

CITY OF LOS ANGELES



DEFERRED COMPENSATION PLAN

ANNUAL REPORT

BOARD OF DEFERRED COMPENSATION ADMINISTRATION

2010

ELECTED OFFICIALS

of the
CITY OF LOS ANGELES
CALIFORNIA

ANTONIO R. VILLARAIGOSA
MAYOR

CARMEN A. TRUTANICH
CITY ATTORNEY

WENDY GREUEL
CONTROLLER

MEMBERS OF THE CITY COUNCIL

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PRESIDENT
THIRTEENTH DISTRICT

JAN PERRY
PRESIDENT PRO TEMPORE
NINTH DISTRICT

DENNIS P. ZINE
ASSISTANT PRESIDENT PRO TEMPORE
THIRD DISTRICT

ED P. REYES
First District

PAUL KREKORIAN
Second District

TOM LABONGE
Fourth District

PAUL KORETZ
Fifth District

TONY CARDENAS
Sixth District

RICHARD ALARCON
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

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Department of Water and Power Retirement Participant Representative

RICHARD KRAUS

Vice-Chairperson

Los Angeles City Employees' Retirement System Participant Representative

JOHN R. MUMMA

First Provisional Chair

Fire and Police Pensions Participant Representative

CLIFF CANNON

Second Provisional Chair

Retired Participant Representative

TOM MOUTES

Third Provisional Chair

General Manager of Los Angeles City Employees' Retirement System

SANGEETA BHATIA

Retirement Plan Manager

Department of Water and Power Retirement

MICHAEL A. PEREZ

General Manager of Fire and Police Pensions

BOB SCHOONOVER

Organized Labor Representative

MARGARET WHELAN

General Manager of Personnel Department

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COMPENSATION
ADMINISTRATION**

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CHAIRPERSON

RICHARD KRAUS
VICE-CHAIRPERSON

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SANGEETA BHATIA
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TOM MOUTES

JOHN R. MUMMA

MICHAEL A. PEREZ

BOB SCHOONOVER

MARGARET M. WHELAN

**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) 978-1621

June 1, 2011

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, it is my pleasure to submit the 2010 Annual Report for the City of Los Angeles Deferred Compensation Plan. This report provides a review of important Plan data and activities over the 2010 calendar year.

The City of Los Angeles Deferred Compensation Plan is fully funded by participant fees. Plan participants pay all costs of the Plan (the City does not contribute any monies), including administrative, consulting, investment and staffing costs.

2010 was a year in which we saw the Plan return to peak asset levels last reached immediately before the 2008 financial crisis. The Plan has now reached a new milestone with over \$3 billion in assets. The Board, working together with its staff and recordkeeper, completed a number of significant initiatives in 2010, including the following:

- Completing the design of a new, consolidated investment menu to better assist participants in making effective asset allocation decisions;
- Approving changes to the way contracted trustee services are provided to provide enhanced protection for Plan assets;
- Adopting a new policy for investment manager procurement to create greater efficiency and broader consideration of potential providers;
- Approving implementation of a new "Roth 457" savings option, with implementation scheduled for mid-year 2011;
- Completing an online participant survey; and
- Administering a special election for our Fire/Police Pensions representative

The Plan also saw significant activity from participants retiring under the City's Early Retirement Incentive Program (ERIP), as their Deferred Compensation Plan account balances sometimes factored into decisions regarding whether they had the financial resources to retire earlier than they might have planned. The Plan also saw continued

interest in its loan program, as some participants used their accounts to deal with housing payment issues or reductions in household income.

In the midst of many uncertainties, the Deferred Compensation Plan is an important source of stability for its participants as they work to achieve long-term financial security. The Board is committed to maximizing the benefits of the Plan to its members in 2011 and beyond.

Respectfully submitted,

Eugene K. Canzano, Chairperson
Board of Deferred Compensation Administration

PLAN OVERVIEW

What is the Deferred Compensation Plan?

The City of Los Angeles Deferred Compensation Plan is a non-qualified tax-deferred savings program established in 1983 under IRC Section 457 and City of Los Angeles Administrative Code, Division 4, Chapter 14. It is open to all full-time employees who are members of one of the City's defined benefit retirement/pension systems, and is intended as a supplement to those plans. Contributions and earnings are tax-deferred until funds are withdrawn.

How Much Can Be Contributed to the Plan?

In 2010 participants were eligible to contribute up to \$16,500 from their regular wages if below age 50; up to \$22,000 if age 50 or older; and up to \$33,000 if eligible for and enrolled in special "Catch-Up" provisions. The City does not provide a matching contribution. Plan assets are protected by being held in trust for the exclusive benefit of Plan participants.

How and When Can Funds Be Distributed?

Funds can be withdrawn without penalty at any age so long as a participant has separated from service. In addition, active employees can withdraw funds through hardship withdrawal or by meeting certain de minimis withdrawal provisions. Active employees are further eligible to borrow from their accounts through a loan program.

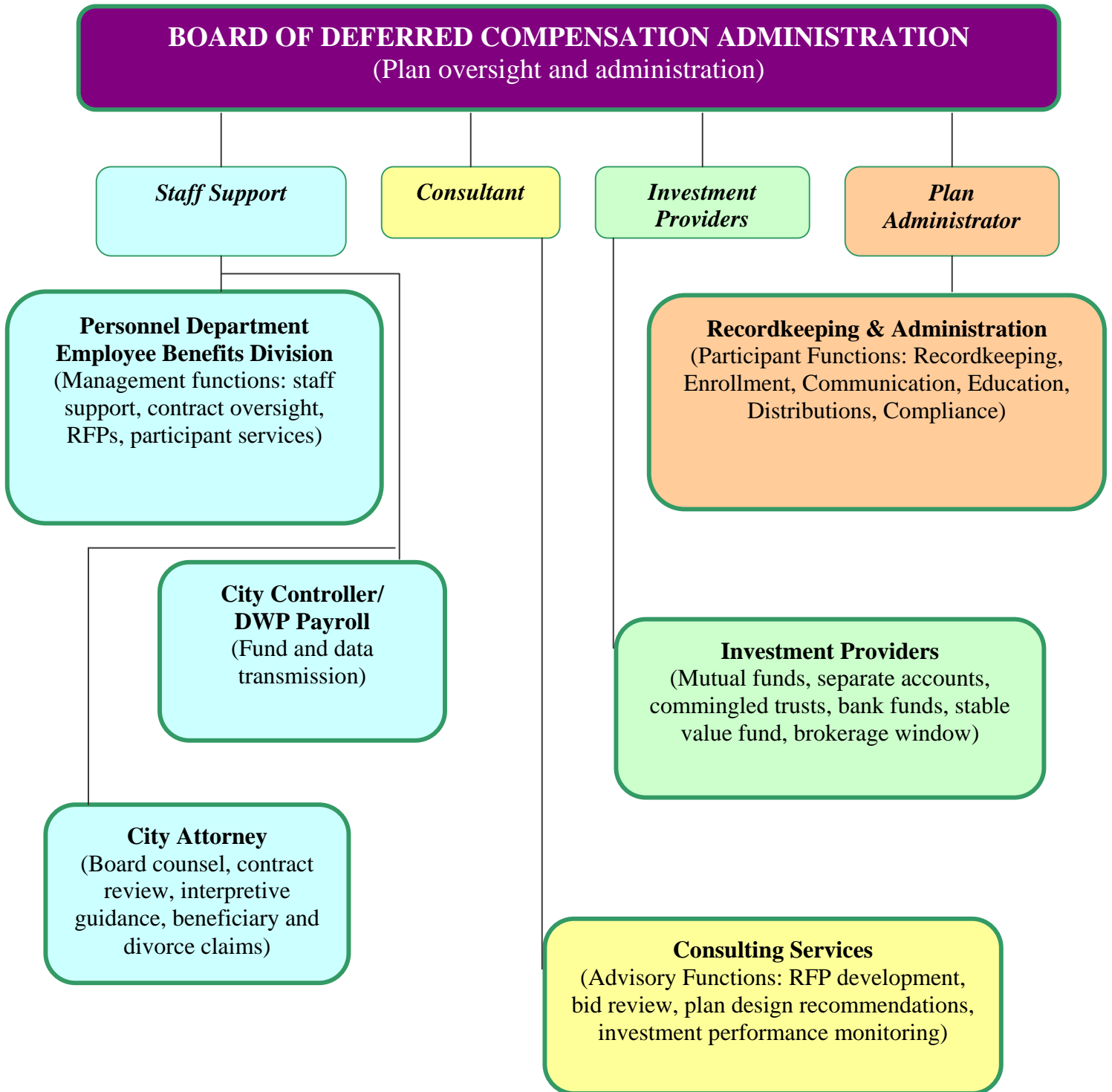
How Can the Funds Be Invested?

The Plan provides participants with a variety of investment choices including savings options, bond funds and stock funds. The Plan also offers a Self-Directed Brokerage Option providing access to additional mutual funds, exchange-traded-funds, stocks, bonds, and Certificates of Deposit.

How is the Plan Governed?

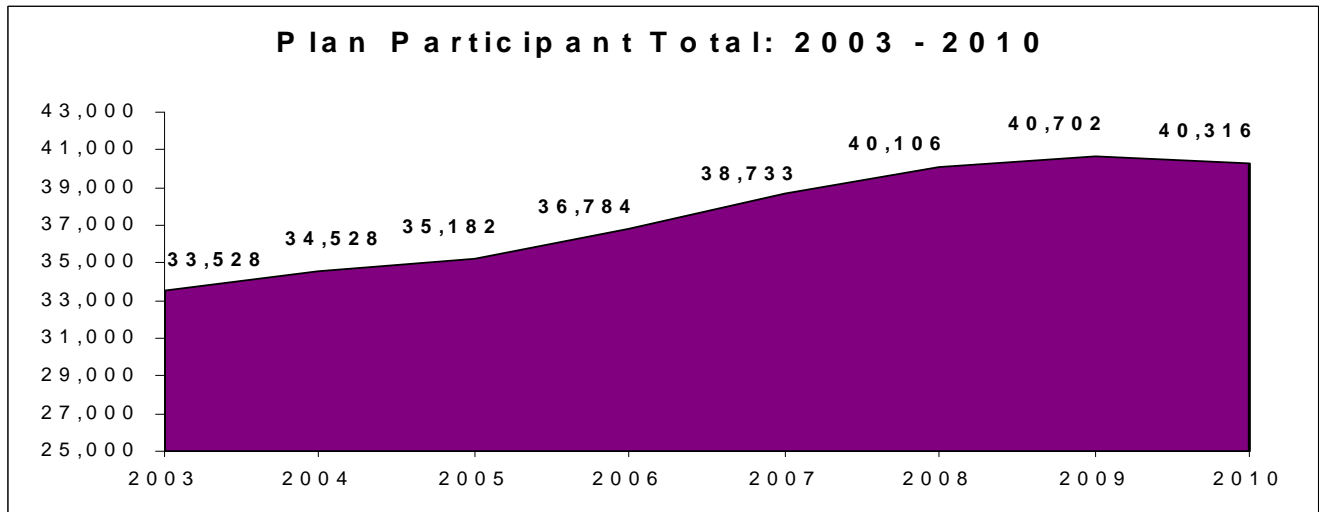
The City Council established the Board of Deferred Compensation Administration to provide administrative oversight of the Plan. The nine-member Board includes the General Manager City Employees' Retirement System; General Manager Fire and Police Pension Plan; Plan Manager of the Department of Water and Power Employees' Retirement Plan; three elected employee representatives from each of the afore-mentioned plans; a Certified Union Representative; a retired participant representative; and the General Manager Personnel Department. The Board has support staff and contracted entities to carry out Plan administration, as indicated on the following page.

ADMINISTRATIVE STRUCTURE

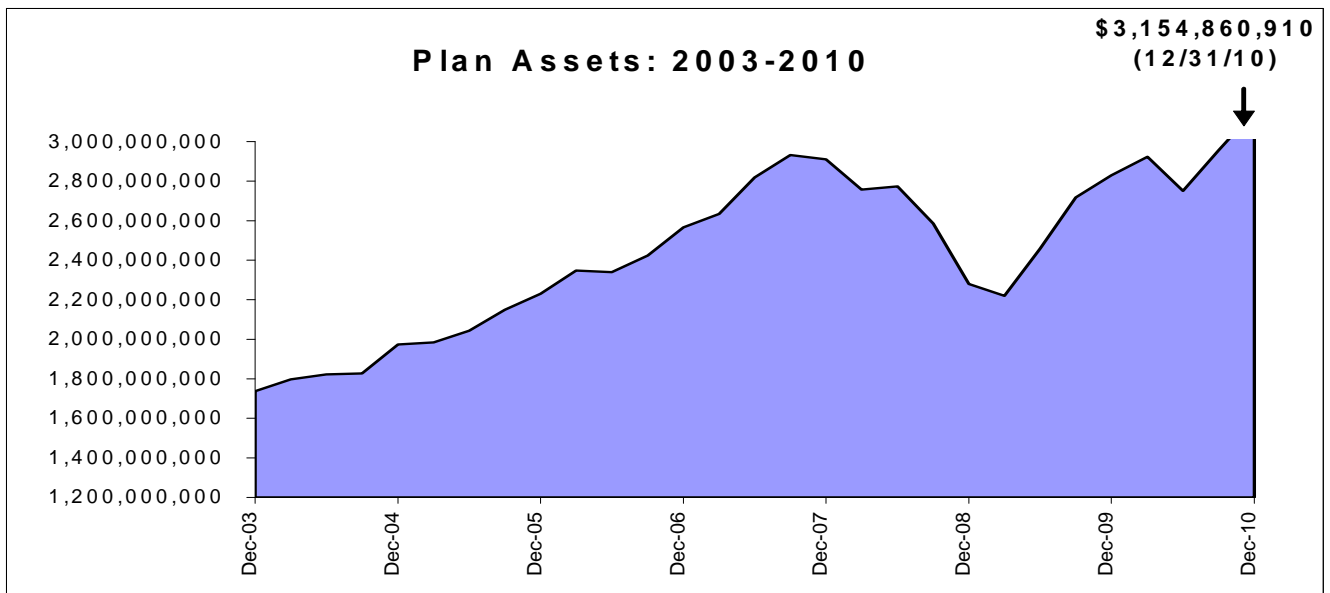


ACTIVITIES & STATISTICS

Participation - As of December 31, 2010, the City's Plan had a total of **40,316** participant accounts, a 1.0% decrease from the previous year. The decrease resulted from a larger than normal number of employee separations and account closures due to Citywide staffing reductions. Despite this, the Plan Administrator recorded 880 new enrollments between January 1st and December 31st 2010. The total number of contributing participants represents approximately 62.3% of the eligible employee population (a breakdown of departmental participation rates is provided as Appendix A to this report). The chart below indicates total enrollment levels from 2003 through 2010:



Plan Assets - Year-end total Plan assets were \$3,154,860,910, in comparison to \$2,828,435,629 at year-end 2009. This is a new record in Plan assets and represents an **11.54%** year-over-year increase, of which 7.72% was attributable to market returns and 3.82% to participant contributions/rollovers.

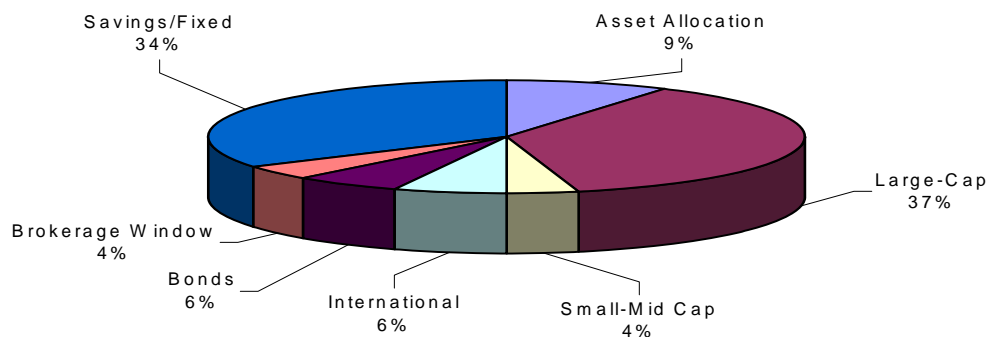


Fund Class Changes and Asset Allocation – Plan assets shifted slightly in 2010 as a result of the continued recovery in the equity/bond markets. The Plan also replaced several options within the core menu to reduce costs:

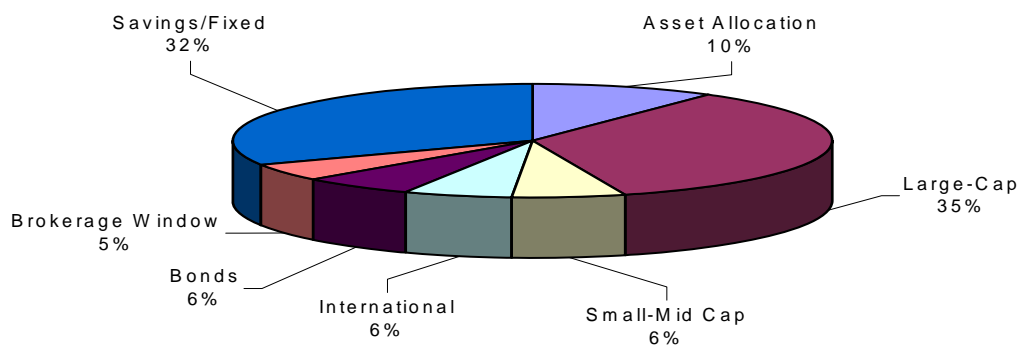
- (1) The SSgA Russell Small Cap Index Non-Lending Series Fund (Class C) was replaced by the SSgA Russell Small Cap Index Non-Lending Series Fund (Class S), for the purpose of lowering the expense ratio by 0.14%.
- (2) The Vanguard Total Bond Market Index Fund (Institutional class) was replaced with the Vanguard Total Bond Market Index Fund (Institutional Plus class), for the purpose of lowering the expense ratio by 0.03%.

Below is a summary comparison of how assets shifted by asset class from 12/31/09 to 12/31/10:

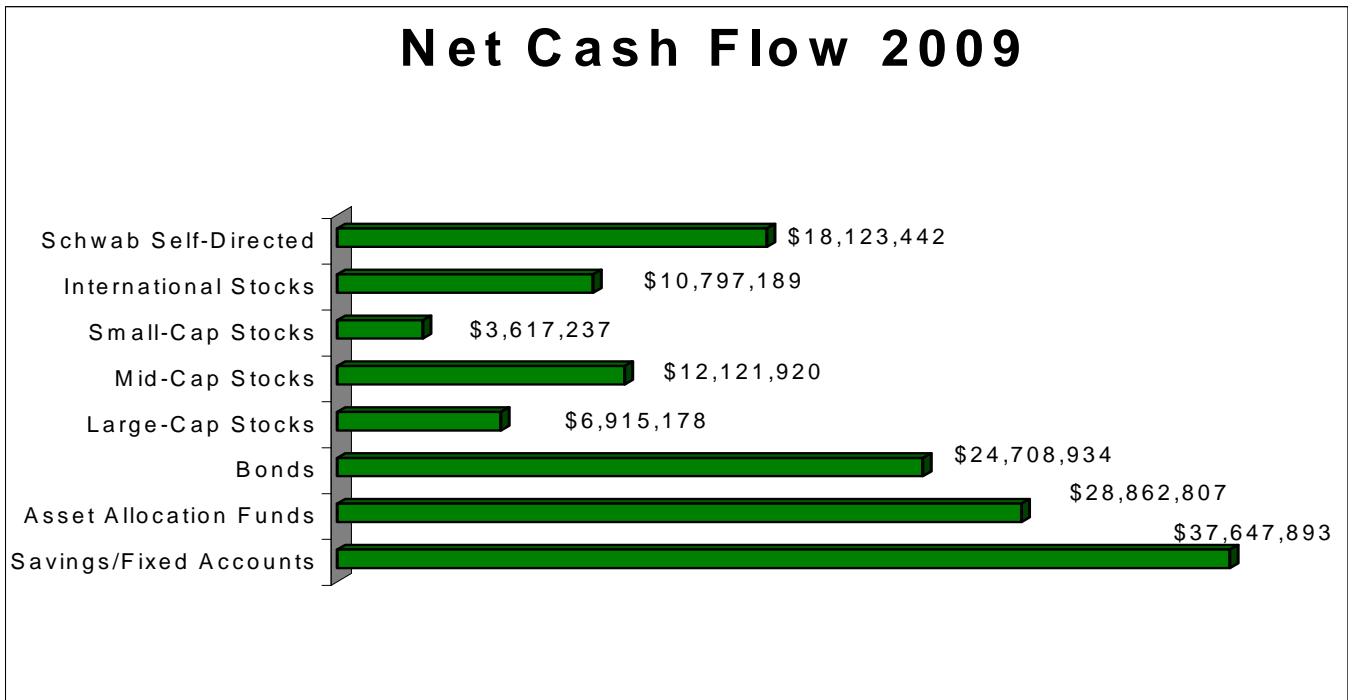
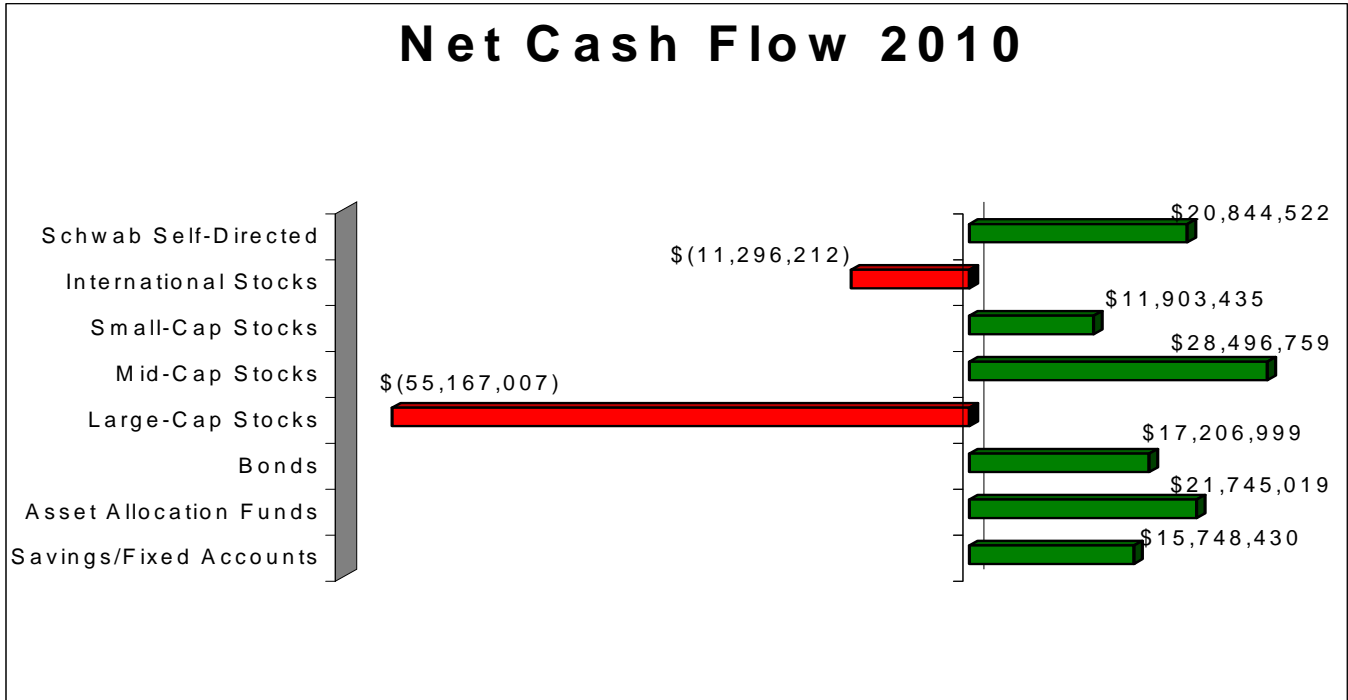
2009 Plan Assets Breakdown



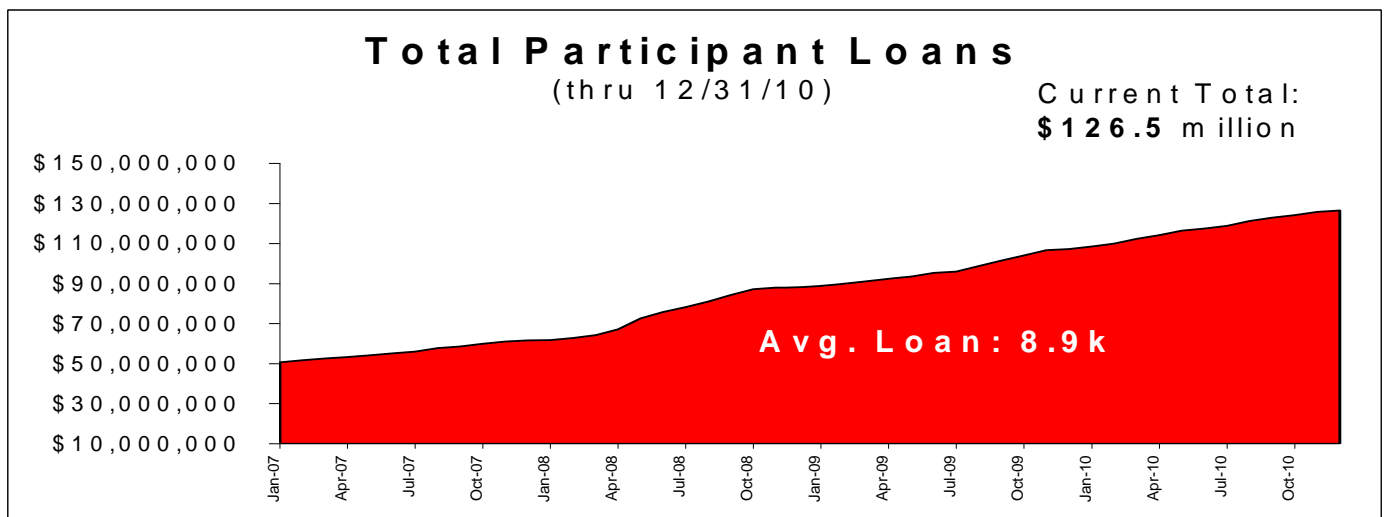
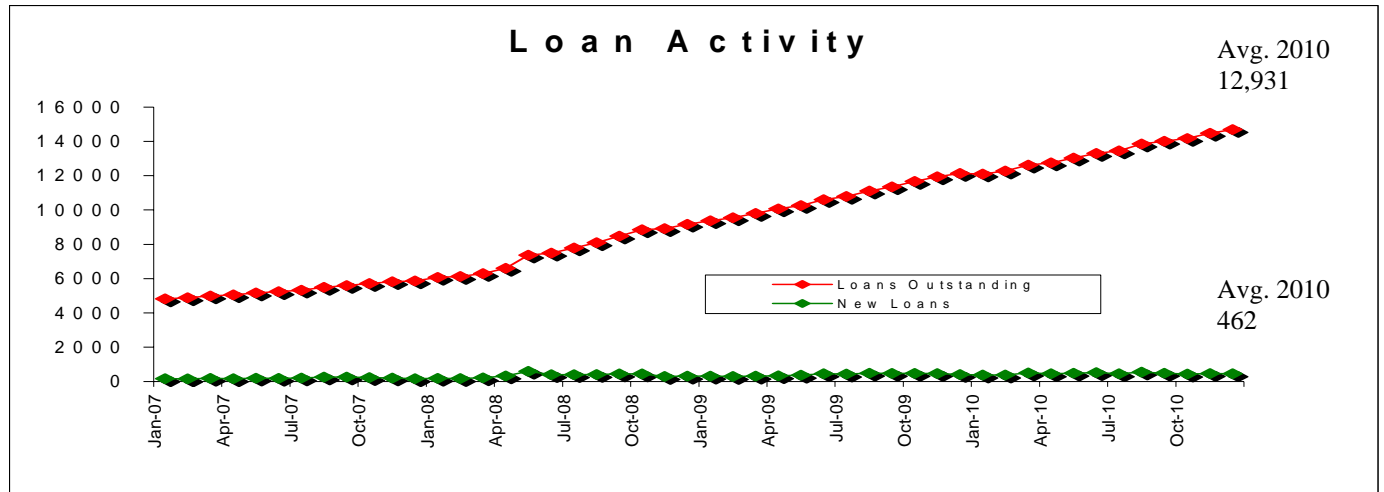
2010 Plan Assets Breakdown



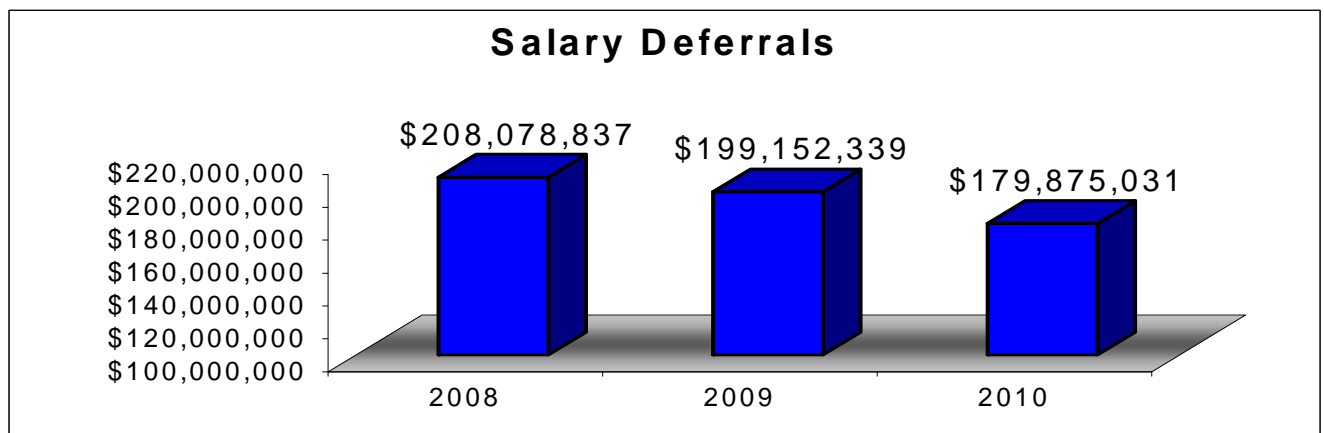
Net Cash Flows – The charts below indicate changes in net cash flow activity over the past two years. In 2010, the strongest cash flows were to the Plan’s mid-cap funds, asset allocation funds, and brokerage window; with large outflows coming from large-cap funds and international funds.



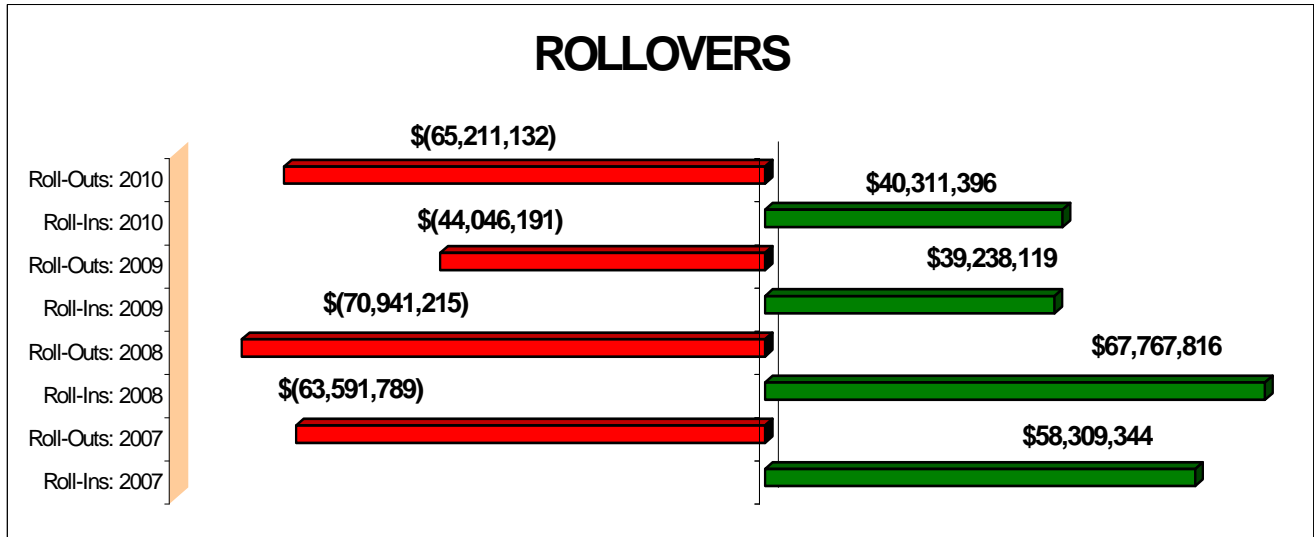
Loan Program – The City’s loan program, introduced in 2004, continues to generate significant participant activity, with 14,237 loans outstanding as of 12/31/10. A maximum of two loans per participant is allowed. The amounts loaned to participants is \$126.5 million, or **4.0%** of total Plan assets (versus **3.8%** at year-end 2009).



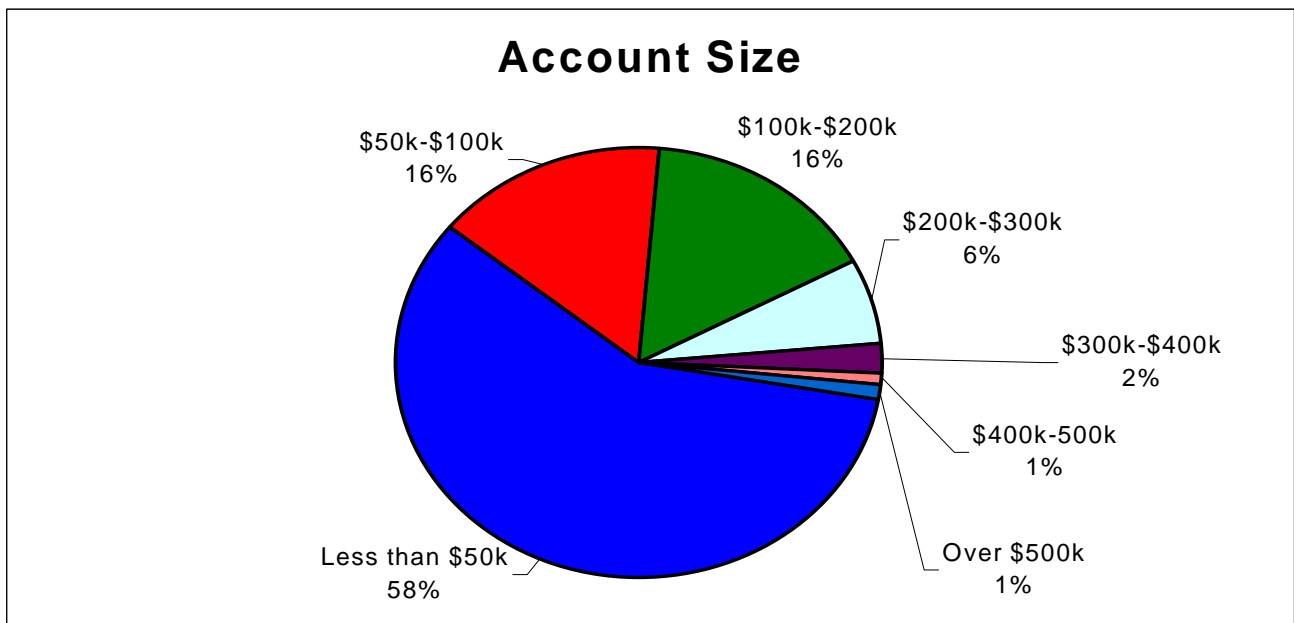
Contributions – Total salary deferrals continued to fall as they had in 2009, decreasing 9.7% in 2010, likely due to a smaller workforce, furloughs, and the challenging economic environment.



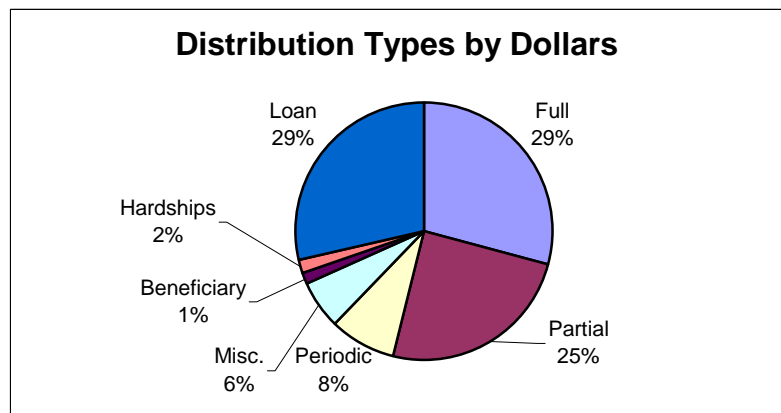
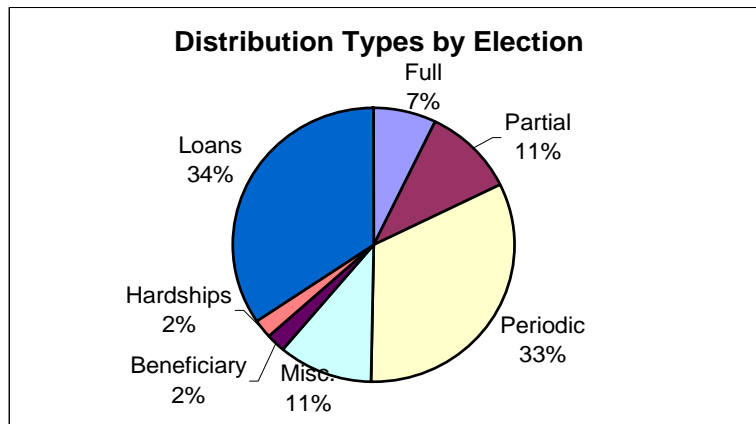
Rollovers – Rollover activity slightly increased in 2010. On a net basis, 0.79% of assets were rolled out of the Plan in 2010, versus 0.17% in 2009. Much of the funds entering the Plan came from sworn participants in the City’s Deferred Retirement Option Program (“DROP”).



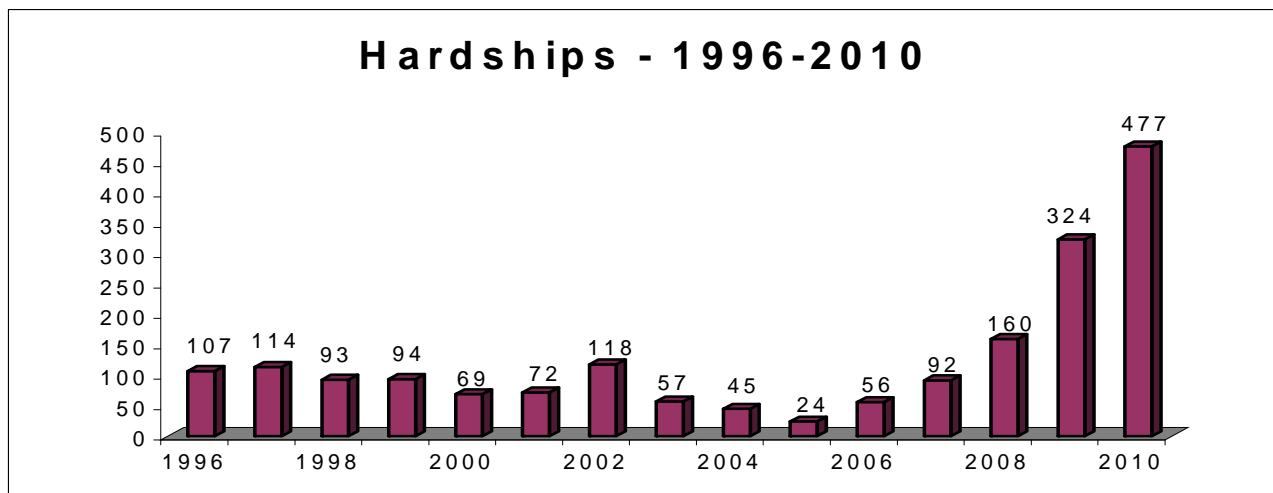
Plan Assets by Participant/Balance Levels – The graph below separates Plan assets by the number of participants and account balances. Relative to the prior year, the percentage of participants with less than \$50,000 decreased from 61% to 58% and several of the mid-level categories grew slightly. This indicates rising average account balances as of 12/31/10 reflecting increasing market values.



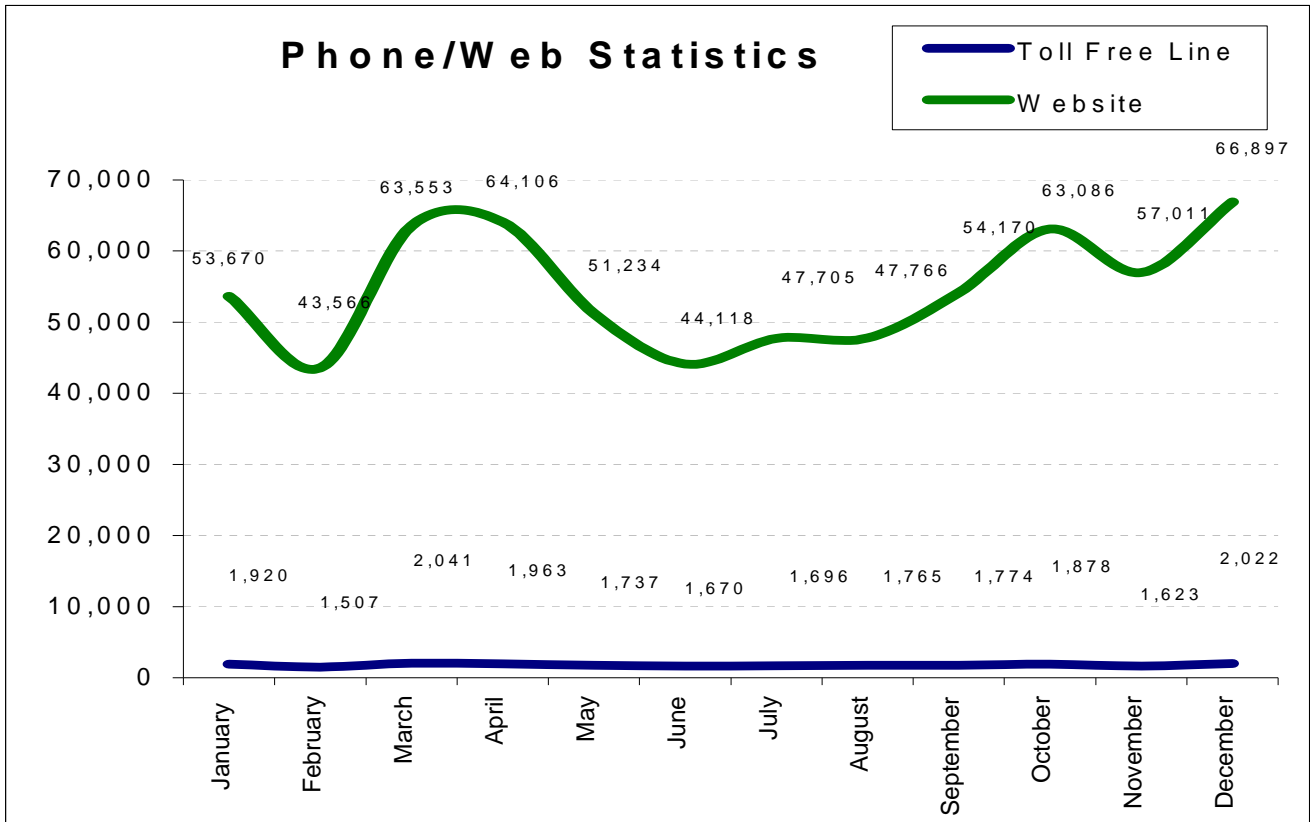
Distributions - The table below breaks down distribution types by election and dollars. The vast majority of distributions were loans. However, this was the first year that loans and hardships comprised the largest segment of total dollars distributed.



Hardships – As a likely result of the difficult economic climate, Great-West processed 477 hardship applications in 2010, up from 324 the previous year, a 47% increase and the largest number since the introduction of the Plan. The graph below indicates the number of hardship applications reviewed from 1996 through 2010.

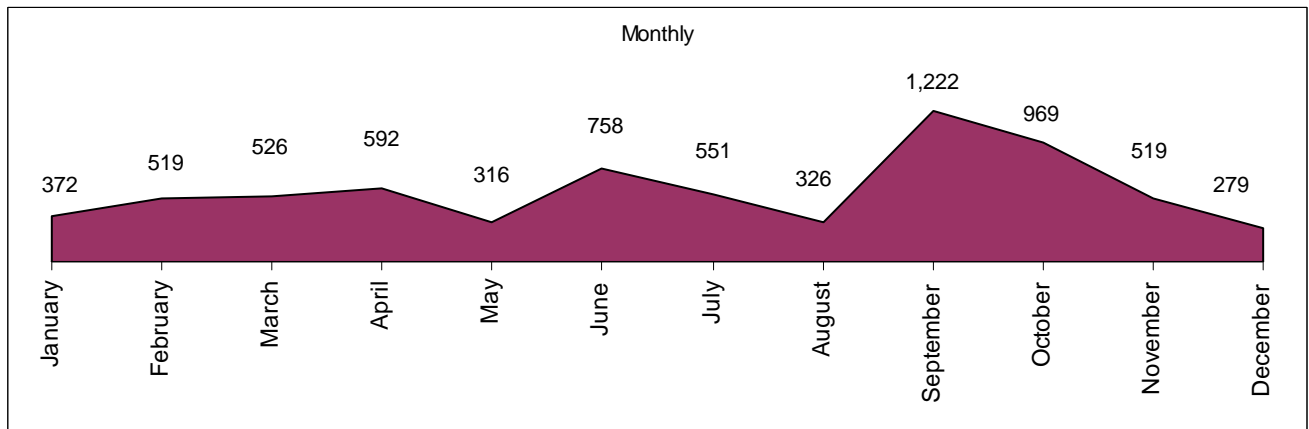


Phone Line/Website Statistics – The following graph demonstrates 2010 participant activity via the primary toll-free line as well as the Plan website. The Plan has reached a record high in 2010 for web transactions.

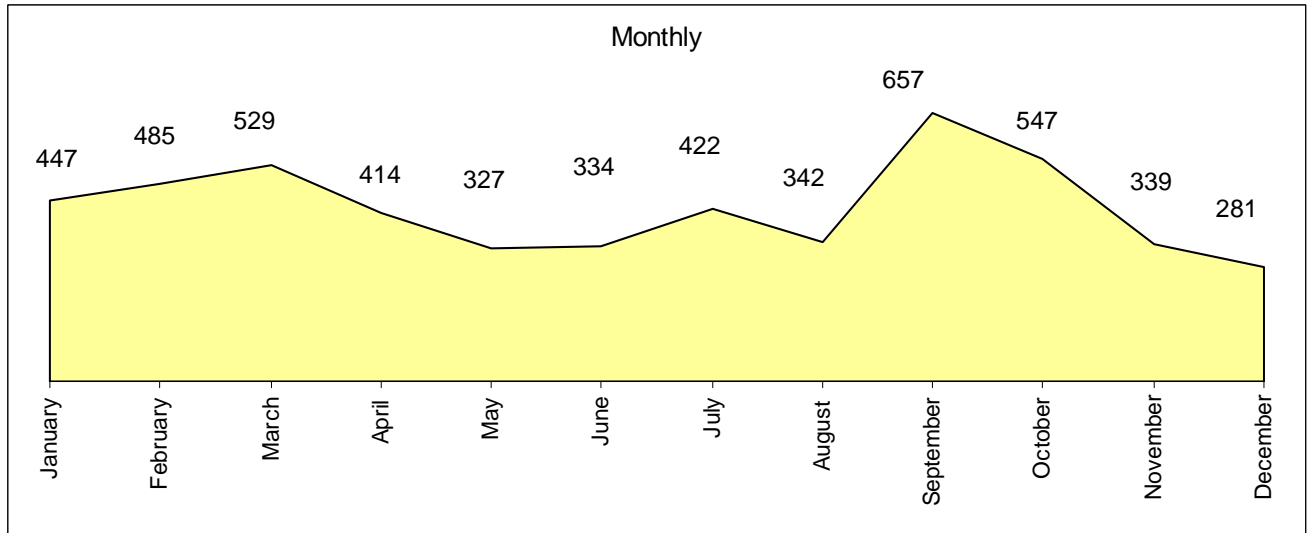


Local Service Statistics – The Plan places a heavy emphasis on local contact, whether telephonically, one-on-one counseling, or group meeting education. The following charts indicate totals for these contacts:

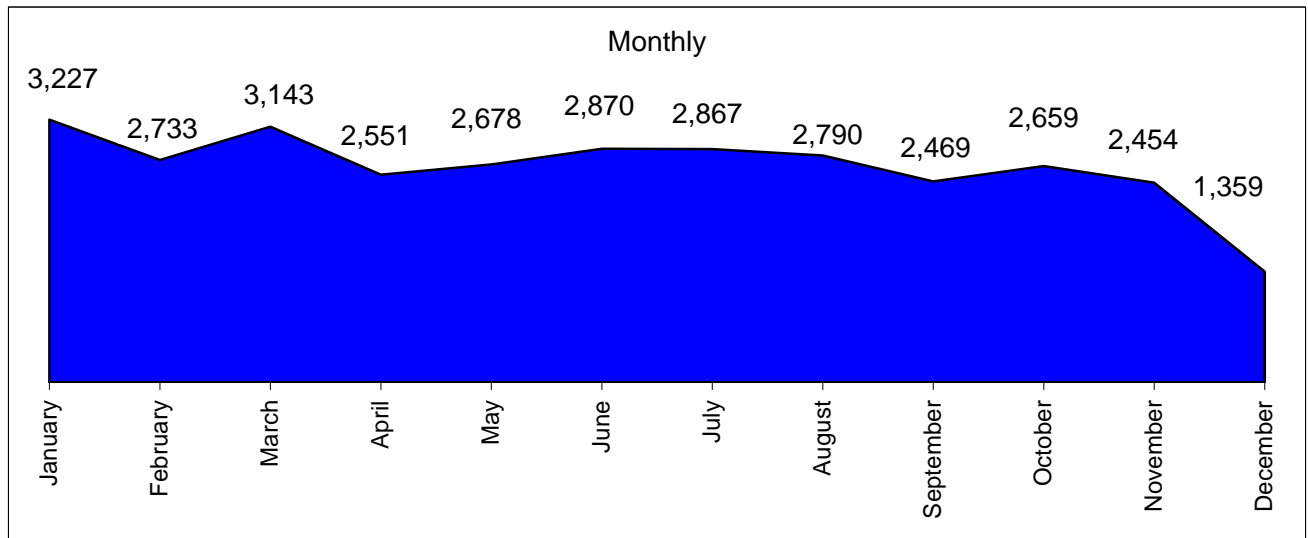
Group Meeting Attendance:



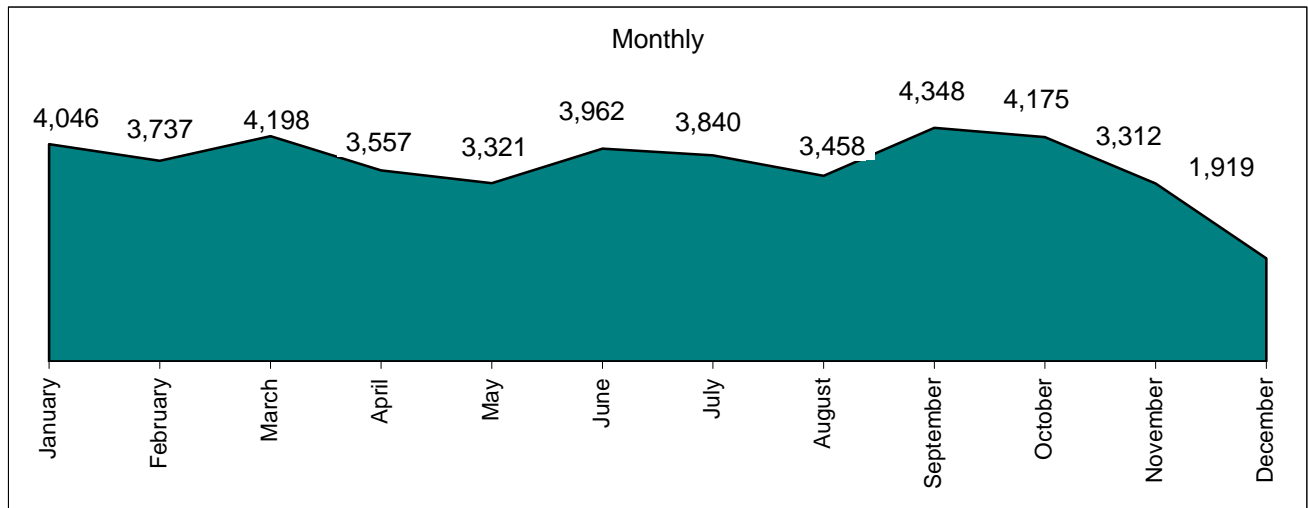
Individual Counseling Sessions:



Local Office Phone Calls:



Total Local-Office Participant Contact:



Performance Returns – Altogether, the overall 2010 participant return for all Plan assets (excluding the brokerage window) was **7.72%**. The following table indicates performance for calendar year 2010 as well as the three, five and ten year periods:

SAVINGS ACCOUNTS	Annualized Yield for Quarter			
	12/31/2010	9/30/2010	6/30/2010	3/31/2010
FDIC-Insured Savings Account	0.42%	0.31%	0.20%	0.10%
1-yr CD	N/A	N/A	N/A	N/A
2-yr CD	N/A	N/A	N/A	N/A
3-yr CD	N/A	N/A	N/A	N/A
4-yr CD	N/A	N/A	N/A	N/A
5-yr CD	N/A	N/A	N/A	N/A
STABLE VALUE ACCOUNT	Average Annualized Returns			
	1 Year	3 Years	5 Years	10 Years/Since Inception
Deferred Compensation Stable Value Fund	3.67%	4.23%	4.43%	4.72%
STOCK & BOND FUNDS	Average Annualized Returns			
	1 Year	3 Years	5 Years	10 Years/Since Inception
BONDS				
PIMCO Total Return Fund	8.83%	9.10%	8.05%	7.33%
Vanguard Total Bond Market Index Inst. Plus Fund	6.57%	5.85%	5.75%	5.59%
LARGE-CAP STOCKS				
Investment Company of America	10.86%	-2.74%	2.48%	3.17%
Growth Fund of America	12.28%	-2.74%	2.52%	2.79%
Vanguard Institutional Index Fund	15.07%	-2.77%	2.35%	1.46%
Hartford Capital Appreciation HLS	16.50%	-2.63%	4.70%	6.32%
MID-CAP STOCKS				
Lazard Mid Cap Institutional	23.43%	1.77%	3.28%	7.13%
Vanguard Mid Cap Index Institutional	25.67%	0.94%	4.44%	6.94%
SMALL-CAP STOCKS				
State Street Russell 2000 Index Trust Fund C	26.63%	2.02%	4.17%	5.92%
INTERNATIONAL STOCKS				
Fidelity Diversified International Fund	9.65%	-7.49%	2.39%	5.89%
DWS EAFE Equity Index Fund-Inst.	7.67%	-7.14%	2.19%	3.01%
PROFILE PORTFOLIOS				
Ultra-Conservative	7.10%	N/A	N/A	4.61%
Conservative	9.40%	3.25%	4.95%	5.29%
Moderate	12.59%	1.54%	4.49%	5.35%
Aggressive	14.73%	-0.38%	3.75%	5.19%
Ultra-Aggressive	16.87%	N/A	N/A	-0.69%
BENCHMARK INDICES				
Barclays Capital Aggregate Bond	6.54%	5.90%	5.80%	5.84%
MSCI EAFE	7.75%	-7.02%	2.46%	3.50%
MSCI US Mid Cap 450	25.67%	0.94%	4.44%	6.94%
Russell 2000	26.85%	2.22%	4.47%	6.33%
Russell 1000 Value	15.51%	-4.42%	1.28%	3.26%
Russell 1000 Growth	16.71%	-0.47%	3.75%	0.02%
Standard & Poor's 500	15.06%	-2.86%	2.29%	1.41%
Russell MidCap	25.48%	1.05%	4.66%	6.54%

Budgetary Accounts – The Plan maintains several accounts to fund the costs of administration, both internal and external. Presently, Plan participant accounts are assessed an annual asset based fee of 0.10%, with a fee cap of \$125 annually for those account balances over \$125,000. These revenue sources reimburse the Plan’s contractual obligations to the Plan Administrator as well as address the City’s internal costs. A reserve is maintained to guard against fluctuations of Plan assets. The following is a summary of Plan revenue/expenses as well as the status of the current surplus.

DEFERRED COMPENSATION PLAN YEARLY BUDGET REVIEW		
ADMINISTRATIVE AND OPERATING EXPENSES		
YEAR ENDING 12/31/10		
STARTING BALANCE		
Payroll Fee Trust Fund Ending Balance - 12/31/09	\$	28,537
Administrative Fee Reserve Fund Balance - 12/31/09	\$	3,473,506
	Total	\$ 3,502,043
REVENUES/FEES		
Interest Earnings on Payroll Fee Trust Fund	\$	1,636
Administrative Fee Reserve Fund Deposits	\$	1,118,068
Interest Earnings on Administrative Fee Reserve Fund	\$	110,016
	Total Revenue/Fees	\$ 1,229,720
	STARTING BALANCE + REVENUE/FEES	\$ 4,731,763
EXPENDITURES		
Personnel Department Reimbursements	\$	(212,803)
City Attorney Reimbursements	\$	(88,295)
Consulting Costs	\$	(24,431)
2130 Travel/Training/Education	\$	6,370
4160 Governmental Meetings	\$	-
6010 Office and Administrative	\$	-
7300 Office Furniture & Equipment	\$	-
GWRS Quarterly Fees - Asset Allocation Fund Management	\$	(36,000)
	TOTAL EXPENDITURES	\$ (355,159)
Actual Payroll Fee Trust Fund Ending Balance (12/31/10)	\$	134,375
Actual Administrative Fee Reserve Fund Ending Balance (12/31/10)	\$	3,778,355
	ACTUAL TOTAL BALANCE AS OF 12/31/10	\$ 4,376,604
ENCUMBRANCES/LIABILITIES		
Reimbursements: (Personnel: 3 Mos. Ending 3/31/10)	\$	(91,390)
Reimbursements: (Personnel: 3 Mos. Ending 6/30/10)	\$	(116,569)
Reimbursements: (City Attorney: 3 Mos. Ending 6/30/10)	\$	(31,123)
Reimbursements: (DWP: 3 Mos. Ending 6/30/10)	\$	(1,398)
Reimbursements: (Personnel: 3 Mos. Ending 9/30/10)	\$	(118,217)
Reimbursements: (City Attorney: 3 Mos. Ending 9/30/10)	\$	(30,754)
Reimbursements: (Personnel: 3 Mos. Ending 12/31/10)	\$	(94,586)
Reimbursements: (City Attorney: 3 Mos. Ending 12/31/10)	\$	(30,935)
	TOTAL LIABILITIES	\$ (514,971)
	ASSETS LESS EXPENDITURES/LIABILITIES	\$ 3,861,633

Looking Forward

The Board has some key initiatives it is focusing on in 2011. Primary among these is implementing a new Roth 457 savings option where participants will have the ability to save post-tax dollars, completing a multi-year restructuring of the Plan's core investment menu, and working with its Third-Party Administrator on a "green campaign" to reduce paper and lower costs. In addition, the Board is continuing to develop new guidelines and more effective processes related to governance, service procurement, and services to participants. As always, we will work closely with our participants and encourage their feedback as we move forward.

CONTRIBUTION RATES BY DEPARTMENT CODE - 2010								
Department Name	Eligible 1/10	Contrib. 1/10	Previous % Contrib.	Current Eligible 1/11	Current Contrib. 1/11	Current % Contrib.	% Difference	# Difference
AIRPORTS	3,282	1,606	48.9%	3273	1611	49.2%	0.3%	5
ANIMAL SERVICES	360	159	44.2%	326	145	44.5%	0.3%	(14)
AGING	44	32	72.7%	38	26	68.4%	-4.3%	(6)
BUILDING & SAFETY	884	447	50.6%	736	385	52.3%	1.7%	(62)
CAO	123	84	68.3%	104	75	72.1%	3.8%	(9)
CITY ATTORNEY	951	559	58.8%	885	544	61.5%	2.7%	(15)
CITY CLERK	124	77	62.1%	95	65	68.4%	6.3%	(12)
CITY ETHICS	24	16	66.7%	21	13	61.9%	-4.8%	(3)
CDD	270	143	53.0%	274	138	50.4%	-2.6%	(5)
COLISEUM	30	13	43.3%	28	11	39.3%	-4.0%	(2)
CONTROLLER	176	129	73.3%	157	120	76.4%	3.1%	(9)
CONVENTION CENTER	134	77	57.5%	114	69	60.5%	3.1%	(8)
COUNCIL	336	94	28.0%	331	88	26.6%	-1.4%	(6)
CULTURAL AFFAIRS	61	25	41.0%	40	17	42.5%	1.5%	(8)
DEPT ON DISABILITY	18	12	66.7%	15	11	73.3%	6.7%	(1)
DWP	9,215	5,715	62.0%	9,383	5,768	61.5%	-0.5%	53
EL PBLO LA HIST MNT AUT	16	7	43.8%	11	4	36.4%	-7.4%	(3)
EMERGENCY PREPAREDNESS DEPT	24	15	62.5%	23	15	65.2%	2.7%	0
EMPLOYEE RELATIONS	3	0	0.0%	3	1	33.3%	33.3%	1
FIRE - FIREFIGHTERS	3,648	3,065	84.0%	3,525	2,971	84.3%	0.3%	(94)
FIRE CIVILIAN	336	188	56.0%	298	161	54.0%	-1.9%	(27)
GENERAL SERVICES	2,073	923	44.5%	1,768	808	45.7%	1.2%	(115)
HARBOR	940	545	58.0%	947	563	59.5%	1.5%	18
HOUSING	514	288	56.0%	532	302	56.8%	0.7%	14
ITA	672	469	69.8%	538	387	71.9%	2.1%	(82)
LACERS	127	91	71.7%	127	94	74.0%	2.4%	3
LIBRARY	784	354	45.2%	669	306	45.7%	0.6%	(48)
MAYOR	191	37	19.4%	180	31	17.2%	-2.1%	(6)
NEIGHBORHOOD EMPOWERMENT	38	31	81.6%	19	14	73.7%	-7.9%	(17)
PENSIONS	103	63	61.2%	100	65	65.0%	3.8%	2
PERSONNEL C S 1	448	288	64.3%	377	256	67.9%	3.6%	(32)
PLANNING	275	171	62.2%	237	147	62.0%	-0.2%	(24)
POLICE OFFICERS	9,946	7,819	78.6%	9,898	7,826	79.1%	0.5%	7
POLICE CIVILIAN	3,133	1,777	56.7%	2,864	1,647	57.5%	0.8%	(130)
PUBLIC WORKS	5,316	2,583	48.6%	4,880	2,473	50.7%	2.1%	(110)
RECREATION & PARKS	1,761	719	40.8%	1,493	635	42.5%	1.7%	(84)
TRANSPORTATION	1,503	810	53.9%	1,390	760	54.7%	0.8%	(50)
TREASURER	400	240	60.0%	358	210	58.7%	-1.3%	(30)
LOS ANGELES ZOO	205	85	41.5%	192	72	37.5%	-4.0%	(13)
TOTALS-->	48,488	29,756	61.4%	46,249	28,834	62.3%	1.0%	(922)

