THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA

Board Report

Human Resources Group

- **2025 Combined 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 the calendar year 2025, including total assets as of calendar year end, December 31, 2025.

(2) A summary of the CalPERS defined benefit retirement plan for the fiscal year period of July 1, 2024, through June 30, 2025. The data presented in this report is based on the most recent CalPERS' actuarial valuation. Rates for the fiscal year 2026/27 are based on data from fiscal year 2023/24.

(3) A summary of group health premiums, fees, and commissions paid to all Agents, Providers, and Brokers for calendar year 2025 as required by California Section 1367.08 of the Health and Safety Code, and Section 10604.5.

Purpose

Informational

Attachments

None

Detailed Report

(1) Metropolitan 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, Chapter 8, 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 Assistant General Manager/Chief Financial Officer (CFO) to act as the Interim Plan Administrator. The Assistant General Manager/Chief Financial Officer (CFO), Assistant General Manager/Chief Administrative Officer (CAO), and Treasury & Debt Manager served as Plan Trustees until the Deferred Compensation Investment Committee (DCIC) was adopted by the Board on February 13, 2024, to replace the Deferred Compensation Advisory Committee, with DCIC members becoming co-fiduciaries.

(a) Asset/Activity Summary

The following summarizes investment and contribution activities in the plans.

Plan Statistics	401(k) Plan (as of 12/31/24)	401(k) Plan (as of 12/31/25)	457(b) Plan (as of 12/31/24)	457(b) Plan (as of 12/31/25)
Number of Participants (including retirees)	2,657	2,682	1,969	2,004
Active Employees Eligible to Participate	1,825	1,818	1,886	1,918
Active Employees Contributing	1,693	1,681	1,135	1,152
Percentage of Contributing Participants	92.7%	92.4%	60.1%	60.0%

Key Plan Statistics	401(k) Plan	457(b) Plan
Plan Assets as of December 31, 2025	$887,411,608	$258,627,346
Contributions: 01/01 to 12/31/2025	$24,152,530	$15,008,773
Employer Matching: 01/01 to 12/31/2025	$13,237,642	N/A

(b) Deferred Compensation Investment Committee

The Committee Bylaws were approved by the Board as of February 13, 2024, with the new structure. The DCIC meets quarterly; its primary role is investment activity with discussions on administrative issues concerning the plans, plan regulations, and to provide recommendations for amendments to the official Plan Documents. The DCIC is chaired by the Assistant General Manager/CFO, and the Human Resource Group Manager serves as the Secretary of the Committee and backup to the Interim Plan Administrator.

DCIC Members:

1. Assistant General Manager/CAO
2. Assistant General Manager/CFO
3. Human Resources Group Manager
4. Audit Manager
5. Treasury & Debt Manager
6. Risk Manager
7. Association of Confidential Employees representative
8. AFSCME Local 1902 representative
9. Management and Professional Employees' Association representative
10. Supervisors' Association representative
11. Metropolitan Retiree

DCIC Staff Support:

1. HR Benefits & Medical Services Section Manager
2. Principal Benefits Analyst
3. General Counsel representatives (two)

(c) Major Actions and Discussions of the Plan Administrator and Investment Committee

- The following optional Secure Act 2.0 features were adopted by the Plans: Section 109 (age 60 to 63 catch-up), Section 314 (Victim of domestic abuse distribution), Section 326 (Terminally ill participants can withdraw from their 401(k) plan), Section 331 (Federally declared emergency disaster distribution), and Section 334 (Long-Term care premium distributions). Sections 109 and 334 are contingent on technological ability and expected to be implemented in CY 2026.
- MWD's investment consultant, Hyas Group, was acquired by Morgan Stanley and rebranded as Fiduciary Consulting Group.
- Jan Matusak was elected by the DCIC committee to serve as the newest retiree member.
- The American Funds EuroPacific Growth Fund (RERGX) has been reclassified as a growth fund to align with its investment characteristics. This required the Investment Policy to be updated.
- Parnassus Core Equity Fund was consolidated into the Vanguard FTSE Social Index Fund due to its underperformance and low participation usage.
- MWD's plans received an honorable mention in the Hermes Awards for the Roth Rollout Campaign of CY 2024.

(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 percent age 60 benefit formula. The formula was amended on December 28, 1997, to provide 2 percent at age 55. Effective January 1, 2012, Metropolitan's MOUs with the bargaining units were amended to implement a 5-year vesting schedule for represented members. Represented classic members pay their full employee contribution for their first 5 years of employment before receiving employer-paid member contributions (EPMC), and unrepresented classic members continue to receive EPMC from date of hire. Effective January 1, 2013, Pension Reform changes required that all "new" members to the CalPERS system be enrolled in the 2 percent at age 62 formula.

The CalPERS employer rate is set annually based on an actuarial valuation performed by a CalPERS actuary. The valuation considers several factors,= including the number and =age of employees, total payroll, and the CalPERS' investment returns. 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, adopted by the Board in November 2021.

Effective July 1, 2017, the unfunded accrued liability (UAL) is now reported as a dollar amount rather than added to the employer rate by CalPERS. This 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 plan's assets are less than its liabilities, the employer must make an unfunded liability payment to cover the shortfall. 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. Taken together, these two components are the required contribution amount that employers pay CalPERS to fund their employees' pension benefits.

(a) 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 EPMC.

Fiscal Year	Employer Rate	Unfunded Accrued Liability	Total Employer Cost
2013/14	16.306%	N/A	$47,354,980
2014/15	17.649%	N/A	$47,031,120
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	$98,817,258
2023/24	10.84%	$60,771,624	$100,552,849
2024/25	10.72%	$71,360,748	$111,450,050
2025/26	10.68%	$72,329,773	Pending
2026/27	10.4%	$82,958,358	
2027/28	10.3%	$86,081,000 (projected)	

The EPMC rate for classic members remains at 7.49 percent for a total employer cost of $10,762,699 for FY 2024/25, a decrease of 1.25 percent from FY 2023/24.

(b) Metropolitan's Pension Demographics

The demographics below are as of June 30, 2023, and June 30, 2024:

Active Members	June 30, 2023	June 30, 2024
Count	1,813	1872
Average Age	47.97	48.08
Average Age at Hire	35.44	35.86
Average Years of Service	12.84	12.45
Average Annual Pensionable Earnings	$140,140	$151,728
Annual Covered Payroll	$254,074,465	$284,034,373
Retired Members and Beneficiaries		
Count	2,477	2,517
Average Age	72.52	72.80
Average Annual Pension	$63,655	$65,675
Active to Retired Ratio	0.73	0.74

(c) Public Employees' Pension Reform Act (PEPRA)

As of January 1, 2013, the PEPRA mandates that all "new" PERS members be hired under the 2 percent at age 62 formula and requires that they pay the full employee cost. For the period of

July 1, 2025, through June 30, 2026, the full employee cost is 8 percent. As of December 2025, there are 1,112 employees enrolled in this new formula, an increase of 108 employees from CY 2024. The cost of EPMC has declined by 20.3 percent since the implementation of the five-year time-in-grade vesting schedule for classic members and the passage of PEPRA for new members based on the growing share of the workforce now consisting of "new" rather than "classic" members.

(d) Changes Since the Prior Year's Valuation

On April 16, 2024, the CalPERS board took action to modify the Funding Risk Mitigation Policy to eliminate the automatic reductions to the discount rate when the investment return exceeded certain thresholds. Under the revised policy, exceptionally strong investment performance (such as returns more than 2 percent above the assumed rate) now triggers a required CalPERS board discussion rather than an automatic change. Accordingly, even the very high-return scenario shown in the actuarial report's 95th percentile projection, which would be sufficient to prompt such a discussion, does not assume any discount-rate adjustment unless and until the CalPERS board formally votes to make one.

(e) 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 based on the present-day liquidation value of the assets held and reflects the plans' short-term solvency. For the fiscal year ending 6/30/2025, CalPERS investment returns fund 55 percent of the retirement benefits. This directly impacts the employer contribution rate. The public employee pension is 45 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
6/30/2022	70.1%	N/A
6/30/2023	70.1%	N/A
6/30/2024	71.5%	N/A

(f) CalPERS Portfolio Returns and Market Values

Below is historical data on 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
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
2023	5.8%	10.3%	$464.6 billion	$483.7 billion
2024	9.3%	9.0%	$506.6 billion	$523.4 billion
2025	11.6%	15.4%	$563 billion	$600.2 billion

(3) Summary of Metropolitan's Health Insurance Plans

CalPERS administers and negotiates rates and coverage for all Metropolitan medical plans. Rates are approved by the CalPERS Board of Directors, typically in mid-July for the following calendar year. CalPERS role includes plan design, benefit structure, negotiation with medical and pharmaceutical carriers, development and printing of plan summaries, outlines, and brochures, billing, claims processing, handling participant appeals and grievances, offering free workshops/seminars for employers, employees, and retirees, and hosting an online database for all contracted public agencies to process their own enrollments and changes of their active employees and dependents.

All non-medical employee benefit plans—including dental, vision, life insurance, long-term disability, voluntary Accidental Death & Dismemberment, flexible spending accounts, and supplemental individual plans such as cancer, intensive care, and whole life insurance—were brokered through Orion Risk Insurance Services. Orion Risk Insurance Services provides comprehensive benefits consulting and administrative support, including plan design, carrier negotiations on rates and benefits, legal and compliance updates, and guidance on open enrollment, ACA, and COBRA administration. Additional services include claims assistance and resolution, vendor evaluation and selection, educational workshops and seminars, customized reporting and analysis, the preparation and printing of the annual Benefit Summary Guide, and individual employee Total Compensation Statements.

(a) 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 2025.

Agents/Brokers	Coverage	Premiums	Total Fees/ Commissions	% of Fee to Premiums
CalPERS	Medical	$70,530,602	$123,497	.17%
Orion Risk Insurance	Non-Medical	$5,159,839.49	$171,262.69	3.3%

(b) 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