

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

JUNE 29, 2022

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

Trustees present: Mr. Bennett Yap, Chair*
(by teleconference) Mr. Lance Mizumoto, Vice Chair*
Mr. Craig Hirai
Mr. Emmit Kane*
Dr. Genevieve Ley

Staff present: Mr. Thomas Williams, Executive Director*
(City Financial Tower Ms. Kanoe Margol, Deputy Executive Director*
by teleconference) Mr. Bart Asato, Program Specialist
Ms. Shanna Sakagawa, Program Specialist
Ms. Elizabeth Burton, Chief Investment Officer*
Mr. Larry Wolfe, Accounting Manager
Mr. Keith Miyamoto, Information Systems Manager
Mr. Karl Kaneshiro, Retirement Benefits Branch Manager*
Ms. Lori Kobayashi, General Professional*
Ms. Jewel Pharms, General Professional*
Ms. Leila Akiona, Retirement Claims Examiner Supervisor*
Ms. Nenita Morales, Retirement Claims Examiner Supervisor*
Ms. Dale Kehau Kanae, Recording Secretary*
Ms. Lori Kim, Secretary*
Ms. Andrea Gasper, Secretary*

Attorney present: Ms. Lori Tanigawa, Deputy Attorney General*
(by teleconference) Mr. Ivan Torigoe, Deputy Attorney General*
Ms. Elmira Tsang, Deputy Attorney General*
Ms. Diane Wong, Deputy Attorney General*

Guests present: Mr. Joe Newton, Gabriel Roeder Smith
(by teleconference) Mr. Peter Hanashiro, KMH LLP
Mr. Tyson Suehiro, KMH LLP

*Attended Executive Session

QUORUM/CALL TO ORDER

A quorum being present (Chair Yap, Vice Chair Mizumoto, and Trustees Hirai and Kane), Chair Yap 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 1:00 p.m. and identified the Trustees present and had them confirm that they are the only ones present at their remote location and that no one else was able to listen in on their teleconference while attending the meeting. Trustee Ley also attended the meeting.

On a motion made by Trustee Kane, seconded by Vice Chair Mizumoto, and unanimously carried, the Committee voted to hold a meeting allowing Trustees and members of the public to participate by interactive

conference technology, pursuant to the HRS § 92-3.7, with at least one meeting location open to the public that has audiovisual connection.

PUBLIC COMMENT

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

PRELIMINARY ANNUAL ACTUARIAL VALUATION REPORT BY GABRIEL ROEDER SMITH & COMPANY FOR THE YEAR ENDING JUNE 30, 2022

Gabriel Roeder Smith & Company, Joe Newton entered the meeting by teleconference and presented an oral and written report to the Committee regarding the Preliminary Annual Actuarial Valuation Report for the Year Ending June 30, 2022.

Mr. Newton discussed with the Committee:

The Role of Actuarial Valuations and Assumptions

- The primary purpose of each year's actuarial valuation is to assess the appropriateness of the current contribution levels.
- Over time, the true cost of benefits will be borne out in actual experience.
- The valuation process helps the ERS set expectations for stakeholders, allows a framework for decision making and budgeting, and track trends over time.
- The inputs used to derive those assessments are based on projections of future.
- These inputs are "assumptions".

Inside the Actuarial Valuation: Projecting the Liability for Each Member

Experience Study

Reasonable Assumption as Defined by the Actuarial Standards of Practice

Summary of Recommendations

Investment Return Assumption: National Trends

Meketa's Forward Looking Expectations for ERS' Target Portfolio

GRS Survey: Distribution of Forward-Looking Returns Expectations

Individual Salary Increases

ERS Experience: Long Service Members by Fiscal Year

Salary Scale: Step Rate Component

Salary Increase Assumption

Post-Retirement Mortality

Historical and Projected Future Improvement

Life Expectancy by State (2019)

Mortality Recommendations

Life Expectancy Comparisons

Balancing Risk

Estimated Impact

Projection of Funding Period from 2016 Legislative Impact Statement vs Actual Valuation Outcomes

On a motion made by Trustee Kane, seconded by Vice Chair Mizumoto, and unanimously carried, the Committee accepted the Preliminary Annual Actuarial Valuation Report as presented and will be recommending it for approval by the Board.

(Trustee Hirai exited the meeting at 1:30 p.m. by ending his teleconference.)

GABRIEL ROEDER SMITH &
COMPANY’S REVIEW OF THE
THREE-YEAR ACTUARIAL
EXPERIENCE STUDY
RESULTS, FISCAL IMPACTS
OF A FIVE- VS TEN-YEAR
VESTING PROVISION, AND
NEW ACTUARIAL
REPORTING REQUIREMENTS
TO BECOME EFFECTIVE IN
2023

Gabriel Roeder Smith & Company, Joe Newton presented an oral and written report to the Committee regarding the Actuarial Experience Study for the period ending June 30, 2021.

Mr. Newton discussed with the Committee:

Executive Summary

Introduction

Analysis of Experience and Recommendations

Actuarial Impact of Recommendations

Summary of Recommendations

Summary of Assumptions and Methods, Incorporating Recommended Assumptions

Summary of Data and Experience

Mr. Newton also discussed with the Committee an actuarial reporting requirement effective in 2023. It is a disclosure to be added to the report, a calculation of the liability as if investment was in low-default-risk fixed-income securities that would show how much investment risk is being taken.

No action was required for this agenda item.

After his presentations, Mr. Newton left the meeting by exiting his teleconference.

(Trustee Ley exited the meeting at 1:39 p.m. by ending her teleconference.)

REVIEW KMH LLP’s
INTERNAL AUDIT UPDATE
REPORT FOR ACCEPTANCE
AND RECOMMENDATION TO
THE BOARD OF TRUSTEES

KMH LLP’s (KMH) Peter Hanashiro and Tyson Suehiro attended by teleconference and provided the Committee an update from the meeting of February 9, 2022, on the ERS 2022 Internal Audit Report and discussed in summary:

Executive Summary

2022 Internal Audit Plan Summary

Summary Results of Reports Completed

Management Action Dashboard

Management Action Plans – Completion Status

Cumulative Observation Analysis

Appendix: Issued Reports Finding Status

KMH requested the Administrative & Audit Committee approve the proposed changes and updates to the 2022 Internal Audit Plan.

On a motion made by Vice Chair Mizumoto, seconded by Trustee Kane, and unanimously carried, the Committee accepted the proposed changes and updates to the 2022 Internal Audit Plan as presented and will be recommending it for approval by the Board.

(Trustee Ley re-entered the meeting at 1:54 p.m. by re-joining the teleconference.)

KMH LLP’s EMPLOYER
COMMUNICATION AND
REPORTING REVIEW

KMH Peter Hanashiro and Tyson Suehiro presented an oral and written report to the Committee regarding the Employer Communication and Reporting Review and discussed in summary:

Background

Scope & Objectives

KMH LLP's EMPLOYER
COMMUNICATION AND
REPORTING REVIEW
(CONT'D)

Summary of Findings

Summary of Improvement Opportunity

Planned Follow Up by Management and Internal Audit

Findings and Recommendations

- *Finding 1 – Lack of Review Process and Controls to Identify Class code Miscoding Errors*
- *Finding 2 – Insufficient Employer Instruction Materials and Training*
- *Finding 3 – Lack of Detail in Work Report Processing Procedures and Training*

KMH requested the Administrative & Audit Committee approve the Employer Communication & Reporting Review.

On a motion made by Vice Chair Mizumoto, seconded by Trustee Kane, and unanimously carried, the Committee accepted the Employer Communication & Reporting Review as presented and will be recommending it for approval by the Board.

After their presentations, Messrs. Hanashiro and Suehiro left the meeting by ending their teleconferences.

APPROVAL OF MINUTES
- FEBRUARY 9, 2022

On a motion made by Vice Chair Mizumoto, seconded by Trustee Kane, and unanimously carried, the Committee approved the minutes of the February 9, 2022, meeting as presented.

(Chair Yap identified attendees of the Executive Session, Committee members Chair Yap, Vice Chair Mizumoto, Trustee Kane, and Trustee Ley; ERS staff Executive Director (ED) Thomas Williams, Deputy Executive Director Kanoe Margol, Chief Investment Officer Elizabeth Burton, Retirement Benefits Branch Manager Karl Kaneshiro, General Professionals Lori Kobayashi and Jewel Pharms, Retirement Claims Examiner Supervisors Leila Akiona and Nenita Morales, Recording Secretary Dale Kehau Kanae and Secretaries Lori Kim and Andrea Gasper; and Deputy Attorneys General Lori Tanigawa, Ivan Torigoe, Elmira Tsang, and Diane Wong.

Chair Yap provided the reason to enter into Executive Session:

Executive Session, pursuant to HRS § 92-5 (a)(4) and (8), to consult with the Board's attorney on questions and issues pertaining to the Board's powers, duties, and privileges, immunities, and liabilities with respect to a request to forgive overpayments pursuant to HRS § 88-106; and to deliberate or make a decision upon a matter that requires the consideration of information that must be kept confidential pursuant to HRS § 92F-13(1) and (4), § 92F-14(b)(6), and Hawaii State Constitution, Article 1, Section 6.)

ENTER EXECUTIVE SESSION

On a motion made by Vice Chair Mizumoto, seconded by Trustee Kane, and unanimously carried, the Committee entered into Executive Session at 2:52 p.m.

(Chair Yap requested and all attendees confirmed that no other persons were in their rooms or able to listen in on their audio or audiovisual connection while they were on the teleconference. Board Secretary Dale Kehau Kanae also confirmed that no unauthorized persons were in the

conference room or able to listen in by audio or audiovisual connection while on the teleconference. Attendees are noted with an asterisk on these minutes and listed on the Executive Session Minutes.)

(Public participation concluded by ending the teleconference link.)

- Pursuant to HRS § 92-5 (a)(4) and (8), to consult with the Board's attorney on questions and issues pertaining to the Board's powers, duties, and privileges, immunities, and liabilities with respect to a request to forgive overpayments pursuant to HRS § 88-106; and to deliberate or make a decision upon a matter that requires the consideration of information that must be kept confidential pursuant to HRS § 92F-13(1) and (4), § 92F-14(b)(6), and Hawaii State Constitution, Article 1, Section 6; appropriate action.

EXECUTIVE SESSION
PURSUANT TO HRS § 92-5 (a)(4)
AND (8), TO CONSULT WITH
THE BOARD'S ATTORNEY ON
QUESTIONS AND ISSUES
PERTAINING TO THE BOARD'S
POWERS, DUTIES, AND
PRIVILEGES, IMMUNITIES, AND
LIABILITIES WITH RESPECT TO
A REQUEST TO FORGIVE
OVERPAYMENTS PURSUANT
TO HRS § 88-106; AND TO
DELIBERATE OR MAKE A
DECISION UPON A MATTER
THAT REQUIRES THE
CONSIDERATION OF
INFORMATION THAT MUST BE
KEPT CONFIDENTIAL
PURSUANT TO HRS § 92F-13(1)
AND (4), § 92F-14(b)(6), AND
HAWAII STATE CONSTITUTION,
ARTICLE 1, SECTION 6;
APPROPRIATE ACTION

EXIT EXECUTIVE SESSION

On a motion made by Trustee Kane, seconded by Vice Chair Mizumoto, and unanimously carried, the Committee exited Executive Session at 2:54 p.m.

ADJOURNMENT

On a motion made by Trustee Kane, seconded by Vice Chair Mizumoto, and unanimously carried, Chair Yap adjourned the meeting at 2:55 p.m.

REDACTED SIGNATURE

Thomas Williams
Executive Director

TW:dkik