



## • Combined 2011 Annual Benefits' Financial Report

### Summary

This combined report concerns the following three subjects reported to the board on an annual basis.

- (1) A summary of the activities related to the 401(k) and 457 defined contribution plans for calendar year 2011.
- (2) A summary of the CalPERS defined benefit retirement plan for the period of July 1, 2010 through June 30, 2011.
- (3) A summary of Metropolitan's group health premiums, fees and commissions paid to all Agents, Providers and Brokers as required by California Section 1367.08 of the Health and Safety Code, and Section 10604.5.

### Attachments

None

### Detailed Report

#### Defined Contributions Plans

Metropolitan employees may participate in both 457 and 401(k) deferred compensation plans. Metropolitan has offered the 457 plan since February 1977 and the 401(k) plan since May 1985. Pursuant to the Administrative Code, the General Manager is responsible for administering the plans. The General Manager has delegated authority to the Total Compensation Section Manager to act as the Plan Administrator. The Treasurer serves as Trustee for the plans. In addition, a Deferred Compensation Advisory Committee provides oversight of the plans and advises the Plan Administrator on plan activities.

#### Asset/Activity Summary

The following summarizes investment and transfer activities in the plans.

Plan Statistics	401(k) Plan (as of 12/31/10)	401(k) Plan (as of 12/31/11)	457 Plan (as of 12/31/10)	457 Plan (as of 12/31/11)
Current Number of Participants (includes retiree accounts)	2,185	2,135	1,420	1,432
Active Employees Eligible to Participate	1,896	1,748	1,918	1,780
Active Employees Contributing	1,601	1,580	852	823
Percentage of Contributing Participants	86%	90%	44%	46%

Key Plan Statistics	401(k) Plan	457 Plan
Plan Assets as of December 31, 2011	\$247,577,137	\$82,783,768
Employee Contributions, January 1 to December 31, 2011	\$15,276,926	\$7,363,726
Employer Matching Contributions, January 1 to December 31, 2011	\$7,524,602	N/A

#### Deferred Compensation Advisory Committee

The Deferred Compensation Advisory Committee is responsible for meeting on a quarterly basis to discuss administrative issues concerning the plans, investment activity, plan regulations, recommendations and amendments to plan documents. The Committee is chaired by the Chief Financial Officer and includes:

- AFSCME Local 1902 representative
- Management and Professional Employees' Association representative
- Supervisors' Association representative

## Board Report (Combined 2011 Annual Benefits' Financial Report )

- Association of Confidential Employees representative
- General Counsel representative
- Plan Trustee (Treasurer)
- Plan Administrator (Total Compensation Section Manager)
- HR Benefits Staff (Benefits Manager and Principal Analyst)

### Revenue Sharing Account

This account was established as of July 15, 2008 requiring Great-West as our Record Keeper to split a portion of the income generated in excess of the administrative cost charged on a quarterly basis. These monies are paid to an unallocated trust account in which the funds are restricted to defray the employer's cost of administering the plan.

### Major Actions and Discussions of the Plan Administrator and Advisory Committee

- Committee was updated on performance of core investment options. Ariel Fund has had a significant rebound, and continues to have excellent long term returns. Committee recommended leaving Ariel on watch list.
- Committee approved \$15,000 of revenue sharing fees to hire Financial Finesse to provide unbiased financial education onsite workshops and seminars to plan participants to reduce fiduciary liability.
- Committee approved \$23,000 of revenue sharing fees for an Investment Plan consultant.

### Plan Amendments

On May 10, 2011 a Board Letter was submitted and the Board approved amending the 401(k) and 457 Plan Documents required by the IRS to maintain the qualified status of our Plans.

### Retention of Plan Investment Consultant

The Committee approved retention of Hyas Group to provide fiduciary consultation services, advising on the Investments and structure of our 401(k) and 457 Deferred Compensation Plans. Fees paid through Great-West Revenue Sharing Account.

### Define Benefit Pension Plan

Metropolitan contracted with CalPERS as a Local Miscellaneous agency effective January 1, 1945 to administer its pension plan which provides employees a defined benefit upon retirement based on years of service, age and salary. Effective July 1, 1971 Metropolitan adopted the 2% @60 benefit formula. Effective December 28, 1997 Metropolitan amended its contract with CalPERS to provide a benefit formula of 2% @55.

The CalPERS employer rate is set annually based on an actuarial valuation performed by a CalPERS actuary. Many factors are used in determining the employer rate including number of employees, age of employees, payroll and investment return. CalPERS uses an estimated rate of return of 7.75 percent per year. Effective March 14, 2012 CalPERS approved lowering this estimated rate of return to 7.50 percent per year, which will result in increased employer contribution rates beginning fiscal year 2013/14. Rates for fiscal year 2010/2011 are set based on demographic and payroll information from fiscal year 2009/2010. Additionally, a new smoothing method was applied in response to the 2008/2009 investment losses of -24 percent to phase in the employer rate increase impact over a three year period. These new assumptions are to ensure promised benefits are properly funded. Below is a history of Metropolitan's employer rates and the most recent projected employer rates from the actuarial valuation.

<u>Fiscal Year</u>	<u>Employer Contribution Rate</u>
2008/09	11.432%
2009/10	11.708%
2010/11	11.873%
2011/12	14.484%
2012/13	14.998%
2013/14	15.400% (projected)
2014/15	15.700% (projected)

## Board Report (Combined 2011 Annual Benefits' Financial Report )

### Metropolitan's Pension Demographics

The demographics below are as of June 30, 2009 and June 30, 2010.

<u>Active Members</u>	<u>June, 30, 2009</u>	<u>June 30, 2010</u>
Count	1,914	1,858
Average Age	49.06	49.63
Average Age at Hire	33.84	33.22
Average Years of Service	15.22	16.41
Average Annual Covered Pay	\$101,976	\$103,616
Annual Covered Payroll	\$195,181,418	\$192,518,542
<u>Retired Members and Beneficiaries</u>		
Count	1,607	1,663
Average Age	70.66	70.70
Average Annual Pension	\$35,213	\$36,367
Active to Retired Ratio	1.19	1.12

### Funding History

The market value of assets is present day liquidation value of held assets and represents short term solvency of the plan. The actuarial value of assets used for funding purposes is obtained through an asset smoothing technique where investment gains and losses are partially recognized in the year they are incurred, with the remainder recognized in subsequent years. This method helps to dampen large fluctuations in the employer rate and indicates progress toward fully funding the plan.

<b>Valuation Date</b>	<b>Funded Ratio</b>	
	Market Value of Assets	Actuarial Value of Assets
6/30/2008	94.1%	92.3%
6/30/2009	63.6%	87.1%
6/30/2010	67.7%	86.4%

### CalPERS Portfolio Returns and Market Values

Below is the historical data with respect to CalPERS overall portfolio, investment returns and market value. The investment returns fund 75 percent of the retirement benefits which has a direct impact on the employer contribution rate.

<b>Year</b>	<b>Historical Rates of Return</b>		<b>Market Value</b>	
	Fiscal Year End 6/30	Calendar Year End 12/31	Fiscal Year End 6/30	Calendar Year End 12/31
2008	-5.1%	-27.8. %	\$237.9 billion	\$183.3 billion
2009	-24.0%	12.1%	\$178.9 billion	\$203.3 billion
2010	13.3%	12.6%	\$201.6 billion	\$225.7 billion
2011	20.9%	1.11%	\$237.5 billion	\$225.0 billion

### Contract Details

Metropolitan's current retirement formula of 2 percent at age 55 includes employer paid member contributions (EPMC) at 7 percent plus EPMC reported as special compensation which is added to the employee's final compensation when calculating the amount to be received in retirement. The contract provides conversion of sick leave to additional service credit, level 4 survivor benefits, which consist of a monthly allowance that automatically continues to eligible survivor(s) following the death of an active employee. Survivors are defined by CalPERS as a spouse or state-registered domestic partner age 60 or older and unmarried children under the age of 22. The monthly allowance is in lieu of the social security payments in which the following amounts are paid, \$950 for one survivor, \$1,900 for two survivors, and \$2,280 three or more survivors, 2 percent cost of living allowance, 12 month final compensation for retirement calculations,

## Board Report (Combined 2011 Annual Benefits' Financial Report )

post retirement death benefit of \$500, post retirement survivor allowance at 50 percent, non-industrial improved disability retirement, optional settlement 2-W death benefit is an option in which the eligible spouse or state-registered domestic partner may choose to receive a monthly allowance equal to the amount the employee would have received if they had been retired under a "service retirement" on the date of their death, purchase of military service credit and redeposit of CalPERS service credit, and service credit purchase with pre-tax dollars.

### Health Plans Summary Services

CalPERS administers and negotiates rates and coverage for all Metropolitan medical plans. Services provided by CalPERS includes: plan design, negotiating with medical and pharmaceutical carriers, developing and printing plan summaries, outlines and brochures, billing, claims processing, hosting an online database for enrollments and changes, participant appeals and grievances, and free workshops/seminars for employers, employees, and retirees.

All non-medical health plans which include dental, vision, life, long-term disability, voluntary AD&D, flexible spending accounts, and other individual plans such as cancer, and intensive care are brokered by USI of Southern CA Insurance Services with assistance from Dickerson Employee Benefits. Services provided by USI and Dickerson includes: plan design options, negotiating rates and benefits with carriers, legal and compliance updates and advice, open enrollment support, assistance with claims processing and resolution, vendor proposals and selection, free workshops and seminars to staff, and various analysis upon request. Additionally, they assume the majority of the print cost for plan outlines and booklets including the annual employee total compensation statements.

### Fees for Agents, Providers and Brokers

Below are Metropolitan's group health premiums, fees and commissions paid to all Agents, Providers and Brokers as required by California Section 1367.08 of the Health and Safety Code, and Section 10604.5. The premiums and fees include both the employer and employee paid cost for calendar year 2011.

Plan Year	Broker Administrator	Coverage	Premiums	Total Fees/ Commissions	% of Fee to Premiums
2011	CalPERS	Medical	\$36,016,785	\$131,767	.37%
2011	USI Insurance / Dickerson	Non-Medical	\$5,078,521	\$179,238	3.5%

### Agents/Brokers of Record

Medical Broker/Administrator	Non-Medical Broker	Non-Medical Broker
California Public Employee Retirement Services (CalPERS) 400 Q Street Sacramento, CA 94229-2714	USI of Southern California Insurance Services, Inc. 21600 Oxnard Street, 8 <sup>th</sup> Floor Woodland Hills, CA 91367	Dickerson Employee Benefits 1918 Riverside Drive Los Angeles, CA 90039