

EDB Committee

From: Kim, Lori <lori.kim@hawaii.gov>
Sent: Wednesday, March 25, 2020 12:57 PM
To: EDB Committee
Cc: Shelly K. Espeleta
Subject: ERS Final Presentation
Attachments: ERS Presentation to Maui Council (03-30-2020)_FINAL.pdf

Hi Shelly,

Here's the final presentation for ERS. EUTF will either send their final directly to you or through me.

Thank you and I'm glad we were able to do the walk thru. Keep safe.

Lori

Lori Kim
Assistant to Thomas Williams, Executive Director
Employees' Retirement System
City Financial Tower
201 Merchant Street, Suite 1400
Honolulu, HI 96813-2980
Phone: (808) 586-1700
Email: lori.kim@hawaii.gov

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Employees' Retirement System
of the State of Hawaii



Employees' Retirement System of the State of Hawaii

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

March 30, 2020

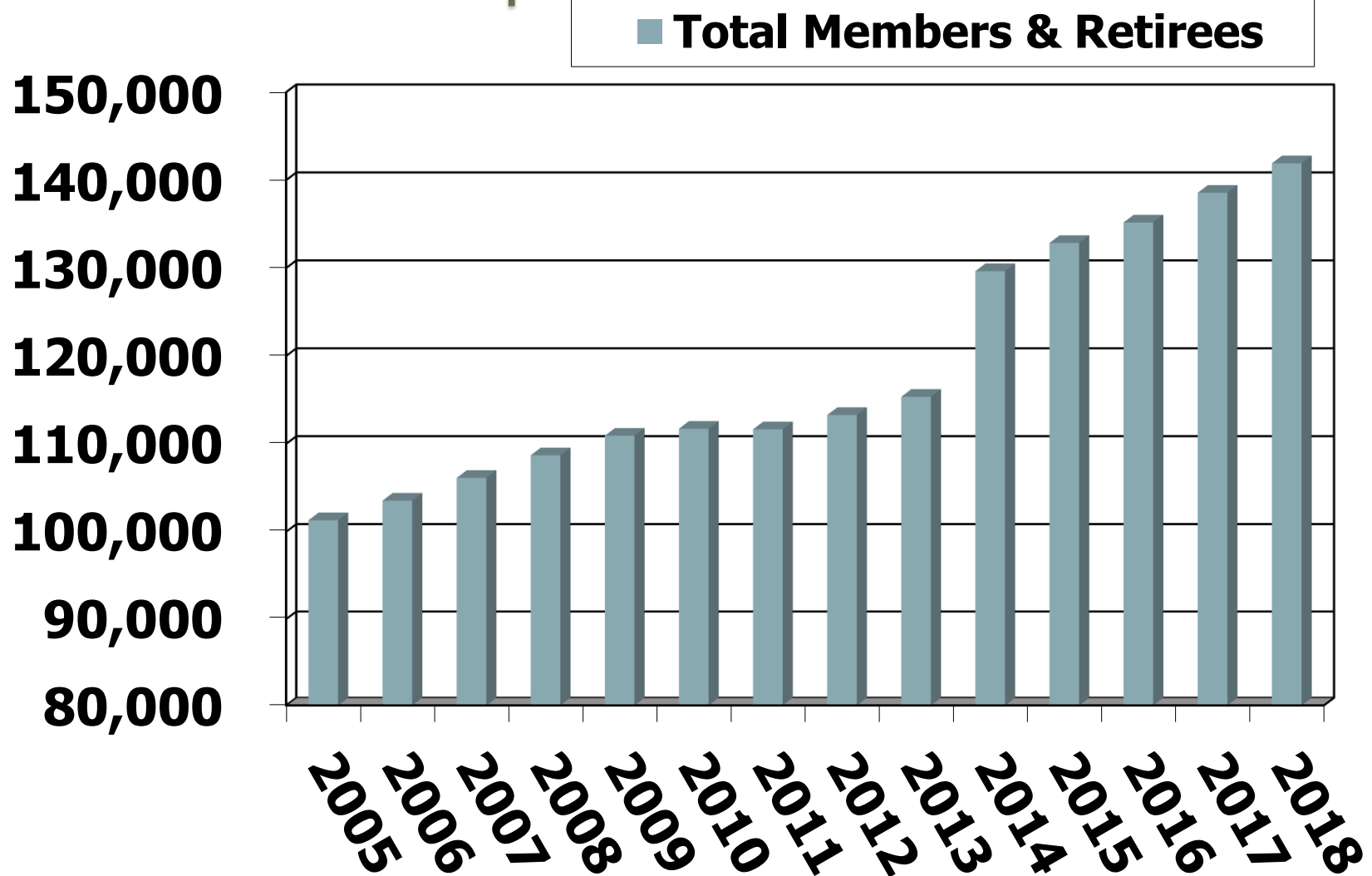
Agenda

- Membership
- Membership and Benefits
- ERS Assets
- Funded Status and Unfunded Liability
- Employer Contributions
- Projection of Funding & Contributions
- Investment Returns
- Actuarial Stress Test
- Questions

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

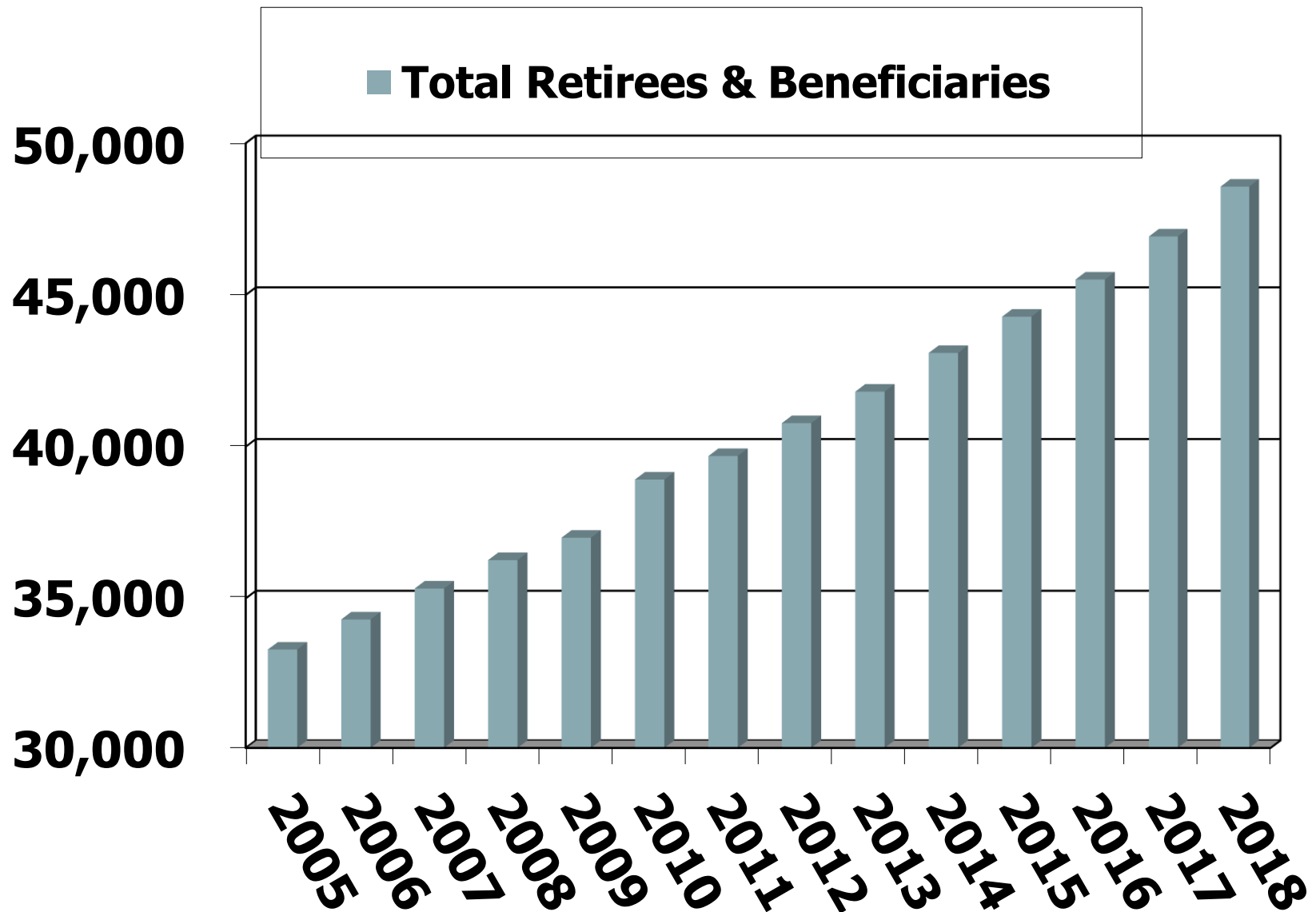
● Total Members:	141,908
○ Active Employees:	66,271
○ Retirees & Beneficiaries:	48,569
○ Inactive, Non-retired Members:	27,068

ERS Membership



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

ERS Retirees & Beneficiaries



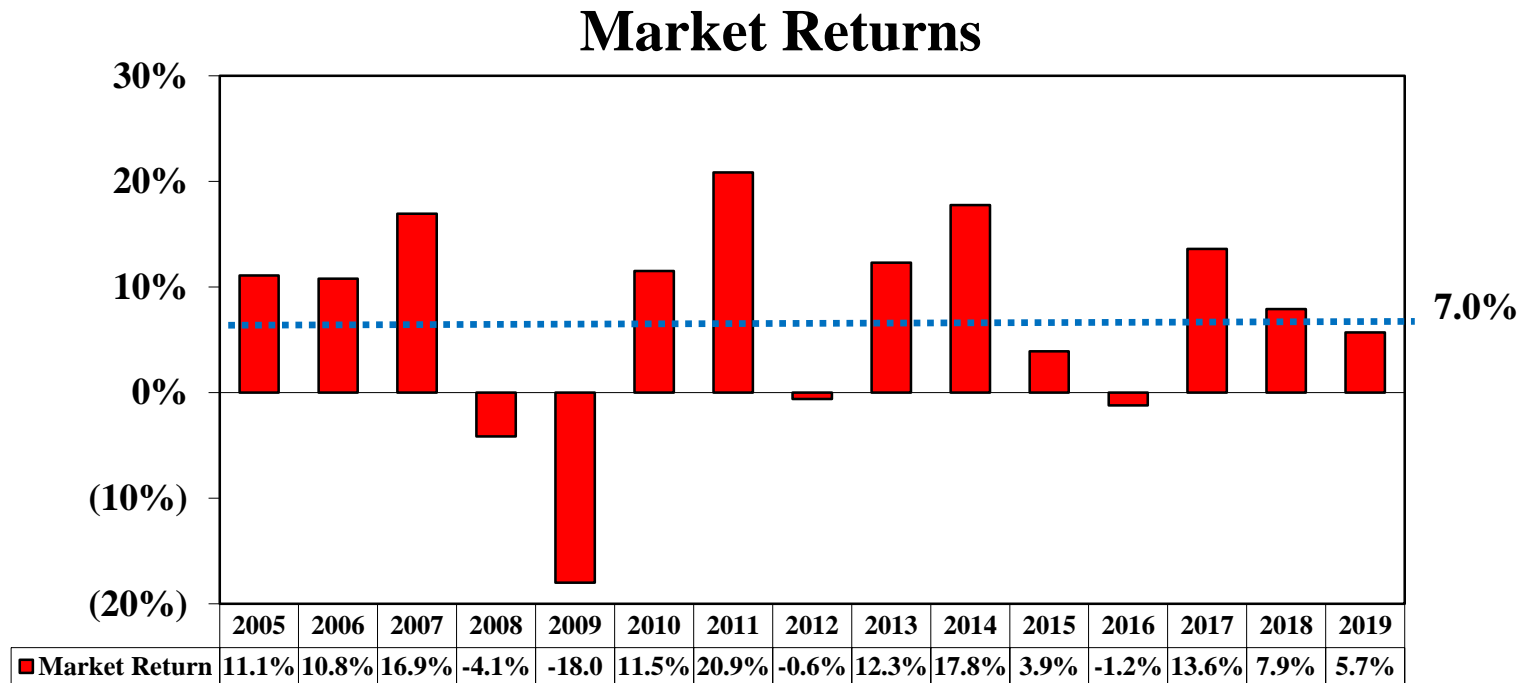
ERS Update - Benefits

- 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, 2019

- Market Value \$17.2 Billion
- Return on Market Value 5.7%
- Expected Return 7.0%

Estimated Yields on Market Value of Assets



5.9% average return for 5 year period ending June 30, 2019

9.0% average return for 10 year period ending June 30, 2019

6.8% average return for 15 year period ending June 30, 2019

Funded Status As Of June 30, 2019

Actuarially accrued liabilities:	\$31.4 billion
Total Funded Assets:	\$17.3 billion
Invested in stocks, bonds, real estate, private equity, and cash	
Unfunded Actuarial Liability:	\$14.1 billion
Funding Period:	26 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 **54.9% funded ratio** – in the **bottom quartile** (25%) among public pension plans.

2019 Actuarial Valuation Results

Valuation Year	2017	2018	Expected 2019	Actual 2019
Based on Smoothed Asset Value				
UAAL (\$ Billions)	\$12.93	\$13.41	\$13.77	\$14.07
Actuarial Funded Ratio	54.9%	55.2%	55.5%	55.2%
Funding Period in years*	26	25	24	26
Based on Market Value				
Actuarial Funded Ratio	54.8%	55.5%	55.8%	54.9%
Funding Period in years*	26	25	24	26

Expected 2019 based on old assumptions. Actual 2019 incorporates new assumptions.

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

Employee Groups

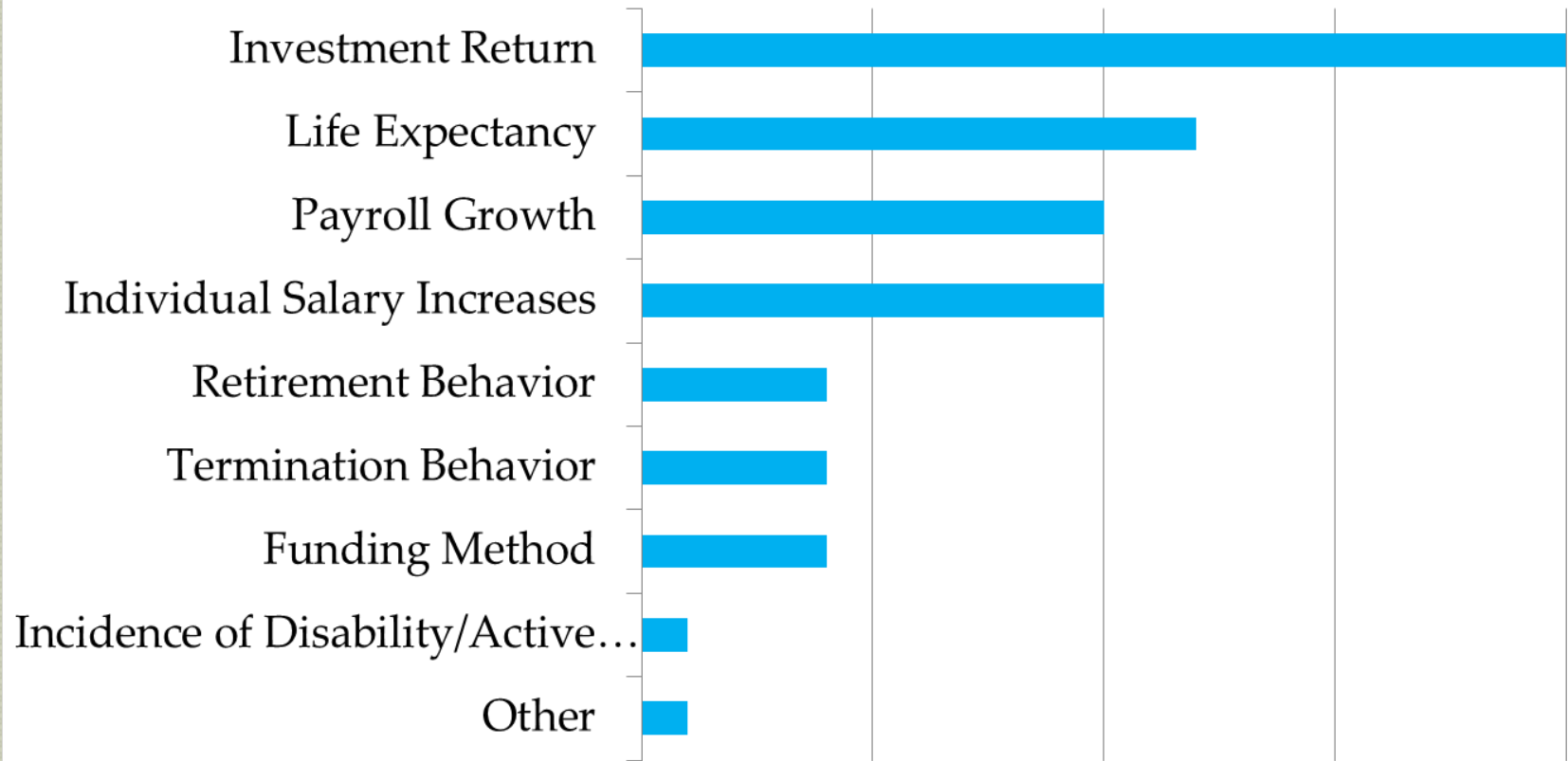
Valuation Year	2017	2018	Expected 2019	Actual 2019
Police and Fire Employees (11% of Payroll)				
UAAL (\$ Billions)	\$2.23	\$2.31	\$2.38	\$2.50
Actuarial Funded Ratio	58.2%	59.0%	59.8%	58.7%
Funding Period in years*	26	26	25	28
All Other Employees (89% of Payroll)				
UAAL (\$ Billions)	\$10.70	\$11.09	\$11.37	\$11.57
Actuarial Funded Ratio	54.1%	54.3%	54.7%	54.3%
Funding Period in years*	26	25	24	25

Expected 2019 based on old assumptions. Actual 2019 incorporates new assumptions.

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

Magnitude of Individual Assumptions

Impact on Determination of Funding Period



Sources of Impact

- **Investments** underperformed 7.00% assumption on market basis
 - Smoothing technique will defer some of underperformance into future years
 - (Approximately \$100m)
- **Liabilities** grew faster than expected due to salary increases larger than current expectations
 - All Other Employees had average increase of 4.9% (0.5% higher than assumed)
 - Produced a loss of \$64m
 - Police/Fire Employees had average increase of 8.6% (3.2% higher than assumed)
 - Produced a loss of \$96m
 - The increase for Police and Fire appears to be possibly driven by increases in overtime. If true and overtime returns to normal levels, there could be a gain in a future valuation
 - Also reflects new assumptions
- **Contributions** in dollars are expected to be modestly higher due to salary increases and head count increases for All Other Employees, but head count for Police and Fire Employees declined for third straight year

Act 17 (SB 936) Contribution Rates

Current
Valuation
Date →

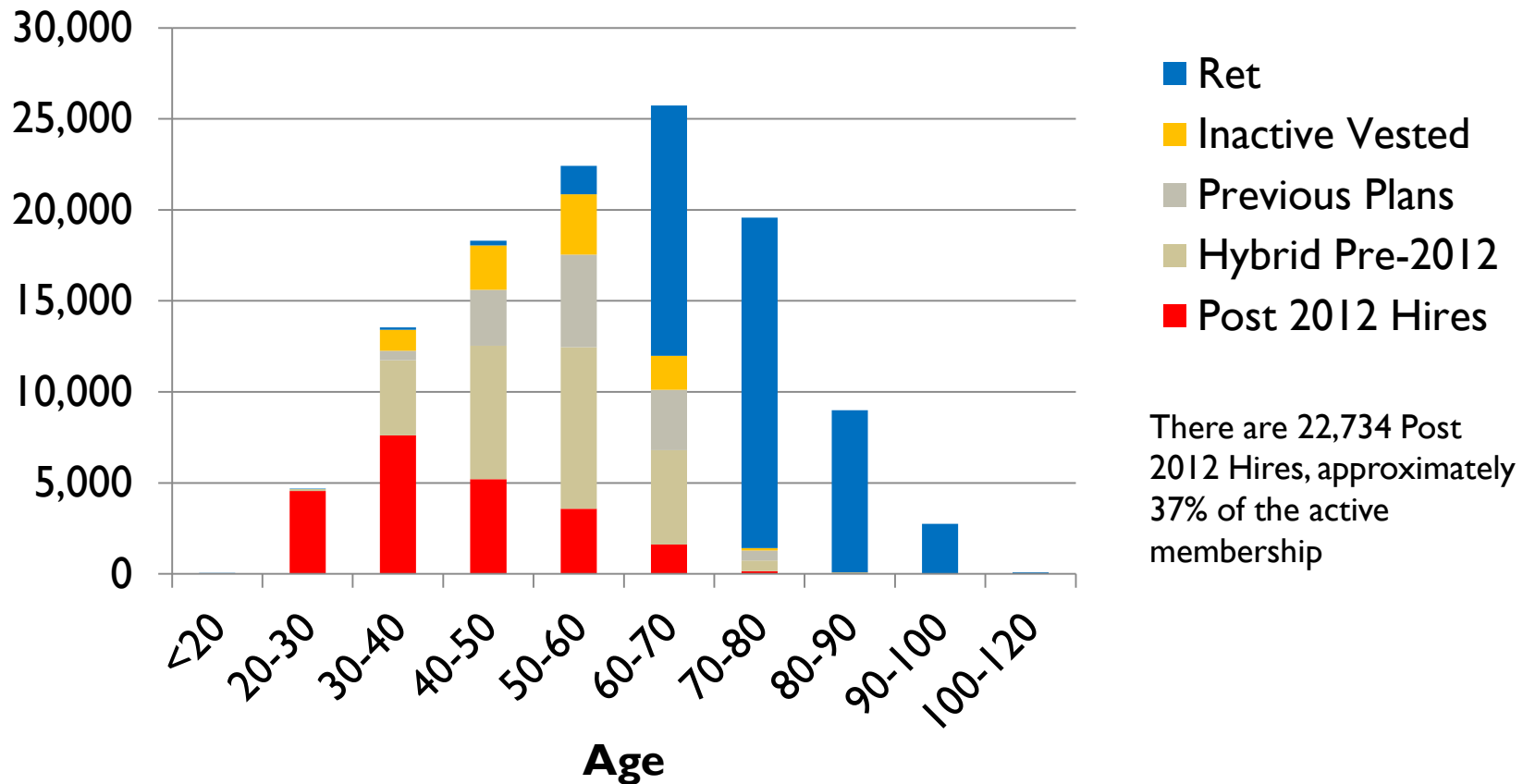
Employer Contribution Rates by Fiscal Years	General Employees	Special Categories (Police Officers, Firefighters and Corrections Officers)
7/1/2016 – 6/30/2017	17.00%	25.00%
7/1/2017 – 6/30/2018	18.00%	28.00%
7/1/2018 – 6/30/2019	19.00%	31.00%
7/1/2019 – 6/30/2020	22.00%	36.00%
7/1/2020 – 6/30/2021	24.00%	41.00%

It is vital the last step in the funding strategy occur. The 26 year estimated funding period already recognizes these increases occurring. If they do not occur, the funding period is 31 years (37 for Police and Fire) and it will ultimately cost \$5B more to finance the UAAL.

Total Employer Contributions FY 2019: \$922,635,334

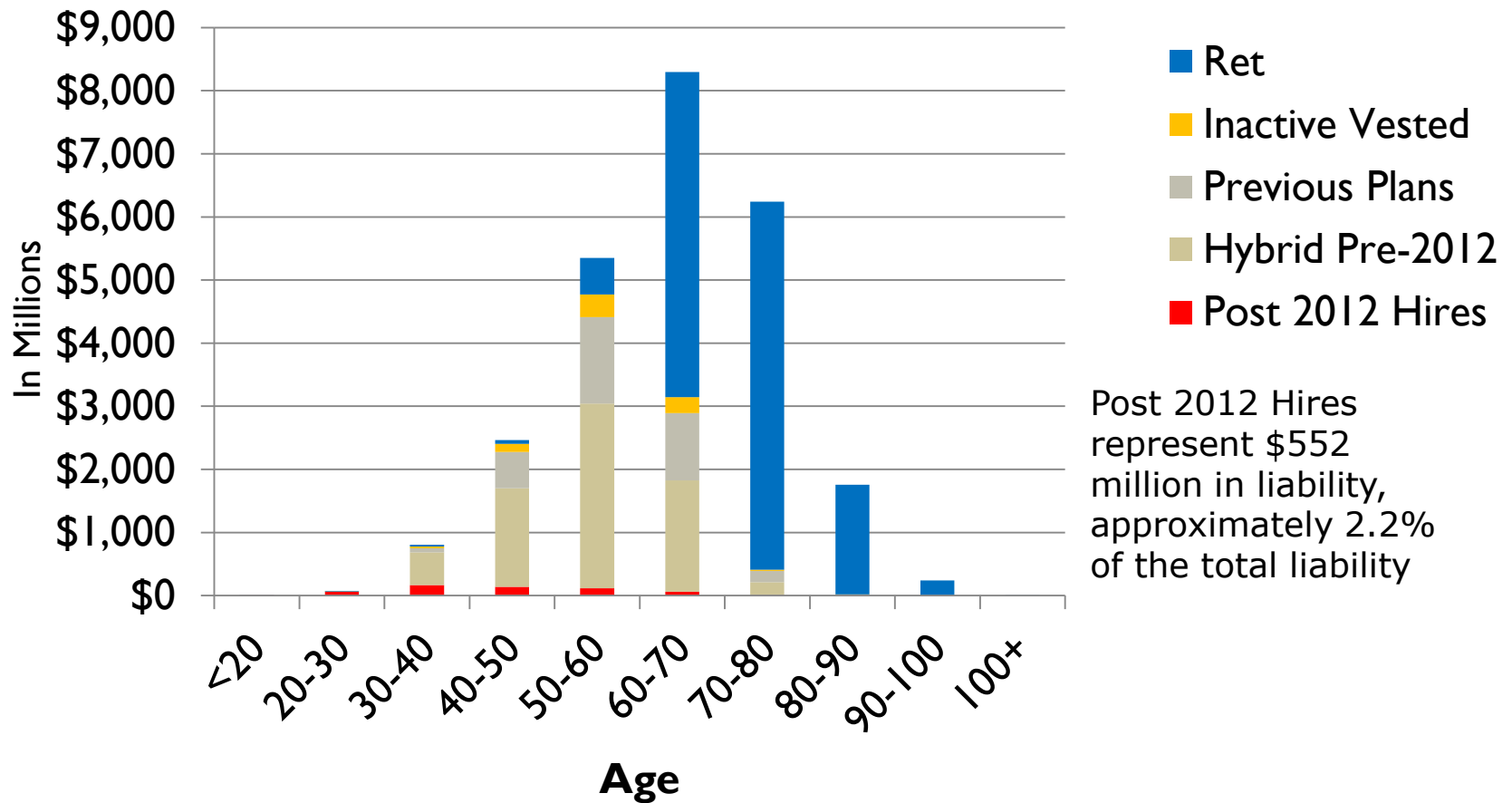
Impact of New Benefit Tiers:

All Other Employees: Counts by group and by age

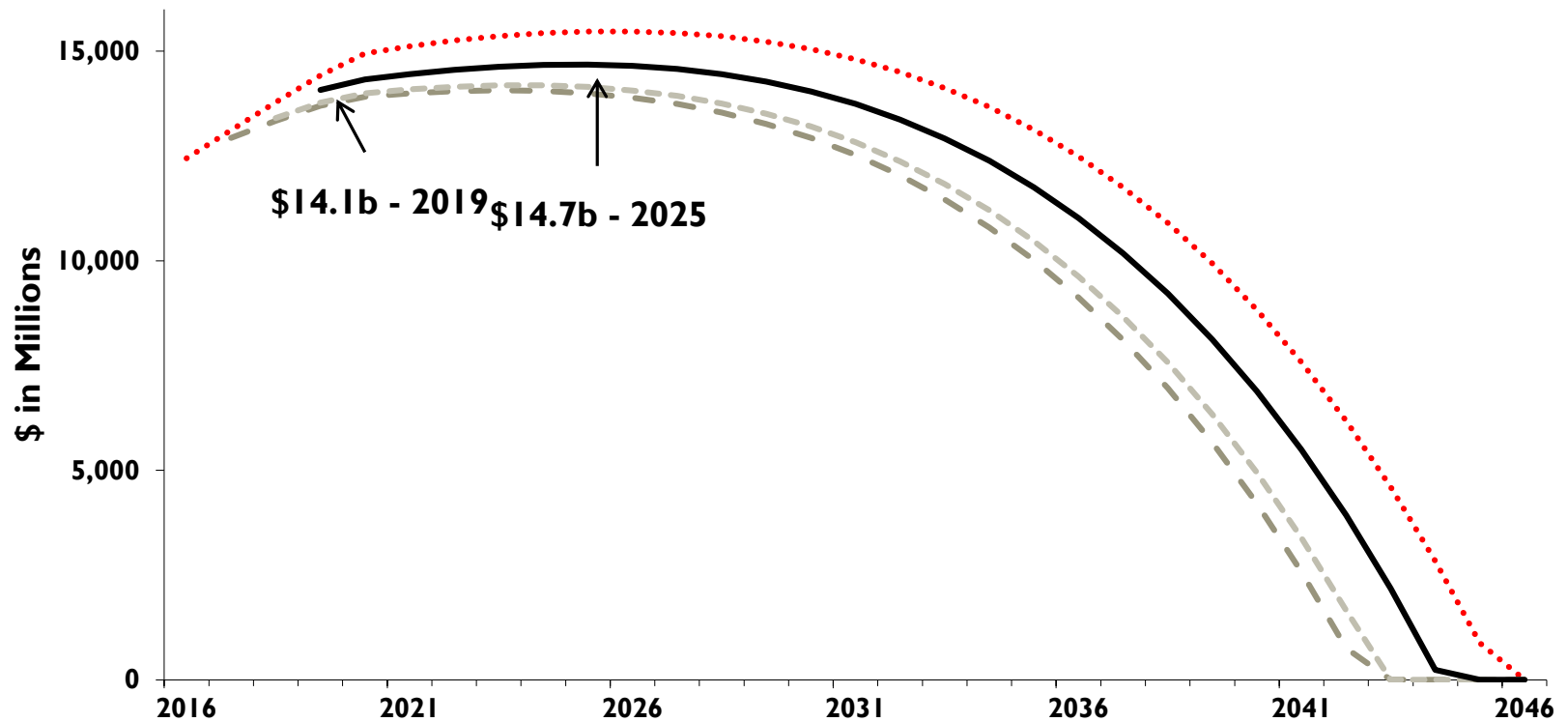


Impact of New Benefit Tiers:

All Other Employees: Liability by group and by age



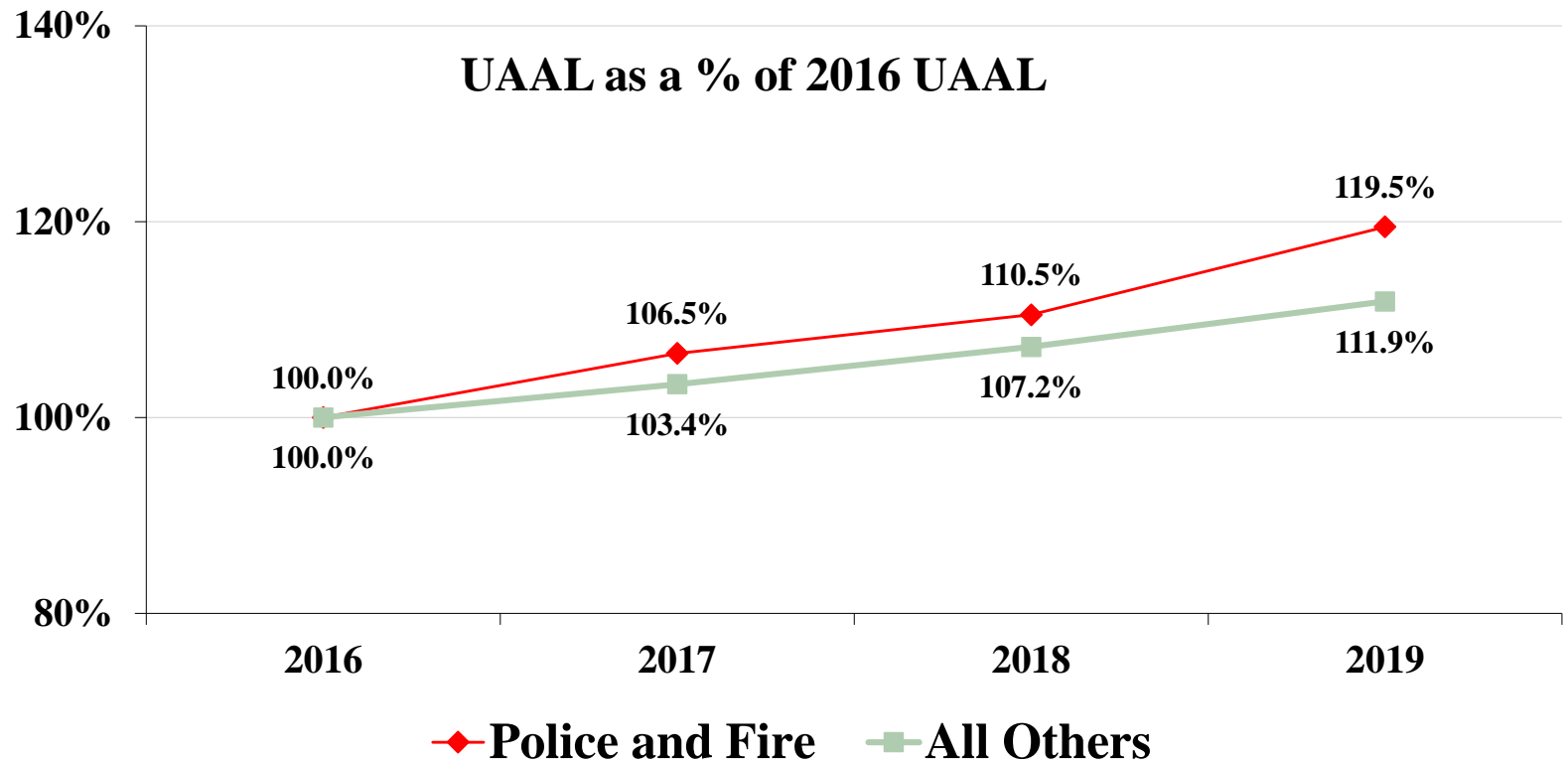
Projection of UAAL (June 30, 2019)



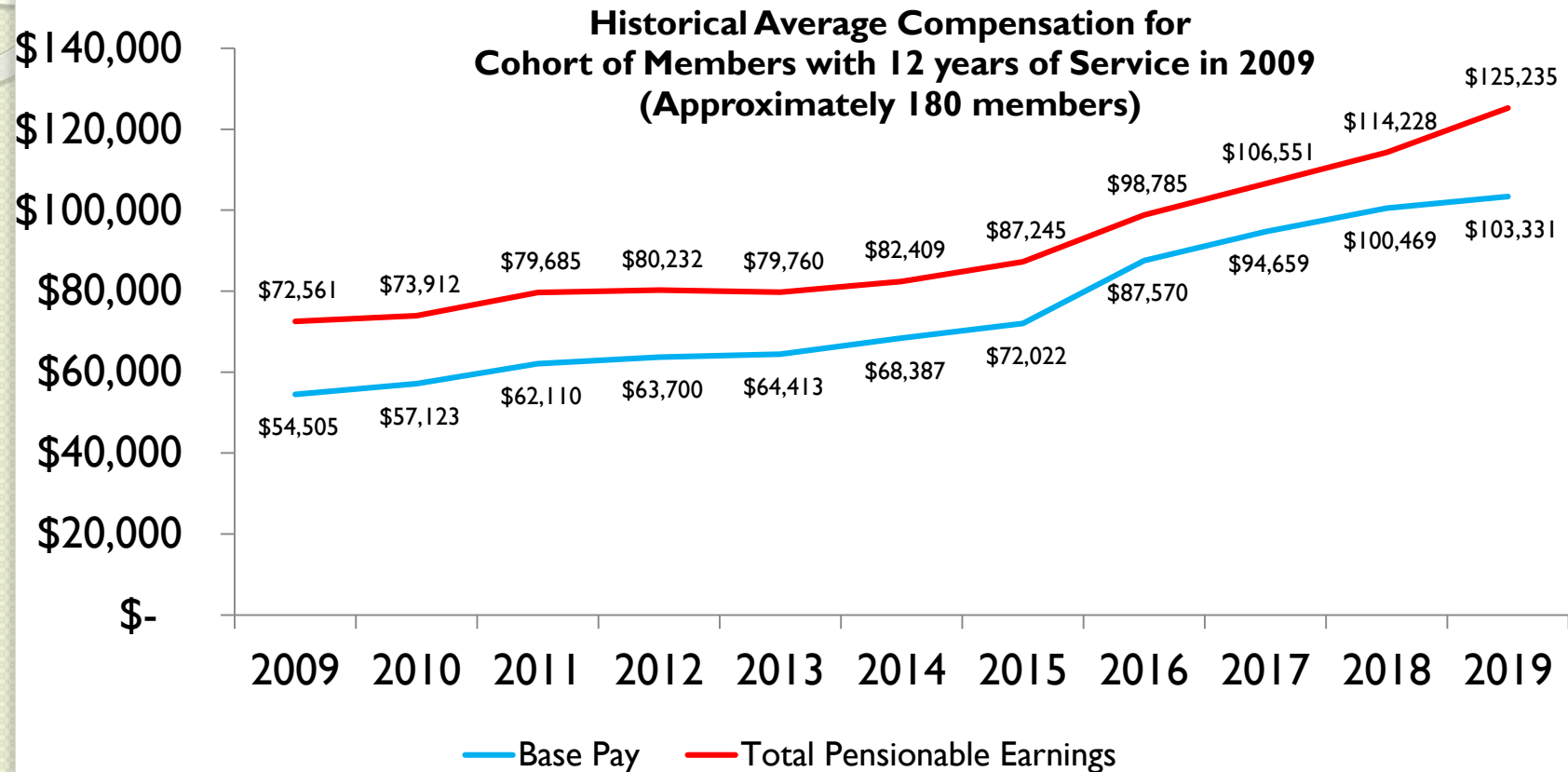
..... Based on 2016 Valuation with New Employer Contribution Rates
--- 2017 Valuation
--- 2018 Valuation
— Projected 2019 Valuation

Projections are based on smoothed value of assets as of the valuation date and assumed 7% return on assets in all future years

Growth in UAAL



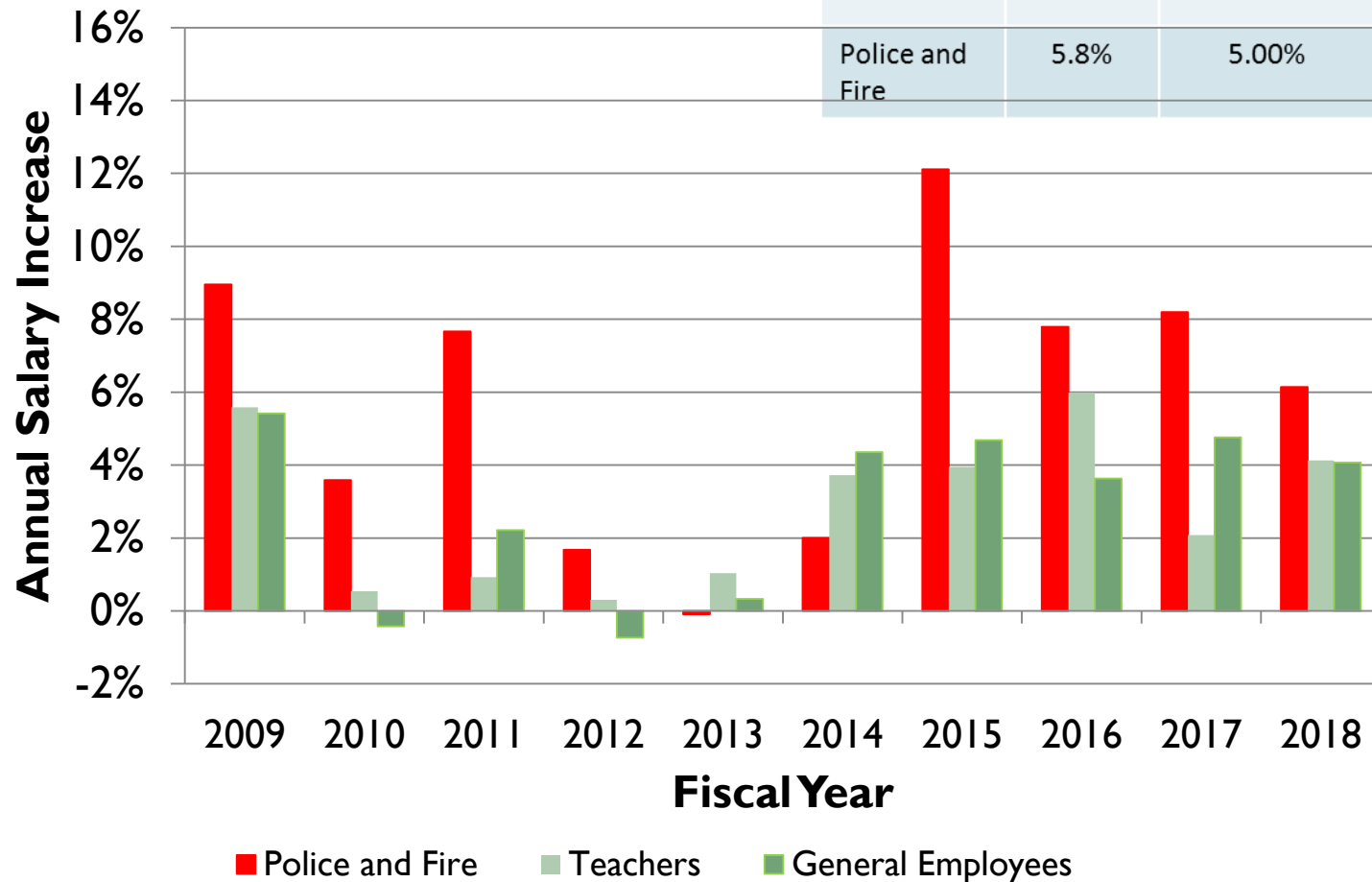
Police and Fire Salary History



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%



Recent Experience

- Salaries for Police and Fire have grown by 1% more than the assumption for the last decade
 - 3.5% per year more over the last 5 years
- If the current salary scale assumption was raised by the 1%, the funding period would exceed 30 years and the total projected employer contributions to amortize the UAAL would increase by \$2.3B (just for Police and Fire)
- Total compensation for this group is projected to be \$520m in FY20

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

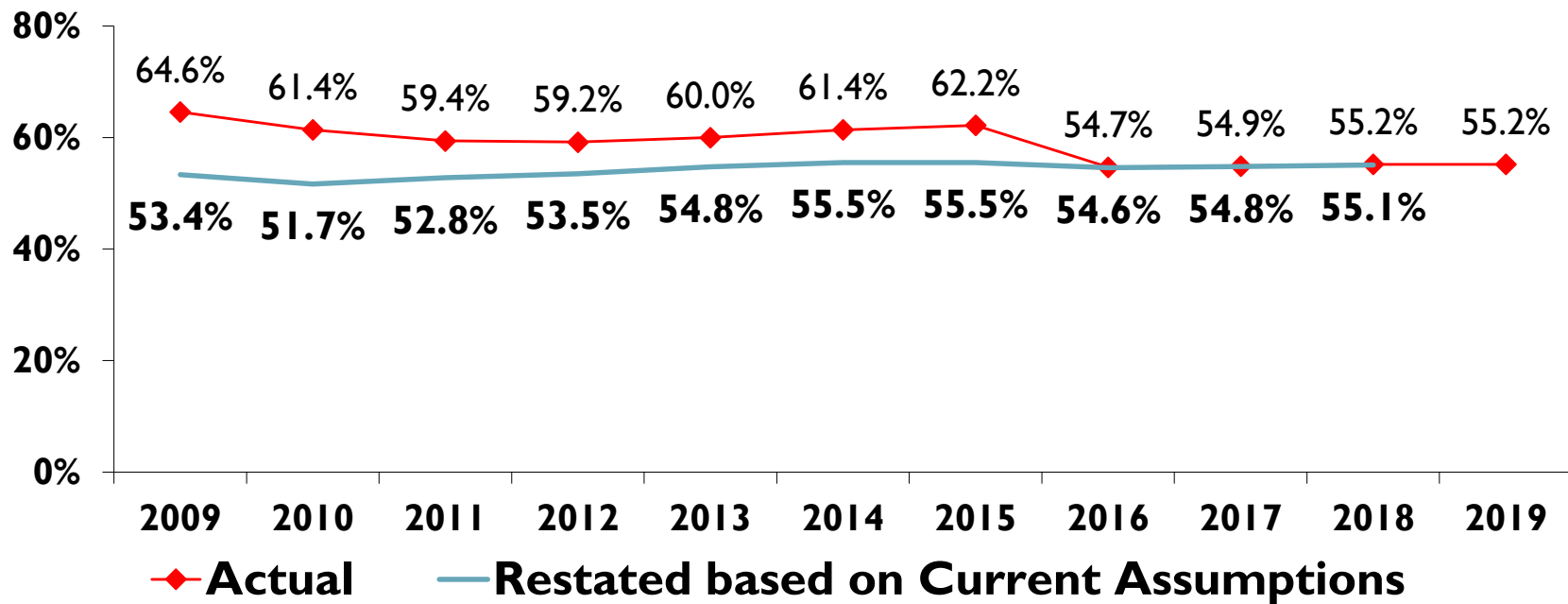
	2018-2019	2019-2020	2020-2021	2021-2022
County of Maui	\$41,295,000	\$49,562,000	\$57,183,000	\$59,184,000

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

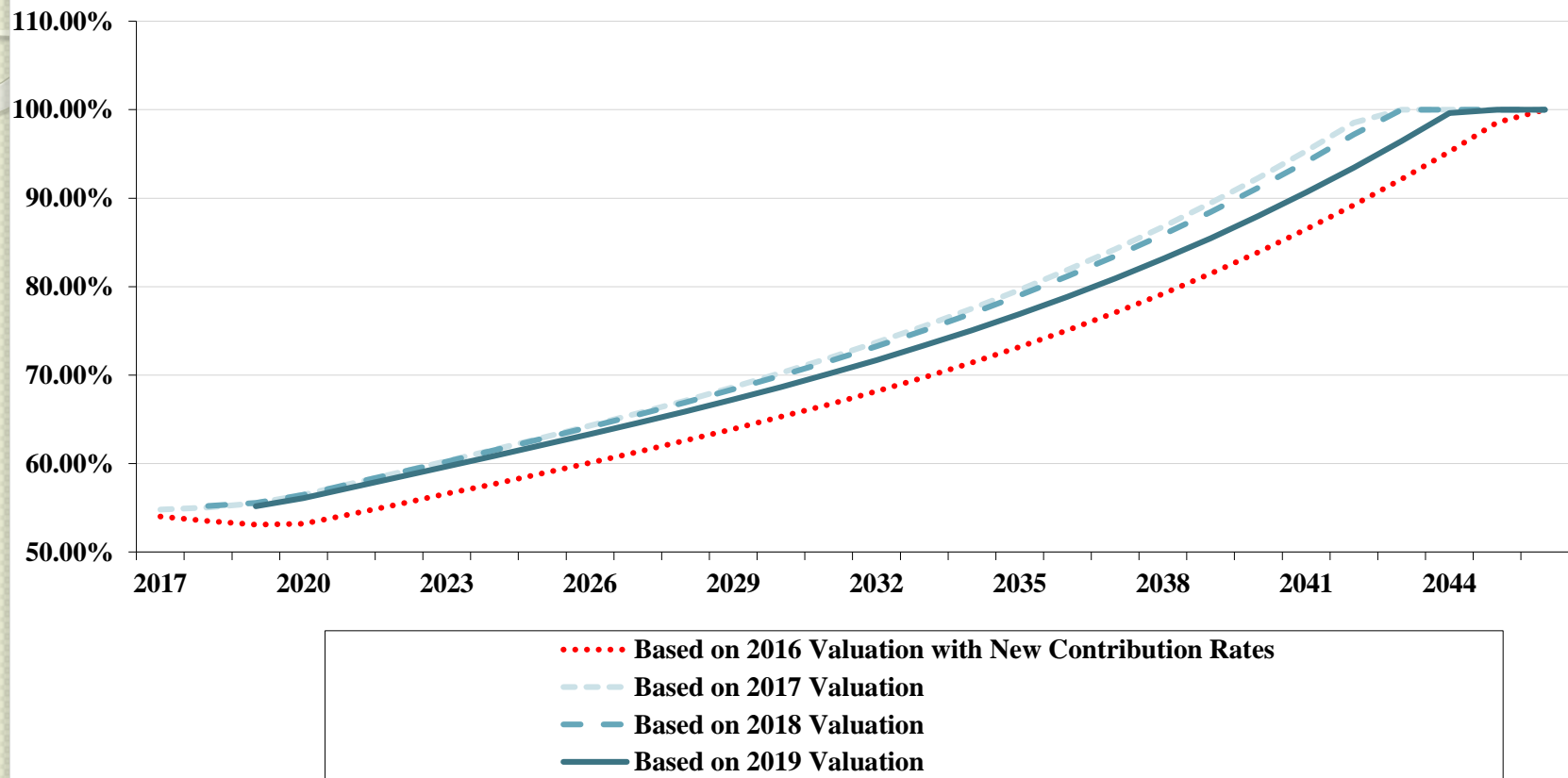
	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019
Number of Spiking Retirees	17	28	28	33	31	26
Total Costs	\$1,195,923	\$1,773,652	\$1,091,207	\$2,227,884	\$1,874,870	\$2,354,082

History of Funded Ratio



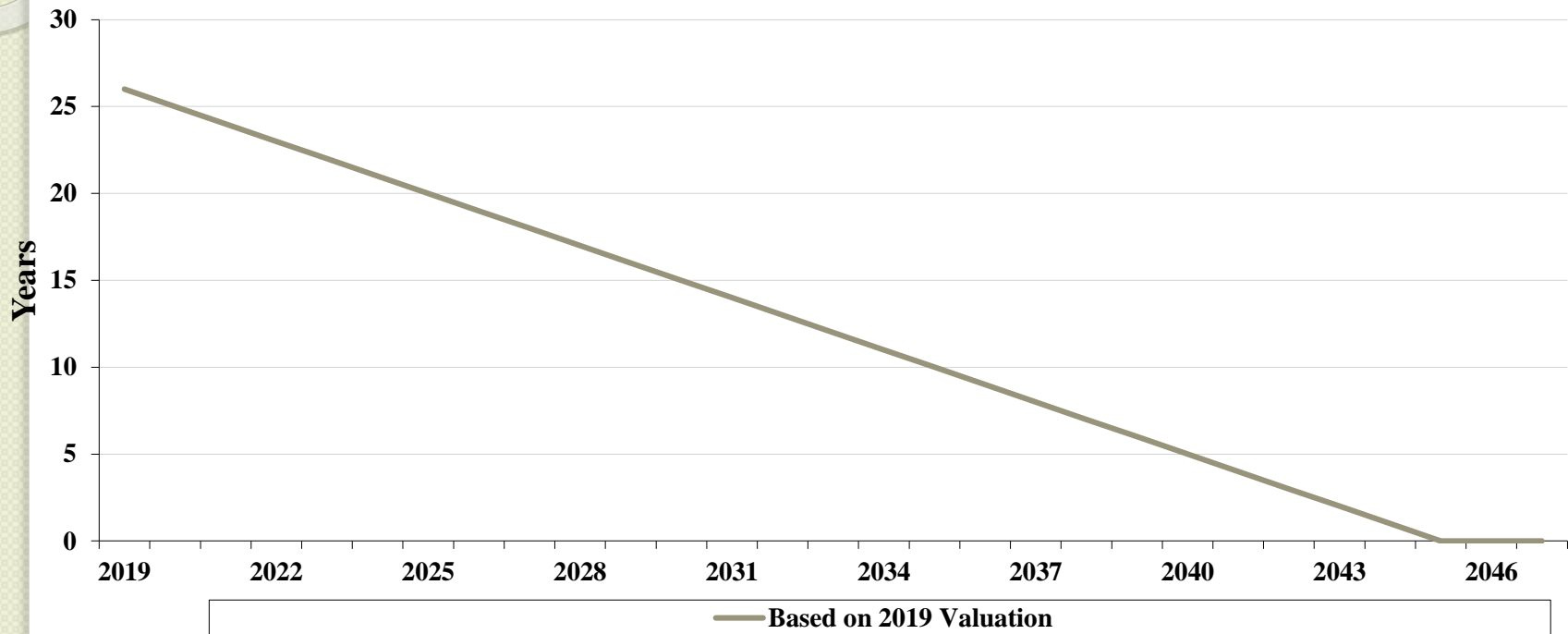
Funded Ratio is Actuarial Value of Assets divided by Actuarial Accrued Liabilities

Projection of Funded Ratio from 2019 Valuation



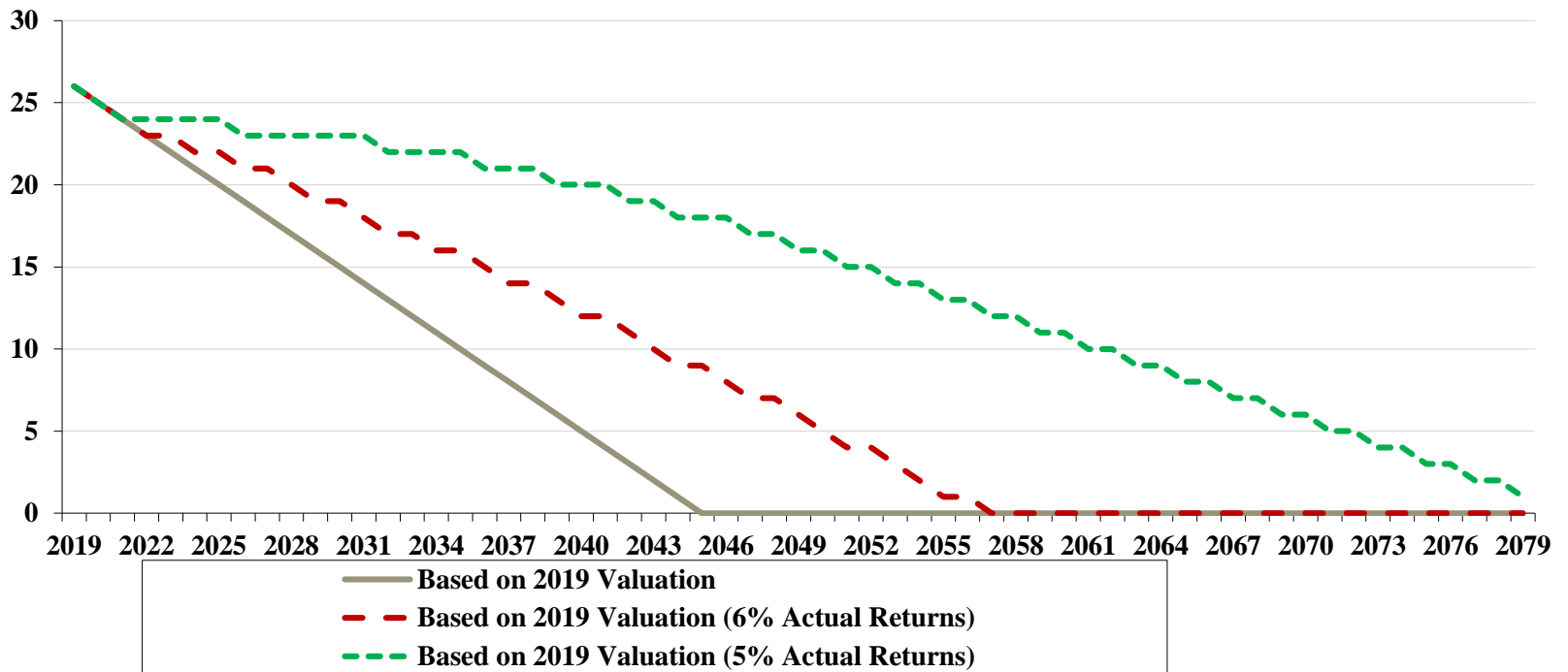
Assumes all assumptions met, including a 7.00% return each year on the current *smoothed* value of assets

Projection of Funding Period from 2019 Valuation

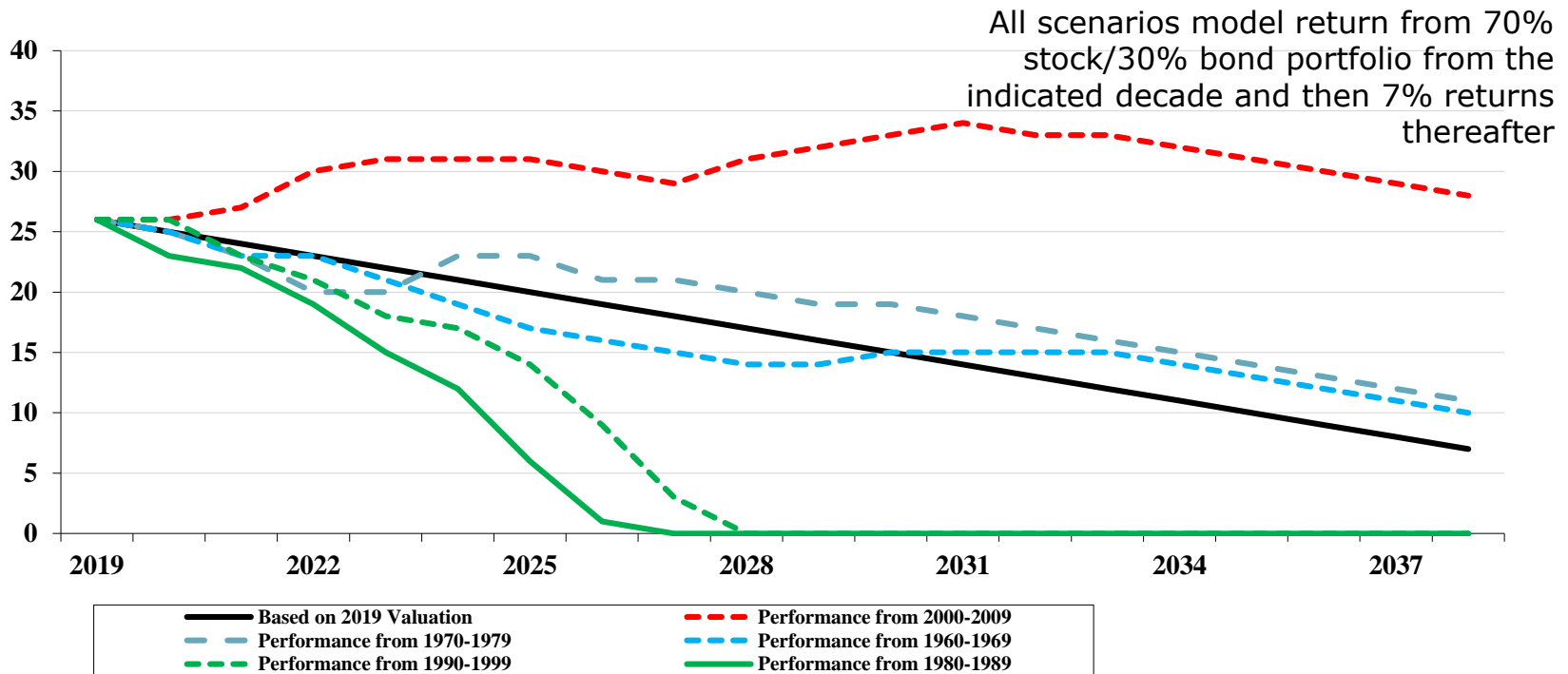


Assumes all assumptions met, including a 7.00% return each year on the current *smoothed* value of assets

Projection of Funding Period Sensitivity from Investment Returns



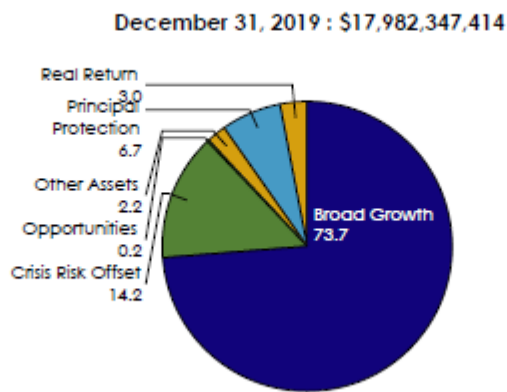
Projection of Funding Period Historical Scenarios



ERS Portfolio Allocation as of December 31, 2019

	Actual Allocation (\$000)	Actual Allocation (%)	Target Allocation* (%)	Variance
Total Fund	17,982,347	100.0	100.0	0.0
Broad Growth	13,259,768	73.7	68.0	5.7
Crisis Risk Offset	2,548,385	14.2	16.0	-1.8
Opportunities	30,179	0.2	0.0	0.2
Principal Protection	1,205,688	6.7	8.0	-1.3
Real Return	545,549	3.0	8.0	-5.0
Other	392,778	2.2	0.0	2.2

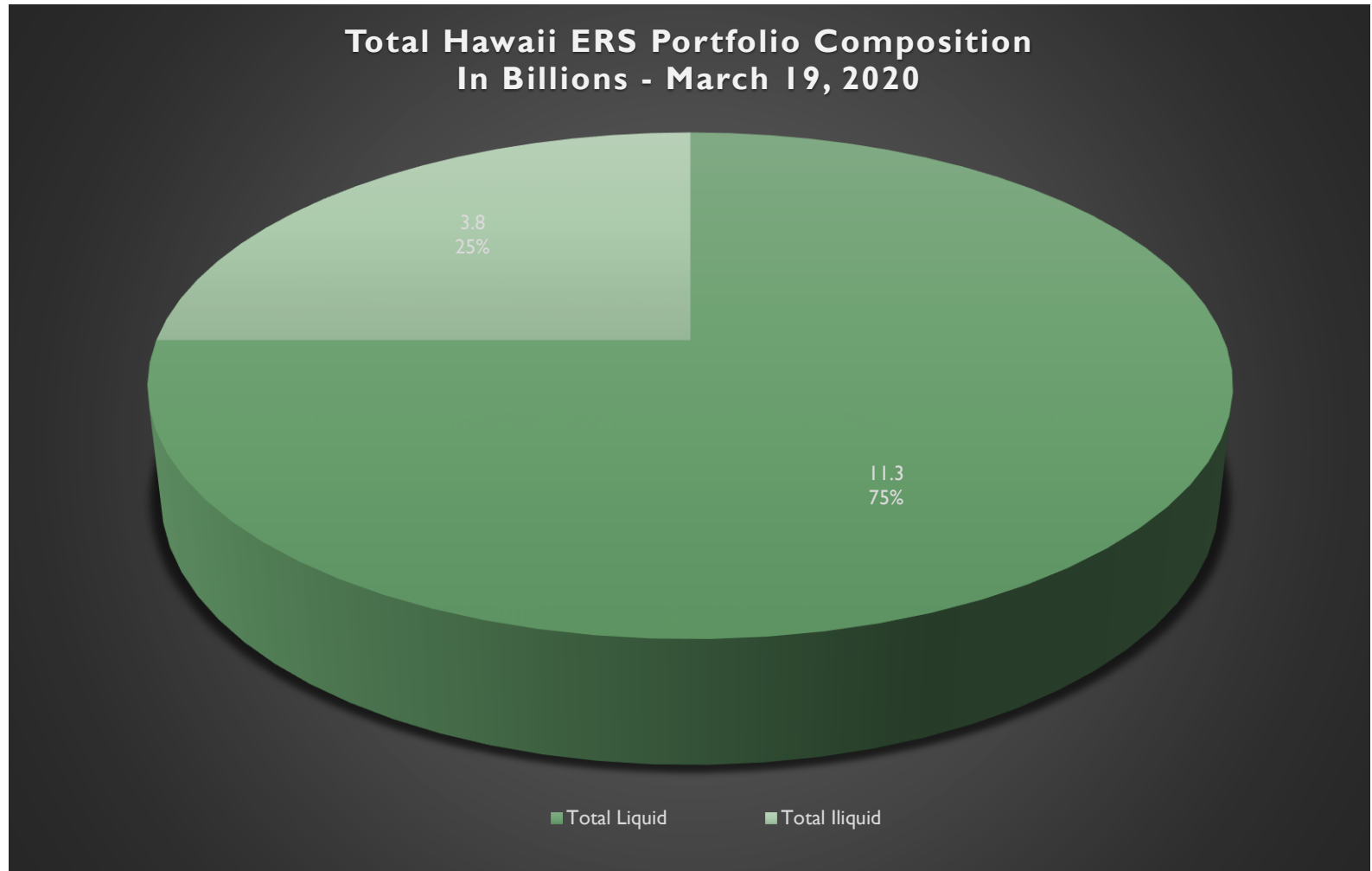
*Target allocation effective 1/1/2019.



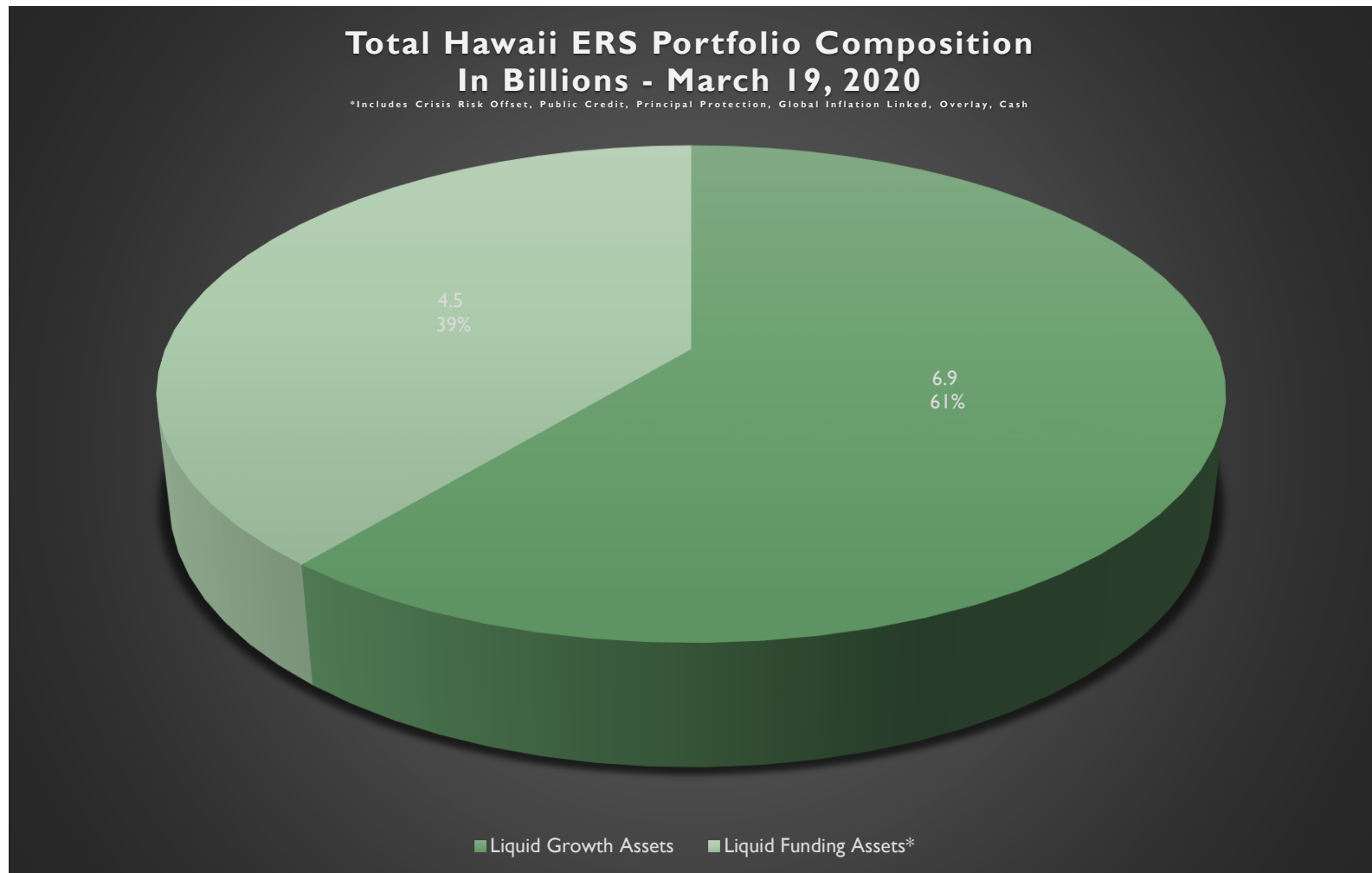
ERS Investment Performance

As of Date	Market Value	Quarter	1 year	3 Years	5 Years	10 Years
June 30, 2019	17,179,525,367.85	3.37	6.00	9.13	6.09	9.22
Dec 31, 2019	17,982,347,413.84	3.56	15.75	9.09	7.07	8.23
Jan 31, 2020	17,937,853,856.97	2.64	11.96	8.48	7.20	8.47
Feb 29, 2020	17,271,186,196.76	-2.61	6.46	6.51	5.64	7.91

Portfolio Liquidity



Funding vs. Growth 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



Questions?

Mahalo for your attention.

ERS Contact Information

- Address:
 - City Financial Tower
 - 201 Merchant Street, Suite 1400
 - Honolulu, HI 96813
- Website: <http://ers.ehawaii.gov>
- ERS Main Phone:
 - (808) 586-1735
- Thomas Williams, Executive Director:
 - (808) 586-1700