

**CITY OF LOS ANGELES**  
INTER-DEPARTMENTAL CORRESPONDENCE

Date: December 15, 2025

To: The City Council

From: Matthew W. Szabo, City Administrative Officer



Subject: **REQUEST TO AMEND THE LOS ANGELES ADMINISTRATIVE CODE  
CHAPTER 14 TO ALLOW MODIFICATION OF CITY OF LOS ANGELES  
DEFERRED COMPENSATION PLAN**

## RECOMMENDATION

The Office of the City Administrative Officer (CAO) recommends that the City Council, subject to the approval of the Mayor, request the City Attorney to draft an ordinance amending Chapter 14 – Deferred Compensation Plan, of the Los Angeles Administrative Code (LAAC) to allow for an employer contribution to an employee's Deferred Compensation Plan 457(b) retirement savings account.

## SUMMARY

In 1983, the City of Los Angeles established the City of Los Angeles Deferred Compensation Plan (DCP or Plan) as an Internal Revenue Code (IRC) Section 457(b) governmental plan, intended to provide an optional supplementary, tax-advantaged retirement savings vehicle for all employees who are members of one of the City's three defined benefit retirement plans, namely, Los Angeles City Employees' Retirement System (LACERS), Los Angeles Fire and Police Pensions (LAFPP), and the Water and Power Employees' Retirement Plan (WPERP). The DCP is overseen by the Board of Deferred Compensation Administration (Board), which is composed of four elected members representing the various constituencies of Plan participants (active employee LACERS, LAFPP, and WPERP representatives and retired employee representative), the general managers of the Personnel Department and the three retirement systems, and a labor representative. As of September 30, 2025, 54,300 active employees and retirees participate in the Plan with over \$12 billion in assets.

In November 2022, the International Brotherhood of Electrical Workers, Local 18 (IBEW) and the Los Angeles Department of Water and Power (LADWP) negotiated a new employer contribution for their WPERP Tier 2 members in the 2022-2026 Memoranda of Understanding (MOUs). The agreement called for an employer contribution of \$150 per month for each eligible WPERP Tier 2 bargaining unit member. The 2022-2026 IBEW MOUs were adopted by the City Council on November 29, 2022 (Council File No. [22-1286](#)).

At its meetings on February 2, 2024 and June 7, 2024, the Executive Employee Relations Committee (EERC) instructed the CAO and the Personnel Department to produce an action plan on the feasibility of augmenting the City's existing DCP to accommodate the IBEW-negotiated benefit. The Board discussed the EERC's instruction and referred the matter to an Ad Hoc Plan Design Committee (Committee), which was tasked with reviewing the feasibility of accommodating the negotiated agreement and other alternatives to provide for an employer contribution option.

The Committee met several times to discuss the merits of modifying the Plan, including understanding the settlor costs required to create the employer contribution feature. However, given the nature of the work to be performed by DCP staff in analyzing the feasibility of the employer contribution enhancement to the Plan, the Board asked that the settlor costs related to a plan amendment and its implementation (including staffing reimbursement costs, legal counsel and consultant-related costs, and potential implementation fees) be borne by the City as the Plan Sponsor, as such costs were not eligible to be funded through participant contributions or Plan assets. Accordingly, the Board indicated DCP staff could not initiate work until funding was provided by the City. As such, the City provided \$50,000 in early 2025 to the Board to initiate the feasibility review of a plan design change for an employer contribution feature.

After several months of reviewing and discussing the proposed modification to the Plan, the details of which are attached to this report, the Committee recommended the employer contribution plan enhancement to the Board. On October 21, 2025, the Board approved the recommendation to augment the City's existing Plan to allow for employer contributions to an employee's individual Plan account.

## **EMPLOYER CONTRIBUTION – PLAN DESIGN OPTIONS AND CONSIDERATIONS**

As a result of its discussions, the Board noted the following defined contribution plan designs options are available for the City as Plan Sponsor to implement an employer contribution feature:

- 457(b) Plan Enhancement: Enhance the current 457(b) governmental deferred compensation plan to add an employer contribution money source. The employer contribution amount, in addition to the employee elective contributions, will count towards each participant's annual Plan limit.
- 401(a) Defined Contribution Plan Creation: Create a new 401(a) defined contribution plan to administer the employer contribution separately from the 457(b). This allows an employer contribution amount to be considered separately from the 457(b) plan contribution limits and affords additional design options. A new governance and oversight structure would need to be created as the Board has authority only over the DCP.

- Annuity Plan Enhancement: Enhance existing annuity options. Annuities are offered by LACERS and WPERP; in this case, enhancing the annuity offered specifically by WPERP by adding an employer contribution component could also be an available Plan vehicle option. This option would only allow two of the defined benefit plans that offer an annuity to be eligible for an employer contribution.

In considering these options, the Board recommends the 457(b) Plan be enhanced to incorporate an employer contribution feature. Details related to the consideration of each option's implementation are attached to this report. Commensurate with the Board's recommendation, automatic enrollment into the Plan is required for an employee eligible for an employer contribution, in order that the employee has an account to receive the employer contribution benefit, thereby leveraging the benefit by creating an opportunity for early and sustained participation in the DCP. Participation is the first step towards establishing retirement income security. Additional details related to the Board's discussion on feasibility is attached to this report and also available in [Board Report 25-46](#).

The Board also recommends the City consider a holistic review of its employee retirement benefits and the merits of optimizing the current offerings. The DCP was established in 1983 with the goal of providing a tax-advantaged deferred compensation savings option for City employees, functioning as a supplementary retirement savings benefit and offering employees an option to accumulate funds for their post-employment years through percentage of pay or dollar amount deferrals, or contributions, from their pay checks each pay period.

Beyond its role as a retirement savings vehicle, the DCP is intended to supplement the existing pensions provided by the City's defined benefit plans. Under the defined benefit plans, eligible employees are entitled to a monthly pension that is determined by formula based on salary, accrued service credit, and specific retirement factor (as determined by date of hire, by tier). This defined benefit is foundational to establishing retirement security for City employees, providing up to 64.8% of replacement income for a LACERS Tier 1 participant who has completed 30 years of service and reached a minimum age of 55. A LACERS Tier 1 participant who has completed 20 years of service at age 60 would expect to replace approximately 43.2% of their working income. The defined benefit has served as a key recruitment and retention incentive for the City's workforce, and the City's DCP serves as a significant added benefit.

The landscape of employee retirement benefits, however, has undergone significant shifts since the inception of the DCP. Both LACERS and WPERP have introduced newer tiers for civilian employees that represent a departure from the previously more generous provisions. These newer tiers (LACERS Tier 3, LAFPP Tier 6, and WPERP Tier 2) offer a less substantial benefit, necessitating a greater reliance on supplementary savings strategies like the DCP. Furthermore, industry research is indicating a trend towards longer life expectancies, which will lengthen the time spent in retirement and require more savings to maintain adequate retirement income security for additional years.

As an example, a LACERS Tier 3 civilian employee with 30 years of service will receive a defined benefit reduced to 60% of their final average salary from 64.8% (compared to a Tier 1 employee), with the minimum retirement age increasing to 60 (from age 55). The reduction is even more pronounced for employees with shorter service records, as a 20-year employee’s benefit under LACERS Tier 3 is reduced to 30% of replacement income (from 43.2% under Tier 1) with the minimum age remaining at 60. These changes underscore the increasing importance of individual retirement planning and the role of supplementary savings strategies like the DCP in helping employees bridge the gap created by less generous tiers. The DCP thus serves a critical function in empowering employees to proactively save and secure a more robust financial future, adapting to the evolving realities of public sector retirement benefits.

Currently, the suite of benefits offered are indicated below for quick reference.

Retirement Benefits For <i>Full Time</i> City Employees					
Plan Type	Required/ Optional	Plan Name	Eligible Employees	Contribution	Benefit
401(a)	Required	LACERS*	Civilian (Non-DWP)	<ul style="list-style-type: none"> <li>Employees are required to pay a contribution each biweekly pay period.</li> </ul>	Upon retirement, a monthly pension benefit is paid determined by tier and service factor, salary, and years of service.
		LAFPP*	Sworn		
		WPERP*	DWP	<ul style="list-style-type: none"> <li>An employer contribution is generally made annually to the plan.</li> </ul>	
	Optional	LACERS Larger Annuity	Civilian (Non-DWP)	Employees elect to purchase an annuity (payments per biweekly pay period, lump sum, or transfer from DCP).	
WPERP Additional Annuity		DWP			
457(b)	Optional	Deferred Compensation Plan (DCP)	All Employees (enrolled in LACERS, LAFPP, WPERP)	Employees elect a contribution amount made each biweekly pay period.	Upon separation of employment, employees may choose how and when to drawdown their funds.

Retirement Benefits For <i>Part-Time</i> City Employees					
Plan Type	Required/ Optional	Plan Name	Eligible Employees	Contribution	Benefit
457(b)	Required	Pension Savings Plan*	Part-time, seasonal, temporary employees (not enrolled in LACERS, LAFPP, or WPERP)	<ul style="list-style-type: none"> <li>Employees are required to contribute 4.5% per biweekly pay period.</li> <li>The City contributes 3% per biweekly pay period.</li> </ul>	<ul style="list-style-type: none"> <li>Upon separation of employment, employees may choose how and when to drawdown funds.</li> <li>Employees who transition to full time employment may be able to transfer their balance to DCP.</li> </ul>

\* These plans are replacement Social Security plans; plan participants do not participate in Social Security.

Note: A Limited Term Retirement Plan Option is established under LAAC Section 4.1850, intended to provide a portable benefit for elected officials.

## SETTLOR COSTS

Pursuant to and in line with the Internal Revenue Code and general fiduciary principles, the Plan exists for the exclusive benefit of its participants and beneficiaries, commonly referred to as the “exclusive benefit rule,” which serves as the measure to determine whether an expense is properly payable from Plan assets. As discussed earlier in this report, certain costs may not be paid with Plan assets, such as Plan amendment costs which must be borne by the City as the Plan sponsor. Other examples of settlor type expenses include, but are not limited to: expenses associated with making settlor decisions (e.g., establishing, designing, or deciding whether a plan should be terminated); design studies and cost projections; union negotiations; amendments to establish a loan program; or consulting to review alternatives for complying with changes in the law as part of any preplanning of Plan amendments. The Board engaged in a discussion with Plan counsel, which provided a report that generally addressed permitted Plan expenses associated with the implementation of such a program ([Memorandum from City Attorney’s Office](#)).

## **FISCAL IMPACT**

Developing the details of the proposed Plan amendment and associated implementation steps will cost an estimated \$250,000, including set up and reprogramming fees to the Plan recordkeeper, consulting costs, and staffing reimbursement expenses. The LADWP has pledged to contribute \$150,000, with the difference coming from the General Fund. The General Fund will not be impacted beyond the preparation of Plan design changes and initial implementation steps; once the employer contribution feature is enacted, expenses will be part of ongoing operating costs for the Plan. The funds for the employer contribution amounts themselves will be borne solely by LADWP.

*MWS:PAG:PF:0726111*

Attachment

## BOARD OF DEFERRED COMPENSATION ADMINISTRATION

### Plan Design Options and Considerations for a City Employer Contribution

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- 457(b) Plan Enhancement
- 401(a) Defined Contribution Plan Creation
- Annuity Plan Enhancement

#### A. 457(b) Plan Enhancement

*Feasible:* Yes. The City can enhance the current 457(b) Plan in order to add an employer contribution money source.

*Timeline:* 3-6 months is the roughly estimated period to incorporate this option.

*Key considerations:*

- Authority to Amend the Deferred Compensation Plan: The Los Angeles Administrative Code (LAAC) allows for the amendment of the Deferred Compensation Plan. Specifically in Division 4, Chapter 14:

*Sec. 4.1409. Amendment and Termination. The Plan may be amended or terminated by the City at any time. No amendment or termination of the Plan shall reduce or impair the rights of any Participant or Beneficiary which may have already accrued. Upon termination of the Plan, the City may, at its option, distribute to all Participants an amount equal to the balance of their Investment Accounts, less any tax liabilities as soon as administratively feasible upon termination of the Plan.*

The DCP may be amended by the City at any time and would need to be amended to address inclusion of an employer contribution. The Board is responsible for establishing the requirements of the DCP by way of a Plan Document, and further has the sole authority for the operation of the Plan in accordance with its terms and shall rule on all questions arising out of the administration, interpretation, and application of the Plan, which determination shall be conclusive and binding on all Participants. Actions of the Board are subject to the provisions of Charter Section 245.

- Contribution Limits  
The negotiated employer contribution amount will count against the employees' 457(b) annual contribution limit. The IBEW - WPERP Tier 2 negotiated benefit of \$150 per month (pre-tax) would reduce an eligible employee's annual contribution limit by \$1,800 the term of the Letter of Agreement (2022-2026, unless any subsequent agreements are made thereafter).
- Funding  
Settlor costs must be borne by the City as Plan Sponsor. For implementation of this feature under the current 457(b) plan, the settlor costs are required to be paid by the City until the employer contribution is first received to a DCP employee account.

- Plan Design Decisions  
Additional decision points are required by the Board (such as whether to allow the employer contribution amount to be invested in the same way that employee contributions would be, to be allowed in the self-directed brokerage, to be considered for loan amounts, etc.).
- Staffing Resources  
Initially, adding an employer contribution will require work from DCP staff and the third party administrator to create a new money source and make updates to biweekly file transmission programming and delivery. LADWP payroll and benefits team resources will also need to be engaged to assist with establishing needed work processes. Once successfully done, this process can also be replicated with the City.
- Incentive for DCP Auto-Enrollment  
The introduction of an employer contribution to the DCP plan would also provide an opportunity to facilitate the realization of an important DCP strategic initiative: full implementation of automatic enrollment (auto-enrollment). Governmental peers that offer established auto-enrollment have consistently indicated that this helps drive positive outcomes for their participants. In California, due to anti-garnishment law, opting into auto-enrollment requires collective bargaining.

As currently designed, the DCP can accommodate an auto-enrollment program. An employee account can be established to receive an employer contribution after a negotiated agreement has been reached with the appropriate labor organization to provide for auto-enrollment. As such, the DCP requires auto-enrollment in order for an employee to receive an employer contribution. In combination with the employer contribution, auto-enrollment will increase the odds of achieving retirement security for employees with this negotiated benefit. Immediate costs are associated with implementing an employer contribution feature, but these costs are outweighed by the long-term benefits of helping to bolster retirement security for employees in newer defined benefit tiers and establishing a mechanism for the DCP to incentivize auto-enrollment for more bargaining units across the City.

The Board recommends enhancing the Plan to include a non-elective employer contribution component, the general set up of which will open the option for all City and DWP employees upon the benefit being negotiated. Furthermore, an employer contribution feature will better position the City to negotiate DCP auto-enrollment agreements with labor and additionally improve retirement outcomes for participants, as doing so would encourage retention in the plan (auto-enrollment includes an initial window of permissible withdrawal to opt out of the plan). These plan design elements can work together to improve overall retirement outcomes.

## **B. 401(a) Defined Contribution Plan Creation**

Similar to a 457(b), a 401(a) plan is also an employer-sponsored retirement plan to provide tax-advantaged retirement savings for employees. Contributions are often mandatory and determined by the employer, though some plans may allow employees to make voluntary contributions. This is compared to the 457(b), where the employee generally makes a discretionary/elective contribution, though some plans may offer an employer match. The primary distinction between a 457(b) and 401(a) plan is in the annual contribution limit, which would be separate from the 457(b).

*Feasible:* Yes. The City has the ability to create a new 401(a) defined contribution plan.

*Timeline:* One to two years, contingent on resources.

*Key considerations:*

A separate governance structure would need to be created and identification of resources that do not currently exist would need to occur to establish this plan.

- Intersection with existing 401(a) Defined Benefit Plans  
The City's current pension plans would be considered 401(a) defined benefit plans, and the introduction of a new plan would require careful consideration of the intersection with the existing defined benefit retirement plans.
- Governance Consideration  
Authority for creation, administration of, and governance over a potential 401(a) defined contribution plan would need to be defined. As the Los Angeles Administrative Code (LAAC) provides the Board direct oversight of the DCP only, the City would be required to act as the Plan Sponsor to determine the governance structure required to manage a new and separate 401(a) DC plan.
- Settlor Costs and Funding  
A mechanism would be required to address how funding will be allocated to support the implementation and initial maintenance of a new plan. The City would need to clearly define its commitment to paying costs for a new 401(a) DC plan until such time that the plan could support itself, and for potential costs where it would be a clear settlor cost that could not be paid from potential plan fees.
- Plan Elements  
A 401(a) DC plan provides certain features that differ from the 457(b), including: (1) annual limits are separate from the 457(b), but would need to be considered with the 401(a) DB; (2) vesting requirements for the employer contribution would need to be defined; (3) withdrawal requirements may differ; and (4) other plan design decisions related to investment options and loans.
- Staffing Resources  
The question of governance and oversight must be addressed before determining staffing support.

- Timeline

Creation of a new and separate Plan Document would be required, along with a trust account, which will require support staff and consultant resources.

Creation of a 401(a) DC plan will require thoughtful consideration of the City's role and development of solid governance and support frameworks, along with a clear and separate funding requirement for City settlor costs.

Though the 457(b) and 401(a) DC can be presented as separate options, there are other public entities that have incorporated an employer contribution element involving both a 457(b) and 401(a) DC plan design. For example, a hypothetical design approach could involve a contribution or percentage match up to a certain amount in the 457(b), with an additional contribution or percentage match to the 401(a). This type of plan design encourages retained participation in the 457(b) and provides an additional savings vehicle by establishing the 401(a). A similar plan design infrastructure would likely provide the greatest utility and most efficient use of resources as the City continues in future years to consider retirement benefit enhancements for City employees.

### **C. Annuity Plan Enhancement**

Two of the City's defined benefit plans, LACERS and WPERP, offer an annuity option. Generally, employees may choose to make contributions (via regular payroll deduction or lump sum) that grow tax-deferred until the employee decides at retirement to convert the accumulated funds into a stream of regular payments (a fixed benefit in retirement), withdraw the contributions, or rollover the contributions to an eligible plan. An employer contribution into an annuity would be separate from the 457(b) plan.

*Feasible:* Possibly. Feasibility of this option should be explored by the specific pension plan (LACERS or WPERP).

*Timeline:* Unknown, as this should be determined by the pension plan whether feasible.

#### *Key Considerations.*

- An employer contribution paid into the annuity option would require coordination of 401(a) limits with the City's defined benefit plans (such as additional annuity contributions and service credit purchases).
- Annuities are currently offered to a subset of employees as annuities are offered by two of the three DB plans.
- Communications challenges exist related to the complexity of administering this option, due not only to the complexity of the product itself but also as the features of the annuity differs for each DB plan.
- Less flexibility/option for investment election and use while actively employed.

Enhancing the annuity plans to include a non-elective employer contribution may be feasible, but doing so would necessitate a more thorough investigation regarding the intersection with the City's existing defined benefit plans, notwithstanding the earlier defined contribution options mentioned in this report would serve the entire City employee population.