PENSION SAVINGS PLAN

ANNUAL REPORT

BOARD OF DEFERRED COMPENSATION ADMINISTRATION

2003
ELECTED OFFICIALS
of the
CITY OF LOS ANGELES
CALIFORNIA

JAMES K. HAHN
MAYOR

ROCKARD J. DELGADILLO
CITY ATTORNEY

LAURA CHICK
CONTROLLER

MEMBERS OF THE CITY COUNCIL

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PRESIDENT
SEVENTH DISTRICT

CYNTHIA MISCIKOWSKI
PRESIDENT PRO TEMPORE
ELEVENTH DISTRICT

ERIC GARCETTI
ASSISTANT PRESIDENT PRO TEMPORE
THIRTEENTH DISTRICT

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First District

WENDY GREUEL
Second District

DENNIS P. ZINE
Third District

TOM LABONGE
Fourth District

JACK WEISS
Fifth District

TONY CARDENAS
Sixth District

BERNARD PARKS
Eighth District

JAN PERRY
Ninth District

MARTIN LUDLOW
Tenth District

GRIEG SMITH
Twelfth District

ANTONIO VILLARAIGOSA
Fourteenth District

JANICE HAHN
Fifteenth District
BOARD OF DEFERRED COMPENSATION ADMINISTRATION

for the

CITY OF LOS ANGELES PENSION SAVINGS PLAN

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Representing the City Employees' Retirement System

MICHAEL J. GALVIN
Vice-Chairperson
Certified Organized Labor Representative

JOYA C. DE FOOR
City Treasurer

MICHAEL CARTER
Representing Fire & Police Pension System

JAVIER ROMERO
Representing Department of Water and Power Retirement Plan Board

BETTY J. PORTER
Representing Retired Plan Participants

MARGARET M. WHELAN
General Manager Personnel Department
May 17, 2004

The Honorable James K. Hahn, 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 Pension Savings Plan Annual Report for 2003. The Pension Savings Plan is the retirement program for part-time, temporary and seasonal employees. This program provides an important resource for these employees, in lieu of participating in Social Security, to acquire assets for retirement. The Board will continue its efforts to enhance the value of this program to its participants and help build them a prosperous and secure retirement future.

Respectfully submitted,

Shelley I. Smith, Chairperson
Board of Deferred Compensation Administration
BOARD OF DEFERRED COMPENSATION ADMINISTRATION/GENERAL MANAGER PERSONNEL DEPARTMENT
(Board - Plan design and administration : GM - contracting authority)

Staff Support

Consultant

Third Party Administration/Investment Provider

PERSONNEL DEPARTMENT EMPLOYEE BENEFITS DIVISION
(Management functions: contracts, RFPs, consultant liaison, distribution processing)

City Controller/DWP Payroll
(Data/contribution transmission, corrections)

City Attorney
(Contract and special cases review)

GREAT-WEST LIFE & ANNUITY INSURANCE COMPANY
(Participant Functions: Recordkeeping, Communication, Distributions)
(Investment Product – Stable Value Fund)

Mercer Investment Consulting
(Advisory Functions: RFP development, bid review, plan design recommendations, investment performance monitoring)
PLAN STATISTICS

Plan Assets - Year-end total Plan assets were $40.9 million vs. $39.2 million in 2002. All assets are invested in the Plan’s stable value fund, meaning there is no market risk or volatility associated with the program’s investment. The graph below charts the steady increase in assets from 2000 through 2003.

Participant Accounts - As of December 31, 2003, the City’s Plan had a total of 29,012 participant accounts, a 4.7% increase from the prior year, and a reduction from the 5.6% rate of increase from the prior year.
Comparison to Deferred Compensation Plan – The Pension Savings Plan has almost as many participant accounts as the larger, optional Deferred Compensation Plan (the retirement supplement program for regular full-time employees). This is despite the fact that Pension Savings Plan assets represent only a small fraction of the assets in the Deferred Compensation Plan. The graphs below compare assets and participation for both programs.

**Participants - DCP vs. PSP**

- Deferred Compensation Plan: 33,557 participants
- Pension Savings Plan: 29,012 participants

**Assets - DCP vs. PSP**

- Deferred Compensation Plan: $1.7 billion
- Pension Savings Plan: $40.9 million
Closed vs. Added Accounts – Due to the large number of accounts relative to the asset base, the Pension Savings Plan is a more expensive plan to administer. As a result, the Board and its staff, in concert with Great-West, strive to facilitate the closing of accounts, which occurs through participants taking distribution following termination of employment or rolling over Pension Savings account balances to the Deferred Compensation Plan if/when they transition to full-time City employment.

The growth in new accounts remained surprisingly steady in 2003, despite the City’s ongoing fiscal challenges. This is likely the result of not only meeting the City’s ongoing needs for part-time, temporary and seasonal employees, but because this category also includes Police Officer recruits who establish accounts in Academy training. The graph below indicates the number of new accounts created compared to those closed for both 2002 and 2003:

<table>
<thead>
<tr>
<th>Year</th>
<th>Accounts Closed</th>
<th>Accounts Added</th>
</tr>
</thead>
<tbody>
<tr>
<td>2002</td>
<td>2,072</td>
<td>3,508</td>
</tr>
<tr>
<td>2003</td>
<td>1,964</td>
<td>3,615</td>
</tr>
</tbody>
</table>

Source of Closed Accounts – The following graph breaks out closed accounts by distributions and rollovers for 2003 vs. 2002.
**Participants at Balance Levels** – Another useful way of looking at participation in this Plan is by account balance level. The graph below indicates that the Plan has its heaviest concentrations at the lower end (accounts valued at less than $100) and at balances below $5,000. The average account balance in 2003 was **$1,358**.

![Participants by Balance Level](image)

**Stable Value Fund** – All assets within the Pension Savings Plan are invested in the Great-West Stable Value Fund, managed by and provided through the Plan’s recordkeeper, Great-West Life. The Stable Value Fund is a separate account held for the exclusive benefit of participants in the Pension Savings Plan. Fund participants receive all of the investment performance of the Fund excluding fixed administrative and investment management fees. Funds are primarily invested in mortgage backed securities and/or asset-backed securities.

Following are key features of the Stable Value Fund in 2003:

- **All Securities Rated - AAA**
- **Average Duration – 2.09 Years**
- **Coupon Yields Range - 4.5% to 8.5%**
- **Investment Management Fee – 0.25%**
- **Administration Fee – 1.58%**
- **2003 Annual Yield (adjusted, net of fees) – 3.14%**
LOOKING AHEAD TO 2004

The Board’s focus in 2004 will be on resolving some of the long-standing challenges involving participant accounts. Specifically, the Board will be working closely with the City Attorney’s Office and its Plan Administrator to address the large number of Plan accounts, most of them involving small balances, for individuals who have terminated employment with the City and for whom the Plan no longer has current contact information. The hoped-for end result of this initiative will be to streamline the Plan and reduce the overall administrative expense.