THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA

Report

Human Resources Group

- Combined 2013 Annual Benefits' Financial Report

Summary

This 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 2013.

(2) A summary of the CalPERS defined benefit retirement plan for the period of July 1, 2011 through June 30, 2012. (The data presented in this report is based on the most recent CalPERS actuarial valuation. Rates for the fiscal year 2014/2015 are based on data from fiscal year 2011/2012.)

(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.

Purpose

Informational

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 Human Resources Services 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 12/31/12)	401(k) Plan (as of 12/31/13)	457 Plan (as of 12/31/12)	457 Plan (as of 12/31/13)
Number of Participants (includes retirees)	2,165	2,200	1,475	1,543
Active Employees Eligible to Participate	1,700	1701	1,768	1,788
Active Employees Contributing	1,549	1,553	767	810
Percentage of Contributing Participants	91%	91%	43%	45%

Key Plan Statistics	401(k) Plan	457 Plan
Plan Assets as of December 31, 2013	$326,897,168	$105,974,709
Employee Contributions: January 1 to December 31, 2013	$16,167,488	$7,814,092
Employer Matching: January 1 to December 31, 2013	7,926,274	N/A

Date of Report: 6/10/2014

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 Human Resources Services Section Manager and includes:

- Chief Financial Officer
- AFSCME Local 1902 representative
- Management and Professional Employees' Association representative
- Supervisors' Association representative
- Association of Confidential Employees representative
- General Counsel representative
- Plan Trustee (Treasurer)
- HR Benefits Staff (Benefits Manager and Principal Analyst)

Major Actions and Discussions of the Plan Administrator and Advisory Committee

- Committee continued to closely monitor the Ariel Fund due to continued strong performance and recommended leaving the fund on the watch list.
- A Self-Directed Brokerage window in the 457 Plan was activated.
- Vanguard Target Date Funds (TDF) were introduced into both Plans; the risk based Profile Funds were mapped into the appropriate TDF based on closest equity exposure.
- Committee approved $24,900 from the revenue sharing account to hire Financial Finesse to provide unbiased financial education workshops and webinars to plan participants to reduce fiduciary liability.
- Discussion continued on ways to reduce revenue generated by the funds including moving toward share classes with lower expense ratios.
- Discussion continued on new fee structure, plan operating budget, and excess revenue sharing rebate for plan participants.

Defined 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. Effective January 1, 2013, Pension Reform changes required all new members to be enrolled in the 2%@62 formula.

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 historically used 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 resulted in increased employer contribution rates beginning fiscal year 2013/14. 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 funded. Below is a history of Metropolitan's employer rates and the most recent projected employer rates from the actuarial valuation.

Fiscal Year	Employer Contribution Rate
2009/10	11.708%
2010/11	11.873%
2011/12	14.484%
2012/13	14.998%
2013/14	16.306%
2014/15	17.649%
2015/16	19.300% (projected)

Metropolitan's Pension Demographics

The demographics below are as of June 30, 2011 and June 30, 2012.

Active Members	June, 30, 2011	June 30, 2012
Count	1,799	1,753
Average Age	49.97	50.14
Average Age at Hire	33.04	33.05
Average Years of Service	16.93	17.09
Average Annual Covered Pay	$106,010	$105,338
Annual Covered Payroll	$190,711,171	$184,657,361
Retired Members and Beneficiaries		
Count	1,757	1,813
Average Age	70.67	70.85
Average Annual Pension	$37,590	$39,771
Active to Retired Ratio	1.02	0.97

Public Employees Pension Reform Act (PEPRA)

As of January 1, 2013 the passage of the Public Employee Pension Reform Act (PEPRA) mandates that all new members are hired under 2% at age 62 formula which also requires the new members to pay the full employee cost which is currently set at 6.75% through June 30, 2015. Any impact on employee rate will be communicated in 2015.

Recent Changes to CalPERS Amortization and Rate Smoothing Policies

Beginning with the June 30, 2013 valuations that set the 2015-16 rates, CalPERS will no longer use an actuarial value of assets and will employ an amortization and smoothing policy that will pay for all gains and losses over a fixed 30-year period with the increases or decreases in the rate spread directly over a 5 year period.

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.

Valuation Date	Funded Ratio	
	Market Value of Assets	Actuarial Value of Assets
6/30/2009	63.6%	87.1%
6/30/2010	67.7%	86.4%
6/30/2011	75.1%	84.5%
6/30/2012	70.9%	85.0%

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.

Year	Historical Rates of Return		Market Value	
	Fiscal Year End 6/30	Calendar Year End 12/31	Fiscal Year End 6/30	Calendar Year End 12/31
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
2012	1.0%	13.3%	$233.4 billion	$248.8 billion

2013	13.2%	16.2%	$257.9 billion	$283.5 billion

Health Insurance Summary

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 were brokered by USI of Southern CA Insurance Services with assistance from Dickerson Employee Benefits. Effective June 1, 2013, Venbrook Insurance Services became the broker of record. Services provided by USI, Dickerson and Venbrook 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 years 2013.

Agents/Brokers	Coverage	Premiums	Total Fees/ Commissions	% of Fee to Premiums
2013 Calendar Year				
CalPERS	Medical	$38,645,058	$109,988	.28%
USI Insurance / Dickerson	Non-Medical	$2,328,081	$90,004	3.87%
Venbrook Insurance	Non-Medical	$3,212,572	$124,941	3.89%

Agents/Brokers of Record:

Medical Broker/Administrator	Non-Medical Broker 1/1/12 to 5/31/13	Non-Medical Broker 6/1/13 to 12/31/13
California Public Employee Retirement Services (CalPERS) 400 Q Street Sacramento, CA 94229-2714	USI of Southern California Insurance Services, Inc. 21600 Oxnard Street, 8th Floor Woodland Hills, CA 91367, and Dickerson Employee Benefits 1918 Riverside Drive Los Angeles, CA 90039	Venbrook Insurance Services 6320 Canoga Ave, 12th Flr Woodland Hills, CA 91367