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City of Los Angeles Quarterly Newsletter **October 2012**

LOAN PROGRAM OPEN TO RETIREES

The Deferred Compensation Plan has taken another innovative step forward with a loan program for its retired population. This program extends loans to retirees and those who have otherwise separated from City service.

Loans may be attractive to retirees who have a short-term need for funds from their Deferred Compensation Plan account but would like to replace those borrowed assets for use at a later date. For example, a recent retiree may wish to borrow from an account to help fund a child's college education, but then replace that borrowed amount to help fund a secondary retirement income stream at a later age.

Program Overview

The retiree loan program allows Plan participants who are retired or those who have otherwise separated from City service to borrow money from their Deferred Compensation Plan account balances, then pay back the borrowed amount, with interest, through monthly payments.

You can borrow up to 50% of your account balance or \$50,000, whichever is less. The minimum loan amount is \$1,000. You are eligible to take up to two simultaneous loans from your account, but the sum of both loans cannot exceed the 50% or \$50,000 threshold.

General purpose loans may be for up to five years; home purchase loans may be for up to 15 years. The interest rate is 2% above the Prime Lending Rate as declared in *The Wall Street Journal* on the first business day of each month. This interest rate is fixed for the life of the loan.

Loan Fees

There is a one-time \$50 loan origination fee and \$25 annual maintenance fee (assessed quarterly at \$6.25 per quarter). These amounts will be deducted directly from your account balance.

Applying for a Loan

Call Great-West Retirement Services® at (213) 978-1601 to request a retired participant loan packet or to speak to a local representative should you have any questions. Send your completed application to the Deferred Compensation Plan via fax at (213) 978-1590 or via mail to 200 N. Spring Street, Room 867, Los Angeles, CA 90012.



ROTH CONVERSIONS NOW AVAILABLE

For participants who have retired or severed employment from the City, there is now an option to convert pre-tax dollars to after-tax dollars within the Deferred Compensation Plan. This means you can take advantage of the Roth 457(b) option within the Plan—you no longer have to roll over dollars outside of the Plan to enjoy the benefits of a Roth account.

Wondering how to begin? Once you are eligible to complete this conversion, meaning you have retired from or severed employment with the City, determine how much of your pre-tax balance you may want to convert to Roth 457(b), or after-tax dollars. The dollars you convert are considered taxable and will be reported as such in the year of conversion.

There are many benefits to Roth, including tax-free withdrawals upon a qualifying distribution. However, please consider the tax consequences and what it really means to be converting any of your pre-tax balance (e.g., Roth 457(b) balances may not be withdrawn until 59½ without triggering taxes on the earnings portion of the Roth balance).

Contact Great-West at (888) 457-9460 for the proper forms and instructions. For more information on Roth, please visit the website at www.cityofla457.com; select the Education tab and click on Roth.

CHANGES TO THE FDIC-INSURED SAVINGS OPTION

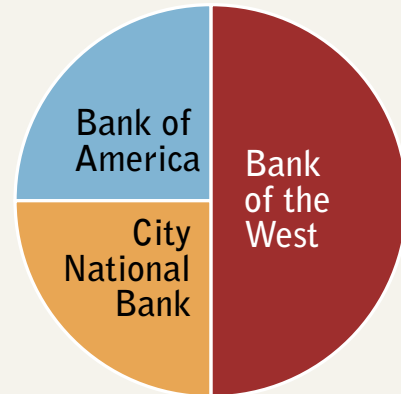
The Deferred Compensation Plan will be implementing a change to the FDIC-Insured Savings Account to better balance the objectives of optimizing interest earnings while still maintaining preservation of capital.

Currently, the FDIC-Insured Savings Account has three banks acting as underlying depositors. Participant assets are allocated equally among the three banks. Using multiple banks expands the amount of FDIC Insurance available and provides the Plan with flexibility if there is a need to change providers.

Since there can be disparities between bank interest rates, the Plan has taken steps to take greater advantage of banks offering higher rates of return. As a result, when there is a difference in interest rates of more than 0.25% between depositors, the Plan has the option to shift its allocation to the highest interest rate provider from 33% of assets to 50%.

The Plan is now exercising that option. Presently, one of the City's providers, Bank of the West, is offering a rate of 0.75%, which is significantly higher than the other two providers, Bank of America (0.10%) and City National Bank (0.15%). As a result, on **November 1, 2012**, Bank of the West will receive a 50% allocation of assets and the other two banks will receive 25% each. **This will provide an enhanced interest rate for the overall portfolio. No action is required from you.**

FDIC-Insured Savings Account Underlying Providers



However, this change will reduce the amount of FDIC Insurance on the portfolio for any participant with over \$500,000 invested in this single option. Out of the 9,800 participants invested in the FDIC-insured Savings Account, only 22 have holdings large enough to be impacted by this change. For these individuals, additional options for investing in FDIC-insured products are available through the Plan's Self-Directed Brokerage Option (SDBO). If you are one of these affected individuals, additional information was mailed to you in early October.

CYBER SMARTS WEB TIP: HOW TO LOCATE FORMS

Having trouble locating a form on the website?



Log in to your account at www.cityofla457.com and click on the **Forms** tab in the top menu.¹

Once you log in, you can access these forms on the Web:

- *Beneficiary Designation*
- *Incoming Transfer/Direct Rollover*
- *Personal Information Change Request*
- *Distribution Form*
- *Enrollment Application*
- *Public Safety Officers Special Election Form and Distribution Request*
- *Loan Payment Change Request Form*
- *Job Transfer Form*

WHERE'S MY DIVIDEND?

UNDERSTANDING HOW DIVIDENDS WORK IN THE CITY'S NEW BLENDED INVESTMENT OPTIONS

The Deferred Compensation Plan recently expanded its menu of "blended" funds, where the funds are branded by the asset class rather than by the underlying investment manager(s). Doing so has resulted in the elimination of dividend reporting events, where participants would see a dollar credit and reduction in their share price each time a fund manager declared a dividend. Some participants have asked why this is the case. Here's an explanation.

Where Dividends Come From

Certain mutual funds periodically declare dividends to investors. A dividend is a payment of earnings that the fund receives from its underlying investments (e.g., from stocks paying dividends, bonds paying interest, capital gains realized from profitable investments, etc.).

If you were investing in a dividend-declaring mutual fund in a taxable account (outside of the City's Deferred Compensation Plan), two things would be required of you. First, you would need to tell the fund company whether you wished to have the dividends reinvested in your account or receive them as a separate payment. Second, regardless of whether you elected to reinvest or receive a payment, you would have to pay taxes on dividends in the tax year that they were declared.

In a tax-advantaged program like the Deferred Compensation Plan, neither of those two requirements apply. First, you don't have the option of receiving your dividend as a separate payment. Second, there is no separate tax treatment applying to dividend distributions. This means that dividend distribution events do not impact the value of your account.

In the City's Plan, mutual fund dividend payments were reflected on your quarterly statement because of one other important feature: Whenever a dividend was declared, the mutual fund share price was simultaneously reduced. This was because the value of that dividend, which is always included in the share price, was recharacterized.

Dividend Math

Here's an example. Suppose that on December 1 Mutual Fund XYZ has a share price of \$100. Included within that \$100 share price is the cumulative value of all of the earnings and capital gains the fund has been receiving throughout the year.

Let's say the value of those cumulative earnings on December 1 is \$5. Then, let's say that on December 2 Mutual Fund XYZ declares a dividend. Because the dividend amount value is \$5, Mutual Fund XYZ reduces its share price from \$100 to \$95. If the \$5 is credited back to the shareholder, then the shareholder simply receives a larger number of shares. The net impact to the participant's account is zero.

The value of the dividend was already included in the share price before it was called a dividend. So, once it was called a dividend, the investor needed to be provided with more shares to balance the transaction.

As the City moves to blended fund arrangements (where the Plan creates the share price, not a mutual fund company), there will be no dividend distribution reporting events. The value of all dividends will always be included in that daily share price, regardless of whether an underlying fund manager is declaring a dividend or not.



CITY OF LOS ANGELES DEFERRED COMPENSATION PLAN

INVESTMENT OPTION RETURNS AS OF SEPTEMBER 30, 2012

Current performance may be lower or higher than performance data shown. Performance data quoted represents past performance and is not a guarantee or a prediction of future results. For performance data current to the most recent month-end, please visit www.cityofla457.com. The investment return and principal value of an investment will fluctuate so that, when redeemed, shares/units may be worth more or less than their original cost.

Please consider the investment objectives, risks, fees and expenses carefully before investing. For this and other important information, you may obtain prospectuses for mutual funds, any applicable annuity contract and the annuity's underlying funds and/or disclosure documents from your registered representative. For prospectuses on Self-Directed Brokerage, contact Schwab PCRA at (888) 393-7272. Read them carefully before investing.

Average Annualized Returns as of September 30, 2012¹

Variable Investment Options	YTD	1 Year	3 Years	5 Years	10 Yrs/Since Inception	Expense Ratio ²	Inception Date
FDIC-Insured Savings Option							
FDIC-Insured Savings Account	0.31%	0.41%	0.41%	N/A	0.42%	N/A	9/28/09
Stable Value Option							
Deferred Compensation Stable Value Fund ³	2.18%	2.98%	3.36%	3.86%	4.19%	0.28%	9/1/85
Profile Portfolios⁴							
Ultra-Conservative	5.37%	7.56%	6.00%	N/A	4.99%	0.19%	1/8/08
Conservative	7.65%	11.58%	7.24%	4.16%	6.36%	0.22%	5/1/02
Moderate	10.18%	17.12%	8.82%	2.88%	7.30%	0.18%	5/1/02
Aggressive	11.43%	20.12%	9.41%	1.30%	7.80%	0.18%	5/1/02
Ultra-Aggressive	12.65%	23.21%	9.95%	N/A	1.45%	0.18%	1/8/08
Bond: Active⁵							
DCP Bond Fund ⁶	6.57%	8.29%	6.91%	7.72%	6.10%	0.26%	4/20/12
Benchmark Index: Barclays Capital Aggregate Bond ⁷	3.99%	5.16%	6.19%	6.53%	5.32%	0.00%	
Large-Cap Stock: Index							
DCP Large Cap Fund ⁶	16.44%	30.21%	13.21%	1.10%	8.05%	0.02%	4/20/12
Benchmark Index: S&P 500 ⁸⁷	16.44%	30.20%	13.20%	1.05%	8.01%	0.00%	
Mid-Cap Stock: Index⁸							
DCP Mid Cap Fund ⁶	12.81%	26.49%	13.99%	1.90%	10.38%	0.08%	4/20/12
Benchmark Index: S&P MidCap 400 Index ⁷	12.84%	26.53%	14.05%	1.90%	10.94%	0.00%	
Small-Cap Stock: Index⁹							
SSgA Russell Small Cap Index NL Fund - S ⁷	14.19%	31.87%	12.87%	2.06%	9.83%	0.06%	8/1/99
Benchmark Index: Russell 2000 ⁸⁷	14.23%	31.91%	12.99%	2.21%	10.17%	0.00%	
International Stock: Active¹⁰							
Fidelity Diversified International Fund ¹¹	13.68%	19.21%	3.56%	-5.02%	8.86%	0.90%	12/27/91
Benchmark Index: MSCI [®] EAFE ⁸⁷	10.08%	13.75%	2.12%	-5.24%	8.20%	0.00%	
International Stock: Index¹⁰							
DWS EAFE Equity Index Institutional Fund ^{7,11}	10.19%	14.52%	1.90%	-5.45%	7.81%	0.50%	1/24/96
Benchmark Index: MSCI [®] EAFE ⁸⁷	10.08%	13.75%	2.12%	-5.24%	8.20%	0.00%	

Self-Directed Brokerage Option¹²

Schwab Personal Choice Retirement Account[®] (PCRA) Self-Directed Brokerage Option

CITY OF LOS ANGELES DEFERRED COMPENSATION PLAN

Benchmark Indices

Barclays Capital Aggregate Bond ⁵	An unmanaged index considered indicative of the broad fixed income market in general (formerly the Lehman Brothers Aggregate Bond Index).
Standard & Poor's 500 [®]	S&P 500 [®] Index is a registered trademark of Standard & Poor's Financial Services LLC, and consists of 500 stocks chosen for market size, liquidity and industry group representation. It is one of the most widely used benchmarks of U.S. equity performance, and is considered indicative of the domestic large-cap equity market.
S&P MidCap 400 ^{®8}	S&P MidCap 400 Index is a capitalization-weighted index which measures the performance of the mid-range sector of the U.S. stock market. The index was developed with a base level of 100 as of December 31, 1990.
Russell 2000 ^{®9}	The Russell 2000 [®] is a trademark of the Frank Russell Company and measures the performance of the smallest 2,000 companies in the Russell 3000 Index (the 3,000 largest U.S. companies by market capitalization), representing about 7% of the Russell 3000 total market capitalization.
MSCI [®] EAFE ^{®10}	The MSCI [®] EAFE [®] Index is a trademark of Morgan Stanley Capital International Inc., and is an unmanaged index considered indicative of foreign equity markets in general.

DISCLOSURES

¹ The average annual and calendar year returns for the funds reflect actual total returns for each fund, net of fund operating expenses. Any administrative fees or expenses charged will reduce the overall rate of return. If returns are shown prior to the inception date of the current share class, they are hypothetical and based on the initial share class (adjusted to reflect the fees and charges associated with the current share class).

² Actual fund expense ratio may be less if the fund currently offers a waiver or reimbursement of a portion of this expense.

³ Transfer restrictions may apply. Check the Fund Fact Sheet for further information. Formerly the Galliard Stable Value Fund.

⁴ The Profiles include investment options not directly available to your Plan. For more information about the Profiles, including the eligible underlying portfolios, review the Fund Data Sheets or contact your registered representative. Asset allocation funds may be subject to a fund operating expense at the fund level, as well as prorated fund operating expenses of each underlying fund in which they invest. For more information, please refer to the fund prospectus.

⁵ A bond fund's yield, share price and total return change daily and are based on changes in interest rates, market conditions, economic and political news, and the quality and maturity of its investments. In general, bond prices fall when interest rates rise and vice versa.

⁶ Mutual fund investment option. Refer to the Fund Fact Sheet for information about the fund's underlying provider.

⁷ A benchmark index is not actively managed, does not have a defined investment objective, and does not incur fees or expenses. Therefore, performance of a fund will generally be less than its benchmark index. You cannot invest directly in a benchmark index.

⁸ Equity securities of medium-sized companies may be more volatile than securities of larger, more established companies.

⁹ Equity securities of small-sized companies may be more volatile than securities of larger, more established companies.

¹⁰ Foreign investments involve special risks, including currency fluctuations and political developments.

¹¹ Mutual fund investment option.

¹² Participants choosing the Schwab PCRA Self-Directed Account will be charged an additional annual administrative fee of \$50. These securities are not offered through GWFS Equities, Inc.

Transfer Restrictions

Transfers out of the Deferred Compensation Stable Value Fund must be invested in a variable investment option for a minimum of 90 days prior to investing any funds in the FDIC-Insured Savings Account. Transfers may not be made directly from the Deferred Compensation Stable Value Fund to the FDIC-Insured Savings Account.

Core securities, when offered, are offered through GWFS Equities, Inc. GWFS Equities, Inc., Member FINRA/SIPC, is a wholly owned subsidiary of Great-West Life & Annuity Insurance Company.

Great-West Retirement Services[®] refers to products and services provided by Great-West Life & Annuity Insurance Company, FAScore, LLC (FAScore Administrators, LLC in California) and their subsidiaries and affiliates. Not intended for Plans whose situs is in New York. Core investment options are through separately managed accounts and mutual funds. GWFS Equities, Inc., or one or more of its affiliates, may receive a fee from the investment option provider for providing certain recordkeeping, distribution and administrative services. Securities available through Schwab Personal Choice Retirement Account[®] (PCRA) are offered through Charles Schwab & Co., Inc. (Member SIPC), a registered broker-dealer. Additional information can be obtained by calling (888) 393-7272. Charles Schwab & Co., Inc. and GWFS Equities, Inc. are separate and unaffiliated. Great-West Retirement Services[®] and KeyTalk[®] are registered trademarks of Great-West Life & Annuity Insurance Company. ©2012 Great-West Life & Annuity Insurance Company. All rights reserved. Form# CB1003N (10/12) PT158607



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DWP Participant
Representative
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Vice-Chairperson
Fire/Police Pension
Participant Representative

Michael Amerian
L.A. City Employees'
Retirement System
Participant Representative
Cliff Cannon
Retired Participant
Representative

Sangeeta Bhatia
Retirement Plan
Manager
DWP Retirement
Tom Moutes
General Manager
L.A. City Employees'
Retirement System

William Raggio
Interim General Manager
Fire/Police Pensions
Margaret M. Whelan
General Manager
Personnel Department
Robert Schoonover
Organized Labor
Representative

HAVE QUESTIONS? NEED INFORMATION?

For information about the Plan and/or access to your account, contact Great-West Retirement Services® in any of the following ways:

Website: www.cityofla457.com¹
KeyTalk®: (888) 457-9460¹

CITY HALL

200 N. Spring Street, Room 867
Office hours: 8:00 a.m. to 4:00 p.m.

DWP

JFB Main Office Building
111 N. Hope Street, Level A area
Office hours: First and third
Tuesday of each month, usually
from 8:00 a.m. to 4:00 p.m.

For information about the Board, decisions made by the Plan, and investment selection, contact:

NATASHA GAMEROZ
(213) 978-1617
The Board's Website:
http://per.lacity.org/DeferredComp/Deferred_Comp_Main_Page.htm

¹ Access to KeyTalk and the website may be limited or unavailable during periods of peak demand, market volatility, systems upgrades/maintenance or other reasons.

IMPORTANT PLAN REMINDERS

