



Employees' Retirement System of the State of Hawaii

**Presentation to the Maui County Council
by Thomas Williams, Executive Director**

February 28, 2019

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(Submitted by Thomas Williams)
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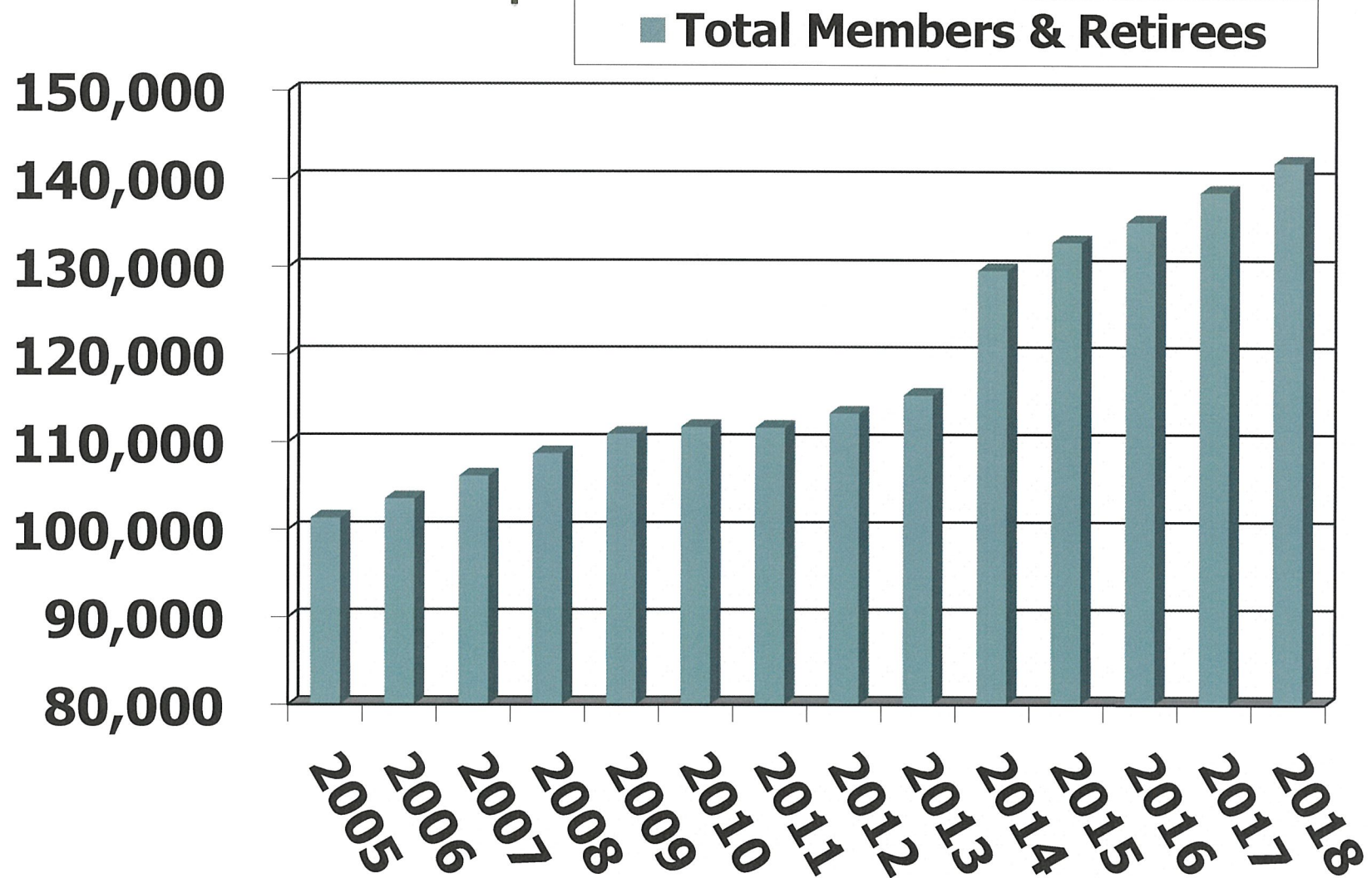
Agenda

- Membership
- Membership and Benefits
- ERS Assets
- Funded Status and Unfunded Liability
- Employer Contributions
- Projection of Funding, Contributions, Investment Returns
- Legislation
- Questions

ERS Membership Includes Qualified State And County Employees as of June 30, 2018

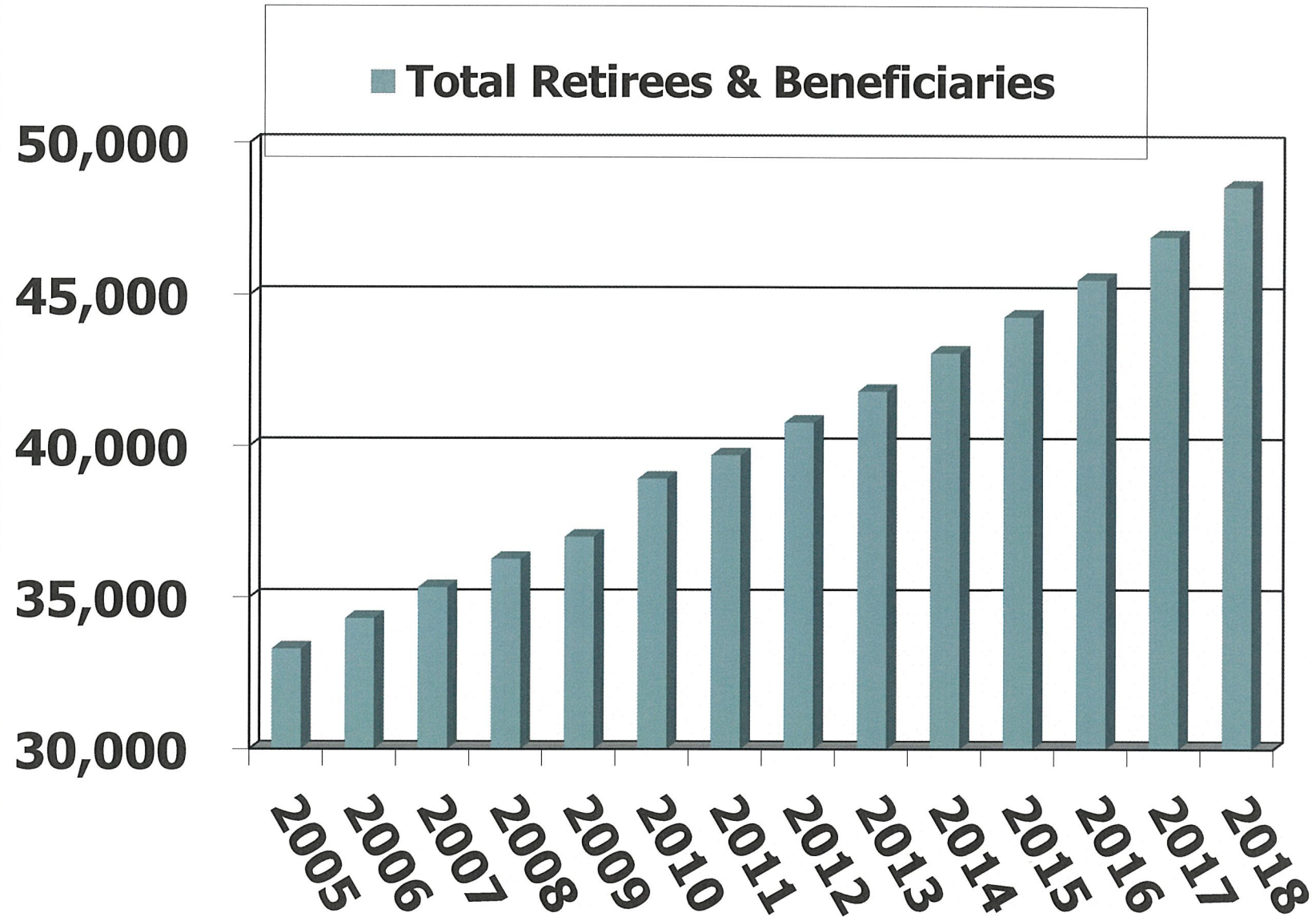
• Total Members:	141,908
◦ Active Employees:	66,271
◦ Retirees & Beneficiaries:	48,569
◦ Inactive , Non-retired Members:	27,068

ERS Membership



Note: Pronounced increase in ERS membership information from FY2014 reflects conformity with GASB No. 67 reporting requirements.

ERS Retirees & Beneficiaries



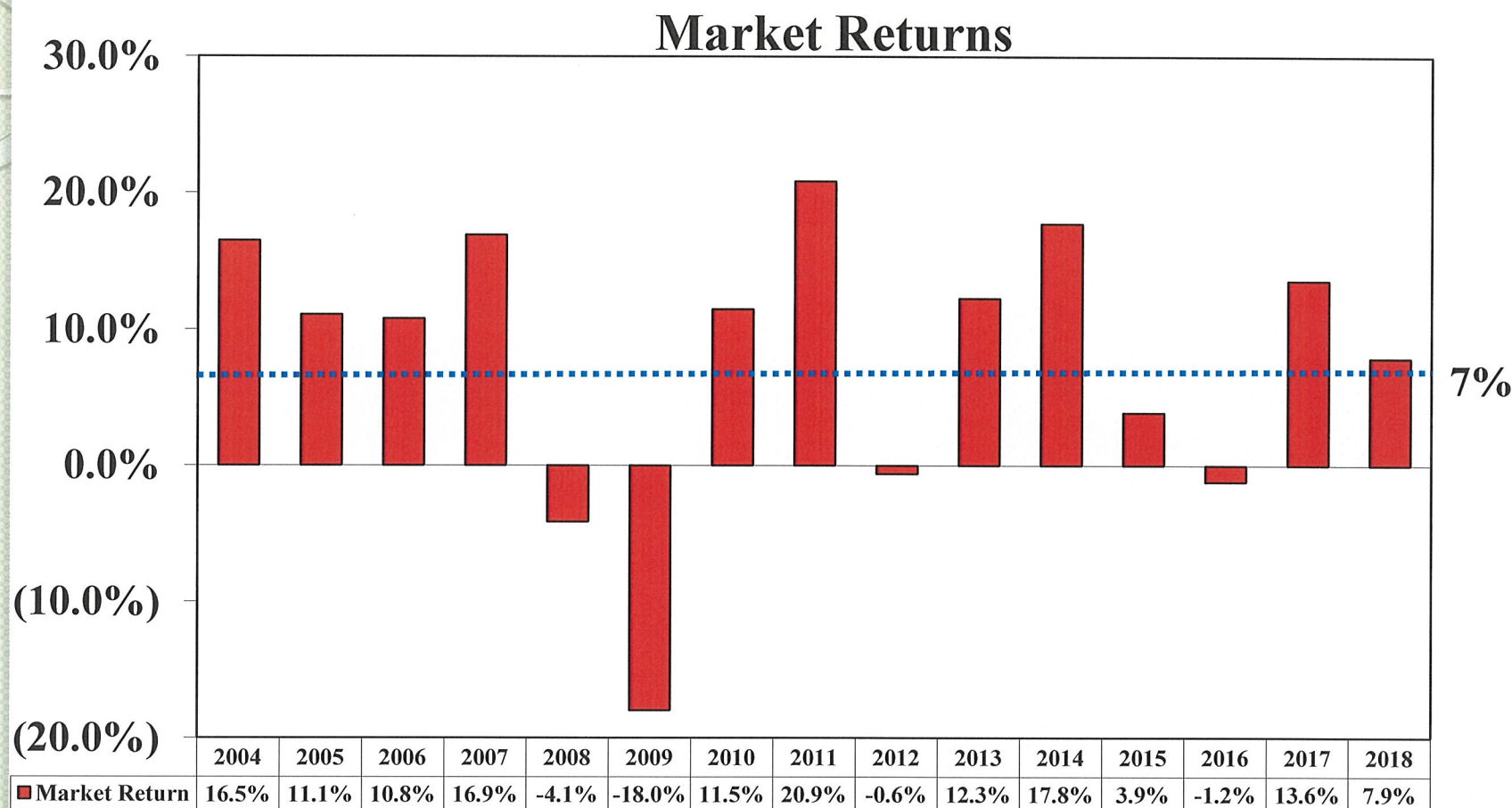
ERS Update - Benefits

- 48,569 pensioners and beneficiaries
- Annual pension payouts for FY2018 = \$1.42 billion (estimated to increase to over \$3.5 billion in 30 years)
- Average annual pension = \$ 28,627
- Over 14,000 active employees can retire today

ERS Assets as of June 30, 2018

- Market Value \$16.6 Billion
- Return on Market Value 7.9%
- Expected Return 7.0%

Estimated Yields on Market Value of Assets



8.2% average return for 5 year period ending June 30, 2018

6.2% average return for 10 year period ending June 30, 2018

7.4% average return for 15 year period ending June 30, 2018

Funded Status As Of June 30, 2018

Actuarially accrued liabilities: **\$29.9 billion**

Total Funded Assets: **\$16.5 billion**

Invested in stocks, bonds,
real estate, private equity,
and cash

Unfunded Actuarial Liability: **\$13.4 billion**

Funding Period: **25 Years**

ERS's Funded Ratio

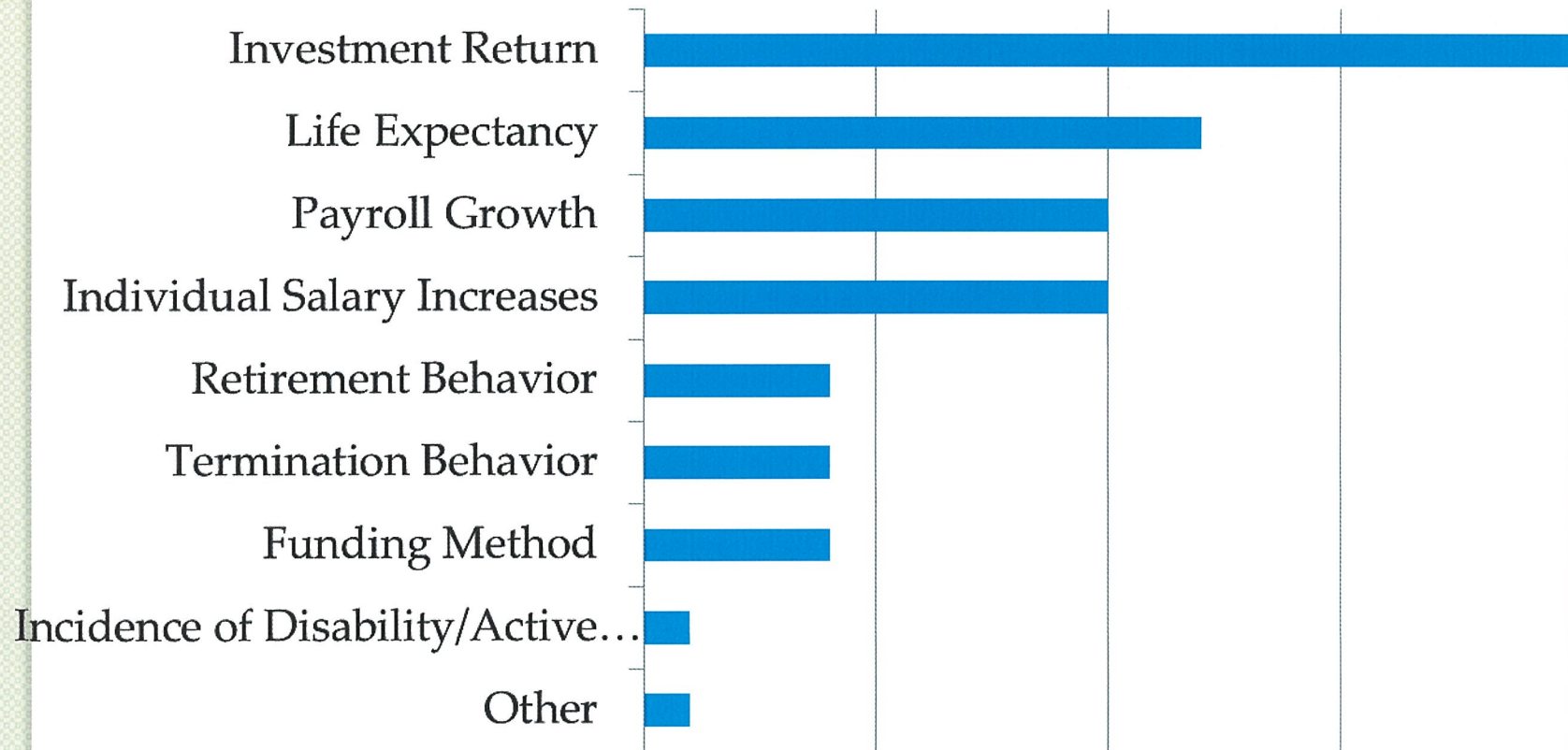
- “**Funded Ratio**” is the level of pre-funded monies currently available to take care of current and future pension benefits. A low funded ratio increases portfolio risks, the risks of maintaining contribution levels and paying benefits.
- The ERS is currently at a **55.5% funded ratio** – in the **bottom quartile** (25%) among public pension plans.

2018 Actuarial Valuation Results

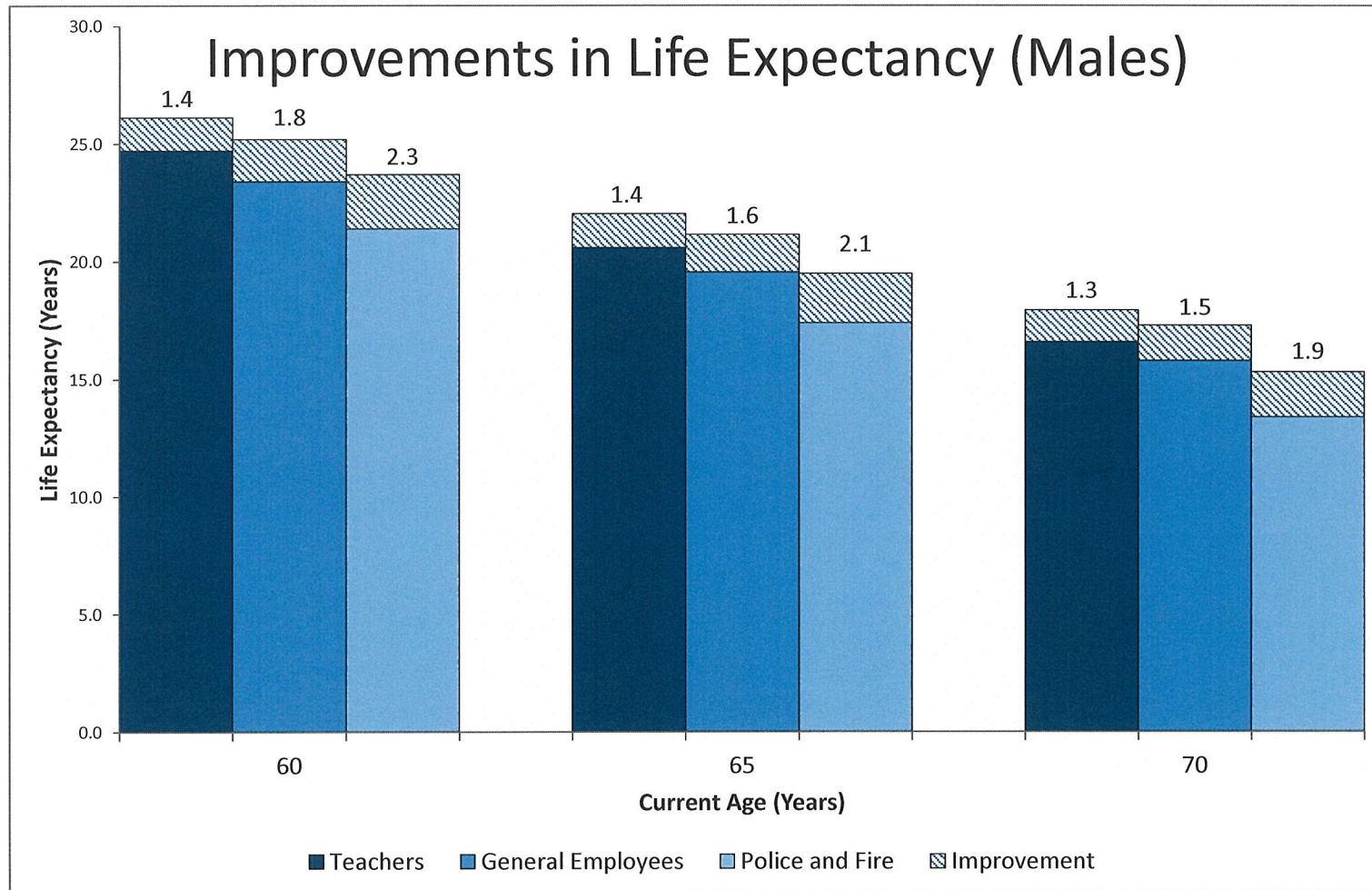
Valuation Year	2017	Expected 2018	Actual 2018
Based on Smoothed Asset Value			
UAAL (\$ Billions)	\$12.93	\$13.34	\$13.40
Actuarial Funded Ratio	54.9%	55.1%	55.2%
Funding Period in years*	26	25	25
Based on Market Value			
Actuarial Funded Ratio	54.8%	55.0%	55.5%
Funding Period in years*	26	25	25

Magnitude of Individual Assumptions

Impact on Determination of Funding Period



Mortality Improvement Hawaii

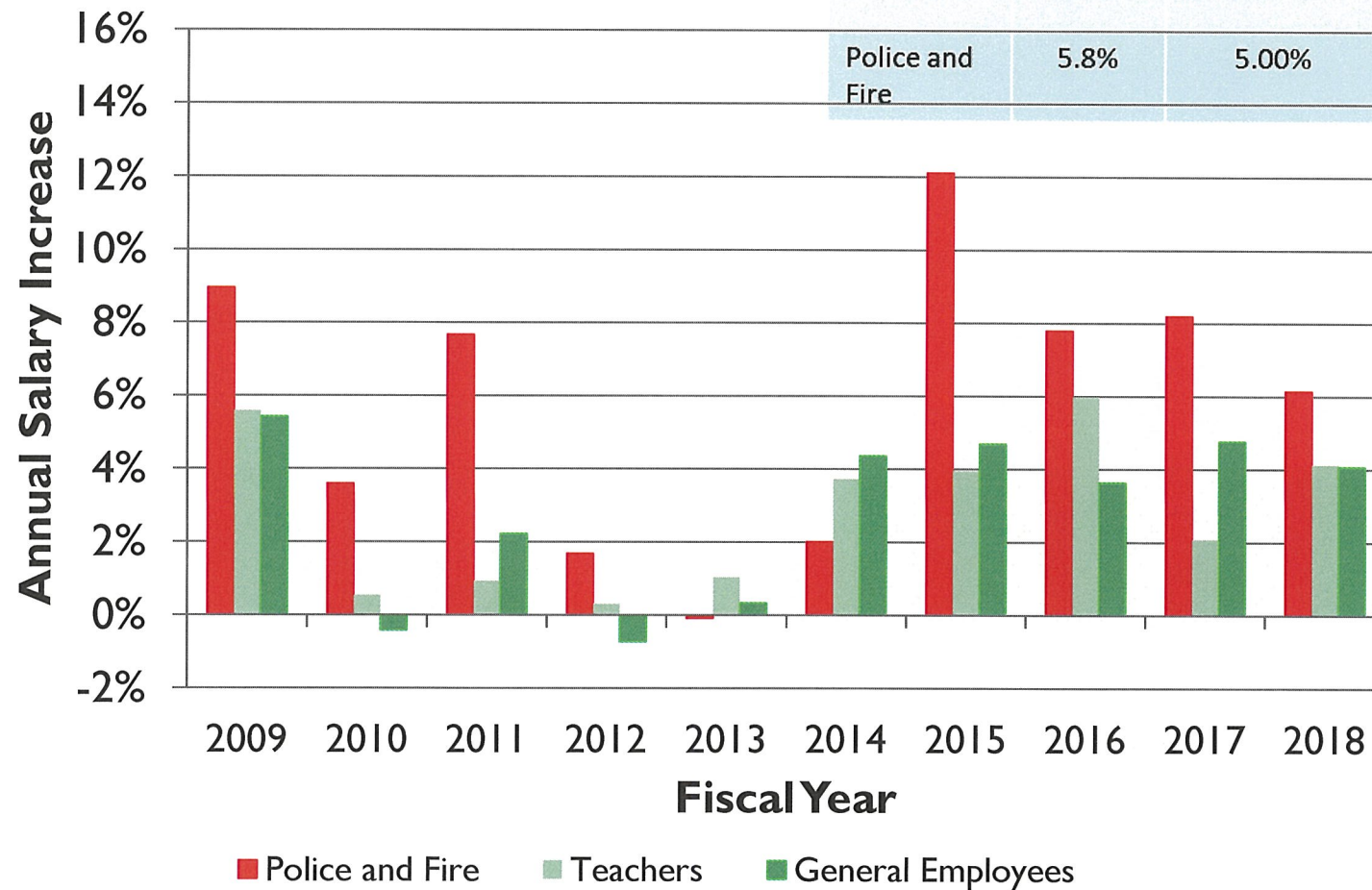


The solid bar is the life expectancy of a member at the given age from 2000-2005.
The shaded area on top is the improvement when compared to the period 2010-2015

ERS Experience: Long Service Members by Fiscal Year

(Annual Change in Base Pay FY2008-FY2018)

	Actual Average	Current Assumption	Average last 3 Years
General Employees	2.8%	3.50%	4.2%
Teachers	2.8%	3.75%	4.1%
Police and Fire	5.8%	5.00%	7.4%



Employee Contribution Rates

Employee Category	Pre-July 1, 2012	Post-June 30, 2012
Police/Fire Contributory	12.2%	14.2%
General Employees Hybrid	6.0%	8.0%
SW/WSO/EMT Hybrid	9.75%	11.75%
General Employees Contributory	7.8%	8.0%
SW/EMT Contributory	7.8	9.8%
Judges Contributory	7.8%	9.8%
Elected Officials Contributory	7.8%	9.8%
General Employees Noncontributory	N/A	N/A

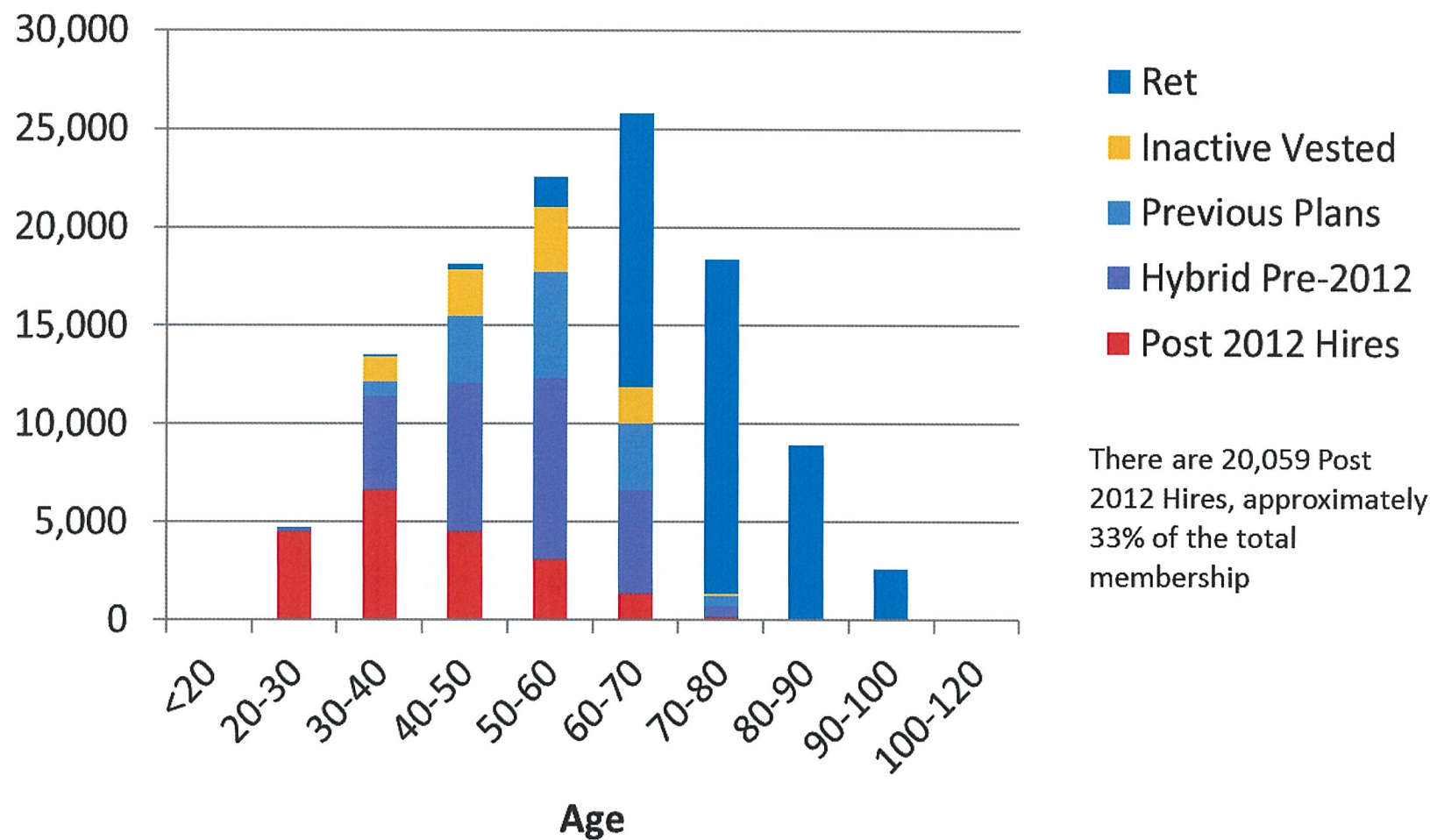
Employer Contribution Rates

Effective Dates	Police/Fire	All Others
July 1, 2016	25.0%	17.0%
July 1, 2017	28.0%	18.0%
July 1, 2018	31.0%	19.0%
July 1, 2019	36.0%	22.0%
July 1, 2020	41.0%	24.0%

- **FY 2018 Maui County contributions:**
 - \$36,936,663
- **FY 2018 employer contributions:**
 - \$847,595,466

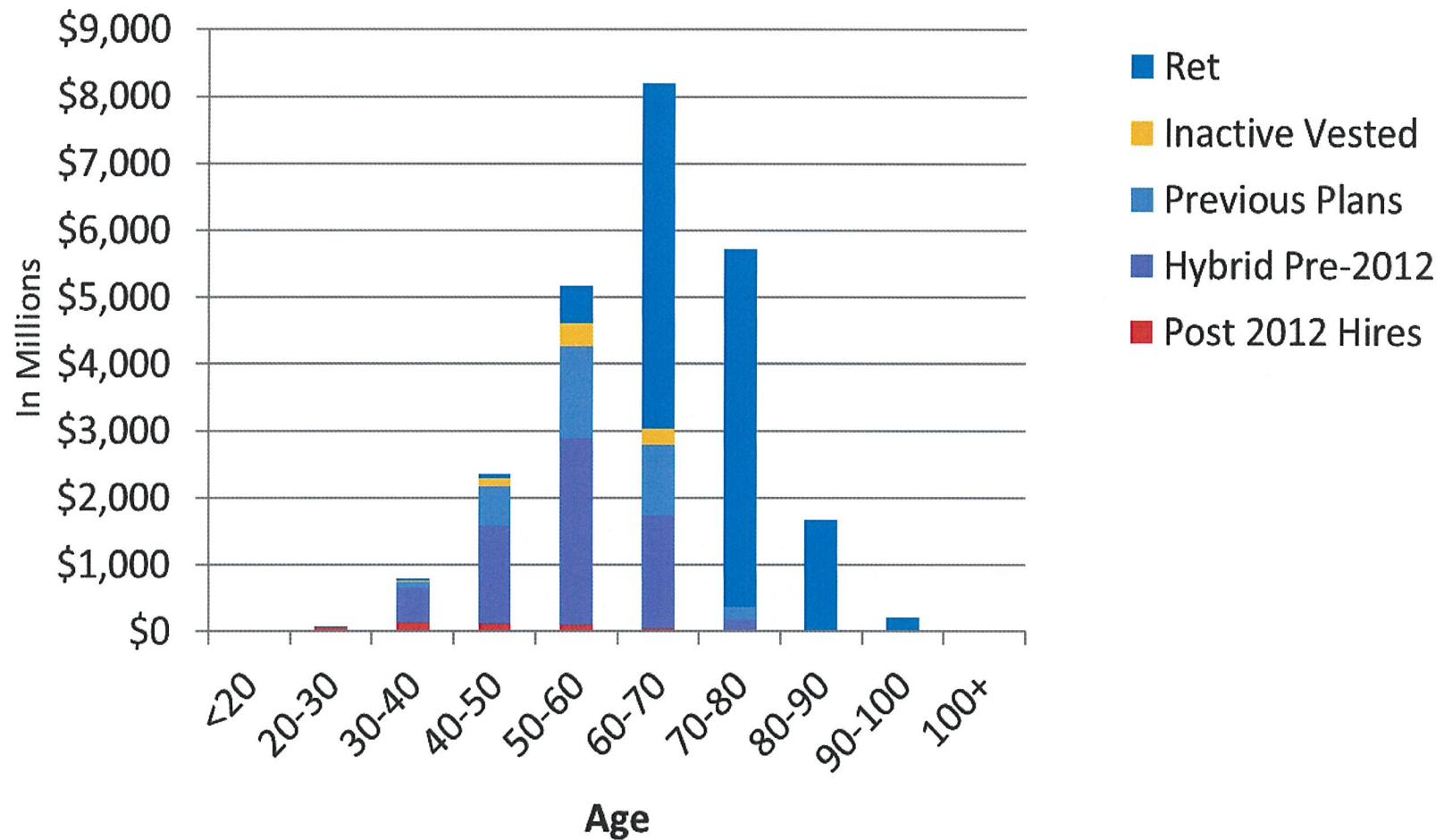
Impact of New Benefit Tiers:

Non-Police/Fire Counts by group and by age



Impact of New Benefit Tiers:

Non-Police/Fire *Liability* by group and by age



Estimated Maui Employer Contributions to ERS (Act 17/2017)

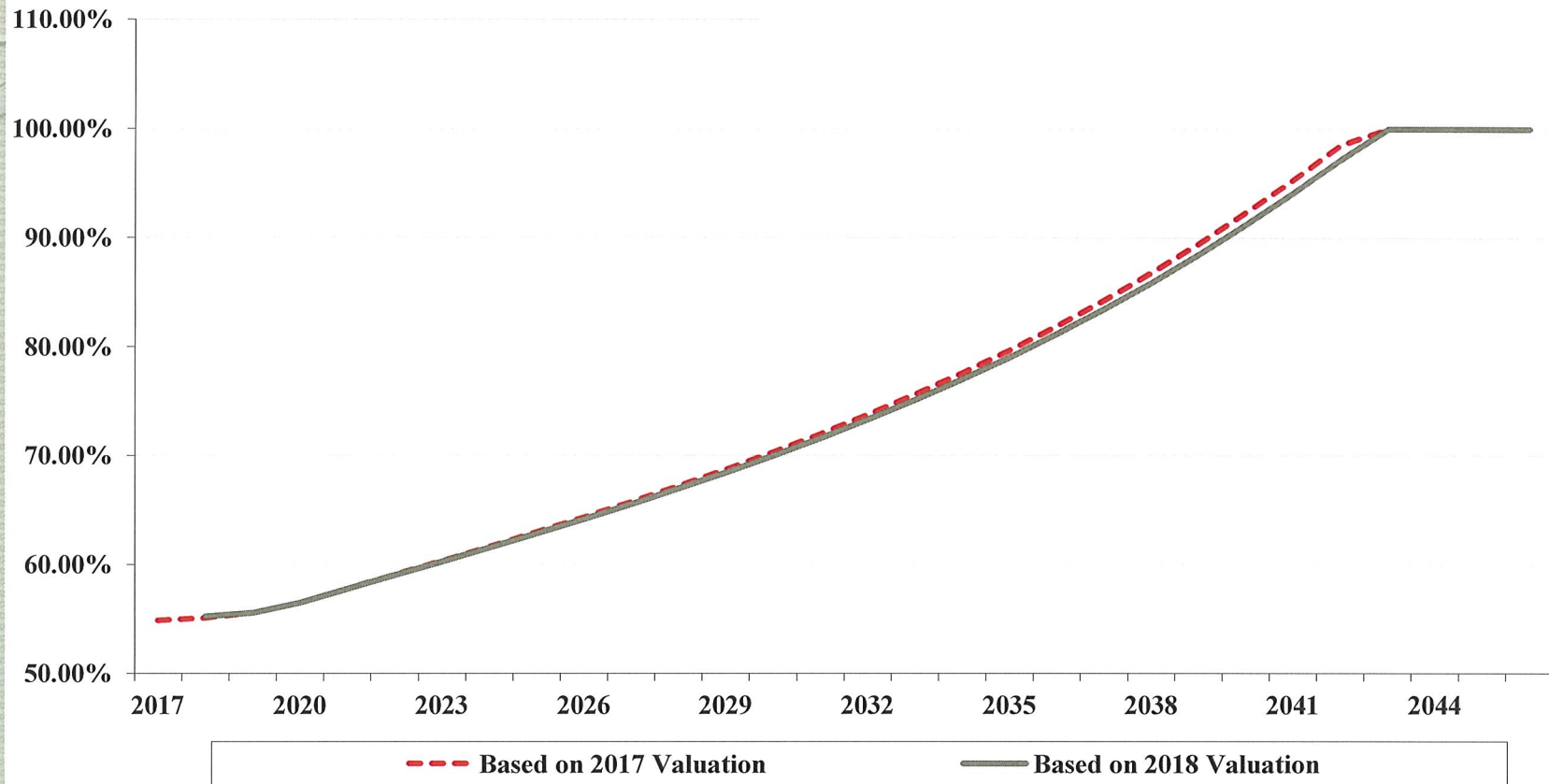
	2018-2019	2019-2020	2020-2021	2021-2022
County of Maui	\$41,295,000	\$49,562,000	\$57,183,000	\$59,184,000

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.

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

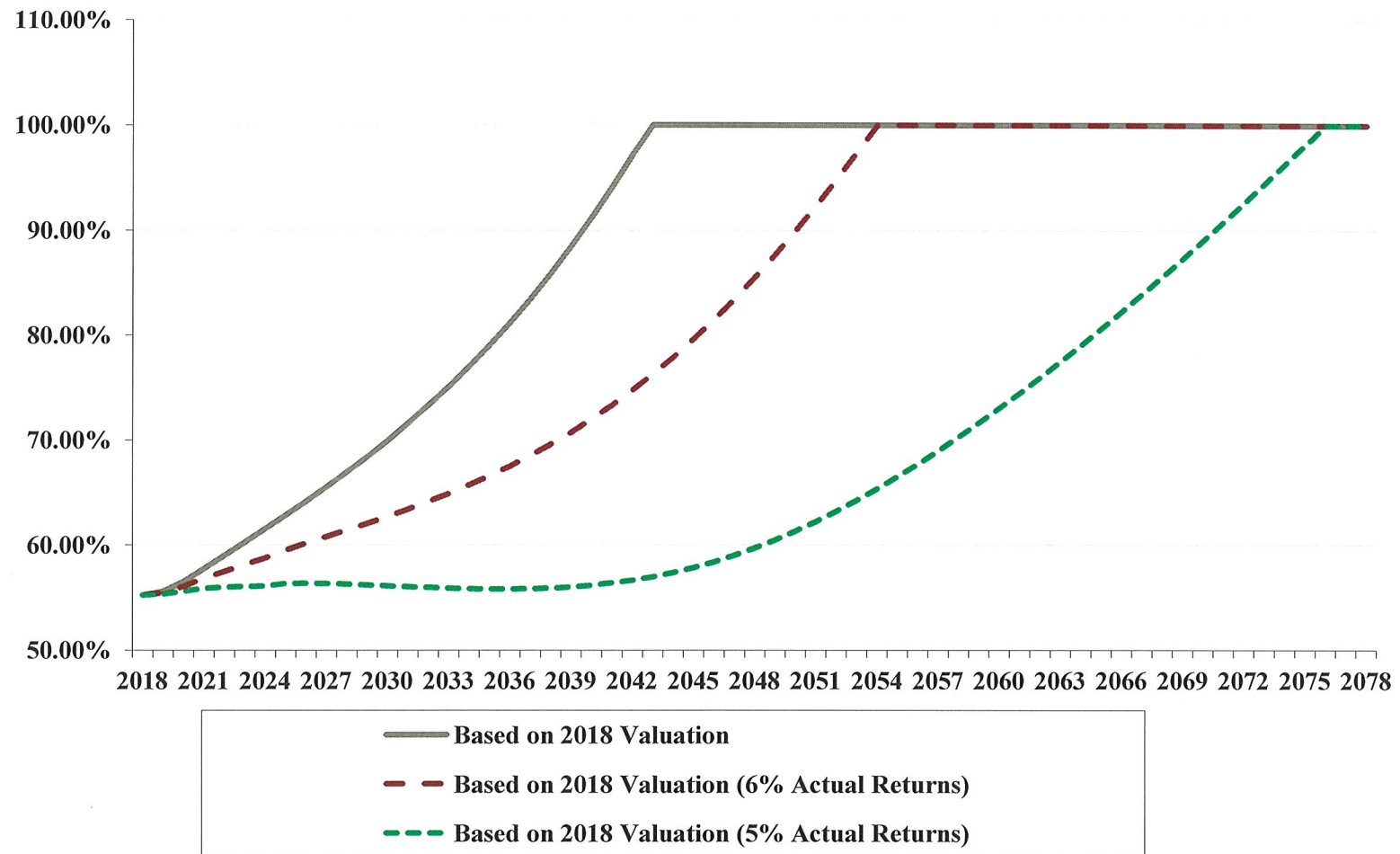
	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018
Number of Spiking Retirees	17	28	28	33	31
Total Costs	\$1,195,923	\$1,773,652	\$1,091,207	\$2,227,884	\$1,874,870

Projection of Funded Ratio from 2018 Valuation



Assumes all assumptions met, including a 7.00% return each year on the current *smoothed* value of assets

Projection of Funded Ratio Sensitivity from Investment Returns



Next Year's Outlook

	Market Return for 12 month period ending June 30, 2019				
	7%	2%	0%	-2%	-5%
UAAL (\$ in billions)	\$13.7	\$14.0	\$14.0	\$14.1	\$14.2
Funded Ratio	55.7%	55.0%	54.7%	54.4%	54.0%
	Expected Funding Period as of June 30, 2019 (in years)				
Smoothed Assets	24	25	25	25	26
Market Assets	24	26	27	28	29



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
 - Investment performance improved future funding position as well
- Stress test shows that System is sustainable in a low return environment
 - Although date of achieving full funded status would be extended

2019 ERS Legislation

Recovery of Overpayments

H.B. 918 and S.B. 1118

- Will help maintain and protect ERS members and beneficiaries by establishing a clear statutory basis for the recovery of overpaid benefits
- Strengthen the ERS's ability to recover overpayments by declaring overpayments to be debts due and owing to ERS, clarifying that overpayments are legally collectable.

ERS Related 2019 Legislation

- Court-ordered forfeiture of retirement benefits due to work-related felonies
- Legislative approval for any state agency, departments, boards, etc., to create any corporate entity – effect on ERS Investment program
- Clarification of deliberative process privilege as confidential from disclosure
- Hawaii retirement savings plan for private sector employees



Questions?

Mahalo for your attention.



ERS Contact Information

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