Plan Governance & Administrative Issues Committee Report 24-01

Plan Governance and Administrative Issues Committee
Thomas Moutes, Chair
Matthew Benham
Neil Guglielmo

Date: April 8, 2024

To: Plan Governance & Administrative Issues Committee

From: Staff

Subject: Plan Resource and Fees Review

This report is presented in order that the Plan Governance & Administrative Issues Committee can receive for its consideration and hold discussion regarding plan resource and fee considerations.

Background:

The Plan Governance & Administrative Issues Committee (Committee) annually conducts a DCP resource review in late summer. This evaluation includes a review of the key revenue and expense assumptions used in forecasting the ten-year projection of the Deferred Compensation Plan (DCP) Reserve Fund balance and additional considerations related to long-term resource planning for the DCP, including the maintenance of the appropriate level of surplus or reserve.

At its August 29, 2023 meeting, the Committee last conducted the DCP annual resource review and forwarded key assumptions for the ten-year projection for Board adoption on September 19, 2023. During this meeting, it was asked that staff return with updated fee projections to ensure the filling of newly requested positions submitted for the 2024-25 budget would not risk the long-term sustainability of the program and whether the plan's fee model might need to be otherwise reconsidered. Staff is returning with updated information and considerations.

Discussion:

A. Consideration of DCP Resources

On an annual basis, plan revenue is generated from participant fees and a modest interest amount that is accrued, which is used to cover the costs of plan operations. As directed by the Board, the DCP seeks to maintain a target reserve fund balance of 50% or six months of operating costs. Following is an overview of plan revenue and expenditures:

DCP Revenue & Expenditures

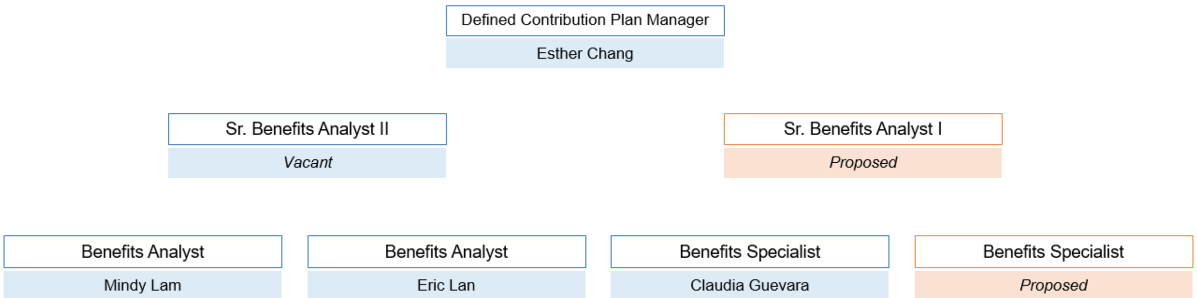
2024 Budget	
Participant Fees	$ 3,354,015
Interest & Misc	$110,719
(A) Total Revenues	**$3,464,734**
Fees paid to TPA	$1,749,305
Salary Reimbursements	$1,320,502
Consulting	$225,000
Training/Travel	$40,000
Office Administrative	$20,000
Election Administration	$48,000
Plan Audit	$45,000
Fiduciary Liability Insurance	$60,000
Other	$500
(B) Total Expenditures	**$3,528,307**
(A) - (B) Revenue less Expenditures	($63,573)

DCP Reserve Fund Balance

2024 Estimated	
Starting Balance	$6,672,358
Ending Balance	$5,470,195
Est. Target Reserve Balance 50% of budgeted expenditures	$1,764,153
Surplus Above Target Reserve	$3,706,042

Funding for Positions Requested in the 2024-25 Proposed Budget

The DCP has requested that two new positions be added to the City's budget for fiscal year 2024-25, which are denoted below in orange on the organizational chart:



When the Committee last reviewed the revenue and expenditure projections in August 2023, the ten-year projection for a scenario in which the new positions are added and a 30% market decline occurs in 2024 indicated that plan expenses would outweigh anticipated revenues, resulting in a deficit that would begin to dip into the plan's target reserve balance as early as 2027-28.

Since that time, DCP plan assets have grown from $8.92 billion (as of June 30, 2023) to $9.58 billion (as of December 31, 2023). Utilizing the updated plan asset total and participant counts as of December 31, 2023, staff has also updated the ten-year projection with the following assumptions:

Variable Description	2024 Assumptions
Plan Assets Growth Rate	5.5%
Net Enrollment Growth Rate	3.0%
Administrative Expenses Inflation Factor	3.0%
Indirect Costs Rate: Personnel	85.0%
Indirect Costs Rate: City Attorney	85.0%
Stable Value Fund Average Rate of Return	2.0%
Participant Fees: Basis Point Charge	0.09%
Participant Fees: Annual Dollar Fee Cap	$115.00

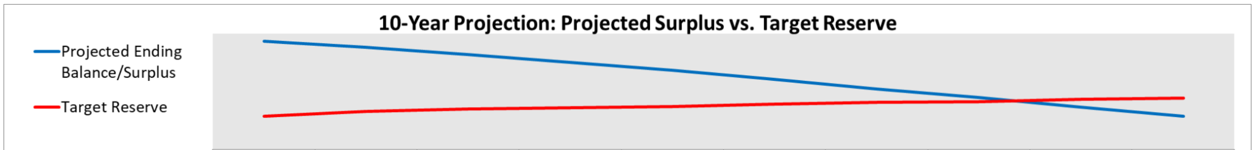
*Details on each of these variables are attached for quick reference to this report as **Attachment C.***

Additionally, the updated projection includes:

- Updated ten-year salary projection, with costs for the two new positions
- Fiduciary Liability Insurance premium
- Plan audit costs
- Increase in consulting costs (with expectation of additional counsel and investment consulting costs in the future)

Further details on the expense projection is included in **Attachment A**.

As indicated in the following graphic, the updated projection indicates that at the end of 2031, or in approximately eight years, the DCP surplus will begin to dip into the target reserve balance, which has been set to 50% or six months of annual operating expenses.



	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
Projected Ending Balance/Surplus	$5,610,592	$5,308,572	$4,924,383	$4,510,086	$4,118,701	$3,634,222	$3,136,608	$2,693,687	$2,197,978	$1,723,701
Target Reserve	$1,716,928	$1,972,786	$2,079,294	$2,161,855	$2,220,642	$2,340,841	$2,423,456	$2,475,506	$2,585,488	$2,661,645

With this projection, since the DCP is eight years away from crossing into its reserve and able to fund the two newly requested positions through that timeline, the Committee may choose to affirm the current fee model and revisit a fee review/change at a later time during a regular annual resource review (and to observe whether there will be any concerning market changes due to international and national circumstances). Staff anticipates the year in which the plan actually crosses into the target reserve could be even further out than what this projection indicates, as many of its assumptions are fairly conservative (particularly staffing costs, as it is assumed that all positions are filled at the budgeted job classification the entire period, which is not likely). As a reminder, the Committee and the Board have an opportunity to review the ten-year projection quarterly with the staffing reimbursements report and annually (late summer) during the plan resource review prior to the start of the City's budgeting process in the fall.

<u>Other Funding Considerations</u>

- Facility Costs - Staff has previously discussed with the Committee and the Board the possibility of relocating the DCP staff. However, a move is not prudent at the moment, until the facilities costs included in the CAP rate that is applied to staffing reimbursements are able to be portioned out. Staff will work to ensure if such a move is required in the future, that the costs remain neutral to the full extent possible and no additional dollars needed than what is currently expended for this purpose. Space considerations can be mitigated as City DCP staff may institute a shared desk model, while still maintaining the space for the DCP local retirement counselors (provided by Voya) to have one-on-one sessions with participants. These sessions have historically been held at City Hall. An assumption for facility costs are not included, but can be modeled during the meeting if requested.

- Investment Advice and/or Education - This is a future project for consideration; as such, costs are not yet included in the expense projections but can be modeled during the meeting. The Committee may also consider that there are existing plan and City services that could also be leveraged.
  - Should the Board wish to see a more thorough educational offering, staff can work with the plan's Strategic Initiatives Director to identify opportunities within Voya. Local retirement counselors do currently provide presentations upon request and hold monthly webinars, Money Matters, that cover different topics.
  - There are also existing investment advice services being offered through other City resources. LAFPP offers a 3-session option with an outside firm that is paid directly by the member upon completing required webinar sessions. The City's EAP offers "money coaching" sessions, which would be available for its civilian population, and are included as part of the general benefit.

B. Plan Fee Review

Current Fee Model

Plan participants pay an asset-based charge of 0.09%, with an annual maximum fee cap of $115 (or up to $127,778 of their balance). For 2024, it is estimated this will generate $3,354,015 in fee revenue.

Previously, the plan charged up to 0.11% as an asset-based charge with a $0.50 per pay period fee that was reduced to a 0.10% asset-based charge with a fee cap of $125 (additional historical information included in **Attachment D**), before resulting in the current fee model. Should the Committee wish to generate additional revenue in the future, it may choose to increase the asset-based charge and/or the maximum fee cap.

The Committee could also consider a minimum account fee. As of December 31 2023, a total of 23,676 participants held balances under $50,000 and made up 45% of total plan participants, and were paying 11% of plan fees. Currently, smaller accounts pay a nominal fee; for example, a participant with a $1,000 balance pays $0.90 annually; a participant with a $5,000 balance pays $4.50 annually; and any participant with a balance over $127,778 pays $115 annually). For any participant account being recordkept by the TPA, the DCP pays $30 annually ($7.50 quarterly) for each account. Though the additional revenue generated would be nominal, a minimum fee can better offset the cost of administration for a single account. Following is a projection of the additional revenue various minimum fee levels could provide:

Annual Minimum Fee	# Participants Potentially Affected	Approximate Additional Revenue Generated
$ 2.00 ($0.50/quarter)	3,269	$ 4,160
$ 4.00 ($1/quarter)	5,245	$12,745
$ 8.00 ($2/quarter)	8,487	$40,390
$12.00 ($3/quarter)	11,305	$80,125

Target Reserve and Surplus

The DCP Reserve Fund currently holds (after liabilities) $3.7 million in addition to the target reserve balance of $1.7 million.

For 2024, total revenues (from participant fees and interest) are estimated to be $3,464,734. Budgeted expenditures for 2024 total $3,528,307, resulting in a $63,573 plan year deficit that will come from plan reserves. Incorporating a structural deficit is meant to draw down the surplus, which is well over the target reserve balance. It should be noted however, that actual expenditures have generally come well under the budgeted amounts for the year.

Should the Committee wish to draw down the surplus, it may also consider a fee holiday. The Board previously approved a fee holiday to be implemented in 2020, which was suspended once the pandemic occurred.

Sample Fee Models

Staff has provided sample projection scenarios for the Committee's consideration for discussion, as described below, depending on the type of action the Committee may choose to take in oder to: 1) address any plan year operating deficit, and/or 2) drawdown of the surplus in excess of the target reserve balance. Further details on the following scenarios are included in **Attachment B** to this report, and will also be available during the Committee meeting with a "live" calculated sheet should the Committee wish to see any alterations to these assumptions.

Scenario 1 - Baseline with Current Fee Model

A ten-year projection with the current fee model and 2024 assumptions are applied. Key highlights are:

- The surplus will cross into the target reserve fund balance in approximately late 2031 or or at the end of Year 8.
- Staff salary reimbursements assume that all positions are fully occupied, with a 3% salary savings applied each year. Staff believes this is a conservative estimate, as positions could be vacant for longer periods of time. The surplus may not cross into the target reserve balance until after the ten-year horizon.

Scenario 2 - Incremental Fee Increase with Fee Holiday

A ten-year projection with an incremental fee increase applied, that is recommended by staff. This model incorporates:

- Asset based charge:
  - 2025 - Increase asset based fee from 0.09% to 0.10%
  - 2030 - Increase asset based fee to 0.11%
- Maximum fee cap: Increase $1 annually beginning in 2025. By 2033 or Year 10, the maximum fee cap will be $123.
- Fee Holiday: In 2025, a fee holiday of one quarter is recommended to run down the current plan surplus.

With this projection, the projected surplus does not dip below the target reserve in the ten year period.

Incorporating a fee holiday of one quarter in 2025 will provide participants with an offset before adjusting to a 0.10% asset-based fee and $1 annual increase, and will allow the plan to spend down its surplus. This model can also withstand an additional 75% fee holiday in a future year. The goal of this model would be to stabilize the total revenue against expenses once the surplus is spent down, closer to the end of the ten-year projection.

Should a market decline scenario occur in later years, the Committee will continue to have the opportunity to course correct before the DCP dips too far into its reserve.

Scenario 3 - Market Decline of 30% in 2024, with Incremental Fee Increase and No Fee Holiday

A ten-year projection with an incremental fee increase applied, with an assumption of a 30% market decline (or in plan assets) in 2024.

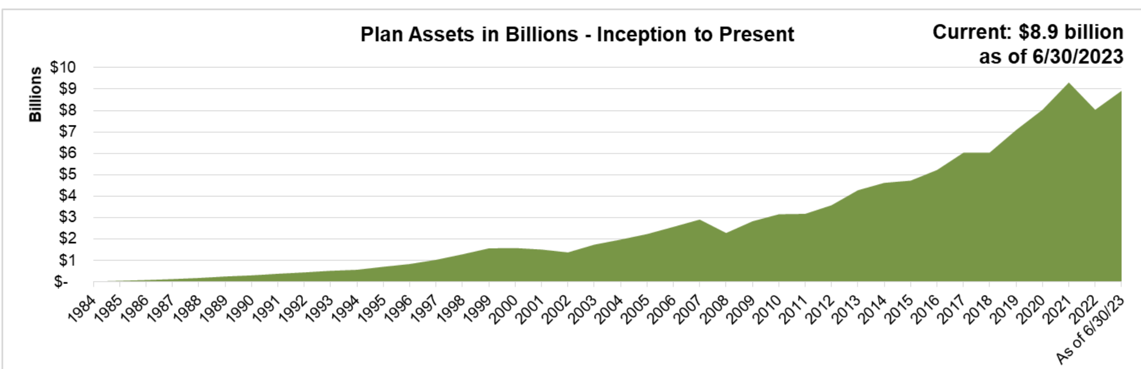
- Asset based charge:
  - 2025 - Increase asset based fee from 0.09% to 0.10%
  - 2030 - Increase asset based fee to 0.11%

- Maximum fee cap: Increase $1 annually beginning in 2025. By 2033 or Year 10, the maximum fee cap will be $123.

This scenario would result in the surplus crossing into the target reserve threshold in approximately five years (in late 2028 or early 2029). Other unknown or unpredictable conditions however that would impact this projection, include:

- Staffing: Current assumptions assume no vacancies of staff positions through the ten-year period, with 3% salary savings applied each year. Staff believes this to be a conservative estimate still, due to City's general turnover rate and associated period of vacancy.
- Market activity: Should there be a market decline in 2024, it is hard to predict what, if any, the market rebound activity might look like. However, historical plan asset growth can be taken into consideration. The chart below depicts how plan assets have responded to historical market activity and how assets generally rebounded within a few years after a downturn.

  Staff believes that should a downturn occur in the next year, the plan's surplus will allow enough time to introduce a different fee model should plan revenue be critically impacted. Currently, the plan holds 200% of the required target reserve balance, or otherwise about two years of operating costs.



These above scenarios are a starting point of consideration, and staff can model other variations during the Committee meeting or return with additional information.

Submitted by: Mindy Lam, Benefits Analyst
Esther Chang, Defined Contribution Plan Manager

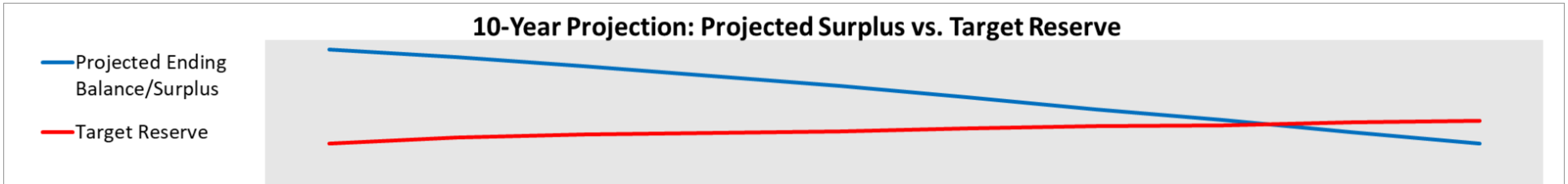
Attachment A

DCP Ten-Year Expense Projection

Annual Expenses	12/31/2024	12/31/2025	12/31/2026	12/31/2027	12/31/2028	12/31/2029	12/31/2030	12/31/2031	12/31/2032	12/31/2033
Admin Fees Owed to TPA	$ 1,649,474	$ 1,698,094	$ 1,748,173	$ 1,799,754	$ 1,852,883	$ 1,907,605	$ 1,963,970	$ 2,022,025	$ 2,081,821	$ 2,143,412
Direct Salary Costs: Personnel	$ 656,176.99	$ 869,001.01	$ 916,970.44	$ 967,656.23	$ 1,021,214.38	$ 1,077,809.90	$ 1,124,977.92	$ 1,170,271.45	$ 1,209,324.09	$ 1,245,603.81
Direct Salary Costs: City Attorney	$ 108,837.17	$ 114,094.77	$ 117,517.61	$ 121,043.14	$ 124,674.43	$ 128,414.66	$ 132,267.10	$ 136,235.12	$ 140,322.17	$ 144,531.83
Indirect Related Costs: Personnel	$ 480,741.28	$ 738,650.86	$ 779,424.88	$ 822,507.80	$ 868,032.22	$ 916,138.41	$ 956,231.23	$ 994,730.73	$ 1,027,925	$ 1,058,763.24
Indirect Related Costs: City Attorney	$ 80,626.58	$ 96,981	$ 99,889.97	$ 102,886.67	$ 105,973.27	$ 109,152.46	$ 112,427.04	$ 115,799.85	$ 119,274	$ 122,852.06
Consulting Costs	$ 225,000	$ 300,000	$ 309,000	$ 318,270.00	$ 327,818	$ 337,653	$ 347,782.22	$ 358,216	$ 368,962.16	$ 380,031
Communications	$ 20,000	$ 20,600	$ 21,218	$ 21,854.54	$ 22,510	$ 23,185	$ 23,881.05	$ 24,597	$ 25,335	$ 26,095
Training/Education	$ 40,000	$ 41,200	$ 42,436	$ 43,709.08	$ 45,020	$ 46,371	$ 47,762	$ 49,195	$ 50,671	$ 52,191
Auditing Costs	$ 45,000	$ 46,350	$ 47,741	$ 49,173	$ 50,648	$ 52,167	$ 53,732	$ 55,344	$ 57,005	$ 58,715
Election Administration	$ 48,000	$ -	$ 55,000	$ 55,000	$ -	$ 60,000	$ 60,000	$ -	$ 65,000	$ 65,000
Office/Admin/Equipment/Meeting	$ 20,000	$ 20,600	$ 21,218	$ 21,855	$ 22,510	$ 23,185	$ 23,881	$ 24,597	$ 25,335	$ 26,095
Fiduciary Liability Insurance - Side A	$ 60,000	$ 70,000	$ 72,100	$ 74,263	$ 76,491	$ 78,786	$ 81,149	$ 83,584	$ 86,091	$ 88,674
Total-->	**$ 3,433,856**	**$ 3,945,572**	**$ 4,158,589**	**$ 4,323,709**	**$ 4,441,284**	**$ 4,681,683**	**$ 4,846,912**	**$ 4,951,012**	**$ 5,170,975**	**$ 5,323,291**

Scenario 1: Baseline Projection with Current Fee Model

- Asset-based charge of 0.09% with maximum fee cap of $115



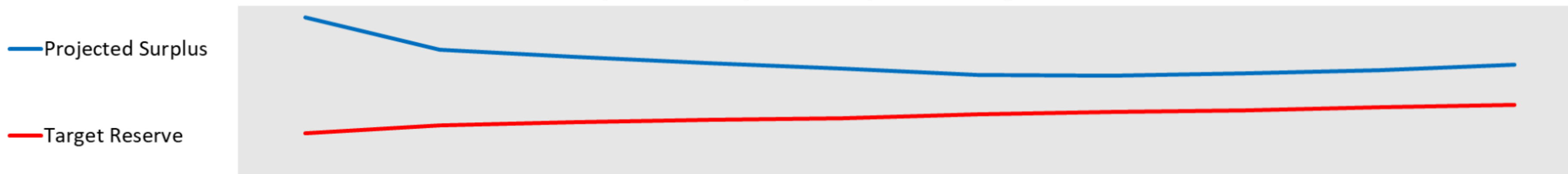
	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
Projected Ending Balance/Surplus	$5,610,592	$5,308,572	$4,924,383	$4,510,086	$4,118,701	$3,634,222	$3,136,608	$2,693,687	$2,197,978	$1,723,701
Target Reserve	$1,716,928	$1,972,786	$2,079,294	$2,161,855	$2,220,642	$2,340,841	$2,423,456	$2,475,506	$2,585,488	$2,661,645

Quarter Ending:	12/31/2024	12/31/2025	12/31/2026	12/31/2027	12/31/2028	12/31/2029	12/31/2030	12/31/2031	12/31/2032	12/31/2033
Estimated Starting Balance	$ 5,533,768	$ 5,610,592	$ 5,308,572	$ 4,924,383	$ 4,510,086	$ 4,118,701	$ 3,634,222	$ 3,136,608	$ 2,693,687	$ 2,197,978
Estimated Total Revenue	**$ 3,510,680**	**$ 3,643,551**	**$ 3,774,399**	**$ 3,909,412**	**$ 4,049,900**	**$ 4,197,203**	**$ 4,349,298**	**$ 4,508,091**	**$ 4,675,266**	**$ 4,849,013**
Estimated Expenses	**$ (3,433,856)**	**$ (3,945,572)**	**$ (4,158,589)**	**$ (4,323,709)**	**$ (4,441,284)**	**$ (4,681,683)**	**$ (4,846,912)**	**$ (4,951,012)**	**$ (5,170,975)**	**$ (5,323,291)**
Difference between revenue/expenses	$ 76,824	$ (302,020)	$ (384,190)	$ (414,297)	$ (391,384)	$ (484,480)	$ (497,614)	$ (442,920)	$ (495,709)	$ (474,278)
Projected Ending Balance/Surplus	**$ 5,610,592**	**$ 5,308,572**	**$ 4,924,383**	**$ 4,510,086**	**$ 4,118,701**	**$ 3,634,222**	**$ 3,136,608**	**$ 2,693,687**	**$ 2,197,978**	**$ 1,723,701**
Target Reserve	**$ 1,716,928**	**$ 1,972,786**	**$ 2,079,294**	**$ 2,161,855**	**$ 2,220,642**	**$ 2,340,841**	**$ 2,423,456**	**$ 2,475,506**	**$ 2,585,488**	**$ 2,661,645**
Estimated Balance Over/Under Reserve	**$ 3,893,664**	**$ 3,335,786**	**$ 2,845,088**	**$ 2,348,231**	**$ 1,898,059**	**$ 1,293,380**	**$ 713,152**	**$ 218,182**	**$ (387,510)**	**$ (937,945)**
Surplus % above target	**227%**	**169%**	**137%**	**109%**	**85%**	**55%**	**29%**	**9%**	**-15%**	**-35%**

Scenario 2: Example Projection of Incremental Fee Increase with Fee Holiday

- Asset-based charge increase to 0.10% in 2025, 0.11% in 2030
- Maximum fee cap increase of $1 annually beginning in 2026
- Fee holiday of one quarter (75%) in 2025 to draw down surplus
- Consider: Minimum account fee, additional fee holidays to drawdown surplus

10-Year Projection: Projected Surplus vs. Target Reserve



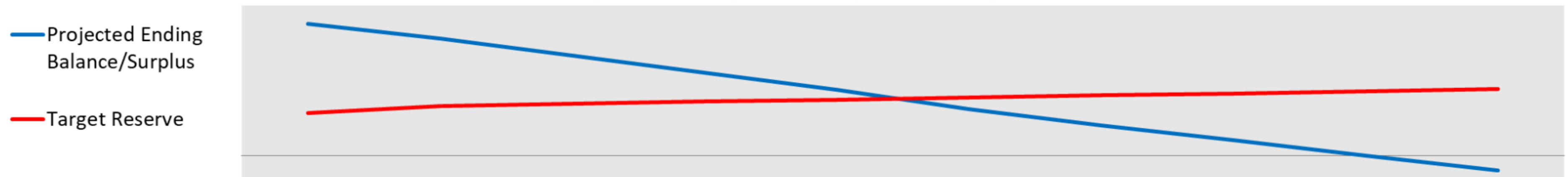
	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
Projected Surplus	$5,610,592	$4,528,897	$4,294,767	$4,063,284	$3,889,853	$3,660,975	$3,639,028	$3,728,342	$3,825,187	$4,007,739
Target Reserve	$1,716,928	$1,972,786	$2,079,294	$2,161,855	$2,220,642	$2,340,841	$2,423,456	$2,475,506	$2,585,488	$2,661,645

Quarter Ending:	12/31/2024	12/31/2025	12/31/2026	12/31/2027	12/31/2028	12/31/2029	12/31/2030	12/31/2031	12/31/2032	12/31/2033
Estimated Starting Balance	$ 5,533,768	$ 5,610,592	$ 4,528,897	$ 4,294,767	$ 4,063,284	$ 3,889,853	$ 3,660,975	$ 3,639,028	$ 3,728,342	$ 3,825,187
Estimated Interest Earnings	$ 110,675	$ 112,212	$ 90,578	$ 85,895	$ 81,266	$ 77,797	$ 73,220	$ 72,781	$ 74,567	$ 76,504
Estimated Participant Fee Revenue	$ 3,400,005	$ 2,751,664	$ 3,833,880	$ 4,006,332	$ 4,186,587	$ 4,375,008	$ 4,751,744	$ 4,967,546	$ 5,193,254	$ 5,429,338
Estimated Total Revenue	**$ 3,510,680**	**$ 2,863,876**	**$ 3,924,458**	**$ 4,092,227**	**$ 4,267,852**	**$ 4,452,805**	**$ 4,824,964**	**$ 5,040,326**	**$ 5,267,821**	**$ 5,505,842**
Estimated Expenses	**$ (3,433,856)**	**$ (3,945,572)**	**$ (4,158,589)**	**$ (4,323,709)**	**$ (4,441,284)**	**$ (4,681,683)**	**$ (4,846,912)**	**$ (4,951,012)**	**$ (5,170,975)**	**$ (5,323,291)**
Difference between revenue/expenses	$ 76,824	$ (1,081,695)	$ (234,131)	$ (231,482)	$ (173,432)	$ (228,877)	$ (21,948)	$ 89,314	$ 96,845	$ 182,551
Projected Ending Balance/Surplus	**$ 5,610,592**	**$ 4,528,897**	**$ 4,294,767**	**$ 4,063,284**	**$ 3,889,853**	**$ 3,660,975**	**$ 3,639,028**	**$ 3,728,342**	**$ 3,825,187**	**$ 4,007,739**
Target Reserve	**$ 1,716,928**	**$ 1,972,786**	**$ 2,079,294**	**$ 2,161,855**	**$ 2,220,642**	**$ 2,340,841**	**$ 2,423,456**	**$ 2,475,506**	**$ 2,585,488**	**$ 2,661,645**
Estimated Balance Over/Under Reserve	**$ 3,893,664**	**$ 2,556,111**	**$ 2,215,472**	**$ 1,901,430**	**$ 1,669,211**	**$ 1,320,134**	**$ 1,215,572**	**$ 1,252,836**	**$ 1,239,700**	**$ 1,346,093**
Surplus % above target	**227%**	**130%**	**107%**	**88%**	**75%**	**56%**	**50%**	**51%**	**48%**	**51%**

Scenario 3 - Example Projection of Market Decline of 30% in 2024

- Market Decline of 30% in 2024
- Asset-based charge of 0.10% in 2025, 0.11% in 2030
- Maximum fee cap increase of $1 annually beginning in 2025

10-Year Projection: Projected Surplus vs. Target Reserve



	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
Projected Ending Balance/Surplus	$5,258,578	$4,674,425	$4,007,870	$3,311,372	$2,638,365	$1,873,270	$1,222,335	$637,454	$12,198	$(578,109)
Target Reserve	$1,716,928	$1,972,786	$2,079,294	$2,161,855	$2,220,642	$2,340,841	$2,423,456	$2,475,506	$2,585,488	$2,661,645

Quarter Ending:	12/31/2024	12/31/2025	12/31/2026	12/31/2027	12/31/2028	12/31/2029	12/31/2030	12/31/2031	12/31/2032	12/31/2033
Estimated Starting Balance	$ 5,533,768	$ 5,258,578	$ 4,674,425	$ 4,007,870	$ 3,311,372	$ 2,638,365	$ 1,873,270	$ 1,222,335	$ 637,454	$ 12,198
Estimated Interest Earnings	$ 110,675	$ 105,172	$ 93,488	$ 80,157	$ 66,227	$ 52,767	$ 37,465	$ 24,447	$ 12,749	$ 244
Estimated Participant Fee Revenue	$ 3,047,990	$ 3,256,247	$ 3,398,546	$ 3,547,054	$ 3,702,049	$ 3,863,821	$ 4,158,511	$ 4,341,684	$ 4,532,971	$ 4,732,739
Estimated Total Revenue	$ 3,158,666	$ 3,361,418	$ 3,492,034	$ 3,627,211	$ 3,768,276	$ 3,916,588	$ 4,195,977	$ 4,366,131	$ 4,545,720	$ 4,732,983
Estimated Expenses	$ (3,433,856)	$ (3,945,572)	$ (4,158,589)	$ (4,323,709)	$ (4,441,284)	$ (4,681,683)	$ (4,846,912)	$ (4,951,012)	$ (5,170,975)	$ (5,323,291)
Difference between revenue/expens	$ (275,191)	$ (584,153)	$ (666,554)	$ (696,498)	$ (673,008)	$ (765,095)	$ (650,935)	$ (584,881)	$ (625,256)	$ (590,307)
Projected Ending Balance/Surplus	**$ 5,258,578**	**$ 4,674,425**	**$ 4,007,870**	**$ 3,311,372**	**$ 2,638,365**	**$ 1,873,270**	**$ 1,222,335**	**$ 637,454**	**$ 12,198**	**$ (578,109)**
Target Reserve	**$ 1,716,928**	**$ 1,972,786**	**$ 2,079,294**	**$ 2,161,855**	**$ 2,220,642**	**$ 2,340,841**	**$ 2,423,456**	**$ 2,475,506**	**$ 2,585,488**	**$ 2,661,645**
Estimated Balance Over/Under Reserve	$ 3,541,650	$ 2,701,639	$ 1,928,576	$ 1,149,518	$ 417,723	$ (467,572)	$ (1,201,121)	$ (1,838,052)	$ (2,573,289)	$ (3,239,754)
Surplus % above target	**206%**	**137%**	**93%**	**53%**	**19%**	**-20%**	**-50%**	**-74%**	**-100%**	**-122%**

Appendix
DCP Reserve Fund & Projection Assumptions

Accounts

Administrative and operational costs for the DCP are required to be paid by participant fees. Two accounts are used to pay expenses: a fund held with the DCP Third-Party Administrator (TPA) which acts as a repository for participant fees and from which most DCP expenses are paid; and a fund held within the City, from which travel expenses and equipment purchases are paid.

Target Reserve Balance

To maintain stability within the fee structure, the DCP maintains a reserve balance. The Target Reserve Fund Balance is 50% (or six months) of annual DCP operating expenses. As of December 31, 2023, the Target Reserve Fund Balance was $1.7 million, compared to the actual surplus balance of $6.7 million (this balance does not reflect encumbrances/liabilities in the amount of approximately $1.1 million).

2024 Assumptions

Following is a summary of the key assumptions used in forecasting the long-term (ten-year) projection of the DCP Reserve Fund balance, which is reviewed annually by the Committee for recommendation to the Board. The 2024 Reserve Fund assumptions were last adopted by the Board at its September 19, 2023 meeting.

Variable Description	2024 Assumptions
Plan Assets Growth Rate	5.5%
Net Enrollment Growth Rate	3.0%
Administrative Expenses Inflation Factor	3.0%
Indirect Costs Rate: Personnel	85.0%
Indirect Costs Rate: City Attorney	85.0%
Stable Value Fund Average Rate of Return	2.0%
Participant Fees: Basis Point Charge	0.09%
Participant Fees: Annual Dollar Fee Cap	$115.00

Plan Assets Growth Rate: 5.5%

The projected DCP assets growth rate incorporates both investment gains and participant contributions/rollovers. This projection incorporates future value formulas combining net new contributions and assumed rates of return. The following table provides average gross growth rates over various time periods, inclusive of both contribution and investment gains.

Average Growth Rates		
Average (Inception to Present)	→	**20.1%**
Average (1986-2000)	→	**36.1%**
Last 20 years average (2003-2022)	→	**9.9%**
Last 15 years average (2008-2022)	→	**7.7%**
Last 10 years average (2013-2022)	→	**8.9%**
Last 5 years average (2018-2022)	→	**6.6%**

The 20-year history includes significant equity market downturns (2000, 2009, early 2020, and late 2021) and has produced an average annual DCP growth rate of 9.9%. Following a period of strong equity performance in previous years, market performance over the last five years have trended lower, though the market rebounded in late 2023. During the 2024 annual resource review, the Board's investments consultant provided a long-term projected investment rate of return for the DCP, which is 5.7%. Staff combined that with a future value projection incorporating an assumption regarding average net cash inflows, resulting in a forward-looking projection of 6.2%. This projection increased from 5.9% that was included in the 2023 resource review, though the projection had been marginally decreasing in prior years. As such, an annual assets growth rate of **5.5%** was assumed, in order to remain conservative in anticipation of any market fluctuations.

Net Enrollment Growth Rate: 3%

Net annual enrollment growth in the DCP has averaged 2.8% over the last five years, a period primarily characterized by economic uncertainty and workforce volatility from early 2020. Although the net enrollment average has fallen in recent years, this number appears to be a reasonable predictor of average future long-term growth, particularly as the City resumed hiring as of the end of 2023.

Administrative Expenses Inflation Factor: 3%

Administrative expenses are primarily driven by staffing costs. This factor considers increases in staffing costs due to inflation and wage increases as well as periods in which positions are vacant. The previously adopted **3%** growth rate assumption was maintained for 2024.

Indirect Costs Rate: 85% (Personnel Department); 85% (City Attorney)

The DCP currently reimburses the Personnel Department for the direct salary costs of five positions that are fully dedicated to the DCP and the City Attorney's Office for two positions that partially support the program. For indirect costs (employee benefits and other overhead costs) a Special Rate is provided by the City Controller within the appropriate Cost Allocation Plan (also known as the CAP rate). For the Personnel Department and City Attorney, the rates utilized are 78.02% and 74.08%, respectively[1]. During the previous annual resource review, staff applied an increase of the indirect cost rate by 2% annually for the next ten years, to identify a rate projection of 89% for Personnel and 85% for City Attorney, to be applied for long-term projections. In also reviewing the historical average of the respective rates over the past ten years, the ten-year average for Personnel was 72% and City Attorney was 85%. While the City Attorney's rate of 85% tracks closely with its ten-year historical average, the ten-year historical average for the Personnel Department is significantly lower (72%) than the projected assumption (89%). As the Personnel Department reimbursements are a larger cost and as the CAP rates may fluctuate without notice, the Committee chose to recommend a rate of 85% for Personnel to remain conservative. As such, the Board approved an assumption of 85% to be applied for both Personnel Department and City Attorney indirect rate costs.

Stable Value Fund Average Rate of Return: 2%

The Reserve Fund is primarily held within a special account in the DCP Stable Value Fund. The average rate of return for the Stable Value Fund over the past five years (ending 2023) has been 2.29%.

Participant Fees: 0.09% Participant Fees; Annual Dollar Cap $115

Participants are assessed 0.09% on their total account assets, which are charged quarterly (0.0225%). The maximum annual cap on this fee is $115 or up to $127,778 of a participant's balance.

[1] Cost Allocation Plan (CAP) 45 for 2022-23, Special Rates.

DCP RESOURCE & FEES REVIEW

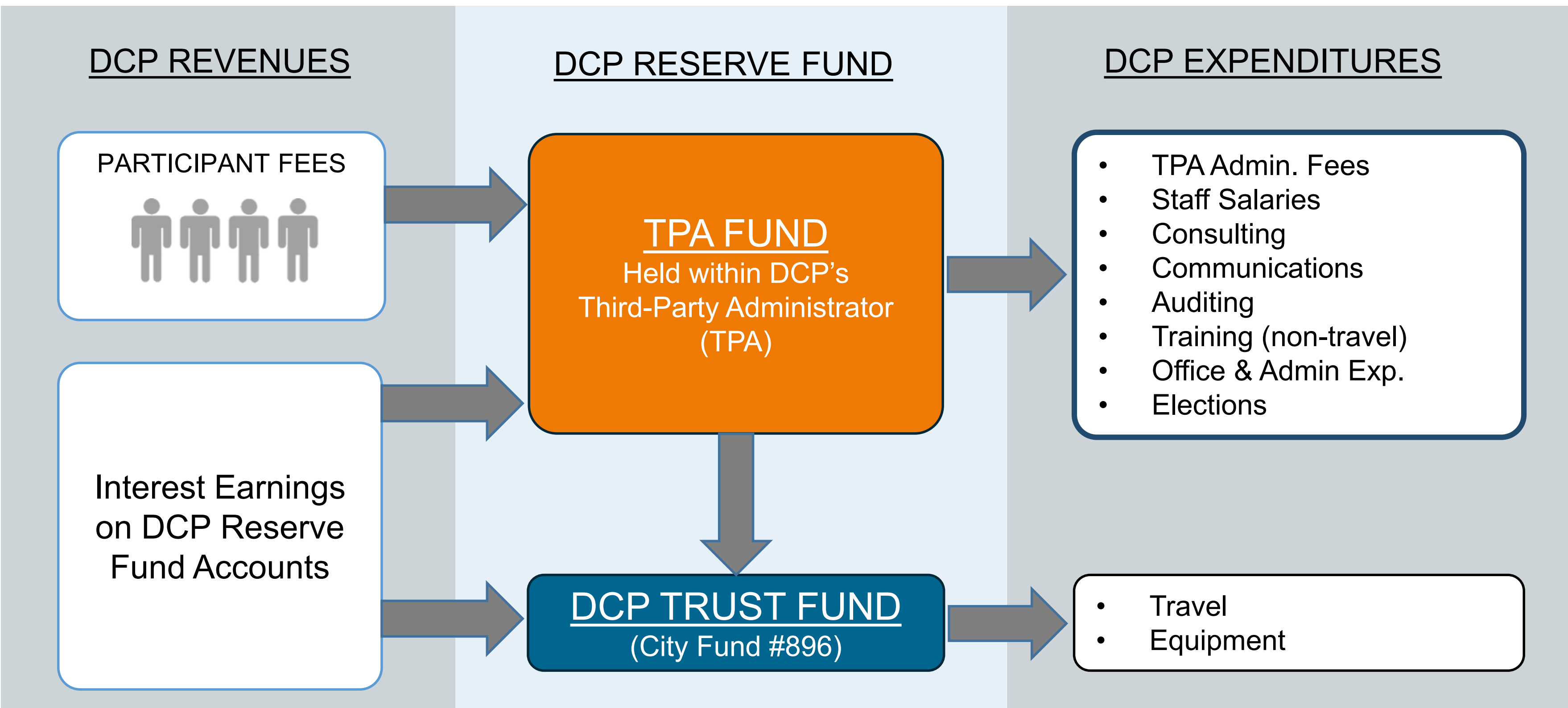
April 8, 2024

CITY OF Los Angeles
DEFERRED COMPENSATION PLAN

FLOW OF FUNDS: OVERVIEW

Pursuant to Los Angeles Administrative Code (LAAC) Division 4, Chapter 14, all Deferred Compensation Plan internal administrative costs are required to be paid by participant fees. Two accounts are used to pay expenses: (1) an account held with the Third-Party Administrator (TPA), which acts as a repository for participant fees and from which most DCP expenses are paid; and (2) pursuant to LAAC Division 5, Chapter 92, a “Deferred Compensation Plan Trust Fund,” held within the City, from which education-related travel and equipment purchases are made. Together, these two accounts comprise the DCP Reserve Fund (“Reserve Fund”).

-- BDCA Governance Policies/Bylaws, Section 5



PARTICIPANT FEES BREAKDOWN

*Estimates based on 52,449 Participants and $9.4 Billion in Assets as of 12/31/2023.

Participant Fees Collected

Deducted from Participant Accounts

$3,280,398

- 0.09% x Plan Assets (9 Basis Points)
- $115 Annual Fee Cap

−

Contractual Fees Owed

Recordkeeping Fees Owed to Voya

$1,602,270

- $30.00 per participant
- $28,000 flat fee (archive maintenance)

=

Excess Fee Revenue Collected:

$1,678,128

- Participant Fees Collected LESS Contractual Fees Owed to Voya
- Excess Revenue Collected is applied to all other operational costs, including staffing and consulting costs
- 2024 Plan Year Budget projects **$1,779,002** in operational costs excluding Recordkeeping Fees*

*The DCP incorporates a level of assumed deficit when adopting the Plan Year budget in order to calibrate the DCP's long-term surplus in alignment with the long-term target reserve balance.

2024 RESERVE FUND
KEY ASSUMPTIONS

Expenses Inflation Adjustment Factor	*Net Enrollment Adjustment Factor*	*Plan Asset Growth Adjustment Factor*	*Stable Value Fund Interest Rate Assumption*	*Basis Points Charged Against Participant Accounts*	*Fee Cap*
3.0%	**3.0%**	**5.5%**	**2.0%**	**0.09%**	**$115**

Personnel Avg. Special Rate	*City Attorney Avg. Special Rate*
85%	**85%**

These assumptions were last approved by the Board on September 19, 2023 .

Future Resource Considerations

- Staffing Costs
- Facilities Costs
- New Program Services and Features

TARGET RESERVE FUND BALANCE

- The adopted Target Reserve Fund Balance is 50% of annual operating expenses (projected to be **$1.7 million** in 2024).
- As of 12/31/23, the Reserve Fund balance was **$6.7 million.***
- In previous years, the Board had established a “structural deficit” to gradually reduce the Reserve Fund balance.
- Projected Revenues and Expenses are based on Key Assumptions adopted by the Board at its September 19, 2023 meeting.

Reserve Fund

TPA Fund
(Reserves held within TPA)
+
DCP Trust Fund
(City Fund #896)

Target Reserve Fund Balance

50% of Annual
Operating Expenses

* This balance does not reflect encumbrances/liabilities in the amount of approximately $1,139,000 for staffing costs and consulting services through 12/31/2023.

PARTICIPANT FEE REVIEW HISTORY

Board actions regarding **Participant Fees**

- May 15, 2007 (BR 07-20) –
    - Reduced Participant Fees from 11 Basis Points (.11%) to 10 Basis Points (.10%) of assets held.
    - Instituted $125 annual fee cap.
    - Eliminated 50-Cent payroll fee.
- March 20, 2018 (BR 18-08) –
    - Reduced participant fees from 10 basis points (.10%) to 9 basis points (.09%) of assets held.
    - Reduced annual participant fee cap from $125 to $115.

Board actions regarding **Target Reserve Surplus & Fee Reviews**

- May 15, 2007 (BR 07-20) –
    - Established target reserve surplus of $1.5 million and structural deficit to reach the target.
- September 20, 2011 (BR 11-58) –
    - Revised target reserve surplus to 50% (or six months) of DCP's annual operating expenses.
- March 20, 2018 (BR 18-08) –
    - Established annual resource review to evaluate the relationship between participant fees and DCP resources.

PARTICIPANT FEE REVIEW HISTORY

Board actions regarding **Long-Term Reserve Reduction**

- February 18, 2020 (BR 20-06) –
  - Approved one-time 50% fee holiday for quarter ending September 30, 2020.
- April 27, 2020 (BR 20-16)
  - Deferred one-time fee holiday pending further analysis of COVID impact on financial market
- October 20, 2020 (BR 20-38)
  - Continued to defer one-time fee holiday pending assessment of potential investment advice services.
- December 15, 2020 (BR 20-47)
  - Continued to defer strategies to reduce long-term reserve pending assessment of potential investment advice services.
- December 21, 2021 (BR 21-63)
  - Approved position authority request for Defined Contribution Manager
  - Deferred investment advice services search pending completion of City and DWP payroll conversion
- September 19, 2023 (BR 23-32)
  - Approved position authority request for Sr. Benefits Analyst I and Benefits Specialist

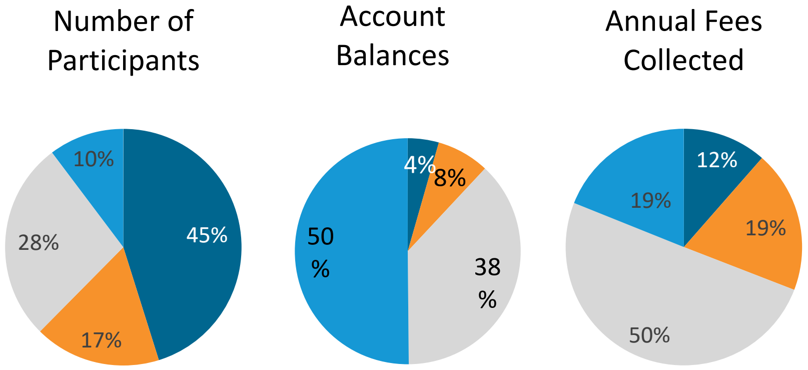
PARTICIPANT ACCOUNT ALLOCATION VS. ANNUAL FEES

As of December 31, 2023:

- **45% of total participants** held **4% of total DCP assets** in accounts with **less than $50k account balance.** They are estimated to pay **11%** of total participant fees collected.

- **50% of total DCP assets** held by **10% of total participants** holding accounts with **over $500k balance**. They are estimated to pay **19%** of total participant fees collected.

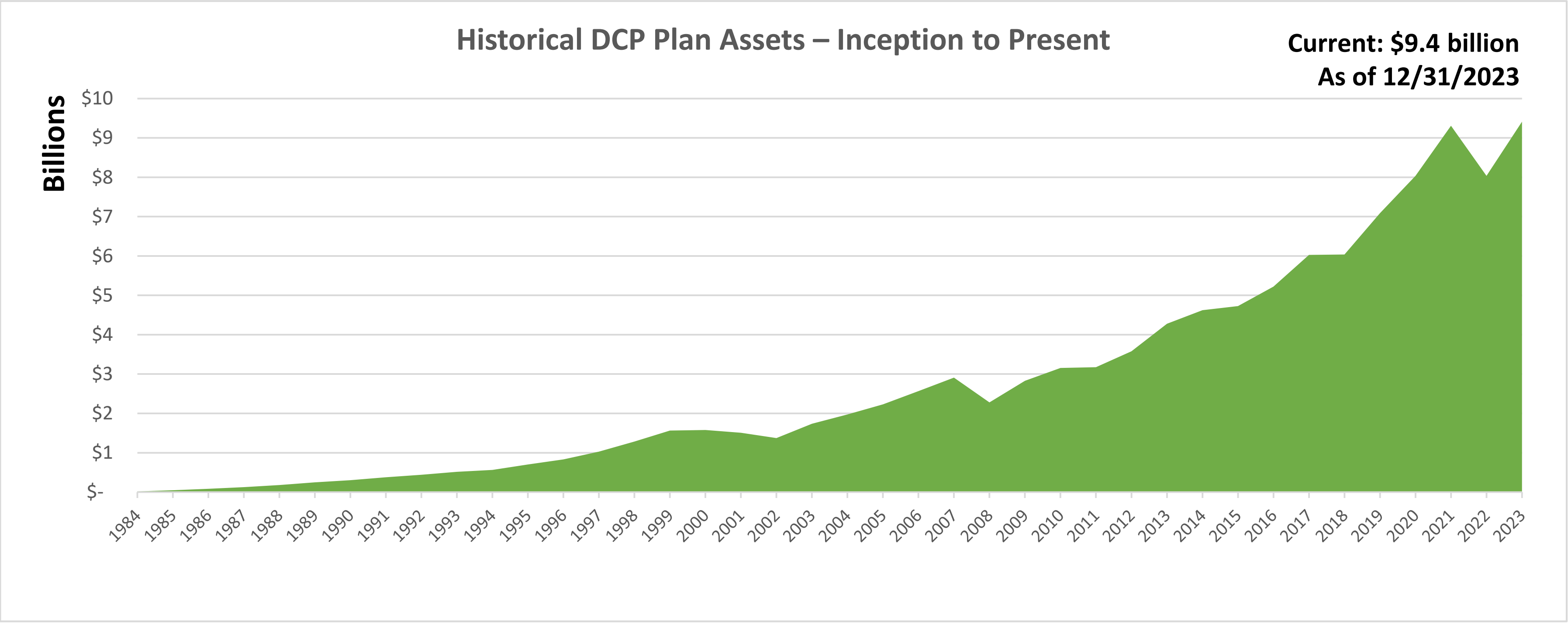
- **50% of estimated total annual fees** would be collected from the accounts holding **between $115k and $500k.** This population includes **27% of total plan participants** holding **38% of total DCP Assets.**



	# of Participants	Percent	Account Balance	Percent	Estimated Annual Fees Collected	Percent
Under $50k	**23,676**	**45%**	**$417,553,206**	**4%**	**$375,798**	**11%**
$50k-$115k	**9,056**	**17%**	**$707,938,638**	**8%**	**$637,145**	**19%**
$115k-$500k	**14,321**	**27%**	**$3,565,934,694**	**38%**	**$1,646,915**	**50%**
Over $500k	5,396	10%	$4,719,553,720	50%	$620,540	19%
Plan Total	**52,449**	**100%**	**$9,410,980,258**	**100%**	**$3,280,398**	**100%**

CITY OF Los Angeles
DEFERRED COMPENSATION PLAN

Historical Plan Assets
1984 to 2023



CITY OF Los Angeles
DEFERRED COMPENSATION PLAN

Historical Participant Count
1984 to 2023