



CITY OF *Los Angeles*
DEFERRED COMPENSATION PLAN

Board Report 21-43

Date: August 17, 2021
 To: Board of Deferred Compensation Administration
 From: Staff
 Subject: Quarterly Staffing Reimbursements – Second Quarter 2021

Board of Deferred Compensation Administration
Thomas Moutes <i>Chairperson</i>
Raymond Ciranna <i>Vice-Chairperson</i>
Robert Schoonover <i>First Provisional Chair</i>
Neil Guglielmo <i>Second Provisional Chair</i>
Joshua Geller <i>Third Provisional Chair</i>
Linda P. Le
Wendy G. Macy
Baldemar J. Sandoval
WPERP Representative <i>Vacant</i>

Recommendation:

That the Board of Deferred Compensation Administration (Board) approve reimbursements from the Deferred Compensation Plan (DCP) Reserve Fund to the Personnel Department in the amount of **\$176,834.42** and to the City Attorney in the amount of **\$29,089.65** totaling **\$205,924.07**, inclusive of the second quarter of calendar year 2021 ending June 30, 2021, for staff providing direct support of the DCP.

Discussion:

A. Quarterly Staffing Reimbursements – Second Quarter 2021

The proposed reimbursements identified in this report include the total staffing costs (direct and indirect, either net or gross¹) of Personnel Department and City Attorney positions providing direct support of the DCP during the second quarter of 2021 beginning April 1, 2021 and ending June 30, 2021 as follows:

Summary of Staffing Cost Reimbursements for Second Quarter 2021 (April 2021 to June 30, 2021)	
Personnel Department Direct Costs Gross Method	\$ 54,539.63
Personnel Department Direct Costs Net Method	\$ 30,562.83
Personnel Department Indirect Costs Gross Method @ 79.97%	\$ 43,615.34
Personnel Department Indirect Costs Net Method @ 99.86%	\$ 30,520.04
<i>Adjustments for Quarters Ending 9/30/20, 12/31/20, and 3/31/21</i>	\$ 17,596.58
Total Reimbursement to Personnel Department	\$ 176,834.42

¹Staff uses two methods for reimbursement of staffing costs. The gross method is used for employees charging 100% of their time to the DCP. The net method is used for employees who do not charge 100% of their time to the DCP. The distinction between the two is that a Compensated Time Off (CTO) rate, which accounts for non-working hours such as sick and vacation time, is applied to the net method but not applied to the gross method (since compensated time such as vacation and sick time are already captured in gross salary). The gross method is used to reimburse the full-time Personnel Department staff (two Benefits Analyst; one Benefits Specialist) fully dedicated and 100% supporting the DCP. The net method is used to reimburse full-time Personnel Department staff (one Chief Personnel Analyst; one Senior Benefits Analyst II) and City Attorney staff who are partially dedicated to the DCP.

City Attorney Direct Costs Net Method	\$	15,955.17
City Attorney Indirect Costs Net Method @ 82.05%	\$	13,091.22
<i>Adjustments for Quarters Ending 9/30/20, 12/31/20, and 3/31/21</i>	\$	43.26
Total Reimbursement to City Attorney	\$	29,089.65
TOTAL PERSONNEL DEPARTMENT AND CITY ATTORNEY REIMBURSEMENTS	\$	205,924.07

The calculation for salary reimbursements includes direct costs (actual salary costs for all positions presently supporting the DCP) and indirect costs as calculated according to the City Controller Special Rates for Indirect Cost Centers (Special Rates). These Special Rates are established on a fiscal year basis. Unique rates are identified by department categories. The most recently published rate is Special Rates 43 for Fiscal Year (FY) 2020-21, which identifies staffing cost reimbursement percentages for the Personnel Department of **79.97%** for gross method reimbursement and **99.86%** for net method reimbursement; the staffing reimbursement percentage for the City Attorney is **82.05%** for net method reimbursement.

Calculation details of the second quarter 2021 salary cost reimbursements including quarterly activity in the DCP’s revenue and expenditure accounts are provided in **Attachment A**.

B. Adjustment of Quarterly Staffing Reimbursements – Third Quarter 2020 through First Quarter 2021

The Board approved reimbursements from the DCP Reserve Fund to the Personnel Department and City Attorney for the third quarter of 2020, fourth quarter of 2020, and first quarter of 2021, at its meetings on December 15, 2020, February 16, 2021, and May 18, 2021. These staffing costs reimbursements were based on Special Rates 42 for FY 2019-20 as the FY 2020-21 Special Rates were not available at the time the staffing costs reimbursements were calculated. The recently published Special Rates 43 for FY 2020-21 resulted in an increase in the staffing costs reimbursement percentages as follows:

- Personnel Department Gross Method – **72.57% to 79.97%**
- Personnel Department Net Method – **93.71% to 99.86%**
- City Attorney Net Method – **81.99% to 82.05%**

Accordingly, staff has recalculated the staffing costs reimbursements for the previous quarters in FY 2020-21 based on Special Rates 43. The increase in the reimbursement percentages results in a difference in staffing costs reimbursements of **\$17,596.58** for the Personnel Department and **\$43.26** for the City Attorney as detailed in the chart below.

Quarter Ending	FY 19-20 Special Rates (42)				FY 20-21 Special Rates (43)				Adjustments	
	Total Personnel Amount Reimbursed under Special Rates 42	Applied Special Rate	Total City Attorney Amount Reimbursed under Special Rates 42	Applied Special Rate	Total Personnel Reimbursement Amount Calculated per Special Rates 43	Applied Special Rate	Total City Attorney Reimbursement Amount Calculated per Special Rates 43	Applied Special Rate	Personnel	City Attorney
9/30/20	\$165,789.90	72.57% and 93.71%	\$45,811.96	81.99%	\$171,317.43	79.97% and 99.86%	\$45,827.06	82.05%	\$5,527.54	\$15.10
12/31/20	\$158,031.44		\$42,070.30		\$164,102.45		\$42,084.17		\$6,071.01	\$13.87
3/31/21	\$156,157.41		\$43,333.73		\$162,155.44		\$43,348.02		\$5,998.03	\$14.29
Total Adjustments Owed to Departments:									\$17,596.58	\$43.26

The increase in staffing costs has been applied to the second quarter 2021 staffing reimbursements resulting in total reimbursements from the DCP Reserve Fund to the Personnel Department in the amount of **\$176,834.42** and to the City Attorney in the amount of **\$29,089.65**.

C. Reserve Fund Projection

Pursuant to Los Angeles Administrative Code Division 4, Chapter 14, all of the City’s 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) an account held within the City (Fund 896), from which office and administrative expenses, travel, and equipment purchases are made. Together, these two accounts comprise the DCP Reserve Fund.

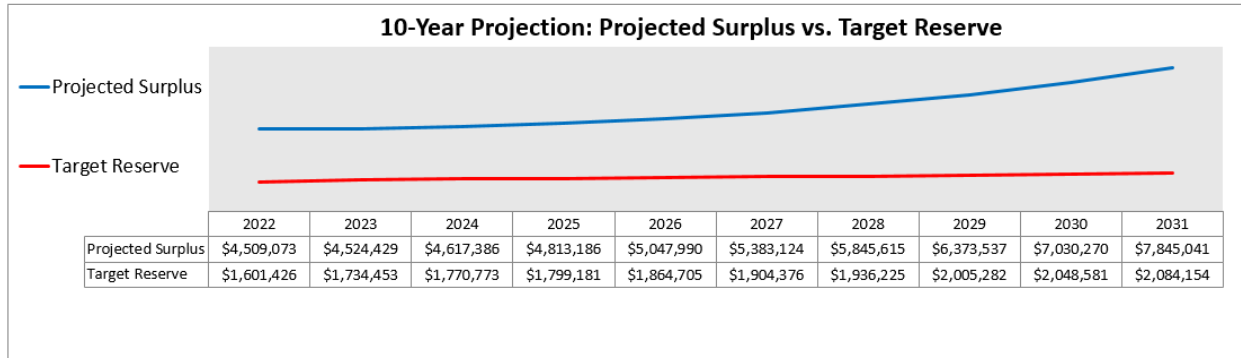
To maintain stability within the DCP Reserve Fund and participant fees, the Board has established a target Reserve Fund balance of 50% of annual DCP operating expenses. Each quarter, when staff submits its accounting and recommendations for reimbursing administrative costs, a long-term projection is updated using assumptions for key variables that have been considered by the Board. This information is generated for the Board to compare the long-term projected Reserve Fund balance to the target Reserve Fund balance.

The Board last reviewed and approved long-term assumptions for DCP revenues and expenditures at its December 15, 2020 meeting, following a fee review and recommendations submitted by the DCP Plan Governance and Administrative Issues Committee. The current key variables used in long-term projections are summarized below:


<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. Special Rate</i>	<i>City Attorney Avg. Special Rate</i>
2.0%	3.0%	7%	2.0%	0.09%	\$115	115.0%	115.0%

With each quarterly review, staff provides a ten-year projection of the DCP Reserve Fund balance. Fluctuations in overall DCP assets can have a significant impact on projections of future Reserve Fund balances. DCP assets continue to grow significantly, up 35% for the one-year period from April 1, 2020 through March 31, 2021.


Following is the rolling-ten year forecast of the DCP Reserve Fund balance updated with data as of June 30, 2021. As indicated in the chart, given continuing sharp increases in DCP assets, the Reserve Fund balance is projected to be above the target reserve over the entire ten-year period. The lowest projected surplus amount above the target Reserve Fund balance is approximately **\$4.5 million** in 2022, increasing to approximately **\$7.8 million** in 2031. The lowest difference between the projected surplus and the target Reserve Fund balance is approximately **\$2.9 million** in 2022, increasing to approximately **\$5.8 million** in 2031.



Options for addressing the long-term projected surplus had been deferred to the upcoming Plan Governance and Administrative Issues Committee (Committee) review of investment advice and financial education services. As the Committee’s annual DCP Resource Review typically takes place in the Fall, staff is preparing to combine both topics for the Committee and convene the Committee no later than October 2021. This will ensure ample time for Board consideration of any potential actions to be put into effect beginning with the 2022 plan year.

Submitted by: 

 Mindy Lam, Benefits Analyst

Reviewed by: 

 Jenny M. Yau, Senior Benefits Analyst II

Approved by: 

 Steven Montagna, Chief Personnel Analyst

DEFERRED COMPENSATION PLAN QUARTERLY REVIEW OF REVENUES & EXPENSES				
	Pending	Adopted	Adopted	Adopted
	Ending	Ending	Ending	Ending
REVENUE & EXPENSE LINE ITEMS	6/30/2021	3/31/2021	12/31/2020	9/30/2020
STARTING BALANCE				
City Fund 896 Starting Balance	\$ 100,723.55	\$ 104,200.70	\$ 103,741.97	\$ 103,404.62
TPA Fund Starting Balance	\$ 4,323,766.23	\$ 4,383,238.39	\$ 4,044,698.93	\$ 3,898,982.83
Total Starting Balance	\$ 4,424,489.78	\$ 4,487,439.09	\$ 4,148,440.90	\$ 4,002,387.45
REVENUES				
Interest Earnings on Fund 896	\$ 372.27	\$ 331.44	\$ 458.73	\$ 337.35
Miscellaneous Credits To Fund 896	\$ 30.00	\$ -	\$ -	\$ -
Interest Earnings on TPA Fund	\$ 20,587.49	\$ 21,755.05	\$ 24,469.35	\$ 41,425.61
Revenue from Fees Deducted from Participant Accounts	\$ 760,297.89	\$ 748,303.81	\$ 724,334.86	\$ 707,892.88
Miscellaneous Credits to TPA Fund	\$ 26,771.72	\$ -	\$ -	\$ 23,924.92
Total Revenue/Fees	\$ 808,059.37	\$ 770,390.30	\$ 749,262.94	\$ 773,580.76
TOTAL ASSETS (STARTING BALANCE + REVENUE/FEES)	\$ 5,232,549.15	\$ 5,257,829.39	\$ 4,897,703.84	\$ 4,775,968.21
EXPENDITURES				
2120 Printing and Binding (Elections Administration)	\$ (648.93)	\$ -	\$ -	\$ -
2130 Travel/Training/Education	\$ -	\$ -	\$ -	\$ -
6010 Consulting Costs	\$ -	\$ -	\$ -	\$ -
6010 Office and Administrative: Reimb Staff Support	\$ (199,491.14)	\$ (411,703.60)	\$ -	\$ (202,931.84)
6010 Office and Administrative: Other	\$ (27.46)	\$ (3,808.59)	\$ -	\$ -
Contractual Fees Paid to TPA	\$ (411,804.75)	\$ (410,244.75)	\$ (409,564.75)	\$ (408,948.75)
Consulting Costs	\$ (41,755.21)	\$ (7,582.67)	\$ -	\$ (14,390.72)
Communications	\$ -	\$ -	\$ -	\$ (256.00)
Training/Education/Travel Paid by TPA	\$ -	\$ -	\$ (700.00)	\$ (1,000.00)
Elections Administration	\$ -	\$ -	\$ -	\$ -
TOTAL EXPENDITURES	\$ (653,727.49)	\$ (833,339.61)	\$ (410,264.75)	\$ (627,527.31)
INTER-FUND TRANSFERS				
Transfer to Fund 896: Salary Reimbursements	\$ (199,491.14)	\$ (411,703.60)	\$ -	\$ (202,931.84)
Transfer to Fund 896: Other	\$ -	\$ -	\$ -	\$ -
Fund 896 Deposit: Salary Reimbursements	\$ 199,491.14	\$ 411,703.60	\$ -	\$ 202,931.84
Fund 896 Deposit: Other	\$ -	\$ -	\$ -	\$ -
TOTAL INTER-FUND TRANSFERS	\$ -	\$ -	\$ -	\$ -
TOTAL ENDING BALANCE (ASSETS + EXPENDITURES + INTER-FUND TRANSFERS)	\$ 4,578,821.66	\$ 4,424,489.78	\$ 4,487,439.09	\$ 4,148,440.90
REPORTED ENDING BALANCE				
Actual City Fund 896 Ending Balance	\$ 100,449.43	\$ 100,723.55	\$ 104,200.70	\$ 103,741.97
Actual TPA Fund Ending Balance	\$ 4,478,372.23	\$ 4,323,766.23	\$ 4,383,238.39	\$ 4,044,698.93
ACTUAL TOTAL ENDING BALANCE	\$ 4,578,821.66	\$ 4,424,489.78	\$ 4,487,439.09	\$ 4,148,440.90
ENCUMBRANCES/LIABILITIES				
Outstanding Reimbursements from Prior Quarter(s)	\$ -	\$ -	\$ (211,611.29)	\$ -
Quarterly Personnel Department Direct/Indirect Costs	\$ (176,834.42)	\$ (156,157.41)	\$ (158,031.44)	\$ (165,789.90)
Quarterly City Attorney Direct/Indirect Costs	\$ (29,089.65)	\$ (43,333.73)	\$ (42,060.87)	\$ (45,821.39)
Net Ending Balance Owed	\$ (205,924.07)	\$ (199,491.14)	\$ (411,703.60)	\$ (211,611.29)
Funds in Transit from TPA Fund to City Fund 896	\$ -	\$ -	\$ -	\$ -
TOTAL ENDING BALANCE LESS LIABILITIES	\$ 4,372,897.59	\$ 4,224,998.64	\$ 4,075,735.49	\$ 3,936,829.61

Summary of Staffing Cost Reimbursements for Second Quarter 2021 (April 1, 2021 to June 30, 2021)	
Personnel Department Direct Costs Gross Method	\$ 54,539.63
Personnel Department Direct Costs Net Method	\$ 30,562.83
Personnel Department Indirect Costs Gross Method @ 79.97%	\$ 43,615.34
Personnel Department Indirect Costs Net Method @ 99.86%	\$ 30,520.04
Adjustments for Quarters Ending 9/30/20, 12/31/20, and 3/31/21	\$ 17,596.58
Total Reimbursement to Personnel Department	\$ 176,834.42
City Attorney Direct Costs Net Method	\$ 15,955.17
City Attorney Indirect Costs Net Method @ 82.05%	\$ 13,091.22
Adjustments for Quarters Ending 9/30/20, 12/31/20, and 3/31/21	\$ 43.26
Total Reimbursement to City Attorney	\$ 29,089.65
TOTAL PERSONNEL DEPARTMENT AND CITY ATTORNEY REIMBURSEMENTS	\$ 205,924.07

Legend
City Fund 896
TPA Reserve Fund