



Board Report 23-03

Date: January 17, 2023

To: Board of Deferred Compensation Administration (Board)

From: Staff

Subject: Deferred Compensation Plan Budget Adoption for Plan Year 2023

Board of Deferred Compensation Administration

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Recommendation:

That the Board adopt the proposed Deferred Compensation Plan budget for Plan Year 2023 and authorize staff to make any technical adjustments as directed.

Discussion:

A. Background

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, 2022, the reserve balance less pending encumbrances was \$4.7 million versus the target balance of \$1.6 million.

B. 2023 Budget Adoption

In accordance with the Board's Governance Policies/Bylaws, staff has prepared a proposed DCP budget for Plan Year 2023, which is included below and in **Attachment A**, which includes information from previous plan years.

DCP PROPOSED BUDGET PLAN YEAR 2023

(A) Starting Balance on January 1	\$ 4,747,298
REVENUES	
Annual Administrative Fee Revenue	\$ 3,168,525
Interest Earnings	\$ 94,312
Miscellaneous	\$ -
Total Annual Revenues	\$ 3,262,837
EXPENDITURES	
Participant Administrative Fees Owed to TPA	\$ (1,685,049)
Staffing Reimbursements	\$ (1,296,431)
Consulting Costs*	\$ (225,000)
Plan Audit	\$ (45,000)
Communications	\$ (50,000)
Travel/Training/Education	\$ (35,000)
Elections Administration	\$ (48,000)
Office and Administrative	\$ (17,500)
Governmental Meetings	\$ (500)
Total Annual Expenditures	\$ (3,402,480)
(B) Total Annual Revenues Less Total Annual Expenditures	\$ (139,644)
(C) Encumbrances/Liabilities, Inter-Fund Transfers**	\$ -
Ending Balance on December 31 (A) + (B) + (C)	\$ 4,607,655

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

At its **September 29, 2022** 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 2023 Plan Year proposed budget.

Revenues

- **Projected Starting Balance on January 1st** – 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. Plan Year 2022 revenues and expenditures are projected through 4th Quarter 2022 to provide an estimated starting balance for January 1, 2023.
- **Estimated Annual Administrative Fee Revenue** – Projections for administrative fee revenues (amounts collected from participant accounts) reflect DCP assets as of

September 30, 2022, as the fourth quarter Reserve Fund review is pending, with a growth rate projection of 5.5%. It is noted the one-year growth rate assumption was changed from 6.0% to 5.5% as determined by the 2023 Resource Review approved by the Board on September 29, 2022. DCP assets are impacted by both investment gains and participant contributions/rollovers.


- **Estimated 2023 Interest Earnings** – The assumed 2023 average rate of return for the Stable Value Fund is unchanged at 2.0%, as determined by the 2023 Resource Review.

Expenditures

- **Participant Administrative Fees Owed to TPA** – The City’s contractual obligation to the DCP TPA has been reduced from \$32.00 to \$30.00 per participant effective September 1, 2022. The long-term projected participant growth rate remains unchanged at 3.0%, as determined by the 2023 Resource Review.
- **Estimated Staffing Reimbursements - Personnel Department and City Attorney** – The DCP funds direct and indirect costs for staff positions and provides reimbursement back to the Personnel Department and the City Attorney’s Office. Estimated expenditures for these positions for 2023 include current incumbent’s job classification and paygrade and other factors. These rates reflect the most current Special Rate information for calculating indirect costs. Additionally, the DCP also provides reimbursement to the TPA for a part-time DCP Intern.
- **Estimated Consulting Costs - Investment, Plan Administration, and Outside Tax Counsel** – 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 2023.
- **Plan Audit** – The projected cost of a DCP audit is \$45,000. Staff does not anticipate conducting a plan audit in 2023 due to the workload related to the conversion of the City’s legacy payroll system to the new Human Resources Payroll (HRP) system (Workday), being slated for completion at the end of 2023. However, it is recommended that this be carried over as a contingency should any plans change during the 2023 plan year.
- **Communications** – This category includes special communication costs funded directly by the DCP outside of communications expenditures absorbed by the DCP TPA. No changes for 2023 are anticipated at this time.
- **Travel/Training/Education** – This category includes projected travel/training expenditures of \$35,000, increased from \$20,000 last plan year. It is anticipated that in 2023, COVID-19 emergency orders will no longer be in effect and accordingly, many in-person trainings and conferences would resume. Funding is also added back after being reduced in 2020 and 2021 due to pandemic restrictions, and to provide training and peer-collaboration opportunities for the Senior Benefits Analyst II position that was filled in late 2022 and for the DCP Manager position that is projected to be filled in 2023. Ongoing training opportunities for existing DCP staff and Board members were also considered.

- **Elections Administration** – This category includes the costs of administering Board Elections. In 2023, regular elections will need to be held for the Active LACERS and LAFPP Representative seats, for which the current terms are expiring on June 30, 2023. Per the DCP Election Policies and Procedures, regular elections for these two seats will be held in May 2023.
- **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.

Staff recommends that the Board adopt the proposed DCP budget for Plan Year 2023.

Submitted by: 

Mindy Lam, Benefits Analyst

Approved by: 

Esther Chang, Senior Personnel Analyst

**DEFERRED COMPENSATION PLAN
PROPOSED BUDGET PLAN YEAR 2023**

	Plan Year 2023	Plan Year 2022		Plan Year 2021		Plan Year 2020		Plan Year 2019	
	PROPOSED	BUDGET	ESTIMATED	BUDGET	ACTUAL	BUDGET	ACTUAL	BUDGET	ACTUAL
(A) Starting Balance on January 1	\$ 4,747,298		\$ 4,492,859		\$ 4,487,439		\$ 4,079,904		\$ 3,967,903
REVENUES									
Annual Administrative Fee Revenue	\$ 3,168,525	\$ 3,281,245	\$ 3,157,371	\$ 3,067,683	\$ 3,094,216	\$ 2,502,006	\$ 2,848,124	\$ 2,800,925	\$ 2,709,149
Interest Earnings	\$ 94,312	\$ 87,289	\$ 90,068	\$ 78,860	\$ 82,328	\$ 73,890	\$ 119,596	\$ 86,409	\$ 106,487
Miscellaneous			\$ 110						
Total Annual Revenues	\$ 3,262,837	\$ 3,368,535	\$ 3,247,549	\$ 3,146,543	\$ 3,176,544	\$ 2,575,896	\$ 2,967,720	\$ 2,887,334	\$ 2,815,636
EXPENDITURES									
Participant Administrative Fees Owed to TPA	\$ (1,685,049)	\$ (1,669,885)	\$ (1,671,243)	\$ (1,657,624)	\$ (1,649,811)	\$ (1,637,552)	\$ (1,625,371)	\$ (1,517,368)	\$ (1,555,451)
Staffing Reimbursements	\$ (1,296,431)	\$ (1,272,504)	\$ (910,596)	\$ (1,087,875)	\$ (832,186)	\$ (1,120,023)	\$ (785,409)	\$ (917,773)	\$ (797,777)
Consulting Costs*	\$ (225,000)	\$ (225,000)	\$ (19,752)	\$ (225,000)	\$ (531,164)	\$ (225,000)	\$ (92,336)	\$ (225,000)	\$ (306,991)
Plan Audit	\$ (45,000)	\$ (45,000)	\$ -	\$ (45,000)	\$ -	\$ (45,000)	\$ -	\$ (45,000)	\$ -
Communications	\$ (50,000)	\$ (50,000)	\$ (3,500)	\$ (50,000)	\$ (7,396)	\$ (50,000)	\$ (256)	\$ (50,000)	\$ (10,053)
Travel/Training/Education	\$ (35,000)	\$ (20,000)	\$ (3,200)	\$ (20,000)	\$ (2,600)	\$ (33,000)	\$ (1,700)	\$ (33,004)	\$ (25,721)
Elections Administration	\$ (48,000)	\$ -	\$ -	\$ (30,000)	\$ (50,590)	\$ (42,000)	\$ (48,202)	\$ -	\$ -
Office and Administrative	\$ (17,500)	\$ (17,500)	\$ (15,304)	\$ (17,500)	\$ (8,215)	\$ (7,000)	\$ (6,911)	\$ (7,000)	\$ (8,140)
Governmental Meetings	\$ (500)	\$ (500)	\$ -	\$ (500)	\$ -	\$ (500)	\$ -	\$ (500)	\$ -
Total Annual Expenditures	\$ (3,402,480)	\$ (3,300,390)	\$ (2,623,595)	\$ (3,133,499)	\$ (3,081,962)	\$ (3,160,075)	\$ (2,560,185)	\$ (2,795,645)	\$ (2,704,134)
(B) Total Annual Revenues Less Total Annual Expenditure	\$ (139,644)	\$ 68,145	\$ 623,955	\$ 13,044	\$ 94,582	\$ (584,179)	\$ 407,535	\$ 91,689	\$ 111,502
(C) Encumbrances/Liabilities, Inter-Fund Transfers**	\$ -	\$ -	\$ (369,515)	\$ -	\$ (89,162)	\$ -	\$ -	\$ -	\$ -
Ending Balance on December 31 (A) + (B) + (C)	\$ 4,607,655		\$ 4,747,298		\$ 4,492,859		\$ 4,487,439		\$ 4,079,405

* Actual payments may be reflected in a following quarter/year due to timing of contract/amendment approvals.

** Outstanding staffing reimbursements or Inter-Fund Transfers in transit (funds transferred out of the TPA fund for deposit to the City 896 fund were in transit for deposit in the following quarter).

Growth, Expense, and Fee Variable Assumptions Approved by the Board of Deferred Compensation September 29, 2022

At its **September 29, 2022** meeting, following the annual DCP resource review and recommendations submitted by the DCP Plan Governance & Administrative Issues Committee for the 2023 Resource Review, 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 - 5.5%
- (2) Net Participation Growth Rate - 3.0%
- (3) Annual Administrative Expenses Growth Rate - 3.0%
- (4) Special Rates Increase Factor: Personnel - 91.0%
- (5) Special Rates Increase Factor: City Attorney - 93.0%
- (6) Stable Value Fund Average Rate of Return - 2.0%
- (7) Participant Fees: Annual Basis Point Charge - 0.09%
- (8) Participant Fees: Annual Dollar Cap - \$115