THE METROPOLITAN WATER DISTRICT
OF SOUTHERN CALIFORNIA

Report

Human Resources Group

- Combined 2014 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 2014.
(2) A summary of the CalPERS defined benefit retirement plan for the period of July 1, 2013 through June 30, 2014. (The data presented in this report is based on the most recent CalPERS actuarial valuation. Rates for the fiscal year 2016/2017 are based on data from fiscal year 2013/2014.)
(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 12/31/13)	401(k) Plan (as of 12/31/14)	457 Plan (as of 12/31/13)	457 Plan (as of 12/31/14)
Number of Participants (includes retirees)	2,200	2,220	1,543	1,586
Active Employees Eligible to Participate	1,701	1,751	1,788	1,824
Active Employees Contributing	1,553	1,579	810	936
Percentage of Contributing Participants	91%	90%	45%	51%

Key Plan Statistics	**401(k) Plan**	**457 Plan**
Plan Assets as of December 31, 2014	$367,907,732	$116,857,832
Employee Contributions: January 1 to December 31, 2014	$17,520,963	$8,401,726
Employer Matching: January 1 to December 31, 2014	$8,045,651	N/A

Deferred Compensation Advisory

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, and due to continued strong performance, removed it off of watch status.
- The American Century Equity Income Fund was consolidated into the Invesco Van Kampen Growth and Income Fund R6 to eliminate duplicate large cap value funds in the fund line-up.
- Committee closely monitored changes at PIMCO and recommended replacement of the Total Return Fund, with Real Return Fund place on watch status due to large asset outflows, abrupt changes in senior management and lack of credible succession plans. After review of top candidates, the Committee recommended to replace PIMCO Total Return Fund with Metropolitan West Total Return Fund.
- Committee recommended moving to a zero revenue share fund line-up including the Stable Value Fund.
- Committee recommended rebating $356,000 from the Revenue Sharing account to participants on a pro-rata basis; the remaining $484,000 to fund TPA and administrative fees as a "fee holiday" was approved until a new contract is in place.
- Committee approved $50,000 from the revenue sharing account to hire Hyas Group to manage our RFP for Third Party Administrator, as the plans were last formally out to bid in 2003. The Committee also recommended extending Hyas' investment consulting contract for one year at $24,950.
- The Plans' RFP for Third Party Administration posted in June, with most of the leading providers responding. An evaluation Committee including representatives from each bargaining unit was formed and met regularly to discuss plan design and features and to evaluate the responses. Goal is to reduce fees and expand services for participants.
- The Committee met to discuss a clause in the Termination Provision of our contract with Great-West that allows them to terminate our Custom Stable Value Fund at the lesser of market or book value. To protect participants account values should interest rates abruptly rise, the Committee recommended moving to the T Rowe Price Stable Value Fund.

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, 2014, 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
2010/11	11.873%
2011/12	14.484%
2012/13	14.998%
2013/14	16.306%
2014/15	17.649%
2015/16	19.738%
2016/17	21.2% (projected)

Metropolitan's Pension Demographics

The demographics below are as of June 30, 2012 and June 30, 2013.

Active Members	June, 30, 2012	June 30, 2013
Count	1,753	1,743
Average Age	50.14	50.04
Average Age at Hire	33.05	32.97
Average Years of Service	17.09	17.07
Average Annual Covered Pay	$105,338	$105,887
Annual Covered Payroll	$184,657,361	$184,561,428
Retired Members and Beneficiaries		
Count	1,813	1,876
Average Age	70.85	70.86
Average Annual Pension	$39,771	$41,856
Active to Retired Ratio	.97	0.93

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.

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.

In 2014, CalPERS completed a 2-year asset liability management study incorporating actuarial assumptions and strategic asset allocation. In February 2014, the Board of Administration adopted modest changes to current asset allocation that will reduce the expected volatility of returns. The adopted asset allocation is expected to have a long-term blended return that continues to support a discount rate assumption of 7.5 percent. The Board also approved several changes to demographic assumptions that more closely align with actual experience. The new actuarial assumptions will be used to set the FY 2016-2017 contribution rates for public agency employers. The increase in liability due to new actuarial assumptions will be calculated in the actuarial valuation report using June 2014 data and will be amortized over a 20-year period with a 5-year ramp-up/ramp-down in accordance with Board policy.

Funding History

The market value of assets is present day liquidation value of held assets and represents short term solvency of the plan. Each year CalPERS actuaries calculate a funded ratio-the ratio of market value of assets in the fund to liabilities. The funded ratios change from year to year and are now based on the market value of assets.

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%
6/30/2013	75.1%	N/A – (Same as MVA Ratio)

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
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
2014	18.4%	6.5%	$300.3 billion	$295.8 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 Venbrook Insurance Services, who became the broker of record effective June 1, 2013. Services provided by 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, various analysis upon request, and providing and printing annual benefit summary guides and total compensation statements. 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 2014.

Agents/Brokers	Coverage	Premiums	Total Fees/ Commissions	% of Fee to Premiums
2014 Calendar Year				
CalPERS	Medical	$37,716,706	$126,128	.33%
Venbrook Insurance	Non-Medical	$5,551,338	$217,787	3.92%

Agents/Brokers of Record:

Medical Broker/Administrator	Non-Medical Broker
California Public Employee Retirement Services (CalPERS) 400 Q Street Sacramento, CA 94229-2714	Venbrook Insurance Services 6320 Canoga Ave, 12th Flr Woodland Hills, CA 91367