

DEFERRED COMPENSATION PLAN BOARD REPORT 12-07

Date: January 3, 2012
To: Board of Deferred Compensation Administration
From: Staff
Subject: 2012 Deferred Compensation Plan Budget

Members
Eugene K. Canzano, Chairperson
John R. Mumma, Vice-Chairperson
Michael Amerian
Sangeeta Bhatia
Cliff Cannon
Tom Moutes
Michael Perez
Robert Schoonover
Maggie Whelan

Recommendation:

That the Board of Deferred Compensation Administration adopt staff's proposed budget for the 2012 calendar year.

Discussion:

Staff is recommending that the Board adopt staff's proposed budget for the Plan's 2012 calendar year. The annual budget supplements the quarterly reconciliations of the Plan's fee revenues and internal administrative expenses. In addition, the annual budget reflects the unique circumstances of the upcoming one-year time period, as opposed to the more generalized five-year forecasts incorporated in the quarterly reconciliations.

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 (GWRS), 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. On September 20, 2011, staff proposed that this reserve objective be refined and expressed rather as 50%, or six months, of the Plan's annual operating expenses. Using this refined calculation produces a number relatively close to the Board's previously approved \$1.5 million target.

For 2012, staff is projecting that the Plan's surplus will slightly decrease from \$2.5 million to \$2.4 million. The decrease is due to the 7% administrative fee reduction as part of the Great-West five-year contract extension, as well as salary savings from our assumption that our position authority for a Benefits Specialist, will continue to be filled by the lower paying classification of Clerk Typist.

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 increase in Plan assets, which have moved from a recent low of \$2.99 billion in September 2011 to approximately \$3.17 billion as of November 2011, with a one-year Plan assets growth-rate assumption of

5.0%. The actual growth-rate in 2010 was 7.72% and the growth-rate for 2011 (year-to-date) has been **6.8%**.

- *Interest* – Staff projects a **3.0%** rate of return, which is slightly lower than the current rate of return for the Plan’s Stable Value Fund (where the reserve assets are invested).
- *Participant Administrative Fees Owed to Great-West* – Given current budget conditions and reduced hiring, we’re assuming that the average number of participants in 2012 will be 40,518, or an amount consistent with a 1.0% annual participant growth rate.
- *Estimated Personnel Department Reimbursements* – Assumes that direct salary and indirect related costs for the incumbent position (Benefits Specialist) will remain occupied in calendar year 2012 by a Clerk Typist. Should that position become filled by a higher classification (i.e. Benefits Specialist respectively), the actual costs would exceed staff’s forecast. **The Board should note that included within the Personnel Department’s budget request for Fiscal Year 12/13 is a new Senior Management Analyst I position.** This request has not previously been considered by the Board. Although staff would have preferred discussing this issue with the Board before the request was submitted, the opportunity to submit the request was provided with little advance notice and there was not sufficient time to review it in advance with the Board. Staff believes that the workload and long-term strategic planning for the Plan warrants the addition of this position, but our intent is to wrap a full discussion of this matter into finalization of the Board’s Five-Year Strategic Plan. By that point there should be greater clarity regarding whether the request will be accepted by the CAO/Mayor. Funding for this position by the Plan has not been included in staff’s assumptions for this budget, as the Board has not reviewed the matter nor authorized funding.
- *Estimated City Attorney Reimbursements* - Includes direct salary and indirect related costs, specific information regarding current salary levels, and the projected reduction of salary expenses due to furloughs for the two City Attorney positions supporting the Plan.
- *Estimated Consulting Costs* – Staff is expecting the new 2012-2014 Consulting Services contract will be a three-year agreement totaling \$525,000, which equates to an annual expenditure of \$175,000. This represents a maximum expenditure, and actual costs may end up being significantly below this amount.
- *Travel/Training/Education* – Per Board report 08-12, an annual travel/training/education budget of \$50,000 was established and adopted by the Board in April 2008 that included an upward adjustment of 2% each calendar year. An amount of \$55,187 was calculated for calendar year 2012.
- *Governmental Meetings* – This includes all incidental costs tailored for special Board meetings. A nominal amount has been budgeted, but no specific expenditures are expected at this time.

- *Office and Administrative* – This expense is generally utilized for unique supplies. A nominal amount has been budgeted, but no specific expenditures are expected at this time.
- *Office Furniture and Equipment* – This category is primarily used for computer equipment; the amount represents an estimate of costs for computer and software upgrades.
- *GWRS Asset Allocation Fund Management* – This category reflects the \$6,000 per fund fee for each of the Plan’s five asset allocation funds, the FDIC-Insured Savings Option, the DCP Stable Value Fund, the DCP Bond Fund, the DCP Large-Cap Fund, DCP Mid-Cap Fund, DCP Small-Cap Fund, and the DCP International Fund.
- *GWRS Hardship Administration* – In 2010, the total number of hardships processed was 380. As of 3rd Quarter of 2011, the total number of hardships processed has been 333. Therefore, staff is estimating 400 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 elections for the DWP participant representative and the Retired participant representative in 2012.

Staff recommends that the Board adopt staff’s proposed budget for the 2012 calendar year.

Submitted by: _____
Natasha Gameroz

Reviewed by: _____
Steven Montagna

Approved by: _____
Alejandrina Basquez

DEFERRED COMPENSATION PLAN		
PROJECTED REVENUES/EXPENDITURES		
01/01/12-12/31/12		
REVENUES		
Estimated Annual Administrative Fee Revenue	\$	2,387,465
Estimated Interest Earnings	\$	71,624
Total Revenue	\$	2,459,089
EXPENDITURES		
Participant Administrative Fees Owed to Great-West	\$	(1,507,230)
Estimated Personnel Department Reimbursements	\$	(556,578)
Estimated City Attorney Reimbursements	\$	(106,950)
Estimated DWP Reimbursements	\$	-
Estimated Consulting Costs	\$	(175,000)
2130 Travel/Training/Education	\$	(55,187)
4160 Governmental Meetings	\$	(500)
6010 Office and Administrative	\$	(500)
7300 Office Furniture & Equipment	\$	(7,650)
GWRS Asset Allocation Fund Management	\$	(72,000)
GWRS Hardship Administration	\$	(100,000)
Elections Administration	\$	(10,000)
TOTAL ESTIMATED EXPENDITURES	\$	(2,591,595)
Annual Revenues Less Annual Expenditures	\$	(132,506)
TRUST FUND SUMMARY		
Estimated Starting Trust Fund Balance on 1/1/12	\$	2,549,787
Estimated 2012 Revenues	\$	2,459,089
Estimated 2012 Expenditures	\$	(2,591,595)
Estimated Closing Trust Fund Balance on 12/31/12	\$	2,417,281