ECONOMIC DEVELOPMENT AND BUDGET COMMITTEE

Council of the County of Maui

MINUTES

March 30, 2020

Online Only via BlueJeans

CONVENE: 9:08 a.m.

PRESENT: Councilmember Keani N.W. Rawlins-Fernandez, Chair
Councilmember Kelly Takaya King, Vice-Chair (out 11:37 a.m.)
Councilmember Riki Hokama, Member
Councilmember Tasha Kama, Member
Councilmember Alice L. Lee, Member
Councilmember Michael J. Molina, Member
Councilmember Tamara Paltin, Member
Councilmember Shane M. Sinenci, Member
Councilmember Yuki Lei K. Sugimura, Member

STAFF: Shelly Espeleta, Legislative Analyst
Chester Carson, Legislative Analyst
Lesley Milner, Legislative Analyst
Yvette Bouthillier, Committee Secretary

ADMIN.: May Anne A. Alibin, Deputy Director, Department of Finance
David Galazin, Deputy Corporation Counsel, Department of the Corporation Counsel

OTHERS: Trinette Furtado
Liko Wallace
Derek Mizuno, Administrator, Employer-Union Health Benefits Trust Fund, State of Hawaii
Thomas Williams, Executive Director, Employees' Retirement System, State of Hawaii

PRESS: *Akaku: Maui Community Television, Inc.*

CHAIR RAWLINS-FERNANDEZ: . . .*(gavel)*. . . Aloha mai kakou. Will the Economic Development and Budget Committee please come to order. It is 9:08 on March 30th. Will everyone please silence their cell phones. We'll begin with roll call. Aloha kakahiaka to my Vice-Chair Kelly King.

VICE-CHAIR KING: I think you muted me. You muted me.

CHAIR RAWLINS-FERNANDEZ: Yeah, I can hear you. I can hear you.

VICE-CHAIR KING: Okay, you unmuted me. Yeah, so, no...I can't, I can't...I don't know if I'm being heard if the mute is on, but --

CHAIR RAWLINS-FERNANDEZ: I can hear you.

VICE-CHAIR KING: --I can't see...aloha, Chair, I can't see Yuki, but I see Trinette.

CHAIR RAWLINS-FERNANDEZ: Yeah, so we'll work on that. Aloha.

VICE-CHAIR KING: Aloha.

CHAIR RAWLINS-FERNANDEZ: Okay. Member Shane Sinenci.

COUNCILMEMBER SINENCI: Aloha ka kahiaka --

CHAIR RAWLINS-FERNANDEZ: Please remember to mute yourself after.

COUNCILMEMBER SINENCI: --from Hana. Aloha.

CHAIR RAWLINS-FERNANDEZ: Aloha. Member Mike Molina.

COUNCILMEMBER MOLINA: Aloha kakahiaka, Madam Chair.

CHAIR RAWLINS-FERNANDEZ: Aloha kakahiaka . . .*(feedback)*. . . some feedback coming in from your end. Okay, and then mute. Okay, mahalo. Chair Alice Lee. You have to unmute yourself.

COUNCILMEMBER LEE: . . .*(inaudible)*. . . Ni hao.

CHAIR RAWLINS-FERNANDEZ: Ni hao --

COUNCILMEMBER LEE: Did you hear me?

CHAIR RAWLINS-FERNANDEZ: --and aloha kakahiaka.

COUNCILMEMBER LEE: Ni hao.

CHAIR RAWLINS-FERNANDEZ: Yes. Okay. Member Riki Hokama.

COUNCILMEMBER HOKAMA: Good morning, Chair.

CHAIR RAWLINS-FERNANDEZ: Good morning.

COUNCILMEMBER HOKAMA: Good morning, Chair.

CHAIR RAWLINS-FERNANDEZ: Good morning. Member Tamara Paltin.

COUNCILMEMBER PALTIN: Aloha kakahiaka for the extra two minutes.

CHAIR RAWLINS-FERNANDEZ: Aloha kakahiaka.

COUNCILMEMBER LEE: Oh, no. Oh, no.

CHAIR RAWLINS-FERNANDEZ: And aloha, Member Yukilei Sugimura.

COUNCILMEMBER SUGIMURA: Good morning from Kula. It's a beautiful morning.

CHAIR RAWLINS-FERNANDEZ: Good morning. It is a beautiful morning. And Pro Temp. . .

COUNCILMEMBER SUGIMURA: You know, Chair, Chair?

CHAIR RAWLINS-FERNANDEZ: Yes.

COUNCILMEMBER SUGIMURA: We look like Hollywood Squares. If you ever see us on video, we look like Hollywood Squares. We should have a game show. Good morning.

CHAIR RAWLINS-FERNANDEZ: Mahalo, Member Sugimura. And Pro Temp Tasha Kama.

COUNCILMEMBER KAMA: Aloha kakahiaka, Chair.

CHAIR RAWLINS-FERNANDEZ: Aloha kakahiaka. Okay, and mahalo, everyone for being here and the extra four minutes for departmental questions goes to Member Paltin for reading the memo that I sent out catching the date. It was all a test and greeting us this morning with the double shaka which was the instructions and so she read the memo. So you get extra four minutes. Okay, and then with us from Corporation Counsel, we have Deputy Corporation Counsel David Galazin. Committee Staff. . .

MR. GALAZIN: Good morning.

CHAIR RAWLINS-FERNANDEZ: Good morning. Committee Staff we have Committee Secretary Yvette Bouthillier, Legislative Analyst Shelly Espeleta, and also --

MS. ESPELETA: Good morning.

CHAIR RAWLINS-FERNANDEZ: --Legislative Analyst Chester Carson, and Lesley Milner. Okay, Members, we have one item on the agenda today, EDB-24(9), Presentations on Other Post-Employment Benefits. We have from the Employer-Union Health Benefits Trust Fund, State of Hawaii, Mr. Derek Mizuno, and Employees' Retirement System, State of Hawaii, Executive Director Thomas Williams. And we'll begin with testimony. Oral testimony via phone or teleconference will be accepted. Testifiers participating via video conference should have joined the online meeting via the BlueJeans meeting link, https:\\bluejeans.com\597785199, as noted on today's agenda. Testifiers participating via phone conference were instructed to dial in to 1 (408) 317-9253 and enter meeting code 597785199, which is also noted on today's agenda. Written testimony is highly encouraged by sending your comments to edb.committee@mauicounty.us. Oral testimony is limited to three minutes. If you're still testifying beyond that time, I will kindly ask you to complete your testimony. When testifying, please state your name and the agenda item you are testifying on. If you are testifying on behalf of an organization or are a paid lobbyist, please inform the Committee. This is the first EDB Committee meeting using this new remote access platform where we will be accepting oral testimony. Despite not being able to meet in person, remote access capability through BlueJeans allows us to continue the important work of the Council, especially as we enter into Fiscal Year 2020 [*sic*] Budget deliberations. To keep the public informed, the Council issued a press release on March 25th, a mailer is in the process of being sent out, and an educational video is being prepared to inform the public on the use of BlueJeans to access and participate in Committee and Council meetings in light of the stay-at-home and work-from home order issued Statewide. Some people have asked how the Council can continue working on the budget while in the middle of a crisis. The County Charter mandates a balanced budget is adopted by Council by June 10th for the upcoming fiscal year beginning on July 1st. The Council's budget process provides transparency and enables the public to participate in its creation. A live cable cast of this meeting is available on *Akaku*, Channel 53. You can also visit mauicounty.us/agendas to access live and archived meeting videos. For up-to-date meeting information, please visit www.mauicounty.us. I remind Committee Members, Administration, and the public to please be patient with us as we continue to navigate through these uncharted waters that are subject to change at a moment's notice. If there are no questions, Members, I'd like to proceed with oral testimony. Okay, mahalo.

COUNCILMEMBERS VOICED NO OBJECTIONS

CHAIR RAWLINS-FERNANDEZ: Mahalo. Mahalo. Okay. Staff has been monitoring people joining today's meeting by phone and by video, and we will do our best to take each person up in an orderly fashion. Okay. Is there anyone wishing to testify? Okay, we have with us...there's a lot of chat going on, direct messages. Okay. The first to testify is from the telephone, 808-658-0714. Will you please unmute yourself and proceed with your testimony? Six five eight, zero seven one four, it's your turn to testify. Okay. We'll come back to you. Okay. Second to testify is Mary Anne...oh. Is she going to testify? Mary Anne...May Anne Alibin. I think that's May Anne.

MS. ALIBIN: Chair, this is May Anne Alibin. I'm here as a resource under, for the Department of Finance.

CHAIR RAWLINS-FERNANDEZ: Okay. Mahalo for being here as a resource. Okay. And Jason Economou.

MR. ECONOMOU: Hi, guys. I'm not here to testify, I'm just observing.

CHAIR RAWLINS-FERNANDEZ: Okay. Mahalo. Okay. And Trinette Furtado.

. . .*BEGIN PUBLIC TESTIMONY*. . .

MS. FURTADO: Aloha mai kakou. Can you hear me?

CHAIR RAWLINS-FERNANDEZ: Aloha. We can hear you loud and clear.

MS. FURTADO: Mahalo nui. My name is Trinette Furtado and I am from Kula and I'm happy to be seeing that we have this method of communication for all of our Council...

CHAIR RAWLINS-FERNANDEZ: Mahalo for your testimony. Oh, I'm sorry.

MS. FURTADO: Can you see me now? Okay.

CHAIR RAWLINS-FERNANDEZ: Yes.

MS. FURTADO: I want to thank first of all Chair Rawlins-Fernandez for getting this venue going up so quickly so that the community can continue to be engaged, can continue to be involved, and give their mana`o on the different kinds of proceedings that will be happening in EDB. And I just wanted to mahalo everybody, mahalo you all for being able to get up on the telecommuting so quickly. It can be a little bit confusing and it can be something that's a little hard to get comfortable with, but I'm glad that we have this ability to communicate in this way at this time while we are all staying home and keeping each other safe. The one thing I wanted to comment on this EDB-24(3) is being a County employee myself, I look forward to hearing how the ERS and the EUTF is amending practices or working to help those of us that may not be connected to them at the moment so that we can get right back on the ground running when this is all over. So, thank you for the opportunity to testify and I hope you all have a great day. Aloha.

CHAIR RAWLINS-FERNANDEZ: Mahalo for your testimony, Ms. Furtado. Members, any questions for our testifier? Okay. Seeing none, thank you so much for your testimony this morning, Ms. Furtado.

MS. FURTADO: Mahalo nui.

CHAIR RAWLINS-FERNANDEZ: Okay. All right, and we'll go back to 658-0714. Okay. And...is that it? Okay. We can hear you now.

MS. WALLACE: . . .*(inaudible)*. . . me?

CHAIR RAWLINS-FERNANDEZ: Go ahead. Yes. It's your turn.

MS. WALLACE: Okay. Good morning, Councilmembers. This is Liko Wallace from Moloka`i. Sorry. I tried earlier but you guys didn't hear my voice coming through so I had to call back. Anyway, I just wanted to let you guys know that we are so thankful that you are accepting oral testimony. It means a lot to our community that the Council has taken this courageous step to allow for meaningful participation. Again, thank you so much for all that you guys do. Mahalo plenty. Aloha.

CHAIR RAWLINS-FERNANDEZ: Mahalo for your testimony. Members, any questions for our testifier? Okay. Seeing none, thank...oh, Ms. Paltin? Member Paltin has a question for your, Ms. Wallace.

MS. WALLACE: Okay.

COUNCILMEMBER PALTIN: Thank you, Ms. Wallace, for your testimony. I just was wondering are you calling up from your house or cell phone or did you have to go to the district office to call?

MS. WALLACE: I'm on my cell phone.

COUNCILMEMBER PALTIN: Oh okay, cool. All right, thank you.

MS. WALLACE: You're welcome.

CHAIR RAWLINS-FERNANDEZ: Mahalo, Member Paltin. Mahalo, Member Paltin, for your question. Okay, Members, any other questions for our testifier? Okay. Seeing none, we'll thank Ms. Wallace for her testimony. Okay. And Staff is reporting that there is no one else here to testify. Okay. So, I will now check with Ms. Bouthillier and she is reporting that there is no written testimony. So, if there are no objections --

COUNCILMEMBER SINENCI: No objection.

CHAIR RAWLINS-FERNANDEZ: --I will now close public testimony.

COUNCILMEMBERS: No objections.

CHAIR RAWLINS-FERNANDEZ: Mahalo.

. . .END OF PUBLIC TESTIMONY. . .

ITEM 24(9): PRESENTATIONS ON OTHER POST-EMPLOYMENT BENEFITS (Rule 7(B))

CHAIR RAWLINS-FERNANDEZ: Okay. We will...all right. Okay, so EDB-24(9), Presentations on Other Post-Employment Benefits. So, we have with us Mr. Derek Mizuno who is the Administrator of EUTF, and we also have Miss...Deputy Director May Anne Alibin as a resource if anyone has questions. Mr. Mizuno?

MR. MIZUNO: Yes. Good morning.

CHAIR RAWLINS-FERNANDEZ: Aloha. Aloha, Mr. Mizuno. Mahalo for joining us this morning. Okay. So, Shelly...okay. So, we'll ask you for some opening comments, and then we'll ask Ms. Espeleta to share her screen so that you can proceed with your presentation.

MR. MIZUNO: Good morning, Council. Thank you for this time, and thank you, Chair Rawlins-Fernandez, for setting this up. I think this is great what you guys are doing for your community. You know in terms of my presentation, you know, first, I want to just talk about, you know, this Covid-19 and, you know, what we're doing here at EUTF in regards. You know we're still operating, we're still processing enrollment forms, we're still answering calls. You know we have about a third of our staff coming in each day. We have another 45 percent of them working at home. So, we have about 80 percent, working at about 80 percent right now. We're still trying to see if more people can work at home and how we can accommodate that. So, we are still doing the daily work so your members or your...our members should feel confident that, you know, if they have to make a change, whether, you know, their spouse might have lost their job, lost their coverage on their plan, they can come on to the EUTF plan. So, we are still processing all of those items. We have just extended the annual open enrollment for the employees. Originally, it was scheduled for April 1st to

April 30th. We just extended that to May 15th to give our Members more time to complete their forms. We're also conducting our informational sessions online so we have a schedule beginning April 1st where we'll have three-a-day webinars that members can join in on. We also have a on-demand that members can participate at their leisure. I think as you know, the Federal government has mandated that coverage at 100 percent for diagnostic testing so our plans are following that as well. HMSA and Kaiser and you probably saw the HMSA CEO come on TV talking about online care, so they are pushing that, trying to get people to call in instead of coming down to the office. It's pretty interesting for Kaiser, they, normally they have about 20 percent that are doing online or telephonic appointments. They've seen that spike up to 70 percent. So, it is working, I think the message is getting out to call in instead of show up in person. Even for our drug plan through CVS, we are relaxing some of the quantity limits so people can get their drugs more timely, people are...we're trying to encourage mail order as well, so that's going pretty well. You know in terms of our investments, you know, we're not as big as the ERS, we have about over $3 billion in our fund. For the quarter, we're down about 13 percent, you know, and that's pretty good relative to say the overall equity markets which are down over 20 percent so we have some strategies in place that will mitigate our losses during times like this. So, I think we're, you know, we continue to move forward to watch our portfolio and also look for opportunities for investments during this time. So, I'll continue on with our, my normal presentation now.

CHAIR RAWLINS-FERNANDEZ: Mahalo, Mr. Mizuno. Okay, Members, we're going to hold questions until after both presentations if there no objections.

COUNCILMEMBERS: No objections.

CHAIR RAWLINS-FERNANDEZ: Mahalo. Okay. Mahalo, Ms. Espeleta. Okay, Mr. Mizuno, will you please proceed?

MR. MIZUNO: Okay. So, this is the presentation that I normally give to the Legislature, the unions, as well as any councils that want to...that give me time to present this. And actually you guys are the only ones, and I think that's great that you guys want to find out what's going on with the EUTF. Next slide. So, this is the topics we'll cover today. I'll try and focus and spend more time on some of the more interesting, important items. Next slide. And a lot of this is things that I've, you know, talked to you guys in the past, whoever has been on the Council for a few years. So, we started offering plans in 2003. We cover all State and County employees plus the retirees as well as dependents, so almost 200,000 people. We have a board that's comprised of five State directors and deputy directors and five union members. It's interesting how the voting is set up where each group has one vote and to pass any motion you have to have two affirmative votes. So, basically one side can stop any motion that is on the floor. Next slide. So, this slide just tells us how, the EUTF, how we fund our plans. So, if you look on say the far left on the fully insured plans so those are Kaiser and our life insurance plan. That's typically like our auto insurance that we have where we negotiate a premium, we pay those premiums. If we have a claim that's bigger than the premium, well then, the insurer Kaiser will take a loss. If you have no accidents, then the insurer makes out. Whereas on the far right is the self-insured plan which is our drug plan and a supplemental plan that we have where the EUTF bears all the risks so we have a benefits consultant that will help the trustees calculate what premium should be charged that will be collected throughout the year. And if there's claims higher than the premiums collected, the loss will stay with the EUTF. But if there's a surplus where claims are less than the premiums, that will also stay with the EUTF. In the middle is like a hybrid of the two, our HMSA, the dental, and the vision plans where we'll negotiate a premium with HMSA say. If the premiums are greater than the claims and there's a surplus, then HMSA will refund us that surplus. But if claims are more than the premiums, then HMSA will eat the loss. So, in a time like this if it gets really bad and there's a lot of medical claims because of this pandemic, you know, we're protected, so the EUTF is protected. If it goes really bad, HMSA will eat any losses, as well as Kaiser. So, it gives the trustees that protection on the downside, but we still can participate in any upside. Next slide. And every four years we conduct RFPs on our vendors, you know, the dental, vision, and life, we do that on one cycle, and then we're currently working on the medical and prescription drug RFP. So, any change on the drug side side or the medical will begin on 1/21 for the retirees and 7/1/21 for the actives. Next slide. This slide shows the active enrollment over time. So, I think what's interesting is for the H 75/25 so that's a HMSA 75/25 plan and right above it's the Kaiser Standard plan. So, those are the lower cost and the lower benefit plans. So, if we look back in 2016, you know, we had only 17 percent of our membership in there. And it's really, these plans are really meant for say the newer workers who maybe aren't making as much money and they don't need a really high benefit. So, it's a low-cost, low-benefit plan, that's the reason why it was set up. So, we had low enrollment when we first started these plans. And if you look towards the last three columns on the right, 7/1...the third to the last column, 7/1/16, Self EE Monthly, that is an employee's monthly share of the premiums if they're just enrolled in a single plan. So, if we look at 7/1/16, the 75/25 was at $142 and if you look a few lines up, the 80/20 plan was $215 so about a $70 difference. If you look at 7/1/17 the Self EE Monthly cost, that $142 for the 75/25 plan went down to $54 and the 80/20 plan went up to $234. So, now there's a $180 difference and so if you go back more towards the left, you see from 7/1/16 to 7/1/17 in terms of the enrollment, the 75/25 went from 5 percent to 22 percent. And really there's, there were two reasons for that change in the premiums. One was prior to 7/1/17 and even say prior to 7/1/16, HMSA when they increased premiums, they would increase all of the plans at the same percentage. But what we were seeing was the 75/25 they were experiencing about a 40 percent surplus so the people in there were really healthy and they weren't really...needed the services, so there was this big surplus. But HMSA just kept increasing the plan cost every year so 7/1/16 before the renewal, we asked HMSA well, take a look at that, you know, if you don't have to raise it, try not to raise it. So, 7/1/16 they kept it flat. Seven one seventeen we asked them to do the same thing. They reduced the premiums by 13 percent. The other thing that happened was the trustees prior to 7/1/17, the premiums for the drug plans, for the HMSA plans were all the same premium amount. Same plan, same premium. Seven one seventeen, the board decided to pull out those 75/25 people and give them their own premium. So again, these guys are the healthier guys not using the plan as much. So, that caused the 75/25 drug premiums to go down by 53 percent. So, the combination of those two items caused the overall premium to go down by 23 percent. So, with the drop in premiums we see the people moving to the 75/25 plans and a lot of them came from the 80/20 plan. Seven one eighteen, the increase in the premiums wasn't that great. We saw a little bit more people move in, same thing with 7/1/19. So, now the interesting part is 75/25 plan is the most prevalent plan or, you know, we're at 31 percent now. The 80/20 plan is only at 29 percent. And this is important for collective bargaining. Historically, the unions and the employers have used the most popular, most prevalent plan to determine the 60/40 split. So, generally the employers will pay 60 percent of the 80/20 plan and the employees will pay 40 percent. But now with the 75/25 plan as the most prevalent plan or popular plan, it's going to be interesting to see how the employer contribution is determined come 7/1/21. Next slide. So, this slide is the County of Maui, your employees and where they're enrolling. So, the interesting part is if you look at the Kaiser Comprehensive at 19 percent for 7/1/19 for the County of Maui and Kaiser Standard at 30 percent. So, about 50 percent of your employees are in the Kaiser plans versus the EUTF group as a whole 28 percent. So, you guys have a lot higher membership in the Kaiser plans. I asked Kaiser a couple years ago why, you know, why they believe that has happened. They weren't really sure exactly why. I think, you know, they just mentioned that I think once they get kind of a critical mass people, you know, word of mouth and I think the member starts...membership starts growing that way. So, there's not as many people in the 75/25 plan as well for the County of Maui, you know, it's 24 percent versus the group at 31 percent. So, really your most popular plan at this point is the Kaiser Standard plan which is a lower cost plan as well. And if you look at the second-to-the-last line, the bottom...second-to-the-last line, the total Maui County line, your growth is pretty stable. There hasn't been too much growth over the years, even this past year it was, growth was flat. Next slide. This slide talks about the HSTA VB plan as well as the total enrollment. HSTA VB plans, they're set up for the teachers that came over to the EUTF back on July...January 1, 2011. We're required to maintain those plans by a court order. So, there's no new employees going in, it just is the people who started there 1/1/21. The very bottom line is the total enrollment for our active members. So, you see it's been pretty small increases over the years. The one decrease, 7/1/17 decrease of 2 percent, that was primarily due to Maui Memorial when that went private. Next slide. So, this is the enrollment slide for the retirees. We always split the retirees into two groups. The first group is Medicare. When Medicare becomes primary for 65 and over retirees, that's the bulk of our membership, 38,000 as of 1/1/20. And most of our members are in the HMSA plan, 83 percent. The non-Medicare at 6,670 subscribers, that's at 84 percent in HMSA. Very bottom line, growth year to year, we're averaging about 2 percent growth every year. Next slide. This slide again compares the EUTF group with the County of Maui retirees. So again, we see a higher concentration of membership in Kaiser versus the EUTF group overall. Oh.

CHAIR RAWLINS-FERNANDEZ: Sorry, hold on.

MR. MIZUNO: Oh, we can go to that slide. That's fine. So, we'll talk about now what the costs look like to the County of Maui. Actually, can we go to the one slide right in front of it? Oh, Shelly, can we move up one slide?

MS. ESPELETA: Yeah, one second, sorry.

CHAIR RAWLINS-FERNANDEZ: The previous slide.

MR. MIZUNO: Slide eleven. Okay, thanks. Slide 11.

UNIDENTIFIED SPEAKER: No.

MR. MIZUNO: Oh, the other way, going back to 11. Yeah, thank you. Oh. One more forward to 11.

CHAIR RAWLINS-FERNANDEZ: One more. Okay.

MR. MIZUNO: Thank you. So, this slide shows the County of Maui's cost or actually the cost for the active employees. So, on the far right, I'm sorry there's a typo, the last column should be 6/30/19. So, it shows how much the County spent for medical and drug at 16.2 million. So, overall the County of Maui's premium contribution is about 17.5 million which was a 6.7 percent increase from the prior year. Where the employee share actually went down from 8.5 million to 7.8 million, and it's going down because members are moving to the lower cost plans so their costs are going down a lot more than what the employer's cost goes down. And so, the employee percentage, so if we look back 6/30/14, it was pretty much that 60/40 split, even through 6/30/16, it's pretty close to 60/40. With more people enrolling in the lower-cost plans, the employer share becomes higher. Bottom, the last line, the total increase for the year was 1.6 percent which isn't too bad, but it's partly reflecting members moving into a lower-cost plan. Next slide. This slide is again the cost for the retirees though. So, if we look in the middle, the Maui County premiums, 6/30/19 was at

15.8 million. The retirees are still just being a very small portion of the premiums, .2 million. The Medicare Part B reimbursements were 2.3 million. Total increase from year to year was 7 percent. Next slide. The next slide shows the growth in the premiums, the annualized growth back from 2012. For most plans the 75/25 and the Kaiser Standard plans are from 7/1/13, that's when they started. But if we look at say the 80/20 plan, annualized gross over that period was 5.4 percent which isn't too bad relative to national averages of 6½ percent. We have been struggling more so with the prescription drug, over that time period grew by 8 percent. Over the past few years though, the board has put in some changes, increases in copayments, utilization management program. So, the past three years, we've had two years of actual decreases, small decreases but decreases in the per member per month claims cost. And the other year was a small increase of 2.7 percent. So, I think we've gotten a lot better handle of the drug trend. Next slide. The next slide is similar but for the retirees, again we split out the retirees between Medicare and non-Medicare. The one thing that stands out is the prescription drug plan for the Medicare retirees, the annualized growth of 1 percent. And that's kind of an anomaly. In 2013, there was a change made to the plan to capture more subsidies from Medicare as well as from the manufacturers, so that caused premiums to decrease by 35 percent in that one year. So, that really helped us out for the retiree Medicare plans. Next slide please. So, every year, both for the active employees and the retirees, we work with our carriers, determine if there should be any plan changes, and they're presented to the board, the board looks at that. So for 7/1/20 for the active employees, over the HMSA plans, the HMSA plans are going to cover 3-D breast mammograms, as well as air ambulance coverage from Hawaii to the mainland. Just Hawaii to the mainland if there's a specific need or special need, when commercial travel is not available. Kaiser added a hearing aid benefit. And then for VSP, some of the allowances were increased for the frames as well as the contact lenses. Next slide. There were similar changes for the retirees, 1/1/20 as well. Next slide. We just have one legislative proposal for the 2020 Leg session and it's we're asking the Legislature to mandate that retirees pay their premiums through automatic deduction, whether through their ERS pension or their financial institution. As I mentioned earlier, there's not too many retirees who have to pay a portion of their premiums, about 2,300. And the bulk of them pay it either through the ERS or through ACH from their bank. Only about 30 percent pay by check. So, we're asking the Leg for any new retirees that they're mandated to use either the ERS or the financial institution deduction. And we think it's a win-win, it helps us, it reduces our cost and our administrative time, plus it helps the members to avoid any not...any forgetfulness in terms of not paying their premiums. If they don't pay their premiums, we'll send them a notice. If they don't pay it still yet, then we'll cancel them. So, we don't want anyone to be cancelled so we want to have them do the electronic deductions. Next slide. We also have a budgetary ask, so actually the, there's another typo, I'm sorry. It should be for the 2019 Legislature. They approved about $10 million for a new benefits administration system, and this is the system that we enroll everyone, we keep track of everyone's payments, everyone's plans, everyone's dependents, addresses. So, we got monies for a new system. We just asked for more money to do some additional work. Well, I think what's going to be good for our members is that they'll be able to go online and make their own changes. So in terms of open enrollment, they won't have to fill out a form, a hardcopy and turn it in to the employer, they can go online, log on to their account, and say change if they want to go from the 80/20 plan to the 75/25 plan, they can do that. They can add dependents. If they got married, they can add their spouse. And that would send a workflow to us to check it as well as the members would be able to...they take a picture of their marriage certificate, upload that into the system, and our staff would be able to check it. So, I think it would help everyone in terms of the members, the employers, as well as our staff. So, we're hoping to get that new system in place by 1/1/22. Next slide. Now, we'll move a little bit more towards the retirees. So, I think one kind of misconception out there is that if you're a 100 percent retiree, that means the employer is going to pay 100 percent of your premiums. That's not necessarily the case. If you're a 100 percent retiree, what that means is the employer is going to pay 100 percent of the base monthly contribution. So, the base monthly contribution was set up in statute as a dollar amount, and each year it increases as Medicare Part B premiums increase. And the Part B premium reimbursement is not dependent on the hire date, years of service. Even if they're...the members are enrolled in plans...and this reimbursement is both for the retiree as well as the spouse. Sorry, I kind of just changed quickly from the BMC to the Part B premiums. So, in addition to the employer contributing for the premiums, the employers also reimburse Part B premiums for the spouse and the dependent. And again, it's not, that Part B reimbursement is not dependent on hire date, years of service. And along the way, the Leg has changed the benefits. The spouses or retirees who are hired after 6/30/01, the employers don't contribute for their spouses, but their spouses still can enroll in the plans and receive the part, Medicare Part B premium reimbursement. Next slide please. So, this slide details the different tiers that we have now with the decreases and the benefit over time. So, if the employee was hired before 7/1/96, they just had to work ten years to get the 100 percent of the BMC. If you worked less than ten years and you're able to retire with ERS, you get 50 percent of the BMC. The second tier is between '96 and '01, the Leg made the standard a little higher, now the employee had to work 25 years to get the 100 percent and then it was tiered as well for lesser years. And then tier three is if you're hired after 6/30/01, you follow the same tiers as Tier 2, but the employer will only contribute for the retiree. Again, the spouses and dependents can enroll in plans, but the employer's not going to contribute for their premiums, towards their premiums. Next slide please. So, this slide compares the BMC with our premiums. So, the top portion is for the Medicare retirees, you have the self, two-party, and family plans. In the middle 100 percent of the BMC, so if a Medicare retiree enrolled in the HMSA, got the drug, got the dental and vision, those premiums would be $526 per month. The BMC for 2020 is $723. So, right now that 100 percent retiree won't have to pay any portion of their premiums. But because the BMC is so high, even the 75 percent retiree, so the...75 percent of the BMC right now is $542, even that retiree won't have to pay a portion of their premiums. So, it's beneficial for the retirees but it's detrimental to the employers. And what had happened was the premiums were getting close to the BMC back in I believe 2013, so there's a group of retirees that watch this. So, they petitioned the Leg to increase the BMC artificially instead of letting it increase with Part B premiums. So, the Leg artificially increased the BMC and right after 2014, we had a couple big increases in Part B premiums so now the BMC is so much higher than the premiums. So, it kind of defeated the whole purpose of a cap by artificially increasing it, but that's what the Leg did. Next slide please. So, the next slide just talks about our valuation. We have an actual valuation conducted every year. We can go to the next slide. We can skip over to the next slide. Okay. So, one thing important about the contributions that are being made to the long term, the OPEB trust is there's a bill or an act, Act 268 from 2013, that requires the employers to fully fund the annual required contribution or ARC beginning in Fiscal Year '19. And the ARC is comprised of two things, one is the normal cost, and the normal cost is just what all the employees earn towards their retiree medical, retiree health when they retire. So, that's in the cost, really the expense for the year, plus an amortization payment to pay the unfunded liability over a period...over a 30-year period. Okay. So, that ARC is required to be paid beginning in FY '19. Next slide. In terms of investment returns, you know, we're a little over 3 billion now. We started our portfolio really in 2011, since then we've had years above the 7 percent hurdle, some years below. But for that time period from 7/1/11 to 6/30/19, we've performed...net a fee 7.1 percent so we've met the hurdle. It's going to probably dip under the 7 percent unless we have a big rebound in the last quarter. Next slide. So, this slide just shows what our asset allocation is. So, if you look at the bottom group, the diversifying group, those are the strategies that during economic stress, those are supposed to perform better and are not correlated to the, say the equity markets. So, something like the US Treasuries, so when there's a lot of disruption, there's a lot of panic in the market, people go to treasuries because those are the safest investments out there. So, for quarter to date of about a week or so ago, those treasuries were up almost 20 percent for the quarter. So, it's pretty amazing but the portfolio is doing what we anticipated it to do. At the bottom, the trend following. So, first people will go to treasuries to, for safety, but over time if the market keeps going down, there'll be a negative trend so you can make money by making money on that trend. So, for the quarter to date, that trend following category was up 10 percent as well. So, we have these other asset classes in place to do well when the equities aren't doing so well. Next slide. The next slide is the actuarial evaluation results. So, there's a historical funded ratio. So, if you look at the County of Maui in the middle, COM, you know, back 7/1/13, you guys were at 7 percent funded and the funded ratio is just the, it's just the assets divided by the actuarial accrued liability. Over the years, it's been increasing, 7/1/13 to 7/1/15, there was a big payment made by the County so you guys went up to 33 percent; 7/1/19, our last valuation, you guys are at 46 percent. You know the first column, the State, the State didn't start funding till 7/1/14 or so, 7/1/14, '15. So, they started at 0 percent 7/1/13, but they have been making their contributions and now they're at 16.1 percent. So, I think, you know, there's a good funding policy in place, it's just whether the employers will be able to meet that funding policy. Next slide. So, here's...it's a lot of numbers on this page, but this is an excerpt from the County of Maui's actuarial evaluation for 7/1/19. I think there's some interesting numbers here. So, if you look at Column G, kind of in the middle of the annual required contribution, so again, that's the payment required by Act 268. Again, it's the normal cost plus the amortization payment to pay down the unfunded over 30 years. So for 2020, that amount is 35.7 million. If you look two columns over to the right, the benefit payment total, what that is are the premiums for the retirees for that year. So for 2020, the estimate is 19.6 million and the last column is the additional cost of prefunding. So, it's the difference between the annual required contribution and the benefit payment total. And that 16.1 million, that will go into the long-term trust to be invested. So, you see your every year the annual required contribution is going to keep going up until we hit 2039...2038. That's when for the most part the unfunded liability is paid down. Then that's...ARC will go down from 67 million to about 35 million which will be less than at that point, the benefit payment total or the premiums. So, then really what's happening is your investment earnings are paying for the premiums instead of the County putting in money every year for the premiums. So if you look on the last column, from 2039, that column is negative because your required contribution is less than your annual premiums. Next slide. So, the rest of, for the most part, the presentation is looking at ways where we're trying, as well as the Leg is trying to look at reducing the liability over time, how we're addressing the actuarial accrued liability. Next slides. So, we've been doing some projects to clean up the enrollment. So, you know, we're trying not to disrupt our members and trying to be as least disruptive as possible. So, if we look at the fourth bullet down, the surviving spouse remarriage audit. So, you know, we knew that there were some members who were on the plan that shouldn't have been on plans. One of these are surviving spouses. So, if you're a retiree, your spouse is on the plan with you, the retiree passes away, their surviving spouse for the most part steps into the place of the retiree. So, if they were hired prior to '01. So, they get the same benefit that the retiree did; however, if the retiree or if the surviving spouse remarries, their coverage ends as well as...yeah, so the surviving spouse coverage would end. But we were relying on surviving spouses to report that, and most times the surviving spouses didn't know that they weren't eligible if they got remarried. So, what we did was we got a file from the Department of Health with all the marriages...I'm sorry, I should say what we did was we gave the Department of Health a file of all our surviving spouses with the date of death of the retiree. And we asked the Department of Health, tell us who on this list got married after the date of death of the retiree. So, the initial cleanup we found about 25 surviving spouses that got remarried and hadn't reported to us. And we're doing that audit every other month now so we can stay on top of it. So, we're trying to do different things to make sure we stay on top of our enrollment, take off people who are ineligible. Next slide. Actually, we can go to the next slide after that. In terms of looking at the health benefits claims trend, one of the things that HMSA is doing, you probably heard of it, they've started in 2017, is they call it payment transformation. So, instead of reimbursing or paying their providers, their primary care providers, their PCPs, based on a fee for service basis, so, you know, every time the PCP did a service, did a checkup, did some vaccinations or did different things, they got paid. So, it really incentivized doing services. So, what HMSA has done was they've changed for the most part their PCPs to reimburse them based on a per capita basis. So, if I'm seeing Doctor X, then Doctor X will be paid a certain amount every month whether I see him or not. They also put in incentive payments. If they're making sure all of their patients get screened, get their vaccinations, did their checkups, there's all these different incentives and over time HMSA will be tracking the total cost of care for the PCP's group and if there are savings based on a predictive model, the PCPs will share in that savings as well. Next slide please. The Leg has done some things over the years, we kind of talked about it earlier, the different tiers. So, actually going from the '96 to the...I'm sorry, the pre-'96 to the '96 tier, that reduced the benefit by almost a quarter. Going from the '96 to the '01 tier, reduced the benefit by almost 30 percent. So, just those two changes alone reduced the retiree benefit by about half. The base monthly contribution or the cap should also serve as a way to limit the employers' costs; however, it doesn't really work the best sometimes. Next slide please. We've also talked to the board, staff has talked to the board of possible changes, more changes to the benefits. One would be to eliminate the Part B reimbursements for spouses of new hires on or after 7/1/20. That was presented to the board, but the board didn't...decided not to present it to the Leg as a bill. We'll still work with the board to see if that can be done. Next slide. One other thing that a lot of states on the mainland have done is try and shift more out-of-pocket costs to the members, say like co-payments. So, instead of say a $10 copayment, they could increase it say to $25 or make it co-insurance where the member pays 10 or 20 percent. In Hawaii we can't do that. There's this lawsuit called the Dannenberg case that really protects the retirees as well as the active members. It protects the benefit they've accrued. So, basically any employee who's hired, they accrue in the retiree benefit in place today. So, for any employees or retirees, you know, the board can't say okay, we're going to change and instead of $10 every time you go to the doctor, you gotta pay $25. So, the board can't do that because of this lawsuit. Next slide please. But one thing the board could do or the Leg, actually it would really be the Leg, it would be to change the benefit for any new hires. So, instead of say the...or any new hires vesting in the benefit today for the retirees, we could create a new plan and mandate through a bill that the new employees vest in a lower plan. So, right now for Medicare retirees, if you're in the HMSA plan, for the most part you never pay any co-payments or co-insurance. There's some instances where you do but in general you don't pay anything. So, that's a really rich benefit. So, the Leg could have a bill or pass a bill where instead of that 100 percent benefit for Medicare retirees, it could be a 90/10 benefit so the members would pay 10 percent. So, there's things that can be done, and it actually could be significant savings to the employers. But we're still working with our board as well as the Leg if there's anything that could be passed in the future. So, with that, that's my presentation. The rest of the slides are related to the same concept of creating a lower benefit. But I'm, I'll be happy to take questions I think after Tom's presentation. So, thank you again for the time.

CHAIR RAWLINS-FERNANDEZ: Mahalo, Mr. Mizuno. Okay, Members, we'll hold off questions until after Mr. Williams' presentation. Is it okay if we power through or do Members need a break?

COUNCILMEMBER HOKAMA: Power through.

CHAIR RAWLINS-FERNANDEZ: Okay. Okay, Mr. Williams, are you ready?

MR. WILLIAMS: Yes I am, Chair Rawlins-Fernandez and Members of the Council. Can you hear me okay?

CHAIR RAWLINS-FERNANDEZ: Yes, loud and clear.

MR. WILLIAMS: Okay, good, good. First of all, I'd just like to again thank you for the opportunity to present to the Council. Both Derek and myself appreciate your annual invitation, and obviously it's being carried out a little differently this year via video conference made necessary by the Covid virus and our response there too. I thought it would be appropriate for me to start with sharing with you a little bit about what the impact of the virus has been both investment-wise and operationally. Operationally, we're pretty much delivering the full array of services. None of our members need worry about receiving their retirement benefit payments. Those are already set up to be processed at the end of the month and for the following month quite frankly. We are still enrolling new members, and we're accepting retirement benefit applications for those who want to retire in the coming months. We did in response to the virus cease in-person appointments. This was for the health and safety of not only the members but our staff as well. As you could imagine, with the numbers of retirees which we'll talk about momentarily, at the end of the month, we tend to have an overflow of people in our reception area which would create risk for both them and for our staff. So, we ceased actual in-person appointments, we're providing online and telephone information. And so far we're able to keep up with the volumes. We have employed the, or responded to the Governor's orders in the context of creating a list of essential employees who are required to be at work. Those who are non-essential and can work remotely, again those employees who necessarily for a number of reasons are at high risk and can't work. And the overwhelming majority of our people are rotating in and out of the office. We try to limit their exposure by having people come in maximum about two days a week. Our investment team can operate remotely as a result of the networking capabilities that they have. But we don't really have sufficient technological resources to allow the significant majority of our employees to work remotely. So, most of them I'd say not unlike EUTF, probably 70 percent of our employees are in the office but on a rotational basis. But we're very pleased that we're able to respond to all of our members' information and retirement needs. The biggest challenge to us not only is the health crisis, but obviously there's an economic crisis that's attendant to the health crisis that's been sort of brought on or caused by it. And of course like the equity markets, generally our portfolio is down as a result of the downturn in the market. But we also have some strategies in fact that I'm pleased to say that the EUTF has adopted that tend to mitigate the downside risk in protracted downturns such as we're experiencing, deep and protracted downturns. So for the fiscal year to date, the ERS total portfolio is down about 6.6 percent through March 26th. And since that date of course there have been a couple of positive days in the market so our position's probably improved just a bit. The average public pension plan is down a little bit over 9 percent, about 9½ percent so we're doing better than most. And we observed early on that the biggest risk to our program being marginally funded, we're at 55.2 percent funded is the bottom 25 percent of public pension plans, that the largest risk to our organization is in fact on the downside. So, we've tried to protect and we've done that through the creation of something that I've described to you before, but it's called a crisis offset strategy, crisis risk offset. And what it represents is ultimately about 20 percent of our portfolio will be in these defensive strategies not dissimilar to what Derek alluded to where we have three major components, this alternative risk premia, systematic trend following, and long-duration treasuries. Derek did a good job of describing how in fact those strategies buoyed the portfolio in times of distress as people turn to safety. And of course the systematic trend following allows us to recognize market direction and get into that trend to take advantage thereof. You know, we've got some contribution increases that are expected to be implemented July 1 of this year, a fairly substantial one, 22 to 24 percent for general employees and I think 36 percent of pay, up to 41 percent of pay for the police and fire. And of course one of my major concerns is that the State and the employers have the capacity to meet those contribution levels, because in fact the funding horizon that's now 26 years to full funding, it's wholly dependent upon those contributions being made as legislated and of course on the investment returns. And we tend to look at the investment terms over longer periods of time and we've done well over long periods of time. But periods like the present certainly do provide a significantly level of stress for the fund. And we've done some forecasts, for example, if we were down 10 percent for the fiscal year that ends June 30th, it would not require a contribution increase. We could go in with the current contributions so long as they are implemented. But it would extend the period of full funding from 26 years to about 33 years. So, it's going to really require additional contributions unless we're able to make up those earnings in future years. So, but we've looked at the worst-case scenarios to see how we would be impacted. The Federal stimulus plan that was recently signed into law doesn't affect us significantly. There was some discussion that future proposals may in fact provide some relief for public plans. Most of the relief for pension plans provided to date have been for the corporate pension plans and not for the State and local. One of the things that we know that the Legislature and the Department of Budget and Finance is considering is potentially issuing pension obligation bonds, the sale of which...the proceeds from would be used to offset some of the plan's unfunded liability with the sense that the earnings from the markets over time would exceed what are extraordinarily low interest rates. So, the borrowing costs would be significantly less than we could earn investing the portfolio over time. I think we didn't have much in the context of legislative agenda this year. We have a bill in to define more definitely compensation. What we realize is that each employer tends to define base compensation and compensation allowable for pension benefit purposes a little bit differently. We recognize that doing so results in different outcomes for members, and the Internal Revenue Service requires that all benefits for public plans that are qualified, that they be definitely determinable. So in fact, if benefits differ for two individuals who have the same work history and salary, that would be deemed a disqualified event. So, what we're trying to do is bring some consistency to the determination or the definition for compensation and apply that across the board so as to protect our tax-exempt status. The other bit of legislation and there's several that were affecting us but the one that we introduced relates to service-connected disabilities where of course what we're attempting to do is to align the definitions for eligibility for service-connected disability more directly with the statutory intent. The courts have loosened the interpretation over the years so that hazardous duty has been broadened to incorporate matters, so I won't call them trivial but the unavailability of an automatic can opener. They haven't used...for example a manual can opener was described in a court case as a hazard resulted in a service-connected disability. And that's not what was intended. Obviously, it was intended for folks like police and firemen, sewer workers who were exposed to significant hazards in the course of their work. Similarly, we're trying to define accident because accident is generally viewed as some single, untoward event resulting in an incapacity of an individual to perform their jobs. The courts have defined accident as something that occurs over a number of years, it can result from a deteriorating physical condition. And why this is important to us? Because about 30 percent more of the disability applications and cases that we've had to approve relate to service-connected disability. It's important because service-connected disabilities have no age requirement, no service requirement. You can work for the ERS or for the State or for the County for that matter for six months and be 30 years old and be entitled to benefits for the rest of your life, including the return of your contributions. So, with the unfunded liability that the ERS is exposed to we're trying to assure that all of the areas of potential leakage that creates these liabilities, that we try to shore those up. And I think as we go through my presentation, what you'll see is that the unfunded liability continues to grow. We expected it would grow quite frankly through 2023, 2024 and then begin to go down. Well, it's growing at a faster rate and going down at a slower rate, and it's due largely to salary increases that are exceeding the expectations. And when that continues, it means in fact that we may in fact have to increase contributions and that's something I don't want to see happen because I think we've got some of the highest contribution levels of any public plan in the nation. So, we're going to have to, together with the Legislature find ways to limit the growth in our liabilities. And I think that'll come a little more clear as we continue. And of course I'll look forward to responding to your questions at the end of my presentation. So, if we could go to my slide deck, I'll try to go through the, some of the earlier slides fairly quickly so that we can devote most of our time to questions. Next slide please. We, we'll go through this very, very quickly. These are the basic elements of my presentation. We'll talk about membership. You've seen all of this stuff before, and I'll spend a little bit more time as we go forward. Next slide. It's important to remember that 141,000, almost 142,000 individuals are members of the ERS, that represents about 10 percent of the State's entire population. You'll see that we have 66,000 active employees and 48,000 approximate retirees and beneficiaries. That's just about 1.4 active employees to each retiree and that's somewhat significant, because we're a mature plan suggesting that we have a significant number of retirees and a growing number of retirees relative to the active population. And not unlike Social Security where in fact it used to be two workers for each retiree receiving benefits, they're now almost one to one. Well, we're moving in the same direction when you consider that we have 1.4 persons working and contributions going into the system for each individual that is retired. We'll go to the next slide please. Just graphic representations of the growth in the total membership, the membership has grown about 40 percent from 2005 to 2018. This is members and retirees. If we go to the next slide we'll just see retirees and beneficiaries. And this group has grown even more rapidly. They've grown over that same period 2005 to 2018 by about 46 percent. Next slide, if you will. We are paying out $1.42 billion annually, at least for Fiscal Year 2018 to all of our retirees and their beneficiaries, a big economic driver across the State. We anticipate that within 30 years that amount will have grown to be over $3½ billion. The average annual pension of course is 28,600 as shown here, but that differs, ranges substantially for we have some individuals with pensions well in excess of 100,000 and obviously some with just a couple of thousand dollars because of low pay and small years of actual service. But at the bottom of that slide, it shows that over 14,000 active employees are eligible to retire today. It means they've got the years of service and if you add those 14,000 to the 48,000, we've got, we'd be very close to the active employee population. And that would put a significant drain on the assets of the system if we had to begin paying benefits for 14,000 more people immediately as opposed to receiving contributions on their behalf. Next slide please. The assets of the program as of June 30, 2019, that was the date of our most recent actuarial valuation was $17.2 billion. We earned on those assets, the market value return was 5.7 percent. The actuarial return was about 6 percent. And the expected return, the assumed return is 7 percent, the same as EUTF. I mentioned two different return numbers, actuarial return and market value return, because for the pension plan we use something called actuarial smoothing, and only 25 percent of the gains or losses are reflected in a single year so as to avoid contribution volatility. Because if we were to show all gains and all losses and apply them in a single year, the annual required contribution would fluctuate very wildly. So, the standard across the nation is to employee a tactic called smoothing. It's generally the four or five years, we use four-year smoothing to get the implications, the impacts of gains or losses into the system a little sooner than let's say if you were using five years. Next slide please. This illustrates the market returns that we've experienced through 2019. We have the 7 percent assumption, but we don't expect that by any means that we're going to get it every year, it's an average over time. And as you'll see significant volatility in those returns year to year, negative returns in 2008 and 2009 when the markets were down 4.1 and 18 percent respectively, followed in 2010 and '11 where they were up 11½ and then 20.9 percent, almost 21 percent respectively. You'll see in the summary lines below that the average return for the 5-year period ended last year was 5.9 percent, 10-year period was 9 percent, and for 15-year period, 6.8 percent. Those numbers I think are important only to the extent that they show over the long term that we're close to achieving our 7 percent return, but the calculation of these numbers are significantly endpoint sensitive dependent upon when you measure it. So, if we were to measure the performance of our fund as of today, it would be significantly down versus what I hope it will be on June 30th when the market has had hopefully some opportunity to recover as it's showed some signs of in the last couple of days. But we can never be sure as to whether we bottom out. The sense is again that we focus longer term rather than near term. Next slide please. Funded status and the actuarial liabilities and assets. Here it shows that total value of liabilities, this is everything that we owe to retired as well as active employees is 31.4 billion. As of this measure date, we had $17.3 billion and of course that leaves a net negative of 14.1 billion. And the funding period is 26 years so assuming contributions as currently legislated, if those were to continue for 26 years, we would find ourselves 100 percent fully funded and the annual required contribution would decline from the numbers that we're looking at today to something around 10 or 11 percent of pay. So, rather than 24 percent for general employees, we'd be down to say about 10 percent for general employees. And I'm hopeful obviously that we can get to that point at some future date. But the date to getting there is unfortunately increasing. We'll get to a slide shortly that shows where we thought we'd be versus where we thought we'd be down to 24 years as opposed to up to 26, but that's coming up shortly. Next slide please. So, the funded ratio as Derek described is the ratio of the assets available to pay our liabilities to those liabilities, and the funded ratio is 54.9 percent on a market value of assets basis. On the actuarial value it's 55.2 percent, meaning we have just over half of what is needed to fund the benefits that we have already committed to or promised that our members have earned. Next slide please. I was mentioning a moment ago of what we were expecting and what our actual results were and how they differed in 2019 from what we had hoped and forecast to be. So, it starts here with 2017, we won't spend time with that, but if you were to look at 2018, we had an unfunded actuarial accrued liability of 13.4 billion. We thought that would increase as I said a little bit earlier, because it's expected to increase for the next four to five years and then begin to decline assuming all other assumptions are met. It went up to 13.7 billion, but the actual was $14.7, .07 billion. And I'll explain momentarily why that went up. We talked about the funded ratio and the funded period in years. In 2018, we were at 25 years to full funding, we thought it was going to go to 24, it actually went up to 26. And it went up to 26 because salary increases for a number of groups of employees are exceeding the assumptions that we've employed over the years. We do experience studies to determine whether those assumptions are adequate. We think they have been historically, but we're going to have to monitor them very closely going forward to see that they're still appropriate, especially for police and fire. If we could go to the next slide. Now, this tends to break out this actuarial liability as it relates to our two primary groups. We have a police and fire segment and all other employees. All of the assets however are combined and invested as one single pool, but and all assets can be used for any liabilities, they're not segregated. But for purposes of determining contribution levels, we've broken police and fire out, because significantly and historically they've had different employment patterns and different life expectancies, mortality rates, and the like. So, we developed separate contribution rates and funding periods for the two, and ultimate we merge them into a single funding period that's now 26 years for the combined group. But if you were to look at the police and fire group at the top, in 2018 we had unfunded liability for them alone of $2.3 billion. We had thought that would go to about 2.38 and it actually went up to 2.5, $2½ billion, so significantly higher than we had thought. We thought the funding ratio for that group would actually go up slightly and it actually went down, so we got 59 in 2018 and it went to 58.7, only modestly. But importantly the funding period for police and fire which was at 26 years in 2018 we thought it was going to go to 25, it actually increased to 28 years. And just below that we look at all other employees. There too the results were different than we had hoped. We were expecting an unfunded liability of 11.3 billion, it went to 11.5. The funded ratio went down modestly and the funding period increased for general employees. So, as you can see there we thought it was going to be 24 years for general employees, it increased to 25 years. So, the combination between the 28 years for the police and fire and the 25 years for general employees leaves us at an overall 26-year funding period. Next slide please. You've seen this slide in the past, it shows the relative impact of different assumptions in determining funding period. By far and away, the investment return it has the biggest impact followed by life expectancy. Payroll growth relates to the growth and the numbers of members in the system. Individual salary increases relate to the way the salaries of those individual members grow, and then you'll see some other factors that have a lesser impact. We can go to the next slide. Okay, what you'll see again, our investments underperformed the 7 percent assumption and that resulted in about $100 million in increase in our unfunded actuarial accrued liabilities. And the liabilities, in other words the benefits that we were committed to pay grew faster than expected due to salary increases larger than forecasted. The...all other employees had average increases of 4.9 percent and that's a half percent higher than we assumed and that produced a loss of about $64 million. That's on top of the 100 million that we've talked about from the investments. And the police and fire employees had average increases of 8.6 percent and that was 3.2 percent higher than we assumed and that produced a loss of an additional 96 million for that group alone. We think that that comes in part from some level of overtime and maybe when overtime returns to more normal levels we'll achieve some gains. Below that we talk a little bit about contributions and head count. The head count for police and fire employees have declined for the third straight year in a row. We expect all other employees to grow in terms of head count but only modestly. Next slide. I alluded earlier to the contribution increases that were legislated beginning in 2017. We're on the last step of that, that becomes effective July 1 of 2020. As you can see, it's substantial, and I of course am concerned that we're able to maintain those contributions. The actuarial forecast really already incorporates their receipt in determining what that long-term funding period is. And so, if we in fact don't get these increases, you'll see that the funding period would extend fairly dramatically and we'd end up contributing significantly more in terms of contributions, billions of dollars each year. Current employer contributions are 922 million. Next slide please. This next slide, again we've shown this, it's dynamic to the extent it tries to depict the impact of the Tier 2 hires, that's post July 1 of 2012 where we not unlike the EUTF adopted a new tier of benefits. We lowered the multiplier, increased the vesting period, reduced the post-retirement adjustments and the like. And the benefits to be derived from that group really don't appear immediately. They tend to result as this group becomes a significantly larger percentage of the membership. And as you can see with the red bars, those are the post-2012 hires. We have retirees and active vested's and all the other employees stacked on top of them. So, you can see a significant number of our younger employees are those post-2012 hires. They represent about 22 point...well, 22,000 members and that's

30 percent of our active employee base. And if we go to the next slide, I think you'll see a significant contrast that while they're 37 percent of our active employee base, they represent only 2.2 percent of the liability of the plan. So, the liability that we owe to this new group is significantly less than the liability for the Tier 1 employees. So, liability isn't really growing significantly for this group. Over 50 cents of every dollar that is contributed on behalf of this group actually goes towards the unfunded liability. And even with that dynamic, what we're seeing is the unfunded liability is continuing to rise because of the salary increases attributable largely to Tier 1 employees. Tier 2 employees don't get overtime included in their compensation for retirement purposes, there are some other features that lower their benefits, but the Tier 1 employees are continuing to drive our liability fairly significantly. If we can move to the next slide. We won't spend a lot of time here. This just shows the forecast of full funding based on a number of different valuation periods, 2016 through 2019. The dark line is the 2019 valuation, it shows we would be fully funded in 2045. We were expecting to be fully funded in 2043, but because of the increases in liability and the lower investment return, that moved out to 2045. And the assumption is once you achieve full funding, you would continue. Next slide please. We're attempting to illustrate here the growth in the unfunded liability from 2016 through 2019 for these two different groups. And as you can see, starting at the 2016 measuring point, that all other employees, their liabilities have grown by about 12 percent, but for police and fire, the liabilities for that group have grown by about 20 percent. So, a significant component of the increased liability relates to the benefits attributable to police and fire. Next slide please. This focuses on police and fire solely. It tends to show back from 2009 through 2019. The bottom line is the base pay for these long-service employees. I believe these were all members who had 12 or more years of service in 2009, and it compares their base pay to their pensionable pay, and the difference is of course related to allowances and overtime and some other factors that increases base pay. And as you can see, in 2009 for example, the base pay of a, of this group, police and fire was 54,000, but the pensionable pay was significantly higher at 72,000. And let's go right over to the right and we can see in 2019, that disparity has gotten even larger. So in 2019, the base pay for this group was $103,000, but the pensionable earnings were 125, about, you know, again $22,000 higher than their base pay. Next slide please. What we're attempting to show here is to compare the expectations in terms of average salary growth for general employees, teachers, and police and fire. The police and fire in red, the light green are teachers, and general employees in the dark green. But if you'll focus on the table at the upper right, it says general employees. The actual average salary from 2008 through 2018 was 2.8 percent. The current assumption was 3½ percent. So, for the first number of years, it was well within the assumption, but over the last 3 years, that's averaged 4.2 percent, so exceeding the 3½ percent assumption. For teachers, there's something very similar, actual average over the period from 2008, that 10-year period is 2.8 versus 3.75 assumption, but the actual was 4.1 percent. And the

big jump here is for police and fire where the actual average over that 10-year period was 5.8 percent, we assumed 5 percent, and again over the last 3 years, it's 7.4 percent. And with these kinds of increases above the assumptions which I'm sure are warranted, I mean in the context of cost of living and the service that members pay, but it all has an impact on the plan's commitments, on the plan's liabilities. And I'm concerned that the expected increases that are rightfully being targeted to improve teacher salary may in fact drive the funding period to extend. Next year, the investment returns if they are less than forecast could drive the extended funded period. And together they may require that we take another look at contributions or if not contributions, the alternative is to find other ways to reduce liabilities largely targeted to the Tier 1 employees. If we can move to the next slide. So as I've indicated, police and fire salaries have grown 1 percent more than the assumption for the last decade and 3½ percent more over the last 5 years. And for police and fire alone if we were to increase their salary assumption by 1 percent from 5 up to 6 percent, it would add $2.3 billion to the unfunded liability. The compensation for that group is projected to be $520 million. If we'll go to the next slide, it will illustrate the employer contributions that you are paying as an employer from 2018 forecast through 2022. It shows that last year you paid over $41 million in total contributions for all employees, police and fire and general employees combined. And that's with the new contribution increases and salary growth expected to increase to about 59 million in '21-'22 and that's not that far off. If we'll go to the next slide. A significant issue for you and for the other employers is the pension spiking cost resulted when people get excess benefits in the last few years prior to retirement. In Fiscal Year 2014, there were 17 individuals and you paid about 1.2 billion...$1.2 million in spiking costs, and that's going to go up to 2.3 million in 2019. And of course that's always gotten an awful lot of attention and again is reflected in that disparity in terms of base pay versus pensionable pay. That's where some of that difference comes from. If we can move to the next slide and we'll go through this quickly. It's just the funding ratio of this plan, it's 55.2 as I've mentioned before. It was adjusted to reflect the new assumptions, new lower assumed investment return. It shows what it was and what it would have been under the new assumptions. And if we can move on to the next slide and we'll go through these several pretty quickly. It's just a projection of the funded ratio beginning in 2017, how long it would take us to get to 100 percent full funding based on different valuations. So, it goes back from 2016 to where we would be fully funded versus 2019, and of course the 2019 reflects that 2045 period to full funding. Next slide please. Another depiction, again it just shows that we're on the X axis 25, 26 years to full funding should be achieved in 2045. Next slide please. This one shows the sensitivity of investment returns. The far-left line shows the 26-year funding period being met fully in 2045 based on the 2019 valuation. The red line says that if we only earned 6 percent, it would push that out to 2055-2056 before full funding and we'd be paying employer contributions for each additional year, and then of course the green line shows if we only earned 5 percent a year, that would push that out to 2079, 30-some additional years over where we are at present. Next slide. This just shows you how different investment periods and returns can affect the funding duration. This looks at some ten-year periods. For example, if you were to look at 2008, the one incorporated in 2008-2009, you can see that we would have, the funding period would have been extended indefinitely. That represented significant losses in the system. The dark line is where we are today, and of course the other periods show periods of particularly good returns, and that would have lowered the funding period by a number of years. And if we can move to the next slide. This is our portfolio as of December 31st. As you can see, we've got a broad growth category of about 75 percent of the assets. What's important about this also is that our plan has about 75 percent liquidity. One of the big concerns for public pension plans, particularly those who have significant amounts of private investments is that they will be required to liquidate assets in down markets. And we have the Treasury duration piece that we talked about a little earlier and the crisis risk offset, that's about $2 billion. We don't feel as though we've got any significant liquidity pressure. And so, that represents the other sleeve, 25 percent approximately represents the other distribution of assets between crisis risk offsets, opportunities, principal protection, et cetera. If we move to the next slide. Investment performance, I think for the most part this reflects the volatility that can occur particularly in short terms, it tends to be less so over long periods. But you can see in the quarter to date, June 30 of 2019 down to February 29 of 2020, top to bottom that the quarter earnings in June 30th, as of June 30th was 3.37, it was a negative 2.61 this year. But looking at the one year, we had a 6 percent return, 9 over 3, 6 over 5, and 9.22 over the 10-year period. So again, on that measure as of June 30th of that period, we were well ahead of the 7 percent return. And over each of the measuring periods that are illustrated there, we've achieved our assumed return. We'll go quickly to the next slide. This is the liquidity illustration I mentioned, 75 percent of our assets are available to pay benefits. Obviously, we have some monies that are invested that we would not want to liquidate but we have no pressure to do that. The next slide please. It's just another depiction of the growth assets and the division between illiquid and those used for funding purposes. The liquid growth assets are the dark green, and the lighter green are those growth assets that we hope not to liquidate because they are long-term investments that we think will increase in value substantially over time. The next-to-last slide is coming up and that's about the stress test. I think you all know that on an annual basis we run a test to determine the impact of a significantly lower investment environment on the plan's sustainability. We look at a 10, a 20 percent decline in assets followed by say a return to 7 percent then a 5 percent return and even a 4 percent return. And what that stress test shows and it's available on our website and we give it to the Legislature is that our plan is sustainable in a low-return environment, but the period to full funding would be extended significantly by a couple of decades if we didn't earn our 7 percent. And so, the combination of investment earnings and salary reported for contributions combines to determine the funding period that will be realized. So, with all of that said, I'd like to...here in my formal presentation and allow you the opportunity for questions, either Derek or myself, as the Chair would propose.

CHAIR RAWLINS-FERNANDEZ: Mahalo, Mr. Williams. Okay, Members, are we okay to keep going or would Members like a quick recess?

COUNCILMEMBER LEE: Time for questions.

CHAIR RAWLINS-FERNANDEZ: Okay. I will take everyone...

COUNCILMEMBER HOKAMA: Yeah, Chair, can you just go through the Committee, can you go through the Members one at a time?

CHAIR RAWLINS-FERNANDEZ: Yeah. So, I'm planning to start with Member Sinenci and then I'll go to Member Molina and then work our way down like we normally...okay. And just a reminder we also have Deputy Director of Finance May Anne Alibin who's also available for questions. Okay, you ready, Member Sinenci?

COUNCILMEMBER SINENCI: Chair, yeah, my first question is just a general question to both Mr. Williams and Mr. Mizuno. Considering just the current situation with the pandemic, what types of I guess impacts would the pandemic have on our, both our ERS and our EUTF systems? They can briefly comment.

CHAIR RAWLINS-FERNANDEZ: Okay. Mr. Mizuno and then Mr. Williams.

MR. MIZUNO: Thank you, Member Sinenci, for that question. In terms of the impact to the EUTF, you know, we're still processing enrollment forms, we're still going to conduct our open enrollment returns. Our members are covered. We haven't seen any big changes yet, you know, we're...we would anticipate, you know, maybe more people jumping on the plans like employees' spouses or even employees themselves who might be covered under their spouse's plan, but they might lose coverage through their spouse's plans whether they're laid off or not. Then, you know, we're anticipating we're going to see more people jump on to our active employee plans. And then the other item is the impact to our investments. You know, for the quarter we're down about 13 percent, for the fiscal year we're probably closer down maybe about 8 percent or so, so we're watching that. But I think those two things are the biggest impact right now.

CHAIR RAWLINS-FERNANDEZ: Mahalo, Mr. Mizuno. Mr. Williams?

MR. WILLIAMS: Yes. The Covid virus pandemic has little impact on us operationally. As I said a little earlier, we continue to process retirement and process benefit payments uninterrupted. And there's nothing that we foresee that's going to modify that. We don't anticipate or at least don't know what the virus may mean in the context of retirement activity. My speculation would be that we won't see any uptick in retirement necessarily. I think economic uncertainty tends to cause people who are employed to extend employment as opposed to terminate it. But that's a little indeterminate as to how folks will individually behave in a period such as this. From an investment perspective it does impact us short term. We think as I indicated earlier that fiscal year to date, we're down a little over 6 percent, I think 6.6 percent is what I reported earlier through March 26th. Likely we have recovered a little bit of that over the last couple of days but again we don't focus on the short term. There are opportunities of course that an environment like this creates, particularly to the extent an organization has liquidity. Because of our very favorable liquidity position we can provide liquidity to the market, and we have monies that we can invest under fairly favorable terms. We don't have a very large investment staff. We have I believe six, I know six investment professionals, and we work very closely in partnership with EUTF and I think what you'll find is that some of the strategies that we've employed have been adopted by the ER...by the EUTF. But again, from an investment perspective, short-term disruptions, dislocations, and hopefully we will profit from those. That crisis risk offset that I talked about earlier has mitigated the downturn and will put us in a better position than most funds as the markets recover.

CHAIR RAWLINS-FERNANDEZ: Mahalo, Mr. Williams. Member Sinenci, do you have a follow-up question?

COUNCILMEMBER SINENCI: Thank you, Chair. I'll yield to my fellow Members and follow up on a second round. Thank you.

CHAIR RAWLINS-FERNANDEZ: Mahalo, Member Sinenci. Member Molina, one question and one follow-up?

COUNCILMEMBER MOLINA: Yeah, thank you very much, Madam Chair, and thank you for having this meeting. I appreciate Mr. Mizuno and Mr. Williams being here. Of course it's very, quite timely. My one question first for Mr. Mizuno, you mentioned about spouses, you know, who remarry and not tell you that they've remarried and while still collecting benefits. Do they face any penalties or requirements to reimburse the EUTF?

CHAIR RAWLINS-FERNANDEZ: Mr. Mizuno?

MR. MIZUNO: Yeah, thank you, Member Molina. Yeah, we are trying to collect the employer's contributions. We're only going back two years to try and collect those. So, we are in the process of trying to collect amounts from...employer contributions from members. So, if there was a County of Maui retiree surviving spouse that was ineligible and collecting benefits, if we collect those amounts from that surviving spouse, that will go back to the County of Maui.

COUNCILMEMBER MOLINA: Okay, thank you. And a question for Mr. Williams. Thank you for your analysis and I know it's a very, you know, for what you have to do is quite, I'm very impressed. I wish I had your knowledge. But as far as your investment strategy, I take it it's you can't be too aggressive, it has to be somewhat in the middle. Where is the majority of our investments in? I mean what type of industries if you can disclose that?

MR. WILLIAMS: Oh yeah, of course. Let me refer you of course to our website which has a whole lot of information, detailed information listing all of our investments. We're a global investor but we're overwhelming domestically focused. We probably...60 percent of our assets are likely in equities, publicly traded equities as well as private investments. We have a significant exposure as I mentioned earlier into Treasury securities, long-duration treasuries, because they just represent safety during periods of distress in the markets. And we've structured our portfolio specifically to protect us during those periods, because the risk to us as a relatively poorly funded plan is really to the downside. Plans that don't have protections, if they incur 20, 30 percent or more drops in their assets and if they're poorly funded, they can spiral pretty quickly to exhaustion of their assets and find themselves illiquid and unable to continue. So, we, we're protecting against that. But we've got a global sort of portfolio footprint, both credit and equities, real estate private and public. You'll find that again we're very incredibly diversified, but we have less than our peers in so-called private equity. Those are the assets that are not liquid, that are not typically mark to market on a daily basis. They tend to have high expense ratios and the like. We do have some exposure but proportionally less than our peers.

COUNCILMEMBER MOLINA: Okay, thank you very much for that information. At least it was nice to hear we're, I guess our municipality or our State is not as bad as other places around the United States. And anyway so I guess based on your comments, I guess the government is the best place to invest. Am I correct? Or safest, I should say.

MR. WILLIAMS: Well, I would...yeah, probably the safest. The US government has always been perceived as the source of highest stability and sort of the last resort place for people who want to preserve their assets, who want to protect their money. But over time the government's likely not the best place. We find that we get much better returns privately than opposed to investing in US or foreign governments for that matter.

COUNCILMEMBER MOLINA: Okay. Thank you very much. And thank you, Madam Chair. I think I asked three questions. I'll try to limit myself next time. Thank you.

CHAIR RAWLINS-FERNANDEZ: Mahalo, Member Molina. Is that...Chair Lee?

VICE-CHAIR KING: Chair? This is Kelly King. Are you going down the row like you normally would?

CHAIR RAWLINS-FERNANDEZ: Yeah.

VICE-CHAIR KING: Okay, so I would, I think I would be next but...

COUNCILMEMBER LEE: Yeah, she'd be next. Kelly's next.

CHAIR RAWLINS-FERNANDEZ: Okay, go ahead.

VICE-CHAIR KING: Thank you. I have about 7 percent left on my computer of battery. So, I just had the one question for...and maybe it's to both of you because you might have some advice on this. But are there any policy recommendations to try to eliminate the spiking or prevent the spiking that's been happening? And I notice it has been going down since we started talking about it a couple of years ago, but it's still pretty...it's still higher than it was in that graph that you looked at from the beginning.

MR. WILLIAMS: Well, I'll respond because it affects primarily the ERS. The larger policy impact would be to eliminate the use of overtime in the calculation of pension benefits prospectively. We don't think that we can from a constitutional perspective do anything retroactively in terms of eliminating the kind of compensation that was eligible for pensions. But there is an Attorney General's opinion that we can change benefits for existing employees for future pay, for service that has not been rendered. So, one of the big impacts would be to lower or exclude overtime from the computation of one's pension benefits. It's already been excluded for Tier 2 employees, whether they're police and fire or otherwise. But for Tier 1 employees, they continue to be eligible for those benefits and that's the source of the spiking.

MR. MIZUNO: Member King, this is Derek. That spiking issue is, it's not an issue for EUTF.

VICE-CHAIR KING: Was that something that, Mr. Williams, that the State is working on as far as Tier 1?

MR. WILLIAMS: No, it isn't. It's something that our board has recommended and we've discussed with the Legislature over the years and we'll continue to raise it quite frankly, because I think as times become more challenging, we're going to be forced to look at ways to rein in the growth in the unfunded liability, and that's just one of those. Obviously, there's some other benefits, there's some risk-sharing strategies that a number of other public plans have adopted. For example during emergencies, the so called post-retirement adjustments which are 2½ percent per year for retirees in Tier 1, 1½ for retirees in Tier 2. Some plans actually suspend those temporarily during periods of stress, funding stress in the plan. So, there are a number of options that are available including the elimination of overtime, the conversion of sick leave, and some other options that are employed to increase benefits, we could change those. But a new tier of benefits for a third tier for example, for employees hired after July 1 of 2020 wouldn't bear fruit for us for, you know, another decade or more, because it takes a long time for those people to be employed in any significant numbers or to create any liability. So, the greatest opportunity for us to mitigate the growth is to have benefits or constraints that apply to Tier 1. And there had been no appetite to do that prior, but it may become evident going forward that we have few other choices, apart from increasing contributions and I don't think...I would not propose more contribution increases, because I think that they are difficult to sustain at the levels that they're at.

VICE-CHAIR KING: Okay, thank you so much for that. Thank you, Chair. I will probably end up dropping off because I'm at about 5 percent. But I just I want you to know I'm not getting cut off so you can continue the meeting. Thank you.

CHAIR RAWLINS-FERNANDEZ: Mahalo, Vice-Chair King. Okay, Chair Lee?

COUNCILMEMBER LEE: Thank you, Madam Chair. I have a question for Mr. Williams. I received a text from one of my constituents who asked what will the increase be to retirees on July 1st?

CHAIR RAWLINS-FERNANDEZ: Mr. Williams?

MR. WILLIAMS: Yes, good question. Actually, that's already legislated. The increase, it will be 2½ percent of the benefit amount for people who hired...who were hired before July...or retired before July 1 of 2012. After, anyone hired after July 1 of 2012, those people get 1½ percent. So, if you retired in Tier 2, you get a 1½ percent increase, and if you retired in Tier 1--and Tier 1 again was anyone who was hired before July of 2012--they'll get 2½ percent increase on July 1.

COUNCILMEMBER LEE: And my other question is how does Maui compare, Maui County compare with the other counties in terms of unfunded liability? How are...what is our status, are we right on track?

MR. WILLIAMS: You know, that's a very good question and a difficult one for me to answer, because in fact our program is different than the EUTF for--as you likely know--the, each employer with the EUTF--and Derek did a much better job of explaining this than I can--has their own separate account. But the ERS is a so-called shared cost plan, and all of the contributions and all of the liabilities are aggregated and they're not described or allocated to a single employer. So, we have a total funding percentage for the plan, that's 55.2 percent and it's not disaggregated so that Maui has its own funded ratio. It's part of the aggregate, if you will. So, you're no worse off or better from a funding perspective than the other employers in our program.

COUNCILMEMBER LEE: Oh, if I may with a follow-up question. Well, is that a fair distribution? I mean considering maybe the stronger counties would be carrying a greater load than the weaker counties?

MR. WILLIAMS: You know, it's difficult for me to comment on fairness. I know that this structure is not uncommon, but a decision was made back I guess when this plan was founded back in 1926, to create a single plan as opposed to separate programs. It's just not uncommon for some public plans to have separate plans for police and fire, for teachers, for judiciary, for legislators. And we in fact have separate benefit tiers, but the single...the same plan or monies are aggregated for all those different employer groups. And they, their liability increases at different rates. So, it's just a philosophy, do you want the public to share across plans in the funding of the benefits for public workers, or do you want the individual units to pay their specific liabilities or...and related contributions. The State decided to go the aggregated approach, not to pull these things apart. And it would be near impossible to disaggregate them at this juncture, because you'd have to go back almost from the beginning of the plan, to determine what was attributable in terms of liabilities, and would be almost impossible to allocate assets again back to specific employers, as well as losses.

COUNCILMEMBER LEE: Thank you.

CHAIR RAWLINS-FERNANDEZ: Mahalo, Chair Lee. Okay, Member Hokama?

COUNCILMEMBER HOKAMA: Thank you. I'm with Chair Lee, I don't agree with Mr. Williams on that point, especially when an actuarial can give this County a specific dollar amount of what we owe. So, I would have issues with that approach on the retirement system. But my main question and again maybe, Mr. Mizuno, when you talked about the HMSA versus Kaiser plans. Isn't that one of the main impacts that the State has, especially Maui County because of lack of primary care physicians and choices? That employees are making different types of healthcare plan choices because of that factor, not enough primary doctors?

CHAIR RAWLINS-FERNANDEZ: Mr. Mizuno?

MR. MIZUNO: You could be right, it could be that Kaiser has more clinics there, they have more access whereas, you know, HMSA they don't, you know, doctors, just independent practices maybe have not, you know, flocked or have gone to Maui as much. So, Kaiser is maybe a better access issue. So yeah, you could be right about that. You know, in terms of trying to improve the access, you know, Kaiser has, you know, sponsored some scholarships for residents to get their medical degrees. HMSA is looking at things like that as well.

COUNCILMEMBER HOKAMA: Yeah, thanks for that comment. But, you know, for your, both of your portfolios and you guys talk about liquidity like we talk about our portfolio, short-term portfolio, especially for the EUTF, I kind of was interested in your US REITs and your core real estate pots that you guys consider investing in. And as well as with the retirement system, I'm kind of curious to see that you folks...how often do you adjust your portfolio, monthly, quarterly, annually? Because I'm surprised, we get caught off guard from what you show us this morning when we already know what is collective bargaining increases, and yet you show all this unanticipated liabilities like with police and fire. Aren't we following the contracts on the annual increases automatically and then we adjust for that overtime factor?

CHAIR RAWLINS-FERNANDEZ: Mr. Williams?

MR. WILLIAMS: Yeah, we look very closely at the collective bargaining. We actually participate to a marginal degree. We're asked to in the mediation, for example, testify as to the impact on the plan's liability of various levels of contribution increase. But we obviously don't influence those, the negotiations apart from providing information. The collective bargaining results themselves don't tend to affect our investment portfolio in any significant way. We have target asset allocations that we develop on an annual basis and that we adjust, rebalance towards those targets at least quarterly, more frequently actually in the crisis risk offset element. We have certain ranges that are already programmed in, and to the extent that the, any of the assets in that component exceed or triggers a review, we have a committee that gets together and determines what the appropriate response is to rebalance between the various components. So, we're investing on a daily basis. We reallocate quarterly for sure, and even more frequently in periods of stress. We also have something called an overlay program, a cash overlay that takes all uninvested assets and equitizes it so that we reduce the cash drag on the portfolio.

MR. MIZUNO: Member Hokama, this is Derek. You know in terms of EUTF rebalancing, because we're getting that annual required contribution and the employers are paying it monthly, that's higher than the actual premiums. So, every month we have additional monies to invest. So, we use that money to rebalance the portfolio so every month we're rebalancing. During this crisis, you know, we're rebalancing every week so we're watching it every week, daily even. So, we are rebalancing. In terms of the REITs, the US REITs, that was a larger part of our portfolio say a year or two ago, and it was because our statute didn't allow us to do private equity and private real estate. So, we've got the private real estate and the private core real estate we call it, those are actually three large national funds. One is Morgan Stanley, one is ASB, and one is Heitman, so these huge funds that are buying throughout the country. So, we're slowly phasing out of the REITs as we go into this core real estate and as we go into private equity.

COUNCILMEMBER HOKAMA: Yeah, thank you, Chair. And again --

CHAIR RAWLINS-FERNANDEZ: Mahalo...

COUNCILMEMBER HOKAMA: --I'm just worried about potential...what we hear on the Wall Street is negative interest rates and that is my concern. Thank you, Chair.

CHAIR RAWLINS-FERNANDEZ: Member Paltin?

COUNCILMEMBER PALTIN: Thank you, Chair. Thank you, Mr. Williams and Mr. Mizuno, for your presentations. My question mostly for Mr. Williams is, you know, given Tier 1 and Tier 2 have different payouts it seems like in terms of percentages and whatnot, are the contributions the same across the board?

MR. WILLIAMS: Yes, the contributions are set for both general employees and for police and fire, and they're the same contribution levels whether you're in Tier 1 or Tier 2.

COUNCILMEMBER PALTIN: And could that be something, a policy that's changed? And is it only the State Legislature that can change those types of policies or can counties do it?

MR. WILLIAMS: It's my understanding that the Legislature has the sole authority to mandate benefit provisions, changes in those provisions as well as the rate of contributions.

COUNCILMEMBER PALTIN: The State Legislature.

MR. WILLIAMS: That's correct.

COUNCILMEMBER PALTIN: Okay, so one tier or one group gets more but everybody pays the same in terms of contribution?

MR. WILLIAMS: That is correct.

COUNCILMEMBER PALTIN: Okay, thank you.

CHAIR RAWLINS-FERNANDEZ: Mahalo, Member Paltin. Member Sugimura?

COUNCILMEMBER SUGIMURA: This is interesting, and thank you very much for doing the presentations, Mr. Williams and Mr. Mizuno. So, I have a question, I got a text for Mr. Mizuno I guess, it's asking for a person who is nowadays, you know, you don't necessarily have to be married but you can have children and share, you know, a home, everything, so you look like you're married but you just don't have a marriage certificate. So, what kind of benefits do they have under your program?

MR. MIZUNO: Yeah, under the EUTF we still have the domestic partner benefit. So, like you're saying if they're like they're living like a married-like situation where they're sharing...they're cohabitating, they're sharing expenses, they can enroll as a domestic partner. There's a form on our website, it's just an affidavit they have to fill out, sign, have it notarized, and from that they can add the domestic partner. They have 45 days from the affidavit signature.

COUNCILMEMBER SUGIMURA: Okay. So, just connected to that if I could then, so how do you become divorced in that kind of situations?

MR. MIZUNO: There would be a form to terminate that domestic partner relationship. And so, one of our audits is we do follow up on these domestic partners to make sure they're still in the relationship.

COUNCILMEMBER SUGIMURA: Okay, thank you.

MR. MIZUNO: Thank you.

COUNCILMEMBER SUGIMURA: And I guess for Mr. Williams then, if we were to continue paying our share of our contributions for the pensions, are you saying that by 2045 we would be whole?

MR. WILLIAMS: Essentially but it requires that of course all the other assumptions that the plan employs are met. So, we're assuming a contribution growth rate, the contributions are expected as I shared earlier to go up July 1 of this year. We're assuming that those are made. We're assuming that we'll earn the 7 percent on average per year. So, if the underlying assumptions are met then in fact yes, we would be fully funded in 2045. And then the contributions would go down to the cost of benefits for that year. All of the past or prior benefits that were unfunded would have been funded, and then it would be the so called normal cost that you're paying on an annual basis for the benefits that are earned in that year.

COUNCILMEMBER SUGIMURA: Thank you. Thank you, Chair.

CHAIR RAWLINS-FERNANDEZ: Mahalo, Member Sugimura. Pro Temp Kama?

COUNCILMEMBER KAMA: Thank you, Chair. Thank you, Mr. Mizuno and Mr. Williams, for your presentation this morning. I have just a couple of simple questions. You know on Page 3 of the ERS, it defines your membership and it says you have so many members and so many active, so many retirees, but you also have listed inactive and non-retired. What is that?

CHAIR RAWLINS-FERNANDEZ: Mr. Williams, will you please unmute yourself?

MR. WILLIAMS: I'm sorry to speak without having done that. But the inactive, non-retired members are those people, former employees of either the State or the counties who have earned or are entitled to benefits in the ERS and they have not retired as yet. So, for example, an individual may have earned five years of service, invested in a benefit, and left the employ, but they haven't achieved the retirement age. So, those are individuals in that category.

COUNCILMEMBER KAMA: Okay, thank you. Also, do you have this page broken down by counties like how many members are in this County, how are many are active, how many retired and active or inactive in this County?

MR. WILLIAMS: Yes, we do. It's actually a table in our actuarial valuation, we do it each year, and the valuation itself is available also on our website. But they have detailed information about the contributions, the composition by employer.

COUNCILMEMBER KAMA: Okay. And, Chair, if I may, just one last-last one, Chair?

CHAIR RAWLINS-FERNANDEZ: Sure. Go ahead, Pro Temp Kama.

COUNCILMEMBER KAMA: Thank you. So, you know, with...what would be the worst-case scenario for this Covid-19 if it lasts beyond summer in terms of the impact on the pension funds?

MR. MIZUNO: Well, the impact on the EUTF it would, you know, you would see a lot of claims coming through HMSA, coming through Kaiser. You know I think that the hospital stays would be, you know, the big cost. But because of our insurance arrangement with Kaiser and HMSA, if there are big losses that are significantly more or more than the premiums that we collect and pay them, HMSA and Kaiser will eat the loss. So, that's the benefit of having our plans fully insured. On the drug side, we're not fully insured for the CVS drug plan, we're self-insured, but from this pandemic we wouldn't...I don't think we would see as much in terms of drug costs related to the pandemic. And...one more, one last thing, Tom. And I think you've probably heard of those malaria drugs that supposedly can treat the Covid. You know, so we're concerned that there might be a run on those, maybe an unnecessary run on it so we've put in some controls where, you know, those people who are taking those types of drugs now normally, they'll be fine, they can fill it, fill those prescriptions. But if there's a new prescription it relates to Covid, you know, we have some programs in place to make sure that it...we're not dispensing too much to them. We're putting limits on that. Thank you.

COUNCILMEMBER KAMA: Thank you. Thank you.

MR. WILLIAMS: Yeah, I was just going to add that there's probably little immediate impact on the ERS of the Covid epidemic...pandemic. Obviously operationally we're able to respond favorably and continue operations uninterrupted. But the longer term impact would be on the investment opportunities to the extent that the investment markets not only domestically but globally stay down for an extended period of time, it would over time reflect in our funding period and our funded ratio. And if those things decline...it wouldn't happen immediately because I mentioned earlier that we use a smoothing method so that we eliminate some of the volatility. But over time it could result in a need for further contributions as the funding period exceeds 30 years. Legislatively we're required to fund the plan in 30 years or less, and I mentioned earlier we're at 26 years so we're well within that 30-year corridor. But a persistent downturn of long duration with lower investment returns could put pressure on that.

COUNCILMEMBER KAMA: Thank you. Thank you, Chair.

CHAIR RAWLINS-FERNANDEZ: Mahalo, Pro Temp Kama. Okay, so I have one question for Mr. Williams and then one question for Mr. Mizuno. Mr. Williams, in January when I went to your office for this presentation, you explained that the reason that the assumptions were a little off was that there was a lot more police and fire overtime. And it was due to like the Kauai flood, the fires that we seen on Maui, so it wasn't the regular wages that was assumed, it was due to a spike in overtime that made the assumption not calculate correctly. So, if I'm saying that correct, would you please explain if in moving forward, what seems to be impacts of climate change if your office will be accounting for that type of scenarios moving forward?

MR. WILLIAMS: You know, that's a very good question because it's very difficult for the pension plan or anyone for that matter to predict with any accuracy overtime. You know, it may very well be that compensation behavior would change such that with predicted amounts of overtime that maybe the base compensation would in fact increase. I think we can anticipate that there will be more climate-related events that could in fact impact overtime for all of the police and public safety personnel, other city employees. That being the case obviously for the Tier 1 employees, we get contributions on that. But the contributions are erratic because those periods of earning the overtime are erratic, they're not predictable so that you're getting it throughout your career. So, we've performed these experience studies so that, for example, every three years we do...well, let me back up and say every year we do an actuarial evaluation but every three years we look back to see whether the assumptions in the aggregate have been met. And then try to explain if they weren't met what's the differential and is that expected to continue. So, that, for example, we review retirement rates, we review mortality statistics, salary increases, and we can then interpolate that, that's expected to continue or was it a one-time event that's not likely to occur repeatedly, and we treat each of those differently. So, if we think that it's actually going to be borne out again and should be incorporated through revised assumptions, we make those changes. So, we've done that as it relates to a number of factors, particularly mortality where we know there have been longevity. But as it relates to overtime, it's fairly difficult to predict that in advance.

CHAIR RAWLINS-FERNANDEZ: Mahalo, Mr. Williams. And then for Mr. Mizuno, you know, like Chair Lee I would like to see ERS just aggregated the way that EUTF is. And I...my understanding is when EUTF was initially created, it was aggregated and then the Legislature disaggregated the EUTF. What did that process look like for EUTF?

MR. MIZUNO: Thank you, Chair. Actually the, for EUTF we've always been disaggregated. So, from the start we've kept track of the County of Maui money separately from everybody else and so we've always been disaggregated.

CHAIR RAWLINS-FERNANDEZ: Okay. Mahalo, Mr. Mizuno.

MR. MIZUNO: Thank you.

CHAIR RAWLINS-FERNANDEZ: Member Sinenci?

COUNCILMEMBER SINENCI: Thank you, Chair. Yeah, I just had a general question that I've been receiving from residents and constituents for Mr. Williams and Mr. Mizuno. And it's about I guess foreign investments, we're seeing an uptick in other countries' and other states' pension funds coming into the islands to invest in some of our business, in real estate on Maui. And we just had an ESG conference, I believe Mr. Mizuno might have been there. So, my question was, is ERS or EUTF looking at some of these sustainable long-term investments that span, you know, that will, I guess, you know, to cover those fully funding years? And the second part of the question is are beneficiaries able to make some input into those...I guess what is the process, how are those projects picked, and do beneficiaries have an input?

MR. WILLIAMS: Sir, let me start off by saying yes, the ERS has an ESG policy, the environmental, social, and governance policy that we've had in place for probably ten years that affects the investments. That is one of the factors in selection of investments that we make. Two years ago, we joined the Principles for Responsible Investment, a global United Nations-sponsored organization with maybe $66 trillion in assets under management. We joined along with the other big pension plans to press corporations to adopt environmentally and social and governance tactics that would sustain the environment and support working people for example. We employ those criteria in every investment that we make. We don't use it as the primary source because one of our fiduciary obligations is to invest for the sole best interest of our members and that's to achieve the 7 percent investment return. But increasingly what we're finding is you can balance those two things that over time we can achieve a favorable return by in fact investing in these organizations that are forward looking and that are thinking about sustainability. So, because we're a long-term investor we have a particular focus on these environmental, social, and governance factors. And we do that whether they're here in Hawaii or in foreign countries. But we have a significant exposure, here in Hawaii we've invested in real estate entities here, we own the building that both the EUTF and ERS resides in. We've developed...we've invested in a number of commercial entities, and we also have something called Hawaii...HiTIP Fund where we invest in technology startup organizations, and we've committed in just the last year, over $50 million to be invested solely in Hawaii.

MR. MIZUNO: Thank you, Member Sinenci. We also at EUTF have an ESG policy in place as part of our investment policy statement. You know in terms of investing in Hawaii, you know, we haven't done any investments in Hawaii at this time. You know we have spoken with a local private equity fund. But at this time because of our size, our private equity portfolio is so small that if we did an investment in Hawaii, it would kind of throw off the balance of our portfolio, but it's something we will continue to look at in the future. You know, in terms of beneficiary input into the investments that we make, you know, our meetings are open to the public; however, you know, as Tom mentioned, the board members have a fiduciary duty to earn that 7 percent and to do what's in the best interest of the beneficiaries. So, a lot of it is the board is relying on the investment consultants that we hire or the investment staff that we hire as opposed to the input from maybe one beneficiary or two. But, you know, we would consider that, you know, as part of the exercise.

COUNCILMEMBER SINENCI: Thank you, Chair. And just a follow-up for Mr. Mizuno, you know, we just created a Climate Action and Resiliency [*sic*] Committee at the Council, and so we're looking at, you know, climate change and sea level rise as part of our mission moving forward. So, I guess we're just looking at some of these infrastructure projects that pertain to those issues as far as future investments.

MR. MIZUNO: Okay, thank you.

CHAIR RAWLINS-FERNANDEZ: Mahalo, Member Sinenci. Member Molina?

COUNCILMEMBER MOLINA: Thank you, Madam Chair. I think most of my questions were answered but just one general question for both gentlemen. Since the pandemic was declared, have you seen an uptick with retirees and employees calling your office? And I guess have you...I presume on your website you have a FAQ section, frequently asked questions section. Does your board...is your board, they meet how often and are they...will they be meeting now on a more frequent basis to address the rollercoaster ride we're seeing on the stock market? 'Cause depending on who you watch it seems like one people are...some are very optimistic, some seem to say the world is coming to an end. Can I get your thoughts?

MR. WILLIAMS: And let me start, we have a board, an eight-person board of trustees and the board itself meets on a monthly basis. We have a number of committees and they meet on an as-needed basis outside of the actual monthly board meetings. And the board oversees the asset allocation of the organization and it approves the investment decisions under the current structure, but most of the recommendations come from staff. So, we don't require the board to employ decision making on a daily/weekly basis. So for example, we don't anticipate the board to have to meet more frequently during a period such as this, but at the same time, we update them more frequently. We provide updates on operations and investments on a weekly basis to our trustees. The mayors'...or I guess the Governor's emergency proclamation in fact does allow some variance to the meeting laws, the open meeting law request which we have always been transparent and we continue to be so as yours are here even though they're being extended via video conference. And we anticipate for the first time that our board meeting which comes up April 8th I believe it is will be a video conference. Most of the board members will participate remotely as opposed to coming in. But the investment decision making doesn't fall as much on the board as it does on the professional investment staff and their outside advisors.

MR. MIZUNO: Yeah, in terms of EUTF it's very similar to what Tom is saying about the investments. As I mentioned earlier, you know, we do get monthly contributions from the employers so we use that to rebalance as well as our investment staff is rebalancing weekly. And similar to ERS we're providing updates to the board weekly on our investments. You know in terms of if we're seeing anything different with calls or forms coming in, you know, we're getting actually more calls now, slightly more, but there's...it's nothing really unusual. It's kind of the same thing that we normally get about, you know, who's eligible, some questions about the plans that we have. So, we haven't seen a big change in the calls or any, you know, more retirements at this time. You know, in terms of...sorry, going back to the investments, you know, we are still going to meet. We have an investment committee meeting in April. You know, we did actually approve an investment manager or a private credit fund a few months ago that is like a contingent manager where if there's things in the market that happen when it makes it advantageous maybe to go into the bond market, that manager has that discretion. So, you know, that manger, you know, because of the situation now, they're looking at different types of investments to go into and if they do then we'll start funding that fund.

COUNCILMEMBER MOLINA: Okay, great.

MR. MIZUNO: Thank you.

COUNCILMEMBER MOLINA: Thank you very much.

CHAIR RAWLINS-FERNANDEZ: Mahalo, Member Molina. Okay. And then Vice-Chair King is, her battery died so she's offline now but she's watching on *Akaku*. And next is Member Hokama.

COUNCILMEMBER LEE: No, it's me.

CHAIR RAWLINS-FERNANDEZ: Sorry, Chair Lee. Chair Lee, it's your turn.

COUNCILMEMBER LEE: Okay. I have a question for both Mr. Mizuno and Mr. Williams. Mr. Mizuno, could you tell us what is your administrative/operational budget, your annual budget?

MR. MIZUNO: I'm sorry, offhand I'm not sure what our budget is. It's about, I would say it's about $10 million. The bulk of that is for salaries, staff salaries, and then a good portion, about a million or so is related to maintaining our computer system. Probably in the 10 million range or so annually.

COUNCILMEMBER LEE: How many employees do you have?

MR. MIZUNO: We have 60 positions. At this time we have 53 of them filled.

COUNCILMEMBER LEE: Okay.

MR. MIZUNO: And our...

COUNCILMEMBER LEE: Thank you.

MR. MIZUNO: Just one more thing. Our operations are funded...normally they're funded by a charge that we tack on to the premiums, so say a dollar or two to each of the monthly premiums; however, for the next ten years or so, we're not going to be charging that onto the premiums, we have some reserves from the HMSA surpluses that we've gotten over the years as well as from our drug plan that's self-funded. So, we have built up some reserves so we're using those reserves to pay for our salaries and our ongoing expenses. And the board has approved that I believe for the next ten years or so, so it's a long time that it's going...we aren't going to be adding it to the premiums.

COUNCILMEMBER LEE: Okay, thank you. I find it a little unusual for you to have reserves. But, Mr. Williams, can you answer the same question, what's your administrative/operational budget?

MR. WILLIAMS: Yes, I'd be pleased to do that. Our budget has a base of about $12½ million. We have 110 employees, about 100 of those positions are filled at any given time. There were some difficulty recruiting for certain of the more technical roles, particularly in accounting, so those are oftentimes unfilled. We oftentimes have an additional budgeted amount or do today. Because of our computer program, we're updating, installing a new computer system or upgrading it quite frankly to something we call V10, we're at V3 and we're moving all of our operations to the cloud. And the total cost of that is about $4 million, so that's been added to our budget but that's not an ongoing long-term number. And we're not general funded, our monies come from operations, from our investment earnings. So, almost none of the monies that the ERS spends are sourced from the taxpayer, from general funds other than is derived through the contributions. Obviously, employers contribute and we invest those, but the operating monies come from the investment earnings.

COUNCILMEMBER LEE: Thank you. Thank you, gentlemen, for your presentations. No more questions.

CHAIR RAWLINS-FERNANDEZ: Mahalo, Chair Lee. Member Hokama?

COUNCILMEMBER HOKAMA: Thank you, Chair. Yeah, for our gentlemen and I appreciate their time and their experience and their counsel. My concern right now is looking at our proposed budget and the amount of cash that we would be looking at for the various retirement or employee funds, and it gets me nervous when we're going to hit the 20 percent of our total cash. So, saying that, gentlemen, with the State projecting about $225 million of tax losses to the end of the fiscal year, a zero growth projection for next fiscal year, how do you feel that the State is going to be funding their portion since they are...unless they're going to say you can borrow to fund which is not a good practice? I just don't know how the State is going to keep up with their portion of the payments. You folks have a, some kind of insight information understanding how the State is going to make their requirements of payments?

MR. WILLIAMS: This is Tom Williams with ERS. I don't have particular insights into how the State's going to make its contributions to the ERS. Obviously, it is a concern for all of us because in a reduced revenue environment it certainly puts pressures on all aspects of the budget, and we know there are a number of different needs, all of which have to be met to some greater or lesser degree. The State, for example, has advanced funded some monies to the ERS. We allow prepayment of employer contributions. I think there's something just shy of $100 million that they have in an advanced funding account with us. And I meet regularly with a budget and finance director, and we have not at least as of yet heard that the State would not be able to make its contributions. If they are not made, of course it has negative consequences for the funding period and the funding level of the fund, and even more importantly I think for the State's credit rating, because increasingly now the credit rating agencies look at the prospects for the healthcare plan and the pension plan, and if those are solid, it results in good ratings for the entity. More recently the State has enjoyed an upgrade in its borrowing capacity and its credit rating because of the ability of the pension plan and the advance funding of EUTF. So, we're going to be monitoring it very, very closely. All of the projections that we provided you depend intently upon those contributions being made. If they're not made, then obviously the funding level, the contribution period would be extended and the cost is extended, so we're trying to avoid that.

MR. MIZUNO: Hi, this is Derek. You know, same thing as Tom said, we...I don't know, you know, how the State is going to make it, make those payments. I do understand that it's in their plan, but if their plan, their revenue numbers are short, I don't know how they're going to make it. In terms of...I want to just go back to Chair Lee's question on our budget. Our budget for FY 2020 is 8.4 million

COUNCILMEMBER HOKAMA: And my follow-up question--thank you, Chair--is maybe more for Mr. Mizuno. If Mr. Williams has comment, I would appreciate it. But with the announcements from the Lieutenant Governor, from the White House about how the Federal dollars will assist our residents with...and our employees with the Covid testing and whatnot, do you see that as no impact to your health fund, Mr. Mizuno, since the Federal government is going to pick up all this testing and medication requirements?

MR. MIZUNO: Yeah. So, you know, in terms of the Feds, they're requiring, you know, the 100 percent coverage for the testing. You know, as far as whether they're going to pay for it or not, we are still unclear whether they're going to pay for it. If they don't pay for it, you know, we've already talked to Kaiser but plus our plans are fully insured. So, Kaiser is going to pay for it. HMSA, we're talking to them because they refund the surpluses, we're talking to them whether they're going to cover that additional amount as well, so we're still working with them on that. But we're still looking into whether there's anything in the bills that have been passed at Congress, whether there's any monies that we can take advantage of. We're working with our consultant as well as HMSA and Kaiser to see if we can get any monies there.

COUNCILMEMBER HOKAMA: Okay, I appreciate that. Thank you very much. Thank you, Chair.

MR. MIZUNO: Thank you.

CHAIR RAWLINS-FERNANDEZ: Mahalo, Member Hokama. Member Paltin?

COUNCILMEMBER PALTIN: Thank you, Chair. I'd like to start off with Mr. Mizuno, and I'd like to go to his slide number 30 if possible. And I just was wondering if you could go into a little bit more depth on this one. My understanding is the EUTF is, this is only for Maui and is this the first, was Fiscal Year '20 the first year that we're adding prefunding to the program?

MR. MIZUNO: No, the prefunding started earlier. The first year that the employers, all employers were required to pay the full annual required contribution, that was in FY '19. Prior to that, there was a phase-in where each year they had to put in 20 percent more, so FY '18, they had to put 80 percent of the ARC, 60 percent, 40 percent, and 20 percent earlier. But we just...the actuary doesn't show those earlier years, they're just showing the projection.

COUNCILMEMBER PALTIN: And right now because of the...is it because...you said that the unfunded liabilities are growing faster and the...it's going down slower, is that because of the overtime costs that Member or Chair Rawlins-Fernandez was talking about in regards to overtime pay for our first responders?

MR. MIZUNO: For the EUTF, the overtime doesn't impact us because the salaries don't really impact us. It's, what impacts us is really the health benefit claim trend over time and what that impact is on the premiums. But in terms of the liability, it's going to keep increasing over time, but slowly the assets will start catching up over time because of the requirements on what the employers need to contribute.

COUNCILMEMBER PALTIN: So, that really is dependent on the collective bargaining negotiations?

MR. MIZUNO: So, the collective bargaining negotiations, that will impact the employer contributions for the active employees. For the retirees, the bulk of it is going to be paid by the employers. The retirees pay only a small portion at this time because most of our members are in that 100 percent group.

COUNCILMEMBER PALTIN: Okay, thank you. And then I guess for Mr. Williams my question is, is there...do you folks have a slide similar to this for the ERS? And, you know, where the prefunding is? And I guess in regards to Member Hokama's question, is it possible if the County of Maui were to ever pay more than the minimum amount, that it goes into a separate account just for Maui?

MR. WILLIAMS: Yeah, a couple of questions there or...and answers. One is we don't have a similar form to that, that the EUTF has, because as I attempted to explain earlier, we don't disaggregate the liabilities in an actuarial...well, we do it actuarially, but we don't have separate accounts like the EUTF. We have this shared employer sort of approach. And I can understand the frustration that Maui has with this when in fact I know you've been diligent over the years in making all of your contributions and have even considered additional ways to contribute if in fact it could be segregated. And monies that are added to the corpus of the fund actually can't be limited as to how they are employed. They are available as assets to meet any of the liabilities, whether they were created by Maui members or Oahu members or any other island. We do have this advanced employer contribution opportunity where monies are segregated by employer, but once those monies...and they are made for future contributions and we invest those not in the main fund but separately and they're available to offset employer future contribution requirements. So, that for example I mentioned the State having contributed almost $100 million, it's in a separate account, and so during difficult times, they might say hey look, take 50 million of the current month's contribution out of that account. Maui and other neighbor islands have the opportunity to do that as well and keep it segregated. But there are some accounting measures and I'm sure we were talking earlier about these governmental accounting standards boards' reports that attempt to allocate the liability of a pension plan to its different employer components, but it is only reflective of a proportionate share, it's not based on the actual sort of membership. It's not based on the population of the Maui employees as Maui's proportionate representation in the plan. So, it's somewhat different than being able to separate out and say this is the specific liability that we would have derived for a specific councilperson, for yourself, for example, and put all those together and say it's Maui. The accounting standards take a very broad approach to just your proportionate exposure in the plan and you get a proportion of that liability. So, we don't have the capacity to do what the EUTF has done.

COUNCILMEMBER PALTIN: And even on a Statewide basis, you guys wouldn't be able to make a chart where the prefunding would offset the unfunded or is that not even a thing?

MR. WILLIAMS: That can't be done in the legal structure of our program.

COUNCILMEMBER PALTIN: Okay, thank you. One last follow-up. You don't have a...happen to have a status update on the Kaanapali revitalization project do you?

MR. WILLIAMS: Yeah, I do. You know, we attempted as you know for a period of time, well over a year or so, to try to revitalize the project, to get certain approvals and met a goodly amount of resistance. As a result of our not being experts in managing golf properties, it's the intent of the organization to sell the property. And we've had it marketed I think beginning back well over maybe the last nine or so months and are in negotiations with a single potential acquirer. So, the...we're close to within the next 60 to 90 days maybe executing a contract of sale to a large national purchaser.

COUNCILMEMBER PALTIN: Okay. Thank you very much. Thank you, Chair.

CHAIR RAWLINS-FERNANDEZ: Mahalo, Member Paltin. Member Sugimura?

COUNCILMEMBER SUGIMURA: Thank you, everybody, for being here. And it just leaves me as we're all in the midst of budget, it makes me think we should really be cautious about hiring new employees and looking at our cash. I think through many years of Maui County being fiscally very prudent that we're in a good cash position. But you're just adding more caution, especially at a time when we're going through these mass changes throughout the whole nation, actually the world but as a nation. And hearing daily the messages that are coming through that I think it's our responsibility to take care of our employees and our retirees, and I appreciate what you both do. So, that's all. Thank you.

CHAIR RAWLINS-FERNANDEZ: Mahalo, Member Sugimura. Pro Temp Kama?

COUNCILMEMBER KAMA: Thank you, Chair. Thank you, Mr. Mizuno, again, and, Mr. Williams. Chair, I have no questions but I just want to say thank you for bringing these two young men today and for sharing with us how bright our future can be. So, thank you.

CHAIR RAWLINS-FERNANDEZ: Mahalo, Pro Temp Kama. Okay, so I have one last question I guess. Mr. Mizuno, okay, so I wanted to follow up on the question that I had asked earlier, and thank you to Budget Director Yoshimura for helping me better understand the, what happens with the lump sum payments. So, I guess when EUTF, when that, when the Legislature created it, it was disaggregated, but as far as each County having separate accounts in order to pay down more of what was owed, EUTF did not have that capability until the early 2000s is what I understand.

MR. MIZUNO: Yeah. So, yeah, you're right. Prior to 2011, we weren't invested in a diversified portfolio so I think we were getting some real short term bond rates. So, it wasn't that advantageous to invest with us. In 2011, we set up the target allocation or the asset allocation where we started moving into equities and the different asset classes. In I think it was around 2013, where we set up the irrevocable trust so that really protected the assets from any creditors. So, once we put it in the trust, it can't go back, it can't go out, it only can be used for the beneficiaries. So, I think that's what you're referring to. So, once we set the asset allocation up and then we set up the trust to protect the assets, that's when I think County of Maui made that big, I think yeah, you're right, about $70 million payment in. So, you know, that was, yeah, that's how it kind of went over the timeline. But yeah, you're correct in that. Thank you.

CHAIR RAWLINS-FERNANDEZ: Mahalo, Mr. Mizuno. And then, Mr. Williams, I was hoping maybe, you know I wasn't on the Council at the time that ERS was created. If you'd be able to share a little bit about why in your understanding the Legislature decided to have a shared employer model instead of a disaggregated model the way that EUTF was created?

MR. WILLIAMS: Well, again, I too was not here when the ERS was created in 1926, and I haven't heard an awful lot about the Legislature's thinking in the construct of a plan. I believe it wasn't uncommon back then, because there were not so many statewide public pension plans. As I was describing earlier in my commentary, some programs, some states had plans for just teachers for example. They would have been an early adopter of a pension plan. And they had separate plans for judiciary for example. And in subsequent years, those plans all came together, maybe and merged under a single plan, but they kept their separate actuarial status. So, there was an opportunity to fold these disparate entities into a single unit. I think that at the time and I'm just speculating here that being a fairly small State and there are more commonalities among individuals here than perhaps other places, that they thought this shared approach was the best way to go. But it had...and it is good from sharing of all assets and liability, all the benefits as well as the cost. But, you know, it has its attendant disadvantages as well. So, I don't quite know and I think the intent would be today if there was a way to disaggregate it that we would. It would be in the interest of certain of our members, and others would probably not want that quite frankly, because it would result in maybe higher contributions for some and lower for others. But from the perspective of the pension plan, it's the aggregate number that we have to get in order to be sustainable. So, we would be looking for that money through a different mix of contributions, but ultimately we have to pay these liabilities. So, what we'd want in total is what we're getting today but it would be divided differently.

CHAIR RAWLINS-FERNANDEZ: Mahalo, Mr. Williams. And I guess really quickly for the benefit of the public, what is the biggest advantage to having this shared employer model?

MR. WILLIAMS: Well, I think the biggest advantage is that we're really all responsible and in it together. We equally share in the benefits of the program and those are significant, because they in fact provide billions of dollars into the economy of the State year in and year out. It's providing monies during difficult times such as this when, you know, like income is oftentimes uncertain for working individuals, less so for people employed by the states and the counties. But this retirement income is available even during periods of economic distress. So, I think sharing in the responsibility is not uncommon and is a good way to go amongst people with shared interests, families for example and even states, and you share the obligations as well as the benefits. So, it's a different philosophy quite frankly, it's a philosophical difference as opposed to an actuarial difference.

CHAIR RAWLINS-FERNANDEZ: Mahalo, Mr. Williams. So, I think, Members, did you have any last questions for either Mr. Mizuno or Mr. Williams? Okay, seeing none, thank you so much, Mr. Williams and Mr. Mizuno, for your presentation. And, Mr. Mizuno, I know there were two slides that you said had typos, Slide 11 and Slide 18, would you be able to send that updated or corrected presentation to us? Okay, great.

MR. MIZUNO: Sure. Thank you. I'll send that over.

CHAIR RAWLINS-FERNANDEZ: Okay, thank you so much again, Mr. Mizuno and Mr. Williams, for being with us today and for sharing all that information with our members.

MR. MIZUNO: Thank you. Thank you for having me.

MR. WILLIAMS: And we'd like to thank you for having us.

MR. MIZUNO: Thank you.

CHAIR RAWLINS-FERNANDEZ: Okay. All right. Members, we have a meeting, EDB meeting tomorrow at 9:00 so we'll see you there. If there's any last comments before I adjourn our meeting? Okay, seeing none, the Economic Development and Budget Committee --

MS. ESPELETA: Chair?

CHAIR RAWLINS-FERNANDEZ: --will be adjourned...oh, yes?

MS. ESPELETA: Chair, this is Shelly, sorry.

CHAIR RAWLINS-FERNANDEZ: Oh, I have to defer the item.

MS. ESPELETA: Defer the item.

CHAIR RAWLINS-FERNANDEZ: Yes.

MS. ESPELETA: Yes. Thank you.

CHAIR RAWLINS-FERNANDEZ: Thank you. Members, if there are no objections, I will defer this item.

COUNCILMEMBERS: No objections.

ACTION: DEFER pending further discussion.

CHAIR RAWLINS-FERNANDEZ: Okay, great. Thank you. Mahalo, Ms. Espeleta, for that reminder. Okay, Members, it's 12:04 on March 30th and the Economic Development and Budget Committee is now adjourned. . . .*(gavel)*. . .

ADJOURN: 12:04 p.m.

APPROVED:

Keani Rawlins-Fernandez

KEANI N.W. RAWLINS-FERNANDEZ, Chair
Economic Development and Budget Committee

edb:min:200330:ds

Transcribed by: Daniel Schoenbeck

CERTIFICATE

I, Daniel Schoenbeck, hereby certify that the foregoing represents to the best of my ability, a true and correct transcript of the proceedings. I further certify that I am not in any way concerned with the cause.

DATED the 10th day of April, 2019, in Kula, Hawaii

Daniel Schoenbeck