

## BFED Committee

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**From:** Kim, Lori <lori.kim@hawaii.gov>  
**Sent:** Thursday, March 6, 2025 3:42 PM  
**To:** BFED Committee  
**Subject:** Thomas Williams Presentation for BFED Committee meeting on March 18, 2025  
**Attachments:** ERS Presentation to Maui BFED Committee 2025.pdf

Aloha,

Please find attached Thomas Williams presentation for the Budget, Finance and Economic Development Committee meeting on Tuesday, March 18, 2025. If you have any questions, please let me know.

Mahalo,  
Lori

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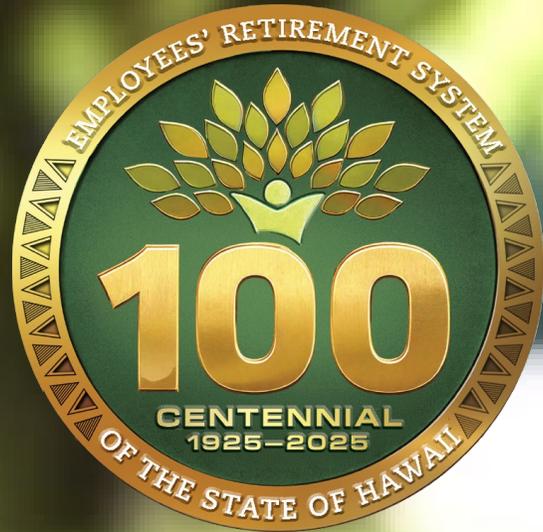


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# Employees' Retirement System of the State of Hawaii



**Presentation to the Budget, Finance, and Economic  
Development Committee, Maui County Council**

by Thomas Williams, ERS Executive Director

March 18, 2025



# Agenda

Membership and Benefits

Actuarial Valuation: Funded Status and Unfunded Liability

Impact of New Benefit Tiers

Maui Employer Contributions, Excess Pension Costs

Investments: Portfolio Allocation, Performance

Actual v. Projected Unfunded Actuarial Accrued Liability

Actuarial Stress Test

Temporary Hazard Pay

2025 Legislative Bills

Questions





## ERS Membership includes qualified state and county employees as of June 30, 2024

<b>Total Members:</b>	<b>158,560</b>
▶ <b>Active Employees:</b>	<b>65,337</b>
▶ Living in Maui County (1/31/2025)	6,937
▶ <b>Retirees &amp; Beneficiaries:</b>	<b>55,820</b>
▶ Living in Maui County (1/31/2025)	5,037
▶ <b>Inactive vested:</b>	<b>8,847</b>
<b>Total inactive, non-vested:</b>	<b>28,556</b>

# ERS Update: Benefits

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55,820 retirees and beneficiaries

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Annual pension and refund payouts for FY2024 = \$1.9 billion  
(estimated to increase to over \$5.0 billion in 30 years)

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Average annual pension = \$ 34,402

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Over 15,000 active employees can retire today



# Funded Status as of June 30, 2024

Actuarial accrued liabilities:	\$37.8 billion
Actuarial value of assets:	\$23.8 billion
Market value of assets:	\$23.7 billion
Unfunded Actuarial Accrued Liability:	\$14 billion
*Funded Ratio:	63%
Funding Period:	22 Years

\*Funded Ratio is the ratio of the actuarial value of assets to the actuarial accrued liability.

# 2024 Actuarial Valuation Results

## All Employees

Valuation Year	2021	2022	2023	2024
UAAL (\$ Billions)	\$14.23	\$13.51	\$13.71	\$14.01
Actuarial Funded Ratio	58.3%	61.2%	62.2%	63.0%
Funding Period in years*	24	24	23	22

\*Based on open group projection, recognizing new benefits for members hired after June 30, 2012

# By Employee Group

Valuation Year	2021	2022	2023	2024
<b>Police and Fire Employees (11% of Payroll)</b>				
UAAL (\$ Billions)	\$2.46	\$2.23	\$2.23	\$2.23
Actuarial Funded Ratio	63.3%	67.4%	68.8%	70.2%
Funding Period in years*	25	23	22	22
<b>All Other Employees (89% of Payroll)</b>				
UAAL (\$ Billions)	\$11.77	\$11.28	\$11.48	\$11.78
Actuarial Funded Ratio	57.1%	59.7%	60.5%	61.2%
Funding Period in years*	23	24	23	22

\*Based on open group projection, recognizing new benefits for members hired after June 30, 2012

# Sources of Funding Impact

*Investments* underperformed 7.00% assumption on market basis, but...

- Smoothing technique is still deferring most of the FY23 and FY24 underperformance into future years (approximately \$140 million remain)
- Approximately \$57 million loss recognized this year

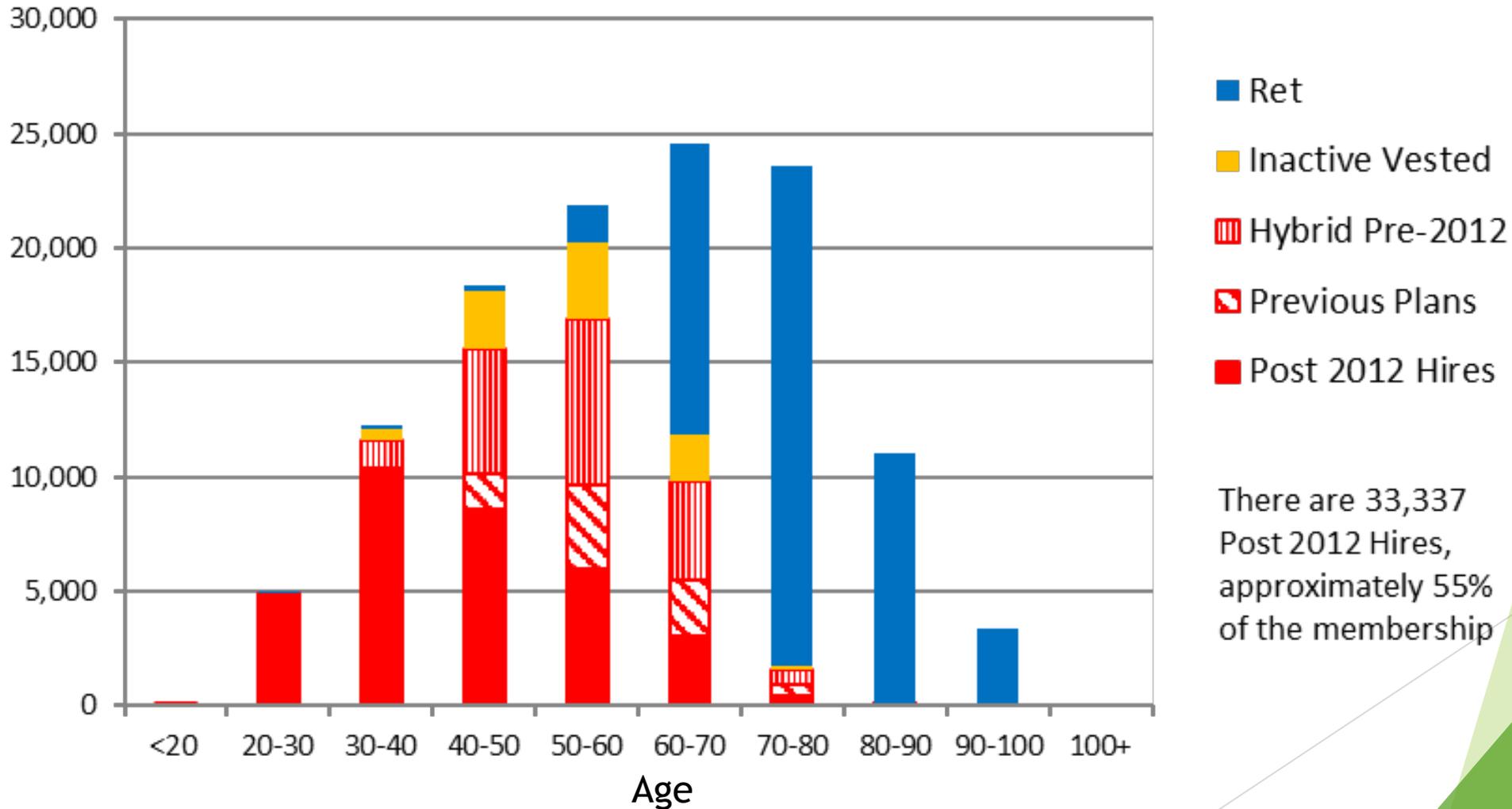
*Liabilities* grew slightly faster than expected

- Primarily due to salary increases greater than current expectations



# Impact of New Benefit Tiers:

All Other Employees: Counts by group and by age

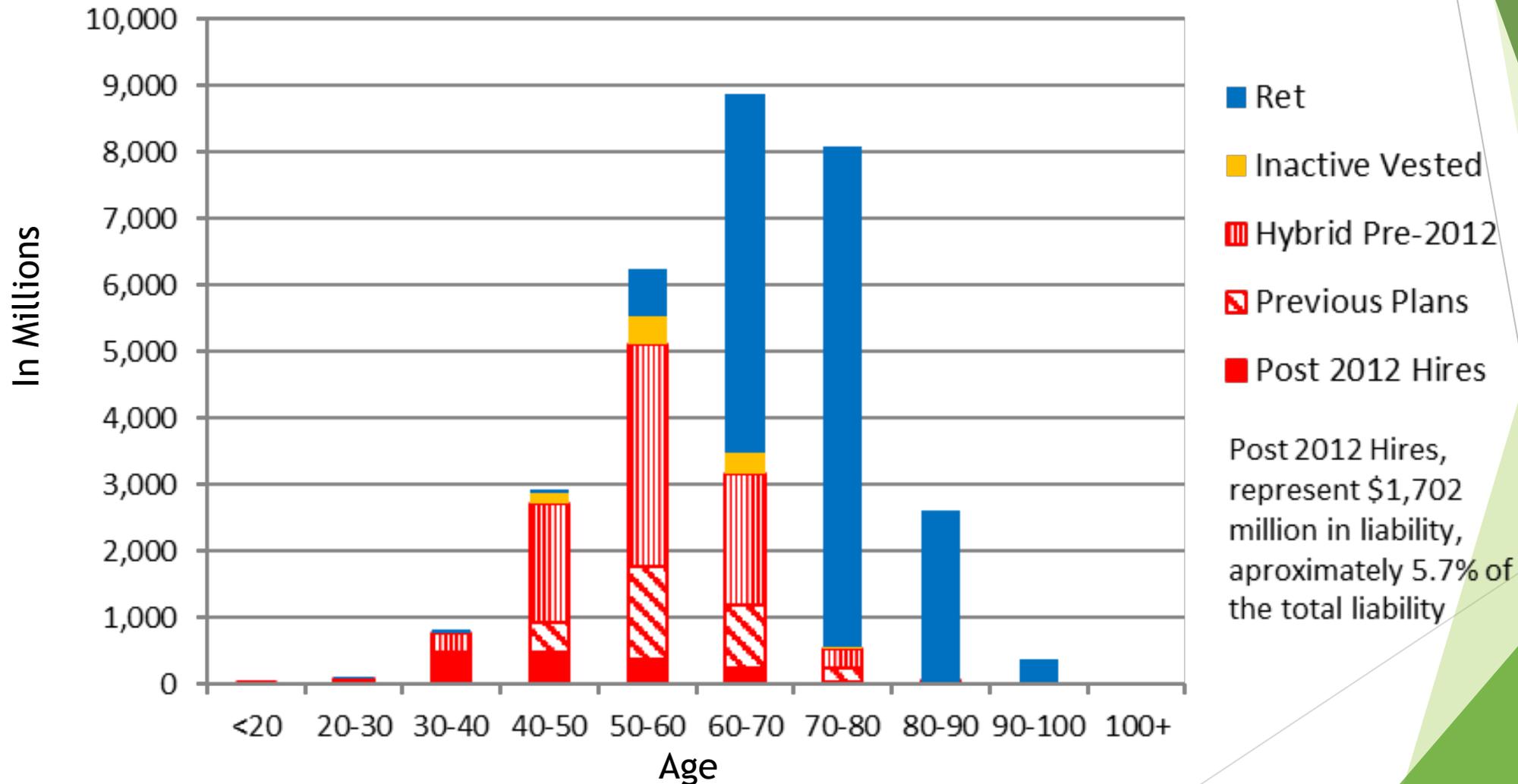


There are 33,337 Post 2012 Hires, approximately 55% of the membership



# Impact of New Benefit Tiers:

## *All Other Employees: Liability by group and by age*



# Employer Contributions to ERS (Act 17/2017) Estimated for 2025-2026

	2020-2021	2021-2022	2022-2023	2023-2024	2024-2025	2025-2026
County of Maui	\$57,183,000	\$59,184,000	\$61,255,000	\$63,399,000	\$65,618,000	\$67,915,000

General Employees	Special Categories (Police Officers, Firefighter and Correction Officers)
24%	41%

► Note: These are combined employer contributions for both groups of employees (Police/Fire and All Others). The employer contributions above do not include contributions for Excess Pension Costs under Act 153/2012. Assumed payroll growth is at 3.5% per year for both groups.

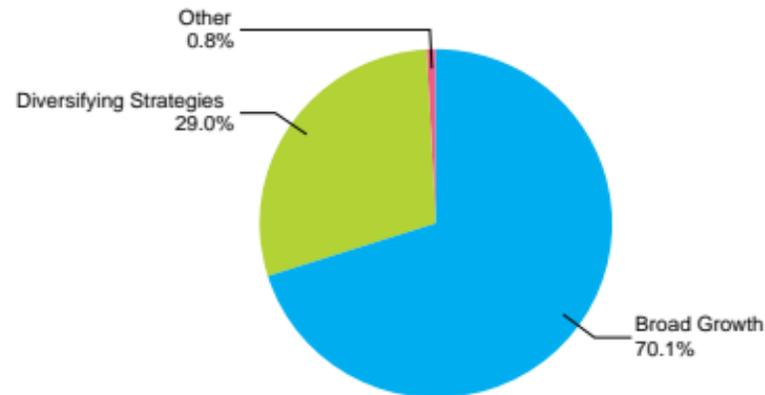
# County of Maui Excess Pension Costs due to Act 153/2012 (“Pension Spiking”)

	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024
Number of Spiking Retirees	33	31	26	25	44	36	43	45
Total Costs	\$2,227,884	\$1,874,870	\$2,354,082	\$4,180,127	\$5,983,737	\$5,424,641	\$5,875,398	\$6,808,142

# ERS Portfolio Allocation

## as of December 31, 2024

Asset Allocation vs. Target As of December 31, 2024					
	Balance (\$)	Current Allocation (%)	Policy (%)	Difference (%)	Policy Range (%)
<b>Broad Growth</b>	<b>16,756,107,925</b>	<b>70.1</b>	<b>70.0</b>	<b>0.1</b>	<b>60.0 - 80.0</b>
Global Equity	9,276,730,472	38.8	39.0	-0.2	19.0 - 59.0
Global Credit	2,796,275,283	11.7	12.0	-0.3	6.0 - 18.0
Real Assets	4,683,102,170	19.6	19.0	0.6	9.0 - 29.0
<b>Diversifying Strategies</b>	<b>6,941,826,121</b>	<b>29.0</b>	<b>30.0</b>	<b>-1.0</b>	<b>20.0 - 40.0</b>
Liquid Defensive/Diversifying	5,994,590,447	25.1	26.0	-0.9	15.0 - 30.0
Illiquid Diversifying	947,235,674	4.0	4.0	0.0	0.0 - 9.0
<b>Other</b>	<b>201,445,786</b>	<b>0.8</b>	<b>0.0</b>	<b>0.8</b>	<b>0.0 - 0.0</b>
Other	201,445,786	0.8	0.0	0.8	0.0 - 0.0
<b>Total</b>	<b>23,899,379,832</b>	<b>100.0</b>	<b>100.0</b>	<b>0.0</b>	



Policy targets effective January 1, 2024. "Other" includes ERS Operating Account, Parametric Overlay program, and transitional or residual proceeds from liquidating or terminated accounts.

# ERS Portfolio Performance

## as of December 31, 2024

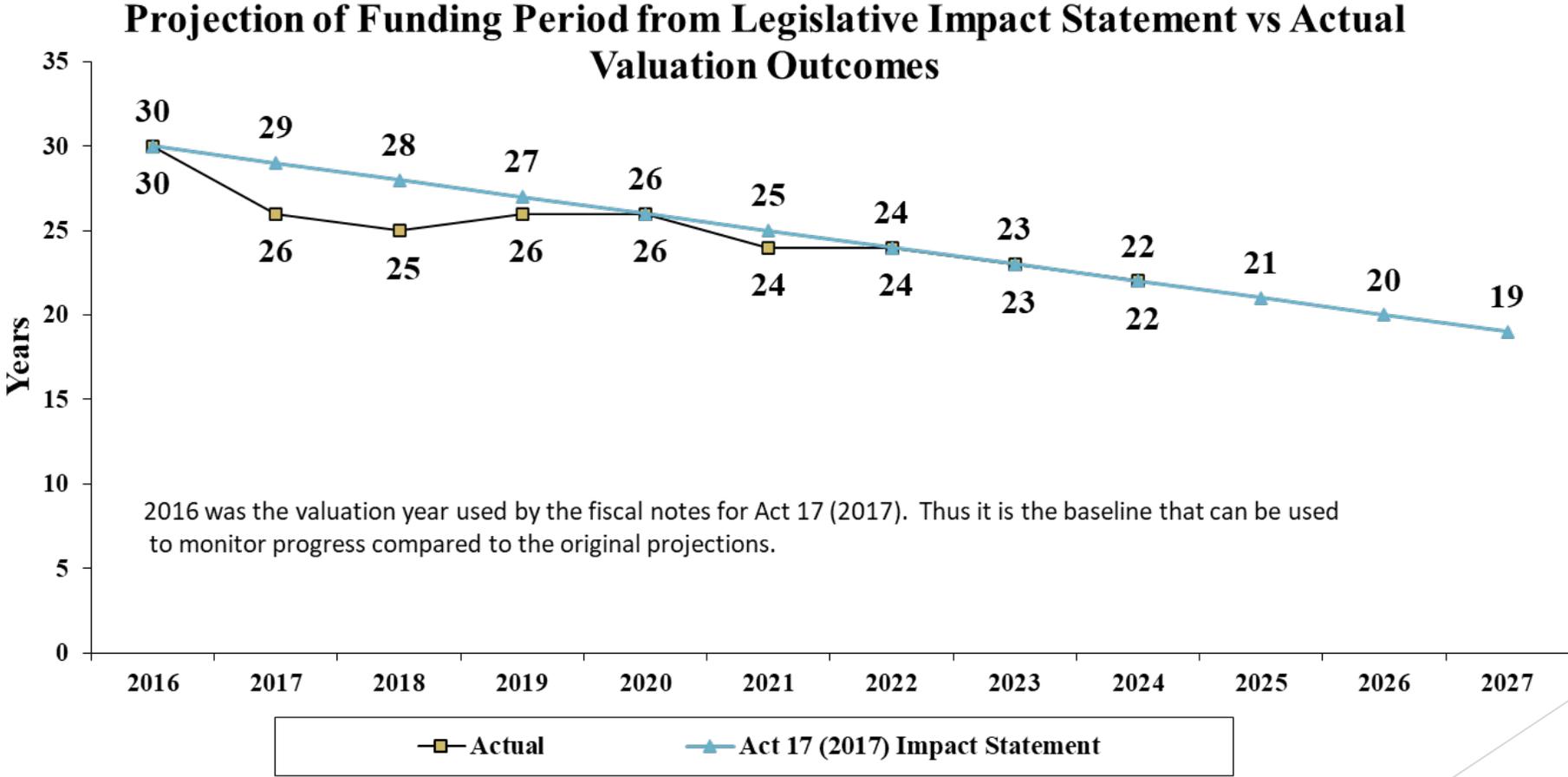
	Portfolio Valuation	
	Quarter-to-Date	One Year
<b>Total Fund</b>		
Beginning Market Value	24,036,177,827	22,880,493,536
Net Cash Flow	-95,067,005	-68,987,444
Capital Appreciation	-41,730,991	1,087,873,739
<b>Ending Market Value</b>	<b>23,899,379,832</b>	<b>23,899,379,832</b>

	ERS Total Fund Relative Performance								
	Inception	30 Yrs	20 Yrs	10 Yrs	5 Yrs	3 Yrs	1 Yr	FYTD	QTD
<b>Total Fund</b>	7.6	7.5	6.6	6.9	7.0	3.2	5.7	2.2	-0.2
Return Benchmark	7.7	7.7	7.5	7.1	7.0	7.0	7.0	3.4	1.7
Excess Return	-0.1	-0.2	-0.9	-0.2	0.0	-3.8	-1.3	-1.2	-1.9
<b>Total Fund</b>	7.6	7.5	6.6	6.9	7.0	3.2	5.7	2.2	-0.2
Market Benchmark	8.0	7.9	6.9	7.2	8.1	6.1	16.1	6.7	3.4
Excess Return	-0.4	-0.4	-0.3	-0.3	-1.1	-2.9	-10.4	-4.5	-3.5
<b>Total Fund</b>	7.6	7.5	6.6	6.9	7.0	3.2	5.7	2.2	-0.2
Peer Benchmark	7.9	7.8	6.6	6.8	6.9	2.7	9.0	3.8	-0.9
Excess Return	-0.3	-0.3	0.0	0.1	0.1	0.5	-3.3	-1.6	0.7
Total Fund Rank	74	80	41	44	42	38	98	99	16

Total Fund performance consists of net of fees returns. Fiscal year begins on July 1. Inception date is June 1, 1990. Current Market Benchmark composition (effective January 1, 2024) is 70% Broad Growth Benchmark and 30% Diversifying Strategies Benchmark. Return Benchmark represents the ERS's actuarial assumption rate, which is 7.0% since July 2016, 7.65% from July 2015 to July 2016, 7.75% July 2011 to July 2015, 8.00% prior to July 2011. Peer Benchmark represents the plan sponsor peer group InvMetrics Public DB >\$1B Net universe and includes BNY Mellon Total Public Fund >\$1B universe and Investment Metrics client data.



# Projection of Funding Period from 2016 Legislative Impact Statement vs Actual Valuation Outcomes



Assumes all assumptions met, including 7.00% return each year on the June 30, 2024 smoothed value of assets

# Actuarial Stress Test Summary

- ▶ Actuarial valuation results show System is on target to be fully funded in less than 30 years
  - ▶ Primarily due to legislated employer contribution increases
- ▶ Stress test shows that System is sustainable in a low return environment
  - ▶ Although date of achieving full funded status would be extended



# Temporary Hazard Pay (THP) from 2020 through 2022

- ▶ There are ongoing settlements granting back pay for work during the pandemic
- ▶ Maui's known settlements are already in the 2024 valuation data and financials
- ▶ Employees (and retirees) of other employers will continue to receive payouts after this valuation period
- ▶ The total impact to the System is expected to be an increase in the UAAL of between \$240 million - \$350 million, and an increase of 6 - 12 months on the funding period, but could be less depending on several factors.
- ▶ Aside from Maui (whose payments occurred before the valuation date) we have not made an adjustment to the individual liabilities in the 2024 valuation for these payments but will wait and let the actual data develop over the next couple of valuation cycles, because
  - ▶ the negotiations are ongoing for some groups
  - ▶ the payments are after the valuation date
  - ▶ there are unknowns such as the amount of spiking revenue that will be generated
  - ▶ the impact could also be minimized by other salary increases
  - ▶ the result will not impact the contribution rates



# 2025 Legislative Bills

- ▶ **HB1041/SB1360** - Conforms ERS' definition of the Required Beginning Date for Required Minimum Distributions with the ages in the Internal Revenue Code.
- ▶ **HB1042/SB1361** - The bills propose to extend the deadline for Legislative reporting and billing of pre-payment of employer contributions by departments or agencies of the State or counties that failed to provide the information in the required format from the current fiscal year to the next fiscal year.



## 2025 Legislative Bills (cont.)

- ▶ **HB813, SB935, SB1401** - Lowers vesting requirement from 10 to 5 years for Tier 2 members in service on or after the implementation date. Increases ERS UAAL by \$8.1 million. Costs to fund change is either \$152 m by July 2025 or Employer contribution rate increase of +0.19% for a total of \$273 million.
- ▶ **HB378/SB470 & HB406/SB273** - Deferred Retirement Option Program for Police officers. DROPs as proposed would increase ERS UAAL by \$187 million and increase period to full funding by 8 years. Police contribution rate to maintain funding at 22 years is 55.1% (+14.1%) at a total cost of \$311 million.



# ERS Contact Information

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# MAHALO!



Employees' Retirement System  
of the State of Hawaii