



CITY OF *Los Angeles*
DEFERRED COMPENSATION PLAN

PLAN BUDGET & RESOURCES REVIEW

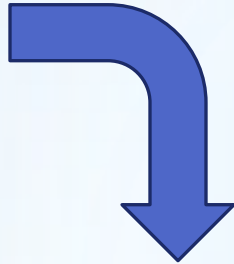
CITY OF LOS ANGELES DEFERRED COMPENSATION PLAN

February 1, 2018



PARTICIPANT
FEE
REVENUES

FLOW OF FUNDS OVERVIEW



Reserve Fund
(Held with TPA)



- TPA Fees
- Staff Salaries
- Consulting
- Communications
- Training (non-travel)
- Elections

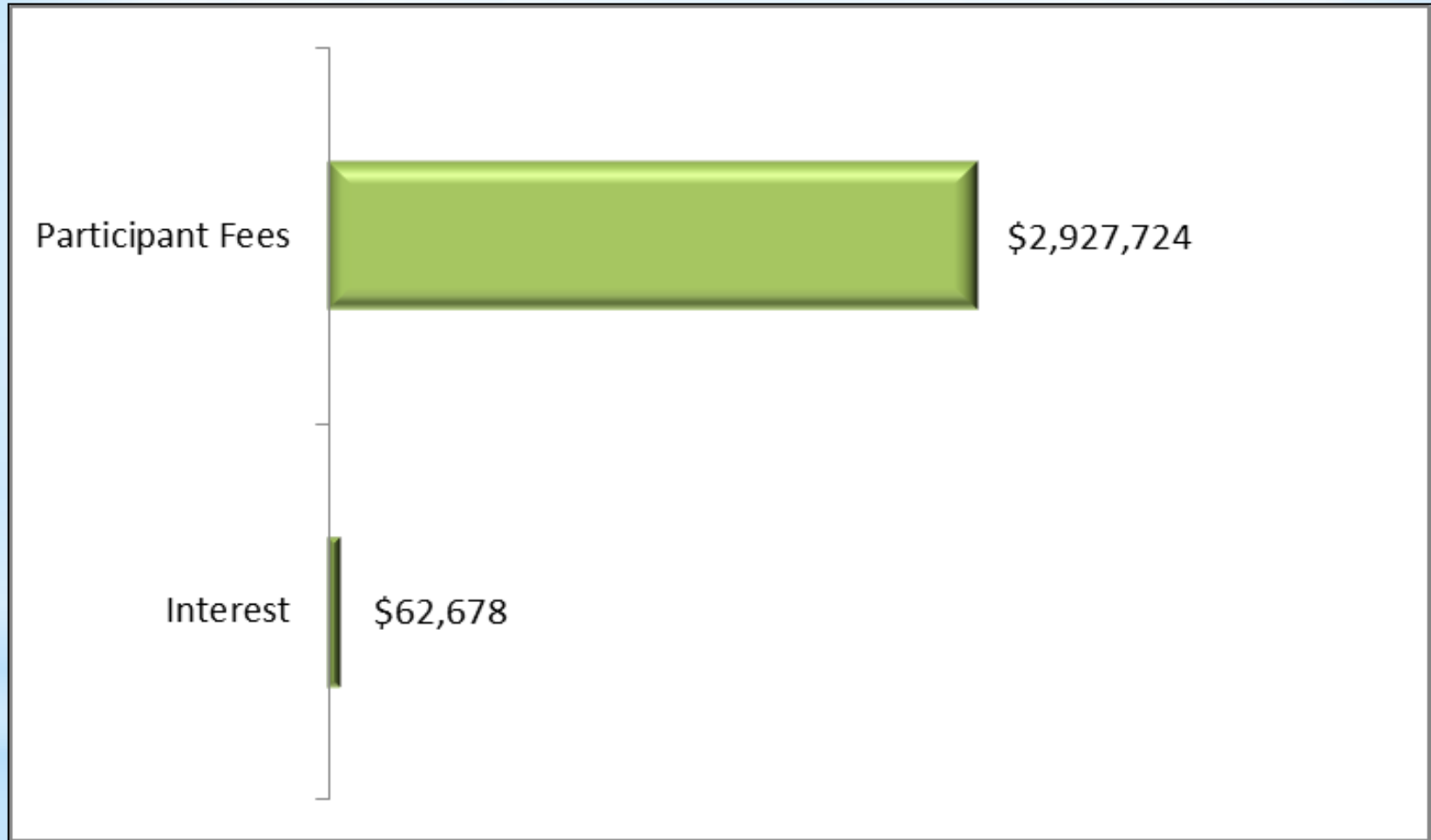


City Fund
#896



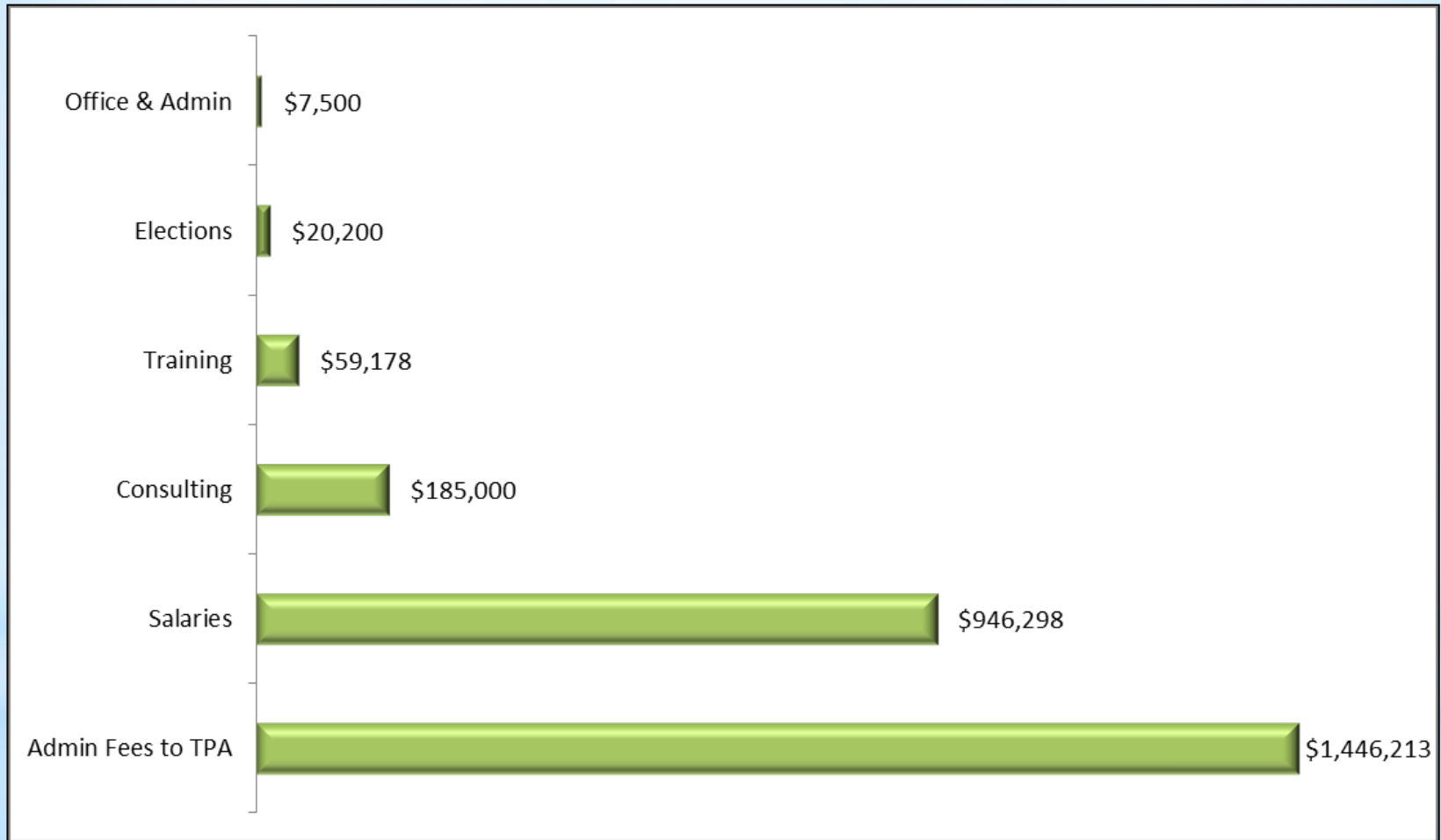
- Travel
- Equipment

Projected 2018 REVENUES



Annual Total - \$2.9 million

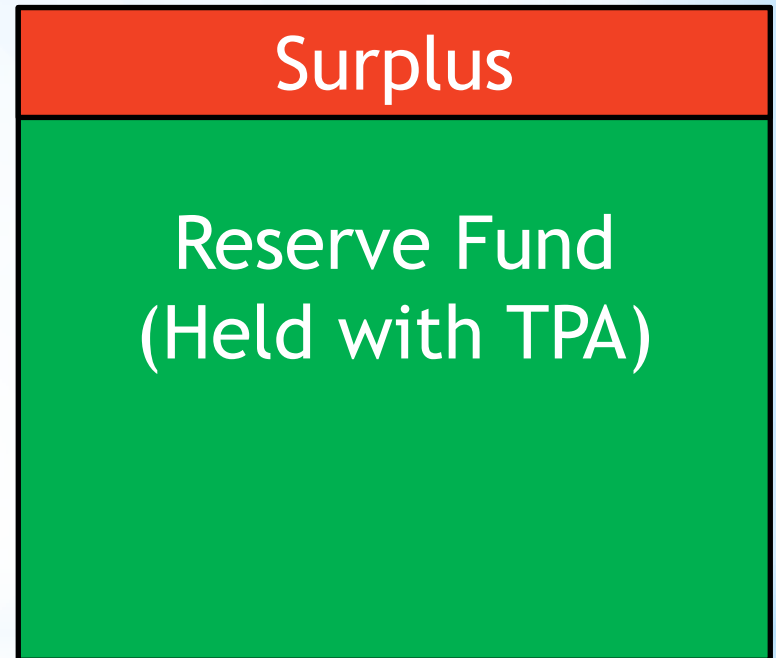
PROJECTED 2018 EXPENDITURES



Annual Total - \$2.9 million

SURPLUS TARGET

- Adopted Reserve Fund surplus target is 50% of annual operating expenses (approximately \$1.4 million in 2018)
- Historical surplus has been maintained above that target
- Board previously established a “structural deficit” in relationship of revenues to expenses to gradually reduce surplus
- As of 09/30/17, surplus was **\$3.1 million**



RESERVE FUND KEY ASSUMPTIONS

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%	2.0%	6.5%	2.0%	0.10%	\$125

Current



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

These assumptions were last updated by the Board on April 18, 2017.

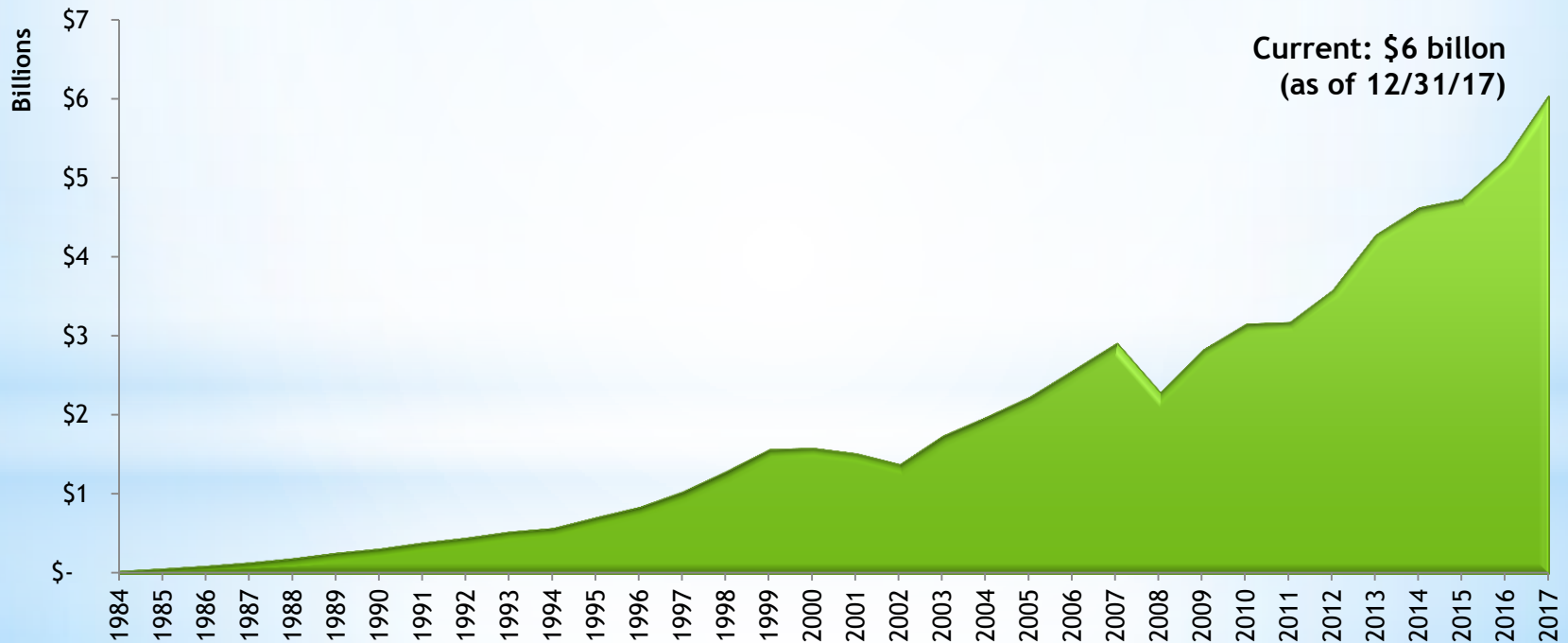
KEY ASSUMPTIONS

Plan Asset Growth

Current: 6.5%

Where Applied: Growth rate for Plan assets

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



KEY ASSUMPTIONS

Plan Asset Growth

Year	Assets	% Change
1984	\$ 17,990,298	N/A
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%
2016	\$ 5,221,905,502	10%
2017	\$ 6,027,047,083	15%

Potential Growth Rate Scenarios

Last 15 years average-->	9.0%
Last 10 years average-->	6.6%
Last 5 years average-->	10.4%
Actuarial Potential Growth Rate -->	7.6%

Projected Growth Rate Including ROR

Current Assets (as of 12/31/2017)	\$	6,027,047,083
Net Annual Contributions	\$	100,851,785
Projected ROR (per Mercer)*		5.77%
Earnings Growth	\$	347,760,617
Projected Ending Balance	\$	6,487,715,639
Projected Annual Growth Rate		7.6%

*For purposes of this review, staff is using a projected ROR previously provided in Dec. 2016. This value is projected over a 20-year horizon. Staff is following up with Mercer to determine if there are any changes to this long-term projection.

KEY ASSUMPTIONS

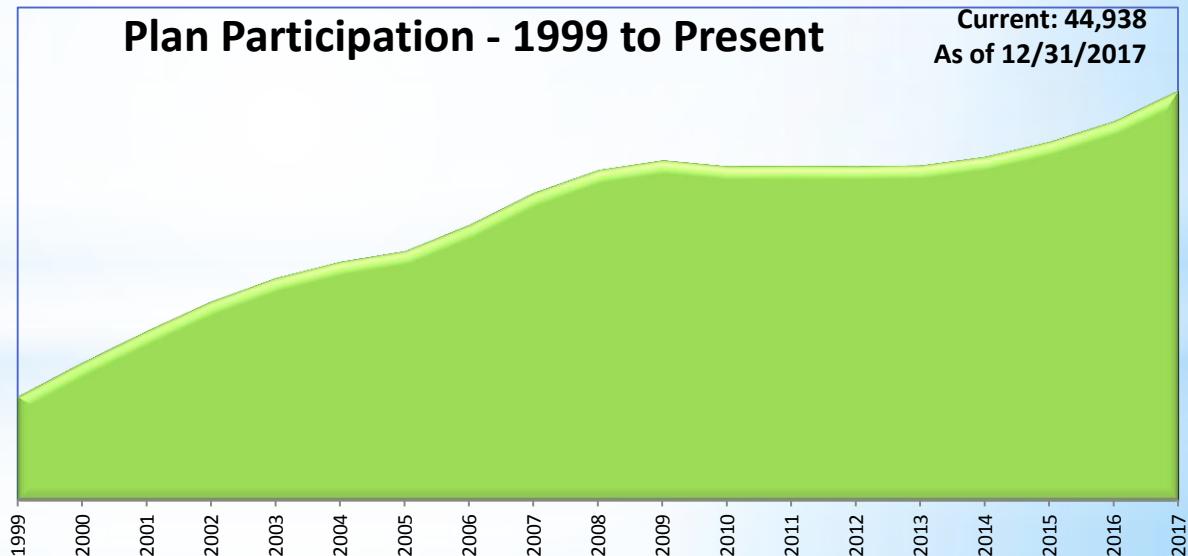
Enrollment

Current: 2%

Where Applied: Estimated growth in participant accounts

Considerations: After flattening after recession, net growth is improving; fluctuations influenced by hiring trends, economy, etc.

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	43,076	3%
2017	44,938	4%



KEY ASSUMPTIONS

Administrative Expense Inflation

Current: 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

Indirect Salary Costs

FY 16 -17 #39 Special Rates (Final):

- Personnel - 89.37%
- City Attorney - 84.04%

5-Year Average:

- Personnel - **88%**
- City Attorney - **81%**

As Applied:

Indirect salary costs

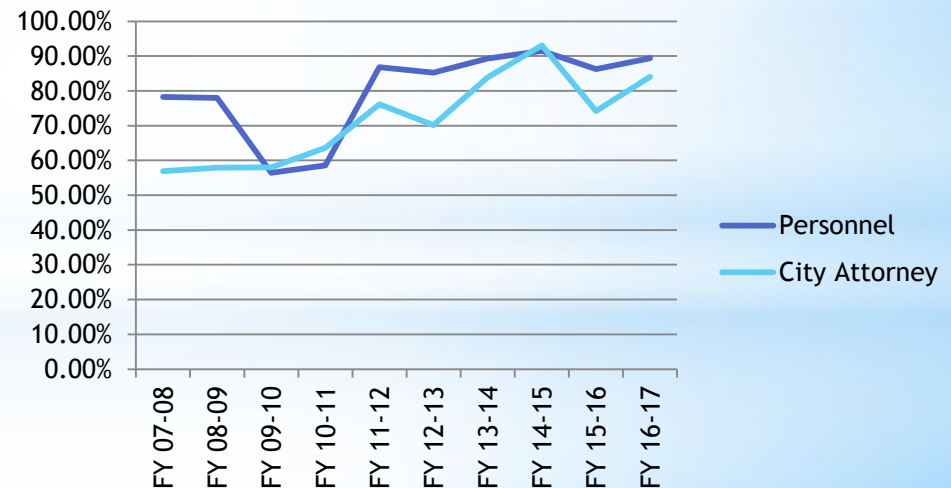
Considerations:

Rates can be volatile and have large impact on costs

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%
FY 16-17	89.37%	84.04%
All Avg	79.97%	71.81%
5-Yr Avg	88%	81%

Current Assumptions:

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

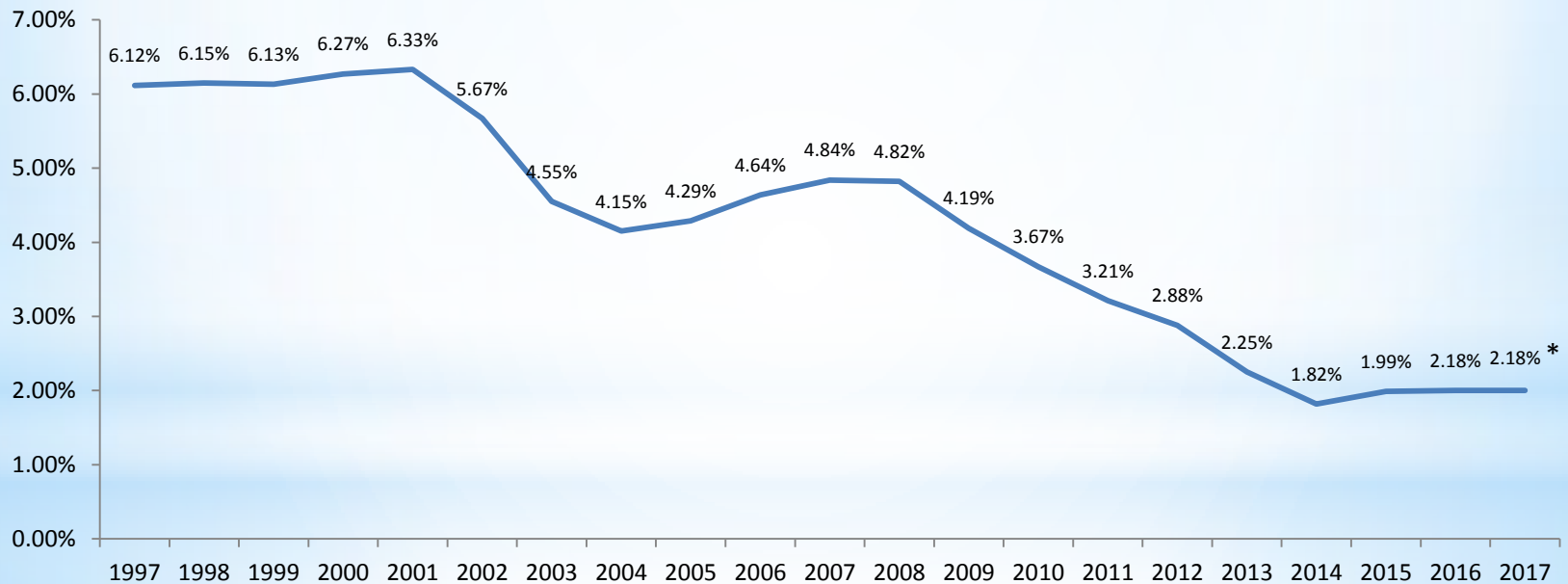


KEY ASSUMPTIONS

Stable Value Fund Interest

Current: 2%

Annual Return



*2% Return for 2017 is tentative, subject to revision following Mercer's 4Q 2017 quarterly investment review.

KEY ASSUMPTIONS

Participant Fees

Current:

Basis Points: **0.10%**/Fee Cap: **\$125**

Where Applied: Fees assessed against participant accounts, up to fee cap

Considerations:

- Changes to Third-Party Administrator fee structure have created structural long-term savings
- Risk lies in a protracted market downturn that does not resolve in a short (few years) period of time