
From: Staff
Subject: 2010 Deferred Compensation Plan Budget

Members
Eugene K. Canzano, Chairperson
Richard Kraus, Vice-Chairperson
Shelley Smith, First Provisional Chair
Sally Choi, Second Provisional Chair
Maggie Whelan, Third Provisional Chair
Sangeeta Bhatia
Cliff Cannon
Michael Perez

Recommendation:

That the Board of Deferred Compensation Administration adopt staff's proposed budget for the 2010 calendar year.

Discussion:

In order to increase transparency with respect to revenues and administrative costs for the City's Deferred Compensation Plan, staff is recommending that the Board adopt budgets for the Plan's annual income and expenses. This information would supplement, not replace, the quarterly expense reconciliations provided separately to the Board. The annual budget would further be intended to reflect the unique circumstances of a more immediate time period, as opposed to the more generalized five-year forecasts incorporated within the quarterly reconciliations (which often incorporate certain long-term assumptions that may not be true in the immediate-term).

In 2007 the Board adopted a revised fee structure intended to gradually reduce the surplus in the Plan's reserve accounts. There are two reserve accounts: one held with the Plan Administrator, Great-West Retirement Services, and the other held with the City. Both of these accounts hold excess fee revenue. The Board's objective was to reduce fees on a schedule that would maintain a target surplus of approximately \$1.5 million over time.

For the 2010 Plan year staff is projecting that the Plan's surplus will decline modestly, from approximately \$3 million to \$2.8 million. This reduction is smaller than forecast in the rolling five-year projections (provided in the quarterly reconciliations) primarily due to projected salary savings.

A summary of projected revenues and expenses is attached to this report. Please note the following regarding the assumptions included therein:

- *Administrative Fee Revenue* – Projections for administrative fee revenue (amounts collected from participant accounts) reflect the recent recovery in Plan assets, which have moved from a low of \$2.1 billion in February 2009 to approximately \$2.7 billion as of October, 2009, and a one-year Plan assets growth-rate assumption of 9.0%.
- *Interest* – Staff assumes a 4.1% rate of return, in line with the current rate of return for the Plan's Stable Value Fund, within which reserve assets are invested.

- *Participant Administrative Fees Owed to Great-West* – Assumes the average number of participants in 2010 will be 40,996, an amount consistent with a 2% annual participant growth rate.
- *Estimated Personnel Department Reimbursements* – Includes direct salary and indirect related costs; assumes that the two currently vacant positions (Management Analyst II and Benefits Specialist) will remain vacant in 2010 and incorporates specific information regarding current salary levels, the assumed reduction of salary expenses due to furloughs, etc. for the remaining positions. Should either or both of the vacant positions be filled, actual costs will be higher than forecast.
- *Estimated City Attorney Reimbursements* - Includes direct salary and indirect related costs; incorporates specific information regarding current salary levels, the assumed reduction of salary expenses due to furloughs, etc. for the two City Attorney positions supporting the Plan.
- *Estimated DWP Reimbursements* – Includes direct salary and indirect related costs; reflects a recently negotiated reduction in the reimbursement rate for the DWP position from 10% to 5% as a result of new efficiencies established in payroll processes for DWP participants.
- *Estimated Consulting Costs* – The Mercer contract is a three-year contract totaling \$450,000, which equates to an annual expenditure of \$150,000 – actual expenses are tracking very close to this amount.
- *Travel/Training/Education* – The amount of \$53,045 is an annual amount adopted by the Board in April 2008 in reference to Board report 08-12; at that time an annual travel/training/education of \$50,000 was established with an upward adjustment of 2% each calendar year; \$53,045 is the amount calculated for calendar year 2010.
- *Governmental Meetings* – This category is for incidental costs for special Board meetings. A nominal amount has been placed in this category but no specific expenditures are expected at this time.
- *Office and Administrative* – This is a category generally used for unique supplies. A nominal amount has been placed in this category but no specific expenditures are expected at this time.
- *Office Furniture and Equipment* - This is a category generally used for computer equipment upgrades. A nominal amount has been placed in this category but no specific expenditures are expected at this time.
- *GWRS Asset Allocation Fund Management* – This category reflects the \$6,000 per fund fee for each of the Plan's five asset allocation funds.
- *GWRS Hardship Administration* – Staff is estimating 250 hardship cases will be processed next year at a cost of \$250 per completed case.

- *Elections Administration* – This amount reflects the estimated costs of administering the special election for the Fire/Police Pensions representative in 2010. The next regular election expenses will not occur until 2011.

Submitted by: _____
Steven Montagna

Approved by: _____
Alejandrina Basquez

DEFERRED COMPENSATION PLAN		
PROJECTED REVENUES/EXPENDITURES		
01/01/10-12/31/10		
REVENUES		
Estimated Annual Administrative Fee Revenue	\$	2,110,731
Estimated Interest Earnings	\$	123,995
Total Revenue	\$	2,234,726
EXPENDITURES		
Participant Administrative Fees Owed to Great-West	\$	(1,629,591)
Estimated Personnel Department Reimbursements	\$	(330,635)
Estimated City Attorney Reimbursements	\$	(90,087)
Estimated DWP Reimbursements	\$	(5,590)
Estimated Consulting Costs	\$	(150,000)
2130 Travel/Training/Education	\$	(53,045)
4160 Governmental Meetings	\$	(500)
6010 Office and Administrative	\$	(500)
7300 Office Furniture & Equipment	\$	(2,000)
GWRS Asset Allocation Fund Management	\$	(30,000)
GWRS Hardship Administration	\$	(62,500)
Elections Administration	\$	(12,000)
TOTAL ESTIMATED EXPENDITURES	\$	(2,366,448)
Annual Revenues Less Annual Expenditures	\$	(131,722)
TRUST FUND SUMMARY		
Estimated Starting Trust Fund Balance on 1/1/10	\$	2,995,652
Estimated 2010 Revenues	\$	2,234,726
Estimated 2010 Expenditures	\$	(2,366,448)
Estimated Closing Trust Fund Balance on 12/31/10	\$	2,863,930