

Deferred Compensation Plan BOARD REPORT 12-21

Date: April 9, 2012
To: Board of Deferred Compensation Administration
From: Staff
Subject: Senior Management Analyst I Position

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Recommendation:

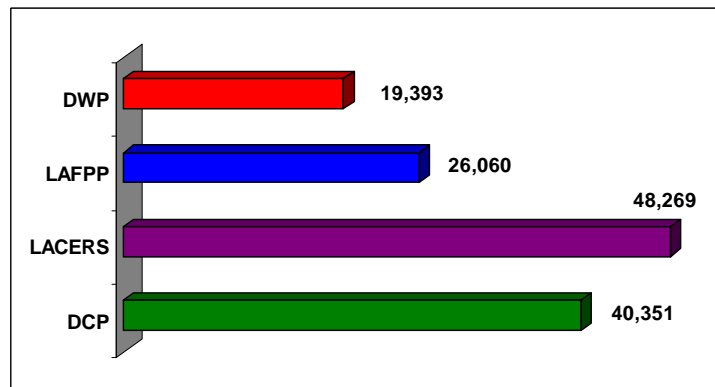
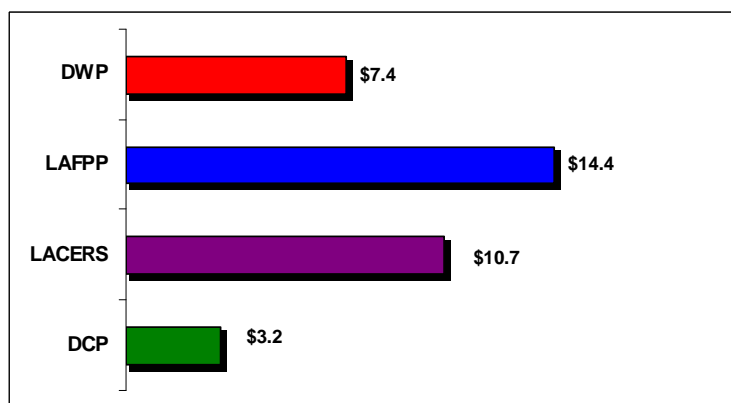
That the Board of Deferred Compensation Administration direct the Plan Governance and Administrative Issues Committee to study the merits of and options for funding a new Senior Management Analyst I position, and return to the full Board with recommendations.

Discussion:

At the Board's January 17, 2012 meeting, staff indicated in Board Report 12-07 that the Personnel Department had included within its budget request for Fiscal Year 12/13 the addition of a new Senior Management Analyst I position to the City's Deferred Compensation Plan. Staff indicated at that time that this request had not previously been considered by the Board but that the opportunity to submit it as part of the budget request occurred with little advance notice. Staff indicated that it would return to the Board with a discussion and recommendation.

Position Justification

As the Board is aware from data provided in the January 2012 Plan Demographics Training, the City's Deferred Compensation Plan is comparable in size and scope to the City's other three retirement/pension plans. The Plan has over \$3 billion in assets and over 40,000 participant accounts. It has recently achieved a 70% participation rate, which is significantly higher than the governmental defined contribution plan average of 22%.



Presently the City devotes only a fraction of the staffing resources to the Deferred Compensation Plan compared to the staffing resources devoted to the City's three retirement plans relative to the populations they serve:

Plan	Staffing	Plan Participants	Staffing Relative to Participant Population
Pensions	100	26,090	0.38%
DWP	58	19,393	0.30%
LACERS	127	48,269	0.26%
DCP	3.8	40,336	0.01%

Although this staffing differential is partially explained by the fact that the retirement systems perform their recordkeeping functions in-house, rather than using a contracted Third-Party-Administrator (TPA), the Deferred Compensation Plan nevertheless has a number of labor-intensive responsibilities. Moreover, staffing for the program is little changed from a period of time when the Plan was smaller and considerably less complex, as illustrated by the following table:

Metrics	1995	2012	Growth Rate
Plan Assets	\$ 702,213,742	\$ 3,245,911,916	362%
Participant Accounts	23,886	40,351	69%
Contracts	2	15 ¹	650%
Distributions	749	15,868	2019%
Loans	0	7,200	n/a
Staff Positions	3	3.8	27%

The administrative complexity of Section 457 plans has grown immensely in the past 15 years, with Federal rules allowing new features such as unlimited distributions, expanded rollovers, loans, and a Roth 457 savings option. At the same time, the Plan's oversight burden is expanding rapidly with a growing number of procurements and contracts.

In addition, Personnel Department staff are responsible for conducting procurements and negotiating contracts that involve fees of tens of millions of dollars. As an example, over the two years staff will be initiating procurements which may result in as many as 15 total Plan contracts. This includes not only investment services procurements, but a custodial procurement and possibly Plan audit procurement as well.

Staff believes the Plan should be moving towards a staffing resource base that is commensurate with its scope, responsibilities, and complexity. Critical new endeavors in communications, participant services, asset retention, and retiree income protection (to name just a few) will need appropriate professional level resources in order to be executed in a timely, effective and competent manner.

¹ Estimated number of total contracts following implementation of redesigned investment menu, which is likely to add approximately eight investment management services contracts to the current total of seven contracts for administration, consulting, and investment management.

In addition, it is crucial to begin developing deeper staffing resources to assure organizational continuity over time. Defined contribution plan administration is a highly specialized field. The knowledge and experience base cannot be easily replicated. Over-reliance on too small of a staffing contingent leaves the Plan vulnerable to the loss of key individuals.

A Senior Management Analyst I position would add needed depth to the Plan at a critical level and for critical responsibilities such as policy development, procurement and contracting, and regulatory compliance. Staff views the addition of this position as important towards ensuring the Plan has the appropriate resources to meet its mandate in future years.

Adding a Senior Management Analyst I position represents an additional expense to the Plan. As a result, staff recommends that the Board direct the Plan Governance and Administrative Issues Committee to study the merits of and options for funding a new Senior Management Analyst I position in greater detail, and return to the full Board with recommendations.

Submitted by: _____
Steven Montagna

Approved by: _____
Alex Basquez