



● 2022 Combined 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 activities related to the 401(k) and 457(b) defined contribution plans for the calendar year 2022 including total assets as of calendar year-end.
- (2) A summary of the CalPERS defined benefit retirement plan for the period of July 1, 2021 through June 30, 2022. The data presented in this report is based on the most recent CalPERS actuarial valuation. Rates for the fiscal year 2023/24 are based on data from fiscal year 2020/21.
- (3) A summary of group health premiums, fees, and commissions paid to all Agents, Providers, and Brokers for calendar year 2022 as required by California Section 1367.08 of the Health and Safety Code, and Section 10604.5.

Purpose

Informational

Attachments

None

Detailed Report

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 designated to carry out the powers, duties, and responsibilities of the Plan Administrator. The General Manager has delegated authority to the Human Resources Group Manager to act as the Plan Administrator. The CAO, CFO, and Treasury & Debt Manager serve as Plan Trustees and a Deferred Compensation Advisory Committee (DCAC) provides oversight and advises the Plan Administrator on plan activities.

Asset/Activity Summary

The following summarizes investment and contribution activities in the plans.

Plan Statistics	401(k) Plan (as of 12/31/21)	401(k) Plan (as of 12/31/22)	457(b) Plan (as of 12/31/21)	457(b) Plan (as of 12/31/22)
Number of Participants (includes retirees)	2,556	2,566	1,874	1,923
Active Employees Eligible to Participate	1,794	1,820	1,839	1,820
Active Employees Contributing	1,670	1,651	1,062	1,078
Percentage of Contributing Participants	93.1%	90.7%	57.7%	59.2%

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Key Plan Statistics	401(k) Plan	457(b) Plan
Plan Assets as of December 31, 2022	\$589,100,267	\$177,856,000
Contributions: 01/01 to 12/31/2022	\$20,635,771.46	\$12,150,298.44
Employer Matching: 01/01 to 12/31/2022	\$10,646,330.05	N/A

Deferred Compensation Advisory Committee (DCAC)

The DCAC is responsible for meeting quarterly 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:

- Assistant General Manager/Chief Administrative Officer (CAO)
- Assistant General Manager/Chief Financial Officer (CFO)
- Treasury & Debt Manager
- AFSCME Local 1902 representative
- Management and Professional Employees' Association representative
- Supervisors' Association representative
- Association of Confidential Employees representative
- General Counsel representatives
- HR Benefits Staff (Benefits Manager and Principal Analyst)
- Metropolitan Retiree

Major Actions and Discussions of the Plan Administrator and Advisory Committee

- Outreach campaign for new hires implemented in 2021 to ensure they are aware of the benefits of having both a 401(k) and 457(b) plan, the benefits of enrolling early in their careers, and the opportunity to meet 1 on 1 with our dedicated Plan Advisor to increase engagement.
- The merger of the Institutional and Investor Share Classes of the Vanguard Target Retirement suite was completed on 2/4/22. The expense ratio is now 8 bps, previously 9 bps.
- Revised Plan documents provided to the bargaining units include mandatory and optional provisions of the SECURE and CARES Act. Changes include reducing the age to 59½ for 457(b) in-service distributions, providing distribution options for birth and adoptions, allowing temporary hardship distributions and loans up to \$100,000, establishing Roth accounts, and additional clean-up items that were changed by law that advantaged employees and participants.
- Empowers 5-year contract renewal approved by DCAC effective January 1, 2023, with a lower administrative fee, 1.5 bps to 1.25 bps, resulting in participant fees of 2.5 bps
- Recommendations to draft Bylaws outlining the responsibilities and roles of the Plan Administrator and committee members were proposed by outside counsel for discussion.
- Major fund changes for the calendar year 2022 included the Vanguard Institutional Target Retirement 2015 Fund (VITVX) being eliminated and its assets moved to the Vanguard Institutional Retirement Income Fund (VITRX) on July 8. T. Rowe Price Blue Chip Growth Fund (TBCIX) was replaced with JPMorgan Large Cap Growth Fund Class R6 (JLGMX).
- MWD received various awards during the 2022 calendar year which include:
 - (a) 2022 Marcom Gold Award for the New Hire Outreach Campaign. Marcom honors excellence in marketing and communication recognizing creativity and hard work.
 - (b) 2022 Hermes Platinum Awards for Fraud Prevention Campaign and Adaptive Communication Strategy. Honorable Mention Award for the Investing Wisely Campaign.

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Hermes is an international competition for creative concepts, writing, and design of traditional materials, marketing, and communications.

- (c) 2022 APEX Award of Excellence for Fraud Prevention campaign. Gold Award for Investing Wisely Campaign. APEX recognizes excellence in graphic design, editorial content, and overall communications.
- (d) 2022 Communicator Award of Distinction for Fraud Prevention and Investing Wisely Campaigns. Excellence Award for Agile Communications Strategy. Communicator is the leading international awards program recognizing big ideas in communications and marketing honoring work that transcends innovation for lasting impact.

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% age 60 benefit formula. The formula was amended on December 28, 1997, to provide 2% at age 55. Effective January 1, 2012 contract was amended to implement a 5-year vesting schedule for represented members. Classic members pay their full employee contribution for their first 5 years of employment before receiving employer-paid member contributions (EPMC). 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 the number of employees, age of employees, payroll, and investment return. Each actuarial valuation reflects all prior differences between actual and assumed experience and adjusts the contribution rates as needed. This valuation is based on an investment return assumption of 6.8 percent, which was adopted by the board in November 2021.

Effective July 1, 2017, the unfunded accrued liability (UAL) is now reported as a dollar amount instead of added to the 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 as 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 Contribution Rates

Below is a history of Metropolitan's employer contribution rates and recent projected employer rates from the actuarial valuation, not including employer-paid member contributions (EPMC).

Fiscal Year	Employer Rate	Unfunded Accrued Liability (UAL)	Total Employer Cost
2012/13	14.998%	N/A	\$40,736,214
2013/14	16.306%	N/A	\$47,354,980
2014/15	17.649%	N/A	\$47,031,120

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Fiscal Year	Employer Rate	Unfunded Accrued Liability (UAL)	Total Employer Cost
2015/16	19.738%	N/A	\$50,835,530
2016/17	20.747%	N/A	\$54,774,001
2017/18 **	7.853%	\$32,560,150	\$61,253,850
2018/19	8.273%	\$39,554,600	\$68,324,002
2019/20	9.006%	\$46,684,999	\$75,596,862
2020/21	10.116%	\$51,496,203	\$85,737,391
2021/22	9.83%	\$59,117,014	\$92,552,631
2022/23	9.65%	\$65,787,464	Pending
2023/24	10.84%	\$60,771,624	Pending
2024/25	10.6%	\$59,795,000 (projected)	Pending

The EPMC rate for classic members remains at 7.49% for a total employer cost of \$11,028,289 for FY 2021/22, a decrease of 3.24% from FY 2020/21.

Metropolitan’s Pension Demographics

The demographics below are as of June 30, 2020 and June 30, 2021:

<u>Active Members</u>	<u>June 30, 2020</u>	<u>June 30, 2021</u>
Count	1,850	1,854
Average Age	48.05	48.26
Average Age at Hire	34.87	35.03
Average Years of Service	13.69	13.67
Average Annual Pensionable Earnings	\$125,653	\$130,409
Annual Covered Payroll	\$232,458,070	\$241,779,101
 <u>Retired Members and Beneficiaries</u>		
Count	2,338	2,363
Average Age	71.81	71.98
Average Annual Pension	\$55,486	\$57,184
Active to Retired Ratio	0.79	0.78

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, 2022, through June 30, 2023, the full employee cost is 7.25% percent. There are currently 825 employees enrolled in this new formula as of December 2022, which is an increase of 73 employees from 2021. The cost of EPMC has declined by an overall 18.42% since the implementation of the 5-year time-in-grade vesting schedule for classic members, and the passage of PEPRA for new members.

Changes since the Prior Year’s Valuation

On July 12, 2021, CalPERS reported a preliminary 21.3% net return on investments for FY 2020-21. Since the return exceeded the 7.00% discount rate sufficiently, the CalPERS Funding Risk Mitigation policy allows CalPERS to use a portion of the investment gain to offset the cost of reducing the expected volatility of future investment returns. Based on the thresholds specified in the

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policy, the excess return of 14.3% prescribes a reduction in investment volatility that corresponds to a reduction in the discount rate of 0.20%, from 7.00% to 6.80%.

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 the present day liquidation value of held assets and represents the short term solvency of the plans. For the fiscal year ending 6/30/2022, CalPERS investment returns fund 56 percent of the retirement benefits. This directly impacts the employer contribution rate. The public employee pension is 68 percent funded by investment earnings and member contributions.

Valuation Date	Funded	
	Market Value of Assets	Actuarial Value of
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
6/30/2017	72.7%	N/A
6/30/2018	71.7%	N/A
6/30/2019	71.4%	N/A
6/30/2020	70.4%	N/A
6/30/2021	81.0%	N/A

CalPERS Portfolio Returns and Market Values

Below is the historical data with respect to CalPERS' overall portfolio, investment returns and market value.

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

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Year	Historical Rates of Return		Market Value	
2019	6.7%	17.3%	\$372.6 billion	\$394.8 billion
2020	4.7%	12.4%	\$392.5 billion	\$442.6 billion
2021	21.3%	13.3%	\$477.3 billion	\$500.7 billion
2022	-6.1%	-11.2%	\$439.4 billion	\$442.2 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 including 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 Orion Risk Insurance Services. Services provided by Orion Risk both include plan designs, negotiating rates and benefits with carriers, legal and compliance updates and advice, open enrollment, ACA, and COBRA administration 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 employer and employee-paid costs for the calendar year 2022.

Agents/Brokers	Coverage	Premiums	Total Fees/Commissions	% of Fee to Premiums
CalPERS	Medical	\$54,683,663	\$155,036	.28%
Orion Risk Insurance	Non-Medical	\$5,359,138	\$164,582	3.07%

Agents/Brokers of Record:

Medical Broker/Administrator	Non-Medical Broker
California Public Employee Retirement Services 400 Q Street Sacramento, CA 94229-2714	Orion Risk Insurance 1800 Quail Street, Suite 110 Newport Beach, CA 92660