BOARD REPORT 11-24

Date: March 11, 2011

To: Board of Deferred Compensation Administration

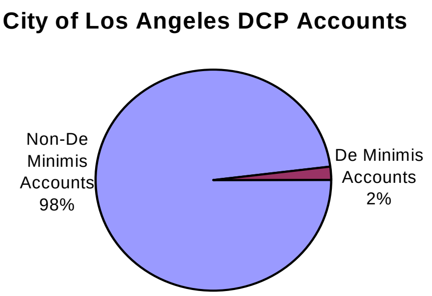
From: Staff

Subject: De Minimis Accounts

Recommendation:
That the Board of Deferred Compensation Administration receive and file the following information regarding liquidation of de minimis accounts.

Discussion:
At the April 20, 2010 Board of Deferred Compensation Administration meeting, the Board requested that staff research the number of de minimis (i.e. small balance) accounts in the Deferred Compensation Plan and consider whether there would be any benefits to instituting a policy to liquidate these accounts. The regulatory definition of a de minimis account is an account with a balance of $5,000 or less, with no contributions to the Plan for at least the previous two years, and from which a previous in-service de minimis withdrawal has not been taken.

Great-West indicates that the typical percentage of de minimis accounts for 457(b) Plans they service is between 1-3%. The Plan, as of 12/31/10 has a total of 40,316 accounts, of which 973 (or 2%) qualify as de minimis. As a result, the City of Los Angeles falls within the industry average.



Internal Revenue Service (IRS) regulations contain provisions for plan sponsors to close de minimis accounts. The potential rationale for doing this would be to reduce Plan expenses. For IRS purposes, there are two categories of de minimis accounts: those valued between $1,000-5,000, and those valued at less than $1,000. The IRS makes this distinction because eliminating accounts in the $1,000-5,000 range requires that the Plan sponsor establish a rollover Individual Retirement Account (IRA) for the accounts; however, for accounts valued at less than $1,000 a rollover IRA is not required.

The following table breaks out the City's Plan's accounts by category and also indicates their net cost to the Plan (the difference between the contractual fee obligation to Great-West of $39.75 per account vs. the asset-based fee of 0.10% paid by the participants in these accounts):

Account Size	Number of Participants	Active Employee Accounts	Terminated Employee Accounts	Annual Cost to Service Termed Accounts	Termed Account Assets	Termed Fee Revenue Collected	Net Cost to Plan
$1,000-5,000	546	235	311	$ 12,362	$ 834,481	$ 834	$ (11,528)
Less than $1,000	**427**	**146**	**281**	**$ 11,170**	**$ 100,060**	**$ 100**	**$ (11,070)**
Total	973	381	592	$ 23,532	$ 934,541	$ 934	$ (22,598)

Staff does not recommend closing out any of the accounts valued between $1,000-$5,000, since the administrative costs of creating a rollover IRA for these individuals would negate any cost-saving incentives that might otherwise exist.

For those accounts, valued at less than $1,000, staff does not recommend closing these accounts. 146 are held by active participants. Some of these individuals may have been recently hired employees who stopped contributing due to wage cuts or other financial pressures and will hopefully resume contributions at a future date. Some of the remaining 281 terminated participants may be retaining these funds for an emergency or special purpose. While the Plan might view these accounts as small, they may still be meaningful to the participants. In addition, some of the terminated participants may have left a balance in order for them to have the ability to return funds previously rolled out to another provider.[1] Finally, the fee obligation created by these accounts is small relative to total Plan fees - approximately 0.70% of the total annual fee paid to Great-West.

To further research this report, staff contacted several large Plans located in California to determine whether they are currently, or have in the past, required or encouraged participants to liquidate de minimis accounts. The County of San Diego, City and County of San Francisco, and CalPERS have indicated that they are neither mandating nor encouraging cash-outs of de minimis accounts. Only the County of Los Angeles requires that account balances of $1,000 or less be liquidated upon termination. The City's recordkeeper, Great-West Retirement Services, further indicates that among its clients only the States of Georgia and Colorado require liquidation of de minimis accounts.

Staff has also attached a table that breaks out the City's Plan's accounts by size and whether those accounts are held by either active or terminated employees. Great-West Retirement Services runs a Lexis Nexis search twice a year to identify participant accounts that have had undeliverable mail for two consecutive quarterly statements. Minor address changes are updated automatically, however a Change Request form would be sent to participants with a completely different address than what the system displays.

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[1] This is a strategy the Plan has encouraged with participants who indicate their interest in, upon termination, rolling their accounts to outside advisors. As long as a participant maintains a balance in the Plan they have the ability to roll funds back should they at some point change their mind about wanting an outside financial advisor.

Account Size	Active Employee Accounts	Terminated Employee Accounts	Active and Terminated Combined	
Less than $500	92	193	285	29%
$501 - $1,000	55	87	142	15%
$1,001 - $3,000	151	186	337	35%
$3,001 - $5,000	83	126	209	21%
Total	**381**	**592**	**973**	100%