EMPLOYEES'
RETIREMENT SYSTEM
OF THE
STATE OF HAWAII

COMPREHENSIVE ANNUAL FINANCIAL REPORT

FOR THE FISCAL YEAR ENDED JUNE 30, 2001

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STATE OF HAWAII

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Prepared by the Staff of the:
Employees' Retirement System of the State of Hawaii
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EMPLOYEES' RETIREMENT SYSTEM OF THE STATE OF HAWAII

INTRODUCTORY SECTION

BENJAMIN J. CAYETANO
GOVENOR

STATE OF HAWAII
EMPLOYEES' RETIREMENT SYSTEM

December 21, 2001

Honorable Benjamin J. Cayetano
Governor, State of Hawaii
Honolulu, Hawaii 96813

Dear Governor Cayetano:

It is my pleasure to submit the Employees' Retirement System's (ERS) Comprehensive Annual Financial Report for the fiscal year ended June 30, 2001. This report provides information on the financial status of the ERS and highlights significant changes that occurred during the fiscal year.

A major concern of the Board of Trustees is the ERS' unfunded accrued liability which grew from $543 million on June 30, 2000 to $991 million on June 30, 2001 on an actuarial basis. When using the fair value of assets, the unfunded accrued liability was in excess of $1.7 billion. A large unfunded liability results in large employer contributions. The increase was primarily due to a decline in investment returns and the decrease in employer contributions. Although the investment returns over the past 5 years have averaged 8.8% each year, the ERS had a 6.7% negative return in FY 2001 due to poor market conditions.

Last year, the Legislative Auditor expressed concern on the ERS' unfunded liability because of a 1999 law that diverted over $346 million of ERS' investment earnings to help balance the State and counties' budgets. During the past year, the State and counties only contributed $8.1 million as the result of the new law while the retirement benefit payments exceeded $548 million for the year.

The Board strongly supports legislation that will ensure that the ERS is adequately funded to pay for the pension benefits promised to current and future retirees. The diversion of investment earnings in the past means that it will take longer to reduce the ERS' unfunded liability. If ERS investment earnings are again diverted, we will further burden our children and future taxpayers with today's retirement costs.

On behalf of the Board of Trustees, I would like to thank the loyal staff, investment managers, consultants and the many others who have worked so diligently to assure the successful operation of the ERS.

Respectively submitted,

Darwin Hamamoto, Chair
Board of Trustees

City Financial Tower
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BENJAMIN J. CAYETANO
GOVENOR

STATE OF HAWAII
EMPLOYEES' RETIREMENT SYSTEM

December 19, 2001

Board of Trustees
Employees' Retirement System
State of Hawaii
Honolulu, Hawaii 96813

Dear Board Members:

It is our privilege to submit to you the seventy-sixth Comprehensive Annual Financial Report (CAFR) of the Employees' Retirement System of the State of Hawaii (ERS) for the fiscal year ended June 30, 2001. Responsibility for both the accuracy of the data, as well as the completeness and fairness of the presentation, rests with the management of the ERS. To the best of our knowledge and belief, the enclosed data is accurate in all material respects and is reported in a manner that fairly presents the financial position and results of the ERS' operations.

The ERS was established by the Legislature in 1925 to provide retirement, disability and survivor benefits for State and county employees including teachers, professors, police officers, firefighters, judiciary employees, judges, and elected officials.

On March 31, 2001, the ERS' total membership of 93,068 was comprised of 59,992 active members, 3,416 inactive vested members, and 29,660 retirees and beneficiaries. This represents a 2.4% growth in the total membership over the previous year. Participating employers include the State of Hawaii, City and County of Honolulu and the Counties of Hawaii, Maui and Kauai.

This report is divided into five sections:

(1) Introductory - includes transmittal letters, ERS' organizational structure, a Certificate of Achievement for Excellence in Financial Reporting, and a summary of benefit provisions and retirement options;
(2) Financial - contains a report of the Independent Certified Public Accountants, the financial statements of the ERS and supplementary information;
(3) Investment - includes reports of investment activity, investment policies, investment results, and various investment schedules;

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(4) Actuarial - contains the Actuary's Letter of Certification and results of the annual actuarial valuation; and
(5) Statistical - reporting significant data pertaining to the ERS.

INTERNAL CONTROLS

The management of ERS is responsible for and has implemented systems of internal accounting controls designed to provide reasonable assurances for the safeguarding of assets and the reliability of financial records. We believe that the internal accounting controls currently in place are adequate to meet the purpose for which they were intended. We also believe the financial statements, supporting schedules and statistical tables to be fairly presented in all material respects.

ACCOUNTING SYSTEM AND REPORTS

The accrual basis of accounting is used in recording financial transactions. Expenses are recorded when the liability is incurred, and revenues are recorded in the accounting period in which they are earned and become measurable. Interest earned is accrued on a monthly basis. Accounts receivable at year-end, in addition to accrued interest receivable, reflect accrued employer charges and investment proceeds due on sales that have not yet settled. Investments are recorded at fair value. Fixed assets are recorded at cost less accumulated depreciation. Under our cash management program, receipts are immediately deposited and are recorded as undistributed deposits until such time as they are allocated to member contributions, employer receivables, employer contributions, and investment income.

ADDITIONS TO PLAN NET ASSETS

For a retirement system to adequately fund the payment of future retirement benefits, it is necessary to accumulate sufficient assets on a regular and systematic basis. The ERS derives its revenues from the three principal sources summarized below:

	2001	2000	Increase/ (Decrease) Amount	Increase/ (Decrease) Percentage
Member contributions	$ 54,489,895	$ 57,358,185	$ (2,868,290)	(5.0)%
Employer contributions	8,131,900	22,392,100	(14,260,200)	(63.7)%
Net investment income	(679,605,059)	695,151,054	(1,374,756,113)	(197.8)%
Total	$ (616,983,264)	$ 774,901,339	$ (1,391,884,603)	(179.6)%

Member contributions decreased due to the decreasing number of members in the Contributory Plan. Since 1984, most new members are required to join the Noncontributory Plan.

State and county government employer contributions for the fiscal years ended June 30, 2001 and 2000 were based on June 30, 1998 and 1997 actuarial valuation reports, respectively. Decreases in employer contributions resulted from legislative actions and a related lawsuit settlement agreement. Legislative actions included the use of actuarial investment earnings above 10% to reduce the State and county contributions to the ERS and an extension of the repayment period for the 1994 and 1995 Early Incentive Retirement Programs.

The decline in net investment income during the past fiscal year was primarily the result of a slowing economy, rising energy prices, and the bursting of the internet bubble.

DEDUCTIONS TO PLAN NET ASSETS

The primary purpose of the ERS is to provide retirement, disability and survivor benefits to qualified members and their beneficiaries. The cost of this program includes recurring pension benefit payments, the refund of contributions (plus interest) to new retirees and former members, and the cost to administer the ERS. Expenses for the past two fiscal years are shown below:

	2001	2000	Increase/ (Decrease) Amount	Increase/ (Decrease) Percentage
Benefits – semimonthly payments	$ 503,277,496	$ 471,243,914	$ 32,033,582	6.8%
Benefits – one-time refund option and death payments	41,629,313	43,157,307	(1,527,994)	(3.5)%
Refund of member contributions	3,892,377	4,318,654	(426,277)	(9.9)%
Administrative expenses	4,893,711	4,168,717	724,994	17.4%
Total	$ 553,692,897	$ 522,888,592	$ 30,804,305	5.9%

The increase in benefit payments reflects an increase in the number of retirees and the annual post retirement benefit increase. The decrease in the refund of one-time benefit payments is due to the decreasing number of members in the Contributory Plan. Administrative expense increases reflect the cost of developing a new computer and office automation system, filling several key positions that were vacant, and completing actuarial work that is not required annually. Administrative expenses are detailed in the Financial Section of the CAFR.

INVESTMENTS

The ERS has diversified its investment portfolio to secure consistent, positive long-term investment returns while preserving capital. The diversification of investments through an asset allocation strategy is generally regarded as the most important decision made in the investment process. Studies have indicated that over 85% of the variability in investment returns can be attributed to the asset allocation decision. A summary of the ERS' long-term asset allocation strategy can be found in the Investment Section of this report.

Investment policies and procedures have been developed based upon certain investment criteria to allow for the delegation of investment authority to professional investment advisors. The investment policy outlines the responsibility for the investment of the fund assets and the degree of risk that is deemed appropriate for the fund. Professional investment managers have been retained to execute the ERS' investment policy and have full discretion within statutory authority, Board policies and their respective guidelines. The investment managers retained by the Board as of June 30, 2001 are listed in the Investment Section.

Although the ERS had a 6.7% negative return in FY 2001, the ERS managed to beat most of the major investment performance indices. If not for the diversified investment portfolio and the Board's asset allocation strategies, the negative return would have been greater. It is also worth noting that total net investment earnings over the past 5 years were almost $3.5 billion and the average annual return over the 5-year period was 8.8%.

The 18-year bull market in stocks came to an end in March 2000 and market volatility has continued through the second half of 2001. A significant recovery in investment earnings during the new fiscal year will be difficult to achieve especially with the tragic events of the September 11 terrorists' attacks. However, by adhering to its long-range asset allocation strategy and monitoring investment managers' performance, the Board continues to position the ERS for competitive returns.

FUNDING STATUS

The overall objective of ERS is to accumulate sufficient assets to meet current and future retirement, disability and death benefit obligations to retirees and beneficiaries. The greater the level of funding, the larger the ratio of assets accumulated to the actuarial accrued liability and the greater the level of investment potential. The funded ratio on an actuarial basis was 90.6% and 94.4% as of June 30, 2001 and June 30, 2000, respectively. When using the fair value of assets, the funded ratio on June 30, 2001 was approximately 83%. A detailed discussion of the funding method is provided in the Actuarial Section of this report.

PROFESSIONAL SERVICES

Professional consultants are appointed by the Board of Trustees to perform professional services that are essential to the effective and efficient operation of the ERS. Opinions from the certified public accounting firm, Grant Thornton LLP, and the actuary, Gabriel, Roeder, Smith & Company, are included in this report. Callan Associates Inc. serves as the investment consultant.

MAJOR EVENTS/INITIATIVES

We expanded our direct deposit program to include mainland banks participating in the Automated Clearing House (ACH) program. This benefits retirees on the US mainland by offering timely electronic deposit of their semimonthly pension checks while also reducing ERS bank charges, postage, and other check issuance expenses.

In June 2001, a new law was enacted to provide a pension increase for members with military service who retired prior to July 2, 1989. In September 2001, informational material and claim forms were sent to over 11,000 members who retired prior to July 2, 1989.

We completed the implementation of the Board's long-term asset allocation strategies that were adopted last year. Two investment management firms were terminated during the year. We also put out to bid and executed multi-year contracts for investment consulting and actuarial services.

AWARDS

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting (CAFR) to the Employees' Retirement System of the State of Hawaii for its CAFR for the fiscal year ended June 30, 2000. The Certificate of Achievement is a prestigious national award recognizing excellence in the preparation of state and local government financial reports.

To be awarded the Certificate of Achievement, a government unit must publish an easily readable and efficiently organized CAFR, whose contents meet or exceed program standards. This report must satisfy both generally accepted accounting principles and applicable legal requirements. A Certificate of Achievement is valid for only one year. The ERS has received a Certificate of Achievement for the last eleven consecutive fiscal years. We believe this report continues to conform to the Certificate of Achievement Program requirements and we are submitting it to the GFOA for consideration again this year.

ACKNOWLEDGEMENTS

This report represents the dedicated collaborative efforts of ERS staff and consultants to provide complete and reliable information as a basis for making management decisions, determining compliance with legal provisions, and determining responsible stewardship of the assets contributed by the ERS' members and their employers. The report will be provided to legislators, State and county officials, and other interested parties.

Sincerely,

David Shimabukuro

David Shimabukuro
Administrator

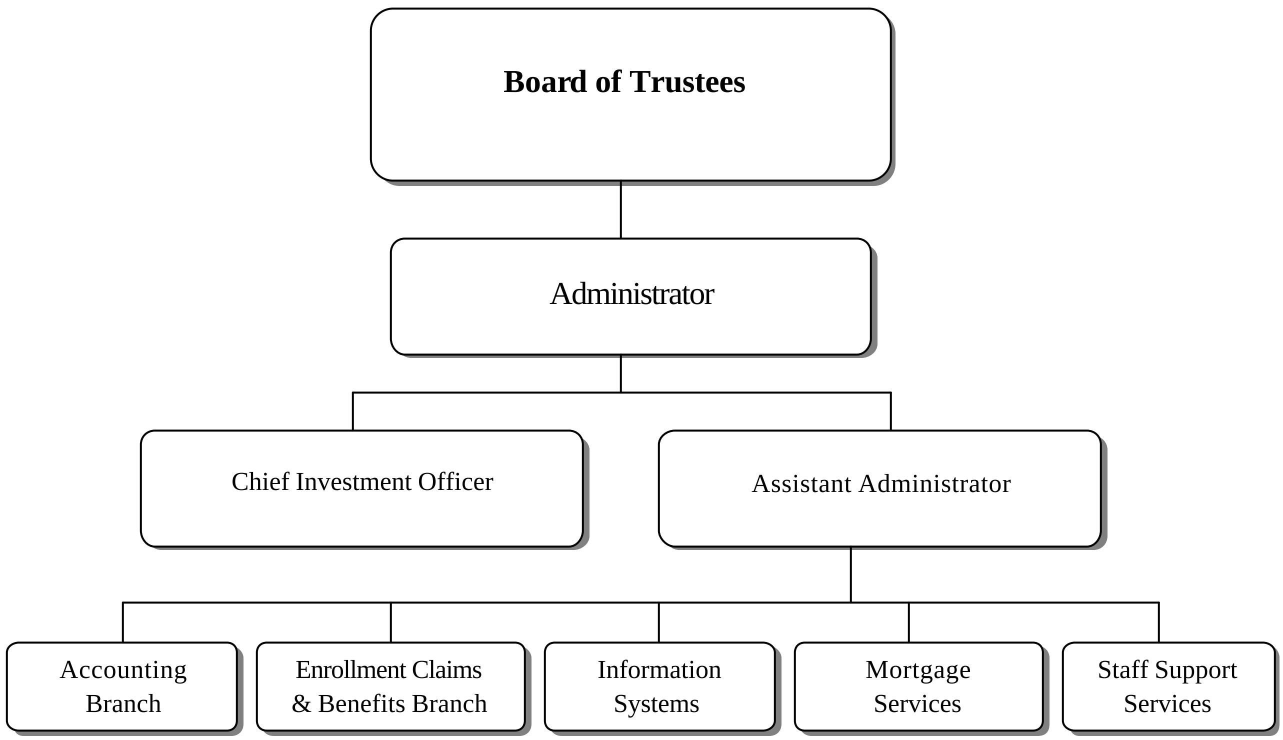
BOARD OF TRUSTEES

Name	Date Current Term Began	Date Term Ends
Elected:		
Dr. Hubert V. Everly	January 2, 1996	January 1, 2002
Ms. Jackie Ferguson-Miyamoto	January 2, 1996	January 1, 2002
Ms. Pilialoha E. Lee Loy	January 2, 1998	January 1, 2004
Mr. Darwin J. Hamamoto, Chair	January 2, 2000	January 1, 2006
Appointed:		
Mr. Tobias (Toby) M. L. Martyn, Vice Chair	April 25, 1997	January 1, 2003
Mr. Richard (Rick) L. Humphreys	May 10, 1999	January 1, 2005
Mr. Colbert M. Matsumoto	May 14, 2001	January 1, 2007
Ex-Officio:		
Mr. Neal H. Miyahira	May 24, 1999	

The Board of Trustees is the governing body of the Employees' Retirement System of the State of Hawaii, with certain areas of administrative control vested in the State Department of Budget and Finance.

Four of the eight members on the Board are elected by the membership: two general employees, a teacher and a retiree. Three members are citizens of the State, one of whom is an officer of a bank authorized to do business in the State or a person of similar experience, who are not employees and are appointed by the Governor. The State Director of Finance is an ex-offico member by statute.

ORGANIZATIONAL STRUCTURE



Administrator	David Y. Shimabukuro
Assistant Administrator	Wesley K. Machida
Chief Investment Officer	Kimo Blaisdell

Actuary
Gabriel, Roeder, Smith and Company

Auditors
Grant Thornton LLP

Legal Advisor
Attorney General of Hawaii

Medical Board
Dr. Rowlin L. Lichter, Chair
Dr. Patricia L. Chinn, Member
Dr. William T. J. Cody, Member

Certificate of Achievement for Excellence in Financial Reporting

Presented to

Employees Retirement System of the State of Hawaii

For its Comprehensive Annual Financial Report for the Fiscal Year Ended

June 30, 2000

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.

GOVERNMENT FINANCE OFFICERS ASSOCIATION OF THE UNITED STATES AND CANADA CORPORATION SEAL CHICAGO

President

Executive Director

PLAN SUMMARY

The Employees' Retirement System (ERS) of the State of Hawaii was established by the Legislature in 1925 to provide retirement, disability and survivor benefits for State employees, teachers, professors, county employees, police officers, firefighters, judges and elected officials.

The ERS is a qualified defined benefit pension plan under Section 401(a) of the Internal Revenue Code. As such, the ERS is exempt from federal income taxation on its investment earnings. Since January 1, 1988, member contributions have been tax deferred under Section 414(h) of the Internal Revenue Code.

Members are covered by the provisions of the contributory or noncontributory retirement plan. Those in the Contributory Plan are required to make contributions to the ERS and may also be covered by Social Security. Employees in the following occupational groups are required to be members of the Contributory Plan: police officers, firefighters, judges, elected officials, legislative officers, State and County department heads and deputies, attorney general investigators, narcotics enforcement investigators, and public safety investigators. As of March 31, 2001, 11,108 active employees were enrolled in the Contributory Plan.

Members of the Noncontributory Plan do not make contributions to the ERS and must be covered by Social Security. The Noncontributory Plan covers most employees hired from July 1, 1984, as well as employees hired before that date who elected to join the plan. As of March 31, 2001, there were 48,884 active employees in the Noncontributory Plan, which represents over 81% of all active members. Since most new employees are required to become members of the Noncontributory Plan, these numbers will continue to increase.

A summary of the general retirement benefits for contributory and noncontributory members is on the following pages. The payment options available to members upon their retirement are also included.

SUMMARY OF RETIREMENT BENEFIT PLAN PROVISIONS

	Noncontributory Plan	Contributory Plan
Employee Contributions	No employee contributions	7.8% of salary
Normal Retirement		
Eligibility	Age 62 and 10 years credited service OR Age 55 and 30 years credited service	Age 55 and 5 years credited service
Benefit	1-1/4% of average final compensation times years of credited service (Average final compensation or AFC is an average of the highest salaries during any three years of credited service, excluding any salary paid in lieu of vacation or if ERS membership occurred prior to 1/1/71, AFC may be an average of the highest salaries during any five years of credited service including any salary paid in lieu of vacation.)	2% of average final compensation times years of credited service (Average final compensation or AFC is an average of the highest salaries during any three years of credited service, excluding any salary paid in lieu of vacation or if ERS membership occurred prior to 1/1/71, AFC may be an average of the highest salaries during any five years of credited service including any salary paid in lieu of vacation.)
Early Retirement		
Eligibility	Age 55 and 20 years credited service	Any age and 25 years credited service
Benefit	Normal allowance reduced 6% per year under age 62	Maximum allowance reduced 5% per year under age 55 plus 4% per year under age 50
Deferred Vesting		
Requirements	10 years credited service	5 years credited service and contributions left in the ERS
Benefit	Accrued normal allowance payable at age 65	Accrued maximum allowance payable at age 55

	Noncontributory Plan	Contributory Plan
Ordinary Disability		
Eligibility	10 years credited service	**10 years credited service**
Benefit	Accrued normal allowance unreduced for age	1-3/4% AFC for each full year of credited service with a minimum of 30% AFC unreduced for age
Service-Connected Disability (due to accident on the job)		
Eligibility	Any age or credited service	Any age or credited service
Benefit	Accrued normal allowance, but not less than 15% AFC unreduced for age	Totally disabled: lifetime pension of 66-2/3% AFC plus annuity unreduced for age. Occupationally disabled: same benefit (66-2/3% pension plus annuity) paid for 3 years and then pension is reduced to 33-1/3% AFC if not totally disabled unreduced for age. For accidents after July 7, 1998, member receives return of contributions plus 50% of AFC unreduced for age.
Ordinary Death		
Eligibility	Active employee at time of death with at least 10 years of credited service	Active employee at time of death with at least 1 year of service
Benefit	Surviving spouse and dependent children receive a benefit equal to a percentage of member's accrued normal allowance unreduced for age or if member was eligible for retirement at the time of death, Option B (100% Joint and Survivor) benefit for surviving spouse and a percentage of member's accrued normal allowance unreduced for age for the dependent children	Return of member's contributions and accrued interest plus a percentage of the salary earned in the 12 months preceding death or Option 2 (100% Joint and Survivor) benefit if member was eligible for retirement at the time of death and one beneficiary designated or Option 3 (50% Joint and Survivor) benefit if member was not eligible for retirement at the time of death, credited with 10 years of service, and one beneficiary designated

	Noncontributory Plan	**Contributory Plan**
Service-Connected Death (due to accident on the job)		
Eligibility	Any age or service	Any age or service
Benefit	Surviving spouse and dependent children receive pension equal to a percentage of member's accrued normal allowance, based on minimum accrued normal allowance of 30% AFC	Return of member's contributions, and accrued interest plus pension of 50% AFC to surviving spouse, dependent children or dependent parents

The plan provisions summarized above apply to teachers and most State and County employees. Special provisions applicable to other groups of employees are outlined below:

A) Police officers, firefighters, investigators of the Department of the Prosecuting Attorney and the Attorney General, narcotic enforcement investigators, and public safety investigators contribute 12.2% of their monthly salary to the ERS instead of 7.8%. These members may retire at age 55 with 10 years of credited service or at any age with 25 years of credited service and receive a retirement benefit of 2-1/2% of average final compensation (AFC) for each year of such service up to a maximum of 80% AFC, provided the last 5 years is credited service in any of these occupations.

B) Judges, elected officials, and legislative officers may retire at age 55 with at least 5 years of credited service, or at any age with at least 10 years of credited service and receive a pension of 3-1/2% of AFC for each year of such service plus an annuity from their contributions allocable to the period of such service. This benefit cannot exceed 75% of the AFC. Judges hired after June 30, 1999 need 25 years of credited service in order to retire before age 55.

C) Sewer workers in specified classifications and water safety officers may retire at any age if they are credited with 25 years of such service with the last 5 or more years in these occupations.

Post Retirement Benefit

Each retiree's original retirement allowance is increased by 2-1/2% on each July 1 beginning the calendar year after retirement. This cumulative benefit is not compounded and increases each year by another 2-1/2% of the original retirement allowance without a ceiling (i.e., 2-1/2% of the original retirement allowance the first year, 5% the second year, 7-1/2% the third year, etc.).

Taxation of Benefits

All retirement benefits are subject to Federal income taxes but are exempt from any Hawaii State income taxes. Arrangements to initiate voluntary withholding of Federal income tax can be made at any time. The ERS also provides retirees with a 1099-R tax form on or before January 31 of each year.

Additional Benefits

Retirees, their spouses and dependent children under age 19 can enjoy life insurance, medical, dental, vision, and drug coverage from the Hawaii Public Employees Health Fund or their union organization. Members hired before July 1, 1996, who retire with at least 10 years of credited service, receive health benefits at no premium cost. After June 30, 1996, members who are first hired, or rehired members who return to service with less than 10 years of credited service, qualify for health benefits on a cost sharing basis as long as the member retires with at least 10 years of service. Members with 25 or more years of service qualify for health benefits at no premium cost. Unused sick leave is excluded from credited service in determining health benefit coverage. Retirees and their spouses are also eligible to receive a reimbursement of the Medicare Part B medical insurance premium.

An update of benefits should be obtained from the Health Fund office prior to retirement since changes may have occurred.

Applying for Retirement

A member must file a service retirement application with the ERS no less than 30 days but not more than 90 days prior to the effective date of retirement. Once the application has been filed, cancellation prior to the effective date of retirement is permitted; however, the law requires mandatory retirement upon the third application. Members residing on the neighbor islands may obtain retirement application forms at the following locations:

Hawaii District Office
101 Aupuni Street, Suite 203
Hilo, Hawaii 96720

Kauai District Office
3060 Eiwa Street, Room 302
Lihue, Hawaii 96766

Maui District Office
54 S. High Street, Room 218
Wailuku, Hawaii 96793

Counseling Service

It is the policy of the ERS to render every possible service to its members; however, as thousands of inquiries are received and answered annually, in addition to the actual processing of claims and benefits, present staff and appropriations restrict this service to those members whose immediate welfare is dependent upon the prompt settlement of benefits. Members who are not planning immediate retirement but who are interested in their benefit status, should contact the ERS for the estimate worksheets that will enable them to do their own calculations. Members who are definite about retirement should contact the ERS to request formal retirement estimates.

RETIREMENT OPTIONS

CONTRIBUTORY PLAN

Maximum Allowance: The member receives a lifetime maximum allowance and at death, the difference between the value of the member's contributions at the time of retirement and the retirement allowance paid prior to death is paid to the designated beneficiary(ies) or estate.

Option One: The member receives a reduced lifetime allowance based on age and at death, the difference between the initial insurance reserve and the retirement allowance paid prior to death is paid to the designated beneficiary(ies) or estate.

Option Two (100% Joint and Survivor): The member receives a reduced lifetime allowance based on ages of both the member and the sole beneficiary and at death, the same allowance is paid to the designated beneficiary for life. Should the designated beneficiary predecease the retiree, another beneficiary cannot be named and all payments will cease at the retiree's death.

Option Three (50% Joint and Survivor): This plan is similar to Option Two. The member receives a reduced lifetime allowance which is higher than Option Two and is based on ages of both the member and the sole beneficiary; however, at death one-half of the allowance is paid to the designated beneficiary for life. Like Option Two, should the designated beneficiary predecease the retiree, another beneficiary cannot be named and all payments will cease at the retiree's death.

Option Four: This option allows the member to devise a plan that will provide a benefit according to the member's specifications. It requires certification by the Actuary and approval of the Board of Trustees. The following Option Four plans have been approved:

Combination of Options Five and Maximum Allowance. The member receives a reduced lifetime allowance and is allowed to withdraw the pre-1987 nontaxable contributions, 50% of accumulated contributions, or 75% of accumulated contributions; at death, the difference between the value of the member's contributions at the time of retirement and the retirement allowance paid prior to death is paid to the designated beneficiary(ies) or estate.

Combination of Options Five and One. The member receives a reduced lifetime allowance and is allowed to withdraw the pre-1987 nontaxable contributions, 50% of accumulated contributions, or 75% of accumulated contributions; at death, the difference between the initial insurance reserve and the retirement allowance paid prior to death is paid to the designated beneficiary(ies) or estate.

Combination of Options Five and Two. The member receives a reduced lifetime allowance based on ages of both the member and the sole beneficiary, and is allowed to withdraw the pre-1987 nontaxable contributions, 50% of accumulated contributions, or 75% of accumulated contributions; at death, the same allowance is paid to the designated beneficiary for life. As in the case of Option Two, should the designated beneficiary predecease the retiree, another beneficiary cannot be named and all payments will cease at the retiree's death.

Combination of Options Five and Three. The member receives a reduced lifetime allowance based on ages of both the member and the sole beneficiary, and is allowed to withdraw the pre-1987 nontaxable contributions, 50% of accumulated contributions, or 75% of accumulated contributions; at death, one-half of the allowance is paid to the designated beneficiary for life. As in the case of Option Three, should the designated beneficiary predecease the retiree, another beneficiary cannot be named and all payments will cease at the retiree's death.

Option Five: The member receives a reduced lifetime allowance and is allowed to withdraw all accumulated contributions; at death, the prorated amount from the last pension payment through the date of death is payable to the beneficiary(ies) or estate.

Option Four and Option Five are restricted to those members with at least ten years of credited service excluding unused sick leave credit.

Regardless of the option selected, should death occur during the first year of retirement, the designated beneficiary may elect to receive benefits as if death had occurred immediately prior to retirement in lieu of the death benefits described above.

NONCONTRIBUTORY PLAN

Normal Allowance: The member receives a lifetime pension and at death, the prorated amount from the last pension payment through the date of death is payable to the beneficiary(ies) or estate.

Option A (50% Joint and Survivor): The member receives a reduced lifetime pension and at death, one-half of the pension is paid to the sole designated beneficiary for life. Should the designated beneficiary predecease the retiree, another beneficiary cannot be named and all payments will cease upon the retiree's death.

Option B (100% Joint and Survivor): The member receives a reduced lifetime pension and at death, the same pension is paid to the sole designated beneficiary for life. Like Option A, should the designated beneficiary predecease the retiree, another beneficiary cannot be named and all payments will cease upon the retiree's death.

Option C (Ten-Year Guarantee): The member receives a reduced lifetime pension. Should death occur within ten years of retirement, the same pension will be paid to the designated beneficiary for the balance of the ten-year period. Should the designated beneficiary predecease the retiree, another beneficiary can be named.

LEGISLATIVE HIGHLIGHTS 2001

Act 61, effective April 26, 2001

Clarifies that any special retirement incentive benefit provided under the Civil Service Reform Act of 2000, Act 253, SLH 2000, will be forfeited if the retiree returns to public service.

Act 101, effective May 18, 2001

Housekeeping measure to clarify the four retirement options in the Noncontributory Plan.

Act 102, effective July 1, 2001

Requires all retirees and beneficiaries whose payments commence after June 30, 2001, to designate a financial institution into which their semi-monthly pension checks will be directly deposited. This method of payment may be waived if another method is determined to be more appropriate.

Act 104, effective July 1, 2001

Provides that the annual salary growth assumption rate used for actuarial valuation purposes be changed to a fixed rate of 4% after June 30, 1999.

Act 284, effective July 1, 2001

Provides pension increases for those who retired prior to July 2, 1989 and who rendered honorable active military service in the armed forces. Retirees can claim up to four years of military service at no cost, but the claim must be filed by June 30, 2002.

Pensions will be increased at the rate of $36 for each year of military service certified. Eligibility will be based on the number of years of membership service (up to 2 years of certified service for retirees with 8 or more years of membership service, up to 3 years of certified service for retirees with 20 years or more of membership service and up to 4 years of certified service for retirees with 25 or more years of membership service).

Act 308, effective July 1, 2001

Allows the Department of Education to rehire retired teachers in shortage areas while allowing them to continue to receive their retirement benefits without penalty. Also repeals this act on July 1, 2005.

EMPLOYEES' RETIREMENT SYSTEM OF THE STATE OF HAWAII

FINANCIAL SECTION

Accountants and
Management Consultants
Grant Thornton LLP
The US Member Firm of
Grant Thornton International

Grant Thornton

Report of Independent Certified Public Accountants

Board of Trustees
Employees' Retirement System of the State of Hawaii

We have audited the accompanying combining statements of plan net assets of the Employees' Retirement System of the State of Hawaii (System) as of June 30, 2001 and 2000, and the related statements of changes in plan net assets for the years then ended. These financial statements are the responsibility of the System's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the plan net assets of the System as of June 30, 2001 and 2000, and the changes in plan net assets for the years then ended in conformity with accounting principles generally accepted in the United States of America.

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Board of Trustees
Employees' Retirement System of the
State of Hawaii

In accordance with *Government Auditing Standards*, we have also issued our report dated November 9, 2001 on our consideration of the System's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements of the System taken as a whole. The supplementary information for defined benefit pension plans on pages 41 and 42 is not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and do not express an opinion on it. The supplementary information included on pages 44 through 48 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as whole.

Grant Thornton LLP

Honolulu, Hawaii
November 9, 2001

COMBINING STATEMENTS OF PLAN NET ASSETS –
ALL TRUST AND AGENCY FUNDS

June 30,

	2001		
	Pension Trust	Agency	
	Employees' Retirement System	Social Security Contribution	Total
ASSETS			
Cash and short-term investments (notes C2 and F)			
Cash	$ 30,488,448	$ 444,061	$ 30,932,509
Short-term investments	270,317,448	15,140,202	285,457,650
	300,805,896	15,584,263	316,390,159
Receivables			
Accounts receivable and others	1,144,809		1,144,809
Investment sales proceeds	102,991,492	–	102,991,492
Accrued investment income	33,959,106	–	33,959,106
Employer appropriations	–	2,763,762	2,763,762
Member contributions	643,639	–	643,639
	138,739,046	2,763,762	141,502,808
Investments, at fair value (notes C2 and F)			
Equity securities	3,911,396,098	–	3,911,396,098
Fixed income securities	2,847,390,523	–	2,847,390,523
Index funds	1,300,223,822	–	1,300,223,822
Real estate investments	516,253,879	–	516,253,879
Real estate mortgages (note I)	101,439,850	–	101,439,850
Real estate owned	59,505,563	–	59,505,563
Alternative investments	253,643,018	–	253,643,018
	8,989,852,753	–	8,989,852,753
Other			
Invested securities lending collateral (note F)	823,585,642	–	823,585,642
Equipment at cost, net of depreciation (note K)	5,598,061	–	5,598,061
Other assets	193,086	–	193,086
	829,376,789	–	829,376,789
Total assets	10,258,774,484	18,348,025	10,277,122,509
LIABILITIES			
Bank overdraft (note F)	5,528,465	–	5,528,465
Accounts and other payables (note I)	24,105,373	–	24,105,373
Investment commitments payable	610,953,125	–	610,953,125
Payable to Internal Revenue Service	–	5,535,531	5,535,531
Due to employers	33,505,790	12,812,494	43,318,284
Securities lending collateral (note F)	823,585,642	–	823,585,642
Total liabilities	1,497,678,395	18,348,025	1,516,026,420
Commitments and contingencies (notes F, G, H and I)	–	–	–
Net assets held in trust for pension benefits (note D) (a schedule of funding progress is presented on page 41)	$ 8,761,096,089	$ –	$ 8,761,096,089

The accompanying notes are an integral part of these statements.

2000		
Pension Trust	Agency	
Employees' Retirement System	Social Security Contribution	Total
$ 12,594,691	$ 592,263	$ 13,186,954
441,150,333	8,385,470	449,535,803
453,745,024	8,977,733	462,722,757
433,698		433,698
122,613,522	–	122,613,522
48,053,781	–	48,053,781
5,957,000	5,065,862	11,022,862
716,856	–	716,856
177,774,857	5,065,862	182,840,719
4,950,652,904	–	4,950,652,904
2,687,962,580	–	2,687,962,580
1,425,956,847	–	1,425,956,847
443,396,197	–	443,396,197
110,353,222	–	110,353,222
56,500,000	–	56,500,000
199,256,950	–	199,256,950
9,874,078,700	–	9,874,078,700
683,247,443	–	683,247,443
4,112,257		4,112,257
231,536	–	231,536
687,591,236	–	687,591,236
11,193,189,817	14,043,595	11,207,233,412
4,049,367	–	4,049,367
22,518,535	–	22,518,535
515,146,539	–	515,146,539
–	5,531,642	5,531,642
36,455,682	8,511,953	44,967,635
683,247,443	–	683,247,443
1,261,417,566	14,043,595	1,275,461,161
–	–	–
$ 9,931,772,251	$ –	$ 9,931,772,251

STATEMENTS OF CHANGES IN PLAN NET ASSETS

Year ended June 30,

	2001	2000
Additions		
Appropriations and contributions (note E)		
Employers	$ 8,131,900	$ 22,392,100
Members	54,489,895	57,358,185
Total contributions	62,621,795	79,750,285
Investment income (loss)		
From investing activities		
Net (depreciation) appreciation in fair value of investments	(998,882,875)	388,224,367
Interest on fixed income securities	150,350,578	148,588,742
Dividends on equity securities	106,044,424	99,138,338
Interest and fees on real estate mortgages, net	(509,685)	11,074,754
Interest on short-term investments	19,912,067	18,307,677
Income on real estate investments	41,125,756	33,509,811
Net rental income	5,404,185	5,028,421
Alternative investment income	16,565,982	14,195,267
Miscellaneous	2,213,718	1,566,561
	(657,775,850)	719,633,938
Less investment expenses	25,167,215	26,772,654
Net investment (loss) income	(682,943,065)	692,861,284
From securities lending activities		
Securities lending income	45,572,737	27,166,275
Securities lending expenses		
Borrower rebates	41,401,405	24,309,482
Management fees	833,326	567,023
Less securities lending activities expense	42,234,731	24,876,505
Net income from securities lending activities	3,338,006	2,289,770
Total net investment (loss) income	(679,605,059)	695,151,054
Total additions	(616,983,264)	774,901,339
Deductions		
Benefit payments (note A3)	503,277,496	471,243,914
Refund option payments	41,629,313	43,157,307
Refunds of member contributions	3,892,377	4,318,654
Administrative expenses	4,893,712	4,168,717
Total deductions	553,692,898	522,888,592
NET (DECREASE) INCREASE	(1,170,676,162)	252,012,747
Net assets held in trust for pension benefits (note D)		
Beginning of year	9,931,772,251	9,679,759,504
End of year	$ 8,761,096,089	$9,931,772,251

The accompanying notes are an integral part of these statements.

NOTES TO FINANCIAL STATEMENTS

June 30, 2001 and 2000

NOTE A – DESCRIPTION OF THE SYSTEM

1. General

The Employees' Retirement System of the State of Hawaii (System) began operations on January 1, 1926, having been established by the Territorial Legislature in the preceding year. The System is a cost-sharing, multiple-employer public employee retirement system established to administer a pension benefits program for all State and county employees, including teachers, police officers, firefighters, correction officers, judges and elected officials.

Employer, pensioner and employee membership data as of March 31,:

	2001	2000
Employers:		
State	1	1
Counties	4	4
Total employers	5	5
Pensioners, beneficiaries and terminated vested members:		
Pensioners and beneficiaries currently receiving benefits and terminated vested members entitled to benefits but not yet receiving benefits:		
Police officers, firefighters and corrections officers	2,488	2,332
All other pensioners and beneficiaries	27,172	26,383
Terminated vested members	3,416	3,016
Total pensioners, beneficiaries and terminated vested members	33,076	31,731
Current employees:		
Vested:		
Police officers, firefighters and corrections officers	3,647	3,640
All other employees	31,246	29,844
Nonvested:		
Police officers, firefighters and corrections officers	1,084	991
All other employees	24,015	24,716
Total current employees	59,992	59,191

NOTE A – DESCRIPTION OF THE SYSTEM (continued)

2. The Financial Reporting Entity

   As required by accounting principles generally accepted in the United States of America, these financial statements present the System (the primary government) as a separate reporting entity from the State of Hawaii (State). The System is not part of the State's financial reporting entity because it is a separate legal entity that is fiscally independent of the State. The System was established by Chapter 88 of the Hawaii Revised Statutes and is governed by a Board of Trustees (Board) as discussed below. As the primary government, the System has included the Social Security Contribution Fund in its financial statements since the Social Security Contribution Fund is not a legally separate entity.

   The Board administers the System on behalf of public employees of both the State and county governments. Except for limited administrative functions, the State does not have the power to supervise or control the Board in the exercise of its functions, duties and powers. The Board consists of eight members. The State Director of Finance is a statutory member of the Board. Four members of the Board are elected by members of the System and the other three members of the Board are appointed by the Governor. Decisions are made with the concurring vote of five members of the Board. The Board appoints the Administrator and Chief Investment Officer and engages actuarial and other services required to transact the business of the System.

3. Benefits

   Members of the System belong to either the contributory or noncontributory plan. All assets of the System (in the Pension Trust) may be used to pay benefits to any member of the System. Employees covered by Social Security on June 30, 1984 were given the option of joining the noncontributory plan or remaining in the contributory plan. All new employees hired after June 30, 1984, who are covered by Social Security, are generally required to join the noncontributory plan. Most members of the contributory plan are required to contribute 7.8% of their salary. Both plans provide a monthly retirement allowance based on the member's age, years of credited service, and average final compensation (AFC). The AFC is the average salary earned during the five highest paid years of service, including the payment of salary in lieu of vacation, or three highest paid years of service, excluding the payment of salary in lieu of vacation, if the employee became a member prior to January 1, 1971. The AFC for members hired on or after this date is based on the three highest paid years of service excluding the payment of salary in lieu of vacation. Vesting requirements for the contributory and noncontributory plans are five years and ten years, respectively.

   Ordinary disability retirement benefits require a minimum of ten years of service, whereas service connected disability resulting from a job related accident does not have any service requirement. Under both plans, there is no age requirement.

   Ordinary death benefits under the contributory and noncontributory plans require at least one year and ten years of service, respectively. Under both plans, there is no service requirement for service connected death benefits.

NOTE A – DESCRIPTION OF THE SYSTEM (continued)

3. Benefits (continued)

   Retirement benefits for certain groups of contributory members, such as police officers, firefighters, some investigators, sewer workers, judges and elected officials, vary from general employees. All contributions, benefits and eligibility requirements are governed by Chapter 88 of the Hawaii Revised Statutes.

   Every retiree's original retirement allowance is increased by 2-1/2% on each July 1 following the calendar year of retirement. This cumulative benefit is not compounded and increases each year by 2-1/2% of the original retirement allowance without a ceiling (2-1/2% of the original retirement allowance the first year, 5% the second year, 7-1/2% the third year, etc.).

NOTE B – SOCIAL SECURITY CONTRIBUTION FUND

The Social Security Contribution Fund (Contribution Fund) was established under Section 88-224 of the Hawaii Revised Statutes for the following purposes:

1. To receive all federal social security employers' contributions from the State and interest and penalties on unpaid amounts;

2. To receive any appropriations to the Contribution Fund;

3. To pay amounts required to be paid to the Internal Revenue Service (IRS); and

4. To invest and collect income on resources held by the Contribution Fund.

All other governmental agencies remit social security contributions directly to the IRS. Social security contributions withheld from employees are remitted directly to the IRS by the employers.

NOTE C – SUMMARY OF ACCOUNTING POLICIES

A summary of the significant accounting policies consistently applied in the preparation of the accompanying financial statements follows.

1. Basis of Accounting

   Fiduciary funds are used to account for assets held by the System in a trustee capacity or as an agent for individuals, private organizations, other governments, and or other funds. The fiduciary fund types used by the System are a pension trust fund and an agency fund. Each of the fiduciary funds are considered a separate fiscal and accounting entity with a self-balancing set of accounts that comprise its assets, liabilities, equity, revenues and expenditures, or expenses, as appropriate. The accounting and reporting treatment applied to a fund is determined by its measurement focus. The Pension Trust Fund is accounted for on a flow of economic resources measurement focus. As an agency fund, the Contribution Fund is custodial in nature and does not measure results of operations.

NOTE C – SUMMARY OF ACCOUNTING POLICIES (continued)

1. Basis of Accounting (continued)

The financial statements are prepared using the accrual basis of accounting under which expenses are recorded when the liability is incurred, revenues are recorded in the accounting period in which they are earned and become measurable. Employer and member contributions are recognized in the period in which the contributions are due. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan. Investment purchases and sales are recorded as of their trade date. Administrative expenses are financed exclusively with investment income.

2. Investments

Pursuant to Section 88-119 of the Hawaii Revised Statutes, the System may invest in real estate loans and mortgages; preferred and common stocks; government obligations; corporate obligations; certain other debt obligations (such as obligations secured by collateral of certain other authorized securities listed here, obligations issued or guaranteed by certain development banks, insurance company obligations); real property; alternative investments; and other securities and futures contracts. The investment decision is further dictated by internal investment policies and asset allocation established by the Board of Trustees. Assets in the Pension Trust may be invested in any of these assets, while investments in the Contribution Fund are limited to investment grade, short-term marketable securities.

Investments are reported at fair value. Where appropriate, the fair value includes disposition costs. Short-term investments are reported at cost, which approximates fair value. Securities (categorized as fixed-income, equity, index funds, and alternative investments) traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Mortgages are valued on the basis of future principal and interest payments, and are discounted at prevailing interest rates for similar instruments. The fair value of real estate investments and real estate owned are based on independent appraisals and estimated values. Investments that do not have an established market are reported at estimated fair value.

3. Interest and Earnings Allocation

Pursuant to Section 88-21 and 88-107 of the Hawaii Revised Statutes, the Board shall annually allocate interest and other earnings of the System to the funds of the System, as follows:

a. Annuity Savings Fund – Fixed at 4-1/2% regular interest rate.

b. Expense Fund – To be credited all money to pay the administrative expenses of the System.

c. Pension Accumulation Fund – To be credited with any remaining investment earnings.

NOTE C – SUMMARY OF ACCOUNTING POLICIES (continued)

4. Risk Management

   The System reports liabilities, as discussed in note G, related to certain types of losses (including torts, theft of, damage to, or destruction of assets, errors or omissions, natural disasters and injuries to employees) when it is probable that the losses have occurred and the amount of those losses can be reasonably estimated.

5. Use of Estimates

   In preparing financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

6. Reclassifications

   Certain reclassifications have been made to the 2000 financial statements to conform to the 2001 presentation.

NOTE D – DESCRIPTION OF FUNDS

Section 88-109 of the Hawaii Revised Statutes requires the establishment and maintenance of specific funds. The funds in the Pension Trust and their purposes are described hereunder:

1. Pension Accumulation Fund

   To accumulate contributions made by the State and counties, transfers of retired members' contributions plus related interest income from the Annuity Savings Fund and income from investments. All pension benefits, including the pensioners' bonus are paid through this Fund.

2. Annuity Savings Fund

   To accumulate members' contributions and related interest income. Upon a member's retirement, the accumulated contributions and related interest income are transferred to the Pension Accumulation Fund or refunded to the member upon termination.

3. Expense Fund

   To pay all the expenses necessary in connection with the administration and operation of the System. The Board estimates the amount of money necessary to be paid into the expense fund for the ensuing biennium to provide for the expense of operation of the System, and pays that amount into the expense account from the investment earnings of the System, subject to review by the legislature and approval by the Governor.

NOTE D – DESCRIPTION OF FUNDS (continued)

Net assets held in trust for pension benefits as of June 30, are as follows:

	2001	2000
Pension Accumulation Fund	$7,763,200,671	$8,984,981,324
Annuity Savings Fund	984,750,694	937,954,350
Expense Fund	13,144,724	8,836,577
Total net assets held in trust for pension benefits	$8,761,096,089	$9,931,772,251

NOTE E – CONTRIBUTIONS

The System's funding policy provides for periodic employer contributions at actuarially determined rates, expressed as a percentage of annual covered payroll, such that the employer contributions, along with employee contributions and an actuarially determined rate of investment return, are adequate to accumulate sufficient assets to pay benefits when due. The funding method used to calculate the total employer contribution required is the entry age normal actuarial cost method. Under this method, the total employer contribution is comprised of the "normal cost" plus the level annual payments required to amortize the unfunded actuarial accrued liability over the remaining period of 18 years from July 1, 1998. The employer normal cost is the level percentage of payroll contribution required to pay all benefits. Actuarial gains and losses resulting from differences between actual and assumed experience are reflected in the employer unfunded accrued liability.

Most members of the contributory plan are required to contribute 7.8% of their salary. Police officers, firefighters, investigators of the department of prosecuting attorney and the attorney general, narcotics enforcement investigators, and public safety investigators are required to contribute 12.2% of their salary.

Employer and member contributions are governed by Chapter 88 of the Hawaii Revised Statutes. The annual required employer contributions for the years ended June 30, 2001 and 2000 were determined as part of actuarial valuations dated June 30, 1998 and 1997, respectively.

As the result of a settlement agreement reached between the System and City and County of Honolulu and the County of Kauai, the parties agreed to certain mutual covenants which decreased the employers' annual contribution for the years ended June 30, 2001 and 2000.

NOTE F – CASH DEPOSITS AND INVESTMENTS

The System's policy is to invest cash in excess of operating requirements in income-producing investments. The carrying amount of the System's total deposits (including those classified as short-term investments) as of June 30, 2001 and 2000, net of a bank overdraft of $5,528,465 and $4,049,367, was $28,688,840 and $16,231,490 (which includes cash and time deposits of $3,484,795 and $7,293,904), respectively. Total bank balances of these deposits amounted to

NOTE F – CASH DEPOSITS AND INVESTMENTS (continued)

$33,331,381 and $25,585,542, respectively. Of the bank balances, $2,131,351 and $2,674,590 respectively, was covered by the Federal Deposit Insurance Corporation or by collateral held by the System or by its agent in the System's name, and $31,200,030 and $22,910,952, respectively, was uninsured and uncollateralized. The uninsured and uncollateralized balances are primarily U.S. dollar equivalents of foreign cash held for the purpose of settling transactions.

The System's investments are categorized to give an indication of the level of risk assumed at fiscal year end. The three categories of credit risk are:

- Category 1 includes investments that are insured or registered, or for which the securities are held by the System or its agent in the System's name.

- Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the System's name.

- Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty or by its trust department or agent, but not in the System's name.

The System's investments that can be categorized within these guidelines meet the criteria of category 1. A security, for purposes of classification in the above categories, is a transferable financial instrument that evidences ownership or creditor status. "Securities" do not include investments made with another party, real estate or direct investments in mortgages. Investments in mutual funds, limited partnerships, and commingled trust funds also are not considered securities for purposes of credit risk classification. Such investments are shown in the schedule on the below as "not subject to classification."

The following table summarizes the risk categories and fair values of investments held by the System as of June 30,:

	2001 (in thousands)		2000 (in thousands)	
	Category 1	Fair value	Category 1	Fair value
Short-term securities:				
Bankers' acceptance	$ 2,885	$ 2,885	$ –	$ –
U.S. Treasury issues	297	297	–	–
Commercial paper	–	–	3,791	3,791
	3,182	3,182	3,791	3,791
Equity securities:				
Common stock				
Not on securities loan	3,152,112	3,152,112	4,180,583	4,180,583
On securities loan for noncash collateral	2,646	2,646	33,282	33,282
Depository receipts, preferred stock and other				
Not on securities loan	37,258	37,258	114,961	114,961
On securities loan for noncash collateral	–	–	2,917	2,917
	3,192,016	3,192,016	4,331,743	4,331,743
Subtotal categorized investments carried forward	$3,195,198	$3,195,198	$ 4,335,534	$ 4,335,534

NOTE F – CASH DEPOSITS AND INVESTMENTS (continued)

	2001 (in thousands)		2000 (in thousands)	
	Category 1	Fair value	Category 1	Fair value
Subtotal categorized investments brought forward	$3,195,198	$3,195,198	$ 4,335,534	$ 4,335,534
Fixed income securities:				
Mortgage-backed securities				
Not on securities loan	1,137,229	1,137,229	970,850	970,850
On securities loan for noncash collateral	9,244	9,244	45	45
U.S. Government bonds				
Not on securities loan	61,660	61,660	93,920	93,920
On securities loan for noncash collateral	16,381	16,381	83,575	83,575
Foreign bonds				
Not on securities loan	666,331	666,331	567,936	567,936
U.S. corporate bonds				
Not on securities loan	537,348	537,348	520,482	520,482
On securities loan for noncash collateral	–	–	2,705	2,705
Asset backed securities	143,036	143,036	169,805	169,805
	2,571,229	2,571,229	2,409,318	2,409,318
Total categorized investments	$5,766,427	$5,766,427	$6,744,852	$ 6,744,852
Investments not subject to categorization:				
Investments held by broker dealers under securities loans for cash collateral:				
Equity securities:				
Common stock		500,998		366,150
Depository receipts, preferred stock and other		24,306		34,506
Fixed income securities:				
Mortgage-backed securities		49,782		17,201
U.S. Government bonds		180,643		212,344
Foreign bonds		12,863		19,358
U.S. corporate bonds		32,874		12,243
Asset backed securities		–		659
Mutual funds, commingled funds, and others				
Short-term securities		282,276		438,651
Equity securities		196,855		218,254
Fixed income securities		–		31,166
Index funds		1,300,224		1,425,957
Real estate investments		516,254		443,396
Real estate mortgages		101,440		110,353
Real estate owned		59,506		56,500
Alternative investments		253,643		199,257
		3,511,664		3,585,995
Total investments		$9,278,091		$10,330,847

NOTE F – CASH DEPOSITS AND INVESTMENTS (continued)

Reconciliation to investments on combining statements of plan net assets:

	2001 (in thousands)	2000 (in thousands)
Total investments	$9,278,091	$10,330,847
Less short-term securities		
Bankers' acceptance	(2,885)	–
U.S. Treasury issues	(297)	–
Commercial paper	–	(3,791)
Pooled funds and other	(282,276)	(438,651)
Less investments on securities loans that were sold and pending settlement; included in investment sales proceeds receivable		
U.S. Government bonds	–	(12,926)
Common stock	(2,780)	(1,400)
Investments on combining statements of plan net assets	$8,989,853	$ 9,874,079

Short-term securities and part of the pooled funds and other are reported as short-term investments in the accompanying combining statements of plan net assets.

The following manager held investments at fair value in excess of 5% of the System's net asset held in trust for pension benefits as of June 30,:

	2001	2000
Mellon Enhanced Equity Index Fund	$963,065,909	$1,051,606,206

1. Derivative Investments

The System enters into various derivative investment contracts to hedge, reduce costs and enhance liquidity. As with any investment, derivative contracts are subject to various types of credit and market risks. Notably, these would include the possible inability of a counterparty to meet the terms of the contract, changes in the market value of the underlying collateral, or changes in the interest rate environment. Certain of the System's investments in derivative securities and contracts and their associated credit and market risks are described as follows:

Forward Currency Exchange Contracts

The System enters into various forward currency exchange contracts to manage exposure to changes in foreign currency exchange rates and to facilitate the settlement of foreign security transactions. A forward contract is an agreement to buy or sell a specific amount of

NOTE F – CASH DEPOSITS AND INVESTMENTS (continued)

1. Derivative Investments (continued)

Forward Currency Exchange Contracts (continued)

currency at a specific delivery or maturity date for an agreed-upon price. Risks associated with such contracts include movements in the value of the foreign currency relative to the U.S. dollar and the ability of the counterparty to perform in accordance with the terms of the contract. Changes in the market value of open and closed forward contracts are recorded as net appreciation in fair value of investments in the statement of changes in plan net assets. The fair value of forward currency exchange contracts outstanding at June 30, is as follows:

	2001	2000
Forward currency purchases	$1,159,461,046	$1,048,893,579
Forward currency sales	1,159,283,302	1,057,285,367
Unrealized gains (losses)	$ 177,744	$ (8,391,788)

Mortgage-Backed Securities

As of June 30, 2001 and 2000, the fair value of mortgage-backed securities issued or backed by the U.S. government or its agencies, or corporate issues rated AAA by at least one of the major rating agencies was $1,196,254,560 and $988,753,888, respectively. A mortgage-backed security depends on the underlying pool of mortgage loans to provide the cash flow to make principal and interest payments on the security. Therefore, they are sensitive to prepayments by mortgagees, which may result from a decline in interest rates. For example, if interest rates decline and homeowners refinance mortgages, thereby pre-paying the mortgages underlying these securities, the cash flows from interest payments are reduced and the value of these securities declines. Conversely, if homeowners pay on mortgages longer than anticipated, the cash flows are greater and the return on the investment would be higher than anticipated. A collateralized mortgage obligation (CMO) is a mortgage-backed security that is comprised of classes of bonds created by prioritizing the cash flows of the underlying mortgage pool. As of June 30, 2001 and 2000, the fair value of CMO securities was $211,380,116 and $204,632,433, respectively.

2. Securities Lending

The System participated in a securities lending program administered by its bank custodian. Under this program, which is permissible under Chapter 88 of the Hawaii Revised Statutes, certain equity and fixed income securities of the System were lent to participating broker-dealers and banks (borrowers). In return, the System received cash, securities issued or guaranteed by the U.S. government and/or letters of credit as collateral. The System did not have the ability to pledge or sell collateral securities absent of borrower default. Borrowers were required to deliver collateral for each loan equal to: (a) in the case of loaned securities

NOTE F – CASH DEPOSITS AND INVESTMENTS (continued)

2. Securities Lending (continued)

denominated in U.S. dollars or whose primary trading market was located in the U.S., 102% of the market value of the loaned securities; and (b) in the case of loaned securities not denominated in U.S. dollars or whose primary trading market was not located in the U.S., 105% of the market value of the loaned securities. The collateral was marked to market daily. If the market value of the collateral fell below the minimum collateral requirements, additional collateral was provided. Securities on loan for cash collateral are presented as unclassified in the preceding schedule of custodial credit risk; securities on loan for securities collateral are classified according to the underlying security. At June 30, 2001 and 2000, the System had no credit risk exposure to borrowers because the market value of collateral held by the System exceeded the market value of securities loaned. As of June 30, 2001 and 2000, the market value of securities loaned amounted to approximately $832,516,328 and $784,984,395, respectively, and the associated collateral amounted to approximately $853,662,964 and $809,794,415, respectively. In addition, the bank custodians indemnified the System by agreeing to purchase replacement securities or return cash collateral in the event the borrower failed to return the loaned security or pay distributions.

The System did not impose any restrictions on the amount of loans the bank custodian made on behalf of the System. Also, the System and the borrowers maintained the right to terminate securities lending transactions on demand. As such, the maturities of the investments made with cash collateral generally did not match the maturities of the securities loans. The extent of such mismatch as of June 30, 2001 and 2000 was 48 and 42 days, respectively.

3. Foreign Investments

The fair value of the System's investments in foreign equity and fixed income securities as of June 30, is as follows:

	2001	2000
Foreign equity securities	$1,093,633,950	$1,679,302,120
Foreign fixed income securities	679,194,539	587,294,504
	$1,772,828,489	$2,266,596,624

NOTE G – RISK MANAGEMENT

The System is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors or omissions; natural disasters; and injuries to employees. As required by state law, the System participates in coverage with the State of Hawaii. The State retains various risks and insures certain excess layers with commercial insurance policies. The excess layers are consistent with the prior fiscal year. Settled claims for the State have not exceeded the coverage provided by

NOTE G – RISK MANAGEMENT (continued)

commercial insurance policies in any of the three fiscal years prior to June 30, 2001. Losses not covered by insurance are generally paid from legislative appropriations.

1. <u>Torts</u>

   The System is involved in various litigation and claims, including claims regarding retirement benefits, the outcome of which cannot be presently determined, and as discussed in note I. In the opinion of management, the outcome of these actions will not have a material adverse effect on the System's financial position.

2. <u>Property and Liability Insurance</u>

   The System also purchased property and liability insurance for all real estate owned from outside carriers. During the past three fiscal years, no loss settlements exceeded insurance coverages.

3. <u>Workers' Compensation Policy</u>

   The State has a self-insured workers' compensation policy. Workers' compensation claims are paid from legislative appropriations.

NOTE H – COMMITMENTS

In the normal course of business, the System enters into commitments with associated risks. The System adheres to the same credit policies, financial and administrative controls and risk limiting and monitoring procedures for these commitments as for all investments.

The System has future financial commitments of up to an additional $203,475,500 in real estate, alternative investments and domestic equity investments as of June 30, 2001.

NOTE I – CONTINGENCIES

In 1998, the State of Hawaii Supreme Court ruled against the System in a class action suit filed by the retired public school principals, vice principals and teachers whose retirement benefits were calculated using the "High 3" method of computing average final compensation. Under the terms of the court order, the System was required to recalculate monthly retirement benefits for all members of the class who are (a) school principals and vice principals collecting a retirement benefit in 1984, (b) teachers collecting a retirement benefit in 1988, and (c) members of these groups who have since retired. Management estimated the total liability for the retroactive benefits to be approximately $4,438,000 covering the 4,814 class members identified. The System made the initial retroactive benefit payments to 4,110 members of this class as of June 30, 1999, and substantially completed payments to identified class members during the fiscal year ended June 30, 2000. The teachers filed an appeal and were awarded additional moneys as "interest" on the underpayments amounting to approximately $1,000,000 in October 2000 by the State of Hawaii First Circuit Court. The System has filed an appeal of the First Circuit Court's decision to the Hawaii Supreme Court.

NOTE I – CONTINGENCIES (continued)

A borrower is in continued default on a commercial real estate loan with the System amounting to $76,909,500, including principal and accrued interest receivable, as of June 30, 2001. (The foregoing does not include the System's claim for default interest, late charges, and legal costs.) The System filed a complaint to foreclose on a mortgage that secures this loan on August 24, 2000. The estimated fair value of this property amounts to $60,000,000. The System and the borrower, however, agreed to a Standstill Agreement on September 26, 2000, based upon certain conditions deferring prosecution of the complaint while the parties attempt to reach consensual resolution. During the fiscal year ended June 30, 2001, the borrower made interest payments in accordance with the Standstill Agreement. Although the formal Standstill Agreement expired on October 31, 2001, the borrower has continued to make payments as required in connection with the Standstill Agreement. Management is unable to comment on the likelihood of any particular outcome at this time.

NOTE J – DEFERRED COMPENSATION PLAN

The System does not sponsor a deferred compensation program. System employees are eligible to participate in the deferred compensation plan sponsored by the State of Hawaii. The State sponsored plan was created in accordance with Internal Revenue Code Section 457. The plan, available to all System employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to the employees until termination, retirement, death, or an unforeseeable emergency. All compensation deferred under the plan is held by a custodian for the exclusive benefit of participants and beneficiaries.

NOTE K – FIXED ASSETS

Fixed assets used in the operations are reported in statement of plan net assets at historical cost, net of accumulated depreciation. These assets are depreciated on a straight-line basis over an average useful life of three years, with no salvage value. Accumulated depreciation on equipment as of June 30, 2001 and 2000 was $769,878 and $207,487, respectively.

REQUIRED SUPPLEMENTARY INFORMATION

REQUIRED SUPPLEMENTARY INFORMATION

June 30, 2001, 2000, 1999, 1998 and 1997

SCHEDULES OF FUNDING PROGRESS
(in thousands)

Actuarial valuation date	Actuarial value of assets (1)	Actuarial accrued liability (AAL) (2)*	Unfunded AAL (3)*= (2)-(1)	Funded Ratio (4)=(1)/(2)	Covered payroll (5)	UAAL as a percentage of covered payroll (6)=(3)/(5)
June 30, 2001	$9,515,957	$10,506,913	$990,956	90.6%	$2,444,200	40.5%
June 30, 2000	$9,204,707	$9,748,033	$543,316	94.4%	$2,275,298	23.9%
June 30, 1999	$8,590,807	$9,181,730	$590,923	93.6%	$2,186,499	27.0%
June 30, 1998	$7,906,216	$8,492,013	$585,797	93.1%	$2,135,945	27.4%
June 30, 1997	$7,268,504	$8,001,855	$733,351	90.8%	$2,019,268	36.3%

*Note: Items (2) and (3) include the unfunded liabilities related to the Early Incentive Retirement Program retirees who retired on December 31, 1994 and June 30, 1995 amounting to $75,173,210, $77,736,700, $80,110,400, $82,308,100, and $54,343,400 as of June 30, 2001, 2000, 1999, 1998, and 1997, respectively.

In June 2000, June 1999 and July 1998, the Legislature of the State of Hawaii enacted Acts 216, 100 and 151, respectively, which amends Sections 88-107 and 88-122 of the Hawaii Revised Statutes related to assumptions used in determining the actuarial valuation. The amounts as of June 30, 1999, 1998 and 1997 have been revised to be in compliance with these Acts and a related lawsuit settlement agreement (note E).

SCHEDULES OF EMPLOYER CONTRIBUTION
(in thousands)

Year ended June 30,	Annual required contribution	Actual contribution	Percentage contributed
2001	$164,397	$ 8,132	4.9%
2000	$172,255	$ 22,392	13.0%
1999	$185,387	$154,470	83.3%
1998	$307,680	$310,627	101.0%
1997	$323,188	$322,121	99.7%

In accordance with the parameters of Governmental Accounting Standards Board Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, years previous to 1997 are not shown because such information is not available.

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

June 30, 2001

The information presented in the required supplementary schedules was determined as part of the annual actuarial valuation. Additional information as of the latest actuarial valuation follows.

Valuation date	June 30, 2001
Actuarial cost method	Entry age normal
Amortization method	Level dollar, closed
Remaining amortization period (years)	15
Asset valuation method	4-year smoothed market
Actuarial assumptions:	
Investment rate of return (set by statute)*	8.0%
Projected salary increases (set by statute)*	4.0%
*Includes inflation at 4.0%	
Cost of living adjustments	2-1/2% (not compounded)

In 2001, the Legislature of the State of Hawaii approved a bill changing the projected salary increase rate to 4.0%. In prior years, projected salary increases were based on actual salary growth during the most recent three years for general employees, teachers, and for police, fire, and corrections.

The annual required contribution for the year ended June 30, 2001 was determined as part of an actuarial valuation dated June 30, 1998 that is consistent with the current actuarial valuation.

SUPPLEMENTARY INFORMATION

CHANGES IN NET ASSETS HELD IN TRUST FOR PENSION BENEFITS

Year ended June 30,

	2001			
	Pension Accumulation Fund	Annuity Savings Fund	Expense Fund	Total (memorandum only)
Additions				
Appropriations and contributions:				
Employers	$ 8,131,900	$ –	$ –	$ 8,131,900
Members	–	54,489,895	–	54,489,895
Net investment (loss) income	(679,605,059)	–	–	(679,605,059)
Total additions	(671,473,159)	54,489,895	–	(616,983,2640
Deductions				
Benefit payments	503,277,496	–	–	503,277,496
Refund option payments	41,629,313	–	–	41,629,313
Refunds of member contributions	–	3,892,377	–	3,892,377
Administrative expenses	–	–	4,893,712	4,893,712
Total deductions	544,906,809	3,892,377	4,893,712	553,692,898
Other changes in net assets held in trust for pension benefits:				
Transfer due to retirement of members	42,260,462	(42,260,462)	–	–
Transfer of interest allocation	(38,459,288)	38,459,288	–	–
Transfer to pay administrative expenses	(9,359,862)	–	9,359,862	–
Return of unrequired funds due to savings in administrative expenses	158,003	–	(158,003)	–
	(5,400,685)	(3,801,174)	9,201,859	–
NET (DECREASE) INCREASE	(1,221,780,653)	46,796,344	4,308,147	(1,170,676,162)
Net assets held in trust for pension benefits:				
Beginning of year	8,984,981,324	937,954,350	8,836,577	9,931,772,251
End of year	$7,763,200,671	$984,750,694	$13,144,724	$8,761,096,089

2000			
Pension Accumulation Fund	Annuity Savings Fund	Expense Fund	Total (memorandum only)
$ 22,392,100	$ –	$ –	$ 22,392,100
–	57,358,185	–	57,358,185
695,151,054	–	–	695,151,054
717,543,154	57,358,185	–	774,901,339
471,243,914	–	–	471,243,914
43,157,307	–	–	43,157,307
–	4,318,654	–	4,318,654
–	–	4,168,717	4,168,717
514,401,221	4,318,654	4,168,717	522,888,592
55,661,695	(55,661,695)	–	–
(38,380,293)	38,380,293	–	–
(11,600,210)	–	11,600,210	–
–	–	–	–
5,681,192	(17,281,402)	11,600,210	–
208,823,125	35,758,129	7,431,493	252,012,747
8,776,158,199	902,196,221	1,405,084	9,679,759,504
$8,984,981,324	$937,954,350	$8,836,577	$9,931,772,251

SOCIAL SECURITY CONTRIBUTION FUND
STATEMENTS OF CHANGES IN ASSETS AND LIABILITIES

Year ended June 30,

	2001				2000		
ASSETS	Beginning balance	Additions	Deductions	Ending balance	Beginning balance	Additions	Deductions
Cash	$ 592,263	$ 138,795,316	$ 138,943,518	$ 444,061	$ 654,964	$ 151,187,975	$ 151,250,676
Short-term investments	8,385,470	9,302,265	2,547,533	15,140,202	8,885,993	6,934,606	7,435,129
Employer appropriations receivable	5,065,862	133,851,517	136,153,617	2,763,762	7,968,689	133,432,918	136,335,745
Total assets	$ 14,043,595	$ 281,949,098	$ 277,644,668	$ 18,348,025	$ 17,509,646	$ 291,555,499	$ 295,021,550
LIABILITIES							
Payable to							
Internal Revenue Service	$ 5,531,642	$ 130,225,448	$ 130,221,559	$ 5,535,531	$ 8,615,297	$ 134,162,292	$ 137,245,947
Due to employers	8,511,953	134,526,856	130,226,315	12,812,494	8,894,349	133,780,431	134,162,827
Total liabilities	$ 14,043,595	$ 264,752,304	$ 260,447,874	$ 18,348,025	$ 17,509,646	$ 267,942,723	$ 271,408,774

ADMINISTRATIVE EXPENSES

Year ended June 30,

	2001	2000
Personnel services		
Salaries and wages	$2,381,084	$2,096,540
Fringe benefits	417,982	499,546
Total personnel services	2,799,066	2,596,086
Professional services		
Actuarial	175,670	61,150
Auditing and tax consulting	111,202	111,004
Medical	130,347	118,593
Disability hearing expenses	15,578	5,285
Legal services	198,880	233,144
Total professional services	631,677	529,176
Communication		
Printing and binding	17,275	22,130
Telephone	20,507	15,684
Postage	103,819	161,088
Travel	18,833	13,439
Total communication	160,434	212,341
Rentals		
Rental of equipment	15,210	7,657
Rental of premises	7,230	7,182
Total rentals	22,440	14,839
Other		
Repairs and maintenance	77,749	92,808
Stationery and office supplies	33,443	58,145
Equipment	15,560	4,954
Computer and office automation systems	614,627	332,015
Microfilm	12,304	9,057
Armored car service	5,881	5,777
Miscellaneous	(41,861)	108,046
Total other	717,703	610,802
Depreciation	562,392	205,473
	$4,893,712	$4,168,717

INVESTMENT EXPENSES

Year ended June 30,

	2001	2000
Investment expenses		
Investment manager/advisor fees	$24,880,471	$26,479,004
Bank custodian fees	215,090	210,991
Other investment expenses	71,654	82,659
Total investment expenses	25,167,215	26,772,654
Securities lending expenses		
Borrower rebates	41,401,405	24,309,482
Management fees	833,326	567,023
Total securities lending expenses	42,234,731	24,876,505
	$67,401,946	$51,649,159

EMPLOYEES' RETIREMENT SYSTEM OF THE STATE OF HAWAII

INVESTMENT SECTION

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BENJAMIN J. CAYETANO
GOVENOR

STATE OF HAWAII
EMPLOYEES' RETIREMENT SYSTEM

December 19, 2001

Dear Members:

This is my first report to you since joining the Employees' Retirement System of the State of Hawaii in September 2000 and it is my honor to present this year's investment section of the ERS's Comprehensive Annual Financial Report. The following are a few highlights of the past fiscal year:

- As of June 30, 2001, ERS was one of the 150 largest defined benefit plans in the US with total assets of just under $8.9 billion.
- The fund returned –6.68% for the fiscal year 2001, outperforming the benchmark return of –8.81% by 213 basis points.
- The ERS completed implementation of the most recent asset allocation targets as set by the Board of Trustees.
- Staff initiated a search for a master global custodian to service the investment portfolio of the ERS.

Fiscal year 2001 saw an end to the longest US economic expansion since World War II. In fact, the National Bureau of Economic Research (NBER) declared that the US entered into a recession in March 2001. Consensus predictions had been for a recovery beginning early in the year 2002, however, these predictions were made prior to September 11. The events of September 11 helped trigger the first synchronized global slowdown in nearly 20 years. The US has responded by providing monetary and fiscal stimuli that are designed to help the economy recover in 2002. It is likely that a US recovery will be necessary to act as the catalyst that fuels a global recovery.

City Financial Tower
201 Merchant Street, Suite 1400 • Honolulu, Hawaii 96813-2980
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Without a doubt, the decade of the 1990s was one of the best in history for investors. During the decade, the S&P500 averaged about a 19% annual return. However, over the last 75 years, the S&P long-term annual return has only averaged about 11%. So if we assume that the market averages will revert back to the norm of the last 75 years, we would expect that the annual returns for the current decade would probably underperform the long-term average of 11%. The first two years of this decade have proven to be very disappointing for equity investors and it appears that, based on history and the reversion to the mean, the double digit returns of the 1990s will not return anytime soon.

During periods of extreme moves, such as this, it is important to keep the situation in proper perspective. Our reaction today should be based upon a few guiding principles that we adhere to throughout the different stages of the investment cycle.

- Diversify among asset classes that do not perform similarly at the same time. Diversification among asset classes, including investment size and style, should dampen overall portfolio volatility and improve performance over the long run. ERS has a diversified investment portfolio that ranges from conventional stock and bond investments to real estate and venture capital.
- Design and implement a procedure to systematically rebalance the portfolio back to target allocations. It seems against human nature to "sell the good ones" and "buy the bad ones." However, by systematically selling better performing assets and using the proceeds to buy more of the underperforming assets you are "selling high and buying low."
- Investing is a process and the ERS has a long time horizon. The ERS investment portfolio is not designed for excitement. We have developed a sophisticated, yet simple, strategy to invest the assets of our members and provide for their retirement benefits. As with any strategy, if you stick with it, there will be periods of underperformance in the short-term, however, given the long time horizon of the ERS we are not overly concerned about these short-term periods.

We will continue to manage the assets of ERS in a prudent fashion, seeking reasonable market rates of return while attempting to avoid unreasonable risk. With a clear focus on our vision and goals the ERS will continue to be a participant in the long-term success of the economy and market. I look forward to the opportunities and challenges that the future holds.

Aloha pumehana,

Kimo Blaisdell

Kimo Blaisdell
Chief Investment Officer

CALLAN ASSOCIATES INC

December 18, 2001

San Francisco
New Jersey
Chicago
Atlanta
Denver

Board of Trustees
State of Hawaii Employees' Retirement System
City Financial Tower
201 Merchant Street, Suite 1400
Honolulu, HI 96813-2980

Dear Trustees:

Enclosed is our report on investment activity for the Hawaii Employees' Retirement System for periods ended June 30, 2001, as requested by the Government Financial Officers' Association (GFOA).

Hawaii ERS-Total Fund Performance

The total assets of the Retirement System were just under $8.9 billion as of June 30, 2001, a decrease of roughly $1 billion for the fiscal year. The investment return for the total fund expressed as a time-weighted total rate of return was –6.68% for the 2001 fiscal year, compared to the benchmark's return of –8.81%. For the three-year period ending June 30, 2001 the total fund gained 3.43% per annum versus the benchmark's 3.71%, and for the trailing five-year period the total fund posted a return of 8.80% per annum versus the benchmark's 9.22%. The difference in actual returns vs. the benchmark over the longer time periods is largely attributable to domestic equity performance.

Asset Class Performance

Domestic equity returned –10.11% for the fiscal year, outperforming the S&P 500 Index's –14.83% and underperforming the Callan Domestic Equity Database median of –4.74%%. Domestic fixed-income gained 11.26% for the year, beating the Lehman Brothers Aggregate return of 11.22% and the Callan Fixed-Income Database median return of 11.02%. International equity returned –23.27% for the 2001 fiscal year versus the MSCI EAFE Index return of –23.60%, whereas international fixed-income fell –4.34% versus the Salomon Non-US Government Bond Index loss of –7.43%. Real Estate gained 7.64% for the year ending June 30, 2001 versus the Callan Total Real Estate Funds' gain of 10.49%. Alternative investments were a positive contributor to performance, returning over 7% for the fiscal year.

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State of Hawaii Employees' Retirement System
December 18, 2001
Page 2

Market Conditions

The fiscal year began amidst signs of a slowing economy. After growing 5.6% in the second quarter of 2000, the economy's real growth rate fell to 2.2% the following quarter (the first of the fiscal year). Unfortunately, this marked a trend and not a one-time dip; each quarter's growth rate proceeded to be lower than the prior quarter's rate. For the year ending June 30, 2001, the economy grew at a real rate of only 1.2%.

From January until June of 2001, the Fed cut the federal funds target rate by 275 basis points, from 6.5% to 3.75%. As the economy worsened, so did many economic statistics; unemployment increased, manufacturing capacity fell, consumer confidence dropped, and productivity decreased. Inflation, as measured by the Consumer Price Index, rose 3.2% for the fiscal year.

The fall in domestic equities that began in the second quarter of 2000 continued for the first nine months of the fiscal year. A strong performance in the second quarter of 2001, however, did not prevent the broad market from posting negative double-digit returns for the year ended June 30, 2001. In a reversal of previous years, growth stocks severely under-performed value stocks. Small cap stocks tended to out-perform large cap stocks, but size was less of an issue than style during the year.

Unlike equities, the domestic bond market benefited from the U.S. economic slowdown in the fiscal year. Due to the lack of a serious inflation threat, Federal Reserve interest rate cuts, and poor performance in the equity markets, the domestic fixed income market generated double-digit returns for the year ended June 30, 2001. Within the investment-grade class, corporate bonds out-performed government bonds, including Treasuries.

The solid performance delivered by international equities in the prior fiscal year did not carry-over into the year ended June 30, 2001. International equities were harmed by the slowdown in the U.S. economy and the continued strength of the dollar during the fiscal year. Despite a favorable economic backdrop for international fixed income markets, the continued strength of the dollar led to negative market returns for the fiscal year.

We are experiencing continued market volatility in fiscal year 2001 as the events of September 11th have had a large effect on the world's economy and capital markets. Through ongoing manager structure review and an asset/liability study planed for early 2002, the Board continues to position the Retirement System for competitive performance consistent with its objectives.

Callan Associates Inc.

Callan Associates Inc.

Report on Investment Activity for State of Hawaii Employees' Retirement System

Prepared by Callan Associates Inc.
December 2001

Outline of Investment Policies

The primary goal of the Plan is the preservation of capital. The Board of Trustees seeks preservation of capital with a consistent, positive return for the Fund. Although pure speculation is to be avoided, the Board appreciates the fact that an above average return is associated with a certain degree of risk. Risk to be assumed must be considered appropriate for the return anticipated and consistent with the total diversification of the Fund.

Expected Annualized Return and Risk

Based on 1999 capital market projections for 5 years, the target allocation[1] is expected to achieve an average annualized return of 8.5% (5.5% real return with expected inflation of 3.0%). The annual nominal return is expected to fall within a range of -3.5% and 20.5% two-thirds of the time.

Long-range Asset Allocation Target

The ERS only invests in the following asset classes:

	Lower Limit	**Strategic Allocation[1]**	Upper Limit
Domestic Equity	30%	**32%**	34%
Small/Mid Cap Equity	7%	**9%**	11%
International Equity	15%	**17%**	19%
Domestic Fixed-Income	19%	**21%**	23%
International Fixed Income	5%	**7%**	9%
Mortgages	NA	**0%** ***	NA
Equity Real Estate	0%	**9%** *	9%
Alternative Investments	0%	**5%** **	5%

* The real estate target will be the percentage actually invested up to 9% of the total fund. Changes in real estate target will be offset by an equal percentage change in the large cap domestic equity target.

** The alternatives target will be the percentage actually invested up to 5% of the total fund. Changes in the alternatives target will be offset by an equal percentage change in the large cap domestic equity target.

** The mortgage target will be the percentage of the total fund actually invested. Changes in the mortgage target will be offset by an equal change in the domestic bond target.

[1] The strategic asset allocation was revised by the Board effective July 1, 2000.

Adjustments in the above targets take place annually in conjunction with the annual asset allocation review. The target is evaluated on the basis of assets designated to each asset class by the Board, rather than on a current invested position. The target is to be pursued primarily by cash flow on a long-term basis and be revised if significant changes occur within the economic and/or capital market environment according to the rebalancing guidelines. The target is to be reviewed annually for reasonableness relative to significant economic and market changes. A formal asset allocation/liability study should be conducted at least every three years to verify or amend the targets. The last formal asset allocation/liability study was completed in the first half of 1999 and the Board approved a new strategic asset allocation/liability target implemented as of July 1, 1999. The target was again reviewed and revised effective July 1, 2000. A full asset/liability study will take place in early 2002.

Portfolio Evaluation Benchmark

To monitor the total fund result, a special target index was constructed to measure the target mix effective July 1, 1999[2]. This serves as a minimum performance objective for the Fund. The target index objective is included in all quarterly evaluation reports of the ERS. The composition of the index as of June 30, 2001 is:

- 36% of the Standard & Poor's 500 Stock Index
- 9% of the Callan Associates Medium/Small Cap Index
- 17% of the Morgan Stanley Capital International EAFE Index
- 21% of the Lehman Brothers Aggregate Bond Index
- 7% of the Salomon Brothers' Non-U.S. World Government Bond Index
- 7% of the median return of the Callan Associates Real Estate database
- 3% of the Post Venture Cap Index

Individual investment managers are not to be measured against this total fund objective. However, it is expected that the sum of their efforts exceeds the objective over time.

Manager Evaluation

Individual domestic and international equity and bond managers are measured against relevant indexes and their respective peer groups of managers. Market indexes and peer group benchmarks are assigned to each Manager and are intended as a guide for the investment manager to understand the risk/reward posture of their portfolio. Real Estate managers are measured against the median performance of the Callan Associates Real Estate database. Managers have full discretion to manage the risk posture of their portfolios relative to their designated market index and may, with conviction and appropriate expertise, execute security strategies not reflected by their market index as long as they conform to the investment guidelines and the laws of the State of Hawaii.

[2] This target index was revised by the Board effective September 30, 2001.

Investment Practices

The full Investment Policy Statement describes in detail acceptable investment practices, manager reporting requirements, manager performance guidelines, the distribution of brokerage commissions, and securities lending guidelines. The IPS was revised in March 2001.

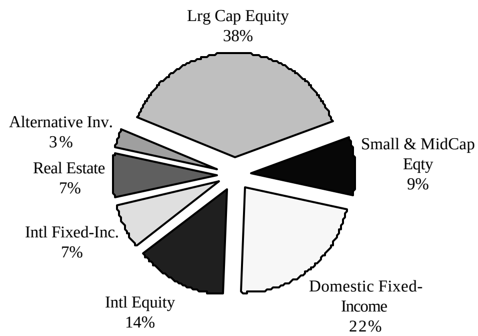
All rates of return are calculated using methodologies that are generally accepted by the Association for Investment Management and Research (AIMR). All domestic equity manager returns are daily, time-weighted rates of return based on custodial data. International equity, domestic fixed-income, and global fixed-income returns are monthly, time-weighted returns. Real estate returns are calculated using statements received directly from the manager. This ensures that the performance is based on accurate cash flows and appraisal values.

Investment Results

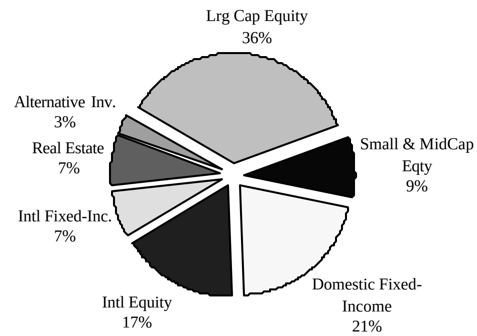
	Year Ended June 30,					Three Years Ended	Five Years Ended
	2001	2000	1999	1998	1997	6/2001	6/2001
Domestic Equity	**(10.11%)**	**2.26%**	**15.98%**	**28.62%**	**30.27%**	**2.16%**	**12.30%**
Standard & Poor's 500	(14.83%)	7.24%	22.76%	30.16%	34.70%	3.89%	14.48%
Total Domestic Equity DB	(4.74%)	11.74%	14.80%	25.18%	28.52%	7.10%	14.96%
Domestic Fixed w Mortgage	**11.18%**	**4.94%**	**3.26%**	**10.73%**	**8.45%**	**6.41%**	**7.67%**
Domestic Fixed w/o Mortgages	11.26%	4.81%	3.26%	10.73%	8.45%	6.39%	7.66%
Aggregate Index	11.22%	4.57%	3.15%	10.54%	8.15%	6.25%	7.48%
CAI Fixed-Income DB	11.02%	4.57%	3.52%	10.01%	8.00%	6.31%	7.40%
International Equity	**(23.27%)**	**23.31%**	**13.80%**	**(2.14%)**	**18.06%**	**2.49%**	**4.46%**
MSCI EAFE Index	(23.60%)	17.15%	7.62%	6.10%	12.84%	(1.24%)	2.89%
CAI Non-U.S. Equity DB	(23.36%)	23.92%	7.70%	6.57%	15.85%	3.19%	6.22%
International Fixed-Income	**(4.34%)**	**0.96%**	**1.12%**	**2.04%**	**5.80%**	**(0.79%)**	**1.06%**
Non-U.S. Govt Bond Idx	(7.43%)	2.42%	4.87%	0.89%	2.16%	(0.19%)	0.49%
CAI Non-U.S. Fixed DB	(6.18%)	1.36%	5.03%	3.47%	5.64%	(0.43%)	1.46%
Real Estate	**7.64%**	**9.93%**	**4.74%**	**17.92%**	**4.92%**	**7.41%**	**8.92%**
NCREIF Classic Index	11.65%	12.60%	13.78%	18.20%	11.50%	12.68%	13.52%
CAI Real Estate Funds	10.49%	9.14%	10.42%	15.57%	9.65%	9.92%	10.28%
Alternative Investments	**7.68%**	**44.34%**	**(10.74%)**	**-**	**-**	**11.53%**	**-**
Post Venture Cap Index	(48.23%)	40.35%	48.85%	29.23%	0.24%	2.65%	6.98%
Mortgages	**8.56%**	**9.18%**	**9.61%**	**8.60%**	**9.15%**	**9.12%**	**9.02%**
Lehman Mortgages Index	11.29%	5.02%	4.02%	8.94%	9.11%	6.73%	7.64%
Total Fund	**(6.68%)**	**7.38%**	**10.41%**	**16.04%**	**18.78%**	**3.43%**	**8.80%**
Composite Benchmark	(8.81%)	8.85%	12.38%	17.11%	18.96%	3.71%	9.22%

Asset Allocation as of June 30, 2001

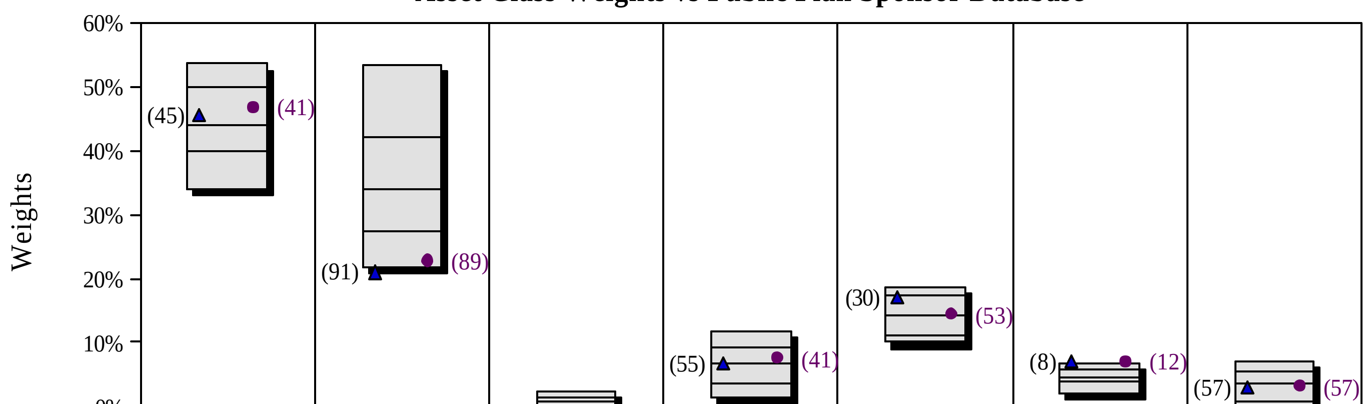
Actual Asset Allocation



Target Asset Allocation



Asset Class Weights vs Public Plan Sponsor Database



	Domestic Equity	Domestic Fixed-Income	Short Term/Cash	Real Estate	Intl Equity	Intl. Fixed-Inc.	Alternative Inv.
10th Percentile	53.56	53.40	2.42	11.65	18.59	6.80	7.04
25th Percentile	49.99	42.09	1.24	9.34	17.37	5.69	5.55
Median	44.06	34.07	0.62	6.80	14.23	4.60	3.56
75th Percentile	39.83	27.30	0.15	3.65	11.18	3.90	0.72
90th Percentile	33.94	21.66	0.03	1.46	10.01	2.14	0.14
Fund ●	46.50	22.47	-	7.29	14.15	6.72	2.87
Target ▲	45.50	21.00	-	6.60	17.00	7.00	2.90

The Target Benchmark as of June 30, 2001 was 36% S&P 500, 9% Callan Medium and Small Cap Index, 21% Lehman Aggregate, 7% Callan Real Estate Funds, 3% Post Venture Capital Index, 17% MSCI EAFE Index and 7% Salomon Brothers Non-US Gov't Bond Index. Monies to be allocated to long-term real estate are considered to be "parked" in domestic equities until drawn down.

INVESTMENT PROFESSIONALS

CUSTODIAL BANK
Bankers Trust Company

INVESTMENT ADVISOR
Callan Associates Inc.

INVESTMENT MANAGERS

U.S. EQUITIES
- Alliance Capital Management Corporation
- Barrow, Hanley, Mewhinney & Strauss, Inc.
- Bidwell & Riddle Investment Advisory
- Bishop Street Capital Management
- Delaware Investment Advisers, LLC
- Denver Investment Advisors, LLC
- Independence Investment Associates, Inc.
- Mellon Capital Management Corporation
- Oppenheimer Capital Corporation
- Pacific Century Trust
- Prudential Investments / Jennison Associates
- Putnam Investments
- TCW Asset Management Co.
- T. Rowe Price
- 3 Bridge Capital

REAL ESTATE
- Allegis Realty Investors, LLC
- Clarion Partners
- C.B. Richard Ellis Investors, LLC
- Heitman Real Estate Services Group
- Invesco Realty Advisors
- John Hancock Real Estate Investment Group
- PM Realty Group

INTERNATIONAL EQUITIES
- Bank of Ireland Asset Management (U.S.) Ltd.
- Capital International, Inc.
- Daiwa SB Investments (USA) Ltd.
- Nomura Asset Management U.S.A., Inc.
- Schroder Investment Management North America, Inc.
- State Street Global Advisors

U.S. FIXED INCOME
- Bradford and Marzec, Inc.
- CIC/HCM Capital Management, Inc.
- Pacific Income Advisers, Inc.
- Pacific Investment Management Company

ALTERNATIVE INVESTMENTS
- Abbott Capital Management, LLC
- Hancock Timber Resource Group

INTERNATIONAL FIXED INCOME
- Oechsle International Advisors, L.P.
- Pacific Investment Management Company

COMMISSION RECAPTURE BROKERS

- Donaldson & Co., Incorporated
- Rochdale Securities Corporation
- Lynch, Jones & Ryan/Instinet
- SunTrust Robinson Humphrey

List of Assets Directly Held (by fair value)*

as of June 30, 2001 (excludes investments in pooled vehicles)

** A complete list of holdings is available for review upon request.*

Domestic Fixed Income

Rank	Par / Shares	Security	Coupon	Due	Standard & Poors		Fair Value
1	137,500,000	Government National Mortgage Assoc. (TBA)	6.500%	7/15/2030	AAA		$135,953,125
2	68,460,000	United States Treasury Note (Inflation Index)	3.625%	7/15/2002	AAA		77,015,422
3	48,000,000	Government National Mortgage Assoc. (TBA)	7.000%	7/24/2030	AAA		48,420,000
4	25,000,000	United Kingdom Treasury	8.500%	12/07/2005	AAA		39,220,926
5	33,512,000	Federal National Mortgage Assoc	7.500%	7/01/2031	AAA		34,182,240
6	31,110,273	Government National Mortgage Assoc. (Pool)	7.500%	5/20/2030	AAA		31,761,722
7	27,517,000	United States Treasury Note	5.875%	11/15/2004	AAA		28,454,229
8	28,700,000	Residential Funding Mtg Secd	6.750%	9/25/2028	AAA		27,964,419
9	18,959,000	U.S. Government Treasury Bond	8.750%	5/15/2017	AAA		24,611,057
10	20,000,000	Residential Funding Mtg Secd	7.500%	7/25/2027	AAA		20,306,200

International Fixed Income

Rank	Par / Shares	Security	Coupon	Due	Standard & Poors		Fair Value
1	35,060,000	Republic of Italy	4.500%	5/01/2009	AA		$ 28,265,864
2	20,800,000	Bundesobligation 125	5.000%	11/12/2002	AAA		17,766,813
3	22,595,000	Buoni Polinnali del Tes	4.250%	11/1/2009	Aa3	(1)	17,742,010
4	18,637,000	Republic of Austria	3.900%	10/20/2005	AAA		15,310,993
5	1,791,000,000	Deutsche Siedl-U Landesrentenbank	1.75%	10/07/2009	Aaa	(1)	15,297,961
6	18,935,000	General Motors Acceptance Corporation	4.000%	2/09/2006	BBB+		15,142,229
7	18,112,000	Corp Andina	4.750%	5/06/2004	A		15,011,554
8	1,811,000,000	Quebec Province	1.600%	5/09/2013	A+		14,773,256
9	1,712,000,000	Eksportfinans AS	1.800%	6/21/2010	AA+		14,632,785
10	16,365,811	Kingdom of Greece	6.300%	1/29/2009	A		14,610,352

Domestic Equities

Rank	Par / Shares	Security	Fair Value
1	1,487,160	General Electric	$ 72,499,050
2	1,192,512	Citigroup Inc	63,012,334
3	705,420	Microsoft Corp	51,495,660
4	1,109,282	Pfizer Inc.	44,426,744
5	807,138	Tyco Intl Ltd New	43,997,092
6	498,590	American International Group	42,385,136
7	935,702	JP Morgan Chase	41,732,309
8	653,490	AOL Time Warner	34,634,970
9	917,440	Schering Plough	33,248,026
10	1,897,000	ATT Corp	33,178,530

International Equities

Rank	Par / Shares	Security	Fair Value
1	7,610,114	Vodafone Group	$ 16,855,477
2	219,167	Sony Corp	14,409,704
3	209,180	ING Groep NV	13,671,433
4	202,890	Royal Dutch Petrol	11,676,653
5	80,126	UBS AG (United Bank of Switzerland)	11,478,411
6	191,736	Vivendi Universal SA	11,175,943
7	278,720	Novartis AG	10,086,640
8	1,835	Nippon Tel & Tel	9,563,470
9	202,000	Takeda Chemical Industries	9,393,889
10	330,302	Glaxosmithkline	9,289,889

(1) Rating from Moody's, if not available by Standard & Poor's (S&P)

Investments Summary

(Dollar values expressed in thousands)

	Fair Value as of June 30, 2001	Percentage	Fair Value as of June 30, 2000	Percentage
Equity securities				
Common stock	$ 3,652,976	40.6%	$ 4,580,015	46.4%
Index funds	1,300,224	14.5%	1,425,957	14.4%
Pooled and others	258,419	2.9%	370,638	3.8%
	5,211,619	58.0%	6,376,610	64.6%
Fixed income securities				
Mortgage-backed securities	1,196,255	13.3%	988,096	10.0%
U.S. Government bonds	258,684	2.9%	376,913	3.8%
Foreign bonds	679,194	7.6%	587,294	6.0%
U.S. Corporate bonds	570,222	6.3%	534,030	5.4%
Asset backed securities	143,036	1.6%	170,464	1.7%
Pooled and others	-	0.0%	31,166	0.3%
	2,847,391	31.7%	2,687,963	27.2%
Others				
Real estate equities	575,760	6.4%	499,896	5.1%
Real estate mortgages	101,440	1.1%	110,353	1.1%
Alternative investments	253,643	2.8%	199,257	2.0%
	930,843	10.3%	809,506	8.2%
Total	$ 8,989,853	100.0%	$ 9,874,079	100.0%

Schedule of Investment Fees

(Dollar values expressed in thousands)

	Fair value as of June 30, 2001	Total FY 2001 Investment Fees	Basis Points
Equities			
U.S. equities	$ 4,117,409		
International equities	1,252,627		
	5,370,036	$ 13,972	
Fixed Income			
U.S. bonds	1,868,957		
International bonds	595,115		
	2,464,072	19,288	
Other Asset Allocations			
Real estate	574,328		
Real estate mortgages	101,440		
Alternative investments	254,522		
	930,290	5,859	
Other Investment Services			
Custodian fees		215	
Cash management fees		315	
Investment consultant fees		466	
Total	$ 8,764,398	$ 25,095	29 bp

Schedule of Broker Commissions

The Employees' Retirement System participates in a Commission Recapture Program with four brokerage firms for equity trades, which are listed in the Investment Professionals section. Domestic and international investment managers are required to direct at least 35% and 50%, respectively, of all brokerage transactions to participating brokers. Commissions charged per share are based on the investment manager's normal rate schedule. All commissions recaptured are used exclusively by the ERS for the benefit of its members and beneficiaries. ERS does not guarantee participating brokers any minimums, required volumes or fees. During the fiscal year ended June 30, 2001 the ERS recaptured $1,660,511 in commissions.

The following is a list of brokers who received $50,000 or more in commissions during Fiscal Year 2001. A complete list of all commissions is available for review upon request.

			Commission	
Brokerage Firms	**Shares Traded**	**Dollar Volume of Trades**	**Dollar Amount**	**Per Share**
Merrill Lynch Pierce Fenner Smith	26,201,017	$ 508,208,547	$ 814,808	$0.031
Morgan Stanley Dean Witter	20,764,017	365,959,468	618,062	0.030
Rochdale Securities Corporation	9,712,700	403,881,353	564,600	0.058
Travelers Salomon Smith Barney	11,609,890	325,203,433	522,285	0.045
Credit Suisse First Boston	10,099,080	200,068,017	375,866	0.037
Broadcort Capital	5,352,664	180,654,753	315,257	0.059
Robinson Humphrey & Co	5,693,370	262,690,773	313,866	0.055
Hong Kong & Shanghai Bank	14,103,096	151,000,356	267,304	0.019
Goldman Sachs and Co	8,773,326	158,524,631	252,589	0.029
UBS Warburg	5,602,305	102,585,748	227,668	0.041
Deutsche Morgan Grenfell	6,805,452	118,103,321	219,462	0.032
Swiss Bank Corp	7,055,066	112,905,833	209,062	0.030
Donaldson & Co	3,453,970	132,116,635	177,788	0.051
Shearson Lehman Brothers	6,504,353	88,921,822	164,230	0.025
Salomon Brothers	11,047,940	83,501,456	160,680	0.015
Dresdner Kleinwort Wasserstein	7,717,827	78,547,834	140,555	0.018
Bear Stearns	2,481,072	92,808,683	130,942	0.053
JP Morgan	1,943,720	54,224,847	106,175	0.055
Jefferies & Company	1,627,042	45,709,347	91,033	0.056
Lynch, Jones & Ryan	1,718,876	67,219,238	88,703	0.052
Execution Services Corporation	1,411,802	63,495,810	83,575	0.059
Prudential	1,396,533	50,568,435	81,060	0.058
Nationsbank	1,292,400	41,739,380	68,169	0.053
Credit Lyonnais	14,612,591	75,358,405	67,402	0.005
County Securities	2,213,500	29,255,463	58,425	0.026
Others (includes 183 firms)	73,150,459	957,706,616	1,419,075	0.019
Commissioned equity trades	262,344,068	$4,750,960,207	$7,538,642	$0.029
Less commissions recaptured			(1,660,511)	
Trades at net commission			$5,878,131	$0.022
* Excludes trades at zero commission	91,684,534	$1,513,556,181		

EMPLOYEES' RETIREMENT SYSTEM
OF THE
STATE OF HAWAII

ACTUARIAL SECTION

GABRIEL, ROEDER, SMITH & COMPANY
Consultants & Actuaries

2001 Ross Avenue • Suite 4200 • Dallas, Texas 75201-2989 • 214-530-4200 • fax 214-530-4250
(Temporary until 11/1/01)

December 10, 2001

Board of Trustees
Employees' Retirement System of
State of Hawaii
City Financial Tower
201 Merchant St., Ste. 1400
Honolulu, HI 96813-2980

Dear Trustees:

Subject: Actuarial Valuation as of June 30, 2001

We certify that the information contained in the 2001 actuarial valuation report is accurate and fairly presents the actuarial position of the Employees' Retirement System (ERS) of the State of Hawaii (the System) as of June 30, 2001.

All calculations have been made in conformity with generally accepted actuarial principles and practices, and with the Actuarial Standards of Practice issued by the Actuarial Standards Board. In our opinion, the results presented comply with the requirements of the Hawaii statutes and, where applicable, the Internal Revenue Code, ERISA, and the Statements of the Governmental Accounting Standards Board. The undersigned are independent actuaries. They are both Enrolled Actuaries and Members of the American Academy of Actuaries, and are experienced in performing valuations for large public retirement systems.

Actuarial valuations

The primary purpose of the valuation report is to determine the required employer contribution, to describe the current financial condition of the System, and to analyze changes in the System's condition. In addition, the report provides information required by ERS in connection with Governmental Accounting Standards Board Statement No. 25 (GASB No. 25), and it provides various summaries of the data.

Valuations are prepared annually, as of June 30th of each year, the last day of the System's plan year and the System's fiscal year.

Trustees
December 10, 2001
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Financing objectives

The employer contribution is calculated by the actuarial valuation. The amounts are applicable for the fiscal year beginning two years after the valuation date, i.e., beginning July 1, 2003. The employer contributions, when combined with the contributions made by members, are intended to provide for the normal cost and to amortize the Unfunded Actuarial Accrued Liability (UAAL) over the closed period ending June 30, 2016.

Progress toward realization of financing objectives

Based on this actuarial valuation as of June 30, 2001, the employer contribution is $269,666,569 for fiscal year 2003/2004. This amount includes the normal cost and amortization of the UAAL over the remaining 15 years from June 30, 2001. Employees and employers contributed the recommended amount for the 2000/2001 fiscal year. It is expected that they will continue to contribute the recommended contributions as determined by the actuarial valuations. Therefore, all financing objectives are being realized.

The contribution requirement for FY 2003/2004 reflects the two-year lag between the valuation date and the beginning of the fiscal year. It assumes the employers' contributions for FY 2001-2002 are $169.5 million and are $188.5 million for FY 2002/2003. If these contributions are reduced, the $269.7 million contribution for FY 2003/2004 will need to be recalculated.

Benefit provisions

Since the last valuation, the legislature enacted the following benefit enhancement to the ERS statutes:

- Provide an increase in pension benefits for current retirees with military service prior to July 2, 1989.

See the Summary of Retirement Benefit Plan Provisions in the Introductory Section of this report for more details on the benefit provisions.

Assumptions and methods

With the exception of the assumptions for the investment return and for the salary scale, the actuarial assumptions used were adopted based on the recommendations provided by an experience study performed by the prior actuary. The actuarial methods used were adopted based on recommendations by us. The investment return assumption and the salary scale assumptions were set by legislative action. Further detail on the assumptions and methods may be found in the Summary of Actuarial Methods and Assumptions in this section. With respect

GABRIEL, ROEDER, SMITH & COMPANY

Trustees
December 10, 2001
Page 3

to those assumptions based on the actuaries' recommendations, these assumptions are internally consistent and are reasonably based on the actual experience of the System. These assumptions are in full compliance with all parameters established by GASB No. 25.

Data

Member data for retired, active and inactive participants was supplied as of March 31, 2001, by the System's staff. We have not subjected this data to any auditing procedures, but have examined the data for reasonableness and consistency with the prior year's data. Asset information was supplied by the System's staff.

Sincerely,

Gabriel, Roeder, Smith & Company

Leonora Kwan

C. Leonora Kwan, ASA, EA
Consultant

W. Michael Carter

W. Michael Carter, FSA, EA
Senior Consultant

nlb

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Exhibit 1
Actuarial Present Value of Future Benefits

	Police, Fire, and Corrections June 30, 2001 (1)	All Other Employees June 30, 2001 (2)	All Employees June 30, 2001 (3)
1. Active members			
a. Service retirement benefits	$ 1,143,900,282	$ 4,700,163,923	$ 5,844,064,205
b. Deferred termination benefits	12,704,877	258,396,333	271,101,210
c. Refunds	26,200,337	1,532,302	27,732,639
d. Survivor benefits	27,600,352	118,565,538	146,165,890
e. Disability retirement benefits	10,610,022	222,006,736	232,616,758
f. Total	$ 1,221,015,870	$ 5,300,664,832	$ 6,521,680,702
2. Retired members			
a. Service retirement	$ 729,001,580	$ 4,255,369,654	$ 4,984,371,234
b. Disability retirement	21,298,534	71,059,999	92,358,533
c. Beneficiaries	22,415,192	133,216,501	155,631,693
d. Total	$ 772,715,306	$ 4,459,646,154	$ 5,232,361,460
3. Inactive members			
a. Vested terminations	$ 9,413,286	$ 152,334,190	$ 161,747,476
b. Nonvested terminations	120,075	9,886,140	10,006,215
c. Total	$ 9,533,361	$ 162,220,330	$ 171,753,691
4. Total actuarial present value of future benefits	$ 2,003,264,537	$ 9,922,531,316	$ 11,925,795,853

GABRIEL, ROEDER, SMITH & COMPANY

Exhibit 2
Calculated Employer Contribution Requirements

	Fiscal Year 2003/2004		
	Police, Fire, and Corrections	All Other Employees	All Employees
	(1)	(2)	(3)
1. Dollar Amounts			
a. Employer Normal Cost	$ 10,440,170	$ 132,830,709	$ 143,270,879
b. Amortization Payment	10,696,254	107,567,536	118,263,790
c. Subtotal	$ 21,136,424	$ 240,398,245	$ 261,534,669
d. EIR Payment	523,000	7,608,900	8,131,900
e. Excess Investment Earnings Credit	-	-	-
f. Total Appropriations	$ 21,659,424	$ 248,007,145	$ 269,666,569
2. Payroll Projected to Fiscal Year 2003/2004	$ 269,241,108	$ 2,374,382,866	$ 2,643,623,974
3. Percentages of Total Projected Payroll (Item 1 / Item 2)			
a. Normal Cost	3.88%	5.59%	5.42%
b. Amortization Payment	3.97%	4.53%	4.47%
c. Subtotal	7.85%	10.12%	9.89%
d. EIR Payment	0.19%	0.32%	0.31%
e. Excess Investment Earnings Credit	0.00%	0.00%	0.00%
f. Total Appropriations	8.04%	10.45%	10.20%

Note: Total annual payroll as of March 31, 2001 was $2,110,842,317 for all employees, comprised of $220,356,555 for police, fire, and corrections and $2,110,842,317 for all other employees. (The comparable figures for March 31, 2000 are $2,275,297,776, $220,697,292, and $2,054,600,484, respectively.)

Exhibit 3
Employer Appropriations to Pension Accumulation Fund

	Appropriations for 2003/2004 (Based on 6/30/2001 Valuation)			Appropriations for 2002/2003 (Based on Revised 6/30/2000 Valuation)		
Employer	**Police, Fire and Corrections**	**All Other Employees**	**Total**	**Police, Fire and Corrections**	**All Other Employees**	**Total**
(1)	**(2)**	**(3)**	**(4)**	**(5)**	**(6)**	**(7)**
State of Hawaii	$ 1,090,501	$ 206,710,659	$207,801,160	$ 16,000	$157,203,734	$ 157,219,734
City & County of Honolulu	14,150,772	24,079,609	38,230,381	371,200	17,874,280	18,245,480
Board of Water Supply	-	2,945,949	2,945,949	-	2,352,163	2,352,163
County of Hawaii	2,861,297	5,522,778	8,384,075	55,300	4,109,444	4,164,744
County of Maui	2,447,384	5,656,118	8,103,502	36,400	4,191,784	4,228,184
County of Kauai	1,109,470	3,092,032	4,201,502	44,100	2,261,895	2,305,995
Total All Employers	$ 21,659,424	$ 248,007,145	$269,666,569	$ 523,000	$187,993,300	$ 188,516,300

GABRIEL, ROEDER, SMITH & COMPANY

Exhibit 4

Highlights of Last Five Annual Actuarial Valuations

1997 through 2001

Item	Valuation Date: June 30				
	1997	1998	1999	2000	2001
Number of active members	57,044	57,797	58,387	59,191	59,992
Number of inactive members	2,456	2,650	2,777	3,016	3,416
Number of pensioners	26,152	26,257	26,709	27,357	28,210
Number of beneficiaries	1,021	1,146	1,241	1,358	1,450
Average monthly contributory plan pension amount	$ 1,257	$ 1,312	$ 1,367	$ 1,419	$ 1,475
Average monthly non-contributory plan pension amount	$ 1,044	$ 1,132	$ 1,129	$ 1,142	$ 1,170
Average monthly beneficiary amount	$ 690	$ 732	$ 771	$ 805	$ 838
Total actuarial value of assets ($millions)(1)	$ 7,269	$ 7,906	$ 8,591	$ 9,205	$ 9,516
Unfunded actuarial accrued liability ($millions)[(1)]	$ 733.4	$ 585.8	$ 590.9	$ 494.2	$ 991.0

Item (Dollar amounts in millions)	Appropriation Year				
	1999-2000	2000-2001	2001-2002	2002-2003	2003-2004
Total calculated appropriations[(1)]	$ 171.2	$ 156.3	$ 193.1	$ 180.4	$ 261.6
EIR Program appropriations	8.1	8.1	8.1	8.1	8.1
Excess investment earnings credit[(1)]	(156.9)	(156.3)	(33.7)	-	-
Net employer appropriations	$ 22.4	$ 8.1	$ 167.5	$ 188.5	269.7

[(1)] Figures from 1997, 1998, 1999 valuations have been revised to reflect Act 100/1999 and related lawsuit, Act 216/2000, and Board change of June 30, 1997 actuarial asset value.

GABRIEL, ROEDER, SMITH & COMPANY

Exhibit 5
Employer Allocation of EIR Program Costs

	General & Teachers		Police, Fire, and Corrections Officers		Total	
	Balance as of 6/30/97	19 Year Payment	Balance as of 6/30/97	19 Year Payment	Balance as of 6/30/97	19 Year Payment
State of Hawaii	$ 68,490,500	$ 6,603,500	$ 166,200	$ 16,000	$ 68,656,700	$ 6,619,500
City & County of Honolulu	7,252,100	699,200	3,849,600	371,200	11,101,700	1,070,400
Board of Water Supply	743,700	71,700	-	-	743,700	71,700
County of Hawaii	764,600	73,700	573,400	55,300	1,338,000	129,000
County of Maui	1,137,000	109,600	377,700	36,400	1,514,700	146,000
County of Kauai	531,000	51,200	457,600	44,100	988,600	95,300
Total	$ 78,918,900	$ 7,608,900	$ 5,424,500	$ 523,000	$ 84,343,400	$ 8,131,900

Unamortized Balance as of 6/30/2001

	General & Teachers	Police, Fire, and Corrections Officers	Total
State of Hawaii	$ 61,044,319	$ 147,908	$ 61,192,227
City & County of Honolulu	6,463,570	3,431,461	9,895,031
Board of Water Supply	662,812	-	662,812
County of Hawaii	681,300	511,206	1,192,506
County of Maui	1,013,168	336,490	1,349,658
County of Kauai	473,305	407,671	880,976
Total	$ 70,338,474	$ 4,834,736	$ 75,173,210

GABRIEL, ROEDER, SMITH & COMPANY

Actuarial Certification Statement

	Police, Fire, and Corrections June 30, 2001	All Other Employees June 30, 2001	All Employees June 30, 2001
1. Total Normal cost at valuation date	$ 40,021,806	$ 138,834,786	$ 178,856,592
2. Present value of future benefits			
a. Active employees	$ 1,221,015,870	$ 5,300,664,832	$ 6,521,680,702
b. Inactive members	9,533,361	162,220,330	171,753,691
c. Pensioners and beneficiaries	772,715,306	4,459,646,154	5,232,361,460
d. Total	$ 2,003,264,537	$ 9,922,531,316	$ 11,925,795,853
3. Present value of future employee and employer contributions			
a. Present value of future normal costs	$ 338,563,853	$ 1,080,319,344	$ 1,418,883,197
b. Present value of future employee contributions	256,877,098	124,990,536	381,867,634
c. Present value of future employer normal costs (Item 3a - Item 3b)	$ 81,686,755	$ 955,328,808	$ 1,037,015,563
d. Present value of future Early Incentive Retirement Program Employer contributions at valuation date	$ 4,834,736	$ 70,338,474	$ 75,173,210
4. Actuarial accrued liability (Item 2d - Item 3a)	$ 1,664,700,684	$ 8,842,211,973	$ 10,506,912,657
5. Actuarial value of assets			
a. Annuity Savings Fund	$ 41,333,294	$ 943,417,400	$ 984,750,694
b. Pension Accumulation Fund	1,529,679,920	7,001,526,047	8,531,205,967
c. Total	$ 1,571,013,214	$ 7,944,943,447	$ 9,515,956,661
6. Unfunded actuarial accrued liability	$ 93,687,470	$ 897,268,526	$ 990,955,996
7. Appropriations for Fiscal Year ending June 30, 2004			
a. Employer normal cost	$ 10,440,170	$ 132,830,709	$ 143,270,879
b. Amortization payment[1]	10,696,254	107,567,536	118,263,790
c. Employer contribution requirement before EIR	$ 21,136,424	$ 240,398,245	$ 261,534,669
d. EIR payment	523,000	7,608,900	8,131,900
e. Total employer contribution requirement	$ 21,659,424	$ 248,007,145	$ 269,666,569

[1]amortization is over 15 years as measured from the valuation date

GABRIEL, ROEDER, SMITH & COMPANY

Actuarial Certification Statement

The actuarial valuation as of June 30, 2001 is based on the provisions of Chapter 88 of the Hawaii Revised Statutes, as amended. The assumptions used in the cost calculations were those adopted by the Board of Trustees based on statutory requirements and on the prior actuary's actuarial experience investigation report covering the 1995-2000 period. The actuarial calculations were performed by qualified actuaries in accordance with accepted actuarial procedures.

In our opinion, the contributions required to meet the System's liabilities were calculated in accordance with the provisions of Chapter 88 regarding the funding of the Employees' Retirement System on an actuarial reserve basis.

W. Michael Carter, FSA, EA
Senior Consultant

Summary of Actuarial Methods and Assumptions

I. *Valuation Date*

The valuation date is June 30th of each plan year. This is the date as of which the actuarial present value of future benefits and the actuarial value of assets are determined.

II. *Actuarial Cost Method*

Under the entry age normal actuarial cost method, the total employer contribution is comprised of the "normal cost" plus the level annual payment required to amortize the unfunded actuarial accrued liability over the remaining period of 15 years from June 30, 2001. The normal cost is the level percentage of payroll contribution required to accumulate the needed funds to pay all expected benefits. Actuarial gains and losses resulting from differences between actual and assumed experience are reflected in the unfunded accrued liability.

III. *Actuarial Value of Assets*

The actuarial value of assets is equal to the market value, adjusted for a four-year phase in of actual investment return in excess of expected investment return. The actual return is calculated net of investment and administrative expenses, and the expected investment return is equal to the assumed investment return rate multiplied by the prior year's market value of assets, adjusted for contributions, benefits paid, and refunds. In January, 1999, the Board set the June 30, 1997 actuarial value of assets equal to 95% of the market value at that date.

IV. *Actuarial Assumptions*

A. Economic Assumptions

1. Investment return: 8% per year, compounded annually, composed of an assumed 4.00% inflation rate and a 4.00% net real rate of return. (Set by legislative action.)
2. Salary increase rate: 4% per year, compounded annually. (Set by legislative action.)

B. Demographic Assumptions

1. Mortality rates

General Employees

a. Healthy males – 1994 US Group Annuity Mortality Static Table for males, set back one years.

b. Healthy females - 1994 US Group Annuity Mortality Static Table for females.

c. Disabled males - 1994 US Group Annuity Mortality Static Table for males set forward ten years.

d. Disabled females - 1994 US Group Annuity Mortality Static Table for males set forward eleven years.

Teachers

a. Healthy males – 1994 US Group Annuity Mortality Static Table for males, set back three years.

b. Healthy females - 1994 US Group Annuity Mortality Static Table for females, set back one year.

c. Disabled males - 1994 US Group Annuity Mortality Static Table for males set forward four years.

d. Disabled females - 1994 US Group Annuity Mortality Static Table for males set forward six years.

Police, Fire and Corrections Officers

a. Healthy males – 1994 US Group Annuity Mortality Static Table for males, set forward two years.

b. Healthy females - 1994 US Group Annuity Mortality Static Table for females, set forward two years.

c. Disabled males - 1994 US Group Annuity Mortality Static Table for males set forward five years.

d. Disabled females - 1994 US Group Annuity Mortality Static Table for males set forward five years.

2. Disability rates – The assumed total disability rates for employees covered by the contributory plan and the non-contributory plan at select ages are as follows:

	General Employees	Teachers	Police, Fire and Corrections Officers
Age	Male & Female	Male & Female	Male & Female
25	0.025%	0.008%	0.010%
30	0.025%	0.008%	0.010%
35	0.030%	0.010%	0.012%
40	0.045%	0.015%	0.018%
45	0.090%	0.030%	0.036%
50	0.200%	0.066%	0.080%
55	0.425%	0.139%	0.170%
60	0.870%	0.285%	0.348%

Note: The disability rates project the percentage of employees at each age that is assumed to become disabled before retiring. The percentage of disabilities assumed to be ordinary disability as opposed to accidental disability varies by employee group as follows:

	General Employees	Teachers	Police, Fire and Corrections Officers
Type	Male & Female	Male & Female	Male & Female
Ordinary	85%	100%	50%
Accidental	15%	0%	50%

3. Termination Rates - Separate male and female rates, based on both age and service, developed from 2000 Experience Study. Rates reflect terminations for causes other than death, disability or retirement. Sample rates are shown below:

General Employees

	Expected Terminations per 100 Lives (Male Members)			
	Years of Service			
Age	0	1	2	3 or more
(1)	(2)	(3)	(4)	(5)
25	19.02	12.34	9.39	6.08
30	16.37	12.64	10.38	5.65
35	15.24	11.75	9.66	4.54
40	14.87	11.22	8.71	3.70
45	13.99	10.47	8.45	2.95
50	12.52	9.16	7.86	2.45
55	11.53	8.48	6.65	1.98
60	12.54	9.53	5.25	1.69

	Expected Terminations per 100 Lives (Female Members)			
	Years of Service			
Age	0	1	2	3 or more
(1)	(2)	(3)	(4)	(5)
25	21.80	17.26	15.63	8.97
30	21.62	15.50	14.16	7.23
35	19.57	14.39	12.25	5.35
40	16.63	13.02	10.31	3.68
45	16.64	11.97	9.27	2.95
50	18.15	12.11	8.89	2.61
55	20.67	13.14	9.24	2.32
60	23.88	15.62	11.38	1.96

Teachers

	Expected Terminations per 100 Lives (Male Members)			
	Years of Service			
Age	0	1	2	3 or more
(1)	(2)	(3)	(4)	(5)
25	24.33	10.12	13.20	7.97
30	23.04	12.60	12.75	6.62
35	24.32	14.33	12.20	5.07
40	27.14	15.40	11.29	4.33
45	30.24	15.67	10.52	3.53
50	33.50	15.43	9.97	2.49
55	37.79	14.99	9.56	1.92
60	43.72	14.18	9.24	1.76

	Expected Terminations per 100 Lives (Female Members)			
	Years of Service			
Age	0	1	2	3 or more
(1)	(2)	(3)	(4)	(5)
25	20.12	12.62	13.16	8.61
30	21.78	15.04	15.25	7.25
35	23.58	16.33	16.75	5.62
40	24.54	15.93	15.95	4.16
45	24.73	15.14	13.98	2.80
50	25.71	15.70	13.25	2.00
55	27.19	16.91	12.94	1.61
60	28.47	17.93	12.13	1.87

Police, Fire and Corrections Officers

	Expected Terminations per 100 Lives (Male Members)			
	Years of Service			
Age	0	1	2	3 or more
(1)	(2)	(3)	(4)	(5)
25	6.43	2.58	2.69	3.71
30	7.46	3.33	3.66	3.35
35	9.33	4.39	4.48	2.54
40	11.44	6.36	4.76	1.56
45	12.83	9.31	4.30	0.79
50	13.45	12.47	3.57	0.39
55	13.79	15.38	2.77	0.32
60	14.10	18.19	1.95	0.45

	Expected Terminations per 100 Lives (Female Members)			
	Years of Service			
Age	0	1	2	3 or more
(1)	(2)	(3)	(4)	(5)
25	6.43	2.58	2.69	3.71
30	7.46	3.33	3.66	3.35
35	9.33	4.39	4.48	2.54
40	11.44	6.36	4.76	1.56
45	12.83	9.31	4.30	0.79
50	13.45	12.47	3.57	0.39
55	13.79	15.38	2.77	0.32
60	14.10	18.19	1.95	0.45

4. Retirement rates - Separate male and female rates, based on age, developed from the 2000 Experience Study. Sample rates are shown below:

Contributory Plan

	Expected Retirements per 100 Lives				
	General Employees		Teachers		Police, Fire & Corrections Officers
Age	Male	Female	Male	Female	Male & Female
45	3	1	1	1	20
46	3	1	1	1	20
47	3	1	1	1	20
48	3	1	1	1	20
49	3	1	1	1	18
50	3	1	1	1	18
51	3	1	1	1	18
52	3	1	1	1	18
53	3	1	1	1	18
54	10	10	5	2	23
55	20	20	20	20	30
56	10	10	10	15	25
57	10	10	10	15	30
58	10	10	10	15	20
59	12	12	10	15	20
60	12	12	10	15	40
61	18	15	10	15	40
62	35	35	15	25	100
63	20	25	15	15	
64	20	20	15	15	
65	45	45	25	25	
66	25	25	25	25	
67	30	30	30	30	
68	40	40	40	40	
69	40	40	40	40	
70	100	100	100	100	

Non-Contributory Plan

	Expected Retirements per 100 Lives			
	General Employees		Teachers	
Age	Male	Female	Male	Female
45	8	8	5	8
46	8	8	5	8
47	8	8	5	8
48	8	8	5	8
49	8	8	5	8
50	8	8	5	8
51	8	8	5	8
52	8	8	5	8
53	8	8	5	8
54	8	8	5	8
55	8	8	5	8
56	5	6	5	8
57	5	6	5	8
58	5	6	6	10
59	5	5	6	12
60	8	8	5	15
61	15	15	6	15
62	40	40	15	25
63	25	25	5	15
64	30	25	5	15
65	70	50	15	30
66	40	35	20	20
67	40	35	25	25
68	40	35	25	25
69	40	35	25	25
70	100	100	100	100

C. Other Assumptions

1. Percent married: 77% of male employees and 57.6% of female employees are assumed to be married.

2. Age difference: Male members are assumed to be four years older than their spouses, and female members are assumed to be four years younger than their spouses.

3. Percent electing annuity on death for contributory participants (when eligible): All of the spouses of married participants who die after becoming eligible for a retirement benefit are assumed to elect an annuity or a refund, whichever is more valuable at time of participant's death.

4. Percent electing deferred termination benefit: vested terminating members are assumed to elect a refund or a deferred benefit, whichever is more valuable at the time of termination.

5. Assumed age for commencement of deferred benefits: Members electing to receive a deferred benefit are assumed to commence receipt when eligible for early retirement.

6. Administrative expenses: The assumed investment return rate represents the anticipated net return after payment of all investment and administrative expenses.

7. Reemployment, purchase of service, transfers: No recognition is made of (i) future member reimbursements upon reemployment, (ii) future purchase of additional service, or (iii) special transfer provisions.

V. Participant Data

Participant data was supplied on magnetic tape for (i) active members, (ii) inactive vested members, who are entitled to a future deferred benefit, (iii) members and beneficiaries receiving benefits.

Salary supplied for the current year was based on the earnings for the March preceding the valuation date. This salary was compared to March base pay plus a twelve-month average of overtime, with the greater of the two being used for valuation pay.

VI. Dates of Adoption of Assumptions and Methods

Generally, actuarial assumptions and methods were adopted by the Board of Trustees in 2000 and first reflected in this actuarial valuation, as recommended by the Segal Company, the prior actuary, with respect to the assumptions, and by Gabriel, Roeder, Smith & Company with respect to the methods. The legislature sets the investment return assumption and the salary scale assumption in the statutes governing the System.

Summary of Plan Changes

Act 65, effective July 1 1999

1. Requires judges who enter or re-enter service after June 30, 1999 to be at least 55 years old and five years of service or have 25 years of service to rehire.

Act 100, effective June 30, 1999

1. Uses actuarial investment earnings in excess of a ten percent (10%) actuarial investment yield rate to reduce the employer's contribution requirements by $147.0 million and $50.6 million for fiscal years ending June 30, 2000 and 2001, respectively.

Act 284, effective June 30, 2001

Provide an increase in pension benefits for current retirees with military service who retired prior to July 2, 1989. A retirant who rendered honorable active military service could be granted up to 4 years of military service credits based upon his/her years of credited service under the system, not to exceed his/her actual years of military service. The years of military service credits granted are based on the following schedule:

- 0 years for retirants with less than 8 years of credited service
- Up to 2 years of retirants with 8 years or more of credited service
- Up to 3 years of retirants with 20 years or more of credited service
- Up to 4 years of retirants with 25 years or more of credited service

For each year of military service credits granted on the schedule above, the retirant will be provided a $36.00 increase is his/her monthly pension or retirement allowance.

Exhibit 6
Development of Actuarial Value of Assets

	June 30, 2001	June 30, 2000
	(1)	(2)
1. Actuarial value at beginning of year	$ 9,204,707,100	$8,590,807,400
2. Contributions	62,621,799	79,750,300
3. Benefits and refunds paid	(548,799,187)	(518,719,900)
4. Expected Investment return	716,929,472	669,705,800
5. Preliminary actuarial value of assets at end of year	$ 9,435,459,184	$8,821,543,600
6. Market value at end of year	$ 8,772,005,591	$9,941,931,700
7. Outstanding excess investment earnings credit (Act 100/1999)	-	(190,014,500)
8. Adjusted market value of assets ((7)+(8))	$ 8,772,005,591	$9,751,917,200
9. Market value excess ((8) - (5))	$ (663,453,593)	$ 930,373,600
10. Determination of market value excess for current year		
a. Balance from 3 years ago	$ 266,207,800	$ -
b. Balance from 2 Years ago	139,729,200	532,415,700
c. Balance from 1 Years ago	141,273,100	209,593,800
d. Balance from current year	(1,210,663,693)	188,364,100
11. Amortization of market value excess		
a. Write-up from 3 years ago	$ 266,207,800	$ -
b. Write-up from 2 years ago	69,864,600	266,207,900
c. Write-up from 1 years ago	47,091,000	69,864,600
d. Write-up from current year	(302,665,923)	47,091,000
e. Total excess investment return	$ 80,497,477	$ 383,163,500
12. Actuarial value at end of year (Item 5 + Item 11e)	$ 9,515,956,661	$9,204,707,100
13. Annuity Savings Fund	$ 984,750,694	$ 937,954,350
14. Pension Accumulation Fund (Item 12 - Item 13)	$ 8,531,205,967	$8,266,752,750
15. Reserve for future years (Item 8 - Item 12)	$ (743,951,070)	$ 547,210,100

Exhibit 7
Development of Employer Cost

		Police, Fire, and Corrections June 30, 2001	All Other Employees June 30, 2001	All Employees June 30, 2001
		(1)	(2)	(3)
1.	Payroll (adjusted for one year's pay increase)	$ 248,928,539	$ 2,195,250,431	$ 2,444,178,970
2.	Actuarial present value of future pay	$ 2,105,496,600	$ 17,093,660,500	$19,199,157,100
3.	Present value future benefits (Table 1)	$ 2,003,264,537	$ 9,922,531,316	$11,925,795,853
4.	Gross normal cost at 6/30/2001			
	a. Amount (Table 2, Item 4a)	$ 40,021,806	$ 138,834,786	$ 178,856,592
	b. Percent of pay (Table 2, Item 5f)	16.08%	6.32%	7.32%
5.	Present value future normal cost (Item 4b * Item 2)	$ 338,563,853	$ 1,080,319,344	$ 1,418,883,197
6.	Actuarial accrued liability (Item 3 - Item 5)	1,664,700,684	8,842,211,973	$10,506,912,657
7.	Present value future employee contributions	$ 256,877,098	$ 124,990,536	$ 381,867,634
8.	Weighted effective employee contribution % (Item 7 / Item 2)	12.20%	0.73%	1.90%
9.	Employer normal cost rate (Item 4b - Item 8)	3.88%	5.59%	5.42%
10.	Actuarial value of assets	$ 1,571,013,214	$ 7,944,943,447	$ 9,515,956,661
11.	Unfunded actuarial accrued liability (UAAL) (Item 6 - Item 10)	$ 93,687,470	$ 897,268,526	$ 990,955,996
12.	Funding period in years			
	a. As of June 30, 2001	15	15	15
	b. Reflecting two year lag	13	13	13
13.	Present value of future Early Incentive Retirement Program Employer Contributions at 6/30/2003	$ 4,464,369	$ 64,950,200	$ 69,414,569
14.	Projection of UAAL for 2003/2004			
	a. Expected FY 2001/2002 employer contribution	$ 33,511,800	$ 133,947,100	$ 167,458,900
	b. Expected FY 2001/2002 employee contribution	30,369,282	16,025,328	46,394,610
	c. Expected FY 2002/2003 employer contribution	523,000	187,993,300	188,516,300
	d. Expected FY 2002/2003 employee contribution	31,584,053	16,666,341	48,250,394
	e. Expected UAAL at 6/30/2002	77,969,693	963,020,252	1,040,989,944
	d. Expected UAAL at 6/30/2003	$ 95,768,425	$ 983,155,076	$ 1,078,923,502
15.	Appropriations for Fiscal Year Ending June 30, 2004			
	a. Amortization payment (level payments)	$ 10,696,254	$ 107,567,536	$ 118,263,790
	b. Employer normal cost	10,440,170	132,830,709	143,270,879
	c. Employer contribution requirement (a + b)	21,136,424	240,398,245	261,534,669
	d. EIR payment	523,000	7,608,900	8,131,900
	e. Total	$ 21,659,424	$ 248,007,145	$ 269,666,569
	f. Employer contribution requirement (% of projected payroll)	8.04%	10.45%	10.20%

GABRIEL, ROEDER, SMITH & COMPANY

TEN-YEAR ACTUARIAL SCHEDULES
1992 to 2001

- Retirement System Membership
  - 2001 Membership Data
- Historical Summary of Active Member Data
- Pensioners, Average Annual Pension and Active Member/Pensioner Comparison
- Number of Retirants and Beneficiaries
- Solvency Test
- Employer Contribution Rates as a Percentage of Payroll
- Employer Appropriations to Pension Accumulation Fund, Appropriation Years 1994-1995 to 2003-2004

Retirement System Membership, 1992 to 2001

March 31,	Active Members	Inactive Vested Members	Pensioners & Beneficiaries	Total Membership
1992	55,410	1,991	21,787	79,188
1993	57,467	2,051	22,387	81,905
1994	58,890	2,192	22,905	83,987
1995	58,498	2,189	25,360	86,047
1996	56,985	2,290	26,926	86,201
1997	57,044	2,456	27,173	86,673
1998	57,797	2,650	27,403	87,850
1999	58,387	2,777	27,950	89,114
2000	59,191	3,016	28,715	90,922
2001	59,992	3,416	29,660	93,068

Note: Schedule compiled by ERS Staff from actuary reports.

Membership Data

	Police, Fire, and Corrections		All Other Employees		All Employees	
	June 30, 2001	June 30, 2000	June 30, 2001	June 30, 2000	June 30, 2001	June 30, 2000
1. Active members						
a. Number	4,731	4,631	55,261	54,560	59,992	59,191
b. Total payroll	$ 239,356,555	$ 220,697,292	$ 2,110,842,317	$ 2,054,600,484	$ 2,350,198,872	$ 2,275,297,776
c. Average salary	$ 50,593	$ 47,657	$ 38,198	$ 37,658	$ 39,175	$ 38,440
d. Average age	39.7	40.0	46.1	45.9	45.6	45.5
e. Average service	12.9	13.0	13.3	12.9	13.3	13.0
2. Inactive members						
a. Number	92	-	3,324	-	3,416	3,016
b. Total annual deferred benefits	$ 1,477,889	-	$ 22,974,861	-	$ 24,452,750	-
c. Average annual deferred benefit	16,064	-	6,912	-	7,158	-
3. Service retirees[1]						
a. Number	2,189	-	24,900	-	27,089	28,715
b. Total annual benefits	$ 63,768,871	-	$ 411,616,549	-	$ 475,385,420	$ 477,587,880
c. Average annual benefit	29,132	-	16,531	-	17,549	16,632
4. Disabled retirees						
a. Number	171		950		1,121	
b. Total annual benefits	$ 2,128,140		$ 7,763,752		$ 9,891,892	
c. Average annual benefit	12,445		8,172		8,824	
5. Beneficiaries						
a. Number	128	-	1,322	-	1,450	
b. Total annual benefits	$ 1,949,413	-	12,622,647	-	$ 14,572,060	
c. Average annual benefit	15,230	-	9,548	-	10,050	

[1] July 1, 2000 information includes all retirees and beneficiaries

GABRIEL, ROEDER, SMITH & COMPANY

Historical Summary of Active Member Data

	Active Members		Covered Payroll		Average Salary			
Year Ending June 30,	Number	Percent Increase	Amount in $ Millions	Percent Increase	$ Amount	Percent Increase	Average Age	Average Service
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
1992	55,410	3.4%	1,828.7	9.1%	33,003	5.5%		
1993	57,467	3.7%	1,976.1	8.1%	34,387	4.2%		
1994	58,890	2.5%	2,029.9	2.7%	34,469	0.2%		
1995	58,498	-0.7%	2,083.0	2.6%	35,608	3.3%		
1996	56,985	-2.6%	1,990.1	-4.5%	34,923	-1.9%		
1997	57,044	0.1%	2,019.3	1.5%	35,399	1.4%		
1998	57,797	1.3%	2,135.9	5.8%	36,955	4.4%		
1999	58,387	0.9%	2,186.5	2.4%	37,448	1.3%		
2000	59,191	1.4%	2,275.3	4.1%	38,440	2.6%	45.5	13.0
2001	59,992	1.4%	2,350.2	3.3%	39,175	1.9%	45.6	13.3

GABRIEL, ROEDER, SMITH & COMPANY

Pensioners, Average Annual Pension and Active Member/Pensioner Comparision, 1992 to 2001

March 31,	Number of Pensioners	Average Annual Pension	Ratio of Active Members per Pensioner
1992	21,207	$11,200	2.6
1993	21,763	$11,841	2.6
1994	22,237	$12,468	2.6
1995	24,517	$13,452	2.6
1996	25,975	$14,364	2.4
1997	26,152	$14,976	2.2
1998	26,257	$15,552	2.2
1999	26,709	$16,116	2.2
2000	27,357	$16,632	2.2
2001	28,210	$17,202	2.1

Schedule compiled by ERS Staff from actuary reports.

Number of Retirants and Beneficiaries, 1992 to 2001

As of March 31,	Added to Rolls	Removed from Rolls	Total	Average Annual Pension
1992	1,002	278	22,245	$ 11,200
1993	1,060	317	22,988	11,841
1994	1,037	302	23,723	12,468
1995	2,301	664	25,360	13,452
1996	2,249	683	26,926	14,364
1997	943	696	27,173	14,976
1998	1,013	783	27,403	15,552
1999	1,311	764	27,950	16,116
2000	1,549	784	28,715	16,632
2001	1,668	723	29,660	16,853

Schedule compiled by ERS Staff from actuary reports.

Solvency Test, 1992 to 2001 (Amounts in Millions)

June 30,	Actuarial Accrued Liabilities: Active Member Contributions (1)	Actuarial Accrued Liabilities: Retirees, Beneficiaries, and Inactive Vested Members (2)	Actuarial Accrued Liabilities: Active and Inactive Members Employer Financed Portion (3)	Actuarial Value of Assets (4)	Cumulative Portion of Actuarial Accrued Liabilities Covered by Assets (5)	(6)	(7)
1992	$824.6	$2,308.4	$2,959.5	$4,241.9	100%	100%	37.5%
1993	859.9	2,635.9	3,180.0	4,680.7	100%	100%	37.3%
1994	910.0	2,842.6	3,246.7	5,146.8	100%	100%	42.9%
1995	780.7	3,530.0	3,089.1	5,615.9	100%	100%	42.3%
1996	811.6	4,091.3	2,496.8	6,084.8	100%	100%	47.3%
1997	830.7	4,369.8	2,716.9	7,268.5	100%	100%	76.1%
1998	883.5	4,472.7	3,053.5	7,916.2	100%	100%	83.5%
1999	902.2	4,682.2	3,517.2	8,590.8	100%	100%	85.5%
2000	938.0	4,914.5	3,817.8	9,204.7	100%	100%	87.8%
2001	876.0	5,232.4	4,398.5	10,506.9	100%	100%	77.5%

Note: Actuarial accrued liabilities for 1992-1994 are not comparable with amounts shown for later years. For 1992-1994, the sum of the three actuarial accrued liabilities equals the total pension benefit obligation. Beginning 1995, the actuarial accrued liabilities are equal to the actuarial accrued liability under the Entry Age Normal Actuarial Cost Method.

Schedule compiled by ERS Staff from actuary reports.

Employer Contribution Rates as a Percentage of Payroll, 1992 to 2001

Actuarial Valuation as of June 30,	Police, Fire and Corrections Normal Cost Rate	Police, Fire and Corrections Amortization Percent	Police, Fire and Corrections Total Employer Rate	All Other Employees Normal Cost Rate	All Other Employees Amortization Percent	All Other Employees Total Employer Rate	All Active Employees Normal Cost Rate	All Active Employees Amortization Percent	All Active Employees Total Employer Rate
1992	25.34%	2.87%	28.21%	16.18%	2.05%	18.23%	17.06%	2.13%	19.19%
1993	25.55%	2.77%	28.32%	16.59%	1.89%	18.48%	17.42%	1.97%	19.39%
1994	17.71%	2.68%	20.39%	12.88%	1.84%	14.72%	13.33%	1.92%	15.25%
1995	15.95%	7.24%	23.19%	5.38%	8.65%	14.03%	6.39%	8.52%	14.91%
1996	14.23%	1.23%	15.46%	3.76%	3.19%	6.95%	4.76%	3.00%	7.76%
1997	18.40%	-11.36%	7.04%	3.87%	-3.45%	0.42%	5.38%	-4.27%	1.11%
1998	11.47%	-11.22%	0.25%	4.28%	-3.88%	0.40%	4.99%	-4.61%	0.38%
1999	18.01%	-2.53%	15.48%	5.19%	1.61%	6.80%	6.46%	1.20%	7.66%
2000	13.17%	-8.82%	4.35%	6.03%	3.72%	9.75%	6.72%	2.50%	9.22%
2001	3.88%	4.16%	8.04%	5.59%	4.86%	10.45%	5.42%	4.78%	10.20%

Note: Rates for 1992-94 are not comparable with rates shown for later years. Beginning 1995, Amortization Percent includes EIR payment percentage and Excess Investment Earnings Credit percentage. Also, beginning 1995, the funding method was changed from Frozen Initial Liability Actuarial Cost Method to Entry Age Normal Actuarial Cost Method. Beginning 1997, the actuarial value of assets was changed from book value to a market related value.

Schedule compiled by ERS Staff from actuary reports.

Employer Appropriations to Pension Accumulation Fund
Appropriation Years 1994-1995 to 2003-2004
(Amounts in Millions)

Fiscal Year	Investment Yield Rate		Appropriation Year	Total Calculated Contribution	Investment Earnings Adjustment	Employer Appropriations
	Assumed for Actuarial Valuation	Actuarial Investment Return				
1991-1992	8.0%	12.17%	1994-1995	$ 351.0	$ (178.9)	$ 172.1
1992-1993	8.0%	10.02%	1995-1996	383.3	(95.2)	288.1
1993-1994	8.0%	7.76%	1996-1997	309.4	12.7	322.1
1994-1995	8.0%	6.19%	1997-1998	310.6	-	310.6
1995-1996	8.0%	9.99%	1998-1999	245.2	(90.7)	154.5
1996-1997	8.0%	13.72%	1999-2000	179.3	(156.9)	22.4
1997-1998	8.0%	11.68%	2000-2001	164.4	(156.3)	8.1
1998-1999	8.0%	12.33%	2001-2002	201.2	(33.7)	167.5
1999-2000	8.0%	12.58%	2002-2003	188.5	-	188.5
2000-2001	8.0%	8.90%	2003-2004	269.7	-	269.7

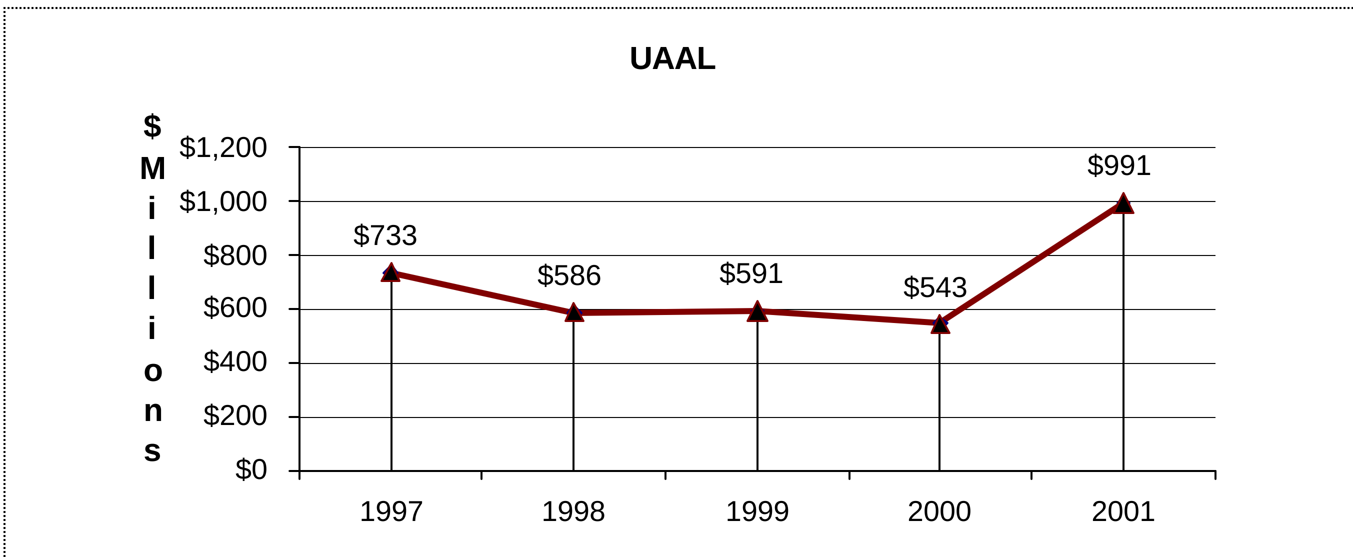
(1) Beginning in appropriation year 1997-98, total calculated contribution includes appropriations for the Early Incentive Retirement program.

(2) $99.4 million in additional employer contributions were deferred pursuant to the pension reform provisions in Act 327/1997.

(3) Beginning with the 1996-97 fiscal year, the actuarial investment income is the sum of the expected net investment income based on the actuarial assumption of 8% and a four-year smoothing of the difference between the market value of assets at year-end and the expected actuarial value of assets. In prior years, the actuarial investment income was the sum of interest, dividends, and net realized gains less net realized losses and investment expenses.

Schedule compiled by ERS Staff from actuary reports.

Unfunded Actuarial Accrued Liability FY1997-2001



STATE RETIREMENT SYSTEM'S FUNDED RATIOS

Funded Ratio		Number of General State Retirement Systems (excluding separate systems for teachers, school employees, or municipal employees)					
100% or more	22	Delaware	140.3%	North Dakota	115.1%	Colorado	103.1%
		Pennsylvania	123.7%	Florida	113.5%	Utah	101.8%
		Kentucky	121.6%	Texas	107.7%	Georgia	101.6%
		Minnesota	119.0%	Arkansas	107.4%	Maryland	101.2%
		California	116.8%	Michigan	106.9%	Ohio	101.0%
		Arizona	116.6%	Alaska	105.9%	Alabama	100.1%
		Idaho	116.5%	Wyoming	105.8%	Tennessee	100.0%
		New Jersey	116.1%				
90% to 99%	11	N. Carolina	99.4%	South Dakota	96.0%	**Hawaii***	**94.4%**
		New Mexico	99.1%	Wisconsin	95.8%	West Virginia	93.4%
		South Carolina	98.9%	Virginia	95.3%	Oregon	93.3%
		Iowa	97.0%	Massachusetts	94.5%	Vermont	91.9%
80% to 89%	8	Missouri	89.6%	Oklahoma	84.0%	Montana	81.3%
		Kansas	86.0%	Mississippi	82.6%		
		Illinois	81.7%	Nevada	82.5%		
70% to 79%	4	Maine	74.8%	Rhode Island	73.3%	Indiana	72.7%
		Louisiana	73.5%				
Less than 70%	1	Connecticut	59.1%				

Source: State of Wisconsin Retirement Research Committee, 2000 Comparative Study of Major Public Employee Retirement Systems (2001), Chart VI, pp. 23-24, as summarized by Gabriel, Roeder, Smith & Co.

Note: GASB 25 funded ratios are shown for 46 general state retirement systems for valuation year(s) through March 31, 2000. A funded ratio is not shown for the Nebraska System because it is a defined contribution plan. A funded ratio for the New York, New Hampshire, and Washington Systems do not exist because of the use of the Aggregate Cost Method.

* Hawaii's GASB 25 funded ratio for fiscal year ended June 30, 2001 was 90.6%

EMPLOYEES' RETIREMENT SYSTEM OF THE STATE OF HAWAII

STATISTICAL SECTION

Participating Employers and Active Members

As of March 31,

	2001		2000	
	Active Members	Percentage	Active Members	Percentage
State of Hawaii	46,185	77%	45,451	77%
City & County of Honolulu	8,236	14	8,190	14
- Board of Water Supply	616	1	657	1
Hawaii County	2,043	3	2,034	3
Maui County	1,912	3	1,867	3
Kauai County	1,000	2	992	2
	59,992	100%	59,191	100%

Revenues by Source

Year ended June 30	Employer appropriations (1)	Employer appropriations as a percentage of covered payroll (2)	Member contributions	Net investment income (3)		Total
1992	$120,426,998	6.59 %	65,946,450	$ 522,246,156		$ 708,619,604
1993	246,604,754	12.48	66,378,221	473,157,572		786,140,547
1994	298,723,670	14.72	63,288,694	402,487,400		764,499,764
1995	192,536,598	9.24	65,720,847	340,909,684		599,167,129
1996	288,070,687	14.48	53,766,483	1,176,991,469	*	1,518,828,639
1997	322,141,010	15.59	54,364,380	1,293,952,952		1,670,458,342
1998	310,627,135	14.54	56,168,443	1,251,839,166		1,618,634,744
1999	154,469,844	7.06	55,702,647	904,809,348		1,114,981,839
2000	22,392,100	0.98	57,358,185	695,151,054		744,901,339
2001	8,131,900	0.39	54,489,895	(679,605,059)		(616,983,264)

(1) Employer appropriations were made in accordance with actuarially determined contributions requirements. Prior to Fiscal Year 1996, employer appropriations included funding for administrative expenses.

(2) Covered payroll as reported by the actuary, effective March 31 of each year.

(3) Prior to Fiscal Year 1997, assets were reported at cost, thus net investment income includes only realized gains and losses, plus dividends, interest and other earnings. Effective July 1, 1996, ERS adopted GASB Statement 25 changing from reporting investments at cost to reporting investments at fair value (includes unrealized gains and losses).

* Includes recognition of previously deferred income and net unrealized gains and losses totaling $594,325,421 as a result of adoption of GASB Statement 25.

Expenses by Type

Year ended June 30	Total Benefit Payments	Refunds to Members	Administrative Expenses	Other	Total
1992	$281,080,094	$3,213,796	$2,446,107	$ -	$286,739,997
1993	305,821,506	3,423,138	2,274,981	-	311,519,625
1994	328,148,851	3,244,076	2,875,676	-	334,268,603
1995	405,551,920	2,653,593	2,896,684	-	411,102,197
1996	454,078,620	3,634,085	2,960,240	-	460,672,945
1997	432,732,753	3,963,721	3,217,348	-	439,913,822
1998	442,997,525	3,791,848	3,331,700	-	450,121,073
1999	478,744,074	4,454,658	3,775,942	29,272	487,003,946
2000	514,401,221	4,318,654	4,168,717	-	522,888,592
2001	544,906,809	3,892,377	4,893,712	-	553,692,898

Benefit Payments by Type

Year ended	Monthly Benefit Payments				Refunds Option	Total Benefit
June 30	Service	Disability	Death	Subtotal	Payments	Payments
1992	$239,464,491	$5,553,148	$4,322,170	$249,339,809	$31,740,285	$281,080,094
1993	258,536,407	5,948,855	5,304,422	269,789,684	36,031,822	305,821,506
1994	281,295,215	6,311,982	4,000,781	291,607,978	36,540,873	328,148,851
1995	315,636,011	6,311,914	2,843,789	324,791,714	80,760,206	405,551,920
1996	376,976,563	6,399,486	3,358,029	386,734,078	70,978,627	454,078,620
1997	398,471,144	7,424,424	4,626,452	410,522,020	67,344,542	432,732,753
1998	410,622,492	7,633,183	3,770,474	422,026,149	22,210,733	442,997,525
1999	431,410,418	8,055,791	4,581,030	444,047,239	20,971,376	478,744,074
2000	460,293,937	8,305,398	2,644,579	471,243,914	34,696,835	514,401,221
2001	491,957,932	8,950,018	2,369,546	503,277,496	41,629,313	544,906,809

Average Monthly Service Pensions by Years of Credited Service

As of March 31	Years of Credited Service							
	0 - 9	10 - 14	15 - 19	20 - 24	25 - 29	30 - 34	35+	All
1993								
Average Monthly Benefit	$180	$348	$567	$822	$1,232	$1,519	$1,571	$1,004
Number of Active Retirants	1,702	2,577	2,450	2,796	4,431	4,415	2,430	20,801
1994								
Average Monthly Benefit	$185	$364	$587	$854	$1,287	$1,597	$1,649	$1,057
Number of Active Retirants	1,647	2,626	2,507	2,834	4,591	4,611	2,467	21,283
1995								
Average Monthly Benefit	$191	$377	$609	$882	$1,388	$1,681	$1,772	$1,143
Number of Active Retirants	1,603	2,782	2,664	2,991	5,454	5,253	2,706	23,453
1996								
Average Monthly Benefit	$196	$387	$629	$911	$1,467	$1,170	$1,882	$1,220
Number of Active Retirants	1,554	2,865	2,724	3,090	6,068	5,758	2,867	24,926
1997								
Average Monthly Benefit	$201	$400	$659	$943	$1,539	$1,852	$1,985	$1,276
Number of Active Retirants	1,515	2,903	2,781	3,152	6,146	5,741	2,839	25,077
1998								
Average Monthly Benefit	$207	$411	$685	$978	$1,590	$1,918	$2,060	$1,321
Number of Active Retirants	1,457	2,932	2,823	3,190	6,181	5,764	2,826	25,173
1999								
Average Monthly Benefit	$212	$421	$710	$1,010	$1,645	$1,986	$2,143	$1,369
Number of Active Retirants	1,409	3,012	2,882	3,266	6,306	5,879	2,854	25,608
2000								
Average Monthly Benefit	$221	$426	$730	$1,032	$1,691	$2,044	$2,210	$1,414
Number of Active Retirants	1,368	3,107	2,941	3,336	6,435	6,139	2,936	26,262
2001								
Average Monthly Benefit	$225	$435	$746	$1,058	$1,739	$2,101	$2,269	$1,462
Number of Active Retirants	1,322	3,192	3,001	3,416	6,598	6,508	3,052	27,089

BENEFIT PAYMENTS BY RETIREMENT TYPE AND OPTION
RETIRED CONTRIBUTORY MEMBERS
As of March 31, 2001

Monthly Benefit	Number of Recipients	Type of Retirement *					Retirement Option						
		1	2	3	4	5	Max	Opt. 1	Opt. 2	Opt. 3	Opt. 4	Opt. 5	Other
$ 1 - 300	2,152	1,870	31	18	15	218	541	602	199	68	238	492	12
301 - 600	3,516	3,021	202	76	16	201	409	325	158	66	1,026	1,524	8
601 - 900	3,166	2,776	100	106	18	166	335	241	121	58	1,148	1,255	8
901 - 1,200	2,865	2,604	37	85	12	127	221	230	98	48	1,114	1,150	4
1,201 - 1,500	2,668	2,516	16	56	10	70	190	158	87	24	1,140	1,061	8
1,501 - 1,800	2,507	2,412	8	26	7	54	130	118	67	23	1,079	1,086	4
1,801 - 2,100	2,376	2,321	6	11	4	34	117	66	53	19	895	1,222	4
2,101 - 2,400	1,991	1,950	3	5	2	31	125	57	47	25	827	908	2
2,401 - 2,700	1,474	1,448	1	3	2	20	120	50	41	20	769	473	1
2,701 - 3,000	969	956	-	1	-	12	88	32	23	19	558	249	-
Over 3,000	1,653	1,622	-	3	3	25	182	71	106	57	866	371	-
Totals	25,337	23,496	404	390	89	958	2,458	1,950	1,000	427	9,660	9,791	51

* Type of Retirement

1 - Normal retirement for age & service
2 - Ordinary disability retirement
3 - Occupational disability retirement
4 - Survivor payment - death in service
5 - Survivor payment - normal or disability retirement

Note: Refer to Plan Summary in the Introductory Section for descriptions of the types of retirement and benefit options selected by the members.

BENEFIT PAYMENTS BY RETIREMENT TYPE AND OPTION
RETIRED NONCONTRIBUTORY MEMBERS
As of March 31, 2001

Monthly Benefit	Number of Recipients	Type of Retirement * 1	2	3	4	5	Retirement Option Normal	Opt. A	Opt. B	Opt. C	Other
$ 1 - 300	626	425	48	22	64	67	263	94	171	26	72
301 - 600	1,008	727	130	21	34	96	526	145	247	56	34
601 - 900	531	414	55	4	17	41	291	86	104	35	15
901 - 1,200	385	326	25	-	3	31	191	74	81	37	2
1,201 - 1,500	342	307	14	-	2	19	180	67	65	30	-
1,501 - 1,800	421	405	6	-	1	9	267	69	40	44	1
1,801 - 2,100	485	477	2	-	-	6	351	46	35	53	-
2,101 - 2,400	219	215	-	-	-	4	162	24	18	15	-
2,401 - 2,700	125	121	-	-	1	3	77	28	15	5	-
2,701 - 3,000	89	86	-	-	1	2	55	19	10	5	-
Over 3,000	92	89	-	-	-	3	59	19	10	4	-
Totals	4,323	3,592	280	47	123	281	2,422	671	796	310	124

* Type of Retirement

1 - Normal retirement for age & service
2 - Ordinary disability retirement
3 - Occupational disability retirement
4 - Survivor payment - death in service
5 - Survivor payment - normal or disability retirement

Note: Refer to Plan Summary in the Introductory Section for descriptions of the types of retirement and benefit options selected by the members.