

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 5, 2024



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

2024 Legislative Bills

Questions





ERS Membership includes qualified state and county employees as of June 30, 2023

Total Members: 155,113

- ▶ **Active Employees:** 64,243
 - ▶ Living in Maui County (1/31/2024) 6,693
- ▶ **Retirees & Beneficiaries:** 54,973
 - ▶ Living in Maui County (1/31/2024) 4,979
- ▶ **Inactive vested:** 8,997

Total inactive, non-vested: 26,900

ERS Update: Benefits

54,973 retirees and beneficiaries

Annual pension and refund payouts for FY2023 = \$1.82 billion
(estimated to increase to over \$4.7 billion in 30 years)

Average annual pension = \$ 33,556

Over 15,000 active employees can retire today



Funded Status as of June 30, 2023

Actuarial accrued liabilities:	\$36.2 billion
Actuarial value of assets:	\$22.5 billion
Market value of assets:	\$22.4 billion
Unfunded Actuarial Accrued Liability:	\$13.71 billion
*Funded Ratio:	62.2%
Funding Period:	23 Years

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

2023 Actuarial Valuation Results

All Employees

Valuation Year	2020	2021	2022	2023
UAAL (\$ Billions)	\$14.61	\$14.23	\$13.51	\$13.71
Actuarial Funded Ratio	55.3%	58.3%	61.2%	62.2%
Funding Period in years*	26	24	24	23

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

By Employee Group

Valuation Year	2020	2021	2022	2023
Police and Fire Employees (11% of Payroll)				
UAAL (\$ Billions)	\$2.65	\$2.46	\$2.23	\$2.23
Actuarial Funded Ratio	58.8%	63.3%	67.4%	68.8%
Funding Period in years*	28	25	23	22
All Other Employees (89% of Payroll)				
UAAL (\$ Billions)	\$11.96	\$11.77	\$11.28	\$11.48
Actuarial Funded Ratio	54.5%	57.1%	59.7%	60.5%
Funding Period in years*	25	23	24	23

*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 had deferred most of the FY21 outperformance into future years (approximately \$0.5 billion remained)
- Net between the two years is a small loss on actuarial value of assets

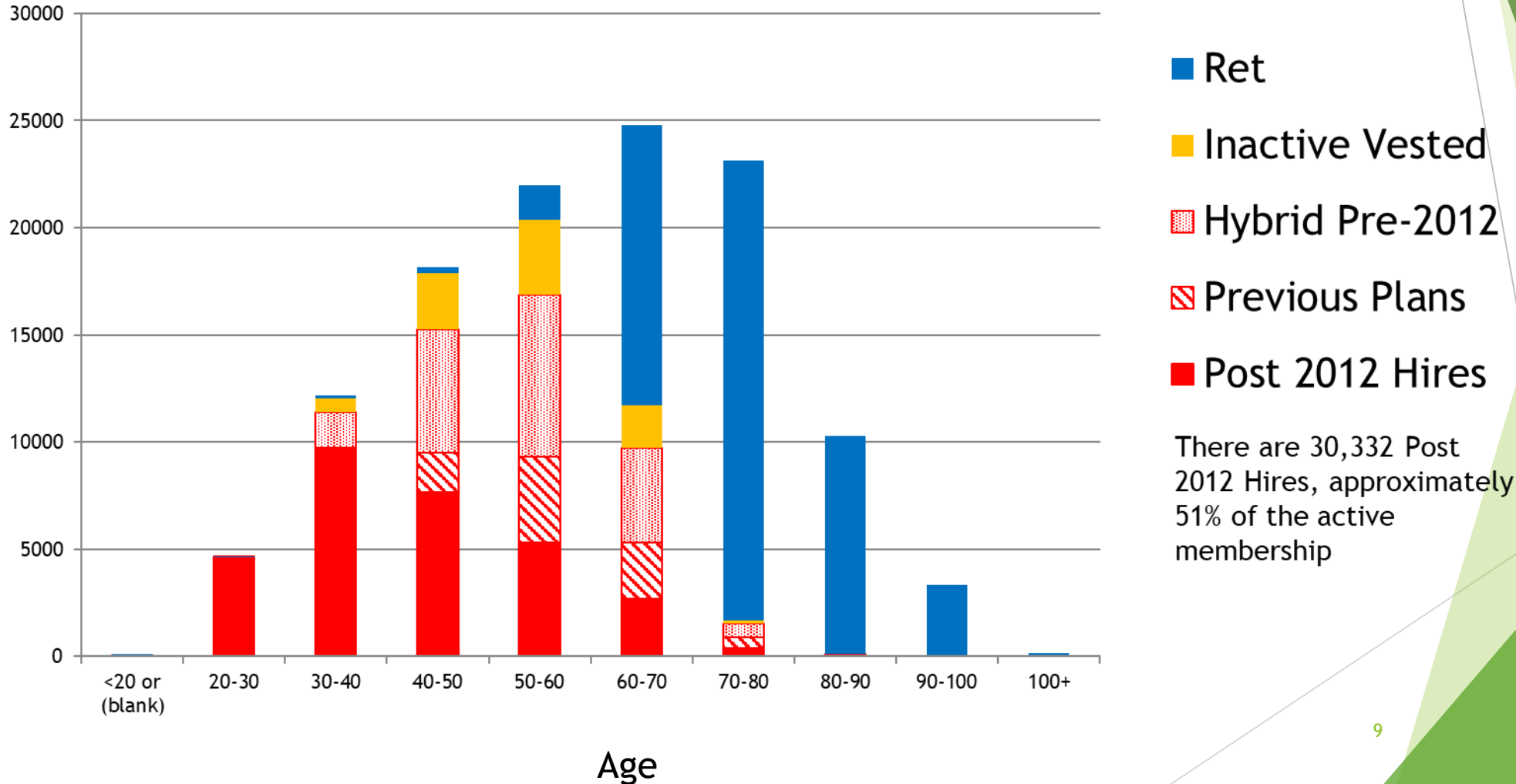
Liabilities grew slightly faster than expected

- Primarily due to salary increases greater than current expectations



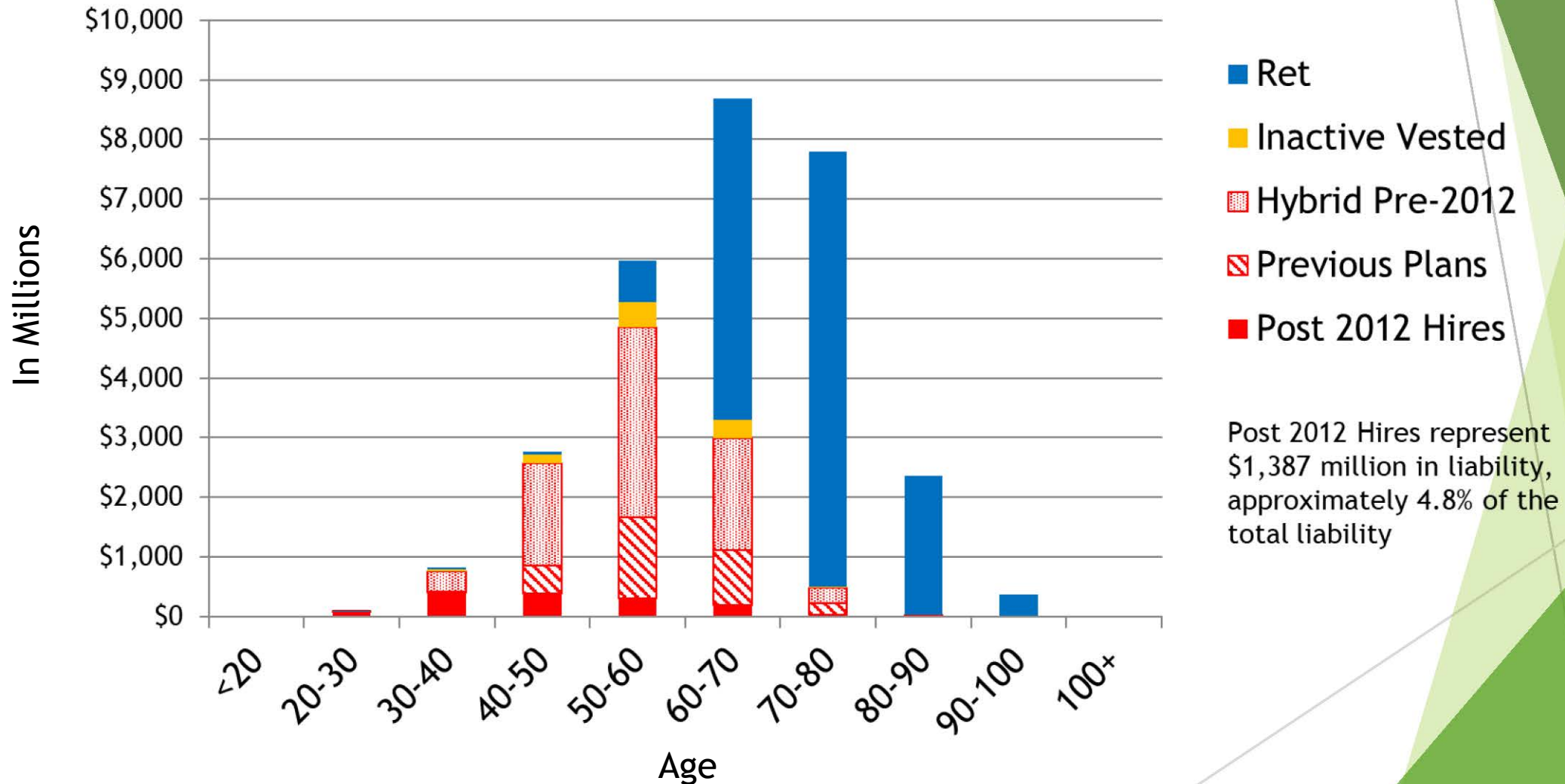
Impact of New Benefit Tiers:

All Other Employees: Counts by group and by age



Impact of New Benefit Tiers:

All Other Employees: Liability by group and by age



Employer Contributions to ERS (Act 17/2017)

Estimated for 2024-2025

	2019-2020	2020-2021	2021-2022	2022-2023	2023-2024	2024-2025
County of Maui	\$49,562,000	\$57,183,000	\$59,184,000	\$61,255,000	\$63,399,000	\$65,618,000

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.

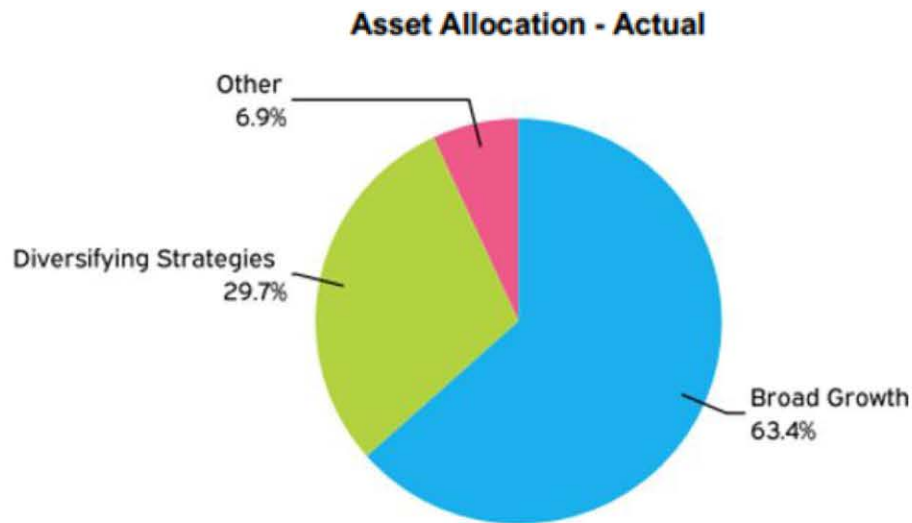
County of Maui

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

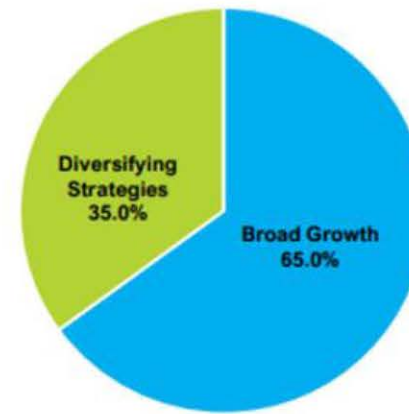
	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023
Number of Spiking Retirees	28	33	31	26	25	44	36	43
Total Costs	\$1,091,207	\$2,227,884	\$1,874,870	\$2,354,082	\$4,180,127	\$5,983,737	\$5,424,641	\$5,875,398

ERS Portfolio Allocation

as of December 31, 2023



Asset Allocation - Target



Asset Allocation vs. Target As of December 31, 2023				
	Current Balance (\$)	Current Allocation (%)	Policy (%)	Difference (%)
Broad Growth	14,510,482,342	63.4	65.0	-1.6
Diversifying Strategies	6,792,951,219	29.7	35.0	-5.3
Other	1,577,059,976	6.9	0.0	6.9
Total	22,880,493,536	100.0	100.0	0.0

Source: Meketa Investment Group, Q4 2023 Performance Report, dtd. February 20, 2024



ERS Portfolio Performance

as of December 31, 2023

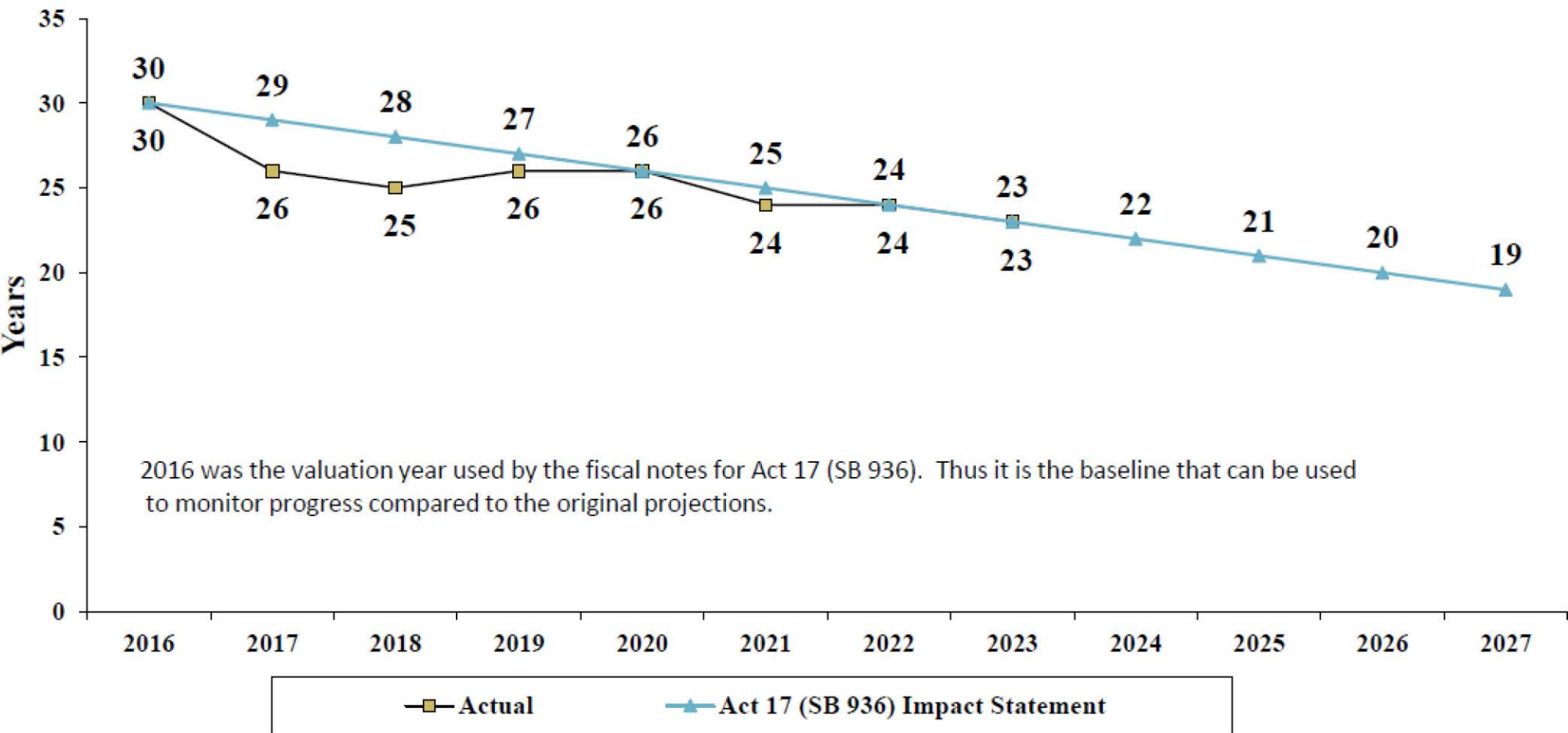
PORTFOLIO VALUATION	
	One Year
Total Fund	
Beginning Market Value	21,670,365,958
Net Cash Flow	-284,733,413
Capital Appreciation	1,494,860,991
Ending Market Value	22,880,493,536

PORTFOLIO PERFORMANCE	QTD	FYTD	1 Yr	3 Yrs	5 Yrs	10 Yrs	20 Yrs
Total Fund	3.4	3.7	6.8	6.4	8.9	7.0	7.0
Actuarial Rate	1.7	3.4	7.0	7.0	7.0	7.2	7.6
TF Policy Benchmark	2.9	3.9	11.6	5.2	7.4	6.2	6.7
InvMetrics Public DB > \$1B Median	6.6	4.6	11.4	4.5	8.1	6.2	6.5

Note: Net Cash Flow reflect benefit payments paid from the Fund.
Source: Meketa Investment Group. Q4 2023 Performance Report, dtd. February 20, 2024



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



15 Assumes all assumptions met, including 7.00% return each year on the June 30, 2023 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



2024 Legislative Bills

- ▶ **SB3070** - Lowers the ERS funding period from 30 to 20 years to amortize the total unfunded accrued liability (heard and passed by both LBT and WAM committees)
- ▶ **HB2382** - Clarifies the Employees' Retirement System Service-Connected Disability, Accidental Death statutes (heard and passed by both LGO and FIN committees)
- ▶ **SB3099 (Governor)** - Lowers Tier 2 vesting requirement from 10 to 5 years (heard and passed by both LBT and WAM committees)

2024 Legislative Bills (cont.)

- ▶ **SB578** - Allows a retiree to be employed in a labor shortage/hard-to-fill investigator position in the Department of the Attorney General without loss or interruption of ERS benefits under certain conditions (heard and passed by both LBT and WAM/JDC committees)
- ▶ **SB2716/HB2198** - Allows public employee organizations to negotiate retirement benefits (deferred by both House (LGO) and Senate (LBT) committees)
- ▶ **HB1644** - Allows overtime to be included as compensation for Tier 2 members when performing specific duties under an active emergency proclamation (Bill was not scheduled for a hearing by the First Decking Deadline of 3/1/2024)
- ▶ **HB2395/SB3084** - Exempts National Guard service members activated by the Governor to state active duty from ERS enrollment (heard and passed by both House (LGO/CMV and FIN) and Senate (PSM/LBT and WAM) committees)

ERS Contact Information

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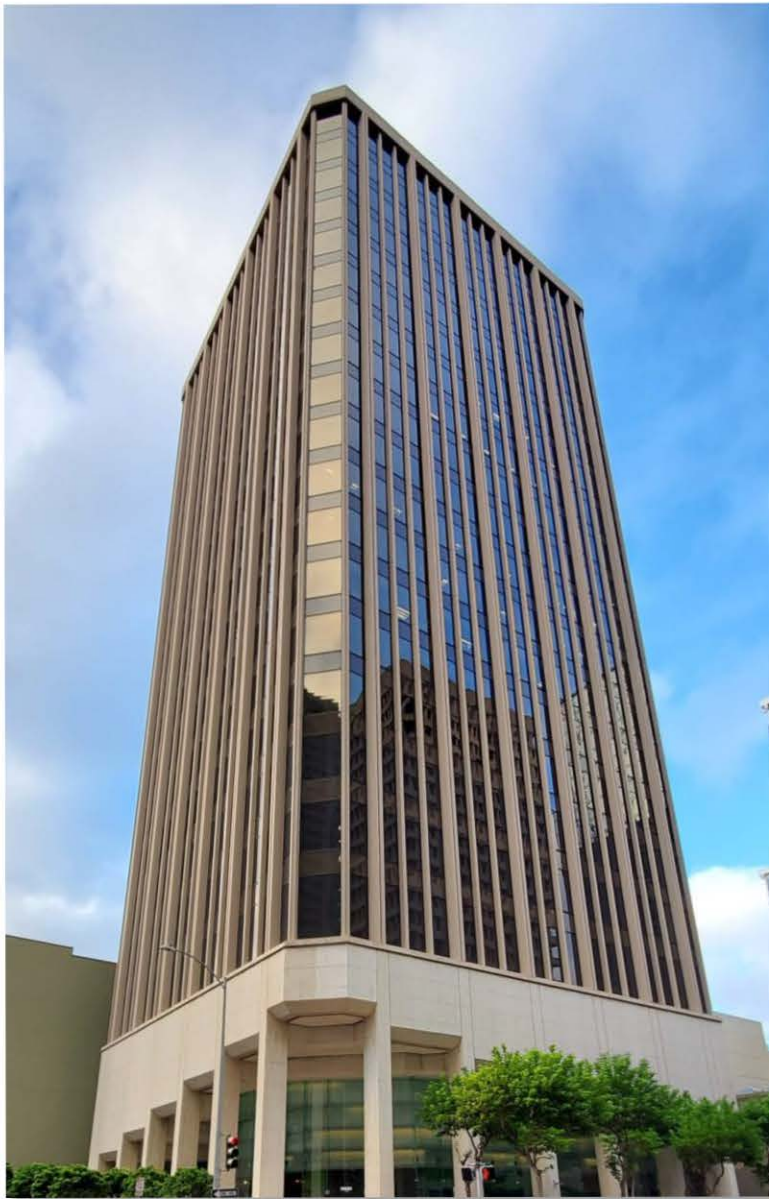
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MAHALO!



Employees' Retirement System
of the State of Hawaii

BFED Committee

From: James G. Krueger
Sent: Monday, March 4, 2024 10:32 AM
To: BFED Committee
Subject: FW: ERS, Thom Williams Presentation
Attachments: ERS Presentation to Maui BFED Committee 2024.pdf

From: Kim, Lori <lori.kim@hawaii.gov>
Sent: Monday, March 4, 2024 10:25 AM
To: James G. Krueger <James.Krueger@mauicounty.us>
Subject: ERS, Thom Williams Presentation

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

Hi James,

Please find attached Thom's presentation for tomorrow's meeting. Let me know if you have any questions.

Mahalo,
Lori

Lori Kim
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