

NOTES OF THE PERMITTED INTERACTION OF THE
ADMINISTRATIVE AND AUDIT COMMITTEE OF THE BOARD OF TRUSTEES OF THE
EMPLOYEES' RETIREMENT SYSTEM OF THE STATE OF HAWAII

JANUARY 5, 2023

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

Trustees present: Mr. Bennett Yap, Chair
(by teleconference) Mr. Luis Salaveria (in person)
Dr. Genevieve Ley

Trustees absent: Mr. Lance Mizumoto, Vice Chair
Mr. Emmit Kane

Staff present: Mr. Thomas Williams, Executive Director
(City Financial Tower Ms. Kanoe Margol, Deputy Executive Director
by teleconference) Mr. Kona Mann, Chief Compliance Officer
Mr. Bart Asato, Program Specialist
Ms. Shanna Sakagawa, Program Specialist
Mr. James Greubel, Program Specialist
Mr. Howard Hodel, Acting Chief Investment Officer
Mr. Larry Wolfe, Accounting Manager
Ms. Dale Kehau Kanae, Recording Secretary
Ms. Lori Kim, Secretary
Ms. Andrea Gasper, Secretary

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

Guests present: Mr. Joe Newton, Gabriel Roeder Smith & Company
(by teleconference) Mr. Lewis Ward, Gabriel Roeder Smith & Company

QUORUM/CALL TO ORDER

Chair Yap notified the attendees of the Administrative and Audit Committee (Committee) of the Board of Trustees (Board) of the Employees' Retirement System of the State of Hawaii (ERS) that due to lack of quorum (Chair Yap and Trustee Salaveria) the Committee members would be engaging in a permitted interaction pursuant to the HRS §92-2.5 (d). The permitted interaction started at 1:01 p.m.

The permitted interaction allowed 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

There was no public present by teleconference or in person, therefore, no public comment. There was also no written public testimony received for this permitted interaction.

REVIEW AND DISCUSS THE
ADMINISTRATIVE AND
AUDIT COMMITTEE AND
INTERNAL AUDIT

Chair Yap asked that the Administrative and Audit Committee and Internal Audit Charters be presented as submitted. Executive Director Thomas Williams presented changes to both Charters that will be further discussed in detail at the next Administrative and Audit Committee

CHARTERS TO INCLUDE
ADMINISTRATIVE AND
AUDIT COMMITTEE
PERFORMANCE

ANNUAL ACTUARIAL
VALUATION REPORT FOR
THE YEAR ENDING JUNE 30,
2022

meeting. The Audit Committee Performance will also be discussed at the next meeting.

Gabriel Roeder Smith & Company (GRS), Messrs. Joe Newton and Lewis Ward entered the meeting by teleconference, and presented an oral and written report regarding the Annual Actuarial Valuation Report for the Year Ending June 30, 2022.

Messrs. Newton and Ward presented:

Purpose of the Actuarial Valuation

- Annual Health Checkup of ERS, Primary Purpose, and Funding Period.

2022 Actuarial Valuation Results

By Employee Group

Sources of Impact

- Investments, Liabilities, Projected Contributions

History of the ERS Active Headcount and Payroll

Estimated Yields on Market Value of Assets

Market and Actuarial (Smoothed) Values of Assets

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

Impact of New Benefit Tiers: All Other Employees: Counts by group and by age

Impact of New Benefit Tiers: All Other Employees: Liability by group and by age

History of the ERS Unfunded Actuarial Accrued Liability

Actual vs Projected UAAL

History of Funded Ratio

Projection of Funded Ratio Compared to Original Legislative Communications

Probabilities of Future Outcomes

Valuation Summary

- The disciplined commitment to follow the contribution schedule from Act 17 (SB 936) continues the process of strengthening the financial outlook for ERS.
- The scheduled employer contribution rates are expected to be adequate to satisfy Hawaii Revised Statutes §88-122(e)(1). The Statutory Stress Test shows this is true even with substantial adverse experience.
- However, all of the positive outlook assumes the scheduled contribution rates occur and investment income objectives are achieved. It is imperative that the currently scheduled funding strategies are sustained.

(Trustee Ley entered the meeting at 1:21 p.m. by joining the teleconference.)

ANNUAL REPORT TO THE
LEGISLATURE REQUIRED BY
ACT 85/2017 REGARDING
THE ACTUARIAL ASSET AND
LIABILITY STRESS TEST 2022

Executive Director (ED) Thomas Williams presented the Annual Report to the Legislature Required by Act 85/2017 Regarding the Actuarial Asset and Liability Stress Test 2022 prepared by GRS Messrs. Newton and Ward as submitted.

After this presentation, Messrs. Newton and Ward left the meeting by exiting their teleconference and telephone connections.

DISCUSSION AND
PROCUREMENT OF
INTERNAL AUDIT SERVICES

ED Williams presented an update on the Procurement of Internal Audit Services stating that the ERS procurement staff issued a Request for Proposal (RFP) on October 31, 2022, the final date for submissions to be considered and evaluated was December 2, 2022.

ED Williams further stated that two proposals were received and ranked using the scoring methodology incorporated into the RFP. The ERS team included Deputy Executive Director Kanoe Margol, Chief Compliance Officer Kona Mann, and ED Williams. Based on the application of the evaluation criteria and objective scoring of qualifications, expertise, relevant experience, methodology, fees and references, the team selected KMH LLP to provide the requested services with a targeted contract date of February 1, 2023.

Committee Chair Yap stated that due to lack of quorum, this request will be presented as a part of his Committee Report for Board approval at the next meeting on January 9, 2023.

APPROVAL OF MINUTES
- OCTOBER 12, 2022

Committee Chair Yap stated that due to lack of quorum, this agenda item will be deferred to the next Committee meeting.

ENTER EXECUTIVE SESSION

Due to lack of quorum, Executive Session could not be entered into and agenda items could not be presented.

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,
PRIVILEGES, IMMUNITIES,
AND LIABILITIES
REGARDING THE
PROCESSING OF DISABILITY
CASES

Committee Chair Yap stated that due to lack of quorum, this agenda item will be presented in Executive Session at the next Board meeting on January 9, 2023.

EXECUTIVE SESSION,
PURSUANT TO HRS § 92-
5(a)(4), TO DELIBERATE AND
MAKE A DECISION UPON A
MATTER WHICH REQUIRES
CONSULTATION WITH THE
BOARD'S ATTORNEYS ON
QUESTIONS AND ISSUES
PERTAINING TO THE
BOARD'S POWERS, DUTIES,
AND PRIVILEGES,
IMMUNITIES, AND
LIABILITIES PURSUANT TO
HRS § 88-106.5

Committee Chair Yap stated that due to lack of quorum at this meeting, this agenda item will be presented in Executive Session at the next Board meeting on January 9, 2023.

APPROVAL OF EXECUTIVE
SESSION MINUTES
- OCTOBER 12, 2022

ADJOURNMENT

Committee Chair Yap stated that due to lack of quorum, this agenda item will be deferred to the next Committee meeting.

Committee Chair Yap stated that due to lack of quorum, no motion is required for adjournment. The permitted interaction ended at 1:50 p.m.

REDACTED SIGNATURE

Thomas Williams
Executive Director

TW:dkik