EMPLOYEES'
RETIREMENT SYSTEM
OF THE
STATE OF HAWAII

COMPREHENSIVE ANNUAL FINANCIAL REPORT

FOR THE FISCAL YEAR ENDED JUNE 30, 2002

EMPLOYEES' RETIREMENT SYSTEM OF THE STATE OF HAWAII

COMPREHENSIVE ANNUAL FINANCIAL REPORT

FOR THE FISCAL YEAR ENDED JUNE 30, 2002

Prepared by the Staff of the:
Employees' Retirement System of the State of Hawaii
201 Merchant Street, Suite 1400
Honolulu, Hawaii 96813
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DAVID Y. SHIMABUKURO, Administrator
WESLEY K. MACHIDA, Assistant Administrator
KIMO BLAISDELL, Chief Investment Officer

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RETIREMENT SYSTEM
OF THE
STATE OF HAWAII

INTRODUCTORY SECTION

LINDA LINGLE
GOVERNOR

STATE OF HAWAII
EMPLOYEES' RETIREMENT SYSTEM

December, 2002

Honorable Linda Lingle
Governor, State of Hawaii
Honolulu, Hawaii 96813

Dear Governor Lingle:

It is my pleasure to submit the Employees' Retirement System's (ERS) Comprehensive Annual Financial Report for the fiscal year ended June 30, 2002. This report provides information on the financial status of the ERS and highlights significant changes that occurred during the past fiscal year.

A pension benefit study was completed early this year and submitted to the 2002 Legislature. The study was undertaken in response to a 2001 legislative resolution (SCR No. 159) which directed the ERS to determine the feasibility of allowing Noncontributory Plan members to return to a Contributory Plan and the impact of creating an Optional Defined Contribution Plan. A new Defined Benefit Contributory Plan with a hybrid feature is being proposed to balance the needs of the shorter term employee with those of the longer term employee. The proposed features of an Optional Defined Contribution Plan are also in the study. Public hearings to determine interest and to solicit input in the plan design are anticipated during the 2003 legislative session. The study is available on the new ERS website (www2.state.hi.us/ers/).

The ERS' investment portfolio had a –5.5% return for the fiscal year ended June 30, 2002. As you know, tough economic times have impacted private and public pension funds across the country, and Hawaii was no exception. Although there was a negative return, the past year's investment results placed the ERS in the top half of comparable public funds nationwide. Our long-term investment policies are working as intended as evidenced by the fact that the ERS had positive investment returns for 32 of the past 35 years.

We are concerned about the unfunded accrued liability which increased from $991 million in June 2001 to $1.8 billion in June 2002 on an actuarial basis. When using the fair value of assets, the unfunded accrued liability was in excess of $3.3 billion. The use of ERS investment earnings to help balance the State and county governments' budgets and the negative investment returns over the past two years primarily contributed to the increase of the unfunded accrued liability. The Board of Trustees strongly supports legislation that will ensure that the ERS is adequately funded to pay for the pension benefits promised to current and future retirees. We should not burden our children and future taxpayers with today's retirement costs.

Governor Linda Lingle
December, 2002
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On behalf of the Board of Trustees, I would like to thank the dedicated staff, investment managers, consultants and the many others who have worked so diligently to assure the successful operation of the ERS.

Respectfully submitted,

Jackie Ferguson-Miyamoto, Chair
Board of Trustees

LINDA LINGLE
GOVERNOR

STATE OF HAWAII
EMPLOYEES' RETIREMENT SYSTEM

December, 2002

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

Dear Board Members:

It is our privilege to submit to you the Comprehensive Annual Financial Report (CAFR) of the Employees' Retirement System of the State of Hawaii (ERS) for the fiscal year ended June 30, 2002. 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, 2002, the ERS' total membership of 96,373 was comprised of 62,208 active members, 3,835 inactive vested members, and 30,330 retirees and beneficiaries. This represents a 3.6% growth in the total membership over the previous year, with the number of active members increasing 3.7%. 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, organizational structure, a summary of the ERS' plan provisions and recent legislative changes;
(2) Financial - contains a report of the Independent Certified Public Accountants, the financial statements of the ERS and supplementary information;
(3) Investment - includes a summary of ERS' investment policies, investment performance results, and various investment schedules;

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(4) Actuarial - contains the Actuary's Letter of Certification and the results of the annual actuarial valuation; and
(5) Statistical – contains historical information on the ERS membership and financial results.

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 earnings are 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.

ADDITIONS TO PLAN NET ASSETS

The following schedule is a summary of the additions for the past two fiscal years:

			Increase (Decrease)	
	2002	**2001**	**Amount**	**Per Cent**
Member contributions	$ 55,451,216	$ 54,489,895	$ 961,321	1.8 %
Employer contributions	167,458,900	8,131,900	159,327,000	1959.3 %
Net investment loss	(503,995,093)	(679,605,059)	175,609,966	25.8 %
Total	$ (281,084,977)	$ (616,983,264)	$ 335,898,287	54.4 %

Member contributions increased due to higher salaries although the number of members in the Contributory Plan declined by 7.8%. 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, 2002 and 2001 were based on June 30, 1999 and 1998 actuarial valuation reports, respectively. Increases in employer contributions are the result of a 1999 law which diverted ERS actuarial investment earnings above 10% to help balance the State and county governments' budgets in FY 2001.

DEDUCTIONS TO PLAN NET ASSETS

ERS provides retirement, disability and survivor benefits to qualified members and their beneficiaries. The following schedule is a summary of the deductions for the past two fiscal years:

			Increase (Decrease)	
	2002	**2001**	**Amount**	**Per Cent**
Benefits	$ 565,559,305	$ 544,906,809	$ 20,652,496	3.8 %
Refund of contributions to former members	3,244,334	3,892,377	(648,043)	(16.6)%
Administrative expenses	5,754,832	4,893,712	861,120	17.6 %
Total	$ 574,558,471	$ 553,692,898	$ 20,865,573	3.8 %

The increase in benefit payments reflects an increase in the number of retirees, the annual post retirement benefit increase, and the increase in benefits for pre-1990 retirees with military service as a result of Act 284/2001. The ERS' administrative costs are detailed in the Financial Section of this report.

INVESTMENTS

Investment management firms have been retained to execute the ERS' investment strategies and have full discretion within certain statutory provisions, Board policies and their respective guidelines. A summary of the ERS' investment activities and performance results is in the Investment Section.

Although the investment return in FY 2002 was negative as a result of the continuing bear market in stocks, the ERS managed to beat most of the major investment performance benchmarks. It is also worth noting that total investment earnings over the past 10 years exceeded $5.5 billion and the average annual return over the 10-year period was 8.3%.

FUNDING STATUS

The funding objective of ERS is to accumulate sufficient assets to meet the 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 84.0% and 90.6% as of June 30, 2002 and June 30, 2001, respectively. When using the fair value of assets, the funded ratio on June 30, 2002 was approximately 70%. A detailed discussion of the funding method is provided in the Actuarial Section of this report.

PROFESSIONAL SERVICES

Independent consultants are retained by the Board to perform professional services that are essential to the effective and efficient operation of the ERS. Reports 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 and their report on the ERS' investment program is also included in this report.

MAJOR EVENTS/INITIATIVES

The ERS' major events/initiatives during the past fiscal year included the implementation of Act 284 which became effective on July 1, 2001. This measure provides pension increases for members who retired before July 2, 1989, and rendered honorable active military service. We reviewed the claim forms and old military records for over 2,900 retirees and processed $2.3 million in benefit payments to 2,320 pensioners.

To expedite the processing of retirement benefits, we conducted an intensive review of our operations and implemented many internal changes to streamline the process. We were also successful in securing legislative approval to switch to a monthly pension payment cycle for new retirees, simplify the calculation of a member's average final compensation, begin retirements on the first day of the month or the last day of the year, and provide more counseling time to handle the growing number of baby boomer retirees. The Legislature also provided enhanced death benefits for the beneficiaries of deceased retirees to expedite the processing of death benefit claims.

A new website was launched to improve services and provide easier access to retirement information. The website includes a retirement benefit estimate calculator that enables Noncontributory Plan members to generate their own estimates of future benefits. Other helpful new features will be added in the future.

In the area of investments, we transferred almost $6 billion to a new master bank custodian during the spring. The Board consolidated the investment portfolio with the closing or termination of four investment management firms during the year. This consolidation reduces investment management costs.

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, 2001. 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 twelve 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

The preparation of this report reflects the combined efforts of ERS staff and advisors to provide complete and reliable information as a basis for making management decisions, as a means of determining compliance with legal provisions, and for determining responsible stewardship of the assets contributed by the ERS' members and their employers.

This report is being sent to the Governor, legislators, State and county officials, and other interested parties.

Respectfully submitted,

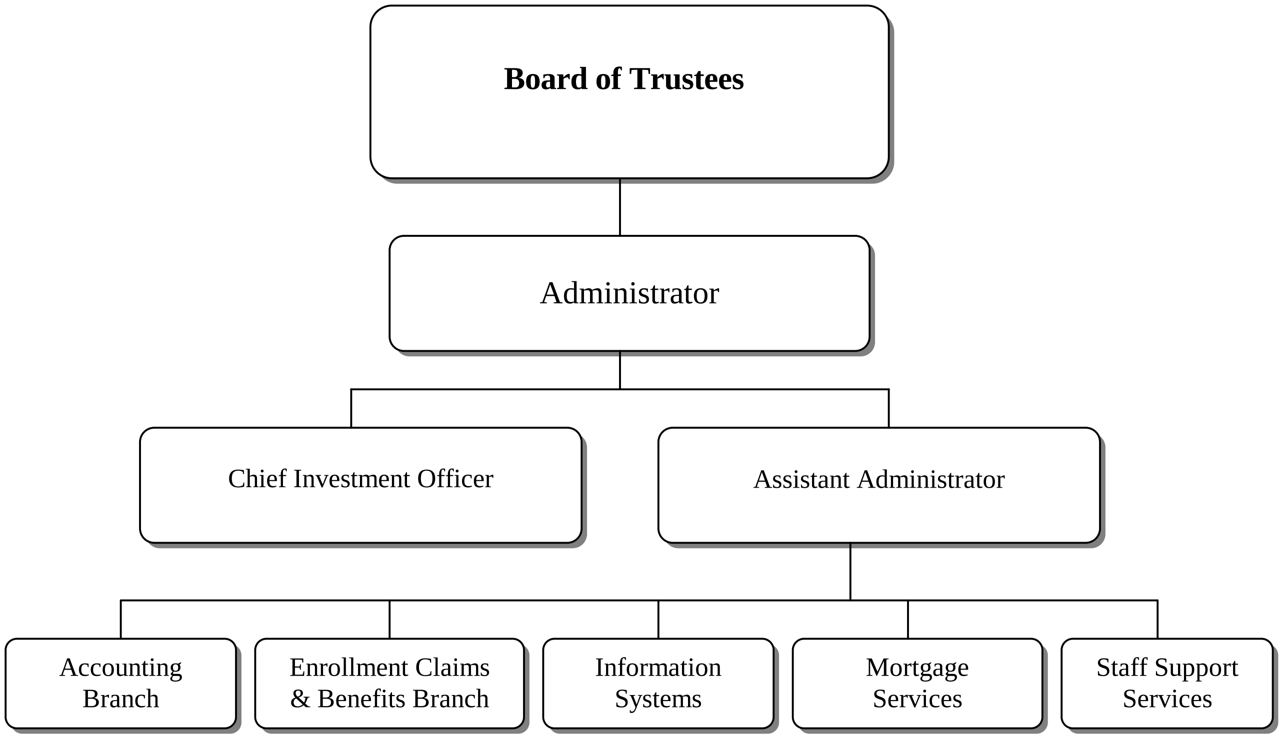
David Shimabukuro
Administrator

BOARD OF TRUSTEES

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-officio 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

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, 2002, 10,628 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, 2002, there were 51,580 active employees in the Noncontributory Plan, which represents almost 83% 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. Their retirement options 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	Maximum 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 maximum 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 maximum 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 maximum allowance, but not less than 15% AFC unreduced for age	50% of AFC unreduced for age, and return of contributions for accidents after July 7, 1998. For accidents prior to July 8, 1998: Totally disabled: lifetime pension of 66-2/3% AFC plus annuity, unreduced for age. Occupationally disabled: same benefit (66-2/3% of AFC plus annuity) paid for 3 years and then pension is reduced to 33-1/3% AFC if not totally disabled, 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 maximum allowance unreduced for age. If the member was eligible for retirement at the time of death, Option B (100% Joint and Survivor) benefit for surviving spouse, and if there is no surviving spouse, a percentage of member's accrued maximum 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 maximum allowance, based on minimum accrued maximum 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 2.5% 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.

The new Employer-Union Trust Fund goes into effect on July 1, 2003. Those hired after July 1, 2001 will not receive coverage for their spouse and dependents when they retire.

Applying for Retirement

A service retirement application must be filed with the ERS at least 30 days but not more than 150 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 information and 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. A retirement benefit calculator for Noncontributory Plan members and other retirement information is also available on the ERS' website at http://www2.state.hi.us/ers/.

RETIREMENT OPTIONS

CONTRIBUTORY PLAN

Maximum Allowance: The member receives a lifetime pension 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

Maximum 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 2002

The following Acts, sponsored by the ERS or other agencies or parties, were passed by the 2002 Legislature and approved by the Governor:

Act 128, effective July 1, 2002

Simplifies the administration and processing of pension benefits:

- Members retiring after January 1, 2003 will receive pension payments monthly instead of twice a month. The new payment cycle will be similar to Social Security and other public and private pension plans.
- Beginning January 2003, allows a pensioner's beneficiary to receive a full pension for the month in which the pensioner passes away. The monthly pension is currently prorated to the pensioner's date of death.
- Changes the computation of a member's average final compensation after December 31, 2002 to the following:
  - ♦ Highest three calendar years or highest five calendar years plus lump sum vacation payment or,
  - ♦ Highest three school contract years or,
  - ♦ Last 36 credited months or last 60 credited months plus lump sum vacation payment.
- Date of retirement will begin on the 1st of each month (except for December, which can be 1st or 31st) to expedite processing of pension benefits.
- Extends retirement filing period from 90 days to 150 days before retirement (application still needs to be filed at least 30 days before retirement). This will provide more counseling time to handle the large number of baby boomers who have started to retire and help agencies recruit for vacant positions.

Act 147, effective July 1, 2002

Extends the amortization period to liquidate the ERS' unfunded liability from 15 years to 29 years. Although this lowers the State and county governments' contributions to the ERS, it may increase the employers' costs over the long term.

Act 183, effective July 1, 2002

Provides Trustees of the Office of Hawaiian Affairs with the same membership benefits as elected officials.

Act 205, effective July 1, 2002

Firefighters with 10 years of service who are medically disqualified from performing their firefighter duties due to a service-connected disability will retain the 2.5 per cent benefit formula for each year of credited service as a firefighter. Members can continue to work in another position in the Contributory Plan and later retire on a split formula.

Act 212, effective June 28, 2002

Allows the Department of Education to rehire teachers who have been retired for at least one calendar year in shortage areas while allowing them to continue to receive their retirement benefits without penalty.

Act 223, effective July 1, 2002

Conforms the State income tax laws to Federal income tax laws to allow Contributory Plan members to utilize deferred compensation and tax-sheltered annuity monies to purchase ERS membership service credits.

Act 233, effective July 1, 2002

Provides a one-time $200 lump sum pensioner bonus to approximately 9,230 retirees, 70 years or older with at least 20 years of credited service as of June 30, 2002.

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, 2001

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.

President

Executive Director

EMPLOYEES' RETIREMENT SYSTEM OF THE STATE OF HAWAII

FINANCIAL SECTION

Grant Thornton

Accountants and Management Consultants

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, 2002 and 2001, 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, 2002 and 2001, 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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Employees' Retirement System of the
State of Hawaii

In accordance with *Government Auditing Standards*, we have also issued our report dated November 22, 2002 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. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

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 43 and 44 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 46 through 50 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 22, 2002

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

June 30,

	2002		
	Pension Trust	Agency	
	Employees' Retirement System	Social Security Contribution	Total
ASSETS			
Cash and short-term investments (notes C2 and F)			
Cash	$ 23,870,326	$ 916,681	$ 24,787,007
Short-term investments	286,021,193	3,015,875	289,037,068
	309,891,519	3,932,556	313,824,075
Receivables			
Accounts receivable and others	748,798		748,798
Investment sales proceeds	183,356,738	–	183,356,738
Accrued investment income	34,196,540	–	34,196,540
Employer appropriations	–	13,573,483	13,573,483
Member contributions	643,112	–	643,112
	218,945,188	13,573,483	232,518,671
Investments, at fair value (notes C2 and F)			
Equity securities	3,363,151,683	–	3,363,151,683
Fixed income securities	2,426,865,673	–	2,426,865,673
Index funds	1,089,153,795	–	1,089,153,795
Real estate investments	619,733,518	–	619,733,518
Real estate mortgages (note I)	89,648,871	–	89,648,871
Alternative investments	238,544,762	–	238,544,762
	7,827,098,302	–	7,827,098,302
Other			
Invested securities lending collateral (note F)	489,657,768	–	489,657,768
Equipment at cost, net of depreciation (note K)	4,825,611	–	4,825,611
Other assets	111,771	–	111,771
	494,595,150	–	494,595,150
Total assets	8,850,530,159	17,506,039	8,868,036,198
LIABILITIES			
Bank overdraft (note F)	3,536,795	–	3,536,795
Accounts and other payables (note I)	27,582,781	–	27,582,781
Investment commitments payable	424,300,174	–	424,300,174
Payable to Internal Revenue Service	–	6,988,385	6,988,385
Due to employers	–	10,517,654	10,517,654
Securities lending collateral (note F)	489,657,768	–	489,657,768
Total liabilities	945,077,518	17,506,039	962,583,557
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 43)	$ 7,905,452,641	$ –	$ 7,905,452,641

The accompanying notes are an integral part of these statements.

2001		
Pension Trust	Agency	
Employees' Retirement System	Social Security Contribution	Total
$ 30,488,448	$ 444,061	$ 30,932,509
270,317,448	15,140,202	285,457,650
300,805,896	15,584,263	316,390,159
1,144,809		1,144,809
102,991,492	–	102,991,492
33,959,106	–	33,959,106
–	2,763,762	2,763,762
643,639	–	643,639
138,739,046	2,763,762	141,502,808
3,911,396,098	–	3,911,396,098
2,847,390,523	–	2,847,390,523
1,300,223,822	–	1,300,223,822
575,759,442	–	575,759,442
101,439,850	–	101,439,850
253,643,018	–	253,643,018
8,989,852,753	–	8,989,852,753
823,585,642	–	823,585,642
5,598,061	–	5,598,061
193,086	–	193,086
829,376,789	–	829,376,789
10,258,774,484	18,348,025	10,277,122,509
5,528,465	–	5,528,465
24,105,373	–	24,105,373
610,953,125	–	610,953,125
–	5,535,531	5,535,531
33,505,790	12,812,494	46,318,284
823,585,642	–	823,585,642
1,497,678,395	18,348,025	1,516,026,420
–	–	–
$ 8,761,096,089	$ –	$ 8,761,096,089

STATEMENTS OF CHANGES IN PLAN NET ASSETS

Year ended June 30,

	2002	2001
Additions		
Appropriations and contributions (note E)		
Employers	$ 167,458,900	$ 8,131,900
Members	55,451,216	54,489,895
Total contributions	222,910,116	62,621,795
Investment income (loss)		
From investing activities		
Net depreciation in fair value of investments	(754,458,333)	(998,882,875)
Interest on fixed income securities	131,013,074	150,350,578
Dividends on equity securities	58,882,771	106,044,424
Interest and fees on real estate mortgages, net	7,761,469	(509,685)
Interest on short-term investments	7,723,429	19,912,067
Income on real estate investments	54,349,138	46,529,941
Alternative investment income	9,655,126	16,565,982
Miscellaneous	1,930,643	2,213,718
	(483,142,683)	(657,775,850)
Less investment expenses	23,516,718	25,167,215
Net investment loss	(506,659,401)	(682,943,065)
From securities lending activities		
Securities lending income	14,384,853	45,572,737
Securities lending expenses		
Borrower rebates	11,056,109	41,401,405
Management fees	664,436	833,326
Less securities lending activities expense	11,720,545	42,234,731
Net income from securities lending activities	2,664,308	3,338,006
Total net investment loss	(503,995,093)	(679,605,059)
Total additions	(281,084,977)	(616,983,264)
Deductions		
Benefit payments (note A3)	530,381,277	503,277,496
Refund option payments	35,178,028	41,629,313
Refunds of member contributions	3,244,334	3,892,377
Administrative expenses	5,754,832	4,893,712
Total deductions	574,558,471	553,692,898
NET DECREASE	(855,643,448)	(1,170,676,162)
Net assets held in trust for pension benefits (note D)		
Beginning of year	8,761,096,089	9,931,772,251
End of year	$ 7,905,452,641	$ 8,761,096,089

The accompanying notes are an integral part of these statements.

NOTES TO FINANCIAL STATEMENTS
June 30, 2002 and 2001

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,:

	2002	2001
Employers:		
State	1	1
Counties	4	4
Total employers	5	5
Pensioners and beneficiaries currently receiving benefits:		
Pensioners currently receiving benefits:		
Police officers, firefighters and corrections officers	2,433	2,360
All others	26,337	25,850
Total pensioners	28,770	28,210
Beneficiaries currently receiving benefits:		
Police officers, firefighters and corrections officers	135	128
All others	1,425	1,322
Total beneficiaries	1,560	1,450
Total pensioners and beneficiaries	30,330	29,660
Terminated vested members entitled to benefits but not yet receiving benefits:		
Police officers, firefighters and corrections officers	115	92
All others	3,720	3,324
Total terminated vested members	3,835	3,416
Current employees:		
Vested:		
Police officers, firefighters and corrections officers	3,616	3,647
All other employees	32,507	31,246
Nonvested:		
Police officers, firefighters and corrections officers	1,118	1,084
All other employees	24,967	24,015
Total current employees	62,208	59,992

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 is based on I ndependent 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 2001 financial statements to conform to the 2002 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:

	2002	2001
Pension Accumulation Fund	$6,977,024,613	$7,763,200,671
Annuity Savings Fund	915,247,830	984,750,694
Expense Fund	13,180,198	13,144,724
Total net assets held in trust for pension benefits	$7,905,452,641	$8,761,096,089

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 closed period ending June 30, 2029. 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, 2002 and 2001 were determined as part of actuarial valuations dated June 30, 1999 and 1998, 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 year ended June 30, 2001.

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, 2002 and 2001, net of a bank overdraft of $3,536,795 and $5,528,465, was $51,973,519 and $28,688,840 (which includes cash and time deposits of $30,923,302 and $3,484,795), respectively. Total bank balances of these deposits amounted to

NOTE F – CASH DEPOSITS AND INVESTMENTS (continued)

$56,399,655 and $33,331,381, respectively. Of the bank balances, $2,540,877 and $2,131,351 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, $53,858,778 and $31,200,030, 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,:

	2002 (in thousands)		2001 (in thousands)	
	Category 1	Fair value	Category 1	Fair value
Short-term securities:				
Bankers' acceptance	$ –	$ –	$ 2,885	$ 2,885
U.S. Treasury issues	891	891	297	297
Commercial paper	920	920	–	–
Certificates of depoisit	30,723	30,723	–	–
	32,534	32,534	3,182	3,182
Equity securities:				
Common stock				
Not on securities loan	2,627,332	2,627,332	3,152,112	3,152,112
On securities loan for noncash collateral	–	–	2,646	2,646
Depository receipts, preferred stock and other				
Not on securities loan	207,612	207,612	37,258	37,258
	2,834,944	2,834,944	3,192,016	3,192,016
Subtotal categorized investments carried forward	$2,867,478	$2,867,478	$3,195,198	$3,195,198

NOTE F – CASH DEPOSITS AND INVESTMENTS (continued)

	2002 (in thousands)		2001 (in thousands)	
	Category 1	Fair value	Category 1	Fair value
Subtotal categorized investments brought forward	$2,867,478	$2,867,478	$3,195,198	$3,195,198
Fixed income securities:				
Mortgage-backed securities				
Not on securities loan	769,512	769,512	1,137,229	1,137,229
On securities loan for noncash collateral	–	–	9,244	9,244
U.S. Government bonds				
Not on securities loan	96,568	96,568	61,660	61,660
On securities loan for noncash collateral	–	–	16,381	16,381
Foreign bonds				
Not on securities loan	747,249	747,249	666,331	666,331
U.S. corporate bonds				
Not on securities loan	485,945	485,945	537,348	537,348
Asset backed securities	155,122	155,122	143,036	143,036
Other	43,968	43,968	–	–
	2,298,364	2,298,364	2,571,229	2,571,229
Total categorized investments	$5,165,842	$5,165,842	$5,766,427	$5,766,427
Investments not subject to categorization:				
Investments held by broker dealers under securities loans for cash collateral:				
Equity securities:				
Common stock		344,023		500,998
Depository receipts, preferred stock and other		2,669		24,306
Fixed income securities:				
Mortgage-backed securities		–		49,782
U.S. Government bonds		94,778		180,643
Foreign bonds		382		12,863
U.S. corporate bonds		33,342		32,874
Mutual funds, commingled funds, and others				
Short-term securities		256,503		282,276
Equity securities		183,120		196,855
Index funds		1,089,154		1,300,224
Real estate investments		619,733		575,760
Real estate mortgages		89,649		101,440
Alternative investments (direct investments in timber properties, limited partnership, and limited liability company interests)		238,545		253,643
		2,951,898		3,511,664
Total investments		$8,117,740		$9,278,091

NOTE F – CASH DEPOSITS AND INVESTMENTS (continued)

Reconciliation to investments on combining statements of plan net assets:

	2002 (in thousands)	2001 (in thousands)
Total investments	$8,117,017	$9,278,091
Less short-term securities		
Bankers' acceptance	–	(2,885)
U.S. Treasury issues	(891)	(297)
Commercial paper	(920)	–
Pooled funds and other	(256,503)	(282,276)
Certificates of deposit	(30,723)	–
Less investments on securities loans that were sold and pending settlement; included in investment sales proceeds receivable		
Common stock	(1,604)	(2,780)
Investments on combining statements of plan net assets	$7,827,099	$8,989,853

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,:

	2002	2001
Mellon Enhanced Equity Index Fund	$790,056,062	$963,065,90

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:

	2002	2001
Forward currency purchases	$545,095,222	$1,159,461,046
Forward currency sales	553,181,281	1,159,283,302
Unrealized gains (losses)	$ (8,086,059)	$ 177,744

Mortgage-Backed Securities

As of June 30, 2002 and 2001, 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 $617,513,612 and $1,196,254,560, 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, 2002 and 2001, the fair value of CMO securities was $ 151,998,511 and $211,380,116, respectively.

2. Securities Lending

The System participated in a securities lending program administered by its bank custodians. 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, 2002 and 2001, 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, 2002 and 2001, the market value of securities loaned amounted to approximately $477,069,815 and $832,516,328, respectively, and the associated collateral amounted to approximately $489,657,768 and $853,662,964, 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, 2002 and 2001 was 71 and 48 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:

	2002	2001
Foreign equity securities	$1,034,224,793	$1,093,633,950
Foreign fixed income securities	747,631,789	679,194,539
	$1,781,856,582	$1,772,828,489

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 commercial insurance policies in any of the three fiscal years prior to June 30, 2002. Losses not covered by insurance are generally paid from legislative appropriations.

NOTE G – RISK MANAGEMENT (continued)

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 $241,269,000 in real estate, alternative investments and domestic equity investments as of June 30, 2002.

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. The System substantially completed payment of over $4 million to the 4,100 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.

A borrower is in continued default on a commercial real estate loan with the System amounting to approximately $93,933,000 as of June 30, 2002, (including principal, interest, default interest, and late charges), plus outstanding legal costs. The System filed a complaint to foreclose on a mortgage and other security interest that secures this loan on August 24, 2000. The System and the borrower, however, agreed to a Standstill Agreement on September 26, 2000, based upon certain conditions

NOTE I – CONTINGENCIES (continued)

deferring prosecution of the complaint while the parties attempt to reach consensual resolution. The borrower made interest payments in accordance with the Standstill Agreement through December 31, 2001, although the formal Standstill Agreement expired on October 31, 2001. In January 2002, the System provided written notice to the borrowers that the System would pursue the foreclosure litigation. The borrowers then filed a counterclaim against the System, which the System filed a reply to the counterclaim and denied all the material allegations of the counterclaim. On March 19, 2002, the court appointed a receiver for the property at the request of the System. The receiver has taken possession of the property, operated it under the jurisdiction of the court, and collected and holds the net operating income. After the appointment of a receiver, the borrowers and the System engaged in renewed settlement discussions and agreed to suspend the pretrial discovery process during the course of these settlement negotiations. The settlement negotiations have not been completed. Management is unable to comment on the likelihood of any particular outcome at this time.

The System is currently involved in a lawsuit relating to the development of a new computer system for the System. The contract to develop the computer system was originally awarded in 1999. The contractor filed a lawsuit that claims System breached the contract and is seeking in excess of $3.6 million, plus interest and attorneys fees. The System filed a separate action against the contractor for a claim of $3.7 million, plus interest and attorney fees due to the failure of the vendor to adequately perform its contractual obligations with respect to the supply and installation of a new computer system. The companies that guaranteed performance of the contract and provided a performance bond for the benefit of the System are also named as defendants in the second case. The two lawsuits have been consolidated, discovery was initiated in July 2002, and no trial date has been set. The System contests the validity and basis of the claim by the plaintiffs and intends to vigorously defend the claims brought by the contractor and to aggressively prosecute its claims. The System and the contractor have agreed to mediation at a later date. 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, 2002 and 2001 was $1,542,328 and $769,878 and, respectively.

REQUIRED SUPPLEMENTARY INFORMATION

REQUIRED SUPPLEMENTARY INFORMATION

June 30, 2002, 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, 2002	$9,415,160	$11,210,226	$1,795,066	84.0%	$2,671,689	67.2%
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 $70,218,385, $75,173,210, $77,736,700, $80,110,400, $82,308,100, and $54,343,400 as of June 30, 2002, 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
2002	$167,459	$167,459	100.0%
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%

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

June 30, 2002

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, 2002
Actuarial cost method	Entry age normal
Amortization method	Level dollar, closed
Remaining amortization period (years)	27
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	2.5% (not compounded)

In 2002, the Legislature of the State of Hawaii approved a bill changing the remaining amortization period to be fully amortized by June 30, 2029. Prior to that the unfunded actuarial accrued liability was to be fully amortized by 2016.

The annual required contribution for the year ended June 30, 2002 was determined as part of an actuarial valuation dated June 30, 1999 that is consistent with the current actuarial valuation.

SUPPLEMENTARY INFORMATION

CHANGES IN NET ASSETS HELD IN TRUST FOR PENSION BENEFITS

Year ended June 30,

	2002			
	Pension Accumulation Fund	Annuity Savings Fund	Expense Fund	Total
Additions				
Appropriations and contributions				
Employers	$167,458,900	$ –	$ –	$167,458,900
Members	–	55,451,216	–	55,451,216
Net investment loss	(503,995,093)	–	–	(503,995,093)
Total additions	(336,536,193)	55,451,216	–	(281,084,977)
Deductions				
Benefit payments	530,381,277	–	–	530,381,277
Refund option payments	35,178,028	–	–	35,178,028
Refunds of member contributions	–	3,244,334	–	3,244,334
Administrative expenses	–	–	5,754,832	5,754,832
Total deductions	565,559,305	3,244,334	5,754,832	574,558,471
Other changes in net assets held in trust for pension benefits				
Transfer due to retirement of members	160,604,169	(160,604,169)	–	–
Transfer of interest allocation	(38,894,423)	38,894,423	–	–
Transfer to pay administrative expenses	(5,790,306)	–	5,790,306	–
Return of unrequired funds due to savings in administrative expenses	–	–	–	–
	(115,919,440)	(121,709,746)	5,790,306	–
NET (DECREASE) INCREASE	(786,176,058)	(69,502,864)	35,474	(855,643,448)
Net assets held in trust for pension benefits:				
Beginning of year	7,763,200,671	984,750,694	13,144,724	8,761,096,089
End of year	$6,977,024,613	$915,247,830	$13,180,198	$7,905,452,641

2001			
Pension Accumulation Fund	Annuity Savings Fund	Expense Fund	Total
$ 8,131,900	$ –	$ –	$ 8,131,900
–	54,489,895	–	54,489,895
(679,605,059)	–	–	(679,605,059)
(671,473,159)	54,489,895	–	(616,983,264)
503,277,496	–	–	503,277,496
41,629,313	–	–	41,629,313
–	3,892,377	–	3,892,377
–	–	4,893,712	4,893,712
544,906,809	3,892,377	4,893,712	553,692,898
42,260,462	(42,260,462)	–	–
(38,459,288)	38,459,288	–	–
(9,359,862)	–	9,359,862	–
158,003	–	(158,003)	–
(5,400,685)	(3,801,174)	9,201,859	–
(1,221,780,653)	46,796,344	4,308,147	(1,170,676,162)
8,984,981,324	937,954,350	8,836,577	9,931,772,251
$7,763,200,671	$984,750,694	$13,144,724	$8,761,096,089

SOCIAL SECURITY CONTRIBUTION FUND
STATEMENTS OF CHANGES IN ASSETS AND LIABILITIES

Year ended June 30,

	2002				2001			
ASSETS	Beginning balance	Additions	Deductions	Ending balance	Beginning balance	Additions	Deductions	Ending balance
Cash	$ 444,061	$ 132,399,250	$ 131,926,630	$ 916,681	$ 592,263	$ 138,795,316	$ 138,943,518	$ 444,061
Short-term investments	15,140,202	13,815,753	25,940,080	3,015,875	8,385,470	9,302,265	2,547,533	15,140,202
Employer appropriations receivable	2,763,762	142,292,458	131,482,737	13,573,483	5,065,862	133,851,517	136,153,617	2,763,762
Total assets	$ 18,348,025	$ 288,507,461	$ 289,349,447	$ 17,506,039	$ 14,043,595	$ 281,949,098	$ 277,644,668	$ 18,348,025
LIABILITIES								
Payable to Internal Revenue Service	$ 5,535,531	$ 144,922,399	$ 143,469,545	$ 6,988,385	$ 5,531,642	$ 130,225,448	$ 130,221,559	$ 5,535,531
Due to employers	12,812,494	142,628,965	144,923,805	10,517,654	8,511,953	134,526,856	130,226,315	12,812,494
Total liabilities	$ 18,348,025	$ 287,551,364	$ 288,393,350	$ 17,506,039	$ 14,043,595	$ 264,752,304	$ 260,447,874	$ 18,348,025

ADMINISTRATIVE EXPENSES

Year ended June 30,

	2002	2001
Personnel services		
Salaries and wages	$2,698,952	$2,273,973
Fringe benefits	506,463	417,982
Net change in unused vacation credits	89,214	107,111
Total personnel services	3,294,629	2,799,066
Professional services		
Actuarial	289,663	175,670
Auditing and tax consulting	122,136	111,202
Legal services	106,425	198,880
Medical	133,249	130,347
Disability hearing expenses	17,195	15,578
Total professional services	668,668	631,677
Communication		
Postage	113,708	103,819
Printing and binding	20,363	17,275
Telephone	26,225	20,507
Travel	21,665	18,833
Total communication	181,961	160,434
Rentals		
Rental of equipment	16,276	15,210
Rental of premises	7,986	7,230
Total rentals	24,262	22,440
Other		
Computer and office automation systems	481,700	614,627
Repairs and maintenance	185,327	77,749
Stationery and office supplies	39,137	33,443
Equipment	29,260	15,560
Microfilm	6,767	12,304
Armored car service	8,559	5,881
Miscellaneous	62,109	(41,861)
Total other	812,859	717,703
Depreciation	772,453	562,392
	$5,754,832	$4,893,712

INVESTMENT EXPENSES

Year ended June 30,

	2002	2001
Investment expenses		
Investment manager/advisor fees	$23,188,308	$24,880,471
Bank custodian fees	244,075	215,090
Other investment expenses	84,335	71,654
Total investment expenses	23,516,718	25,167,215
Securities lending expenses		
Borrower rebates	11,056,109	41,401,405
Management fees	664,436	833,326
Total securities lending expenses	11,720,545	42,234,731
	$35,237,263	$67,401,946

EMPLOYEES' RETIREMENT SYSTEM OF THE STATE OF HAWAII

INVESTMENT SECTION

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LINDA LINGLE
GOVERNOR

STATE OF HAWAII
EMPLOYEES' RETIREMENT SYSTEM

December 19, 2002

Dear Members:

It is my honor and privilege to present the Investment Section of the Comprehensive Annual Financial Report for the fiscal year ending June 30, 2002. The following are a few ERS investment facts:

- As of June 30, 2002, ERS was one of the 150 largest defined benefit plans in the US with total assets of just under $8 billion.
- In a difficult year for financial markets, the fund achieved a return that exceeded our composite benchmark. The fund returned –5.52% for the fiscal year 2002, outperforming the composite benchmark return of –6.53% by 101 basis points.
- In the last two years, arguably the toughest for financial markets, ERS has managed to generate a return of 1.53% per year in excess of the return for our composite benchmark. In real dollars this outperformance has produced an extra $280 million for the fund that would not have been achieved had the assets been invested passively in index funds.
- After an extensive search, State Street Bank has been hired as the master global custodian and will service the investment portfolio of the ERS.

It seems like the glory days of the 1990's are nothing more than a faded memory. A memory that has been replaced by the harsh reality of the current bear market. It has been more than three decades since US stock markets suffered as they did during the last six months of the fiscal year 2002. The S&P 500 was down 13.2% over that time and lost 18% over the entire fiscal year. The "irrational exuberance" that Alan Greenspan spoke of in the 1990's has given way to an equally troubling "irrational despair". As a pendulum swings we have seen the extreme of the positive side and will undoubtedly see the extreme on the negative side.

Compounding the economic factors we currently face, the market environment continues to be dominated by news on corporate management abuses, questionable accounting practices, the continued threat of terrorism and the growing concerns in the Middle East. Yet amidst this backdrop of

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negativity and despair we see the light at the end of the tunnel. As we set our sights on the better days to come we remain true to the guiding principles that are fundamental to prudent investment management.

- Diversify among asset classes that do not perform similarly at the same time. Diversification among asset classes, including investment size and style, is designed to dampen overall portfolio volatility and improve performance over the long run. ERS has constructed 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 following the golden rule of investing by "selling high and buying low."
- Investing is a process, which is best described as a marathon and not the 100 yard dash. Given the long time horizon of the ERS, the 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 in this for the long haul and will not overreact to the performance in any short-term period.

Attempting to predict, with any certainty, the short-term future of the financial markets is a fool's game and virtually impossible. Rather than attempt to predict the movement of the financial markets in the next week or the next month, ERS will keep its focus on providing you the member with a safe and secure retirement benefit for years to come. As always, we will remain steadfast as we continue to manage the assets of ERS in a prudent fashion, seeking reasonable market rates of return while attempting to avoid unreasonable risk. With that in mind, we move forward together to overcome challenges and seize upon new opportunities that the future may bring.

Aloha pumehana,

Kimo Blaisdell

Kimo Blaisdell
Chief Investment Officer

CALLAN ASSOCIATES INC

December 31, 2002

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, 2002, as requested by the Government Financial Officers' Association (GFOA).

Hawaii ERS-Total Fund Performance

The total assets of the Retirement System were just under $8.0 billion as of June 30, 2002, a decrease of roughly $900 million for the fiscal year. The investment return for the total fund expressed as a time-weighted total rate of return was –5.52% for the 2002 fiscal year, compared to the benchmark's return of –6.53%. For the three-year period ending June 30, 2002 the total fund returned –1.85% per annum versus the benchmark's –2.48%, and for the trailing five-year period the total fund posted a return of 3.91% per annum versus the benchmark's 4.07%.

Asset Class Performance

Domestic equity returned –14.57% for the fiscal year, outperforming the S&P 500 Index's –17.99% and underperforming the Callan Domestic Equity Database median of –14.21%. Domestic fixed-income gained 8.82% for the year, beating the Lehman Brothers Aggregate return of 8.63% and the Callan Fixed-Income Database median return of 7.98%. International equity returned –12.25% for the 2002 fiscal year versus the MSCI EAFE Index return of –9.49%, whereas international fixed-income returned 16.84% versus the Salomon Non-US Government Bond Index loss of 15.73%. Real Estate gained 3.09% for the year ending June 30, 2002 versus the Callan Total Real Estate Funds' gain of 5.63%. Alternative investments were a negative contributor to performance, returning –13.40% for the fiscal year.

Market Conditions

The fiscal year began with a slowing economy exacerbated by the tragic events of September 11th. Though economic indicators had showed negative signs throughout

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State of Hawaii Employees' Retirement System
December 31, 2002
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much of 2001, consumers continued to spend, almost single-handedly supporting the struggling economy. After September 11th, the consumer was shuttered and the economy foundered.

In its strictest definition, the US economy never fell into recession (defined as two consecutive quarters of negative GDP growth) as GDP only shrank for one quarter during 2001. Though economic indicators showed signs of life in the first two quarters of 2002, consumer confidence and corporate profits have been slow to follow. As a result, the Federal Reserve held off on a widely anticipated move to raise interest rates after cutting them to record lows.

Despite the uptick in economic indicators, investors would be hard to convince that things have turned around. In the equity markets, the fourth quarter of 2001 was the only period of light in a fiscal year of profoundly mediocre results. In addition to the continuing poor corporate results, investors were most disturbed by a litany of corporate scandals that rocked the United States in fiscal year 2002, most notably Enron and WorldCom. These scandals cost investors billions while calling into question the US accounting industry and the government's oversight practices. As occurred in fiscal year 2001, growth stocks severely under-performed value stocks. Small cap stocks tended to out-perform large cap stocks by a good margin for the fiscal 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 solid returns for the year ended June 30, 2002. Because of the many corporate scandals, government secured treasury and agency bonds outperformed corporate bonds for the year. Many corporate backed securities were downgraded due to accounting concerns.

International equities outperformed US equities for the year ended June 30, 2002 as the widely anticipated fall in the US dollar finally occurred. International bonds also benefited from the dollar's decline, outperforming the US bond market's return with double digit returns.

Fiscal year 2003 has been volatile so far, with very negative equity market results in the third quarter followed by a solid bounce back in the fourth quarter. Throughout these difficult market conditions, with its constant review and oversight, 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 2002

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 2002 capital market projections for 5 years, the target allocation is expected to achieve an average annualized return of 8.4% (5.5% real return with expected inflation of 2.9%). The annual nominal return is expected to fall within a range of –4.4% and 21.2% two-thirds of the time.

Long-range Asset Allocation Target

The ERS only invests in the following asset classes:

	Lower Limit	**Strategic Allocation**	Upper Limit
Domestic Equity	29%	**32%**	35%
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 the 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.

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 is 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 2002. At that time, the Board chose to maintain the current strategic asset allocation implemented July 1, 2000. The target will again be reviewed in early 2003. A full asset/liability study will next take place in early 2005.

Portfolio Evaluation Benchmark

To monitor the total fund result, a special target index has been constructed to measure the fund's performance based on the current target mix. This serves as a minimum performance objective for the Fund. The target is adjusted quarterly to reflect the assets actually invested in real estate and alternative investments. The target index objective is included in all quarterly evaluation reports of the ERS. The composition of the index as of June 30, 2002 is:

- 34% 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
- 9% of the median return of the Callan Associates Real Estate database
- 3% of the Post Venture Cap Index

Individual investment managers <u>are</u> <u>not</u> 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.

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 August 2002.

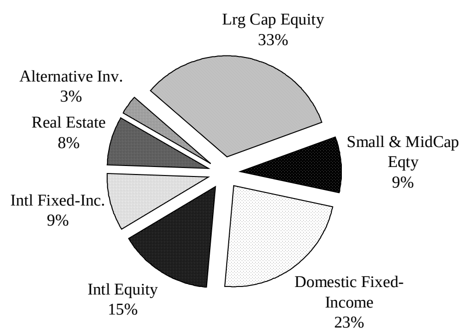
All rates of return are calculated using methodologies that are generally accepted by the Association for Investment Management and Research (AIMR). All domestic equity manager returns are daily, time-weighted rates of return based on custodial data. International equity, domestic fixed-income, and global 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

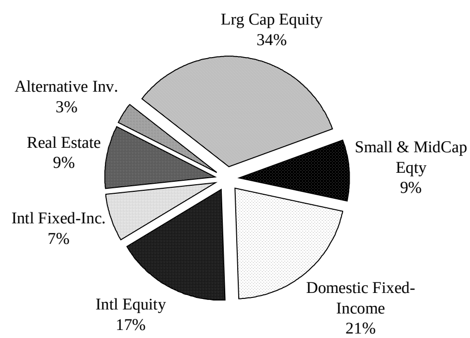
	Year Ended June 30,					Three Years Ended	Five Years Ended
	2002	2001	2000	1999	1998	6/2002	6/2002
Domestic Equity	**(14.57%)**	**(10.11%)**	**2.26%**	**15.98%**	**28.62%**	**(7.74%)**	**3.22%**
Standard & Poor's 500	(17.99%)	(14.83%)	7.24%	22.76%	30.16%	(9.18%)	3.66%
CAI Total Domestic Equity DB	(14.21%)	(5.59%)	11.79%	14.93%	25.18%	(1.49%)	6.45%
Domestic Fixed w Mortgage	**8.82%**	**11.18%**	**4.94%**	**3.26%**	**10.73%**	**8.28%**	**7.74%**
Domestic Fixed w/o Mortgages	8.52%	11.26%	4.81%	3.26%	10.73%	8.17%	7.67%
Aggregate Index	8.63%	11.22%	4.57%	3.15%	10.54%	8.10%	7.57%
CAI Fixed-Income DB	7.98%	11.03%	4.58%	3.51%	10.02%	7.82%	7.34%
International Equity	**(12.25%)**	**(23.27%)**	**23.31%**	**13.80%**	**(2.14%)**	**(6.02%)**	**(1.56%)**
MSCI EAFE Index	(9.49%)	(23.60%)	17.15%	7.62%	6.10%	(6.78%)	(1.55%)
CAI Non-U.S. Equity DB	(7.88%)	(23.42%)	23.99%	7.71%	6.60%	(3.49%)	1.54%
International Fixed-Income	**16.84%**	**(4.34%)**	**0.96%**	**1.12%**	**2.04%**	**4.11%**	**3.09%**
Non-U.S. Govt Bond Idx	15.73%	(7.43%)	2.42%	4.87%	0.89%	3.14%	3.03%
CAI Non-U.S. Fixed DB	15.29%	(6.17%)	1.35%	5.00%	3.76%	3.40%	3.48%
Real Estate	**3.09%**	**5.65%**	**9.93%**	**4.74%**	**17.92%**	**6.19%**	**8.14%**
NCREIF Classic Index	4.35%	11.65%	12.60%	13.78%	18.20%	9.47%	12.03%
CAI Real Estate Funds	5.63%	10.49%	9.14%	10.43%	15.57%	8.56%	9.60%
Alternative Investments	**(13.40%)**	**7.68%**	**44.34%**	**(10.74%)**	**-**	**10.41%**	**-**
Post Venture Cap Index	(44.29%)	(48.23%)	40.35%	48.85%	29.23%	(26.03%)	(4.88%)
Mortgages	**15.41%**	**8.56%**	**9.18%**	**9.61%**	**8.60%**	**11.01%**	**10.24%**
Lehman Mortgages Index	8.98%	11.29%	5.02%	4.02%	8.94%	8.40%	7.61%
Total Fund	**(5.52%)**	**(6.80%)**	**7.38%**	**10.41%**	**16.04%**	**(1.85%)**	**3.91%**
Composite Benchmark	(6.53%)	(8.83%)	8.85%	12.38%	17.11%	(2.48%)	4.07%

Asset Allocation as of June 30, 2002

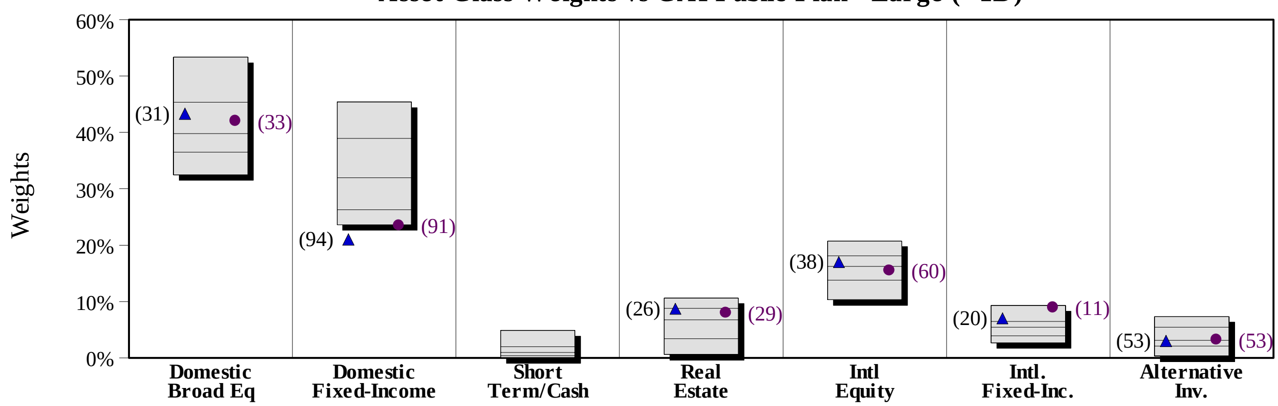
Actual Asset Allocation



Target Asset Allocation



Asset Class Weights vs CAI Public Plan - Large (>1B)



	Domestic Broad Eq	Domestic Fixed-Income	Short Term/Cash	Real Estate	Intl Equity	Intl. Fixed-Inc.	Alternative Inv.
10th Percentile	53.37	45.42	4.86	10.64	20.74	9.29	7.33
25th Percentile	45.38	38.92	1.97	8.82	18.10	6.45	5.45
Median	39.81	31.94	0.98	6.72	16.21	5.42	3.14
75th Percentile	36.49	26.27	0.37	3.38	13.79	3.94	2.07
90th Percentile	32.49	23.63	0.05	0.60	10.33	2.67	0.32
Fund ●	41.84	23.29	-	7.80	15.32	8.75	3.01
Target ▲	43.30	21.00	-	8.70	17.00	7.00	3.00

The Target Benchmark as of June 30, 2002 was 34% S&P 500, 9% Callan Medium and Small Cap Index, 21% Lehman Aggregate, 9% 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 and alternatives are considered to be "parked" in domestic equities until drawn down.

INVESTMENT PROFESSIONALS

CUSTODIAL BANK
State Street Bank & Trust Company

INVESTMENT ADVISOR
Callan Associates Inc.

INVESTMENT MANAGERS

U.S. EQUITIES
- Alliance Capital Management Corporation
- Barrow, Hanley, Mewhinney & Strauss, Inc.
- Bishop Street Capital Management
- CM Bidwell Investment Advisory
- 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
- Clarion Partners
- C.B. Richard Ellis Investors, LLC
- Heitman Real Estate Services Group
- Invesco Realty Advisors
- PM Realty Group

INTERNATIONAL EQUITIES
- Bank of Ireland Asset Management (U.S.) Ltd.
- Capital International, 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, 2002 (excludes investments in pooled vehicles)

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

Rank	Par / Shares	Security	Coupon	Due	Standard & Poors		Fair Value
Domestic Fixed Income							
1	57,000,000	Federal National Mortg (TBAJul15SinFam)	6.000%	12/31/2099	AAA		$58,122,330
2	28,700,000	Residential Funding Mtg Sec I	6.750%	9/25/2028	AAA		29,596,875
3	24,326,000	United States Treasury Note	3.000%	11/30/2003	AAA		24,515,986
4	19,014,208	Government National Mortg (Pool 781288)	1.000%	5/15/2031	AAA		19,394,493
5	19,000,000	Household Bank	7.000%	10/22/2003	n/a		18,921,150
6	17,874,184	Federal National Mortg (REMIC)	6.390%	5/25/2036	AAA		17,036,243
7	16,100,000	Cross Country Master Cr Card TRII	1.000%	9/15/2005	AAA		16,170,560
8	14,556,932	Federal Home Loan Mortg Corp	4.721%	8/15/2032	AAA		14,361,287
9	13,590,000	Federal National Mortg (TBAAug30SinFam)	6.500%	12/31/2099	AAA		13,793,850
10	13,600,000	General Elec Capital Credit Corp MTN	1.000%	3/15/2005	AAA		13,571,576
International Fixed Income							
1	61,300,000	Federal Republic of Germany	5.525%	7/04/2010	AAA	(1)	$ 61,982,302
2	312,385,000	Kingdom of Sweden	5.000%	1/15/2004	AAA		34,042,818
3	26,660,000	Republic of Italy	4.500%	5/01/2009	AA		25,750,822
4	21,900,000	Bundesrepublik Deut	6.500%	7/04/2027	AAA		25,100,441
5	21,341,000	Republic of Italy	4.250%	11/01/2009	AA		20,179,030
6	18,010,000	Federal Republic of Germany	6.250%	1/04/2024	AAA		19,842,501
7	17,800,000	Federal Republic of Germany	4.750%	12/13/2002	n/a		17,672,900
8	171,630,000	Kingdom of Sweden	3.500%	4/20/2006	AAA		17,665,954
9	1,928,000,000	DSL Bank	1.750%	10/07/2009	AAA		17,161,308
10	11,800,000	Republic of Italy	0.375%	10/10/2006	AA		11,616,628
Domestic Equities							
1	1,034,732	Citigroup Inc					$ 40,095,865
2	1,070,202	Pfizer Inc.					37,457,070
3	620,665	Microsoft Corp					33,950,375
4	442,100	American International Group					28,799,883
5	982,375	General Elec Co					28,537,994
6	616,380	Exxon Mobil Corp					25,222,270
7	694,432	JP Morgan Chase + Co					23,555,133
8	653,490	Johnson & Johnson					22,556,983
9	319,147	Bank America Corp					22,455,183
10	526,580	Entergy Corp					22,348,055
International Equities							
1	726,480	ING Group NV - CVA Euro .24					$ 18,654,736
2	77,820	Nestle SA – CHF1 (Regd)					18,145,614
3	209,180	Total Fina Elf – EUR10					18,132,173
4	2,064,925	BP PLC – Ord USD0.25					17,343,080
5	1,841,940	Barclays - Ord GBP0.25					15,498,329
6	706,569	Glaxosmithkline – Ord GBP0.25					15,272,184
7	11,056,274	Vodafone Group Ord USD0.10					15,167,767
8	171,660	Roche Holding Genuscheine NPV					12,976,949
9	241,678	UBS AG – CHF.80 (Regd)					12,155,698
10	1,457,934	BCO Sant Cent Hisp – Eur0.50(Regd)					11,576,733

(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, 2002	Percentage	Fair Value as of June 30, 2001	Percentage
Equity securities				
Common stock	$ 2,969,750	38.0%	$ 3,652,976	40.6%
Index funds	1,089,154	13.9%	1,300,224	14.5%
Pooled and others	393,401	5.0%	258,419	2.9%
	4,452,305	56.0%	5,211,619	58.0%
Fixed income securities				
Mortgage-backed securities	769,512	9.8%	1,196,255	13.3%
U.S. Government bonds	191,346	2.4%	258,684	2.9%
Foreign bonds	747,631	9.6%	679,194	7.6%
U.S. Corporate bonds	519,287	6.6%	570,222	6.3%
Asset backed securities	155,122	2.0%	143,036	1.6%
Pooled and others	43,968	0.6%	-	0.0%
	2,426,866	31.0%	2,847,391	31.7%
Others				
Real estate equities	619,733	7.9%	575,760	6.4%
Real estate mortgages	89,649	1.1%	101,440	1.1%
Alternative investments	238,545	3.0%	253,643	2.8%
	947,927	12.1%	930,843	10.3%
Total	$ 7,827,098	100.0%	$ 8,989,853	100.0%

Schedule of Investment Fees

(Dollar values expressed in thousands)

	Fair value as of June 30, 2002	Total FY 2002 Investment Fees	Basis Points
Equities			
U.S. equities	$ 3,317,298		
International equities	1,214,398		
	4,531,696	$ 12,619	
Fixed Income			
U.S. bonds	1,752,999		
International bonds	693,714		
	2,446,713	3,929	
Other Asset Allocations			
Real estate	618,579		
Real estate mortgages	96,075		
Alternative investments	238,498		
	953,152	5,893	
Other Investment Services			
Custodian fees		450	
Investment consultant fees		541	
Total	$ 7,931,561	$ 23,432	30 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%, 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, 2002 the ERS recaptured $1,419,728 in commissions.

The following is a list of brokers who received $70,000 or more in commissions during Fiscal Year 2002. 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	24,163,207	$ 414,162,474	$ 691,818	$0.029
Rochdale Securities Corporation	10,687,460	367,052,458	602,493	0.056
Morgan Stanley Dean Witter	14,372,624	302,829,596	508,865	0.035
Travelers Salomon Smith Barney	8,047,183	230,393,446	419,103	0.052
Credit Suisse First Boston	9,488,134	188,550,851	374,209	0.039
Goldman Sachs and Co	13,714,781	183,673,549	319,252	0.023
Lynch, Jones & Ryan	5,387,887	189,849,158	300,379	0.056
Broadcort Capital	4,719,401	145,209,187	265,008	0.056
Shearson Lehman Brothers	7,950,554	158,840,903	252,455	0.032
Jefferies & Company	3,681,202	100,368,426	212,228	0.058
JP Morgan	5,777,717	111,602,137	210,423	0.036
Donaldson & Co	3,735,443	119,828,274	191,641	0.051
UBS AG Warburg Paine Webber	16,153,596	184,925,387	178,685	0.011
Deutsche Morgan Grenfell	11,787,004	89,474,502	172,875	0.015
Swiss Bank Corp Warburg Dillon Read	9,526,712	105,730,189	170,841	0.018
Bear Stearns	3,448,620	92,543,998	165,152	0.048
Robinson Humphrey & Co	2,803,148	81,930,231	142,758	0.051
Prudential Bache	2,068,552	70,019,389	112,620	0.054
Credit Lyonnais	32,911,480	117,506,409	101,745	0.003
Salomon Brothers	6,421,767	56,702,126	99,598	0.016
Suntrust Capital Markets	1,742,160	45,692,608	87,932	0.050
Nationsbank	1,660,700	61,817,815	87,665	0.016
Hong Kong & Shanghai Bank	5,279,553	58,659,433	86,346	0.016
Bridge Trading	1,254,293	44,496,572	72,102	0.057
Others (includes 177 firms)	73,734,487	936,673,575	1,570,502	0.026
Commissioned equity trades	280,517,665	$4,458,532,693	$7,396,695	$0.026
Less commissions recaptured			(1,419,728)	
Trades at net commission			$5,976,967	$0.021
Trades at zero commission	618,387,514	$1,603,927,614	-	
	898,905,179	$6,062,460,307	$5,976,967	$0.007

EMPLOYEES' RETIREMENT SYSTEM OF THE STATE OF HAWAII

ACTUARIAL SECTION

GABRIEL, ROEDER, SMITH & COMPANY
Consultants & Actuaries
5605 N. MacArthur Blvd. • Suite 870 • Irving, Texas 75038-2631 • 469-524-0000 • fax 469-524-0003

November 27, 2002

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, 2002

We certify that the information contained in the 2002 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, 2002.

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 is an independent actuary. He is an Enrolled Actuary and a Member of the American Academy of Actuaries, and is 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
November 27, 2002
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Financing objectives

The employer contribution is calculated by the actuarial valuation, and these amounts are applicable for the fiscal year beginning two years after the valuation date, i.e., beginning July 1, 2004. 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 a closed period. Act 147/2002 amended the statute to liquidate the unfunded accrued liability over a longer period of time. It is now a closed period ending June 30, 2029.

Progress toward realization of financing objectives

Based on this actuarial valuation as of June 30, 2002, the employer contribution is $328,716,718 for Fiscal Year 2004/2005. This amount includes the normal cost and amortization of the UAAL over the remaining 27 years from June 30, 2002. It includes the impact of the significant growth in membership. Active members increased 3.7%, from 59,992 to 62,208. Covered payroll increased 9.3%, from $2.35 billion to $2.57 billion.

Employees and employers contributed the recommended amount for the 2001/2002 fiscal year. It is assumed 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 2004/2005 reflects the two-year lag between the valuation date and the beginning of the fiscal year. It assumes the employers' contributions for FY 2002/2003 are $188.5 million and are $235.7 million for FY 2003/2004. If these contributions are reduced, the $328.7 million contribution for FY 2004/2005 will need to be recalculated.

Benefit provisions

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

- Act 233/2002 provides a one-time $200 lump sum bonus to current retirees who are age 70 or older with at least 20 years of service as of June 30, 2002. Since there will be an equal additional employer contribution which offsets this liability, there is no effect on the actuarial liability.

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

GABRIEL, ROEDER, SMITH & COMPANY

Trustees
November 27, 2002
Page 3

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 investment return assumption and the salary scale assumption were set by legislative action. Further detail on the assumptions and methods may be found in Summary of Actuarial Methods and Assumptions of this report. The assumptions that are based on the actuaries' recommendations are internally consistent and are reasonably based on the actual experience of the System. These assumptions are also 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, 2002, 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,

Gab riel, Roeder, Smith & Company

W. Michael Carter, FSA, EA
Senior Consultant

nlb

3046/2002/valuation/2002_Val.doc

Exhibit 1
Actuarial Present Value of Future Benefits

	Police, Fire, and Corrections June 30, 2002	All Other Employees June 30, 2002	All Employees June 30, 2002
1. Active members			
a. Service retirement benefits	$ 1,203,474,983	$ 5,102,176,596	$ 6,305,651,579
b. Deferred termination benefits	13,379,234	273,179,853	286,559,087
c. Refunds	26,657,185	1,138,498	27,795,683
d. Survivor benefits	29,108,217	127,487,124	156,595,341
e. Disability retirement benefits	11,232,332	241,925,011	253,157,343
f. Total	$ 1,283,851,951	$ 5,745,907,082	$ 7,029,759,033
2. Retired members			
a. Service retirement	$ 780,594,567	$ 4,450,381,097	$ 5,230,975,664
b. Disability retirement	22,222,941	72,969,356	95,192,297
c. Beneficiaries	26,884,307	146,342,983	173,227,290
d. Total	$ 829,701,815	$ 4,669,693,436	$ 5,499,395,251
3. Inactive members			
a. Vested terminations	$ 11,050,538	$ 172,434,081	$ 183,484,619
b. Nonvested terminations	3,562,920	8,313,481	11,876,401
c. Total	$ 14,613,458	$ 180,747,562	$ 195,361,020
4. Total actuarial present value of future benefits	$ 2,128,167,224	$ 10,596,348,080	$ 12,724,515,304

	June 30, 2001 (4)	June 30, 2001 (5)	June 30, 2001 (6)
5. 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
6. 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
7. 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
8. 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 2004/2005		
	Police, Fire, and Corrections	All Other Employees	All Employees
1. Dollar Amounts			
a. Employer Normal Cost	$ 10,955,916	$ 146,514,224	$ 157,470,140
b. Amortization Payment	17,854,496	147,446,398	165,300,894
c. Subtotal	$ 28,810,412	$ 293,960,622	$ 322,771,034
d. EIR Payment	382,394	5,563,290	5,945,684
e. Excess Investment Earnings Credit	-	-	-
f. Total Appropriations	$ 29,192,806	$ 299,523,912	$ 328,716,718
2. Payroll Projected to Fiscal Year 2004/2005	$ 282,229,718	$2,607,468,789	$ 2,889,698,507
3. Percentages of Total Projected Payroll (Item 1 / Item 2)			
a. Normal Cost	3.88%	5.62%	5.45%
b. Amortization Payment	6.32%	5.66%	5.72%
c. Subtotal	10.20%	11.28%	11.17%
d. EIR Payment	0.14%	0.21%	0.21%
e. Excess Investment Earnings Credit	0.00%	0.00%	0.00%
f. Total Appropriations	10.34%	11.49%	11.38%

Note: Total annual payroll as of March 31, 2000 was $2,568,707,028 for all employees, comprised of $250,884,000 for police, fire, and corrections and $2,317,823,028 for all other employees. (The comparable figures for March 31, 2001 are $2,350,198,872, $239,356,555, and $2,110,842,317, respectively.)

Exhibit 3
Employer Appropriations to Pension Accumulation Fund

Employer	Appropriations for 2004/2005 (Based on 6/30/2002 Valuation)			Appropriations for 2003/2004 (Based on Revised Amortization Schedule)		
	Police, Fire and Corrections	All Other Employees	Total	Police, Fire and Corrections	All Other Employees	Total
State of Hawaii	$ 1,436,081	$ 250,248,917	$251,684,998	$ 947,754	$180,665,958	$ 181,613,712
City & County of Honolulu	19,017,353	28,635,898	47,653,251	12,154,145	21,108,910	33,263,055
Board of Water Supply	-	3,380,240	3,380,240	-	2,595,004	2,595,004
County of Hawaii	3,856,705	6,631,058	10,487,763	2,475,004	4,919,679	7,394,683
County of Maui	3,342,065	6,810,170	10,152,235	2,126,587	5,007,652	7,134,239
County of Kauai	1,540,602	3,817,629	5,358,231	939,700	2,745,403	3,685,103
Total All Employers	$ 29,192,806	$ 299,523,912	$328,716,718	$ 18,643,190	$217,042,605	$ 235,685,795

GABRIEL, ROEDER, SMITH & COMPANY

Exhibit 4
Highlights of Last Five Annual Actuarial Valuations
1998 through 2002

Item	Valuation Date: June 30				
	1998	1999	2000	2001	2002
Number of active members	57,797	58,387	59,191	59,992	62,208
Number of inactive members	2,650	2,777	3,016	3,416	3,835
Number of pensioners	26,257	26,709	27,357	28,210	28,770
Number of beneficiaries	1,146	1,241	1,358	1,450	1,560
Average monthly contributory plan pension amount	$ 1,312	$ 1,367	$ 1,419	$ 1,475	$ 1,571
Average monthly noncontributory plan pension amount	$ 1,132	$ 1,129	$ 1,142	$ 1,170	$ 1,208
Average monthly beneficiary amount	$ 732	$ 771	$ 805	$ 838	$ 875
Total actuarial value of assets ($millions)(1)	$ 7,906	$ 8,591	$ 9,205	$ 9,516	$ 9,415
Unfunded actuarial accrued liability ($millions)(1)	$ 585.8	$ 590.9	$ 494.2	$ 991.0	$ 1,795.1
Item (Dollar amounts in millions)	Appropriation Year				
	2000-2001	2001-2002	2002-2003	2003-2004[2]	2004-2005
Total calculated appropriations(1)	$ 156.3	$ 193.1	$ 180.4	$ 229.8	$ 322.8
EIR Program appropriations	8.1	8.1	8.1	5.9	5.9
Excess investment earnings credit(1)	(156.3)	(33.7)	-	-	-
Net employer appropriations	$ 8.1	$ 167.5	$ 188.5	$ 235.7	$ 328.7

[1] Figures from 1998 and 1999 valuations have been revised to reflect Act 100/1999 and related lawsuit, Act 216/2000

[2] Figure from 2001 valuation has been revised to reflect reamortization to 6/30/2029 under Act 147/2002

GABRIEL, ROEDER, SMITH & COMPANY

Exhibit 5
Employer Allocation of EIR Program Costs

	General & Teachers		Police, Fire, and Corrections Officers		Total	
	Balance as of June 30, 2000	29 Year Payment	Balance as of June 30, 2000	29 Year Payment	Balance as of June 30, 2000	29 Year Payment
State of Hawaii	$ 55,807,037	$ 4,630,875	$ 234,273	$ 19,440	$ 56,041,310	$ 4,650,315
City & County of Honolulu	6,520,464	541,069	3,004,285	249,296	9,524,749	790,365
Board of Water Supply	801,589	66,516	-	-	801,589	66,516
County of Hawaii	1,519,665	126,102	611,772	50,765	2,131,437	176,867
County of Maui	1,546,840	128,357	525,655	43,619	2,072,495	171,976
County of Kauai	848,046	70,371	232,272	19,274	1,080,318	89,645
Total	$ 67,043,641	$ 5,563,290	$ 4,608,257	$ 382,394	$ 71,651,898	$ 5,945,684

Unamortized Balance as of June 30, 2002

	General & Teachers	Police, Fire, and Corrections Officers	Total
State of Hawaii	$ 54,690,527	$ 229,586	$ 54,920,113
City & County of Honolulu	6,390,013	2,944,175	9,334,188
Board of Water Supply	785,552	-	785,552
County of Hawaii	1,489,262	599,533	2,088,795
County of Maui	1,515,893	515,139	2,031,032
County of Kauai	831,080	227,625	1,058,705
Total	$ 65,702,327	$ 4,516,058	$ 70,218,385

GABRIEL, ROEDER, SMITH & COMPANY

Actuarial Certification Statement

	Police, Fire, and Corrections June 30, 2002	All Other Employees June 30, 2002	All Employees June 30, 2002
1. Total Normal cost at valuation date	$ 41,963,704	$ 150,889,445	$ 192,853,149
2. Present value of future benefits			
a. Active employees	$ 1,283,851,951	$ 5,745,907,082	$ 7,029,759,033
b. Inactive members	14,613,458	180,747,562	195,361,020
c. Pensioners and beneficiaries	829,701,815	4,669,693,436	5,499,395,251
d. Total	$ 2,128,167,224	$ 10,596,348,080	$ 12,724,515,304
3. Present value of future employee and employer contributions			
a. Present value of future normal costs	$ 353,242,288	$ 1,161,047,083	$ 1,514,289,371
b. Present value of future employee contributions	268,010,007	118,609,155	386,619,162
c. Present value of future employer normal costs (Item 3a - Item 3b)	$ 85,232,281	$ 1,042,437,928	$ 1,127,670,209
d. Present value of future Early Incentive Retirement Program Employer contributions at valuation date	$ 4,516,058	$ 65,702,327	$ 70,218,385
4. Actuarial accrued liability (Item 2d - Item 3a)	$ 1,774,924,936	$ 9,435,300,997	$ 11,210,225,933
5. Actuarial value of assets			
a. Annuity Savings Fund	$ 397,229,731	$ 518,018,100	$ 915,247,831
b. Pension Accumulation Fund	1,202,512,322	7,297,400,328	8,499,912,650
c. Total	$ 1,599,742,053	$ 7,815,418,428	$ 9,415,160,481
6. Unfunded actuarial accrued liability	$ 175,182,882	$ 1,619,882,569	$ 1,795,065,451
7. Appropriations for Fiscal Year ending June 30, 2005			
a. Employer normal cost	$ 10,955,916	$ 146,514,224	$ 157,470,140
b. Amortization payment[1]	17,854,496	147,446,398	165,300,894
c. Employer contribution requirement before EIR	$ 28,810,412	$ 293,960,622	$ 322,771,034
d. EIR payment	382,394	5,563,290	5,945,684
e. Total employer contribution requirement	$ 29,192,806	$ 299,523,912	$ 328,716,718

[1] Fully amortized by 6/30/2029

GABRIEL, ROEDER, SMITH & COMPANY

Actuarial Certification Statement (continued)

The actuarial valuation as of June 30, 2002 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

W. Michael Carter, FSA, EA
Senior Consultant

GABRIEL, ROEDER, SMITH & COMPANY

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 29 years from July 1, 2000. 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.

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 noncontributory 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
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
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

Age	Expected Terminations per 100 Lives (Male Members)			
	Years of Service			
	0	1	2	3 or more
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

Age	Expected Terminations per 100 Lives (Female Members)			
	Years of Service			
	0	1	2	3 or more
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
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
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	

Noncontributory 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, 2002	June 30, 2001
1. Actuarial value at beginning of year	$ 9,515,956,661	$ 9,204,707,100
2. Contributions	222,910,118	62,621,799
3. Benefits and refunds paid	(568,803,644)	(548,799,187)
4. Expected investment return	747,440,792	716,929,472
5. Preliminary actuarial value of assets at end of year	$ 9,917,503,927	$ 9,435,459,184
6. Market value at end of year	$ 7,907,020,366	$ 8,772,005,591
7. Outstanding excess investment earnings credit (Act 100/1999)	-	-
8. Adjusted market value of assets ((7)+(8))	$ 7,907,020,366	$ 8,772,005,591
9. Market value excess ((8) - (5))	$ (2,010,483,561)	$ (663,453,593)
10. Determination of market value excess for current year		
a. Balance from 3 years ago	$ 69,864,600	$ 266,207,800
b. Balance from 2 years ago	94,182,100	139,729,200
c. Balance from 1 year ago	(907,997,770)	141,273,100
d. Balance from current year	(1,266,532,491)	(1,210,663,693)
11. Amortization of market value excess		
a. Write-up from 3 years ago	$ 69,864,600	$ 266,207,800
b. Write-up from 2 years ago	47,091,000	69,864,600
c. Write-up from 1 year ago	(302,665,923)	47,091,000
d. Write-up from current year	(316,633,123)	(302,665,923)
e. Total excess investment return	$ (502,343,446)	$ 80,497,477
12. Actuarial value at end of year (Item 5 + Item 11e)	$ 9,415,160,481	$ 9,515,956,661
13. Annuity Savings Fund	$ 915,247,831	$ 984,750,694
14. Pension Accumulation Fund (Item 12 - Item 13)	$ 8,499,912,650	$ 8,531,205,967
15. Reserve for future years (Item 8 - Item 12)	$ (1,508,140,115)	$ (743,951,070)

Exhibit 7
Development of Employer Cost

	Police, Fire, and Corrections June 30, 2002	All Other Employees June 30, 2002	All Employees June 30, 2002
1. Payroll (adjusted for one year's pay increase)	$ 260,937,239	$ 2,410,751,469	$ 2,671,688,708
2. Actuarial present value of future pay	$ 2,196,780,400	$18,547,078,000	$ 20,743,858,400
3. Present value future benefits (Table 1)	$ 2,128,167,224	$10,596,348,080	$ 12,724,515,304
4. Gross normal cost at 6/30/2002			
a. Amount (Table 2, Item 4a)	$ 41,963,704	$ 150,889,445	$ 192,853,149
b. Percent of pay (Table 2, Item 5f)	16.08%	6.26%	7.23%
5. Present value future normal cost (Item 4b * Item 2)	$ 353,242,288	$ 1,161,047,083	$ 1,514,289,371
6. Actuarial accrued liability (Item 3 - Item 5)	1,774,924,936	9,435,300,997	$ 11,210,225,933
7. Present value future employee contributions	$ 268,010,007	$ 118,609,155	$ 386,619,162
8. Weighted effective employee contribution % (Item 7 / Item 2)	12.20%	0.64%	1.77%
9. Employer normal cost rate (Item 4b - Item 8)	3.88%	5.62%	5.46%
10. Actuarial value of assets	$ 1,599,742,053	$ 7,815,418,428	$ 9,415,160,481
11. Unfunded actuarial accrued liability (UAAL) (Item 6 - Item 10)	$ 175,182,882	$ 1,619,882,569	$ 1,795,065,451
12. Funding period in years (Funding to 6/30/2029)			
a. As of June 30, 2002	27	27	27
b. Reflecting two year lag	25	25	25
13. Present value of future Early Incentive Retirement Program Employer Contributions at 6/30/2004	$ 4,408,528	$ 64,137,800	$ 68,546,328
14. Projection of UAAL for 2004/2005			
a. Expected FY 2002/2003 employer contribution	$ 523,000	$ 187,993,300	$ 188,516,300
b. Expected FY 2002/2003 employee contribution	31,834,343	15,428,809	47,263,153
c. Expected FY 2003/2004 employer contribution	18,643,190	217,042,605	235,685,795
d. Expected FY 2003/2004 employee contribution	33,107,717	16,045,962	49,153,679
e. Expected UAAL at 6/30/2003	200,866,676	1,700,874,781	1,901,741,457
f. Expected UAAL at 6/30/2004	$ 210,248,699	$ 1,764,011,679	$ 1,974,260,378
15. Appropriations for Fiscal Year Ending June 30, 2005			
a. Amortization payment (level payments)	$ 17,854,496	$ 147,446,398	$ 165,300,894
b. Employer normal cost	10,955,916	146,514,224	157,470,140
c. Employer contribution requirement (a + b)	28,810,412	293,960,622	322,771,034
d. EIR payment	382,394	5,563,290	5,945,684
e. Total	$ 29,192,806	$ 299,523,912	$ 328,716,718
f. Employer contribution requirement (% of projected payroll)	10.34%	11.49%	11.38%

GABRIEL, ROEDER, SMITH & COMPANY

Exhibit 8
Total Experience Gain or Loss

Item	Police, Fire, and Corrections	All Other Employees	All Employees
A. Calculation of total actuarial gain or loss			
1. Unfunded actuarial accrued liability (UAAL), previous year	$ 93,687,470	$ 897,268,526	$ 990,955,996
2. Normal cost for the year (employer and employee)	$ 40,021,806	$ 138,834,786	$ 178,856,592
3. Less: contributions and assessments for the year	$ (37,874,945)	$ (185,035,173)	$ (222,910,118)
4. Interest at 8 %			
a. On UAAL	$ 7,494,998	$ 71,781,482	$ 79,276,480
b. On normal cost	3,201,744	11,106,783	14,308,527
c. On contributions	(1,514,998)	(7,401,407)	(8,916,405)
d. Total	$ 9,181,744	$ 75,486,858	$ 84,668,602
5. Expected UAAL (Sum of Items 1 - 4)	$ 105,016,075	$ 926,554,997	$ 1,031,571,072
6. Actual UAAL	$ 175,182,882	$ 1,619,882,569	$ 1,795,065,451
7. Total gain (loss) for the year(Item 5 - Item 6)	$ (70,166,807)	$ (693,327,572)	$ (763,494,379)
B. Source of gains and losses			
8. Asset gain (loss) for the year (Table 11)	$ (85,353,822)	$ (416,989,623)	$ (502,343,446)
9. Liability gain (loss) for the year	$ 15,187,015	$ (276,337,949)	$ (261,150,933)
10. Change in benefit provisions	N/A	N/A	N/A
11. Change in actuarial assumptions	N/A	N/A	N/A
11. Change in asset method	N/A	N/A	N/A
12. Total	$ (70,166,807)	$ (693,327,572)	$ (763,494,379)

GABRIEL, ROEDER, SMITH & COMPANY

TEN-YEAR ACTUARIAL SCHEDULES
1993 to 2002

- Retirement System Membership
    - 2002 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 1995-1996 to 2004-2005

Retirement System Membership, 1993 to 2002

March 31,	Active Members	Inactive Vested Members	Pensioners & Beneficiaries	Total Membership
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
2002	62,208	3,835	30,330	96,373

Note: Schedule compiled by ERS Staff from actuary reports.

Membership Data

	Police, Fire, and Corrections		All Other Employees		All Employees	
	June 30, 2002	June 30, 2001	June 30, 2002	June 30, 2001	June 30, 2002	June 30, 2001
1. Active members						
a. Number	4,734	4,731	57,474	55,261	62,208	59,992
b. Total payroll	$ 250,884,000	$ 239,356,555	$ 2,317,823,028	$ 2,110,842,317	$ 2,568,707,028	$ 2,350,198,872
c. Average salary	$ 52,996	$ 50,593	$ 40,328	$ 38,198	$ 41,292	$ 39,175
d. Average age	39.9	39.7	46.2	46.1	45.8	45.6
e. Average service	13.0	12.9	13.2	13.3	13.2	13.3
2. Inactive members						
a. Number	115	92	3,720	3,324	3,835	3,416
b. Total annual deferred benefits	$ 1,757,646	$ 1,477,889	$ 25,357,738	$ 22,974,861	$ 27,115,384	$ 24,452,750
c. Average annual deferred benefit	$ 15,284	$ 16,064	$ 6,817	$ 6,912	$ 7,071	$ 7,158
3. Service retirees						
a. Number	2,265	2,189	25,368	24,900	27,633	27,089
b. Total annual benefits	$ 69,006,265	$ 63,768,871	$ 435,609,922	$ 411,616,549	$ 504,616,187	$ 475,385,420
c. Average annual benefit	$ 30,466	$ 29,132	$ 17,172	$ 16,531	$ 18,261	$ 17,549
4. Disabled retirees						
a. Number	168	171	969	950	1,137	1,121
b. Total annual benefits	$ 2,252,986	$ 2,128,140	$ 8,069,480	$ 7,763,752	$ 10,322,466	$ 9,891,892
c. Average annual benefit	$ 13,411	$ 12,445	$ 8,328	$ 8,172	$ 9,079	$ 8,824
5. Beneficiaries						
a. Number	135	128	1,425	1,322	1,560	1,450
b. Total annual benefits	$ 2,328,810	$ 1,949,413	$ 14,049,496	$ 12,622,647	$ 16,378,306	$ 14,572,060
c. Average annual benefit	$ 17,250	$ 15,230	$ 9,859	$ 9,548	$ 10,499	$ 10,050

GABRIEL, ROEDER, SMITH & COMPANY

Historical Summary of Active Member Data

Year Ending June 30,	Active Members Number	Active Members Percent Increase	Covered Payroll Amount in $ Millions	Covered Payroll Percent Increase	Average Salary $ Amount	Average Salary Percent Increase	Average Age	Average Service
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
2002	62,208	3.7%	2,568.7	9.3%	41,292	5.4%	45.8	13.2

GABRIEL, ROEDER, SMITH & COMPANY

Pensioners, Average Annual Pension and Active Member/Pensioner Comparision, 1993 to 2002

March 31	Number of Pensioners	Average Annual Pension	Ratio of Active Members per Pensioner
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
2002	28,770	$17,898	2.1

Schedule compiled by ERS staff from actuary reports.

Number of Retirants and Beneficiaries, 1993 to 2002

	Retirants				Beneficiaries			
As of March 31,	Added	Removed	Total	Average Pension	Added	Removed	Total	Average Pension
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			**	
2002	1,299	739	28,770	$17,898	176	66	1,560	$10,499

** Beneficiary counts are included in pensioners amounts through 2001. As of March 31, 2001, there were 28,210 pensioners and 1,450 beneficiaries.

Schedule compiled by ERS staff from actuary reports.

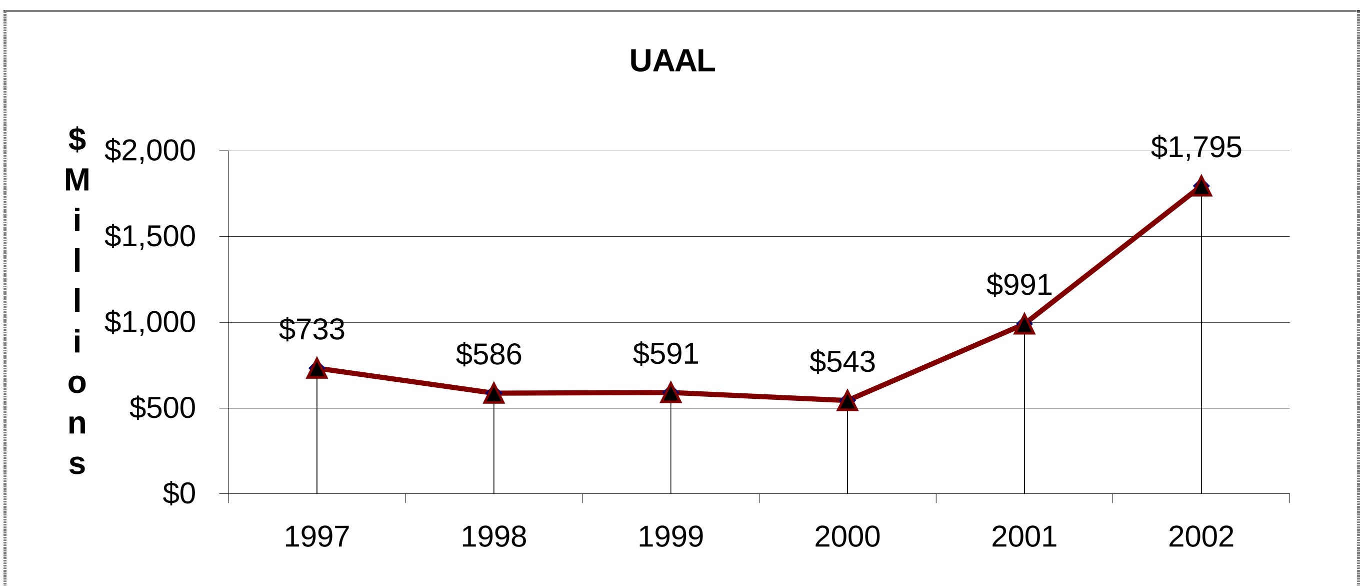
Solvency Test, 1993 to 2002 (Amounts in Millions)

June 30,	Actuarial Accrued Liabilities: Active Member Contributions (1)	Retirees, Beneficiaries, and Inactive Vested Members (2)	Active and Inactive Members Employer Financed (3)	Actuarial Value of Assets (4)	Cumulative Portion of Actuarial Accrued Liabilities Covered by Assets: Col 1 (5)	Col 2 (6)	Col 3 (7)
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	9,516.0	100%	100%	77.5%
2002	889.9	5,499.4	4,820.9	9,415.2	100%	100%	62.8%

Note: Actuarial accrued liabilities for 1993-1994 are not comparable with amounts shown for later years. For 1993-1994, the sum of the three actuarial accrued liabilities equals the total pension benefit obligation. Beginning 1995, the actuarial accrued liabities are equal to the actuarial accrued liability under the Entry Age Normal Actuarial Cost Method.

Schedule compiled by ERS staff from actuary reports.

Unfunded Actuarial Accrued Liability FY1997-2002



Employer Contribution Rates as a Percentage of Payroll, 1993 to 2002

Actuarial	Police, Fire and Corrections			All Other Employees			All Active Employees		
Valuation as of June 30,	Normal Cost Rate	Amortization Percent	Total Employer Rate	Normal Cost Rate	Amortization Percent	Total Employer Rate	Normal Cost Rate	Amortization Percent	Total Employer Rate
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%
2002	3.88%	6.46%	10.34%	5.62%	5.87%	11.49%	5.45%	5.93%	11.38%

Note: Rates for 1993-94 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 1995-1996 to 2004-2005
(Amounts in Millions)

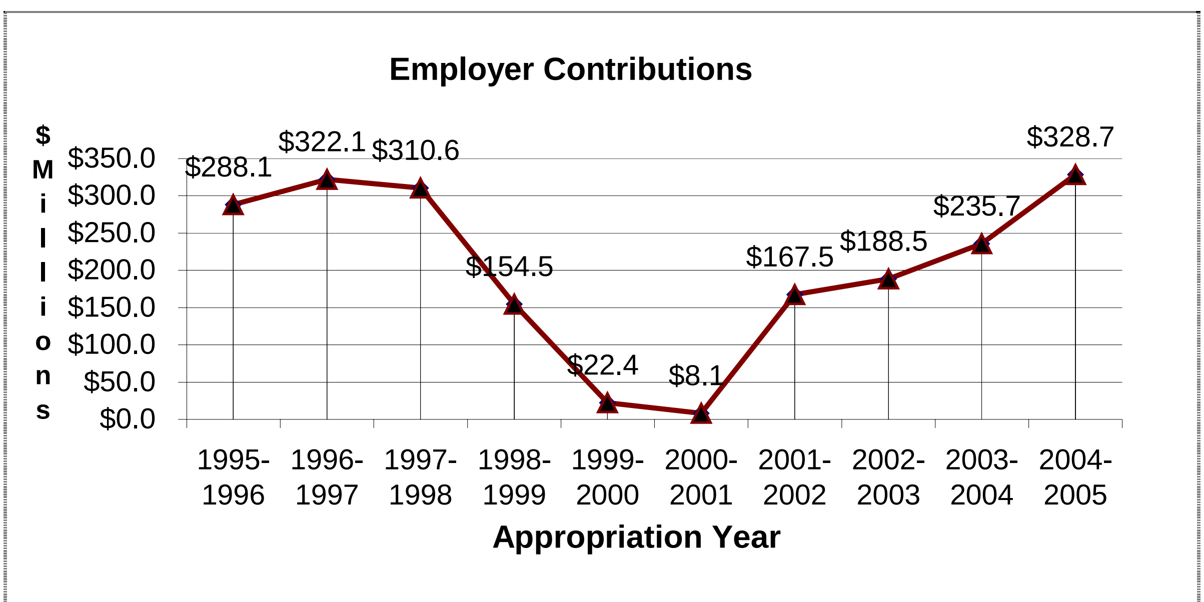
Fiscal Year	Investment Yield Rate		Appropriation Year	Total Calculated Contribution	Investment Earnings Adjustment	Employer Appropriations
	Assumed for Actuarial Valuation	Actuarial Investment Return				
1992-1993	8.0%	10.02%	1995-1996	$ 383.3	$ (95.2)	$ 288.1
1993-1994	8.0%	7.76%	1996-1997	309.4	12.7	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%	8.91%	2003-2004	235.7	-	235.7
2001-2002	8.0%	2.60%	2004-2005	328.7	-	328.7

(1) Beginning in appropriation year 1997-98, total calculated contribution includes appropriations for the Early Incentive Retirement program. 2001 results adjusted for reamortization of Unfunded Actuarial Accrued Liability and Early Incentive Retirement Program to June 30, 2029 under Act 147/2002.

(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.



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	20	Kentucky KERS	125.7%	Texas ERS	107.7%
		Montana PERS	125.1%	Alabama ERS	107.1%
		Arizona ASRS	120.0%	Arkansas PERS	106.0%
		California PERS	119.5%	New Mexico PERA	105.4%
		Florida FRS	117.9%	Virginia VRS	105.3%
		Pennsylvania	114.4%	Utah SRS	104.3%
		New Jersey PERS	112.5%	Georgia ERS	104.0%
		Delaware SEPP	112.4%	Wyoming WRS	103.2%
		North Dakota PERS	110.6%	Ohio PERS	101.0%
		Indiana PERF	108.8%	Alaska PERS	100.9%
90% to 99%	16	Missouri PSRS	99.4%	Iowa PERS	97.2%
		N. Carolina LGERS	99.3%	Wisconsin WRS	97.0%
		Michigan MPSERS	99.3%	South Dakota SDRS	96.4%
		Tennessee CRS	99.0%	New Hampshire NHRS	96.1%
		Maryland MSRPS	98.3%	Washington PERS	95.0%
		Colorado PERA	98.2%	Vermont VSRS	93.0%
		Oregon PERS	97.6%	Massachusetts SERS	91.8%
		Idaho PERS	97.2%	**Hawaii ERS***	**90.6%**
80% to 89%	8	Kansas PERS	88.3%	West Virginia PERS	84.4%
		Mississippi PERS	87.5%	Nevada PERS	84.2%
		South Carolina SCRS	87.4%	Oklahoma PERS	82.6%
		Minnesota PERF	87.0%	Rhode Island ERSRI	81.6%
70% to 79%	2	Louisiana LASERS	74.2%	Maine MSRS	72.9%
Less than 70%	2	Illinois SERS	65.8%	Connecticut SERS	62.5%

Source: National Education Association, Characteristics of 100 Large Pension Plans (2002), Table 7, pp. 66-69, as summarized by Gabriel, Roeder, Smith & Co.

Note: GASB 25 funded ratios are shown for 48 general state retirement systems for valuation year(s) through December 31, 2001. A funded ratio is not shown for the Nebraska System because it is a defined contribution plan. A funded ratio for the New York System does not exist because of the use of the Aggregate Cost Method.

* Hawaii's GASB 25 funded ratio for fiscal year ended June 30, 2002 was 84.0%

GABRIEL, ROEDER, SMITH & COMPANY

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EMPLOYEES' RETIREMENT SYSTEM OF THE STATE OF HAWAII

STATISTICAL SECTION

Participating Employers and Active Members

As of March 31,

	2002		2001	
	Active Members	Percentage	Active Members	Percentage
State of Hawaii	48,242	78%	46,185	77%
City & County of Honolulu	8,323	13	8,236	14
- Board of Water Supply	589	1	616	1
Hawaii County	2,056	3	2,043	3
Maui County	1,956	3	1,912	3
Kauai County	1,042	2	1,000	2
	62,208	100%	59,992	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
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)
2002	167,458,900	6.52	55,451,216	(503,995,093)		(281,084,977)

(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	Refund to Employers *	Total
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
1997	432,732,753	3,963,721	3,217,348	-	439,913,822
1996	454,078,620	3,634,085	2,960,240	-	460,672,945
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
2002	565,559,305	3,244,334	5,754,832	-	574,558,471

* Minimum Pension Fund merged into Pension Accumulation Fund in 1998, and Minimum Pensions are now paid from the Pension Accumulation Fund as a result of legislative action. Remaining balance of the Minimum Pension Fund was refunded to employers.

Benefit Payments by Type

Year ended June 30	Monthly Benefit Payments				Refunds Option Payments	Total Benefit Payments
	Service	Disability	Death	Subtotal		
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
2002	518,579,831	9,336,267	2,465,179	530,381,277	35,178,028	565,559,305

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
2002	Average Monthly Benefit	$241	$467	$800	$1,140	$1,837	$2,200	$2,380	$1,523
	Number of Active Retirants	1,366	3,443	3,098	3,459	6,970	6,592	2,669	27,597

Benefit Payments by Retirement Type and Option
Retired Contributory Members
As of March 31, 2002

Monthly Benefit	Number of Recipients	Type of Retirement * 1	2	3	4	5	Retirement Option Max	Opt. 1	Opt. 2	Opt. 3	Opt. 4	Opt. 5	Other
$ 1 - 300	1,963	1,699	27	13	3	221	504	551	186	64	220	426	12
301 - 600	3,341	2,864	185	69	5	218	386	311	165	69	951	1,452	7
601 - 900	3,062	2,661	108	103	7	183	329	226	126	59	1,121	1,195	6
901 - 1,200	2,783	2,500	40	83	3	157	233	209	94	48	1,102	1,090	7
1,201 - 1,500	2,564	2,414	13	52	1	84	197	146	82	25	1,100	1,008	6
1,501 - 1,800	2,408	2,302	11	26	2	67	126	118	71	22	1,054	1,011	6
1,801 - 2,100	2,390	2,323	2	16	1	48	120	68	56	19	928	1,196	3
2,101 - 2,400	2,101	2,049	7	5	-	40	130	59	54	28	847	980	3
2,401 - 2,700	1,580	1,555	1	4	1	19	123	49	43	25	797	542	1
2,701 - 3,000	1,112	1,091	-	3	-	18	100	37	30	21	639	285	-
Over 3,000	2,010	1,971	-	5	4	30	240	79	117	60	1,067	447	-
Totals	25,314	23,429	394	379	27	1,085	2,488	1,853	1,024	440	9,826	9,632	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, 2002

Monthly Benefit	Number of Recipients	Type of Retirement *					Retirement Option				
		1	2	3	4	5	Max	Opt. A	Opt. B	Opt. C	Other
$ 1 - 300	692	476	55	23	61	77	292	101	184	44	71
301 - 600	1,159	856	140	23	36	104	594	161	291	76	37
601 - 900	622	484	62	7	20	49	340	99	123	42	18
901 - 1,200	448	380	27	1	2	38	229	86	92	39	2
1,201 - 1,500	372	332	17	-	2	21	193	68	74	37	-
1,501 - 1,800	443	427	5	-	1	10	273	72	48	49	1
1,801 - 2,100	564	550	3	-	-	11	398	61	46	59	-
2,101 - 2,400	311	305	1	-	-	5	240	28	20	23	-
2,401 - 2,700	164	159	-	-	-	5	100	35	22	7	-
2,701 - 3,000	103	98	-	-	2	3	60	24	15	4	-
Over 3,000	138	135	-	-	-	3	92	26	12	8	-
Totals	5,016	4,202	310	54	124	326	2,811	761	927	388	129

* 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.