



- Combined 2016 Annual Benefits' Financial Report

Summary

The following information is reported to the Board of Directors on an annual basis:

- (1) A summary of the activities related to the 401(k) and 457(b) defined contribution plans for calendar year 2016.
- (2) A summary of the CalPERS defined benefit retirement plan for the period of July 1, 2015 through June 30, 2016. The data presented in this report is based on the most recent CalPERS actuarial valuation. Rates for the fiscal year 2018/19 are based on data from fiscal year 2015/16.
- (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

1. Activities Related to Defined Contributions Plans

Metropolitan employees may participate in both 457(b) and 401(k) deferred compensation plans. Metropolitan has offered the 457(b) 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 Group Manager to act as the Plan Administrator. The Treasurer serves as Plan Trustee and a Deferred Compensation Advisory Committee provides oversight 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 12/31/15) | 401(k) Plan (as of 12/31/16) | 457(b) Plan (as of 12/31/15) | 457(b) Plan (as of 12/31/16) |
|--|------------------------------------|------------------------------------|------------------------------------|------------------------------------|
| Number of Participants (includes retirees) | 2,270 | 2,324 | 1,650 | 1,734 |
| Active Employees Eligible to Participate | 1,750 | 1,714 | 1,820 | 1,790 |
| Active Employees Contributing | 1,582 | 1,582 | 991 | 1,019 |
| Percentage of Contributing Participants | 90.4% | 92.2% | 54% | 56.9% |

| Key Plan Statistics | |
|---|--|
| Plan Assets as of December 31, 2016 | |
| Employee Contributions: 01/01 to 12/31/2016 | |
| Employer Matching: 01/01 to 12/31/2016 | |

| 401(k) Plan |
|------------------|
| \$413,223,997.41 |
| \$17,393,372.61 |
| \$8,614,338.98 |

| 457(b) Plan |
|------------------|
| \$130,221,644.56 |
| \$9,177,866.67 |
| N/A |

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Deferred Compensation Advisory Committee

The Deferred Compensation Advisory Committee (DCAC) is responsible for meeting on a quarterly basis to discuss administrative issues concerning the plans, investment activity, plan regulations, and recommendations and amendments to plan documents. The Committee is chaired by the Human Resources Group 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
- Treasurer, Plan Trustee
- Assistant Treasurer
- HR Benefits Staff (Benefits Manager and Senior Analyst)

Major Actions and Discussions of the Plan Administrator and Advisory Committee

- TIAA Financial Services continues as our Record Keeper for the Deferred Compensation 401(k) and 457(b) plans with participant fees at six basis points.
- In 2016, assets continued to increase in both plans; 7.46% in the 401(k) and 7.40% in the 457(b).
- As of December 31, 2016 the combined 401(k) and 457(b) Revenue Credit Account balance was \$157,657. This account pays for Plan expenses including participant education.
- The 457(b) plan utilizes the Stable Value Fund and the 401(k) utilizes the Target Date Funds as default funds for participants that do not select an investment option upon enrollment.
- As a response to the new money market regulations, the committee reviewed alternative money market funds that invest only in government securities. HYAS, the plans investment advisor, recommended Vanguard Federal Money Market (VMFXX) as a replacement and the committee implemented the change.
- There are 845 participants enrolled in self-directed brokerage (SDB) through the 401(k) and 53 enrolled through the 457(b) plan. As of 12/31/2016, there are \$87.79 million in SDB Assets.
- An additional TIAA service penalty check was issued to Metropolitan for failure to meet service expectations in the amount of \$50,000 on 11/29/2016; which is equal to the first penalty amount paid on 10/28/2015.
- A Distribution Survey was completed in July 2016 for participants that initiated any type of distribution, with the exception of loans, through TIAA. It was distributed to 340 participants of whom 178 responded (52.4%). Results showed 82% were satisfied with the TIAA distribution process, timing and administration services, while the remaining 18% were dissatisfied. Additionally, 23% of participants stated that they were offered unsolicited TIAA's products and services.

2. CalPERS Defined Benefit Pension Plan

Metropolitan originally contracted with CalPERS as a Local Miscellaneous agency on January 1, 1945 to administer its pension plan. The plan provides employees with a defined benefit upon retirement based on years of service, age and salary. Effective July 1, 1971 Metropolitan adopted the 2% at age 60 benefit formula. This formula was amended effective December 28, 1997 to provide 2% at age 55. Effective January 1, 2013 Pension Reform changes required that all “new” members to the CalPERS system be enrolled in the 2% at age 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. Effective March 14, 2012, CalPERS approved lowering its historical estimated rate of return from 7.75 to 7.5 percent per year resulting in increased employer contribution rates beginning fiscal year 2013/14. Effective December 21, 2016, CalPERS approved gradually lowering the estimated rate of return again, from 7.5 to 7 percent over the next three years. This will increase public agency employer contribution costs beginning in fiscal year 2018-19 with the new assumption rate lowered to 7.375, then 7.25 percent, and by the third year to 7 percent. These new assumptions are to ensure promised benefits are funded and strengthen long-term sustainability.

Effective July 1, 2017 the unfunded accrued liability (UAL) is now reported as a dollar amount instead of an employer rate and is determined by looking at the Market Value of Assets of the plan or pool and comparing it with the accrued liability of that plan or pool. To the extent that the assets are different from the liability, the plan or pool will also be assessed an unfunded liability payment. The purpose of the unfunded liability payment is to get the assets and liabilities stable over time. The total employer contribution is the sum of the normal cost rate applied to an employer's reported payroll plus the UAL payment. These two components are the required contribution amount that employers pay CalPERS to fund their employees' pension benefits.

Metropolitan’s Employer Rates

Below is a history of Metropolitan’s employer rates and recent projected employer rates from the actuarial valuation:

| <u>Fiscal Year</u> | <u>Employer Contribution Rate</u> |
|--------------------|--|
| 2012/13 | 14.998% |
| 2013/14 | 16.306% |
| 2014/15 | 17.649% |
| 2015/16 | 19.738% |
| 2016/17 | 20.747% |
| 2017/18 | 7.853% + \$32,560,150 UAL (Unfunded Accrued Liability) |
| 2018/19 | 7.9% + \$39,645,437 UAL (projected) |

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Metropolitan's Pension Demographics

The demographics below are as of June 30, 2014 and June 30, 2015:

| <u>Active Members</u> | <u>June, 30, 2014</u> | <u>June 30, 2015</u> |
|----------------------------|-----------------------|----------------------|
| Count | 1,756 | 1,767 |
| Average Age | 50.09 | 49.88 |
| Average Age at Hire | 32.94 | 33.07 |
| Average Years of Service | 17.15 | 16.81 |
| Average Annual Covered Pay | \$111,521 | \$112,159 |
| Annual Covered Payroll | \$195,830,068 | \$198,185,580 |

Retired Members and Beneficiaries

| | | |
|-------------------------|----------|----------|
| Count | 1,907 | 1,976 |
| Average Age | 71.06 | 71.07 |
| Average Annual Pension | \$43,073 | \$44,905 |
| Active to Retired Ratio | 0.92 | 0.89 |

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 the 2 percent at age 62 formula which requires that new members pay the full employee cost reduced from 6.75 to 6 percent effective July 1, 2016 through June 30, 2017. There are currently 337 employees enrolled in this new formula, which is an increase of 76 employees from 2015.

Recent Changes to CalPERS Amortization and Rate Smoothing Policies

As of June 30, 2013, CalPERS no longer uses an actuarial value of assets and employs 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, CalPERS adopted modest changes to current asset allocation to reduce the expected volatility of returns. The CalPERS Board also approved several changes to demographic assumptions that more closely align with actual experience. The new actuarial assumptions were used to set the FY 2016-2017 contribution rates for public agency employers. The increase in liability due to new actuarial assumptions were calculated in the actuarial valuation report using June 2014 data and its being amortized over a 20-year period with a 5-year ramp-up/ramp-down in accordance with CalPERS policy.

Funding History

Each year CalPERS actuaries calculate a funded ratio-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. The market value of assets is calculated according to present day liquidation value of held assets and represents short term solvency of the plans.

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| Valuation Date | Funded Ratio | |
|----------------|------------------------|---------------------------|
| | Market Value of Assets | Actuarial Value of Assets |
| 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) |
| 6/30/2014 | 78.7% | N/A – (Same as MVA Ratio) |
| 6/30/2015 | 75.5% | 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 75percent of the retirement benefits which directly impacts 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 |
| 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 |
| 2015 | 2.4% | -0.1% | \$301.9 billion | \$289.9 billion |
| 2016 | 0.6% | 7.7% | \$302.0 billion | \$302.8 billion |

3. Summary of Metropolitan’s Health Insurance Plans

CalPERS administers and negotiates rates and coverage for all Metropolitan medical plans. Services provided by CalPERS include: plan design, negotiating with medical and pharmaceutical carriers, developing and printing plan summaries, outlines and brochures, billing, processing claims, 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 include plan designs, 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, various analyses upon request, and providing and printing annual benefit summary guides and total compensation statements. They assume the majority of the print cost for plan outlines and booklets including the annual employee total compensation statements.

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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. Premiums and fees include both the employer and employee paid cost for calendar year 2016.

| Agents/Brokers | Coverage | Premiums | Total Fees/ Commissions | % of Fee to Premiums |
|---------------------------|-----------------|-----------------|--------------------------------|-----------------------------|
| CalPERS | Medical | \$40,794,969 | \$128,888 | .32% |
| Venbrook Insurance | Non-Medical | \$5,726,381.78 | \$224,426.38 | 3.92% |

Agents/Brokers of Record:

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