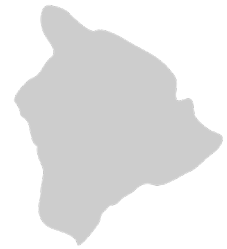




Employees' Retirement System
of the State of Hawaii

Strategic Plan 2020-2024



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Employees' Retirement System of the State of Hawaii Strategic Plan 2020-2024

Introduction

The Employees' Retirement System (ERS) of the State of Hawaii was established in 1926 to provide retirement allowances and other benefits to state and county government employees. The Board of Trustees is the governing body of the ERS, with certain areas of administrative control vested in the State Department of Budget and Finance.

The ERS administers benefits for service retirement, disability, and survivor benefits for employees of the State of Hawaii, the City and County of Honolulu, County of Hawaii, County of Maui, County of Kauai, the Hawaii Authority for Rapid Transit (HART) and the University of Hawaii. Our membership includes teachers, professors, police officers, firefighters, judiciary employees, judges, and elected officials. The ERS collects retirement contributions from its members and their employers; provides pre-retirement counseling services; conducts disability hearings and appeals; reviews claims for retirement, disability, and death benefits and certifies these benefits for payment; processes monthly pension checks to retirees and beneficiaries; accounts for and safeguards assets in the ERS investment portfolio; and invests funds to help finance this program.

The ERS is a qualified defined benefit public pension plan covered under Section 401(a) of the Internal Revenue Code. The Hawaii Revised Statutes Chapter 88 and Hawaii Administrative Rules Title 6, Chapters 20 – 29 contain the language governing the pension trust. The ERS covers all eligible full-time and part-time state and county employees in the State of Hawaii. The ERS membership as of June 30, 2019 is comprised of the following:

- Total Members: 141,908
- Active Members: 66,271
- Retirees and Beneficiaries: 48,569
- Inactive, Non-Retired Members: 27,068

During the last several years the ERS has embarked on a comprehensive plan of organizational improvement. For example, the numerous internal audit findings citing deficiencies in our information technology infrastructure have largely been addressed and today we are on the verge of successfully implementing cloud-based pension administration (Vitech V10) and financial accounting (Oracle) systems.

Our Retirement Benefits Branch has been reorganized to provide improved service to our members, enhanced career development opportunities for staff and succession planning options for senior management. Dedicated units are now responsible for member counseling, benefit calculations and eligibility determinations and Neighbor Island services.

We have hired new leadership for our investment team, expanded its professional and administrative staff, added monitoring and analytic tools, refined our portfolio to further reduce risk, increase diversification and improve risk adjusted returns. Salaries have been increased in recognition of value add and to recruit and retain high-caliber professionals. We have developed a long-term strategic vision of the investment team structure and resources necessary to optimize returns relative to assumptions.

The Accounting team has undergone a best practices review and is committed to addressing its major findings and to implementing its priority recommendations. Recently added staff resources will improve both internal and external customer service. Specific emphasis is being

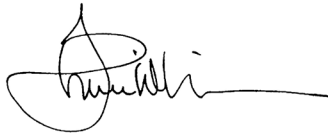
placed on better service, timely reporting and improved interface with our investment team's operational needs and service requirements.

We have established a Program Specialist unit that is coordinating communications, both internal and external, developing and implementing legislative strategy and assuring that strategic initiatives are prioritized, coordinated and completed.

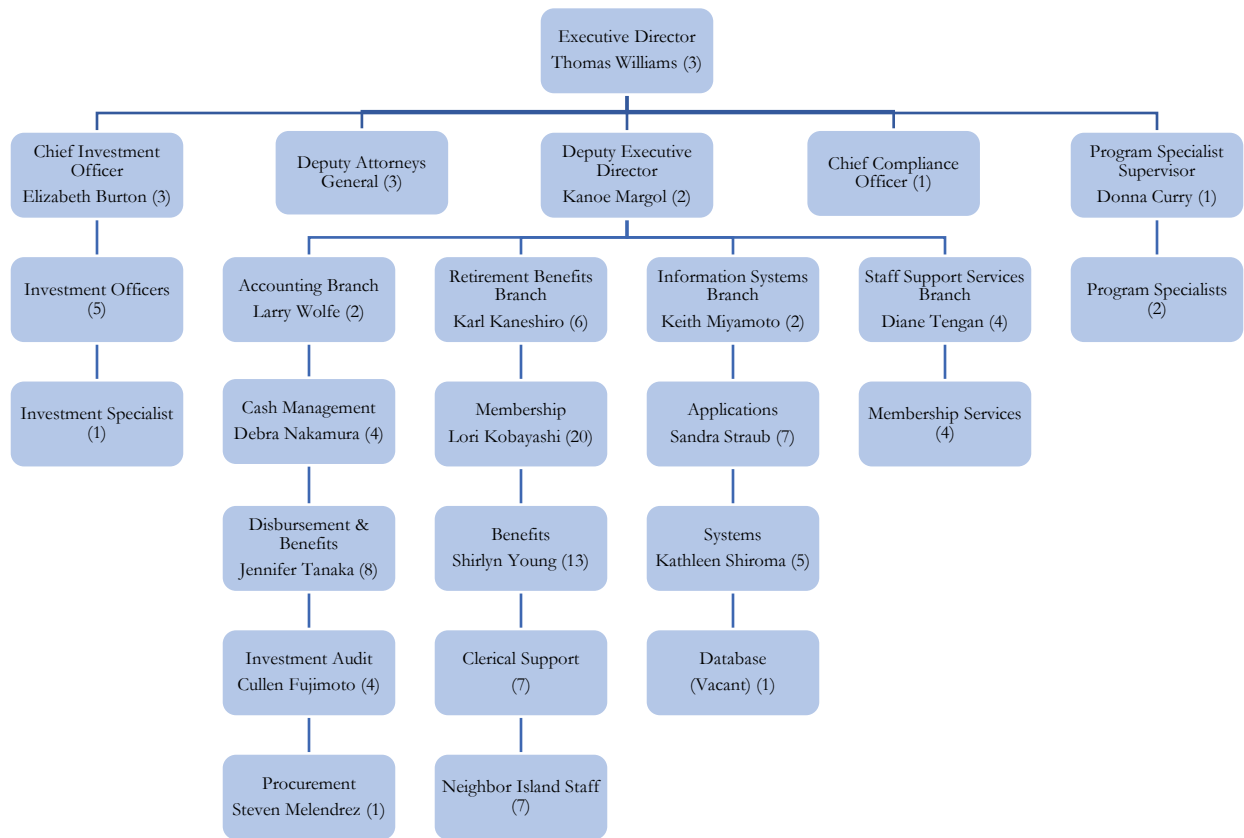
It is abundantly clear that our human resources are our most valuable assets. It is my goal to lead them, reward them and thank them both for enabling the accomplishments achieved to date and for their faith in what we can and will do to further insure our members' financial futures.

The ERS Strategic Plan (Plan) for the period 2020-2024 builds on our recent successes and describes our aspirational goals and business plans as a financial steward and partner to our members, employers, legislature and citizens and as an advocate for income security in retirement for our members and their beneficiaries. The Plan will flow throughout our organization and impact each branch. Implementation becomes a part of every staff member's goals. The Strategic Plan identifies our goals, aligns the ERS management, staff and board with desired outcomes and provides a roadmap for achieving them.

Respectfully,

A handwritten signature in black ink, appearing to read 'Thomas Williams', with a long horizontal flourish extending to the right.

Thomas Williams
Executive Director



111 full-time positions
2 temporary positions
 113 Positions
 (12 vacant positions)

Mission: Our purpose
Vision: The kind of organization we want to be
Values: The culture we want within our organization and how we want employees to interact with each other and our various stakeholders

Mission:

Partner with our members and their employers to provide income security in retirement through prudent oversight of system assets and responsible benefit plan design.

Vision:

To become the most reliable, trusted and admired governmental entity within our state.

Values:

Customer Focus, Ethical Conduct, Accountability, Excellence, Fiduciary Duty, Continuous Improvement.

We strive to meet or exceed the expectations of our customers. We conduct ourselves with integrity acting ethically in every endeavor. We operate with transparency and accept responsibility for our actions. Our drive for excellence is sustained by a ceaseless focus on continuous improvement.

Goals & Objectives

Goal 1: Maintain Plan Sustainability

- Objective A: Ensure the sustainability of the ERS
- Objective B: Ensure responsible governance in administration of the ERS
- Objective C: Communicate effectively with members, employers and other stakeholders
- Objective D: Optimize operational effectiveness

Goal 2: Achieve Investment Goals

- Objective A: Design, implement and maintain an investment management program that minimizes risks required to achieve the target return
- Objective B: Invest in the Investment staff to adequately address the growing complexity of the financial markets and the sophistication of the investment program
- Objective C: Upgrade the investment process to best practices

Goal 3: Strengthen Risk Management Capabilities

- Objective A: Develop and maintain a robust security program that ensures appropriate data security, privacy protections and disaster recovery/business continuity
- Objective B: Audit Accounting Branch policies, procedures and organization structure to achieve more efficient investment office support, timely and accurate reporting

Goal 4: Provide Outstanding Customer Service

- Objective A: Members and employers receive timely and accurate customer service that results in high levels of satisfaction
- Objective B: Employer Payroll & Personnel Data Reporting Project
- Objective C: Disability Determination Process, Evaluation and Alternatives
- Objective D: Develop and implement means to enhance customer service
- Objective E: Establish and administer Hawaii Domestic Relations Orders (HiDRO)

Goal 1. Maintain Plan Sustainability

Objective A. Ensure the sustainability of the ERS	
i.	Measure: Employer and employee contributions are projected to achieve full funding over the amortization period.
	Target: 100% full funding within 25 years
ii.	Measure: Contribution rates, if maintained, will trend toward normal cost.
	Target: Steady reduction in funding period
iii.	Measure: Experience Studies, Actuarial Valuations, and stress tests ensure that actuarial assumptions and methods accurately convey the condition of the plan.
	Target: Experience study every three years, actuarial valuation annually
Objective B. Ensure responsible governance in administration of the ERS	
i.	Measure: Successful compliance of annual governance responsibilities as outlined in the Governance Policy Manual
	Target: Adoption and implementation of priority policies and goals
ii.	Measure: Legislative initiatives introduced by the ERS or other parties achieve the system's desired outcomes
	Target: Broad executive and legislative support for our initiatives
iii.	Measure: Complete an assessment of risks associated with current legislation, rules and business practices, report results, recommend remediation strategies
	Target: Steady progress toward mitigation of internal audit, management and board findings
iv.	Measure: Obtain un-qualified opinions from ERS independent auditors on annual audit, Governmental Accounting Standards Board (GASB) 67-68
	Target: Board and Audit Committee unqualified acceptance
Objective C. Communicate effectively with members, employers and other stakeholders	
i.	Measure: Develop, implement and monitor annual communication plan
	Target: Communication Plan developed by or during FYE 2021
Objective D. Optimize operational effectiveness	
i.	Measure: Total annual administrative expense compares favorably with peers
	Target: Total annual administrative expenses fall within top half of public pension funds with lowest administrative expenses of similar size by or during FYE 2021

ii.	Measure: Contract with industry bench-marking consultant to determine comparative service score and average per member cost
	Target: Complete benchmarking analysis by or during FYE 2022, assuming funding available
iii.	Measure: Perform internal audit, and review and implement recommendations that are cost-effective and/or of high value
	Target: Clear highest risk/critical audit findings by deadlines
iv.	Measure: Develop, implement and maintain new and on-going comprehensive staff training plan
	Target: Make job appropriate training available to all staff
iv.	Measure: Institute an annual staff resources assessment, including a succession plan to maintain operational effectiveness
	Target: Assess staff resources annually, including a succession plan by FY 2020, updated annually
	Measure: Secure video conferencing technology to provide facilities that are conducive to operating efficiently and as a tool for member, Board and staff education and engagement
	Target: Research video conferencing technology & implement cost-effective recommendation by FYE 2022

Goal 1. Success Indicators

1.	Meet internal deadlines
2.	Complete deliverables
3.	Meet established benchmarks
4.	Obtain funding, as necessary
5.	Conduct procurement and execute contracts with vendor timely

Goal 2. Achieve Investment Goals

Objective A. Design, implement and maintain an investment management program that both minimizes risk and achieves the actuarial Assumed Investment Return	
i.	Measure: Develop and approve a Risk-Class Allocation Program that is expected to achieve the actuarial Assumed Investment Return (AIR) over the long term
	Target: Achieve AIR over the long-term
ii.	Measure: Manage volatility and drawdowns to acceptable levels given AIR
	Target: Create absolute risk budgets for risk-classes and components, and active risk budgets relative to benchmark for risk-classes and components with investable benchmark indices. Quantify the risk factors (Aladdin) in near real-time to measure the probability of drawing down more than 10 percent given AIR
iii.	Measure: Rolling three and five-year total returns compare favorably to the strategic risk-class allocation benchmark
	Target: Portfolio return exceeds the three, and five-year returns of the strategic risk-class allocation benchmark.
iv.	Measure: Rolling three and five-year risk-class returns compare favorably to the underlying, respective risk-class benchmark returns
	Target: Risk-class returns exceed the three and five-year returns of the underlying respective, risk class benchmarks
v.	Measure: Achieve transition to strategic asset allocation portfolio
	Target: Achieve pacing plans for private markets (private real estate and private equity)
Objective B. Invest in the Investment staff and resources to adequately address the growing complexity of the financial markets and the sophistication of the investment program	
i.	Measure: Empower Staff to own the manager selection process consistent with the governance structure
	Target: Document transition plan to Trustees for delegation of manager selection and termination decisions to staff; implement appropriate staff-level reporting
ii.	Measure: Implement staff-driven asset/risk allocation strategy
	Target: Staff to work with partners to implement an internal rebalancing, tactical tilting, and hedging strategy
iii.	Measure: Design & implement investment organization structure to support the Investment program.
	Target: Approve new organizational chart that builds in depth, redundancy, succession planning, and varying levels of seniority; update job descriptions to reflect new roles and responsibilities. Increase compensation to at least peer median for each staff position. Secure additional staff in each risk class as well as in risk and operations. Create staff development plan.

iv.	Measure: Staff proactive design of new strategies, structures and fee arrangements
	Target: Provide ongoing training and market/peer/manager exposure opportunities to staff, secure analytical tools and databases necessary to select managers/strategies and design bespoke strategies, negotiate fees, and partner with peers/managers to exploit investment opportunities
v.	Measure: Ensure that manager fees are reasonable and relatively low
	Target: Staff periodically renegotiates liquid-market manager fees; fees are below average in general consultant's annual fee survey

Objective C. Upgrade the investment process to best practices	
i.	Measure: Update the Investment Policy Statement
	Target: Streamline the IPS to remove unnecessary information, reporting, and requirements
ii.	Measure: Secure support from best-in-class third parties to support the Investment program
	Target: Evaluate current third-party support to determine whether it fits the current strategy and complexity of the program. Upgrade, expand, or eliminate outdated relationships
iii.	Measure: Add process to internal staff investment decisions
	Target: Formalize Internal Investment Council, a staff-only council that reviews investment decisions. Formalize internal processes to improve the quality of decisions and reduce the time necessary to identify, analyze, approve and onboard top-performing managers, strategies, and partnerships, and implement allocation and risk strategies.

Goal 2. Success Indicators

1.	Achieve long-term AIR on an inception-to-date basis
2.	Transition to Strategic Asset Portfolio
3.	Secure staff hire/fire authority of manager
4.	Secure a Board-approved updated Investment Policy Statement

Goal 3. Strengthen Risk Management Capabilities

Objective A. Develop and maintain a robust security program that ensures appropriate data security, privacy protections and disaster recovery/business continuity	
i.	Measure: Migrate pension administration system and Oracle Financials application to cloud
	Target: Successful completion of migration to the cloud by FYE 2020
ii.	Measure: Perform assessment of system's overall information security program
	Target: Upon establishment of a baseline for processing, complete assessment of system's overall information security program by FYE 2023
iii.	Measure: Identify and mitigate high level risks identified during assessment that have not been addressed within 12 months
	Target: Follow-up assessment by FYE 2023
iv.	Measure: Develop disaster recovery/business continuity plan
	Target: Plan by FYE 2022
v.	Measure: Core applications and hardware are kept up to date
	Target: By FYE 2021 and on-going
Objective B. Audit Accounting Branch policies, procedures and organization structure to achieve more efficient investment office support, timely and accurate reporting	
i.	Measure: Implement best practices recommendations from custodian bank and other organization reviews
	Target 1: Implement capital call management by FYE 2020 Target 2: Automate account opening process via Nexen by FYE 2021 Target 3: Implement Instruction Capture via Nexen by FYE 2022
ii.	Measure: Consider and implement reorganization as appropriate
	Target 1: Implement reorganization of Benefits & Disbursements Section as first phase by FYE 2020 to help with employer reporting issues Target 2: Identify overall reorganization structure and sufficient staff resources required for accounting operations, procurement, and more investment support by FYE 2023
iii.	Measure: Evaluate and strengthen all budget and financial controls. Generate quarterly financial reports for ERS leadership
	Target: Improve completion of required financial and audit reports by FYE 2021

Goal 3. Success Indicators

1. Meet internal deadlines
2. Obtain funding as necessary
3. Conduct procurement and execute contract with vendors timely
4. Implement measures timely
5. Meet established benchmarks

Goal 4. Provide Outstanding Customer Service

Objective A. Members and employers receive timely and accurate customer service that results in high levels of satisfaction	
i.	Measure: Perform additional customer satisfaction surveys
	Target: Additional customer satisfaction manual surveys by FYE 2021
ii.	Measure: Number of calls, timeliness of answers
	Target: By FYE 2020; return calls within two business days
iii.	Measure: Percent of new retirees that receive their estimated first payment within first month of retirement. Finalized payment within 6 months
	Target: 100% within first month of retirement; 98% finalized payment within six months by FYE 2020
iv.	Measure: Percent of members that receive their refund payments within two months after receipt of applications
	Target: 100% within two months after receipt of applications by FYE 2020
v.	Measure: Percent of survivor benefit calculations finalized within 30 days of receipt of all documentation and information
	Target: 100% by FYE 2020
vi.	Measure: Percent of beneficiaries satisfied with the survivor benefit process
	Target: Hire vendor by FYE 2021
vii.	Measure: Reorganization for the Retirement Benefits Branch to improve branch efficiency and improve customer service
	Target: By FYE 2020

Objective B. Employer Payroll & Personnel Data Reporting Project	
i.	Measure: Work with the state and county employers to address incorrect and incomplete payroll reports and files
	Target 1: Achieve a short-term solution acceptable to both ERS and employers FYE 2020: 80% of payroll file acceptable
	Target 2: Achieve a long-term solution acceptable to both ERS and employers FYE 2024 – Employer Reporting Redesign
ii.	Measure: Address issues on the Personnel Interface File (PIF) Conversion Project to streamline the validations and reporting requirements (internal project to load V3 backlog)
	Target: By FYE 2020

iii.	Measure: Work with state and county employers to address correct reporting personnel electronic files
	Target: FYE 2020 (on-going)
iv.	Measure: Data Clean Up Project – Correcting and obtaining missing data from employers and members to ensure correct and accurate actuary reporting that impact funding projects and core activities
	Target: FYE 2020 (on-going)

Objective C. Disability Determination Process, Evaluation and Alternatives	
i.	Measure: Implement Administrative Rules permitting consideration of alternatives
	Target: Administrative Rules implemented by FYE 2020
ii.	Measure: Evaluate pros and cons of alternative process
	Target: Pros and cons evaluated and decision reached regarding keeping current disability process or pursuing alternative process by FYE 2021

Objective D. Develop and implement means to enhance customer service	
i.	Measure: Enhance ERS website to include additional features such as on-line registration for counseling appointments for all islands which would help with the generation and tracking of estimate letters for the counseling appointments
	Target: By FYE 2022 pending funding and procurement
ii.	Measure: Procurement and implementation of new phone system
	Target: By FYE 2020
iii.	Measure: Produce annual member statement to provide members with retirement information needed for their retirement planning
	Target: By FYE 2024 (assuming clean data and staff resources to address questions, etc.)

Objective E. Establish and Administer Hawaii Domestic Relations Orders (HiDRO)	
i.	Measure: Implement Administrative Rules, computer programming changes and other related activities; identify all branch-related activities (e.g. testing V3 application, accounting system set-up, communication to stakeholders, HiDRO document review)
	Target: Begin accepting documents 7/1/2020 and begin payments to alternate payees

Goal 4. Success Indicators

1. Meet internal deadline dates
2. Obtain the required funding as necessary
3. Conduct procurement and execute contract with external vendors timely
3. Address all internal and external complaints/concerns as well as appreciation letters/notations
4. Conduct quarterly meetings and provide updates to Administration on status of objectives
5. Meet established benchmarks

2020-2024 Strategic Plan Prioritization Map

The following pages reflect an approximate schedule for initiating implementation activities for each Goal and Objective of the Strategic Plan. The timing depicts when various activities will be undertaken by Executive Staff and potentially the Board and its Committees, not necessarily when they will be completed.

GOAL/OBJECTIVES	2020	2021	2022	2023	2024
Goal 1. Maintain Plan Sustainability					
A. Ensure the sustainability of the ERS	X				
B. Ensure responsible governance in administration of the ERS	X				
C. Communicate effectively with members, employers and other stakeholders		X			
D. Optimize operational effectiveness	X	X		X	
E. Begin discussion of necessity/advantages of risk sharing benefit model					

GOAL/OBJECTIVES	2020	2021	2022	2023	2024
Goal 2. Achieve Investment Goals					
A. Design, implement and maintain an Investment management program that maximizes returns for acceptable levels of risk	X	X	X	X	X
B. Invest in the Investment staff and resources to adequately address the growing complexity of the financial markets and the sophistication of the investment program	X	X			
C. Upgrade the investment process to best practices	X	X			

GOAL/OBJECTIVES	2020	2021	2022	2023	2024
Goal 3. Strengthen Risk Management Capabilities					
A. Develop and maintain a robust security program that ensures appropriate data security, privacy protections and disaster recovery/business continuity	X	X	X	X	
B. Audit Accounting Branch policies, procedures and organization structure to achieve more efficient investment office support, timely and accurate reporting	X	X	X		

GOAL/OBJECTIVES	2020	2021	2022	2023	2024
Goal 4. Provide Outstanding Customer Service					
A. Members receive timely and accurate customer service that results in high levels of satisfaction	X	X			
B. Employer Payroll and Personnel Data Reporting Project	X	X			
C. Disability Determination Process, Evaluation and Alternatives	X	X			
D. Develop and implement means to enhance customer service		X	X		X
E. Establish and administer Hawaii Domestic Relations Orders (HiDRO)	X				