



## ● Combined 2018 Annual Benefit's Financial Report

### Summary

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

- (1) A summary of the 2018 calendar year activities related to the 401(k) and 457(b) defined contribution plans.
- (2) A summary of the CalPERS defined benefit retirement plan for the period of July 1, 2017 through June 30, 2018. The data presented in this report is based on the most recent CalPERS actuarial valuation. Rates for the fiscal year 2019/20 are based on data from fiscal year 2016/17.
- (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. A Trustee Committee 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 12/31/17)	401(k) Plan (as of 12/31/18)	457(b) Plan (as of 12/31/17)	457(b) Plan (as of 12/31/18)
Number of Participants (includes retirees)	2,363	2,375	1,803	1,851
Active Employees Eligible to Participate	1,685	1,680	1,765	1,768
Active Employees Contributing	1,545	1,550	1,036	1,019
Percentage of Contributing Participants	91.7%	92.2%	58.7%	57.6%

Key Plan Statistics
Plan Assets as of December 31, 2018
Employee Contributions: 01/01 to 12/31/2018

401(k) Plan
438,742,165.22
17,679,682.86

457(b) Plan
138,280,116.41
9,469,703.34

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Employer Matching:	01/01 to 12/31/2018
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8,987,632.77
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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
- Assistant Treasurer
- HR Benefits Staff (Benefits Manager and Senior Analyst)
- MWD Retiree

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

- Transition to Empower Retirement from TIAA Financial became effective 8/02/2018 with lower overall cost to participants for these services at 3 basis points (.03%). Self-Directed Brokerage (SDB) accounts transferred in kind to TD Ameritrade.
- Site visits with presentations highlighting reduced fees, plan enhancements and features were conducted at all MWD locations for active employees and retirees. Additional communications including targeted campaigns were distributed regarding required minimum distributions, participants in SDB, those taking period payments, etc.
- All 2018 401(k) and 457(b) Required Minimum Distributions were successfully processed due to coordination between Empower, TIAA and MWD HR Benefits Staff.
- MWD Administrative code was amended to refer to standalone 401(k) and 457(b) Plan Documents. This required Board approval which was granted on 12/11/2018.
- Trustee Committee composition changed to include Shane Chapman/CAO and June Skillman/Interim CFO and Treasury & Budget Manager.
- Investment Policy Statement (IPS) was updated focusing on language regarding Real Estate, Target Date Funds, and Fair Value Pricing for International Index Investments. Appendix A was replaced with an Asset Class List, making any future changes easier to make.
- The first MWD Retiree Workshop was held on 11/15/18. It was well attended and received. Plans to host additional retiree workshops are being worked on.
- MWD was awarded 2018 Marcom awards; Platinum for the Transition Campaign, and Gold for the Transition Bulletin. The Marcom Awards honors excellence in marketing and communication while recognizing the creativity, hard work and generosity of industry professionals.

## **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

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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 December 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:

<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	8.273% + \$39,554,600 UAL
2019/20	9.006% + \$46,684,999 UAL
2020/21	9.7% + \$51,444,000 UAL (projected)

### Metropolitan's Pension Demographics

The demographics below are as of June 30, 2015 and June 30, 2016:

<u>Active Members</u>	<u>June, 30, 2016</u>	<u>June 30, 2017</u>
<b>Count</b>	<b>1,782</b>	<b>1,746</b>
Average Age	49.49	49.22
Average Age at Hire	33.19	33.35
Average Years of Service	16.30	15.87
Average Annual Pensionable Earnings	\$114,775	\$117,134
Annual Covered Payroll	\$204,529,694	\$204,516,647

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### Retired Members and Beneficiaries

Count	2,040	2,136
Average Age	71.19	71.31
Average Annual Pension	\$46,428	\$48,743
Active to Retired Ratio	0.87	0.82

### **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, 2018 through June 30, 2019 the full employee cost was 6 percent. There are currently 493 employees enrolled in this new formula as of December 2018, which is an increase of 68 employees from 2017.

### **Changes since the Prior Year's Valuation**

As of December 2017, the CalPERS Board of Administration adopted new actuarial assumptions based on the recommendations in the December 2017 CalPERS Experience Study and Review of Actuarial Assumptions. These new assumptions are incorporated in the actuarial valuations and will impact the required contribution for FY 2019-20. The CalPERS Board also adopted a new asset portfolio as part of its Asset Liability Management. The new asset mix supports a 7.00 percent discount rate. The reduction of the inflation assumption will be implemented in two steps in conjunction with the decreases in the discount rate. For the June 30, 2017 valuation an inflation rate of 2.625 percent will be used and a rate of 2.50 percent will be used in the following valuation.

The CalPERS Board of Administration has adopted a new amortization policy effective with the June 30, 2019 actuarial valuation. The new policy shortens the period over which actuarial gains and losses are amortized from 30 years to 20 years with the payments computed using a level dollar amount. In addition, the new policy removes the 5-year ramp-up and ramp-down on UAL bases attributable to assumption changes and non-investment gains/losses. The new policy removes the 5-year ramp-down on investment gains/losses. These changes will apply only to new UAL bases established on or after June 30, 2019.

### **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%

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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
6/30/2017	72.7%	N/A

**CalPERS Portfolio Returns and Market Values**

Below is the historical data with respect to CalPERS’ overall portfolio, investment returns and market value. For fiscal year ending 6/30/2018, CalPERS investment returns fund 59 percent of the retirement benefits. This directly impacts the employer contribution rate. The public employee pension is 72 percent funded by investment earnings and member contributions.

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
2018	8.6%	-3.5%	\$354.0 billion	\$337.2 billion

**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 2018.

<b>Agents/Brokers</b>	<b>Coverage</b>	<b>Premiums</b>	<b>Total Fees/ Commissions</b>	<b>% of Fee to Premiums</b>
<b>CalPERS</b>	Medical	\$44,773,041	\$129,009	.29%
<b>Venbrook Insurance</b>	Non-Medical	\$5,666,594	\$231,844	4.09%

**Agents/Brokers of Record**

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