

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

JANUARY 3, 2024

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

Trustees present: (City Financial Tower by teleconference)	Mr. Emmit Kane, Chair* Mr. Lance Mizumoto, Vice Chair* Mr. Bennett Yap* Dr. Genevieve Ley*
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Trustee absent:	Mr. Luis Salaveria
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Staff present: (City Financial Tower by teleconference)	Ms. Kanoë Margol, Deputy Executive Director* Mr. Kona Mann, Chief Compliance Officer* Mr. Bart Asato, Program Specialist* Mr. James Greubel, Program Specialist* Ms. Shanna Sakagawa, Program Specialist* Ms. Kristin Varela, Chief Investment Officer* Mr. Anthony Goo, Deputy Chief Investment Officer* Mr. Keith Miyamoto, Information Services Branch Manager* Ms. Sandra Straub, Information Services Systems Supervisor* Ms. Dale Kehau Kanae, Recording Secretary* Ms. Andrea Gasper, Secretary*
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Attorney present: (by teleconference)	Ms. Jenny Nakamoto, Deputy Attorney General* Ms. Lori Tanigawa, Deputy Attorney General* Ms. Elmira Tsang, Deputy Attorney General* Ms. Diane Wong, Deputy Attorney General*
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Guests present: (City Financial Tower by teleconference)	Mr. Joe Newton, Gabriel Order Smith & Company Mr. Lewis Ward, Gabriel Roeder Smith & Company
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*Attended Executive Session

QUORUM/CALL TO ORDER

A quorum being present (Chair Kane, Vice Chair Mizumoto, and Trustee Yap), Chair Kane 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 2:00 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 Yap, 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 Kane called for 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 Committee meeting.

REVIEW AND DISCUSS THE ADMINISTRATIVE AND AUDIT COMMITTEE, INTERNAL AUDIT, AND ETHICS COMPLIANCE CHARTERS TO INCLUDE ADMINISTRATIVE AND AUDIT COMMITTEE PERFORMANCE

Chair Kane presented for review, discussion, and approval by the Committee, the Administrative and Audit Committee, Internal Audit, and Ethics and Compliance Charters (Charters).

Vice Chair Mizumoto asked about the differences between the review times of the three Charters and suggested the Committee consider consistency. Chair Kane agreed and suggested that ERS staff consider editing for efficiency and consistency the review times in the three Charters, however, requested that the Charters be accepted with the exception that any changes regarding the differences in review times be presented at the next Board meeting.

On a motion made by Vice Chair Mizumoto, seconded by Trustee Yap, and unanimously carried, the Committee accepted the Administrative and Audit Committee, Internal Audit, and Ethics and Compliance Charters as presented subject to any changes regarding review times to be made and reviewed at the next Board meeting. The Charters will be presented for acceptance by the Governance Policy Committee and then for final approval by the Board. (The Charters are attached to these minutes for clarification.)

ANNUAL ACTUARIAL VALUATION REPORT FOR THE YEAR ENDING JUNE 30, ~~2022~~ 2023

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, 2023.

Messrs. Newton and Ward presented:

Purpose of the Actuarial Valuation

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

2023 Annual Actuarial Valuation Results

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

Actual vs Projected UAAL

History of Funded Ratio

Projection of Funded Ratio Compared to Original Legislative Communications

History of the ERS Active Headcount and Payroll

Probabilities of Future Outcomes

Summary and Proposed Alternative for Further Improvement

Projection of a Hypothetical \$1 Billion UAAL

Projection of a \$1 Billion UAAL

Illustrated: Annual Cost vs Total Savings

Proposed Changes to ERS Funding Statutes

Impact on 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.
- Recommend the Maximum Funding Period per Statute be lowered over the next few years to align with industry best practices and enhance the financing security of ERS.

The Committee asked for data to show how ERS compares with other pension-fund peer groups nationally relating to the years being fully funded. GRS will provide the information and include it in the presentation for the upcoming Board meeting.

On a motion made by Vice Chair Mizumoto, seconded by Trustee Yap, and unanimously carried, the Committee accepted the Annual Actuarial Valuation Report for the year ending June 30, 2023, as presented, with the additional request of adding a comparison with other pension-fund peer groups nationally relating to the years being fully funded, to be recommended for approval by the Board.

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

Program Specialist (PS) Bart Asato presented the Annual Report to the Legislature Required by Act 85/2017 Regarding the Actuarial Asset and Liability Stress Test 2023 prepared by GRS Messrs. Newton and Ward as submitted.

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

ANNUAL REPORT TO THE
LEGISLATURE REQUIRED BY
ACT 85/2015 REGARDING
STATUS OF EMPLOYER
REPORTING OF
INFORMATION 2023

Program Specialist (PS) Bart Asato presented the Annual Report to the Legislature Required by Act 85/2015 Regarding the Status of Employer Reporting Information 2023.

PS Asato reported that of four required Legislative reports, these two reports were provided for the Committee's information only and all four reports were submitted to the Legislature through the Department of Budget & Finance and posted on the ERS Website.

APPROVAL OF MINUTES
- OCTOBER 10, 2023

On a motion made by Trustee Yap, seconded by Vice Chair Mizumoto, and unanimously carried, the Committee approved the minutes of the October 10, 2023, meeting as presented.

(Chair Kane identified attendees of the Executive Session, Committee members Chair Kane, Vice Chair Mizumoto and Trustee Yap, and Guest Trustee Genevieve Ley, and ERS staff, Deputy Executive Director Kanoe Margol, Chief Compliance Officer Kona Mann, Program Specialists Bart Asato, James Greubel, and Shanna Sakagawa, Chief Investment Officer Kristin Varela, Information Services (IS) Branch manager Keith Miyamoto, IS Systems Supervisor Sandra Straub, Recording Secretary Dale Kehau Kanae and Secretary Andrea Gasper; Deputy Attorneys General Jenny Nakamoto, Lori Tanigawa, Elmira Tsang, and Diane Wong.

Chair Kane provided the reason to enter into Executive Session: Executive Session, pursuant to HRS §92-5(a)(4), (6), and (8), to consider information that must be kept confidential pursuant to

HRS §92F-13(1) and (4), HRS §92F-14(b)(6), and to consult with the Board's attorneys on questions and issues pertaining to the Board's powers, duties, privileges, immunities, and liabilities and to consider sensitive matters related to Cyber Security Updates; and with respect to Potential Claims; and to deliberate and make a decision on the approval of Executive Session Minutes which are confidential under State law.)

ENTER EXECUTIVE SESSION

On a motion made by Vice Chair Mizumoto, seconded by Trustee Yap, and unanimously carried, the Committee entered into Executive Session at 2:32 p.m.

(Chair Kane 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 (6), to consider and consult with the Board's attorneys on questions and issues pertaining to the Board's powers, duties, privileges, immunities, and liabilities and to consider sensitive matters related to Cyber Security Updates.

EXECUTIVE SESSION PURSUANT TO HRS §92-5 (a)(4) AND (6), TO CONSIDER AND CONSULT WITH THE BOARD'S ATTORNEYS ON QUESTIONS AND ISSUES PERTAINING TO THE BOARD'S POWERS, DUTIES, PRIVILEGES, IMMUNITIES, AND LIABILITIES AND TO CONSIDER SENSITIVE MATTERS RELATED TO CYBER SECURITY UPDATES

EXECUTIVE SESSION PURSUANT TO HRS §92-5(a)(4) AND (8), TO CONSIDER INFORMATION THAT MUST BE KEPT CONFIDENTIAL PURSUANT TO HRS §92F-13(1) AND (4), HRS §92F-14(b)(6), AND TO CONSULT WITH THE BOARD'S ATTORNEYS ON QUESTIONS AND ISSUES PERTAINING TO THE BOARD'S POWERS, DUTIES, PRIVILEGES, IMMUNITIES, AND LIABILITIES WITH RESPECT TO POTENTIAL CLAIMS

APPROVAL OF EXECUTIVE
SESSION MINUTES
- OCTOBER 10, 2023

EXIT EXECUTIVE SESSION

On a motion made by Vice Chair Mizumoto, seconded by Trustee Yap, and unanimously carried, the Committee exited Executive Session at 2:48 p.m.

Chair Kane announced that while in Executive Session, the Committee discussed Cyber Security Updates with Information Services (IS) Branch Manager Keith Miyamoto, a Potential Claim regarding a Retiree Settlement Offer, and approval of the Executive Session Minutes.

ADJOURNMENT

On a motion made by Trustee Yap, seconded by Vice Chair Mizumoto, and unanimously carried, Chair Kane adjourned the meeting at 2:49 p.m.

REDACTED SIGNATURE

Thomas Williams
Executive Director

TW:dkik