



CITY OF *Los Angeles*
DEFERRED COMPENSATION PLAN

PLAN BUDGET & RESOURCES REVIEW

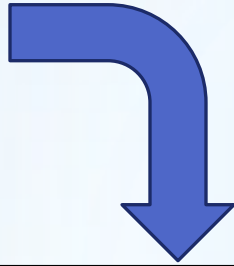
CITY OF LOS ANGELES DEFERRED COMPENSATION PLAN

December 7, 2016



PARTICIPANT
FEE
REVENUES

FLOW OF FUNDS OVERVIEW



Reserve Fund
(Held w/Empower
Retirement)



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

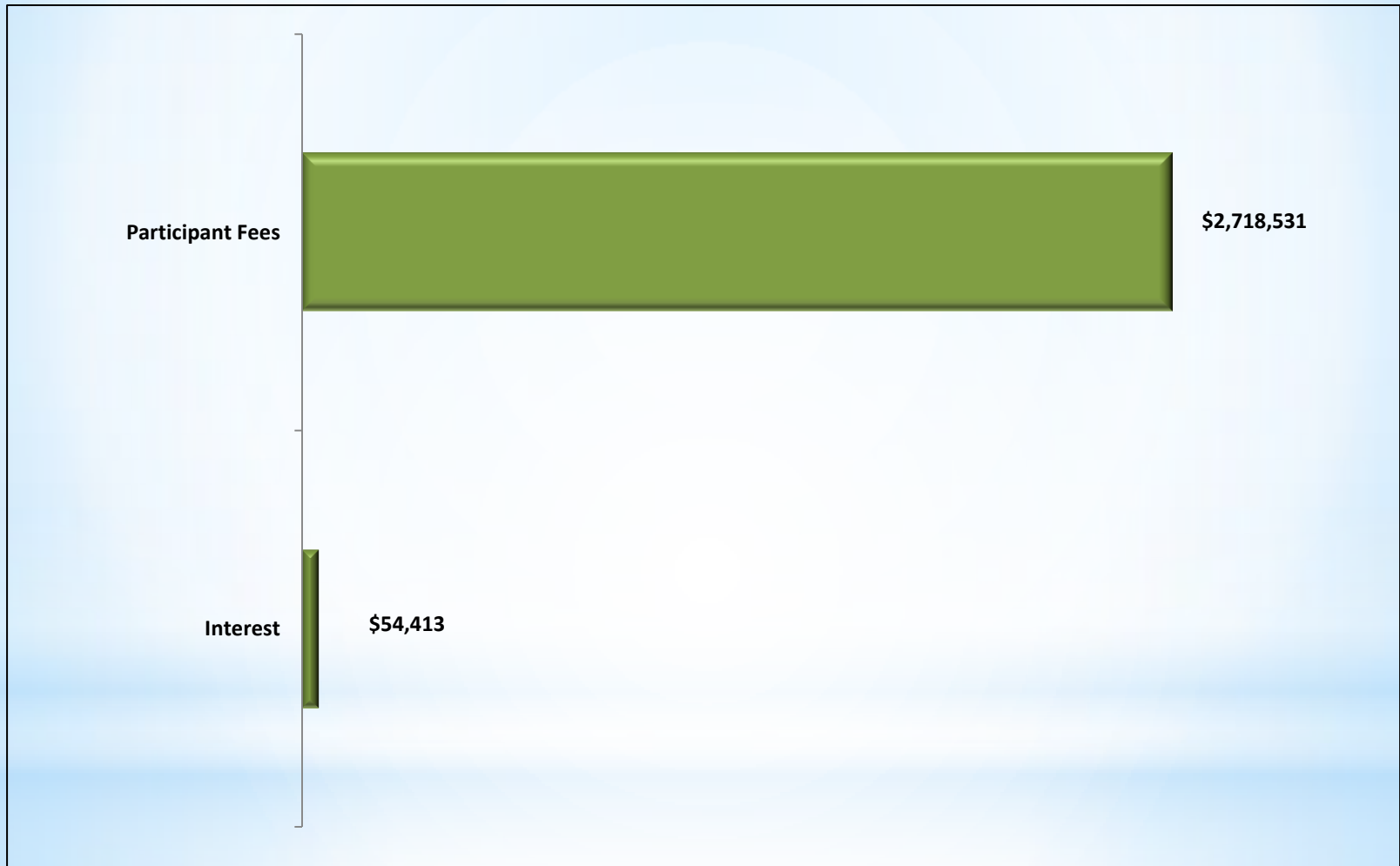


City Fund
#896



- Travel
- Equipment

REVENUES



Annual Total - \$2.8 million

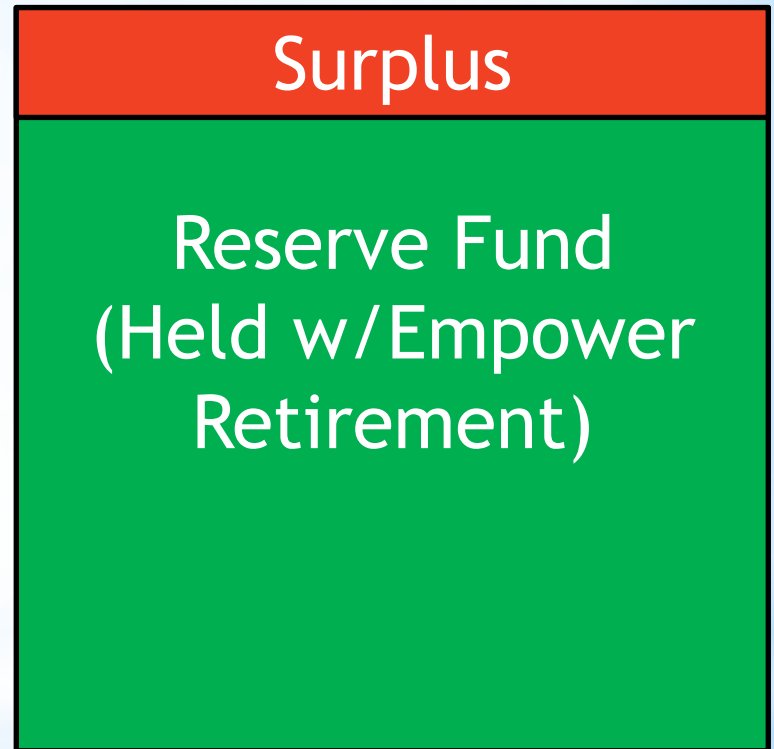
EXPENDITURES



Annual Total - \$2.9 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 surplus
- As of 06/30/16, surplus was **\$2.72 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%	1.0%	6.5%	2.0%	0.10%	\$125

Current



<i>Personnel Avg. Special Rate</i>	<i>City Attorney Avg. Special Rate</i>
1.0	1.0

Plan Growth Rate and Special Rates are most volatile and impactful variables

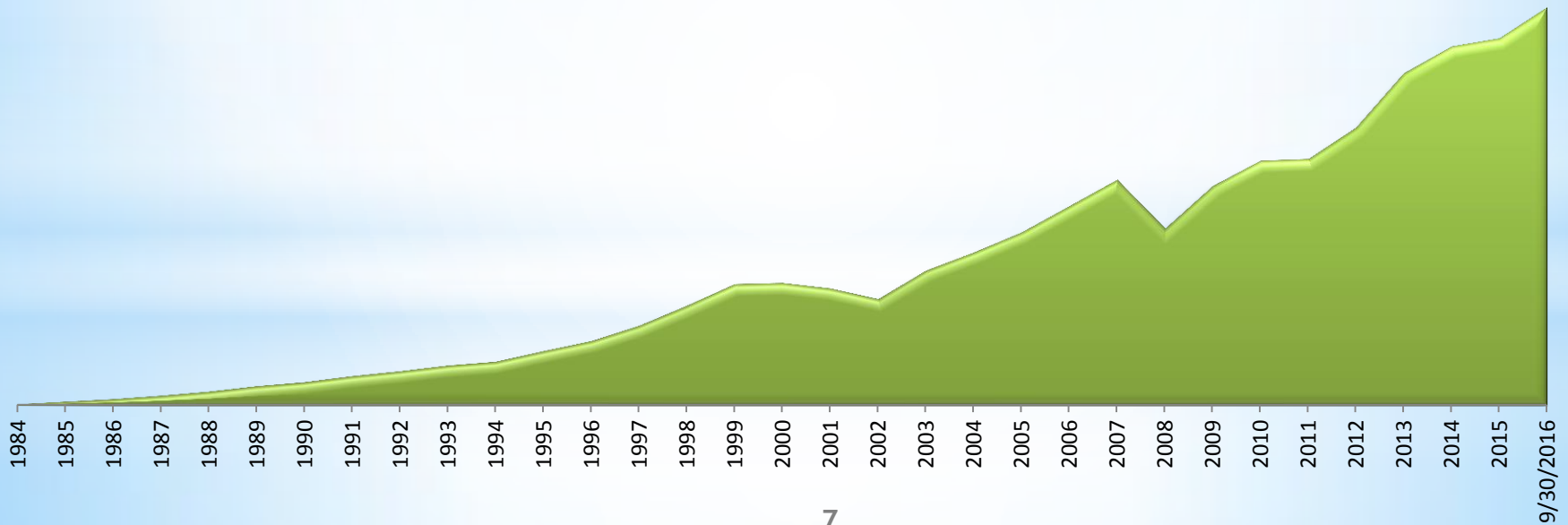
KEY ASSUMPTIONS

Plan Asset Growth

Where Applied: Growth rate for Plan assets

Considerations: Recent growth higher than current assumption, but bond/equity bull markets aging

Current: \$5.1 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	\$ 4,277,754,120	16%
2014	\$ 4,622,493,622	7%
2015	\$ 4,726,682,745	2%
9/30/2016	\$ 5,126,718,309	8%

Average Growth Rates

Average (Inception to Present)	19.2%
Average (1986-1999)-->	21.4%
Average (1990-Present)-->	10.9%
Last 15 years average-->	7.2%
Last 10 years average-->	6.0%
Last 5 years average-->	9.2%

Projected Growth Rate Including ROR

Current Assets	\$	5,126,718,309
Net Annual Contributions	\$	101,307,237
Projected ROR (per Mercer)		5.77%
Earnings Growth	\$	295,811,646
Projected Ending Balance	\$	5,534,509,493
Projected Annual Growth Rate		8.0%

KEY ASSUMPTIONS

Plan Asset Growth

Current: **6.5%**

Proposed: **6.5%**

Potential Growth Rate Scenarios	
Last 15 years average-->	7.2%
Last 10 years average-->	6.0%
Last 5 years average-->	9.2%
Actuarial Potential Growth Rate -->	8.4%

KEY ASSUMPTIONS

Enrollment Increase Factor

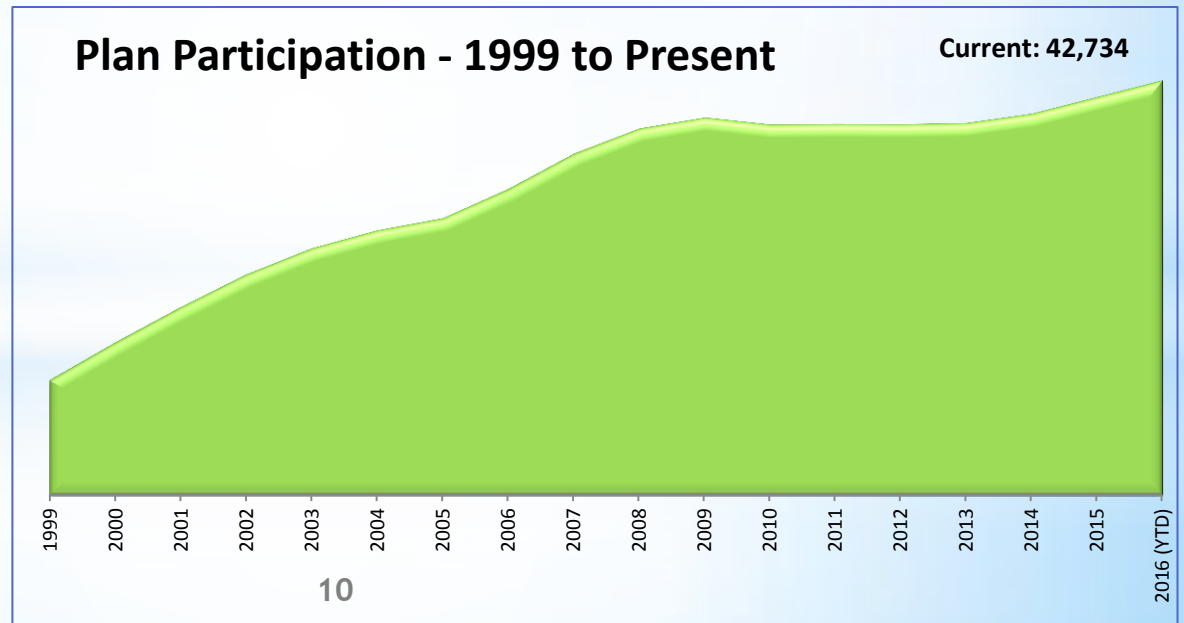
Current: 1%

Proposed: 2%

Where Applied: Estimated growth in participant accounts

Considerations: After flattening after recession, net growth is improving
Revision required if Auto Enrollment widely adopted

Year Ending	Participants	Percent Change
1999	26,319	
2000	28,382	8%
2001	30,315	7%
2002	32,109	6%
2003	33,528	4%
2004	34,528	3%
2005	35,182	2%
2006	36,784	5%
2007	38,733	5%
2008	40,106	4%
2009	40,702	1%
2010	40,316	-1%
2011	40,348	0%
2012	40,325	0%
2013	40,389	0%
2014	40,906	1%
2015	41,818	2%
2016 (YTD)	42,734	2%



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

Special Rates Increase Factor

FY 15 -16 Special #38 Special Rates (Final):

- Personnel - 86.28%
- City Attorney - 74.25%

5-Year Average:

- Personnel - **88%**
- City Attorney - **80%**

As Applied:

Indirect salary costs

Considerations:

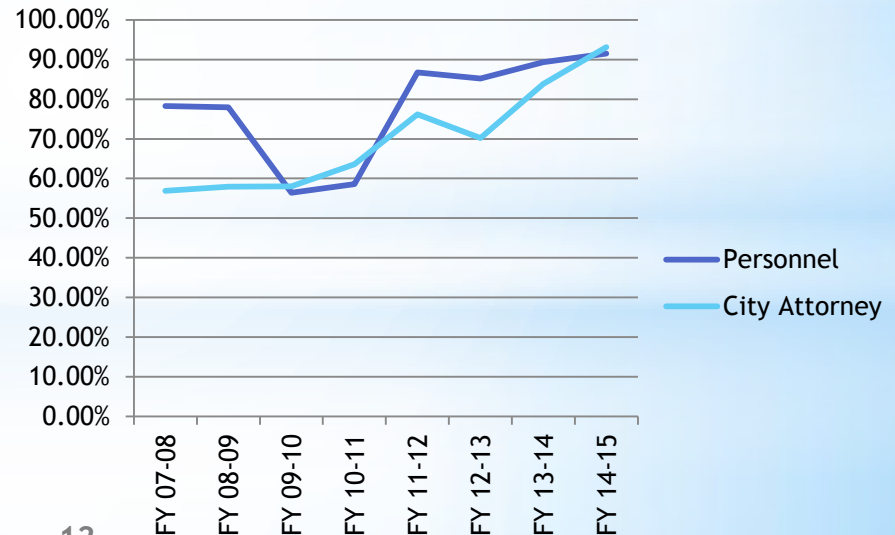
Rates can be volatile and have large impact on costs

Proposed Forward

Assumption:

- Personnel - **100%**
- City Attorney - **100%**

Fiscal Year	Personnel	City Attorney
FY 07-08	78.30%	56.91%
FY 08-09	77.94%	57.96%
FY 09-10	56.43%	58.03%
FY 10-11	58.56%	63.59%
FY 11-12	86.77%	76.17%
FY 12-13	85.23%	70.19%
FY 13-14	89.30%	83.83%
FY 14-15	91.51%	93.09%
FY 15-16	86.28%	74.25%
All Avg	78.92%	70.45%
5-Yr Avg	88%	80%



KEY ASSUMPTIONS

Stable Value Interest Rate Assumption

Current: 2%

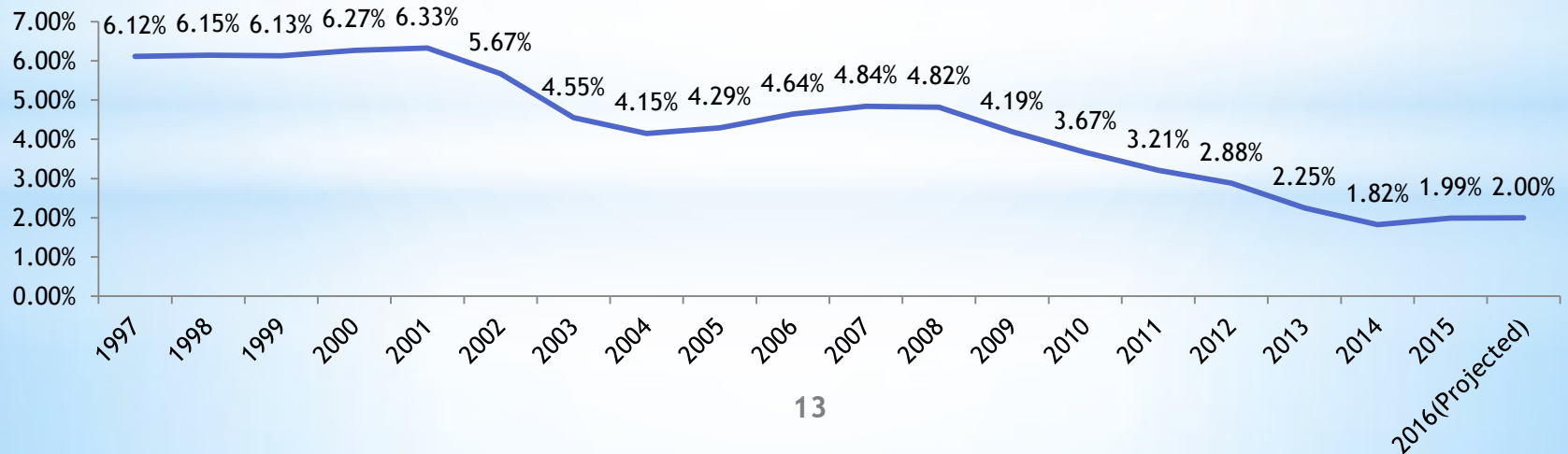
Proposed: 2.0%

Where Applied: Interest earnings on Reserve Fund assets

Considerations: Mercer/Galliard 5-year forecast is 1.40%/2.31%

Note: Mercer's 5-year forecast pertains to a generic asset class return applicable to all stable value products. Galliard's perspective, however, is unique to the Plan. The 91 basis point (0.91%) disconnect in the interest rate assumption is partly due to timing difference of the calculations as rates have risen rapidly very recently. Per Mercer, Galliard's calculation is more current.

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 if clear basis for doing so
- Two largest variables (Plan asset growth and Personnel CAP rate) present potentials for negative/positive surprises
- New resource considerations could easily absorb surpluses

SURPLUS TARGET

10-Year Forecast

w/Proposed Revised Assumptions

<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%	6.5%	2.0%	0.10%	\$125

<i>Personnel Avg. Special Rate</i>	<i>City Attorney Avg. Special Rate</i>
100%	100%