

Deferred Compensation Plan BOARD REPORT 16-31

Date: October 6, 2016

To: Board of Deferred Compensation Administration

From: Staff

Subject: Deferred Compensation Plan Budget Status
Report: Quarters Ending 03/31/16 and 06/30/16

Board of Deferred Compensation Administration

John R. Mumma, Chairperson
Michael Amerian, Vice- Chairperson
Cliff Cannon, First Provisional Chair
Raymond Ciranna, Second Provisional Chair
Wendy G. Macy, Third Provisional Chair
Linda P. Le
Thomas Moutes
Robert Schoonover
Don Thomas

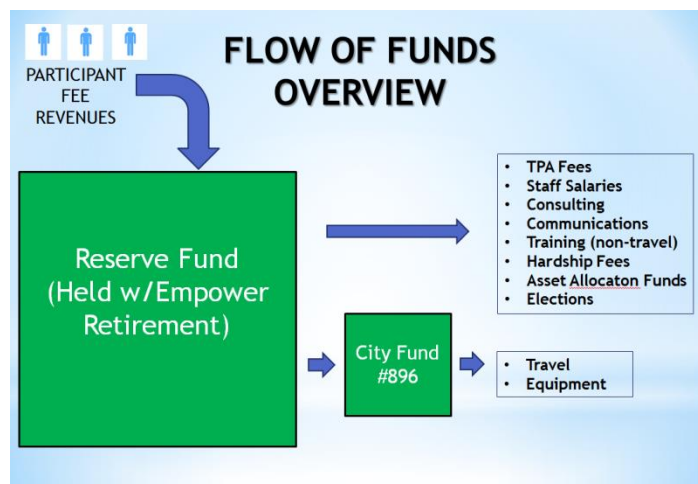
Recommendation:

That the Board of Deferred Compensation (a) receive and file the following status report on Deferred Compensation Plan budget accounts for quarters ending 03/31/16 and 06/30/16; and (b) approve reimbursements from the Deferred Compensation Plan Reserve Fund accounts to the Personnel Department for **\$240,995.38** and City Attorney for **\$57,906** for the quarters ending 03/31/16 and 06/30/16.

Discussion:

Reimbursements - Staff recommends reimbursement from the Deferred Compensation Plan Reserve Fund accounts to the Personnel Department for \$240,995.38 and City Attorney for \$57,906 for the quarters ending 03/31/16 and 06/30/16. Quarterly activity in the Plan's revenue/expenditure accounts is included in Attachment A. Calculations for the current quarters include salaries for all positions presently servicing the Plan, including direct salary and indirect costs as calculated in the City Controller-calculated special rates. These rates are subject to revision by the Controller. If they are revised, staff will address the adjustment in a future quarterly reconciliation. Indirect costs for Personnel and City Attorney are 91.52% and 93.09% respectively.

Reserve Fund Projection – All of the City's internal administrative costs are required to be paid by participant fees. Two accounts are used to pay expenses: a fund held with the Plan administrator which acts as a repository for participant fees and from which most Plan expenses are paid; and a fund held within the City, from which travel and equipment purchases are made, as illustrated in the graphic on the right.



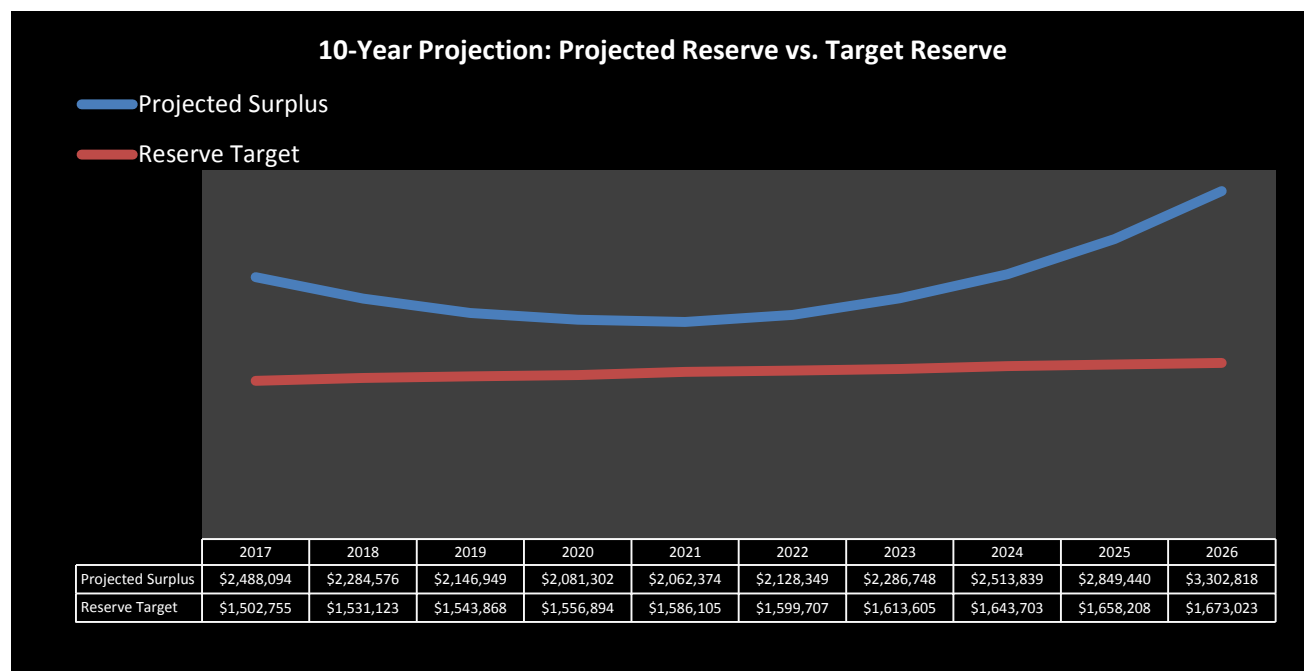
In order to maintain stability within the fee structure, the Plan maintains a reserve balance. The target reserve amount is 50% of annual Plan operating expenses. Each quarter when staff submits its accounting and recommendations for reimbursing administrative costs, a long-term projection is

updated using assumptions for key variables that have been considered by the Board. This information is generated so that the Board can compare the long-term projected reserve to the target reserve.

The Board last reviewed its long-term assumptions for Plan revenues/expenditures at its November 2013 Strategic Plan review. The Board adopted assumptions and key variables as reflected below. These assumptions will shortly be reviewed again as part of convening the Plan Governance and Administrative Issues Committee (see Board Report 16-28).

<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>	<i>Personnel Avg. Cap Rate</i>	<i>City Attorney Avg. Cap Rate</i>
2.0%	1.0%	6.5%	2.75%	0.10%	\$125	1.15	0.75

With each quarterly review staff provides a ten-year projection of the reserve fund balance. As a result, following is a rolling ten-year forecast of the Deferred Compensation Plan's reserve fund balance.



In 2016, one half of the annual operating expenses is approximately \$1.5 million. The estimated surplus in the Trust Fund by the end of 2016 is expected to be \$2.5 million, or \$1 million more than the targeted reserve amount.

As indicated in the chart above, staff has calculated the projected surplus relative to the targeted reserve amount over a ten-year period. As a result of growth in Plan assets and adjustments to indirect cost assumptions, the surplus is projected to be significantly above the target reserve over the entire period. The lowest projected amount above the target reserve is \$476,000 in 2021, increasing to \$1.6 million above target in 2026.

Submitted by: _____
Matthew Vong

Approved by: _____
Steven Montagna

DEFERRED COMPENSATION PLAN QUARTERLY REVIEW OF REVENUES & EXPENSES				
	Pending	Pending	Adopted	Adopted
	Ending	Ending	Ending	Ending
REVENUE & EXPENSE LINE ITEMS	6/30/2016	3/31/2016	12/31/2015	9/30/2015
STARTING BALANCE	-	-	-	-
Payroll Fee Trust Fund Ending Balance	\$ 56,249	62,314	71,967	44,723
Administrative Fee Reserve Fund Balance	\$ 3,469,964	3,308,222	3,073,495	3,011,427
Total	\$ 3,526,213	3,370,535	3,145,462	3,056,150
REVENUES/FEES				
Interest Earnings on Payroll Fee Trust Fund	\$ 261	191	106	75
Payroll Fee Trust Fund Deposit: Travel	\$ -	-	-	40,850
Payroll Fee Trust Fund Deposit: Salary Reimbursements	\$ -	(15,717)	-	-
Interest Earnings on Administrative Fee Reserve Fund	\$ 16,149	14,728	14,404	13,301
Revenue from Fees Deducted from Participant Accounts	\$ 651,085	642,818	640,669	652,311
CAP Adjustment Credits	\$			
Miscellaneous Credits	\$ 30	15,814	27	15
Total Revenue/Fees	\$ 667,525	657,834	655,206	706,552
TOTAL ASSETS (STARTING BALANCE + REVENUE/FEES)	\$ 4,193,739	4,028,370	3,800,668	3,762,702
EXPENDITURES				
Participant Administrative Fees Paid to Great-West	\$ (389,285)	(386,503)	(383,952)	(381,974)
Prior Quarter Departmental Staffing Reimbursements	\$ -	-	-	-
Consulting Costs	\$ (140,460)	(1,170)	(121)	(94,407)
Plan Administrator Hardship Administration	\$ (14,500)	(15,750)	(18,250)	(19,000)
Plan Administrator Asset Allocation Fund Management	\$ (17,750)	(37,750)	(14,250)	(14,250)
Communications	\$ -	(53,463)	(1,950)	(29,160)
2130 Travel/Training/Education	\$ -	(2,007)	(9,759)	(13,697)
Travel/Training/Education - Payment-Steptoe - Training	\$ -	-	(600)	(42,785)
Elections Administration	\$ -	-	-	(20,717)
Wells Fargo Custodial Fees	\$ (1,250)	(1,250)	(1,250)	(1,250)
6010 Office and Administrative	\$ -	(4,264)	-	-
4160 Governmental Meetings	\$ -	-	-	-
TOTAL EXPENDITURES	\$ (563,245)	(502,157)	(430,132)	(617,240)
Actual Payroll Fee Trust Fund Ending Balance	\$ 56,540	56,249	62,314	71,967

Actual Administrative Fee Reserve Fund Ending Balance	\$ 3,573,953	3,469,964	3,308,222	3,073,495
ACTUAL TOTAL ENDING BALANCE	\$ 3,630,494	3,526,213	3,370,536	3,145,462
ENCUMBRANCES/LIABILITIES				
2007-2015 Personnel & City Attorney Adjustments	\$ 465,506.79	465,507	465,507	465,507
Prior Quarter Departmental Staffing Reimbursements 09/30/14	\$ (184,728.19)	(184,728)	(184,728)	(184,728)
Prior Quarter Departmental Staffing Reimbursements 12/31/14	\$ (170,264.00)	(170,264)	(170,264)	(170,264)
Prior Quarter Departmental Staffing Reimbursements 03/31/15	\$ (170,526.81)	(170,527)	(170,527)	(170,527)
Prior Quarter Departmental Staffing Reimbursements 06/30/15	\$ (203,524.20)	(203,524)	(203,524)	(203,524)
Prior Quarter Departmental Staffing Reimbursements 09/30/15	\$ (176,079.12)	(176,079)	(176,079)	
Prior Quarter Departmental Staffing Reimbursements 12/31/16	\$ (171,317.31)	(171,317)		
Prior Quarter Departmental Staffing Reimbursements 03/31/16	\$ (151,953.93)			
Quarterly Personnel Direct/Indirect Costs	\$ (118,946.27)	(122,049)	(139,627)	(146,859)
Quarterly City Attorney Direct/Indirect Costs	\$ (28,001.19)	(29,905)	(31,691)	(29,220)
Net Ending Balance Owed	\$ (909,834)	(762,887)	(610,933)	(439,616)
TOTAL ASSETS LESS LIABILITIES	2,720,659	2,763,326	2,759,603	2,705,846

Note: all staffing reimbursement amounts pending as of 06/30/16 were processed in July 2016.