

Employees' Retirement System of the State of Hawaii

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

by Thomas Williams, ERS Executive Director

March 7, 2023



Employees' Retirement System
of the State of Hawaii

Agenda

Membership and Benefits

Actuarial Valuation: Funded Status and Unfunded Liability

Impact of New Benefit Tiers

Actual v. Projected Unfunded Actuarial Accrued Liability

Maui Employer Contributions, Excess Pension Costs


Investments: Portfolio Allocation, Performance

Actuarial Stress Test

2023 Legislative Bills

Questions





ERS Membership includes qualified state and county employees as of June 30, 2022

Total Members: **149,481**

- ▶ **Active Employees:** **64,234**
 - ▶ Living in Maui County (12/31/2022) 6,806
- ▶ **Retirees & Beneficiaries:** **53,990**
 - ▶ Living in Maui County (12/31/2022) 3,486
- ▶ **Inactive vested:** **9,031**

Total inactive, non-vested: **22,226**

ERS Update: Benefits

53,990 retirees and beneficiaries

Annual pension and refund payouts for FY2022 = \$1.76 billion
(estimated to increase to over \$4.7 billion in 30 years)

Average annual pension = \$ 31,766

Over 15,000 active employees can retire today



Funded Status as of June 30, 2022

Actuarial accrued liabilities: \$34.8 billion

Actuarial value of assets: \$21.3 billion

Market value of assets: \$21.9 billion

Unfunded Actuarial Accrued Liability: \$13.5 billion

*Funded Ratio: 61.2%

Funding Period: 24 Years

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



2022 Actuarial Valuation Results

Valuation Year	2019	2020	2021	2022
Based on Smoothed Asset Value				
UAAL (\$ Billions)	\$14.07	\$14.61	\$14.23	\$13.51
Actuarial Funded Ratio	55.2%	55.3%	58.3%	61.2%
Funding Period in years*	26	26	24	24
Based on Market Value				
Actuarial Funded Ratio	54.9%	53.2%	64.3%	62.8%
Funding Period in years*	26	26	19	23

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

By Employee Group

Valuation Year	2019	2020	2021	2022
Police and Fire Employees (11% of Payroll)				
UAAL (\$ Billions)	\$2.50	\$2.65	\$2.46	\$2.23
Actuarial Funded Ratio	58.7%	58.8%	63.3%	67.4%
Funding Period in years*	28	28	25	23
All Other Employees (89% of Payroll)				
UAAL (\$ Billions)	\$11.57	\$11.96	\$11.77	\$11.28
Actuarial Funded Ratio	54.3%	54.5%	57.1%	59.7%
Funding Period in years*	25	25	23	24

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



Sources of Impact

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

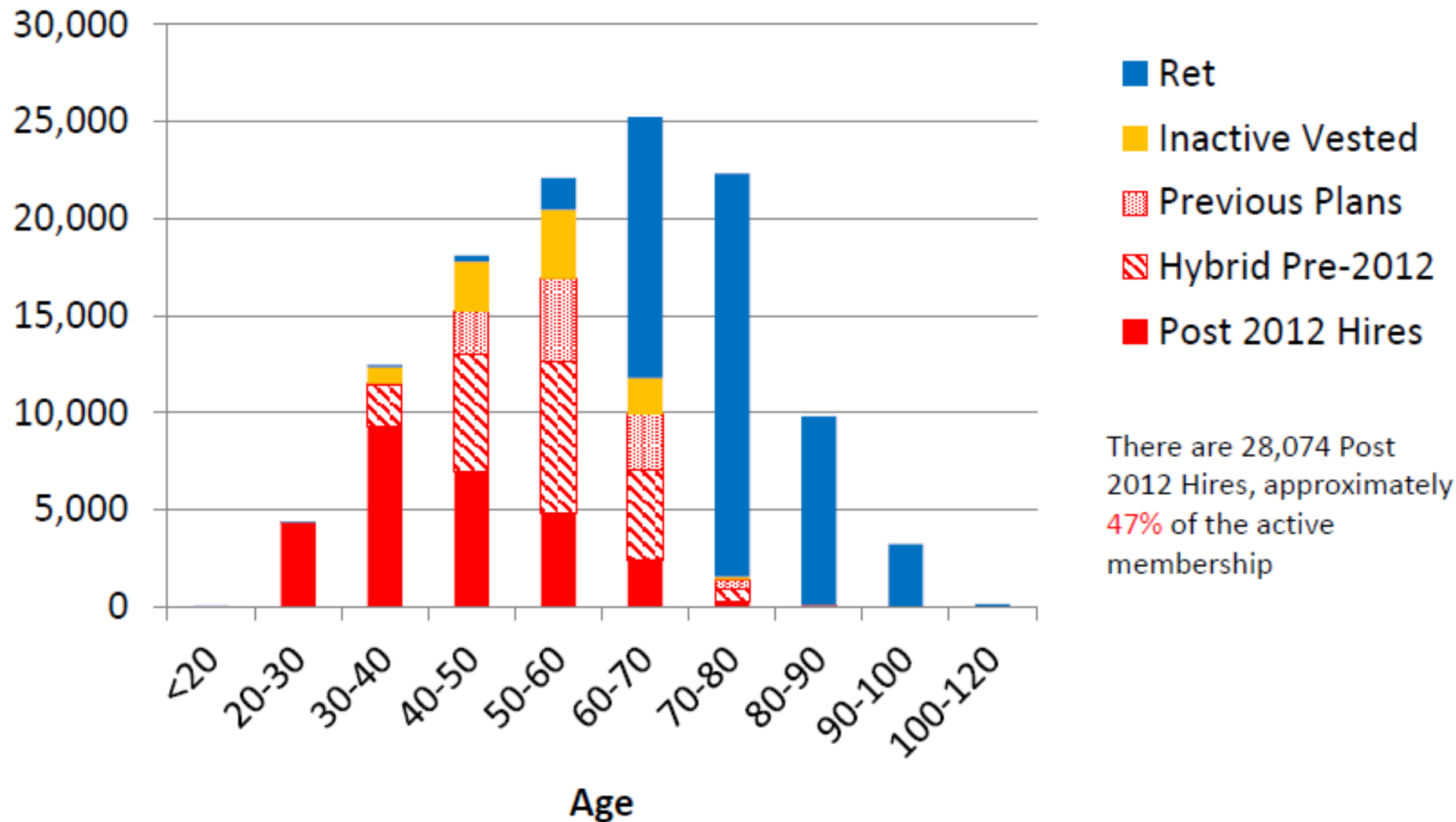
- Smoothing technique deferred most of the FY21 outperformance into future years (approximately \$2.0 billion)
- Net between the two years is a gain on actuarial value of assets

Liabilities grew slower than expected

- Primarily due to salary increases smaller than current expectations, largely due to non-base compensation being down

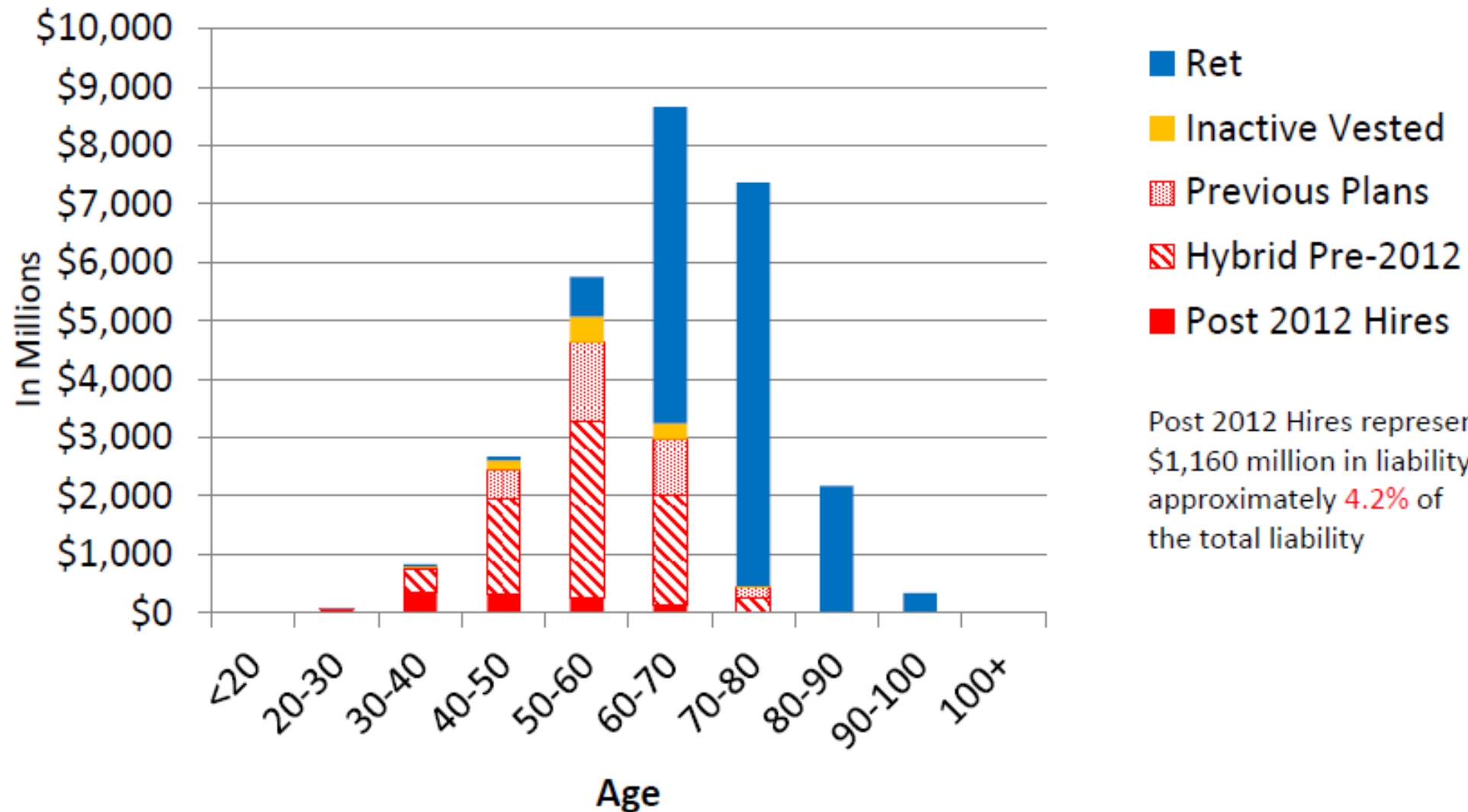
Impact of New Benefit Tiers:

All Other Employees: Counts by group and by age



Impact of New Benefit Tiers:

All Other Employees: Liability by group and by age



Employer Contributions to ERS (Act 17/2017)

Estimated for 2023-2024

	2018-2019	2019-2020	2020-2021	2021-2022	2022-2023	2023-2024
County of Maui	\$41,295,000	\$49,562,000	\$57,183,000	\$59,184,000	\$61,255,000	\$63,399,000

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

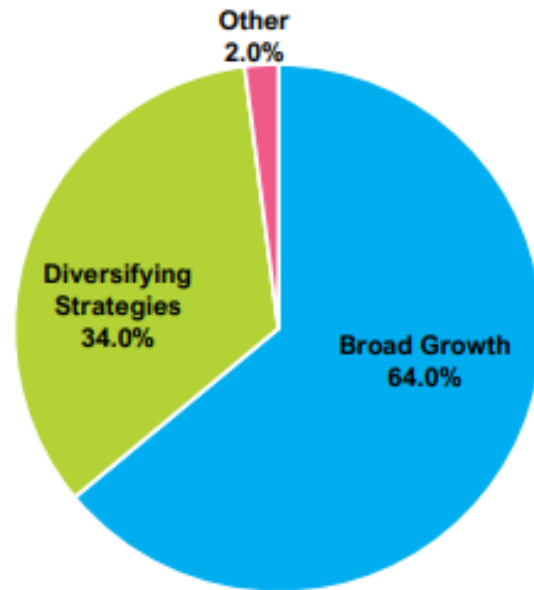
Excess Pension Costs due to Act 153/2012 (“Pension Spiking”)

	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022
Number of Spiking Retirees	28	28	33	31	26	25	44	36
Total Costs	\$1,773,652	\$1,091,207	\$2,227,884	\$1,874,870	\$2,354,082	\$4,180,127	\$5,983,737	\$5,424,641

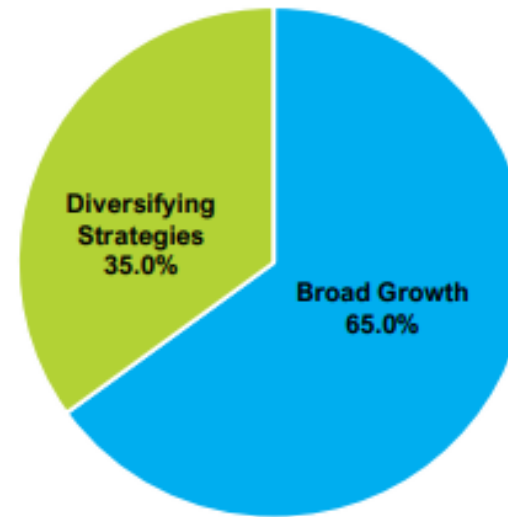
ERS Portfolio Allocation

as of September 30, 2022

Asset Allocation - Actual



Asset Allocation - Target



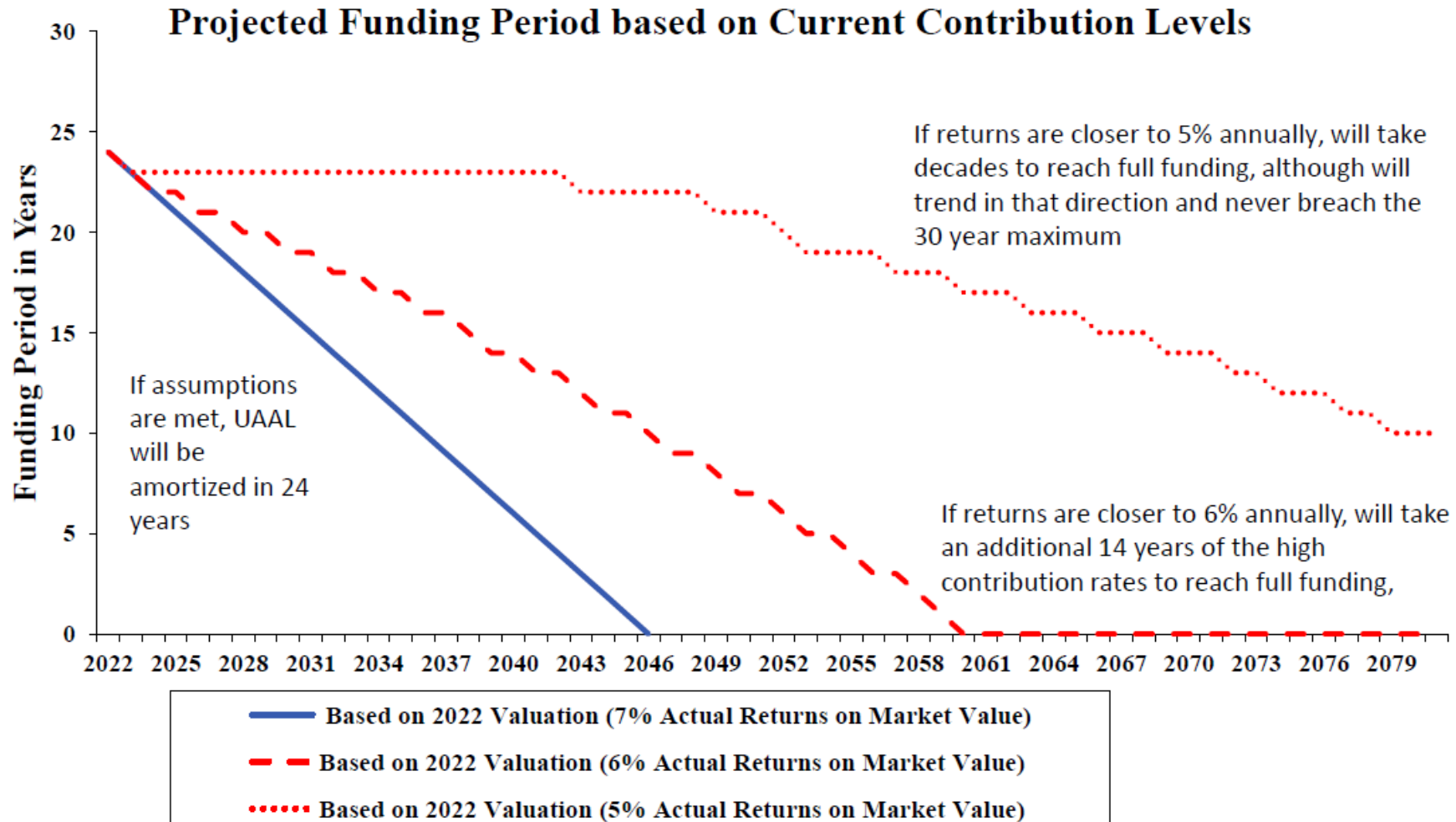
	Actual Allocation		Target Allocation*		Difference
	(\$M)	(%)	(\$M)	(%)	(%)
Broad Growth	13,804.7	64.0%	14,019.3	65.0%	-1.0%
Diversifying Strategies	7,323.1	34.0%	7,548.8	35.0%	-1.0%
Other	440.3	2.0%	-	0.0%	2.0%
Total	21,568.1	100.0%	21,568.1	100.0%	



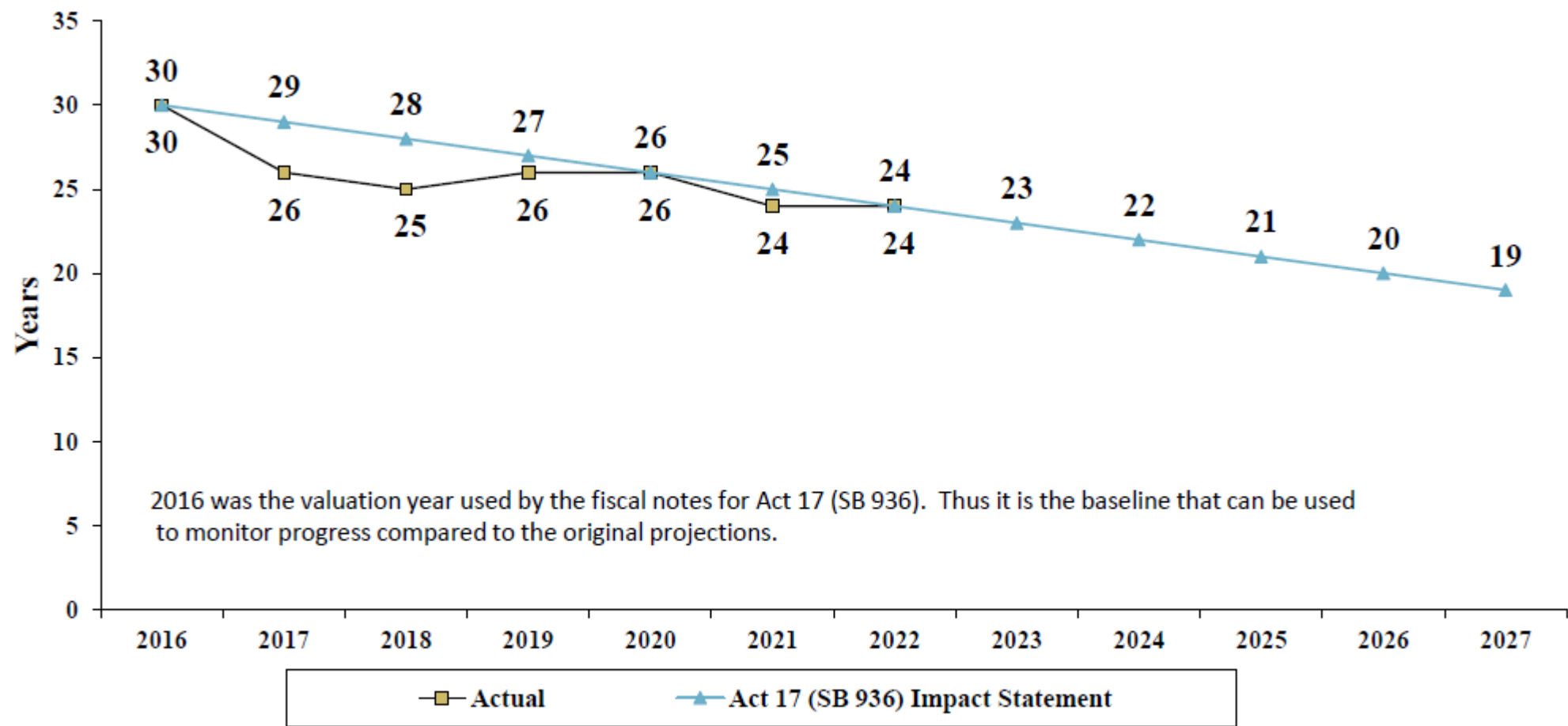
2022 Investment Performance

As of Date	Market Value	Quarter	1 year	3 Years	5 Years	10 Years
Mar 31	22,384,430,982	-0.1	11.7	11.8	9.7	9.0
June 30	21,967,550,908	-1.6	3.7	10.0	8.7	9.0
Sept 30	21,568,131,702	-1.4	0.6	8.8	7.7	8.4
Dec 31	21,670,365,958	0.90	-2.10	7.9	7.0	8.2

Projection of Funding Period Sensitivity from Investment Returns



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, 2022 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



2023 Legislative Bills

- ▶ HB1013/SB1311 - Employees' Retirement System; Repeal; Act 192, Session Laws of Hawaii 2007
- ▶ HB1014/SB1312 - Employees' Retirement System; Service-Connected Disability; Accidental Death
- ▶ SB1158 - Employees' Retirement System; Police Officers; Retirement; Medical Coverage; Spousal Benefits; Minimum Age; Years of Credited Service
- ▶ HB103 - City and County of Honolulu Package; ERS; Reporting Standards; Final Specifications

ERS Contact Information

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MAHALO!



Employees' Retirement System
of the State of Hawaii

BFED Committee

From: Kim, Lori <lori.kim@hawaii.gov>
Sent: Wednesday, March 1, 2023 2:22 PM
To: BFED Committee
Subject: Thom Williams Presentation for Maui BFED Committee
Attachments: ERS Presentation to Maui BFED Committee 3-7-2023.pdf

Follow Up Flag: Follow up
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You don't often get email from lori.kim@hawaii.gov. [Learn why this is important](#)

Aloha,

Please find attached Thom Williams' presentation for your BFED Committee meeting on March 7th. If you have any questions, please let me know.

Mahalo,
Lori

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