

MINUTES OF THE MEETING OF THE
ADMINISTRATIVE AND AUDIT COMMITTEE OF THE BOARD OF TRUSTEES OF THE
EMPLOYEES' RETIREMENT SYSTEM OF THE STATE OF HAWAII

MAY 7, 2021

CITY FINANCIAL TOWER
201 MERCHANT STREET, SUITE 1200
HONOLULU, HAWAII 96813

Trustees present:
(by teleconference) Dr. Genevieve Ley, Chair
Mr. Bennett Yap, Vice Chair
Mr. Craig Hirai
Mr. Jerome Rauckhorst
Dr. Catherine Chan
Mr. Wesley Machida

Staff present:
(City Financial Tower
by teleconference) Mr. Thomas Williams, Executive Director (in person)
Ms. Kanoë Margol, Deputy Executive Director (in person)
Ms. Donna Curry, Program Specialist (in person)
Mr. Bart Asato, Program Specialist
Ms. Lori Kobayashi, General Professional (in person)
Ms. Shirlyn Young, General Professional (in person)
Mr. Keith Miyamoto, Information Services Branch Manager
Ms. Sandra Straub, Information Services, Applications Supervisor
Ms. Andrea Gasper, Secretary
Ms. Dale Kehau Kanae, Recording Secretary
Ms. Lori Kim, Secretary

Attorney present:
(by teleconference) Mr. Ivan Torigoe, Deputy Attorney General
Ms. Elmira Tsang, Deputy Attorney General

Guests present:
(by teleconference) Mr. Peter Hanashiro, KMH, LLP (in person)
Mr. Tyson Suehiro, KMH, LLP (in person)

QUORUM/CALL TO ORDER

A quorum being present (Chair Ley, Vice Chair Yap, Trustees Hirai and Rauckhorst), Chair Ley called the meeting of the Administrative and Audit Committee (Committee) of the Board of Trustees (Board) of the Employees' Retirement System of the State of Hawaii (ERS) to order at 1:30 p.m. Trustees Chan and Machida attended the meeting by invitation from Chair Ley to all Trustees.

On a motion made by Vice Chair Yap, seconded by Trustee Rauckhorst, and unanimously carried, the Committee voted to hold a meeting closed to the public and allow Trustees to participate by teleconference or other remote meeting technology, pursuant to the Governor of the State of Hawaii's Nineteenth Proclamation dated April 9, 2021, in order to implement social distancing measures.

PUBLIC COMMENT

Chair Ley called for public comment. There were no members of the public present by teleconference, therefore no public comments. There was also no written public testimony received for this Committee meeting.

KMH LLP'S INTERNAL
AUDIT UPDATE REPORT

KMH LLP's Messrs. Peter Hanashiro and Tyson Suehiro attended in person, and Alfred Ko attended by teleconference. Mr. Hanashiro

provided the Committee an update from the meeting of February 2, 2021 on the ERS Internal Audit Update Report and discussed the Executive Summary:

ADMINISTRATIVE AND OTHER MATTERS
STATUS ON CURRENT AND UPCOMING PROJECTS
Benefit Estimates & Final Benefit Calculation Processing Review, *IA Recommendation and Implementation Assistance, Business Continuity & Disaster Recovery Plan – Planning, and Follow-Up Review.*
2021 INTERNAL AUDIT PLAN RESULTS SUMMARY
SUMMARY RESULTS OF REPORT COMPLETED

KMH LLP’S CLOUD RISK
AND SECURITY
ASSESSMENT – PHASE 1
REVIEW

Mr. Hanashiro explained to the Committee that since the Cloud Risk and Security Assessment – Phase 1 Review was presented at the February 2, 2021, Committee meeting and the Board meeting of February 8, 2021, it was provided for informational purposes as only management responses have been added. Acceptance of the Assessment – Phase 1 Review by the Committee was requested with a recommendation to the Board for approval.

On a motion made by Trustee Rauckhorst, seconded by Vice Chair Yap, and unanimously carried, the Committee accepted the Cloud Risk and Security Assessment as provided and will be recommending it for approval by the Board.

KMH LLP’S BENEFIT
ESTIMATES & FINAL
BENEFIT CALCULATION
PROCESSING REVIEW

Messrs. Hanashiro and Suehiro discussed with the Committee the Benefit Estimates & Final Benefit Calculation Processing Review and discussed:

BACKGROUND
Benefit Estimate Calculation Process and Final Benefit Calculation Process

SCOPE & OBJECTIVES
SUMMARY OF FINDINGS
PLANNED FOLLOW UP BY MANAGEMENT AND INTERNAL
AUDIT;
OVERALL RATING SCALE
RATING FOR INDIVIDUAL FINDINGS;

BENEFIT ESTIMATES & FINAL BENEFIT CALCULATION
PROCESSING REVIEW FINDINGS AND RECOMMENDATIONS
Finding Number: 1, Lack of Sufficient Staff Resources on the Final Benefit Calculation Team, Potential Impact, Recommendation, and Management Response,
Finding Number: 2, Inefficiencies Due to V3 System Issues, Potential Impact, Potential Impact, Recommendation, and Management Response.

On a motion made by Vice Chair Yap, seconded by Trustee Rauckhorst, and unanimously carried, the Committee accepted the Benefit Estimates & Final Benefit Calculation Processing Review as provided and will be recommending it for approval by the Board.

KMH LLP’S INTERNAL
AUDIT UPDATE REPORT
(CONT’D)

Mr. Hanashiro continued with the Internal Audit Update Report and discussed the Management Action Dashboard and briefly discussed the remainder of the report.

DISCUSSION ON THE
EMPLOYER EXCESS
PENSION COSTS

Deputy Executive Director (DED) Kanoe Margol presented a report to the Committee on the Employer Excess Pension Costs (aka pension spiking) as requested by the Board at its meeting of April 12, 2021.

DED Margol discussed the background regarding legislation and Act 153 that was passed to address the salary “spiking” concerns. To comply with the provision of the Act, the ERS began billing all employers in FY 2013 for pension spiking. The report also included graphical presentations of the spiking costs that shows the excess pension costs from FY 2013 to FY 2020 and the excess pension costs for the last three (3) fiscal years. This information will be provided to the Board at its next meeting.

The Committee suggested that when providing this report to the Board, at its next meeting, it should include whether or not the employers are current in paying their bill.

(Trustee Hirai left the meeting by ending his teleconference at 2:33 p.m.)

REVIEW OF UPDATED
AMENDMENTS TO HAWAII
ADMINISTRATIVE RULES (HAR)
TITLE 6:

Program Specialist (PS), Donna Curry provided an oral and written report to the Committee on a Review of Updated Amendments to Hawaii Administrative Rules (HAR) Title 6.

A. HAR CHAPTER 6-20, TO
UPDATE DEFINITIONS,
INCREASE TIME FOR ACTION
ON RULE CHANGE PETITIONS;
DISCLOSURE OF INFORMATION
TO ALTERNATE PAYEES
RELEVANT TO DIVORCE
PROCEEDINGS; CLARIFY
PROCEDURES FOR PETITIONS
FOR RULE CHANGES OR
DECLARATORY RULINGS;
UPDATE STATUTORY
REFERENCES;

PS Curry reviewed, in detail with the Committee, the updated drafts to proposed Administrative Rule Amendments to HAR Chapters 6-20, 6-21, 6-22, and 6-23. Comments and recommendations suggested at the April 12, 2021 Board of Trustees meeting were incorporated into this updated version.

The Committee requested that in Chapter 6-20-16, line 4, “... the chairperson, or a hearing officer designated by the board, ...” For consistency, could it be “designated by the system.” Please use throughout the entire Chapter.

B. HAR CHAPTER 6-21, TO
ADDRESS SERVICE CREDIT FOR
FRACTIONAL MONTHS OF
EMPLOYMENT, AND TEACHERS
ON MODIFIED SCHOOL
SCHEDULES; CONVERSION OF
SICK LEAVE CREDITS WHEN
MEMBER RETIRES OR
TERMINATES IN GOOD
STANDING; TYPOGRAPHICAL
CORRECTIONS;

Chair Ley commented that this updated version incorporating the changes from the Board meeting of April 12, 2021, was already approved allowing the ERS staff to proceed with the rulemaking process. A final draft version will be reported to the Committee again before approval by the Board before the public hearing process.

C. HAR CHAPTER 6-22, TO USE A
“DESIGNATED ENTITY”
ALTERNATIVE TO MEDICAL
BOARD PER ACT 17, 2017
SESSION LAWS OF HAWAII
(ACT 17); UPDATE AND
CLARIFY DEFINITIONS AND
PROCEDURES FOR DISABILITY
RETIREMENT AND DEATH
BENEFITS CERTIFICATIONS
AND FINDINGS;

D. HAR CHAPTER 6-23,
SUBCHAPTER 1, TO UPDATE
RULES FOR CONTESTED CASE
HEARINGS ON DISABILITY
RETIREMENT AND
ACCIDENTAL DEATH
BENEFITS, TO USE A
“DESIGNATED ENTITY”
ALTERNATIVE TO MEDICAL
BOARD PER ACT 17, 2017
SESSION LAWS OF HAWAII;
HAVE “THE ERS SYSTEM”
(EXECUTIVE DIRECTOR)
HANDLE PRELIMINARY
DECISIONS ON APPLICATIONS
FOR SUCH BENEFITS; UPDATE
DEFINITIONS CONSISTENT
WITH HAR CHAPTERS 6-20 AND
6-22; CLARIFY USE OF
HEARINGS OFFICERS; UPDATE
CONTESTED CASE
PROCEDURES

DISCUSS MEASURES THE
EMPLOYEES’ RETIREMENT
SYSTEM CAN INSTITUTE TO
PREVENT POST-
RETIREMENT RETROACTIVE
CHANGES THAT
NEGATIVELY IMPACT AN
EMPLOYEE’S
VESTING/PENSION STATUS

ENTER EXECUTIVE SESSION

DISCUSS MEASURES THE
EMPLOYEES’ RETIREMENT
SYSTEM CAN INSTITUTE TO
PREVENT POST-RETIREMENT
RETROACTIVE CHANGES THAT
NEGATIVELY IMPACT AN
EMPLOYEE’S
VESTING/PENSION STATUS
(CONT’D)

DISCUSS REPORTING BY THE
EXECUTIVE DIRECTOR TO THE
ADMINISTRATIVE & AUDIT
COMMITTEE AS IT RELATES TO
DELEGATED AUTHORITY
RESPONSIBILITIES

Chair Ley presented to the Committee for discussion Measures the ERS Can Institute to Prevent Post-Retirement Retroactive Changes That Negatively Impact an Employee’s Vesting/Pension Status.

Deputy Attorney General Elmira Tsang and PS Curry both provided the Committee some background and information related to the ERS Measures to Minimize Pension Calculation Errors. This agenda item was requested for discussion based on a case decided at the last Board meeting of April 12, 2021.

On a motion made by Trustee Rauckhorst, seconded by Vice Chair Yap, and unanimously carried, the Committee entered into Executive Session at 3:07 p.m.

(Public participation concluded by ending the teleconference link. KMH LLP Messrs Hanashiro and Suehiro were also excused from the meeting and left the room.)

EXECUTIVE SESSION

- Pursuant to HRS § 92-5 (a)(4) or (8), to consult with the Board's attorneys on questions and issues pertaining to the Board's powers, duties, and privileges, immunities, and liabilities, or to deliberate and make a decision upon matter that requires the consideration of information that must be kept confidential pursuant to state or federal law; or pursuant to HRS § 88-27.5(a)(2) to conduct discussions and deliberations or to make decisions relating to procurements that are exempt from Chapter 103D to the same extent that the discussion, deliberation, and decision would be required to be conducted or made confidentially if the procurement were subject to Chapter 103D, with respect to a Preliminary Recommendation by the Employees' Retirement Systems Evaluation Committee of the Request for Proposals for Actuarial Services; for appropriate action.
- Pursuant to HRS § 92-5 (a)(4), to consult with the Board's attorneys on questions and issues pertaining to the Board's powers, duties, and privileges, immunities, and liabilities with respect to a Request to Extend the Date for Compliance with HRS Section 88-103.7, as Amended by Act 87 (2015); for appropriate action.

EXECUTIVE SESSION
PURSUANT TO HRS § 92-5 (a)(4)
OR (8), TO CONSULT WITH THE
BOARD'S ATTORNEYS ON
QUESTIONS AND ISSUES
PERTAINING TO THE BOARD'S
POWERS, DUTIES, AND
PRIVILEGES, IMMUNITIES, AND
LIABILITIES, OR TO
DELIBERATE AND MAKE A
DECISION UPON MATTER THAT
REQUIRES THE
CONSIDERATION OF
INFORMATION THAT MUST BE
KEPT CONFIDENTIAL
PURSUANT TO STATE OR
FEDERAL LAW; OR PURSUANT
TO HRS § 880-27.5(A)(2) TO
CONDUCT DISCUSSIONS AND
DELIBERATIONS OR TO MAKE
DECISIONS RELATING TO
PROCUREMENTS THAT ARE
EXEMPT FROM CHAPTER 103D
TO THE SAME EXTENT THAT
THE DISCUSSION,
DELIBERATION, AND DECISION
WOULD BE REQUIRED TO BE
CONDUCTED OR MADE
CONFIDENTIALLY IF THE
PROCUREMENT WERE SUBJECT
TO CHAPTER 103D, WITH
RESPECT TO A PRELIMINARY
RECOMMENDATION BY THE
EMPLOYEES' RETIREMENT
SYSTEMS EVALUATION
COMMITTEE OF THE REQUEST
FOR PROPOSALS FOR
ACTUARIAL SERVICES; FOR
APPROPRIATE ACTION

(Executive Director Thomas Williams, with Chair Ley's approval, excused himself from the meeting at 3:23 p.m..)

EXECUTIVE SESSION
PURSUANT TO HRS § 92-5
(a)(4), TO CONSULT WITH THE
BOARD'S ATTORNEYS ON
QUESTIONS AND ISSUES
PERTAINING TO THE BOARD'S
POWERS, DUTIES, AND
PRIVILEGES, IMMUNITIES, AND
LIABILITIES WITH RESPECT TO
A REQUEST TO EXTEND THE
DATE FOR COMPLIANCE WITH
HRS SECTION 88-103.7, AS
AMENDED BY ACT 87 (2015);
FOR APPROPRIATE ACTION

APPROVAL OF EXECUTIVE
SESSION MINUTES
- APRIL 1, 2021

EXIT EXECUTIVE SESSION

On a motion made by Trustee Rauckhorst, seconded by Vice Chair Yap, and unanimously carried, the Committee exited Executive Session at 4:00 p.m.

APPROVAL OF MINUTES
- APRIL 1, 2021

On a motion made by Vice Chair Yap, seconded by Trustee Rauckhorst, and unanimously carried, the Committee approved the minutes of the April 1, 2021, meeting as presented.

ADJOURNMENT

On a motion made by Trustee Rauckhorst, seconded by Vice Chair Yap, and unanimously carried, Chair Ley adjourned the meeting at 4:00 p.m.

REDACTED SIGNATURE

Thomas Williams
Executive Director

TW:dkik