



# Holomua



Employees' Retirement System  
of the State of Hawaii

Holomua (to improve, progress) is published quarterly for retirees and active members of the ERS

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## 2016 Proposed Legislation

The 2016 Hawai'i State Legislature opened on January 20, 2016 and will run through May 5, 2016. As part of the Governor's administrative package for this session, there were three proposals related to the Employees' Retirement System (ERS). Summaries are noted below.

### HB2312/SB2841 Employer Contributions

This bill confirms that employers may make ERS contributions in advance and provides that monthly payments are not required if previous advance payments were sufficient to cover the required contributions for the month. When employers make advance payments of their contributions, the ERS is able to invest the funds sooner, thereby increasing the potential for greater investment returns, which will reduce the system's unfunded liability.

### HB2313/SB2842 Unclaimed Property

This bill would preserve the ERS's use and control of unclaimed member

contributions and benefit payments by suspending and forfeiting them to the ERS prior to the time they would be required to be paid to the State's Unclaimed Property Program or escheated to another state. In addition, the bill preserves the ability of the member, former member, beneficiary, or other person or entity to recover the forfeited contributions or benefit payments by providing a means for those persons or entities to apply to the ERS for recovery of those forfeited contributions and benefit payments.

### HB2314/SB2843 Felony Convictions and Forfeiture of Benefits

This proposal would require the ERS to comply with a court order decreeing a forfeiture of all or a portion of any interest, hypothetical account balance, pension, annuity or retirement allowance otherwise payable a member, former member, or retiree of the system convicted of a felony that the court finds is related to the employment of the member, former member, or retiree by the State or County. This proposal does not impair or diminish the accrued retirement benefits of members of ERS protected by article

*Continued on page 6*



## Why ERS Opposed Divestment Bill

Although Senate Bill 2155 did not pass out of chamber to be considered during the Legislature's current session, it is a proposal that may receive future scrutiny and is therefore a topic the 119,000 retirees and active members of the ERS may want to better understand. Despite the good intent of the bill's drafters, its potential to negatively impact ERS investments and their ability to fund future retiree benefits would have been significant.

The bill would have mandated that the ERS "divest its investment portfolio of all coal, oil, and gas companies to demonstrate the State's commitment to addressing climate change, and to disassociate the State's interests from that of the fossil fuel industry." A five-year timeframe would have required the ERS to be 100 percent divested by July 1, 2021, far earlier than the State's 2045 target.

Proponents cited a seemingly growing list of cities, colleges, endowments and pension funds that have chosen to divest, however there was no mention of organizations that have conducted studies and elected not to follow suit. Is divestment an irresistible wave whose time has come? The ERS believes it is not.

"[The] ERS believes strongly that important decisions such as divestment from fossil fuels should only be made following a complete examination and understanding of its impacts and alternatives," said ERS Executive Director Thomas Williams in testimony before the Senate's Judiciary and Labor Committee. He pointed to the ERS's funding level, currently at 62.2 percent with an unfunded liability of \$8.8 billion, and stressed that arbitrarily restricting the universe of investment securities only introduces greater risks.

Vince Barfield, ERS Board chair, emphasized that concern and stated "the commitment to our current and future retirees' pensions should not be jeopardized by restricting current investment options." The ERS Board took the position that

## A Message from Thomas Williams

**Value:** To estimate or assign the monetary worth of, appraise, to rate or scale in usefulness, importance or general worth.

What's become clear to me during my first few months on the job is the incredible value ERS represents to its members, their beneficiaries and to people all across our state.

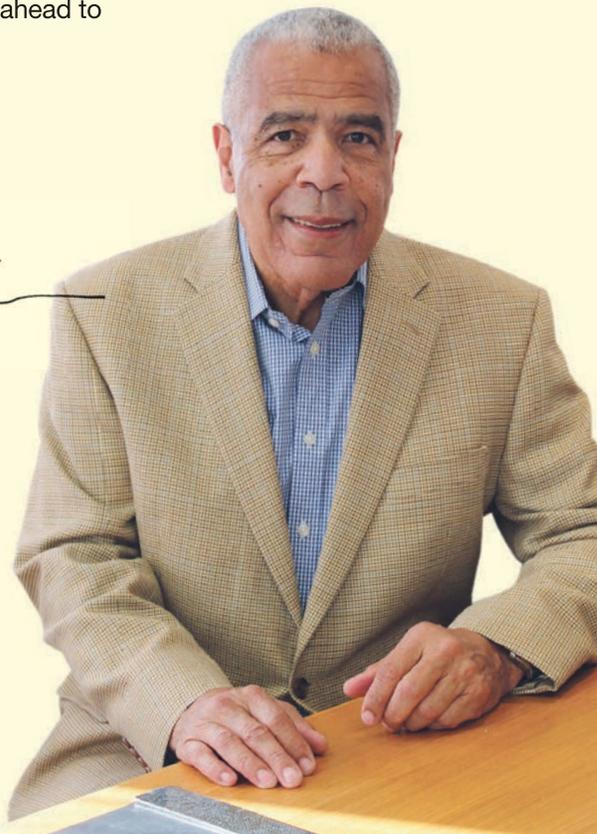
One measure of that value is the system's payment of over \$1.1 billion annually in retirement and other benefits. These members' monies are magnified many times as they extend to support our member's families and the economic vitality of our scores of communities.

Another measure is the important role these benefits play in sustaining a quality of life for our retirees. I am personally struck by the number of times I'm told how important it is that we "take good care of our money, because we're depending on you!"

A final sense of value, one not easily seen but observed here by me on a daily basis, is the deeply felt responsibility derived from the dedication and loyalty of the staff who work tirelessly to deliver on the promises we implicitly make to each of you – promises to protect the monies you have entrusted to us and to provide timely, expert and personal service. This spirit of *kuleana* will direct our every effort going forward.

While recognizing that commitment, I also acknowledge there is more we can and must do to earn and keep your trust. We will redouble our efforts in the months ahead to do just that.

Mahalo,



forcing divestment from all its investments in fossil fuels would be unwise and costly.

This was the general conclusion of a recent report by Dr. Bradford Cornell, professor of Financial Economics at the California Institute of Technology and a senior consultant at Compass Lexecon, an economic consulting firm known for its empirical analysis. Dr. Cornell studied five top U.S. universities – Harvard, Yale, Columbia, MIT and New York University – and found that their hypothetical divestment of fossil fuel investments would generate a combined \$195 million annual loss for their endowment funds. ERS consultants advise that fossil fuel divestment will harm its investment returns as well.

Approaches to the issue vary widely. The California Public Employees' Retirement System has only divested from coal, a resource in which the ERS has no investment. Others have elected to divest from companies producing oil from "tar sands," a source that is not only more expensive to produce but also more polluting. Still others have considered the issue and have rejected the idea in its entirety. The ERS does not know of any large U.S. public pension fund that has fully divested. Furthermore, Dr. Cornell's research revealed divestment had no tangible impact on the targeted energy companies.

"Many who have elected not to divest prefer constructive engagement as a means to alter corporate behavior," said Williams. "Other approaches, no matter how well intentioned, pose unnecessary and unknowable risks to the achievement of our [fund's] objectives."

The ERS has long acknowledged its role in socially responsible investing. Its investment program includes: avoiding companies whose records conflict with ERS investment values; seeking out companies whose record is consistent with ERS values; and evaluating environmental, social and governance issues as a fundamental component of the due diligence process.

## Report from Vijoy Chattergy, Chief Investment Officer

*Aloha Kākou.*

In the previous *Holomua* newsletter, I discussed "gaps," or what investors refer to as "spreads." I very cautiously noted that "high yield" bond spreads had widened and that might indicate that the beginning of 2016 would be challenging for the ERS portfolio. While that indication was correct, the importance should not be on the possible predictive value of the spread widening, but more on the fact that the underlying reason a spread increases is that there is more uncertainty surrounding the investment. In other words, for this article, I want to focus on the fundamental reality/perception gap that investors face, which is actually just an aspect of the human condition.

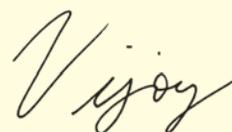
In 1927, Werner Heisenberg described the "uncertainty principle" for quantum mechanics as being about the limitations for observing the basic building blocks of the natural world. While improvements have been made to the concept with rigorous theory and experiments, affirmed over time is the general conclusion that it is impossible to fully describe the world precisely or make absolute predictions about the future. Ignoring the substantial science behind the concept cited, the relatively naïve point of this article is that our perception of reality and actual reality is never accurate. There is always a gap in our understanding about what is going on in the world, which we as investors try to narrow as much as possible. Accepting this understanding should keep us humble.

Early 2016 saw wrenching ups and downs of stock prices. Certain market commentators explained that the price of oil fluctuations have driven these gyrations. The narrative goes that, with U.S. technology, a flood of new oil supply has entered the market. Saudi Arabia, historically the dominant oil producer, chose not to adjust its production thereby allowing the excess supply to persist, causing oil prices to tumble. Another narrative might explain the drop in oil as the cumulative effect of less demand and more efficient use of existing oil. More of the millennial generation is choosing not to have driver's licenses. Car services such as Lyft and Uber lessen the demand for vehicles. Technology is developing electric and alternative modes of transportation.

Which narrative is correct? What evidence can be used to support one argument over the other? Are there quantitative figures to affirm the descriptive story? What experience and insights about markets can point to one story or the other? Is there an explanation that is not being considered? Is there a hybrid solution reflecting a more complex reality? Answers to these questions will inform how to structure an investment portfolio or where to search for new investments.

In the end, we cannot know with absolute certainty. We have to make a decision about what is driving markets and how to capture future returns or miss future losses. However, even if our decision seems plausible and correct, we can't know for sure. We have to accept the discomfort of not being able to know everything, yet still take action.

To be an effective investor, one must be comfortable with gaps. We learn to minimize them, but when the world tells you that the gap in your knowledge is bigger than you originally perceived, you have to pick yourself up and start over. It is a never-ending process in which we all should take some comfort. After all, it is the way of the world.



# ERS by the Numbers

The June 30, 2015 Actuarial Valuation Report of the ERS was prepared by Gabriel, Roeder, Smith and Co., ERS's actuarial consultants, and presented to the Board of Trustees in December 2015. Included with the current report of the funded status of the ERS are statistical tables on which the actuarial analysis is based.

The actuaries review our active, terminated and retired membership in order to determine where we are now and to anticipate funding for the longevity and sustainability of the pension fund. This report may be viewed on our website under the links: Resources > Financials.

What was the actuarial "snapshot" of the ERS as of June 30, 2015?

ERS Assets	
Actuarial (smoothed*) value.....	\$14,463.7 million
Market value.....	\$14,505.5 million
Return on actuarial value.....	7.9%
Return on market value.....	3.9%
Actuarial Information	
Unfunded actuarial accrued liability ...	\$8,768.0 million
Funded ratio (based on smoothed* assets) .....	62.2%
Funded ratio (based on market assets).....	62.4%
Funding period (years).....	26.0
Contributions**	
Employees.....	\$223,505,419
Employers.....	\$717,792,981
Total.....	\$941,298,400
ERS Payments	
Refunds .....	\$10,507,888
Benefit Payments .....	\$1,170,744,770
Total.....	\$1,181,252,658

\* Adjusted over a 4-year period to "smooth-out" significant market fluctuations

\*\* Does not include investment return

For the ERS to be able to provide benefits for all of our retired and active members into the future, the actuaries must look to the pension fund's past and, based on certain assumptions relative to such factors as retirement, mortality, turnover and disability rates, investment returns, salary increases and inflation, anticipate our future. One of the key factors that every pension fund must consider is life expectancy or longevity.

Members may be surprised to learn that the ERS has 9,783 retirees who are in the 80+ age bracket, including 43 who are 100 years old or more! While life expectancy across the nation hit a high in 2014 at 78.8 years, Hawai'i residents have traditionally fared even better. In fact, a 2013 study by the Centers for Disease Control and Prevention concluded Hawai'i residents who reached the age of 65 have the "highest healthy life expectancy" in the nation. A number of different studies have come to the same conclusion.

This is great news for our members and everyone living in Hawai'i, but it is a factor that the ERS and its actuaries must consider very carefully to ensure retirees and beneficiaries continue to receive their benefits and that the fund will be sustainable. After analyzing the ERS's data for a five-year period (or longer), the actuaries help the ERS determine if changes to the plan are needed. Our next five-year study is scheduled for June 2016.

Who are we? A few demographics of interest:

Membership	
Active Members .....	67,310
Retirees and Beneficiaries.....	44,283
Inactive, Vested .....	7,413
Total.....	119,006
Active Membership	
Contributory .....	6,169
Noncontributory .....	16,023
Hybrid.....	45,118
Active Members' Average Annual Income .....	\$58,723
Employee Categories	
General Employees .....	44,829
Instructional Employees .....	17,437
Police/Fire Category Employees .....	5,044
Retirees	
Ages 80 to 89 .....	7,817
Ages 90 to 99 .....	1,923
Ages 100 and above .....	43
Retirees' Average Monthly Pension .....	\$2,208

## DHRD Pre-Retirement Information Now Online

Effective January 1, 2016, the Department of Human Resources Development (DHRD) has discontinued hosting the Contributory Plan, Non-Contributory Plan and Hybrid Plan pre-retirement workshops at the State Capitol Auditorium. Instead, information on these three retirement plans (along with workshop presentation materials and handouts), will now be available 24-7 online as part of the Executive Branch On-Line Training Catalog listed on DHRD's website. This conversion to an online format was made in order to help employees statewide obtain plan information as needed.

**The web address for the online catalog is:**  
<http://dhrd.hawaii.gov/state-employees/eetraindev/>

Employees wishing to access DHRD's Pre-Retirement Information may click on "Executive Branch On-Line Training Catalog" and scroll down to the Pre-Retirement "events" and register online. ERS pre-retirement materials will be identified by membership plan. Note: The pre-retirement content posted may be updated periodically to reflect changes to information and/or benefits.

### ERS Conducting Supplemental Sessions

In line with DHRD's online pre-retirement sessions, the ERS will be conducting supplemental sessions focusing on the Hybrid, Noncontributory, and Contributory retirement options for the participants of the online sessions. Members will be given this opportunity to get clarification on any questions they may have regarding the information they have viewed. We hope this session will help you with the important decisions regarding your retirement and the selection of plan options.

Below is the schedule for May 2016:

Dates	Membership	Location/Time
May 17	Hybrid	ERS 11:30 am to 12:30 pm. Please report to the 14th floor and staff will direct you to our conference room.
May 19	Noncontributory	
May 25	Contributory	

To register, please call our office at 586-1735 at least one week prior to the scheduled session as seating is limited.

Neighbor Island ERS offices already schedule and conduct pre-retirement sessions for Neighbor Island employees. Scheduled sessions for each island may be found on the ERS website.

## Brown Bag Sessions

This is a friendly reminder about our upcoming Brown Bag Sessions for new and mid-career O'ahu members. Our informal session provides you with the opportunity to ask questions on your retirement.

Below is the schedule for the upcoming quarter:

Dates	Membership	Location/Time
April 21	Hybrid	ERS 12:15 pm to 12:45 pm. Please report to the 14th floor and staff will direct you to our conference room.
May 12	Noncontributory	
June 9	Contributory	
June 28	Hybrid	

To register, please call our office at 586-1735 at least one week prior to the scheduled session. Each session is limited to 35 members. On the day of the session, please report to the 14th floor in our building and staff will accompany you to the conference room. Feel free to bring your lunch, too. Limited parking is available in our building.

## Member Information Access Update

There is a new process to access member information on the ERS website. In addition to entering identification information (Last Name, Date of Birth, and Last 4 digits of your Social Security Number) you are now required to create an account, if you don't already have one, on eHawaii.gov (the official website of the State of Hawaii). This additional step will "link" your membership record to your eHawaii.gov account. As an enhanced security feature, users are required to update their password every three months.

Are you having problems accessing the ERS Member Information module? Below is a brief explanation of some of the reasons you may not be able to log on.

- You are an ERS retiree. Member Information excludes retirees.
- You are recently employed and your payroll information has not been validated and entered into our system. Please try again after the next member update.
- You may have entered information incorrectly. Be sure to enter your ERS information in the proper date format, mm/dd/yyyy.
- You may have updated your identification information. ERS may not have your latest/current information.

Check future issues of *Holomua* for more Member Information updates.

# 2016 Proposed Legislation

Continued from page 1

XVI, Section 2, of the Hawai'i State Constitution. This proposal applies prospectively to felonies committed by public employees after the effective date of the proposal.

Other bills monitored by ERS include:

## **HB2124/SB2288**

### **Investment Personnel of the ERS**

Although the members of the Board of Trustees, as fiduciaries, are responsible for the general management of the system's assets and implementation of the system's investment policy, the trustees themselves need not be investment experts. The role of assisting and advising the board with structuring the system's investment portfolio falls primarily with the system's investment staff. This bill requests that these professional investment positions be exempt from civil service for flexibility of hiring and retaining these critical employees.

## **HB2016/SB2428**

### **EUTF Retiree Co-payments**

Requires public retiree contributions to the Employer-Union Health Benefits Trust Fund (EUTF) for medical plan premium payments to be paid through withholding of retirement benefit amounts from the ERS. In addition, this bill allows the EUTF to authorize automatic electronic payments for retiree and beneficiary medical plan premiums.

## **HB2468/SB2346**

### **Hawaii Domestic Relations Orders**

Authorizes and requires the ERS to make direct payments to a spouse or former spouse of a system member or retirant of all or a portion of the member's or retirant's benefits pursuant to a Hawaii domestic relations order.

These bills and other legislation may be reviewed on the Hawai'i State Legislature website at <http://www.capitol.hawaii.gov>.

# News from the Hawai'i Employer-Un

## Open Enrollment Period & Important Plan Changes

The Open Enrollment period for all EUTF Active Employee Health and Life Insurance plans, including HSTA VB plans, will be from April 1, 2016 through April 29, 2016.

Now is the time when you should stop and think about health coverage for yourself and your family and determine which plan offered will best meet your needs for the new plan year (July 1, 2016 through June 30, 2017). Open Enrollment is your only opportunity to make changes during the plan year without a qualifying event, such as needing to enroll a new dependent due to marriage or birth. EC-1/EC-1H forms must be submitted to your employer's open enrollment designee by April 29, 2016.

### **Here are some important dates to remember:**

- **Open Enrollment election period** April 1, 2016 through April 29, 2016
- **Rate changes effective** July 1, 2016
- **New premiums deducted from paycheck** July 15, 2016 through June 30, 2017 (County employees)  
July 20, 2016 through July 5, 2017 (State employees)
- **Plan period** July 1, 2016 through June 30, 2017

Visit EUTF's website at [eutf.hawaii.gov](http://eutf.hawaii.gov) to review the 2016 Reference Guide and for a schedule of Open Enrollment Informational Sessions. At these Informational Sessions, the EUTF and the insurance carriers will provide information on changes to the plans as well as tips on what to consider in selecting the right plan for you and your family and how to better utilize your EUTF health benefits.

The following is a brief summary of the significant changes to the EUTF plans effective July 1, 2016, **excluding the HSTA VB plans:**

### **HMSA Medical Plans**

- Added autism benefits for individuals under 14 years of age up to \$25,000 per year.
- Added orthodontic services for children born with orofacial anomalies under age 26 up to \$5,500 per treatment phase.
- For the HMSA 80/20 and 75/25 PPO plans only:
  1. Added an out-of-network deductible of \$250 per person and \$750 per family to the 80/20 plan.
  2. Changed copayments for primary care and specialist office visits, second opinions (surgery) and inpatient physician services to 20% coinsurance for the 80/20 plan and 25% coinsurance for the 75/25 plan.

# ion Health Benefits Trust Fund (EUTF)

## Call the EUTF with your health benefits questions

The EUTF is a separate organization from the ERS. If you have any questions about information in this article, please contact the EUTF directly.

For more information, visit [www.eutf.hawaii.gov](http://www.eutf.hawaii.gov).

### Contact info:

**586-7390**

**1-800-295-0089 toll free**  
**eutf@hawaii.gov**

3. Added coinsurance for outpatient diagnostic lab services of 20% for the 80/20 plan and 25% for the 75/25 plan.
  4. Changed copayments for in- and out-of-network emergency room use to coinsurance of 20% for the 80/20 plan and 25% for the 75/25 plan.
  5. For most services, increased the out-of-network coinsurance to 40%.
- Added the Retail 90 network with a copayment of two times the 30-day supply copayment for a 90-day supply of medication filled at a Retail 90 network pharmacy and through mail order, and a copayment of three times the 30-day supply copayment for a 90-day supply of medication filled at a non-Retail 90 network pharmacy. Contact CVS Caremark customer care at 1-855-801-8263 to locate a Retail 90 network pharmacy in your area.

### Kaiser Permanente Medical and Prescription Drug Plans

- Added autism benefits for individuals under 14 years of age up to \$25,000 per year.
- Added orthodontic services for children born with orofacial anomalies under age 26 up to \$5,500 per treatment phase.
- For the Kaiser Comprehensive plan, changed the prescription drug plan copayment for a 30-day/60-day supply to \$5/\$10 for generic tier 1, \$10/\$20 for generic tier 2, \$35/\$70 for brand and \$75/\$150 for specialty. The copayment for a 90-day supply of medication: 1) Through mail order (not available for certain types of medication) is two times the 30-day copayment; or 2) Through a retail pharmacy is three times the 30-day copayment.
- For the Kaiser Standard plan, changed the prescription drug plan copayment for a 30-day/60-day supply to \$5/\$10 for generic tier 1, \$15/\$30 for generic tier 2, \$50/\$100 for brand and \$75/\$150 for specialty. The copayment for a 90-day supply of medication: 1) Through mail order (not available for certain types of medication) is two times the 30-day copayment; or 2) Through a retail pharmacy is three times the 30-day copayment.

### CVS Caremark Prescription Drug Plans

- Changed the prescription drug copayment for a 30-day/60-day supply to \$5/\$10 for generic, \$25/\$50 for preferred brand, and \$50/\$100 for non-preferred brand.

### Retiree News from the EUTF

Effective July 1, 2016, the Retail 90 network will be added to the CVS Caremark plan for non-Medicare retirees. For medication filled at Retail 90 network pharmacies and through mail order, the copayment is two times the 30-day supply copayment for a 90-day supply. For medication filled at non-Retail 90 network pharmacies, the copayment is three times the 30-day supply copayment for a 90-day supply. Contact CVS Caremark customer care at 1-855-801-8263 to locate a Retail 90 network pharmacy in your area.



**Ua 'Ike Anei  
Oukou**  
**Did You Know?**

*"As of June 2015, there were 5,674 retirees who have been retired for 25 years or more. Which means, they've been retired since 1990 or earlier!"*



**Employees' Retirement System**  
of the State of Hawaii

*Working to fulfill  
your retirement dreams...*

201 Merchant Street, Suite 1400  
Honolulu, HI 96813-2980



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Thomas Williams  
*Executive Director*  
Kanoë Margol  
*Deputy Executive Director*  
Vijoy (Paul) Chattergy  
*Chief Investment Officer*

**How to Contact Us**

**Monday-Friday**  
7:45 a.m. - 4:30 p.m.  
(Except State holidays)

**ERS-Pension:**

For pension related questions,  
please contact ERS at:

**O'ahu Office:** (808) 586-1735

**Kaua'i Office:** (808) 274-3010

**Hawai'i Office:** (808) 974-4077

**Maui Office:** (808) 984-8181

**Moloka'i and Lana'i,**  
(Toll free to Maui):

1-800-468-4644, ext. 48181

**Continental U.S.**

toll free to O'ahu: 1-888-659-0708

<http://ers.ehawaii.gov>

**EUTF - Medical Coverage:**

For medical coverage and  
Medicare reimbursements,  
please contact EUTF at:

(808) 586-7390 or  
toll-free at 1-800-295-0089  
or email at [eutf@hawaii.gov](mailto:eutf@hawaii.gov)



# Holomua

Retirees & Active Members

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## Ask ERS Answers to some frequently asked questions:

**Q: Does the ERS process Medicare reimbursements for retirees and beneficiaries?**

**A:** No. Medicare reimbursements are handled by the Hawai'i Employer-Union Health Benefits Trust Fund (EUTF). All inquiries should be made directly to the EUTF at (808) 586-7390 or toll free at 1-800-295-0089.

**Q: Can Noncontributory members designate a beneficiary at retirement?**

**A:** Yes. At retirement, the Noncontributory member has four (4) retirement options from which to select, and each option requires a designation of a beneficiary. For active Noncontributory members, beneficiary designations are not required as the in-service or active death benefits are set by law to be

payable to the surviving spouse and dependent children or reciprocal beneficiary.

**Q: My spouse received a statement for his February pension, but I did not receive one. Why didn't I get one?**

**A:** Statements of Retirement Allowances and Deductions are only mailed out with your first pension payment or when there is a change to your net pension payment. If your net amount has changed but you did not receive a statement, please allow time for the postal service to deliver your statement before requesting a duplicate. Due to postal service changes, it may now take longer to receive your statement than in the past. Please retain pay statements as a record of your current pension amount.