



CITY OF *Los Angeles*
DEFERRED COMPENSATION PLAN

PLAN BUDGET & RESOURCES REVIEW

CITY OF LOS ANGELES DEFERRED COMPENSATION PLAN

NOVEMBER 19, 2013



PARTICIPANT
FEE
REVENUES

FLOW OF FUNDS OVERVIEW

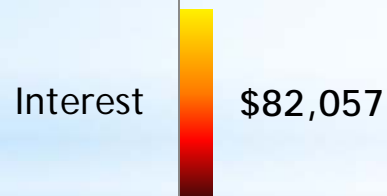


- TPA Fees
- Staff Salaries
- Consulting
- Communications
- Training (non-travel)
- Hardship Fees
- Asset Allocaton Funds
- Elections



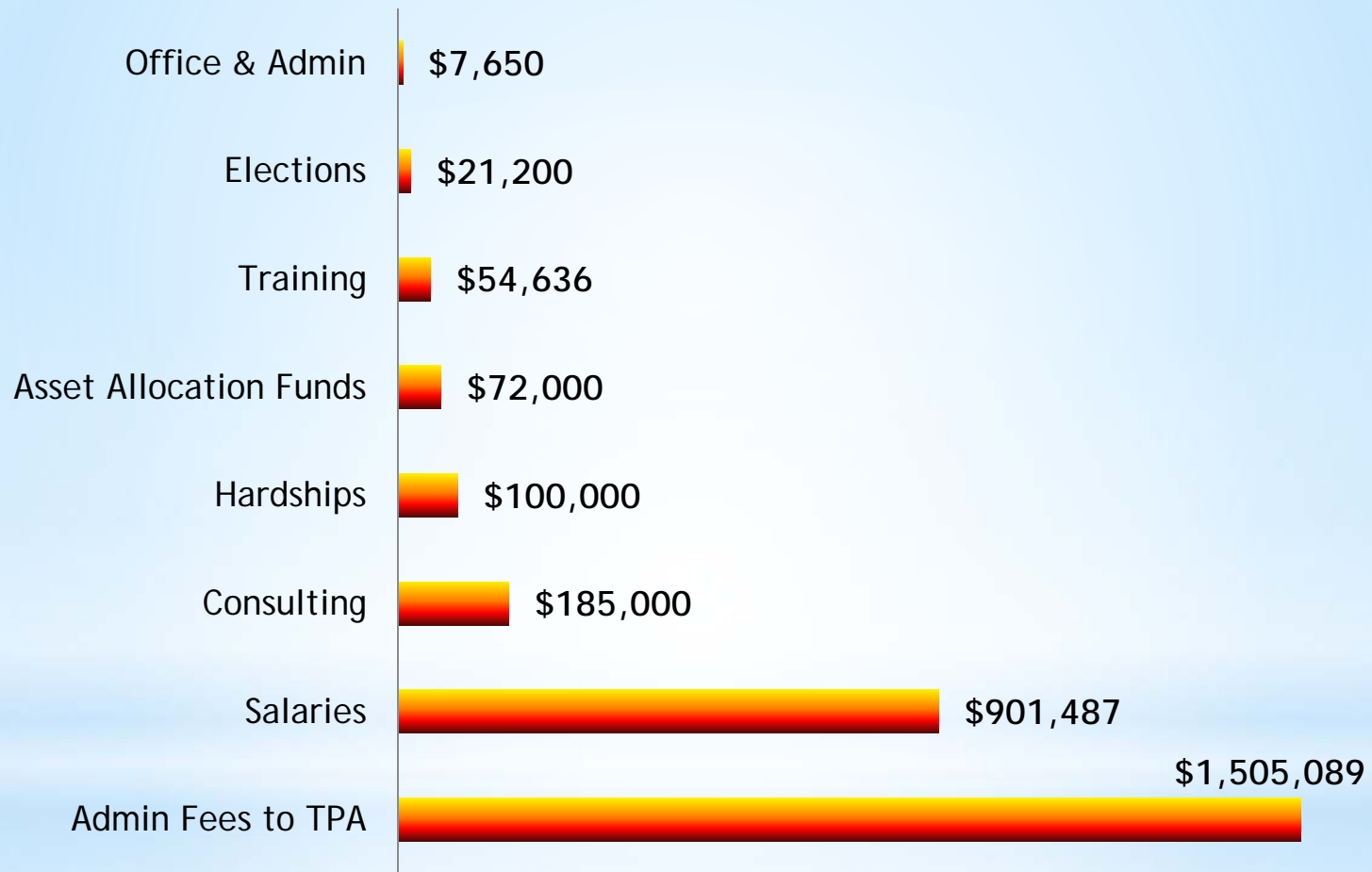
- Travel
- Equipment

REVENUES



Annual Total - \$2.5 million

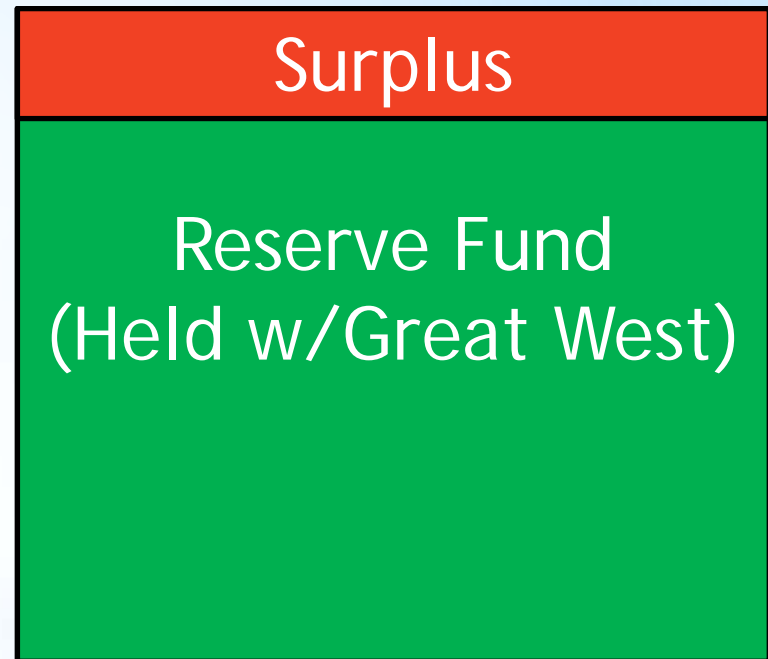
EXPENDITURES



Annual Total - \$2.8 million

SURPLUS TARGET

- Reserve Fund surplus target is 50% of annual operating expenses (approximately \$1.4 million)
- Historical surplus has been maintained above that target
- Board established a “structural deficit” in relationship of revenues to expenses to gradually reduce the deficit
- As of 06/30/13, surplus was **\$2.7 million**



RESERVE FUND KEY VARIABLES

Current



| <i>Expenses Inflation Adjustment Factor</i> | <i>Enrollment Adjustment Factor</i> | <i>Asset Growth Adjustment Factor</i> | <i>Stable Value Funds Interest Assumption</i> | <i>Basis Points Charged Against Participant Accounts</i> | <i>Fee Cap</i> |
|---|---|---|---|--|----------------|
| 2.0% | 2.0% | 5.0% | 3.0% | 0.10% | \$125 |

Proposed
Additions



| <i>Personnel Avg Cap Rate</i> | <i>City Attorney Avg. Cap Rate</i> |
|-----------------------------------|--|
| 1.15 | 0.75 |

Plan Growth Rate and **CAP Rates** are most unpredictable and impactful variables

KEY ASSUMPTIONS

Annual Expense Adjustment Factor (Inflation)

Current: 2%

Proposed: 2%

Where Applied: Salary costs, Training costs, and Office/Admin costs

Considerations:

- Cost of living increases may be below this rate over near and mid-term
- Positions often filled at lower level than position authority
- Training costs/admin costs generally lower than budgeted amount

KEY ASSUMPTIONS

CAP Rates Adjustment Factor

FY 11-12 Cap #34 (Final):

- Personnel - 124.69%
- City Attorney - 76.46%

5-Year Average:

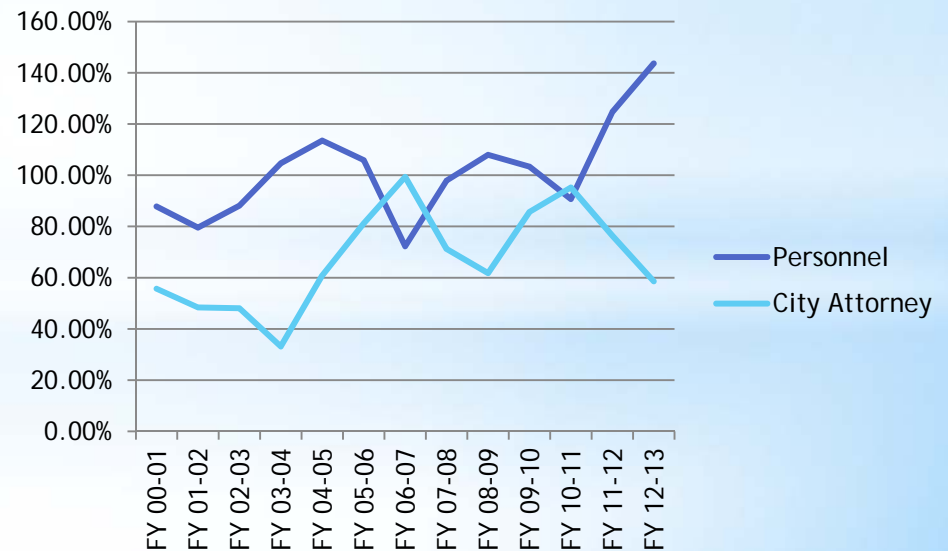
- Personnel - 114%
- City Attorney - 76%

Where Applied: Indirect Salary costs

Considerations:

- Rates can be volatile and have large impact on costs

| Fiscal Year | Personnel | City Attorney |
|------------------|-----------|---------------|
| FY 00-01 | 87.82% | 55.71% |
| FY 01-02 | 79.57% | 48.39% |
| FY 02-03 | 88.15% | 48.05% |
| FY 03-04 | 104.70% | 33.16% |
| FY 04-05 | 113.56% | 60.89% |
| FY 05-06 | 105.91% | 81.20% |
| FY 06-07 | 72.26% | 99.40% |
| FY 07-08 | 97.94% | 71.17% |
| FY 08-09 | 108.00% | 61.77% |
| FY 09-10 | 103.40% | 85.70% |
| FY 10-11 | 90.68% | 95.25% |
| FY 11-12 | 124.69% | 76.46% |
| FY 12-13 (Draft) | 143.69% | 58.56% |
| All Avg | 101.57% | 67.36% |
| 5-Yr Avg | 114% | 76% |



KEY ASSUMPTIONS

Enrollment Increase Factor

Current: 2%

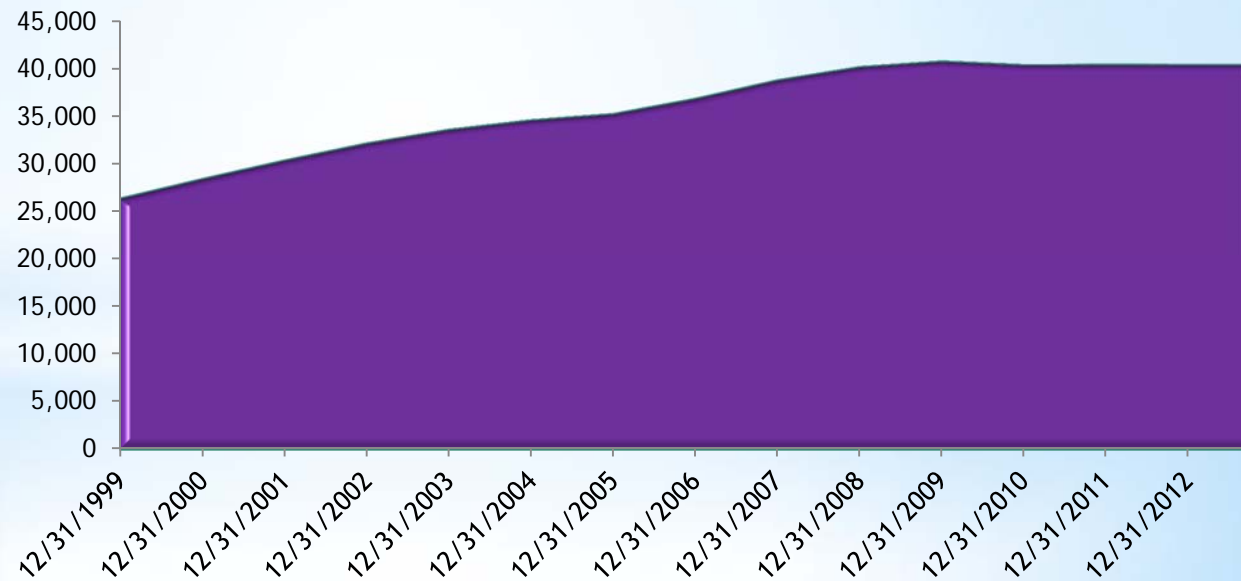
Proposed: 1%

Where Applied: Estimated growth in participant accounts

Considerations:

- City has mature plan where participant growth has flattened
- Revision required if Auto Enrollment program adopted

| Year Ending | Participants | Percent Change |
|-------------|--------------|----------------|
| 12/31/1999 | 26,319 | |
| 12/31/2000 | 28,382 | 8% |
| 12/31/2001 | 30,315 | 7% |
| 12/31/2002 | 32,109 | 6% |
| 12/31/2003 | 33,528 | 4% |
| 12/30/2004 | 34,528 | 3% |
| 12/30/2005 | 35,182 | 2% |
| 12/31/2006 | 36,784 | 5% |
| 12/31/2007 | 38,733 | 5% |
| 12/31/2008 | 40,106 | 4% |
| 12/31/2008 | 40,106 | 0% |
| 12/31/2009 | 40,702 | 1% |
| 12/31/2010 | 40,316 | -1% |
| 12/31/2011 | 40,348 | 0% |
| 12/31/2012 | 40,325 | 0% |
| 9/30/2013 | 40,326 | 0% |



KEY ASSUMPTIONS

Plan Asset Growth

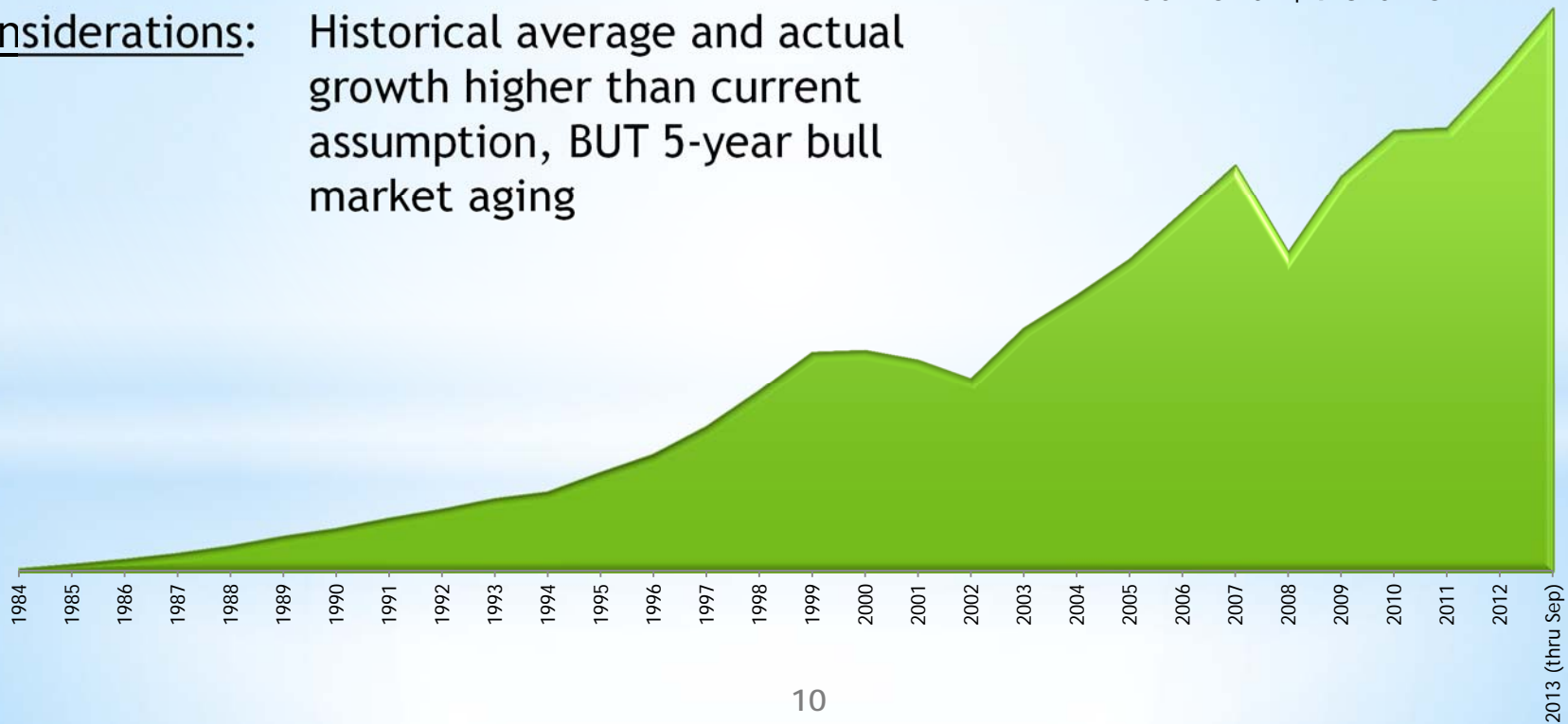
Current: 5%

Proposed: 6.5%

Where Applied: Growth rate for Plan assets

Considerations: Historical average and actual growth higher than current assumption, BUT 5-year bull market aging

Current: \$4.0 billion



KEY ASSUMPTIONS

Plan Asset Growth

| Year | Assets | % Change |
|------|------------------|----------|
| 1984 | \$ 17,990,298 | |
| 1985 | \$ 48,584,697 | 170% |
| 1986 | \$ 84,762,277 | 43% |
| 1987 | \$ 126,921,243 | 33% |
| 1988 | \$ 180,395,336 | 30% |
| 1989 | \$ 249,105,465 | 28% |
| 1990 | \$ 303,691,355 | 18% |
| 1991 | \$ 378,018,448 | 20% |
| 1992 | \$ 441,306,161 | 14% |
| 1993 | \$ 516,401,147 | 15% |
| 1994 | \$ 564,392,235 | 9% |
| 1995 | \$ 702,779,928 | 20% |
| 1996 | \$ 831,689,383 | 15% |
| 1997 | \$ 1,029,129,147 | 19% |
| 1998 | \$ 1,285,271,264 | 20% |
| 1999 | \$ 1,564,440,301 | 18% |
| 2000 | \$ 1,578,565,882 | 1% |
| 2001 | \$ 1,508,545,448 | -5% |
| 2002 | \$ 1,373,444,396 | -10% |
| 2003 | \$ 1,737,260,679 | 21% |
| 2004 | \$ 1,973,665,625 | 12% |
| 2005 | \$ 2,230,031,810 | 11% |
| 2006 | \$ 2,566,734,158 | 13% |
| 2007 | \$ 2,909,282,960 | 12% |
| 2008 | \$ 2,279,918,897 | -28% |
| 2009 | \$ 2,828,435,629 | 19% |
| 2010 | \$ 3,154,860,910 | 10% |
| 2011 | \$ 3,174,274,111 | 1% |
| 2012 | \$ 3,578,684,906 | 11% |
| 2013 | \$ 4,023,884,077 | 11% |

| Average Growth Rates | |
|-----------------------------|-------|
| Average (Inception to Date) | 19.0% |
| Average (1986-1999)--> | 21.4% |
| Average (1990-Present)--> | 10.3% |
| Last 15 years average--> | 6.6% |
| Last 10 years average--> | 7.3% |
| Last 5 years average--> | 10.5% |

| Projected Growth Rate Including Rate of Return | | |
|--|----|---------------|
| Current Assets | \$ | 4,023,884,077 |
| Net Annual Contributions | \$ | 71,798,703 |
| Projected ROR (per Mercer) | | 6.15% |
| Earnings Growth | \$ | 247,468,871 |
| Projected Ending Balance | \$ | 4,352,306,532 |
| Actuarial Projected Growth Rate | | 8.2% |

KEY ASSUMPTIONS

Plan Asset Growth

Current: 5%

Proposed: 6.5%

| Potential Growth Rate Scenarios | |
|-------------------------------------|-------|
| Last 15 years average--> | 6.6% |
| Last 10 years average--> | 7.3% |
| Last 5 years average--> | 10.5% |
| Actuarial Potential Growth Rate --> | 8.2% |

KEY ASSUMPTIONS

Stable Value Interest Rate Assumption

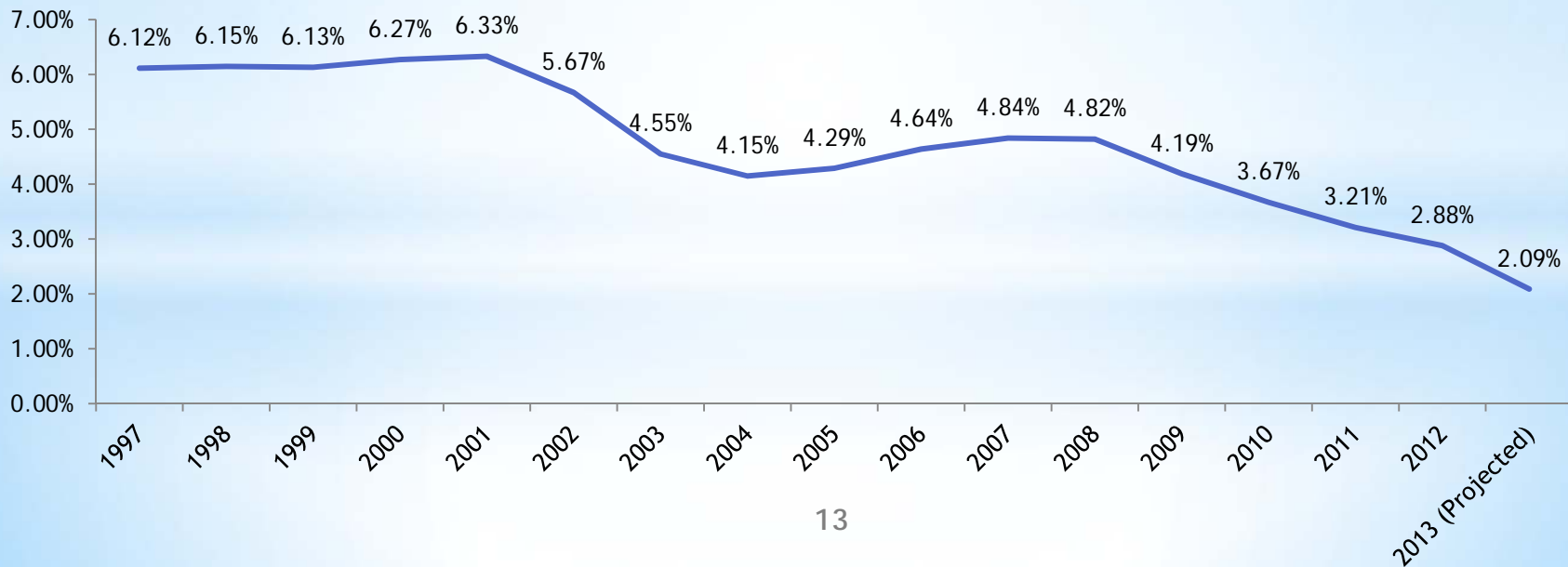
Current: 3%

Proposed: 2.75%

Where Applied: Interest earnings on Reserve Fund assets

Considerations: Long-term rate forecast from Mercer/Galliard consistent at 3.50%/3.65%, but Galliard 5-year forecast at 2.75%

Annual Return



KEY ASSUMPTIONS

Participant Fees

Current:

Basis Points: **0.10%**/Fee Cap: **\$125**

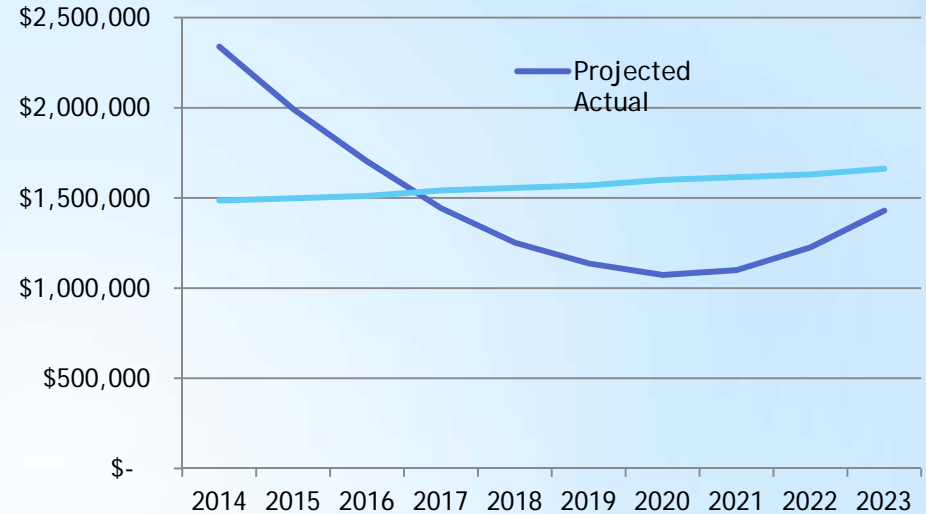
Proposed: **No change**

Where Applied: Fees assessed against participant accounts, up to fee cap

Considerations:

- Fees should only be increased or decreased when there is a clear basis for doing so
- Two largest variables (Plan asset growth and Personnel CAP rate) present potentials for negative/positive surprises
- Recommendation is to keep current fee structure unchanged

SURPLUS TARGET 10-Year Forecast w/Proposed Revised Assumptions



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|---|---|---|---|--|----------------|
| 2.0% | 1.0% | 6.5% | 2.75% | 0.10% | \$125 |

| <i>Personnel Avg Cap Rate</i> | <i>City Attorney Avg. Cap Rate</i> |
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