

# CITY OF LOS ANGELES



## DEFERRED COMPENSATION PLAN

**ANNUAL REPORT**

**BOARD OF DEFERRED COMPENSATION ADMINISTRATION**

**2006**

# **ELECTED OFFICIALS**

of the  
**CITY OF LOS ANGELES**  
**CALIFORNIA**

**ANTONIO R. VILLARAIGOSA**  
MAYOR

**ROCKARD J. DELGADILLO**  
CITY ATTORNEY

**LAURA CHICK**  
CONTROLLER

## **MEMBERS OF THE CITY COUNCIL**

**ERIC GARCETTI**  
PRESIDENT  
THIRTEENTH DISTRICT

**WENDY GREUEL**  
PRESIDENT PRO TEMPORE  
SECOND DISTRICT

**JAN PERRY**  
ASSISTANT PRESIDENT PRO TEMPORE  
NINTH DISTRICT

**ED REYES**  
First District

**DENNIS P. ZINE**  
Third District

**TOM LABONGE**  
Fourth District

**JACK WEISS**  
Fifth District

**TONY CARDENAS**  
Sixth District

**VACANT**  
Seventh District

**BERNARD PARKS**  
Eighth District

**HERB J. WESSON, JR.**  
Tenth District

**BILL ROSENDAHL**  
Eleventh District

**GREIG SMITH**  
Twelfth District

**JOSE HUIZAR**  
Fourteenth District

**JANICE HAHN**  
Fifteenth District

**BOARD OF  
DEFERRED COMPENSATION  
ADMINISTRATION**

for the

**CITY OF LOS ANGELES  
DEFERRED COMPENSATION PLAN**

**MARGARET WHELAN**

*Chairperson*

General Manager Personnel Department

**BILL STEIN**

*Vice-Chairperson*

Representing Retired Plan Participants

**EUGENE K. CANZANO**

Representing Department of Water and Power Retirement Plan Board

**MICHAEL CARTER**

Representing Fire & Police Pension System

**JOYA C. DE FOOR**

City Treasurer

**RICHARD KRAUS**

Certified Organized Labor Representative

**RICK ROGERS**

Representing the Los Angeles City Employees' Retirement System

**BOARD OF DEFERRED  
COMPENSATION  
ADMINISTRATION**

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CHAIRPERSON

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RICK ROGERS

**CITY OF LOS ANGELES**  
CALIFORNIA



ANTONIO R. VILLARAIGOSA  
MAYOR

**PERSONNEL DEPARTMENT  
EMPLOYEE BENEFITS DIVISION**  
200 NORTH SPRING STREET, ROOM 867  
LOS ANGELES, CA 90012  
(213) 485-4846

April 1, 2007

The Honorable Antonio R. Villaraigosa, Mayor  
Honorable Council of the City of Los Angeles  
Deferred Compensation Plan Participants

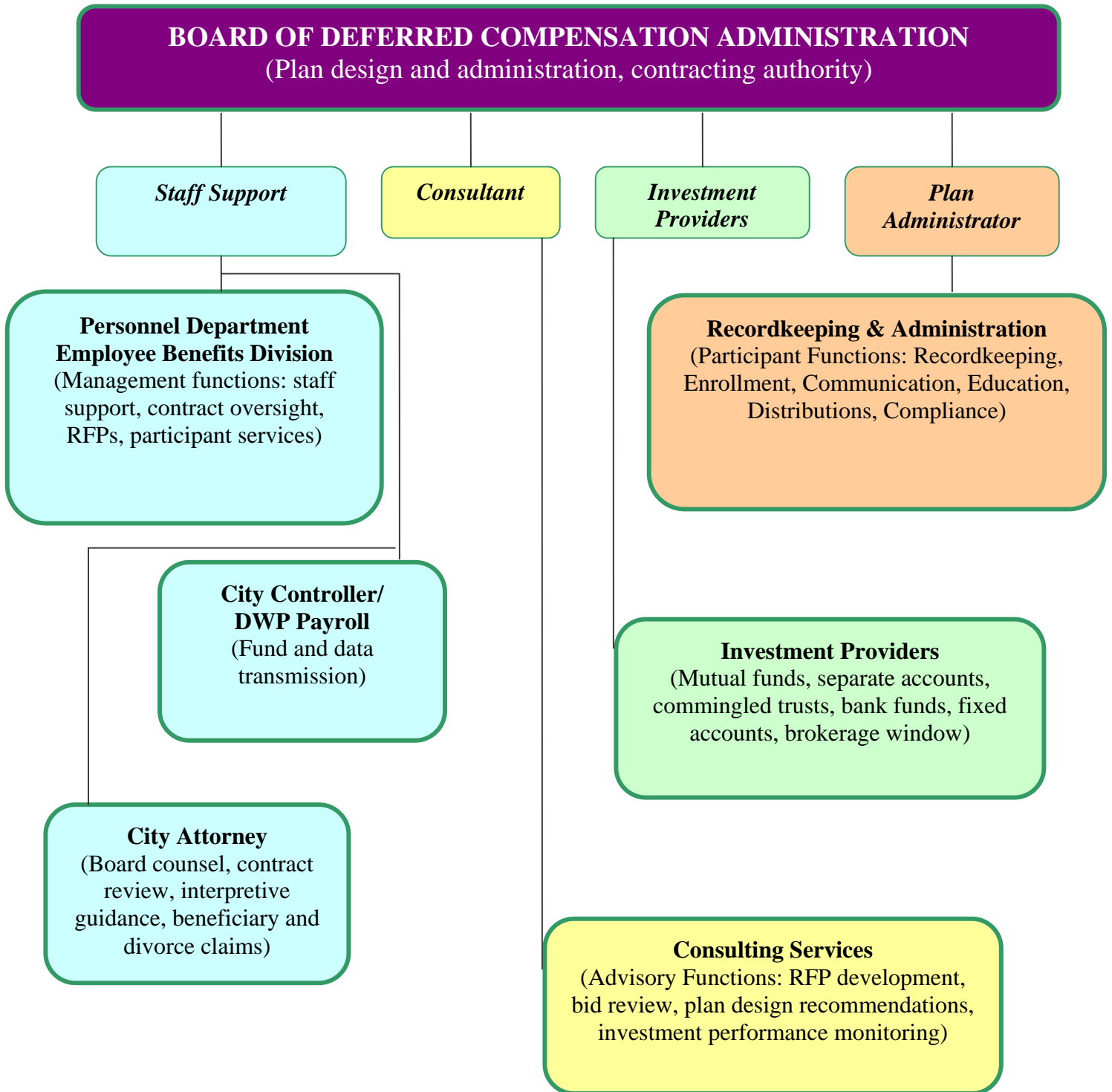
On behalf of the Board of Deferred Compensation Administration, I am pleased to submit the City of Los Angeles Deferred Compensation Plan Annual Report for 2006. The past year saw the Plan achieve significant new milestones. Plan assets reached a record \$2.5 billion and Plan participation climbed to 36,784 participants. In compliance with recommendations from the City Council, the Board completed its Request for Proposal (RFP) for a new Plan Administrator, the culmination of a multi-year effort to improve its vendor selection processes. The Board also developed proposals, based on recommendations from Plan participants, for improving the governance of the Plan by establishing direct elections for several Board positions.

Federal legislation passed in 2006 is paving the way for continued improvements to the City's Plan. The Board is dedicated to maximizing the benefits of the Plan for all its participants and maintaining the Plan's standing as national model of user-friendly, cost-effective administration.

Respectfully submitted,

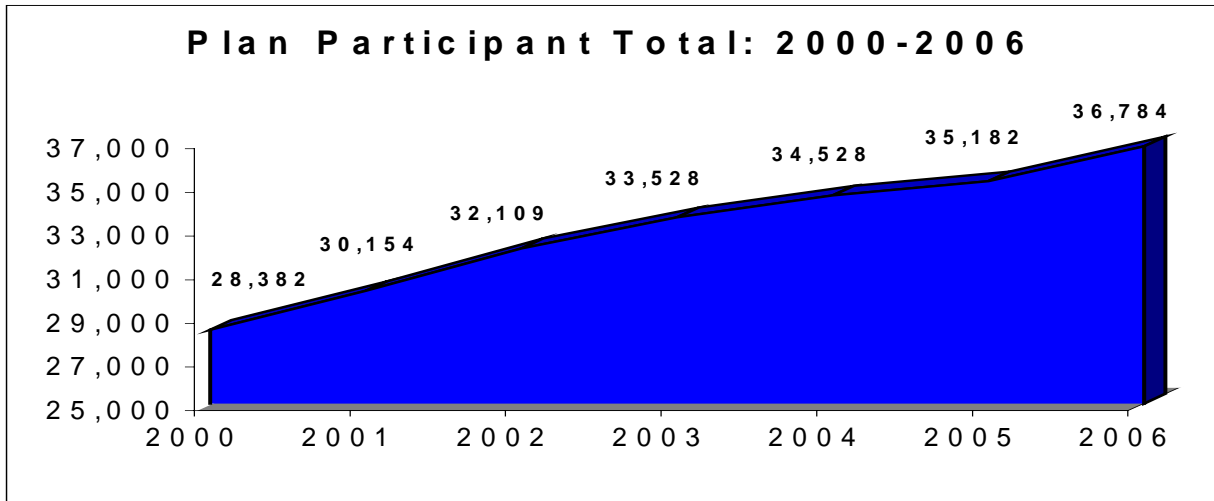
Margaret Whelan, Chairperson  
Board of Deferred Compensation Administration

# **DEFERRED COMPENSATION PLAN ADMINISTRATIVE STRUCTURE**

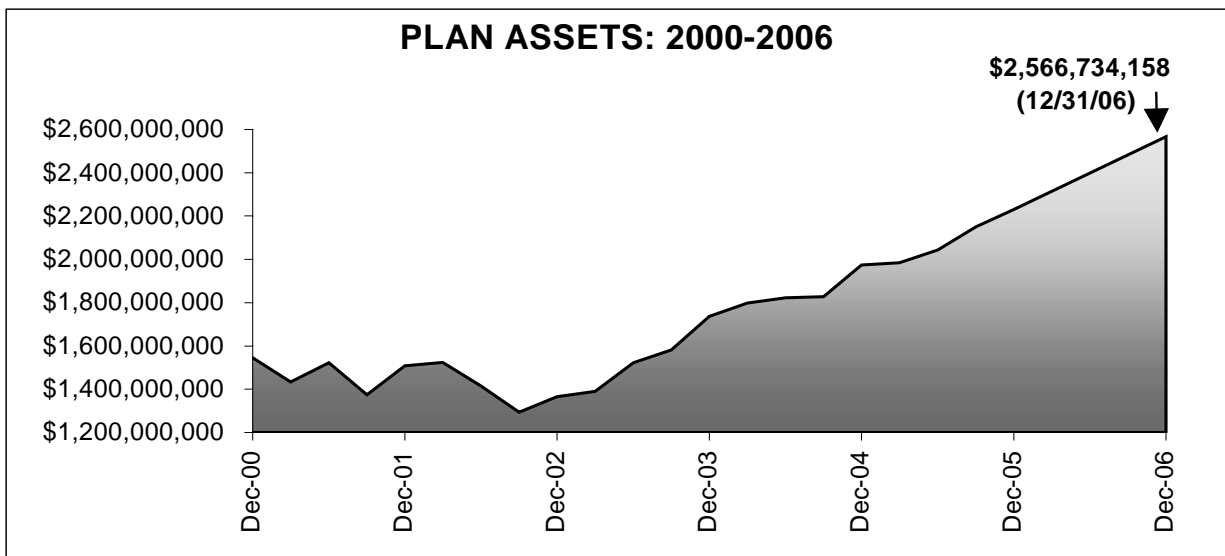


## ACTIVITIES & STATISTICS

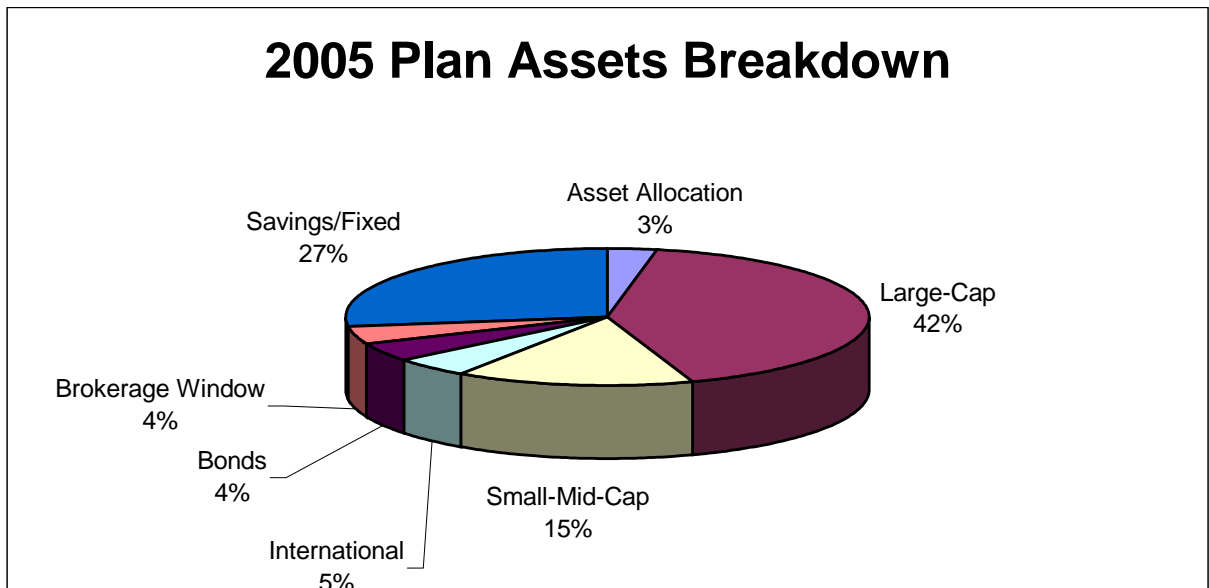
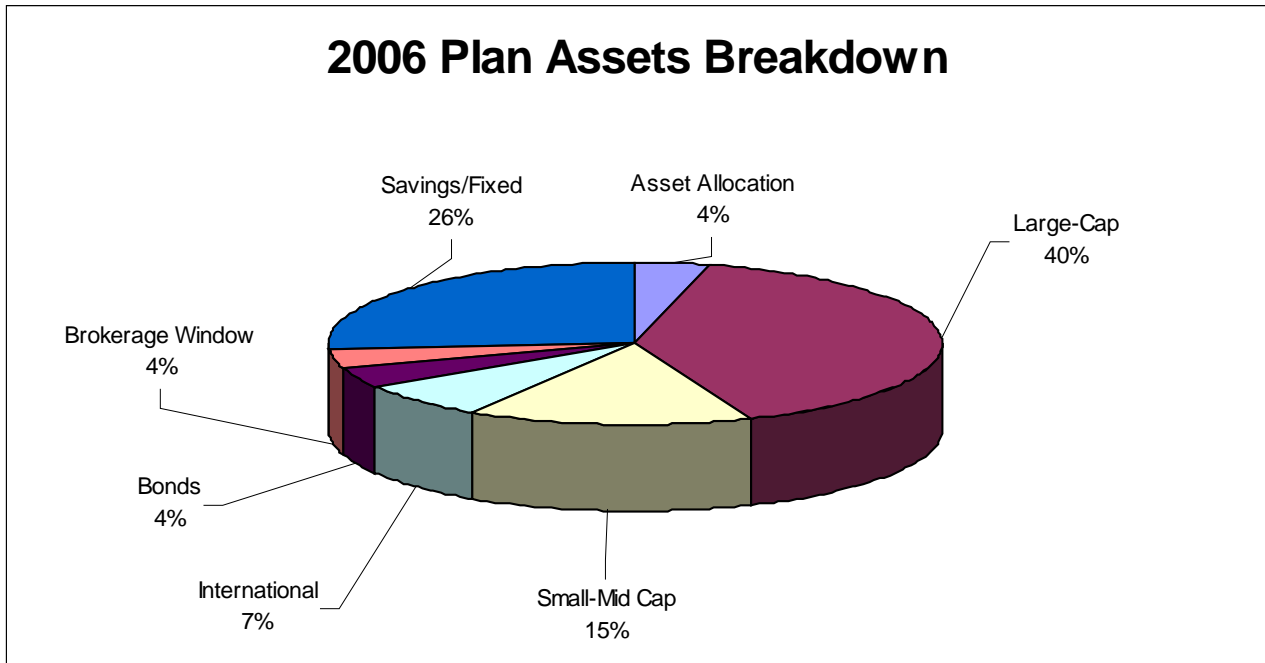
**Participation** - As of December 31, 2006, the City's Plan had a total of 36,784 participant accounts, a 4.6% increase from the prior year. The Plan Administrator recorded 2,517 new enrollments during this period. The total number of contributing participants represents 59.2% of the eligible employee population (a breakdown of departmental participation rates is provided as Appendix A to this report). The chart below indicates the steady increase in total enrollment levels from 2000 through 2006:



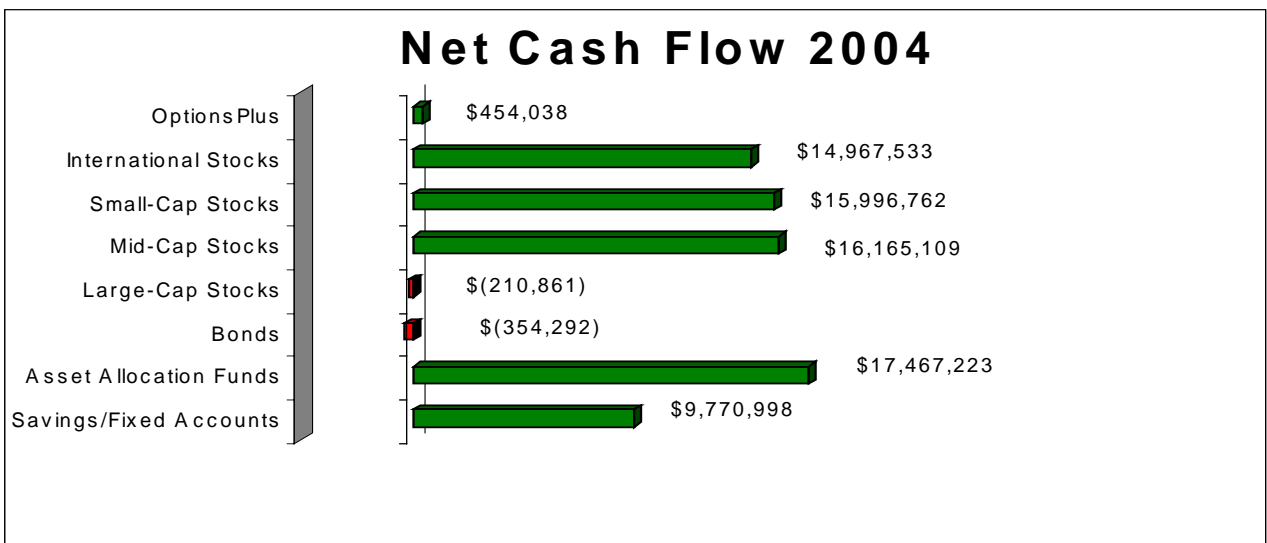
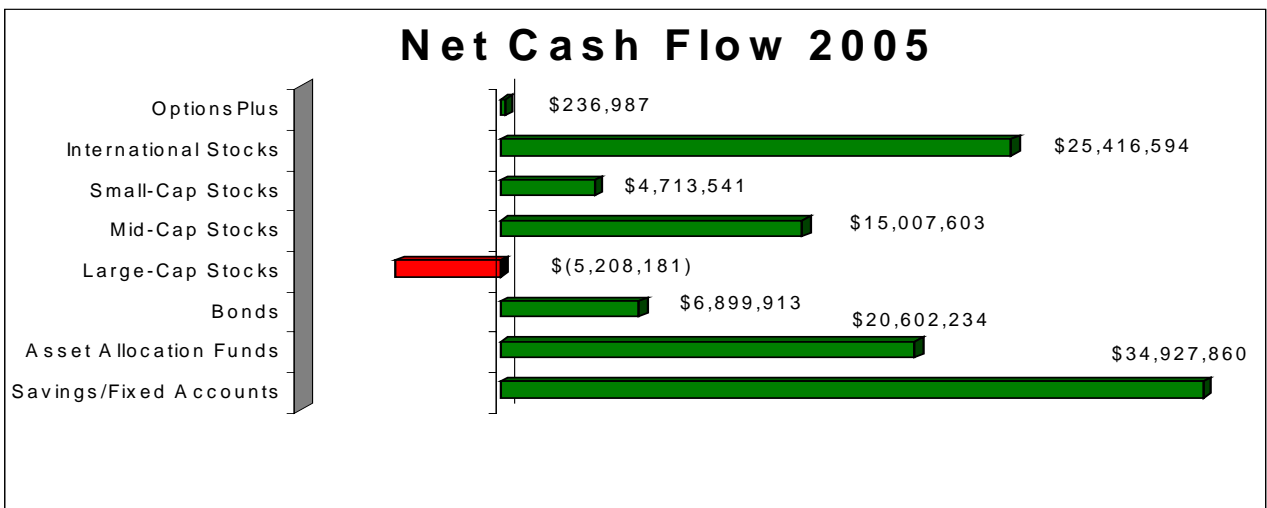
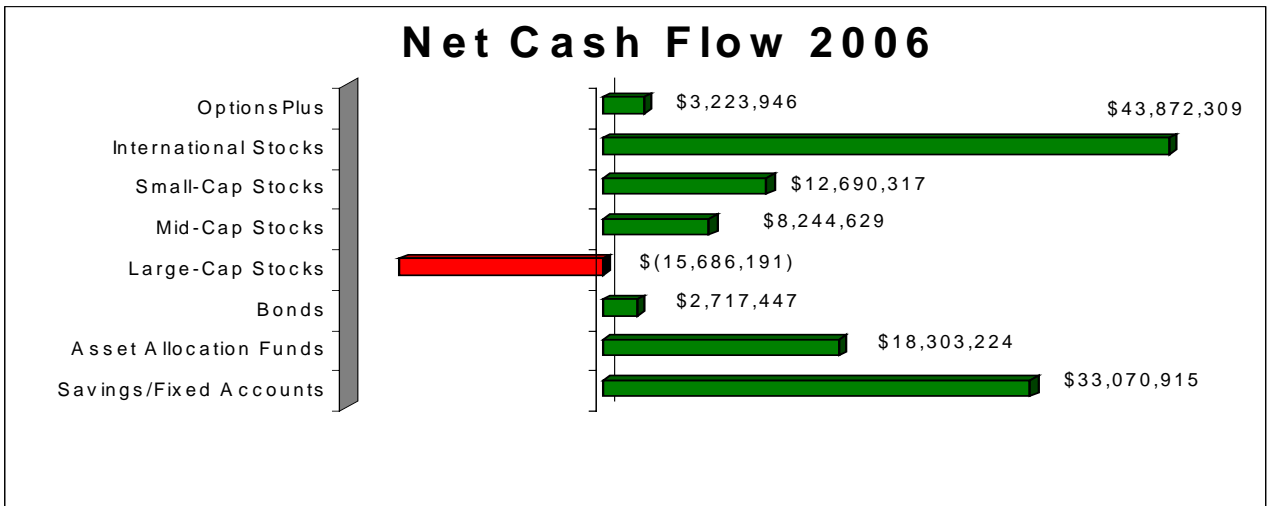
**Plan Assets** - Year-end total Plan assets were \$2,566,734,158, vs. \$2,230,031,810 at year-end 2005. This represents a 15.1% year-over-year increase and is the highest total ever recorded for the City's Plan.



**Asset Allocation** – The Plan’s overall asset allocation continued to broaden in 2006. The largest pieces of the City’s portfolio pie, Large-Cap Stocks and the Savings/Fixed Account products, both declined by a cumulative 3%, on top of a 3% decline in 2005. Growth occurred in the International and Asset Allocation categories.

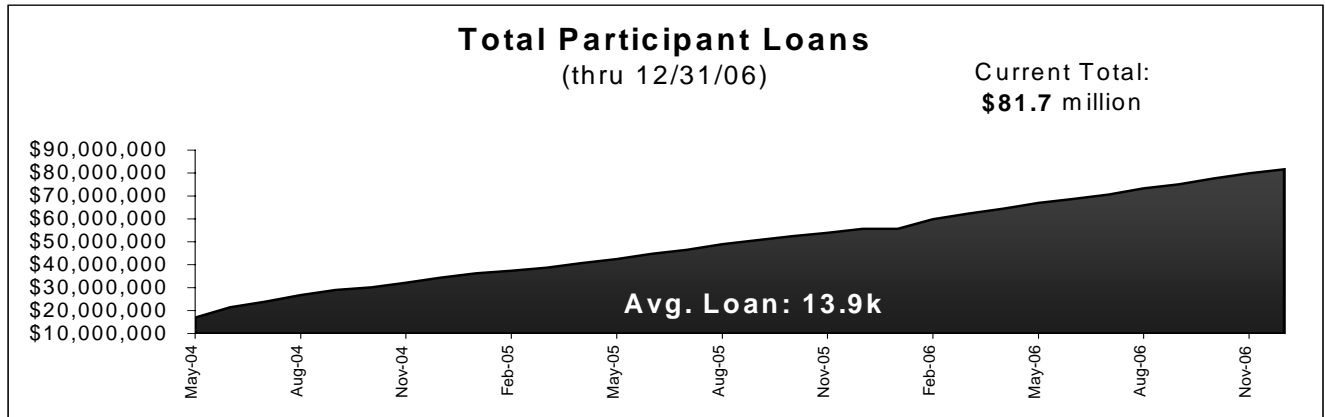
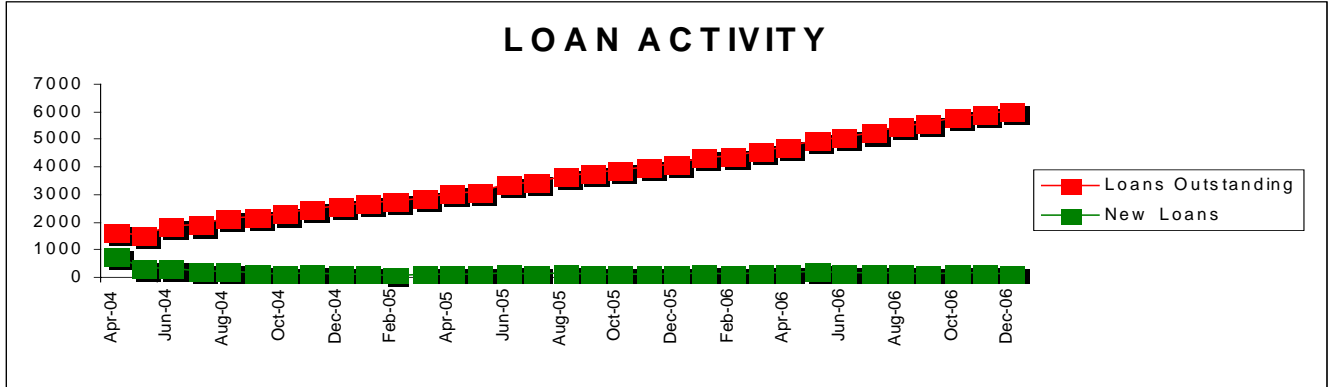


**Net Cash Flows** – The charts below indicate the changes in net cash flow activity over the past three years. In 2006, the strongest cash flows were to the Plan’s savings/fixed account products, international stocks and asset allocation funds.

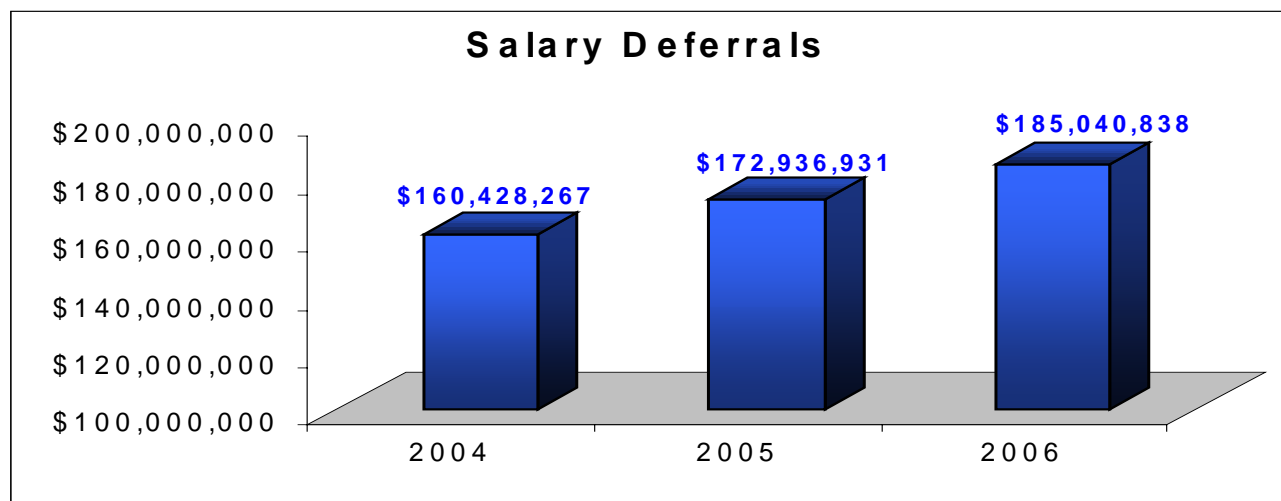




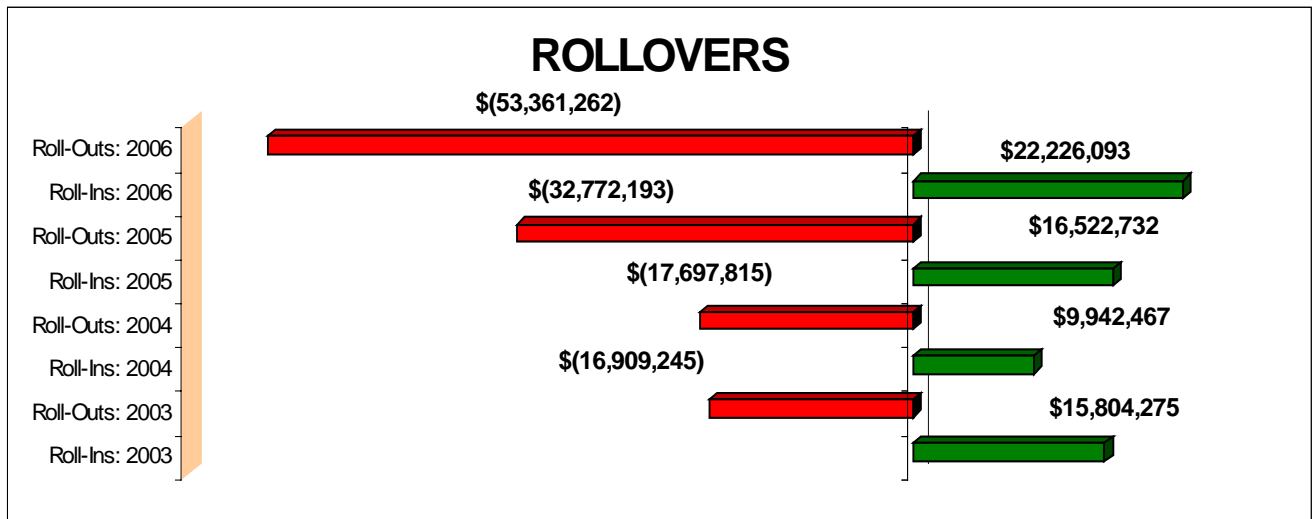
**Loan Program** – The City’s loan program, introduced in 2004, continues to generate significant participant activity. However, the percentage of Plan assets loaned out is still small relative to the Plan as a whole – \$81.7 million, or 3.2% of Plan assets (vs. 2.5% at year-end 2005). Currently 21.1% of participants have outstanding loans against their accounts.



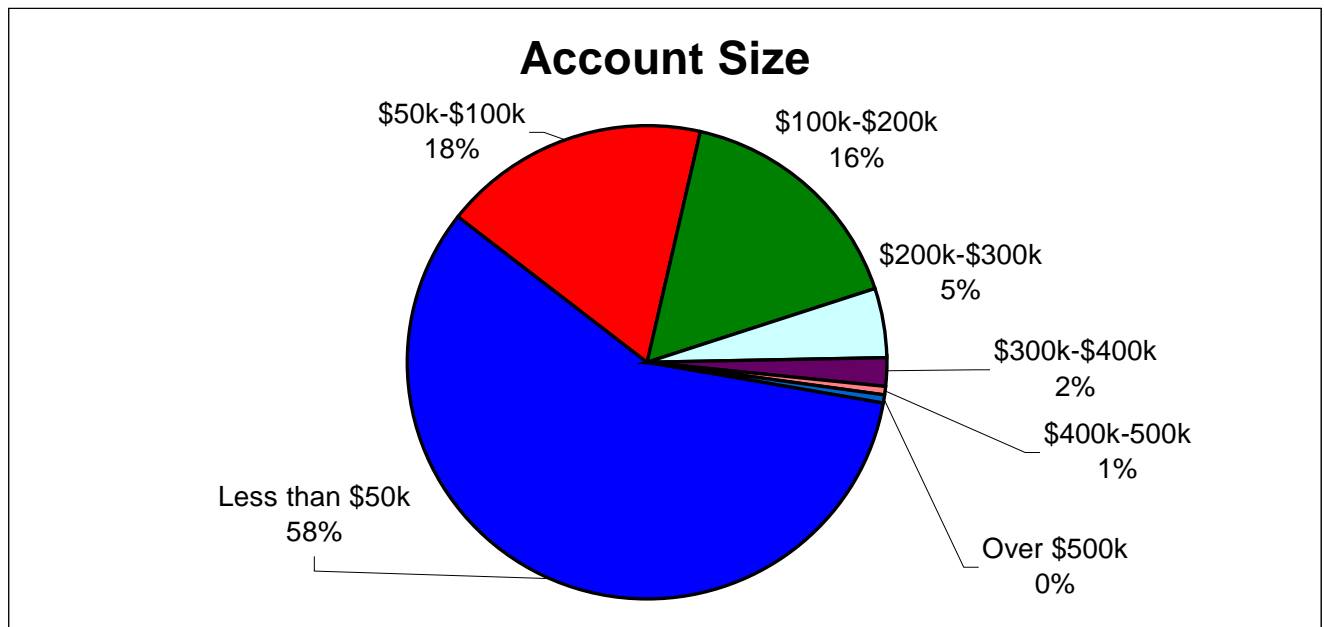
**Contributions** – Salary deferrals rose 7% in 2006 as participants took advantage of the final year of higher annual limit increases provided for under 2001 tax legislation. After 2006, further annual limit increases will be tied to inflation increases.



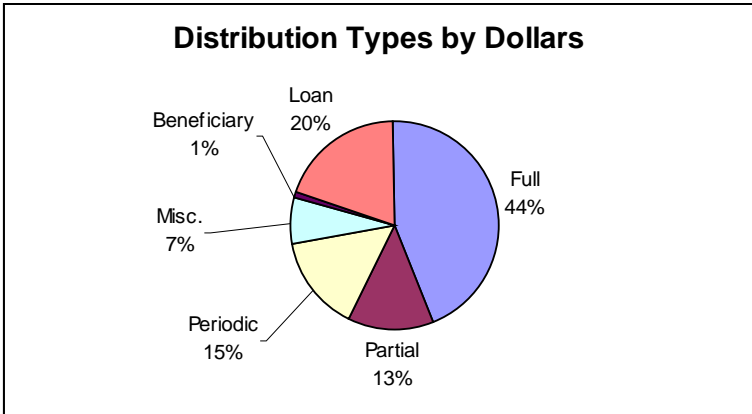
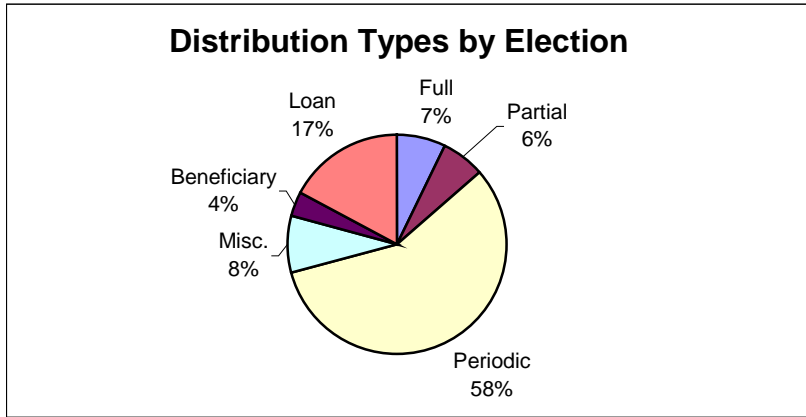
**Rollovers** – Rollover activity increased in 2006, with the total dollar amount of funds rolled out, as well as rolled in, surpassing previous records. On a net basis, 1.2% of assets rolled out of the Plan, vs. 0.7% in 2005, but this was not a record - the highest percentage occurred in 2002, at 1.7%.



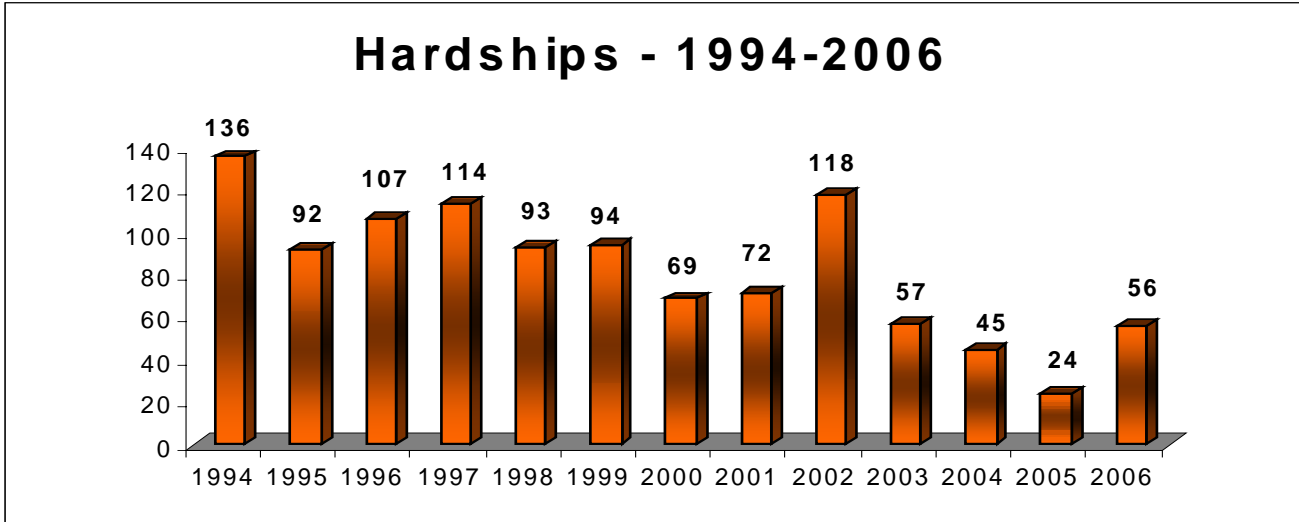
**Plan Assets by Participant/Balance Levels** – The graph below breaks down Plan assets by the number of participants at particular balance levels. Relative to the prior year, the percentage of participants with less than \$50,000 decreased from 61% to 58% and several of the mid-level categories grew slightly. This continues a trend in place over the last few years indicating rising average account balances.



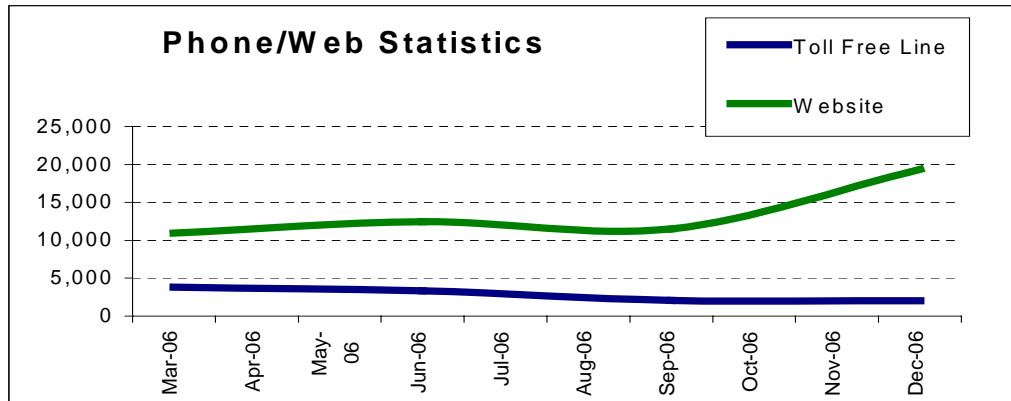
**Distributions** - The table below breaks down distribution types by election and by dollars. The vast majority of participants elect periodic payments. However, full withdrawals comprise the largest segment of total dollars distributed. Loans are taking increasingly larger shares of both distribution elections and dollars.



**Hardships** - Staff processed 56 hardship applications in 2006, up from 24 the prior year, the first increase since introduction of the loan program in 2004. Of these, 50 were approved and six were denied. The graph below indicates the number of hardship applications reviewed by the Board from 1994 through 2006.

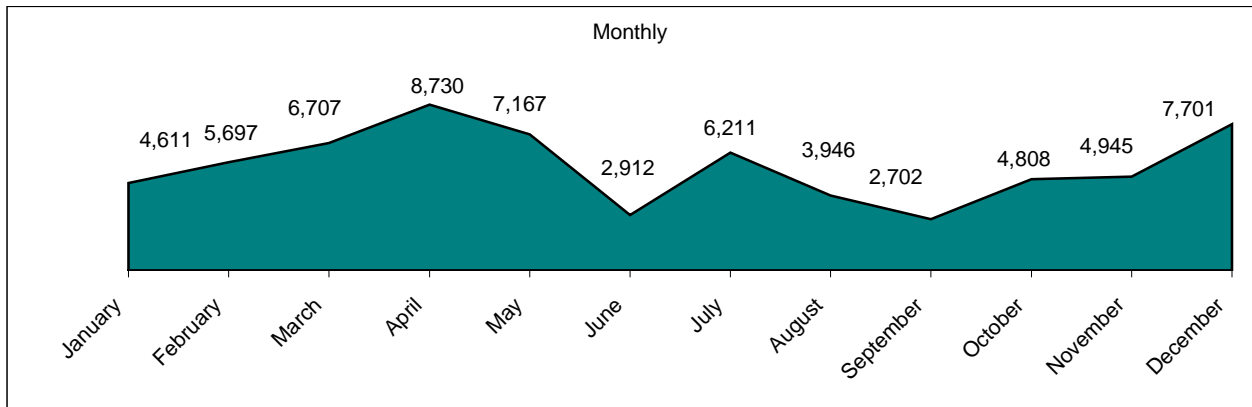


**Phone Line/Website Statistics** – The following graph compares participant activity via the primary toll-free line as well as the Plan website in 2006. As the graph indicates, use of the website for participant transactions is rising rapidly while use of the phone system is declining.

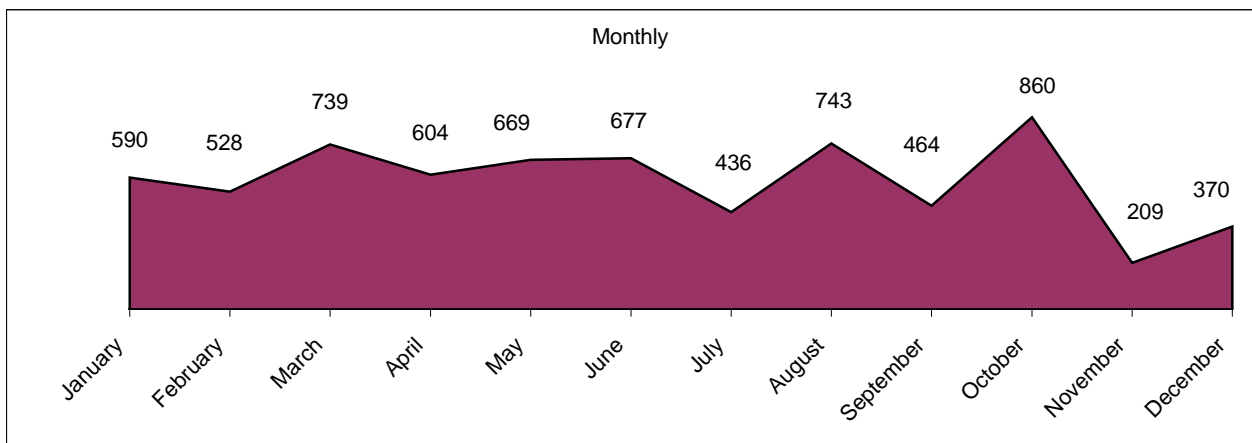


**Local Service Statistics** – For 2006, the following charts indicate total local participant contact (including phone calls to the local service center and walk-in-person meetings); group meeting attendance; individual counseling sessions; and local office phone calls:

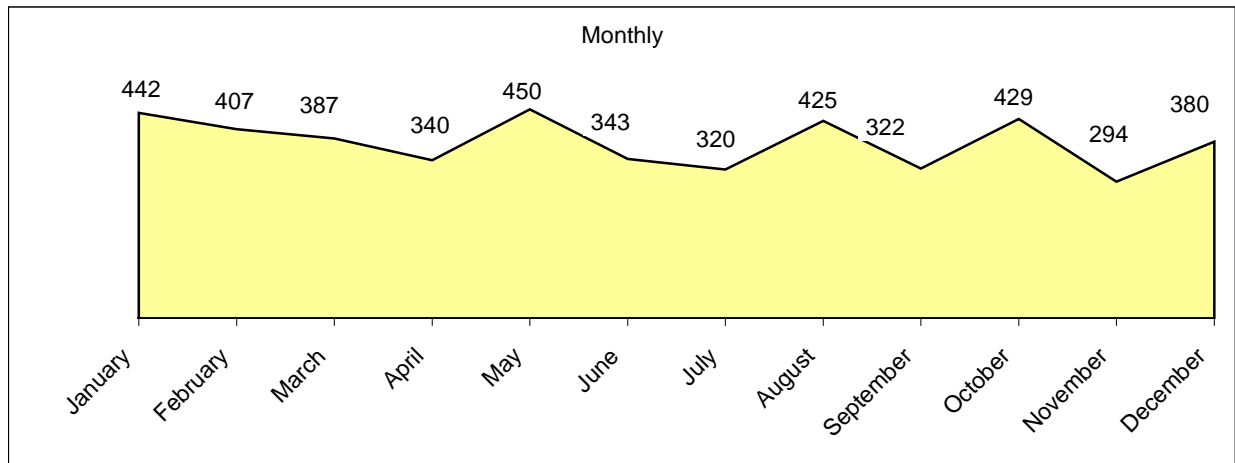
*Total Local-Office Participant Contact:*



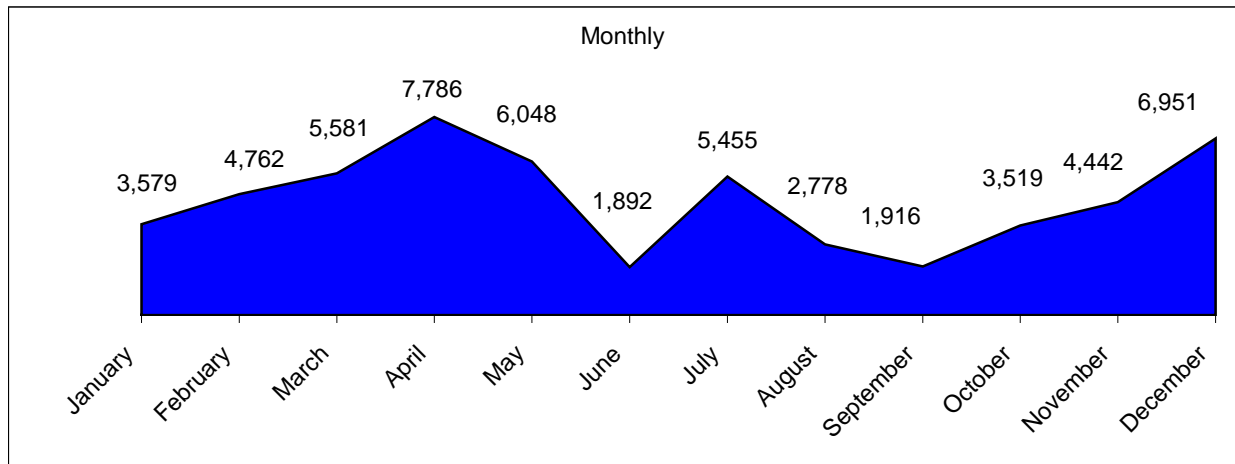
*Group Meeting Attendance*



*Individual Counseling Sessions:*



*Local Office Phone Calls:*



**Performance Returns** – As a whole, the overall participant return for all Plan assets in 2006 was **9.7%**. The following table provides performance returns for calendar year 2006 as well as three, five and ten year periods:

SAVINGS ACCOUNTS	Annualized Yield for Quarter				
	12/31/2006	9/30/2006	6/30/2006	3/31/2006	
Washington Mutual Liquid Account	5.34%	5.35%	4.84%	4.39%	
1-yr CD	5.29%	5.48%	5.01%	4.64%	
2-yr CD	5.08%	5.43%	5.00%	4.65%	
3-yr CD	5.02%	5.42%	4.99%	4.66%	
4-yr CD	5.02%	5.43%	5.01%	4.69%	
5-yr CD	5.05%	5.45%	5.03%	4.72%	
FIXED ACCOUNTS	Average Annualized Returns				
	1 Year	3 Years	5 Years	10 Years	Since Inception
Galliard Stable Value Fund	4.64%	4.37%	4.68%	5.46%	6.66%
	12/31/2005	9/30/2005	6/30/2005	3/31/2005	
Hartford General Account (declared "new money" rates only)	4.10%	4.28%	4.38%	4.30%	N/A
STOCK & BOND FUNDS	Average Annualized Returns				
	1 Year	3 Years	5 Years	10 Years	Since Inception
BONDS					
MSIF Fixed Income Fund INST	4.08%	4.50%	5.15%	6.24%	8.84%
Vanguard Total Bond Market Index Fund	4.40%	3.76%	4.74%	6.08%	6.13%
BALANCED					
Hartford Advisers HLS	10.81%	7.30%	4.80%	7.52%	N/A
LARGE-CAP STOCKS					
Hartford Stock HLS	14.77%	9.51%	4.74%	8.06%	N/A
Investment Company of America	15.94%	10.80%	8.00%	10.47%	12.86%
Fidelity Magellan Fund	7.22%	7.04%	3.17%	6.99%	18.43%
Growth Fund of America	10.94%	12.37%	8.01%	12.94%	9.64%
Capital Guardian U.S. Equity Fund	10.84%	8.78%	N/A	N/A	14.39%
Vanguard Institutional Index Fund	5.78%	10.43%	6.20%	8.47%	11.09%
MID-CAP STOCKS					
Hartford Capital Appreciation HLS	16.73%	17.28%	13.07%	14.28%	N/A
SMALL-CAP STOCKS					
Lotsoff Small Capital Equity	2.23%	N/A	N/A	N/A	18.68%
State Street Russell 2000 Index Trust Fund C	17.77%	13.15%	10.87%	N/A	9.23%
INTERNATIONAL STOCKS					
Fidelity Diversified International Fund	22.52%	19.78%	17.27%	13.16%	12.49%
Scudder EAFE Equity Index Fund	25.69%	19.46%	14.16%	7.25%	7.30%
PROFILE PORTFOLIOS					
Conservative	9.01%	6.79%	N/A	N/A	6.46%
Moderate	12.43%	8.98%	N/A	N/A	7.79%
Aggressive	15.32%	10.89%	N/A	N/A	8.89%
BENCHMARK INDICES					
Lehman Brothers Aggregate Bond	4.33%	3.70%	5.06%	6.24%	N/A
MSCI EAFE	26.34%	19.93%	14.98%	7.71%	N/A
Russell 2000	18.37%	13.56%	11.39%	9.44%	N/A
Standard & Poor's 500	15.78%	10.43%	6.19%	8.42%	N/A

**Budgetary Accounts** – The Plan maintains budget accounts to fund the costs of administration, both internal and external. Presently Plan participant accounts are assessed slightly over a tenth of a percent annually. Contributing participants pay a fifty-cent fee with every payroll contribution to the Plan. These revenue sources are used to pay for the Plan’s contractual obligations to the Plan Administrator as well as cover the City’s internal costs. A reserve is maintained to guard against fluctuations in Plan assets. Current budgetary surpluses, as well as a pending reduction in the Plan Administrator fee, mean that participants will see a fee reduction in 2007.

<b>DEFERRED COMPENSATION PLAN YEARLY BUDGET REVIEW</b>	
<b>ADMINISTRATIVE AND OPERATING EXPENSES</b>	
<b>YEAR ENDING 12/31/06</b>	
<b>STARTING BALANCE</b>	
Payroll Fee Trust Fund Ending Balance - 12/31/05	\$ 437,261
Administrative Fee Reserve Fund Balance - 12/31/05	\$ 1,407,403
Total	\$ 1,844,664
<b>REVENUES/FEES</b>	
City Payroll Administrative ("Fifty Cent") Fees	\$ 289,116
DWP Payroll Administrative ("Fifty Cent") Fees	\$ 61,188
Interest Earnings on Payroll Fee Trust Fund	\$ 14,569
Administrative Fee Reserve Fund Deposits	\$ 814,152
Interest Earnings on Administrative Fee Reserve Fund	\$ 84,243
Total Revenue/Fees	\$ 1,263,267
<b>STARTING BALANCE + REVENUE/FEES</b>	<b>\$ 3,107,931</b>
<b>EXPENDITURES</b>	
Personnel Department Reimbursements	\$ (186,932)
Consulting Costs	\$ (179,046)
NAGDCA	\$ (24,117)
Office & Admin	\$ (1,597)
Miscellaneous Administrative Expenses	\$ (14,337)
TOTAL EXPENDITURES	\$ (406,030)
Actual Payroll Fee Trust Fund Ending Balance (12/31/06)	\$ 410,439
Actual Administrative Fee Reserve Fund Ending Balance (12/31/06)	\$ 2,291,462
<b>ACTUAL TOTAL BALANCE AS OF 12/31/06</b>	<b>\$ 2,701,900</b>
<b>ENCUMBRANCES/LIABILITIES</b>	
Reimbursements: (Personnel: 3 Mos. Ending 9/30/06)	\$ (55,517)
Reimbursements: (Personnel: 3 Mos. Ending 12/31/06)	\$ (63,322)
TOTAL LIABILITIES	\$ (118,839)
<b>ASSETS LESS EXPENDITURES/LIABILITIES</b>	<b>\$ 2,583,062</b>

**Conclusion**

2006 proved to be a year of continuing excellence and milestone achievements for the Deferred Compensation Plan. The Board will continue its mission of ensuring that the Plan provides quality service at a reasonable cost.



<b>CONTRIBUTION RATES BY DEPARTMENT CODE - 2006</b>								
<b>Department Name</b>	<b>Current Eligible 1/06</b>	<b>Current Contrib 1/06</b>	<b>Previous % Contrib</b>	<b>Current Eligible 1/07</b>	<b>Current Contrib 1/07</b>	<b>Current % Contrib.</b>	<b>% Difference</b>	<b># Difference</b>
AIRPORTS	2,986	1,353	45.3%	3,189	1,502	47.1%	1.79%	149
ANIMAL SERVICES	283	121	42.8%	327	143	43.7%	0.97%	22
AGING	52	38	73.1%	52	38	73.1%	0.00%	0
BUILDING & SAFETY	863	436	50.5%	920	471	51.2%	0.67%	35
CAO	124	85	68.5%	121	87	71.9%	3.35%	2
CITY ATTORNEY	948	566	59.7%	974	575	59.0%	(0.67%)	9
CITY CLERK	155	95	61.3%	166	111	66.9%	5.58%	16
CDD	354	174	49.2%	319	157	49.2%	0.06%	(17)
COLISEUM	32	17	53.1%	32	17	53.1%	0.00%	0
COMMISSION-CHILD & YOUTH	13	7	53.8%	9	6	66.7%	12.82%	(1)
COMMISSION-HUMAN RELATIONS	15	8	53.3%	15	8	53.3%	0.00%	0
COMMISSION-STATUS OF WOMEN	12	6	50.0%	10	5	50.0%	0.00%	(1)
CONTROLLER	168	124	73.8%	175	136	77.7%	3.90%	12
CONVENTION CENTER	168	84	50.0%	151	88	58.3%	8.28%	4
COUNCIL	332	80	24.1%	358	94	26.3%	2.16%	14
CULTURAL AFFAIRS	54	30	55.6%	64	31	48.4%	(7.12%)	1
DEPT ON DISABILITY	21	13	61.9%	21	13	61.9%	0.00%	0
DWP	7,888	4,727	59.9%	7,901	4,878	61.7%	1.81%	151
EL PBLO LA HIST MNT AUT	20	11	55.0%	18	11	61.1%	6.11%	0
EMERGENCY PREPAREDNESS DEPT	16	10	62.5%	17	12	70.6%	8.09%	2
EMPLOYEE RELATIONS	3	1	33.3%	3	1	33.3%	0.00%	0
ENVIRONMENTAL AFFAIRS	34	20	58.8%	32	21	65.6%	6.80%	1
FIRE - FIREFIGHTERS	3,486	2,840	81.5%	3,631	2,979	82.0%	0.57%	139
FIRE CIVILIAN	328	182	55.5%	342	192	56.1%	0.65%	10
GENERAL SERVICES	2,116	847	40.0%	2,272	941	41.4%	1.39%	94
HARBOR	686	339	49.4%	758	374	49.3%	(0.08%)	35
HOUSING	447	236	52.8%	486	263	32.3%	(20.54%)	27
ITA	740	513	69.3%	728	511	70.2%	0.87%	(2)
LACERS	109	74	67.9%	117	82	70.1%	2.20%	8
LIBRARY	810	346	42.7%	811	358	44.1%	1.43%	12
MAYOR	133	24	18.0%	131	25	19.1%	1.04%	1
NEIGHBORHOOD EMPOWERMENT	42	25	59.5%	42	27	64.3%	4.76%	2
PENSIONS	82	51	62.2%	94	62	66.0%	3.76%	11
PERSONNEL C S 1	479	306	63.9%	495	318	64.2%	0.36%	12
PLANNING	269	160	59.5%	290	177	61.0%	1.55%	17
POLICE OFFICERS	9,314	7,060	75.8%	9,428	7,195	76.3%	0.52%	135
POLICE CIVILIAN	3,064	1,696	55.4%	3,257	1,832	56.2%	0.90%	136
PUBLIC WORKS	5,648	2,657	47.0%	5,746	2,740	47.7%	0.64%	83
RECREATION & PARKS	1,834	539	29.4%	2,034	633	31.1%	1.73%	94
TRANSPORTATION	1,554	831	53.5%	1,628	847	52.0%	(1.45%)	16
TREASURY	370	245	66.2%	383	250	65.3%	(0.94%)	5
LOS ANGELES ZOO	224	93	41.5%	234	96	41.0%	(0.49%)	3
<b>TOTALS--&gt;</b>	<b>46,306</b>	<b>27,080</b>	<b>58.5%</b>	<b>47,811</b>	<b>28,318</b>	<b>59.2%</b>	<b>0.75%</b>	<b>1,238</b>