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# DEFERRED COMPENSATION PLAN BOARD REPORT 07-20



Date: May 1, 2007

To: Board of Deferred Compensation Administration

From: Staff

Subject: Fee Reduction and Expense Reimbursement Proposal

Recommendation:

That the Board of Deferred Compensation Administration approve the expense reimbursement methodology and fee reduction proposal detailed in this report, and authorize the Board Chairperson to forward a report to City Council requesting approval for changing the expense reimbursement methodology.

Discussion:

At the Board of Deferred Compensation Administration meeting held on March 20, 2007, the Board asked the Plan Governance & Administrative Issues Committee to review the Plan's reimbursement of the City's internal administrative expenses, and to reconsider its fee reduction proposal in light of that review. Given that the issue of reimbursements had not been reviewed since 1993, and given the significance of the contemplated fee reduction, the Board believed that now was the appropriate time to review whether the City was being fully reimbursed for its internal costs.

The Committee met on April 19, 2007, to consider these matters. As a result of that review, the Committee is proposing that the Board approve changes to the positions and methodology used in calculating reimbursements to the City for its internal Plan administrative costs, and a modification to the fee reduction proposal in order to fund the higher cost of the proposed reimbursements.

*Expense Reimbursement Background* – The Committee began by looking at language in the governing authority for the Plan (Los Angeles Administrative Code Division 4, Chapter 14) concerning reimbursement of the City's costs. This language states:

*"It is the intent of the City Council that the Plan operate at no cost to the City. Administrative and operating costs are to be defrayed by the participating Employees through direct assessments or fees to be determined by the Board*

*based upon arrangements which the Board may negotiate with service/product providers.”*

The City Council took an action in 1993 which changed the cost accounting for the Plan (see attached report). Council’s review of this matter was apparently a consequence of the Plan having struggled to generate sufficient income to cover all of its administrative costs when the City applied its full “related costs” calculations (what are now referred to as “CAP rates”). A decision was made that the Plan would no longer be billed for all departmental indirect costs (which was contributing to large Plan deficits), only direct costs and retirement/City overhead. There was, therefore, an implicit understanding at the time that the City was subsidizing the Plan to some extent.

Looked at from this perspective, the Committee found that it was appropriate to now contemplate increasing the reimbursement to fully reimburse the City for its internal costs. The Committee determined that if the City Council effectively recognized that the Plan could not pay all its administrative costs when full CAP rates were applied and implicitly agreed to partial subsidization, then it followed that when the Plan reached a point where it was capable of reimbursing those costs fully it should do so. Given the Plan’s current status of having achieved surplus revenue, the Committee believes that now is the appropriate time to make this change.

*Recommended Reimbursements* – The Committee looked comprehensively at all of the positions providing service to the City’s Plan. Currently the reimbursed positions and reimbursable percentages are as follows:

Personnel Department

- Sr. Personnel Analyst I (50%)
- Management Analyst II (100%)
- Management Analyst II (100%)
- Retirement Benefits Specialist (100%)
- Accounting Clerk II (50%) – presently vacant

However, the additional positions which support the Plan include the following:

Personnel Department

- Chief Management Analyst (25%)

City Attorney

- Deputy City Attorney IV (25%)
- Legal Assistant (40%)

DWP

- Senior Clerk Typist A (10%)

Staff developed a spreadsheet for the Committee calculating five-year salary costs for all of the above-positions. The spreadsheet utilized both the City’s as well as DWP’s full

“related costs” percentages. The City Controller indicates that this percentage is 73% for Personnel Department employees and 62% for City Attorney employees. DWP indicates that its related cost percentage is 82%. In addition, since the Senior Personnel Analyst I position is in practice approximately 80% dedicated to the Plan, the Committee increased the reimbursable amount to that level. Calculating costs in this manner more than doubled the City’s administrative costs to an average of approximately \$609,000 annually over a five year-period (this figure includes assumptions regarding cost-of-living salary increases). Although these increases are significant, the Committee believes that now is an appropriate time to act and thus recommends that the Board approve the new reimbursement methodology and formula.

Should the Board approve the new expense reimbursement methodology, it will be necessary to obtain approval from the City Council before it can be implemented. As a result, staff recommends that the Board authorize the Board Chairperson to send a transmittal to Council seeking such approval.

*Fee Reduction Proposal* - To recover these additional costs it was necessary for the Committee to set its revenue targets higher in its fee reduction proposal. However, this was offset to some extent by a positive factor that was not accounted for when this matter was originally considered by the Board. Staff has now determined that the earliest any fee reduction could be implemented would be July 1, 2007. This means that the Plan will add a minimum of two quarters of significant surplus revenue (totaling approximately \$500,000) to its surplus not previously accounted for. Given this offset, it appears that the fee cap would only need to be raised to approximately \$125 (from \$100 previously) in order to meet the Committee’s five-year surplus target.

The Committee’s modified fee reduction proposal is as follows:

- Elimination of the payroll (“fifty-cent”) fee;
- Instituting a fee cap of \$125 on all participant accounts;
- Reducing the asset-based fee across all participant accounts to 10 basis points; while
- Maintaining an ongoing reserve target of \$1.25-\$1.50 million

The Committee recommends that the Board approve this fee reduction proposal.

Submitted by: \_\_\_\_\_  
Steven Montagna

Approved by: \_\_\_\_\_  
Maryanne Keehn