THE METROPOLITAN WATER DISTRICT
OF SOUTHERN CALIFORNIA

Report

Human Resources

- **Combined 2017 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 2017.
(2) A summary of the CalPERS defined benefit retirement plan for the period of July 1, 2016 through June 30, 2017. 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 12/31/16)	401(k) Plan (as of 12/31/17)	457(b) Plan (as of 12/31/16)	457(b) Plan (as of 12/31/17)
Number of Participants (includes retirees)	2,324	2,363	1,734	1,803
Active Employees Eligible to Participate	1,714	1,685	1,790	1,765
Active Employees Contributing	1,582	1,545	1,019	1,036
Percentage of Contributing Participants	92.2%	91.7%	56.9%	58.7%

Key Plan Statistics	401(k) Plan	457(b) Plan
Plan Assets as of December 31, 2017	463,206,411.89	144,955,022.81
Employee Contributions: 01/01 to 12/31/2017	17,506,768.11	9,323,952.89
Employer Matching: 01/01 to 12/31/2017	8,705,760.13	N/A

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/Treasurer
- AFSCME Local 1902 representative
- Management and Professional Employees' Association representative
- Supervisors' Association representative
- Association of Confidential Employees representative
- General Counsel representative
- Assistant Treasurer
- HR Benefits Staff (Benefits Manager and Senior Analyst)
- MWD Retiree

Major Actions and Discussions of the Plan Administrator and Advisory Committee

- Decided to terminate TIAA Financial Services Record Keeper Agreement on or about 8/1/2018 for the Deferred Compensation 401(k) and 457(b) plans. The current participant fee is 0.06 percent.
- MWD entered into a Request for Proposals process for a new Deferred Compensation Record Keeper in 2017. Agreements are being finalized and will include a reduction in participant fees to three basis points with a new Record Keeper, Empower Retirement (Great-West).
- In 2017, assets continued to increase, by 12 percent in the 401(k) and by 11 percent in the 457(b).
- As of December 31, 2017 the combined 401(k) and 457(b) Revenue Credit Account balance was $266,659.59. 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.
- Committee decided to invite Jim Guarente (MWD retiree) to be the DCAC retiree representative for a 1 year term.
- Target Date Funds (TDF) funds reached over $100 million. Vanguard approved moving to lower cost share class (from the investor to institutional series). Fees will drop by one-third, from 0.15 percent to 0.10 percent. This will save the participants investing in these funds over $50,000 per year, and more in the future as assets increase.
- Financial Finesse contract renewed at $2,050/daily rate for 3 years, effective 7/1/2017 thru 6/30/2020.
- There are 765 participants enrolled in self-directed brokerage (SDB) through the 401(k) and 71 enrolled through the 457(b) plan. As of 12/31/2017, there are $97.3 million in SDB Assets.

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 assumed rate of return lowered first to 7.375 percent, 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 and comparing it with the accrued liability of that plan. To the extent that the assets are different from the liability, the plan will also be assessed an unfunded liability payment. The purpose of the unfunded liability payment is to stabilize the assets and liabilities 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:

Fiscal Year	Employer Contribution Rate
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	8.273% + $39,554,600 UAL
2019/20	8.7% + $47,539,000 UAL (projected)

Metropolitan's Pension Demographics
The demographics below are as of June 30, 2015 and June 30, 2016:

Active Members	June, 30, 2015	June 30, 2016
Count	1,767	1,782
Average Age	49.88	49.49
Average Age at Hire	33.07	33.19
Average Years of Service	16.81	16.30
Average Annual Pensionable Earnings	$112,159	$114,775
Annual Covered Payroll	$198,185,580	$204,529,694
Retired Members and Beneficiaries		
Count	1,976	2,040
Average Age	71.07	71.19
Average Annual Pension	$44,905	$46,428
Active to Retired Ratio	0.89	0.87

Public Employees' Pension Reform Act (PEPRA)

As of January 1, 2013, the Public Employee Pension Reform Act (PEPRA) mandates that all "new" PERS members be hired under the 2%at age 62 formula, and requires that they pay the full employee cost. For the period of July 1, 2017 through June 30, 2018 the full employee cost was 6 percent. There are currently 425 employees enrolled in this new formula as of December 2017, which is an increase of 88 employees from 2016.

Recent Changes to CalPERS Amortization and Rate Smoothing Policies

Due to a completed CalPERS experience study of CalPERS membership, on December 20, 2017 the CalPERS Board adopted new actuarial assumptions and a new strategic asset allocation which are expected to have an impact on employer contribution requirements. The CalPERS Board also adopted a strategic asset allocation that largely keeps its investment strategy unchanged, holding the fund's long-term expected rate of return at 7 percent per year.

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 was calculated in the actuarial valuation report using June 2014 data and is 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 comparing the market value of assets 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.

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
6/30/2014	78.7%	N/A
6/30/2015	75.5%	N/A
6/30/2016	70.3%	N/A

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 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
2017	11.2%	15.7%	$326.4 billion	$350.0 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.

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 2017.

Agents/Brokers	Coverage	Premiums	Total Fees/ Commissions	% of Fee to Premiums
CalPERS	Medical	$44,194,821	$140,697	.32%
Venbrook Insurance	Non-Medical	$5,666,544	$223,435	3.94%

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, 12th Flr Woodland Hills, CA 91367