



Board Report 22-03

Date: January 18, 2022
To: Board of Deferred Compensation Administration (Board)
From: Staff
Subject: Deferred Compensation Plan Budget Adoption for Plan Year 2022

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Deferred Compensation
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Recommendation:

That the Board adopt the proposed Deferred Compensation Plan budget for Plan Year 2022.

Discussion:

The Board’s Governance Policies/Bylaws, Fiscal Administration Policy, Section 5.2, requires that the Board adopt a budget for each Plan Year. Pursuant to Los Angeles Administrative Code Division 4, Chapter 14, all Deferred Compensation Plan (DCP) 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, from which education-related travel and equipment purchases are made. Together, these two accounts comprise the DCP Reserve Fund (“Reserve Fund”). To maintain stability within the fee structure, the DCP seeks to maintain a Reserve Fund balance representing 50% of the DCP’s annual expenses. As of September 30, 2021, the reserve balance was \$4.4 million versus the target balance of \$1.6 million.

In accordance with the Board’s Governance Policies/Bylaws, staff has prepared a proposed budget for the DCP’s 2022 Plan Year (**Attachment A**). The attachment includes a narrative description of the assumptions and other relevant factors regarding each budget item.

At its **December 21, 2021** meeting, following the annual DCP resource review and recommendations submitted by the DCP Plan Governance & Administrative Issues Committee, the Board approved certain Growth, Expense, and Fee variable assumptions for use in projecting future Reserve Fund balances (**Attachment B**). These assumptions are incorporated in the 2022 Plan Year proposed budget.

Separate from the annual budget adoption, staff will prepare a final accounting for actual vs. budgeted expenditures in 2021 upon receipt of all calendar-year ending reports. However, for reference, staff has provided historical DCP revenues and expenditures from 2015 through 2020 as **Attachment C**.

Staff recommends that the Board adopt the proposed DCP budget for Plan Year 2022.

Submitted by: 

Mindy Lam, Benefits Analyst

Approved by: 

Steven Montagna, Chief Personnel Analyst

DEFERRED COMPENSATION PLAN	
PROJECTED REVENUES/EXPENDITURES	
Plan Year 2022	
REVENUES	
Projected Starting Balance on 01/01/22	\$ 4,453,614
Estimated Annual Administrative Fee Revenue	\$ 3,281,245
Estimated 2022 Interest Earnings (2%)	\$ 87,289
Opening Balance Plus Projected Revenues	\$ 7,822,149
EXPENDITURES	
Participant Administrative Fees Owed to TPA	\$ (1,669,885)
Estimated Personnel Department Reimbursements	\$ (1,075,914)
Estimated City Attorney Reimbursements	\$ (196,590)
Estimated Investment Consulting Costs	\$ (190,000)
Estimated Plan Administration Consulting Costs	\$ (20,000)
Estimated Outside Tax Counsel Consulting Costs	\$ (15,000)
Plan Audit	\$ (45,000)
Communications	\$ (50,000)
Travel/Training/Education	\$ (20,000)
Elections Administration	\$ -
Office and Administrative	\$ (17,500)
Governmental Meetings	\$ (500)
Total Estimated Expenditures	\$ (3,300,390)
Annual Revenues Less Annual Expenditures	\$ 68,145
Projected Ending Balance on 12/31/22	\$ 4,521,759

The following details are provided regarding each budget item and related assumptions:

Revenues

- **Projected Starting Balance on 01/01/22** – The starting balance includes amounts held in both the Third-Party Administrator’s Participant Fee account and the City’s Administrative Fee Trust Fund account. The projected starting balance is net of all incurred but not paid expenses from the prior calendar year.
- **Estimated Annual Administrative Fee Revenue** – Projections for administrative fee revenues (amounts collected from participant accounts) reflect DCP assets as of September 30, 2021, as the fourth quarter Reserve Fund review is pending. The one-year growth rate assumption is 6%. DCP assets are impacted by both investment gains and participant contributions/rollovers.
- **Estimated 2022 Interest Earnings** – The assumed 2022 average rate of return for the Stable Value Fund is 2.0%.

Expenditures

- ***Participant Administrative Fees Owed to TPA*** – The City’s contractual obligation to the DCP TPA is \$32.00 per participant. The long-term projected participant growth rate is 3%.
- ***Estimated Personnel Department and City Attorney Reimbursements*** – The DCP funds direct and indirect costs for staff positions. Estimated expenditures for these positions for 2022 include current paygrade levels and other factors. These rates reflect the most current Special Rate information for calculating indirect costs.
- ***Estimated Investment, Plan Administration, and Outside Tax Counsel Consulting Costs*** – The DCP has contracts for various consulting services, including investments, plan administration, and outside tax counsel consulting (via contracts administered by the City Attorney’s Office). Staff projects a total of \$225,000 in investment, administrative, and outside tax counsel consulting expenditures for 2022.
- ***Plan Audit*** – The projected cost of a 2022 DCP audit is \$45,000.
- ***Communications*** – This category includes special communication costs funded directly by the DCP outside of communications expenditures absorbed by the DCP TPA.
- ***Travel/Training/Education*** – This category includes projected travel/training expenditures of \$20,000, reflecting the recent five-year average of expenditures from 2014 to 2019, and excluding 2020 and 2021 given pandemic-related reduction of travel. This amount may be higher or lower depending on how the pandemic continues to unfold in 2022.
- ***Elections Administration*** – This category includes the costs of administering elections; in 2022, there are no regular elections scheduled.
- ***Office and Administrative*** – This category includes costs for staff and Board equipment and other incidental administrative costs.
- ***Governmental Meetings*** – This category includes incidental costs for the conduct of governmental meetings.

**GROWTH, EXPENSE, AND FEE VARIABLE ASSUMPTIONS
APPROVED BY THE BOARD OF DEFERRED COMPENSATION
DECEMBER 21, 2021**

At its **December 21, 2021** meeting, following the annual DCP resource review and recommendations submitted by the DCP Plan Governance & Administrative Issues Committee, the Board approved the following Deferred Compensation Plan (DCP) Growth and Expense variable and Fee variable assumptions for use in projecting future DCP Reserve Fund balances:

- (1) DCP Assets Growth Rate - 6%
- (2) Net Participation Growth Rate - 3%
- (3) Annual Administrative Expenses Growth Rate - 3%
- (4) Special Rates Increase Factor: Personnel - 91%
- (5) Special Rates Increase Factor: City Attorney - 93%
- (6) Stable Value Fund Average Rate of Return - 2%
- (7) Participant Fees: Annual Basis Point Charge - 0.09%
- (8) Participant Fees: Annual Dollar Cap - \$115

DCP ADMINISTRATIVE REVENUE AND EXPENSES 2015-2020

Starting Balance	Year Ending					
	12/31/2015	12/31/2016	12/31/2017	12/31/2018	12/31/2019	12/31/2020
City Fund 896 Starting Balance	19,776	62,314	44,304	30,927	44,425	114,549
TPA Fund Starting Balance	2,822,682	3,308,222	3,104,611	3,232,973	3,923,478	3,965,355
Total Starting Balance	2,842,458	3,370,536	3,148,915	3,263,900	3,967,903	4,079,904
Revenues/Fees						
Interest Earnings on City Fund 896 and TPA Fund	51,856	61,992	62,916	88,854	106,487	119,596
Revenue from Fees Deducted from Participant Accounts*	2,584,196	2,614,920	2,062,764	2,777,114	2,707,933	2,817,100
Credits and Adjustments	0	0	0	256,176	1,216	31,024
Total Revenues/Fees	2,636,052	2,676,912	2,125,680	3,122,144	2,815,636	2,967,720
TOTAL ASSETS (Starting Balance + Revenues/Fees)	5,478,510	6,047,448	5,274,595	6,386,044	6,783,539	7,047,624
Expenditures						
Participant Administrative Fees Paid to TPA	(1,523,432)	(1,562,667)	(1,204,745)	(1,533,177)	(1,555,451)	(1,625,371)
2130 Travel/Training/Education	(48,429)	(15,532)	(8,581)	(23,601)	(25,721)	(1,700)
4160 Governmental Meetings	0	0	0	0	0	0
6010 Office and Administrative	0	(4,264)	(6,402)	(16,173)	(8,140)	(6,911)
Staffing Reimbursements	(163,389)	(909,834)	(477,517)	(677,356)	(797,777)	(785,409)
Consultant Costs	(120,008)	(186,362)	(142,397)	(103,465)	(306,991)	(92,336)
Communications	(94,256)	(58,966)	(17,504)	(8,231)	(10,053)	(256)
Election Administration and Special Marketing	(20,717)	0	(41,667)	(56,138)	0	(48,202)
GWRS Asset Allocation Fund Management	(57,000)	(91,000)	(53,250)	0	0	0
GWRS Hardship Admin (aka Unforeseen Emergency Withdrawal Service)	(75,500)	(65,500)	(55,250)	0	0	0
Wells Fargo Custodial Fees	(5,000)	(5,000)	(3,750)	0	0	0
Total Expenditures	(2,107,731)	(2,899,125)	(2,011,063)	(2,418,141)	(2,704,134)	(2,560,185)
Inter-Fund Transfers						
City Fund 896 Transfer Deposits	250,089	909,849	477,517	727,357	897,777	785,409
TPA Fund Transfer to 896	(250,089)	(909,834)	(477,517)	(727,357)	(897,777)	(785,409)
Total Inter-Fund Transfers	0	15	0	0	0	0
Ending Balance						
Actual City Fund 896 Ending Balance	62,314	44,304	30,927	44,425	114,549	104,201
Actual TPA Fund Ending Balance	3,308,222	3,104,611	3,232,973	3,923,478	3,965,355	4,383,238
Total Ending Balance	3,370,536	3,148,915	3,263,900	3,967,903	4,079,904	4,487,439
Encumbrances/Liabilities						
Staffing Requirements	(439,531)	(100,164)	(165,754)	(208,285)	(184,996)	(184,996)
Total Ending Balance Less Liabilities	2,931,005	3,048,751	3,098,146	3,759,618	3,894,907	3,894,907