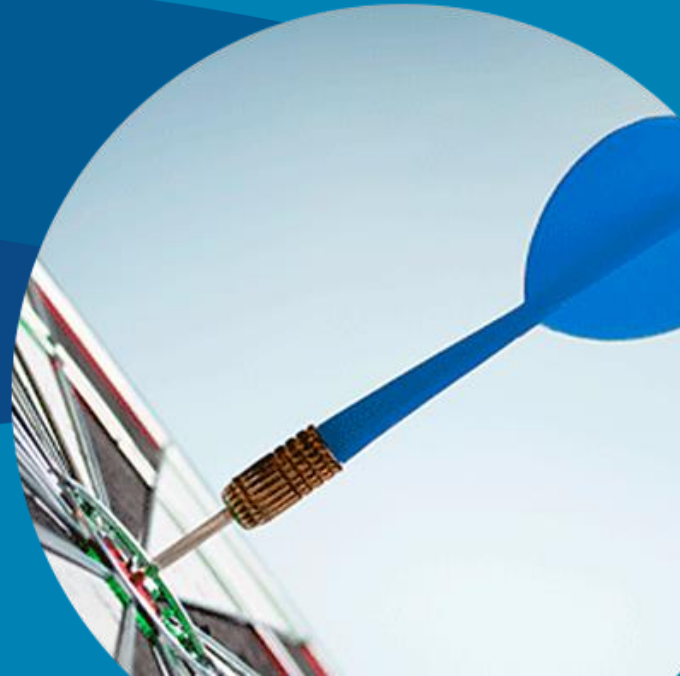




Employees' Retirement System of the State of Hawaii

2023 Valuation Results
January 8, 2024



Purpose of the Actuarial Valuation

- Annual health checkup of ERS
- The **primary** purpose is to assess the current contribution funding policy set in statute
 - Determine whether the current contribution rates are expected to fully amortize the UAAL over a period of 30 years or less (Statutory Maximum)
 - Recommend changes if found not adequate
 - Recommend possible improvements in methods or policies
- Funding Period: the estimated number of years it will take to fully extinguish the current UAAL assuming current contributions remain in place and all assumptions are met

2023 Results came in close to expected, with improvement in funded status and funding period

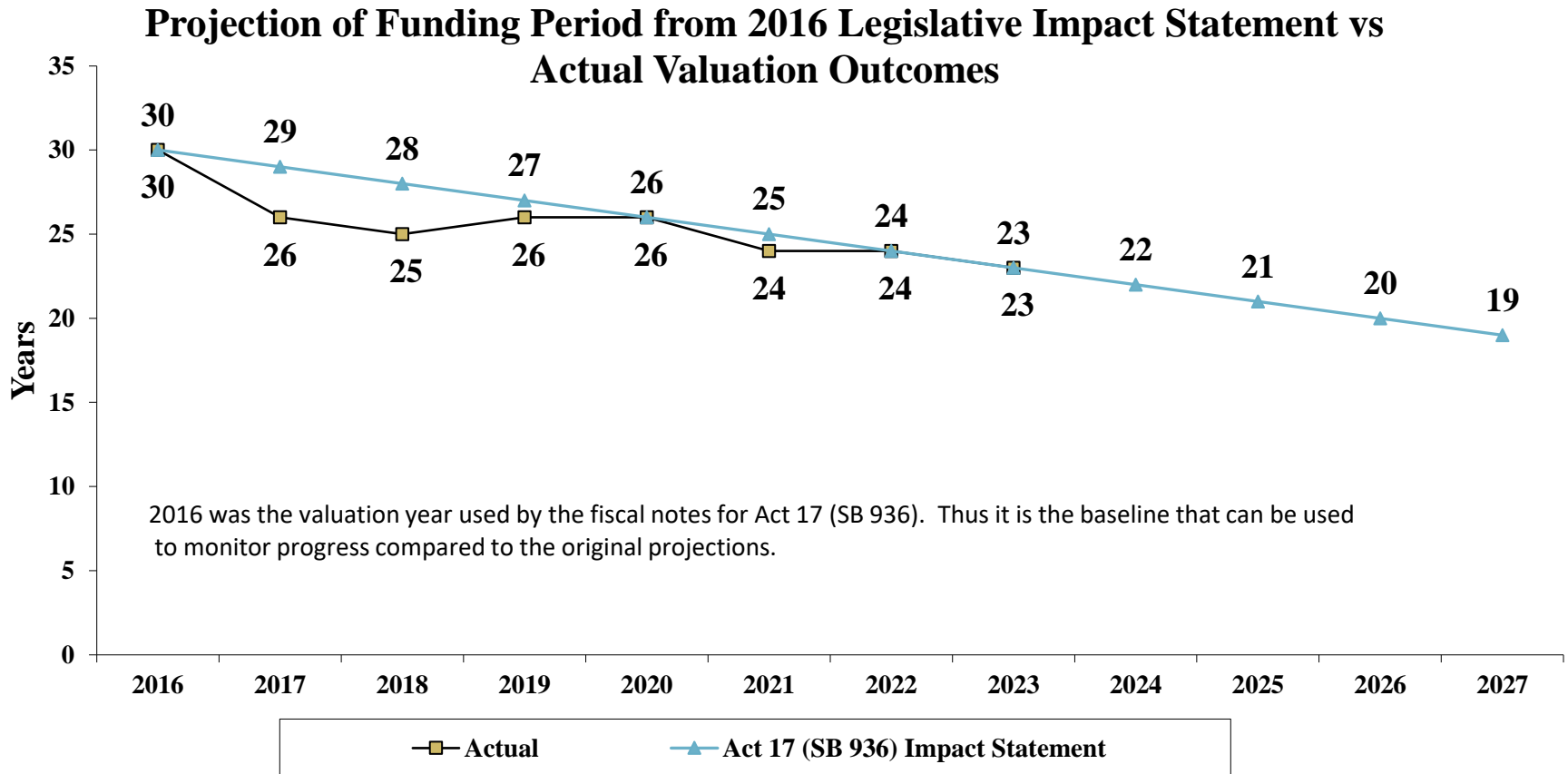
Annual Actuarial Valuation Results

Valuation Year	2020	2021	2022	2023
UAAL (\$ Billions)	\$14.61	\$14.23	\$13.51	\$13.71
Actuarial Funded Ratio	55.3%	58.3%	61.2%	62.2%
Funding Period in years*	26	24	24	23

*Based on open group projection, recognizing new benefits for members hired after June 30, 2012



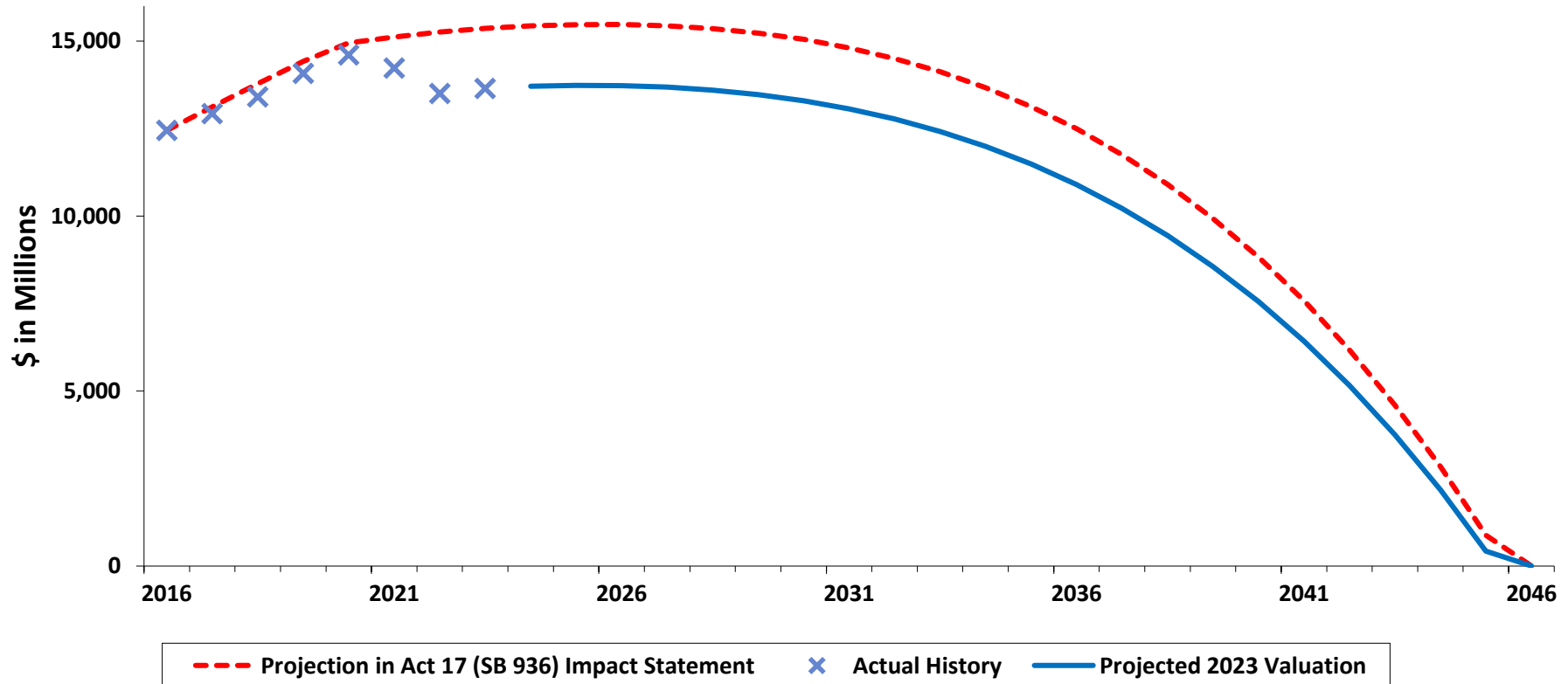
The Funding Period as of 2023 continues to track with the original projections from 2016



Assumes all assumptions met, including 7.00% return each year on the June 30, 2023 smoothed value of assets

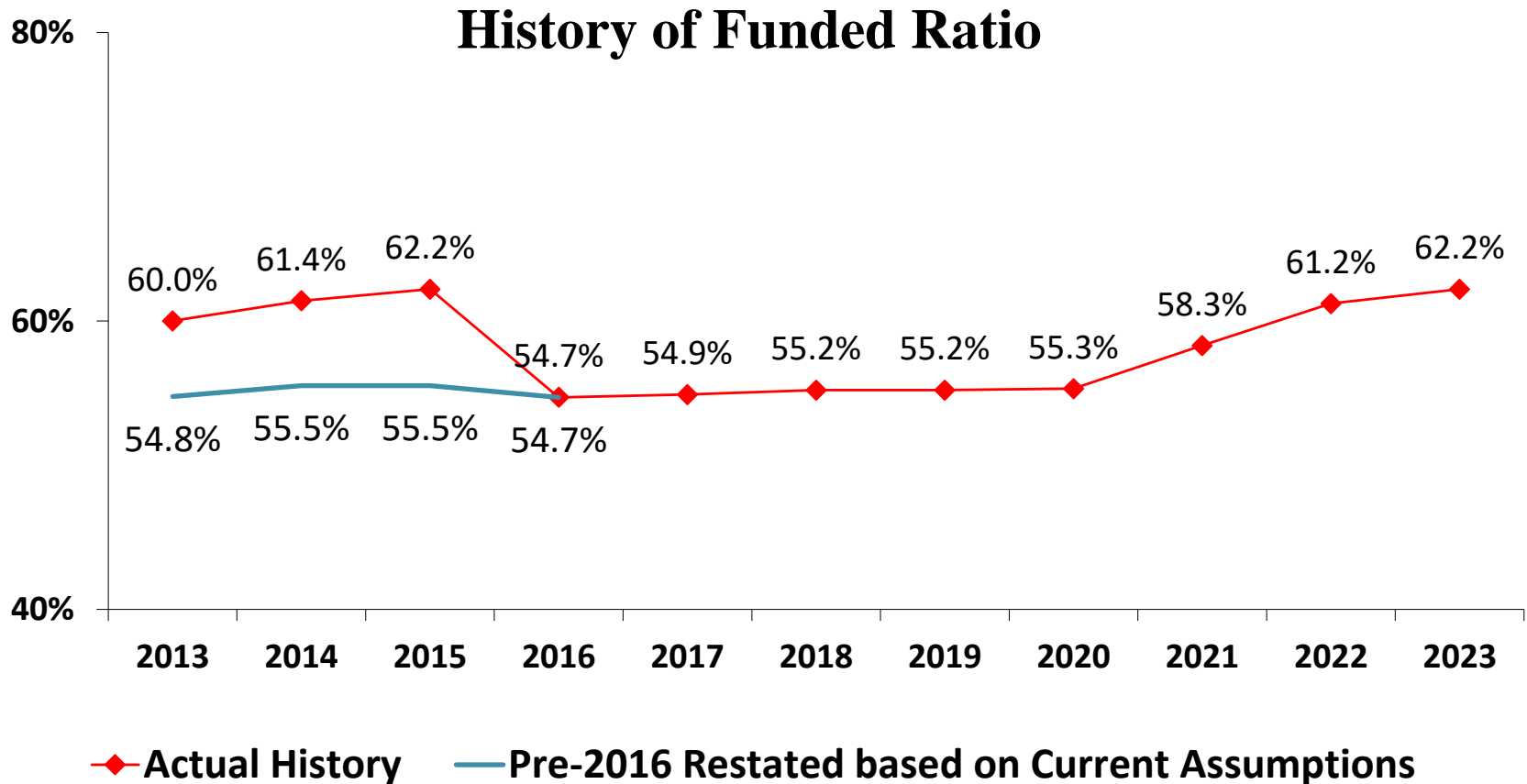
The UAAL slightly grew in dollars from last year, but this was expected and is still well below 2016 projections.

Actual vs Projected UAAL



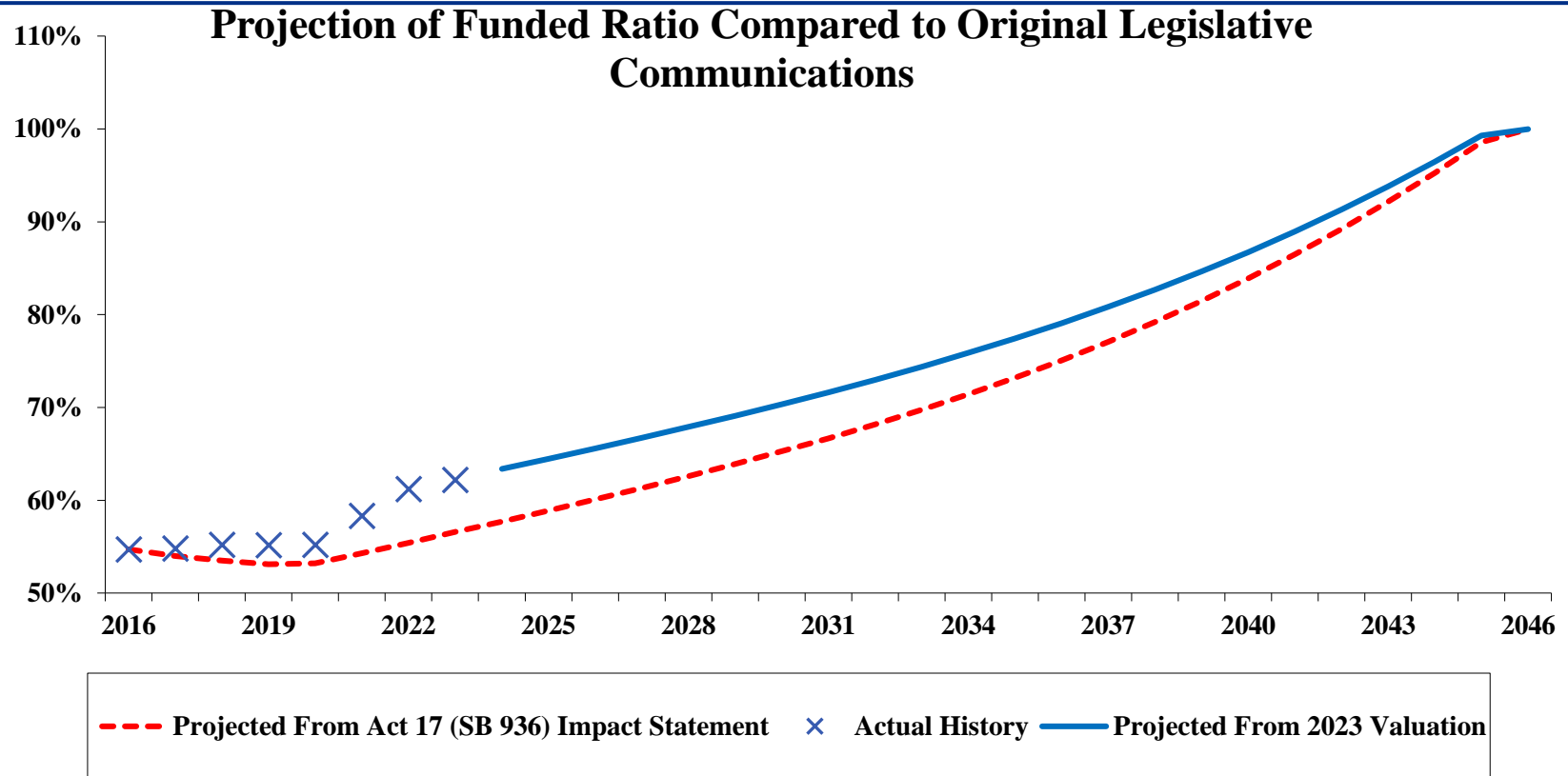
Assumes all assumptions met, including 7.00% return each year on the June 30, 2023 smoothed value of assets

The Funded Ratio grew for the 7th year in a row



Investment Return Assumption was lowered from 7.5% to 7.0% in 2016

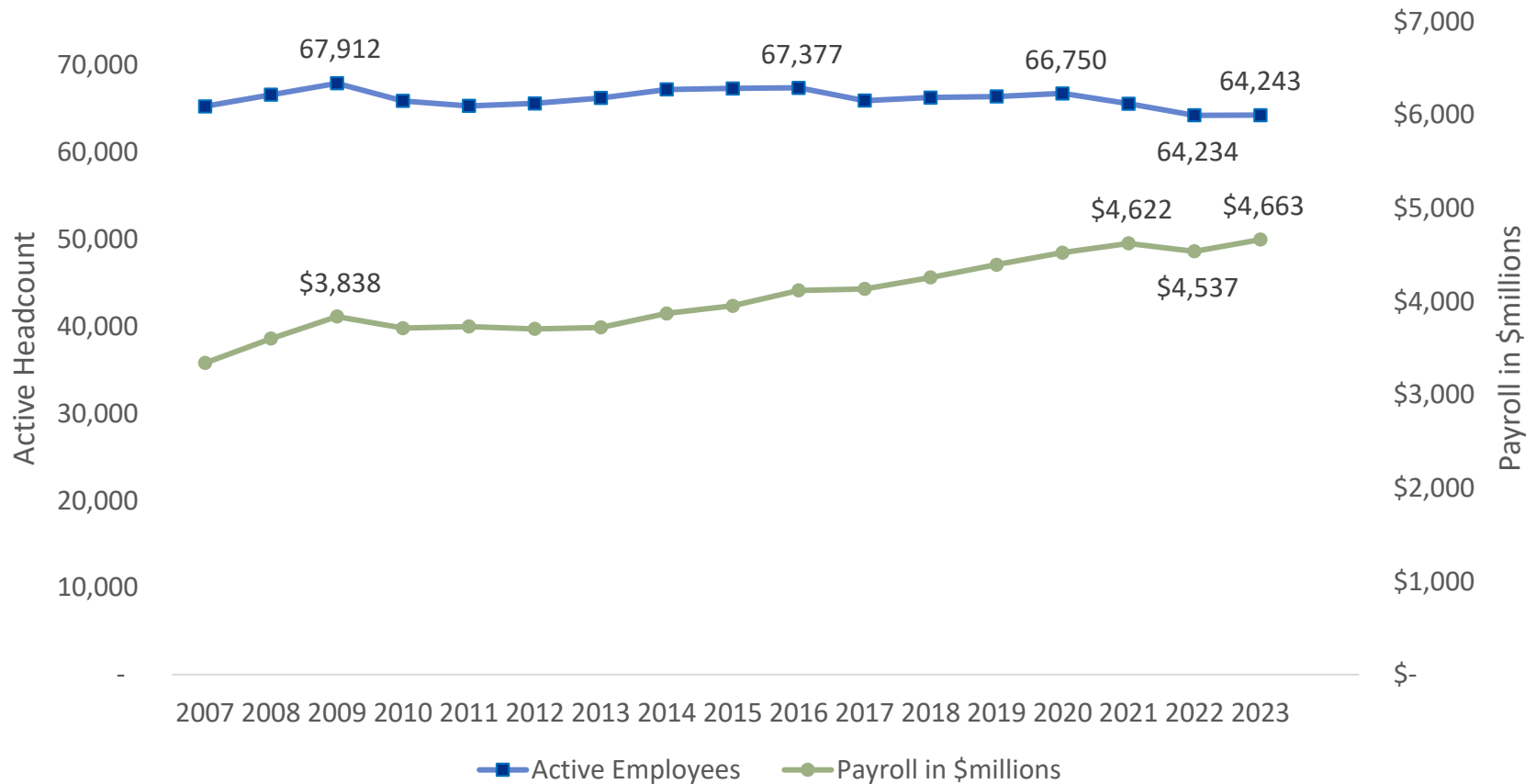
The Funded Ratio is also ahead of original projections, and is still projected to reach full funding in 2046



Assumes all assumptions met, including 7.00% return each year on the June 30, 2023 smoothed value of assets

The Headcount was mostly unchanged from 2022 to 2023, allowing covered payroll to grow

History of the ERS Active Headcount and Payroll



Probabilities of Future Outcomes

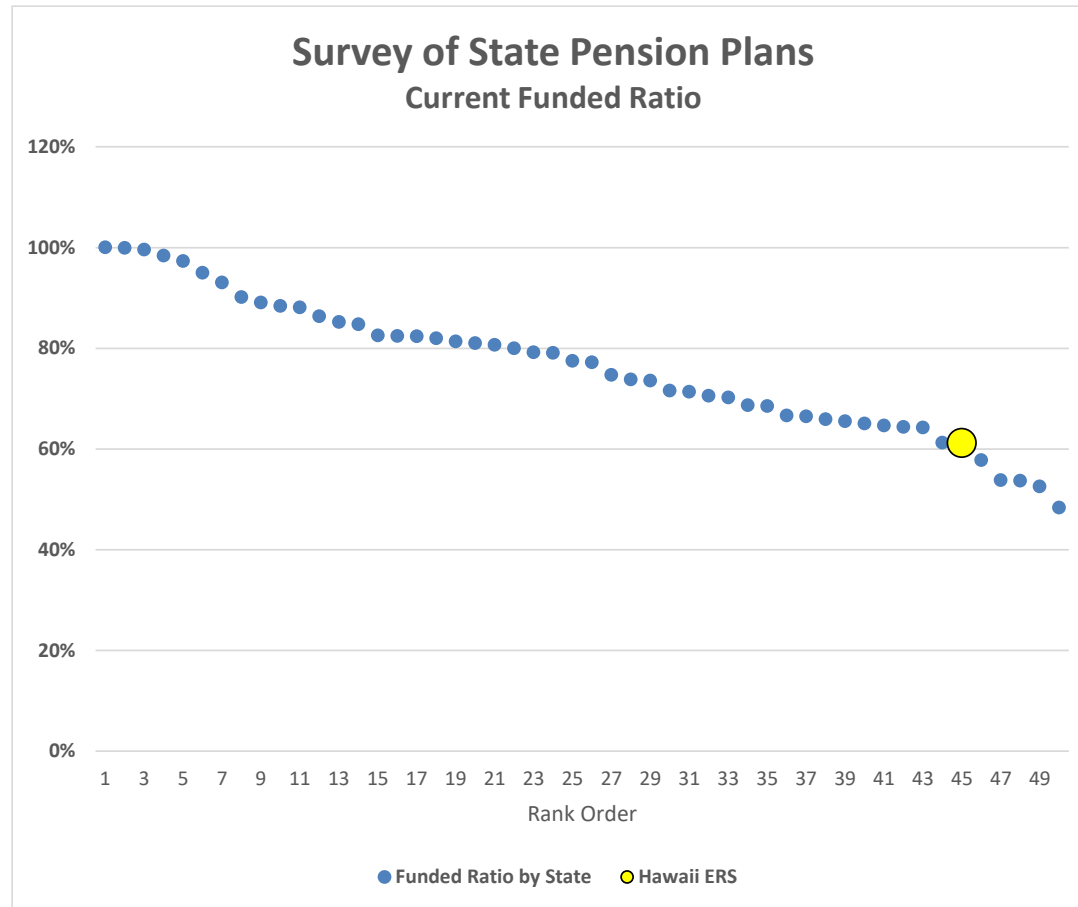
	From 2020 Valuation	From 2021 Valuation	From 2022 Valuation	From 2023 Valuation
Fully Funded by 2046 (Date from Act 17 (SB 936))	53.8%	56.0%	54.6%	52.7%
Fully Funded Within 30 Years from Valuation Date	65.4%	70.0%	69.4%	70.0%
Funding Period Never Breaches 30 Years	89.8%	91.7%	87.9%	88.4%

All scenarios use a 7% expected median return with an 8% annual standard deviation, projected off of smoothed assets

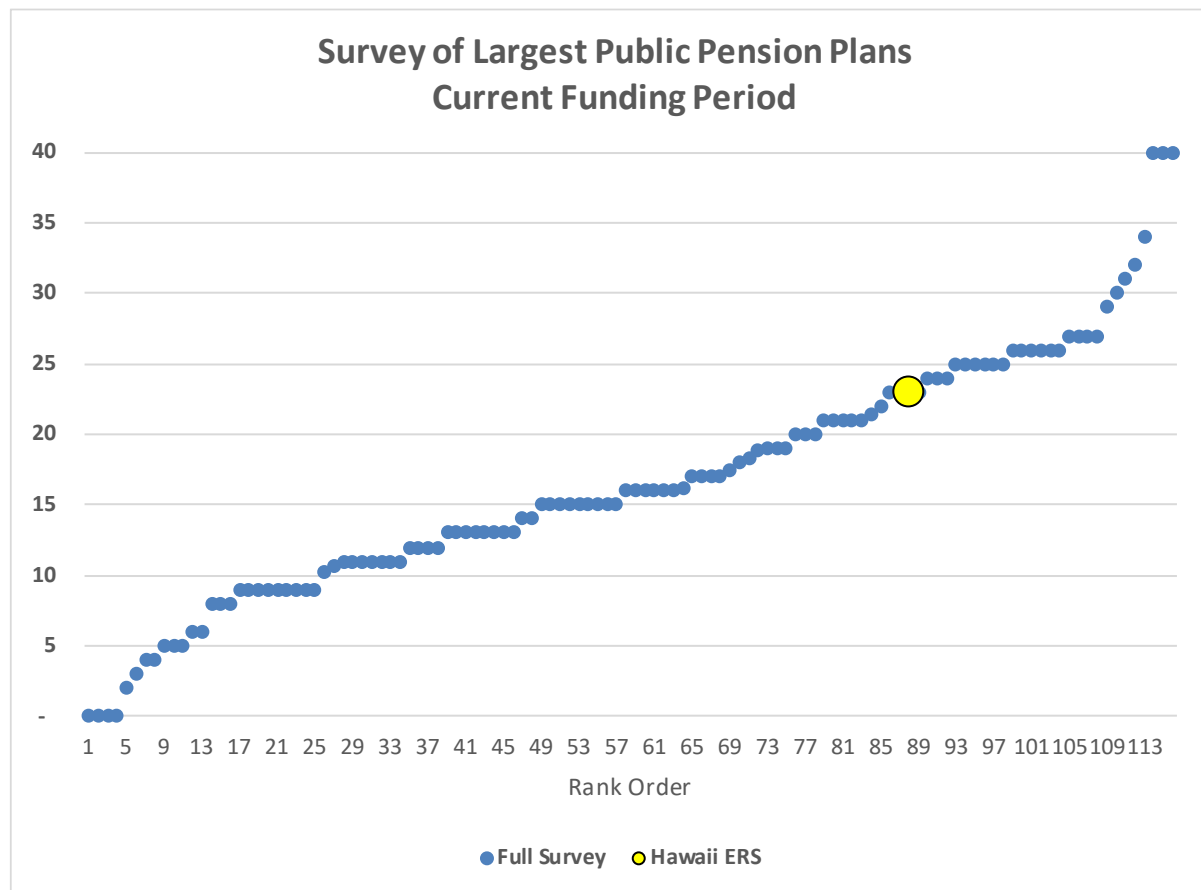
Summary and Proposed Alternative for Further Improvement

- As shown, now that the contribution rates have reached the top of the phase in, the strategy put in place in the 2017 legislative session is accomplishing the original goals
- It is currently projected that the funded ratio will improve year over year going forward and the UAAL will begin to decline year over year in a couple of years
- However, industry best practices have strengthened over time and the 30-year maximum amortization period is no longer acceptable

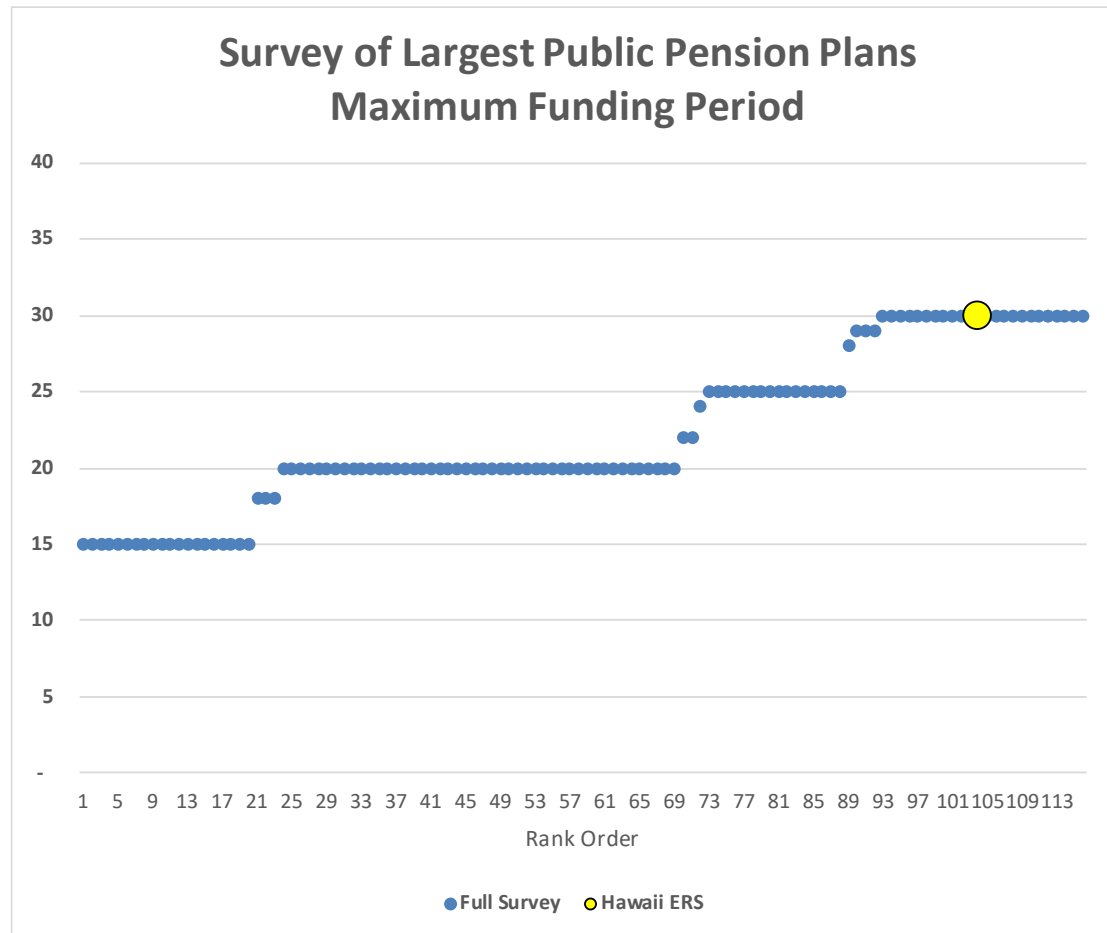
Hawaii's funded ratio ranks 45th amongst State pension plans



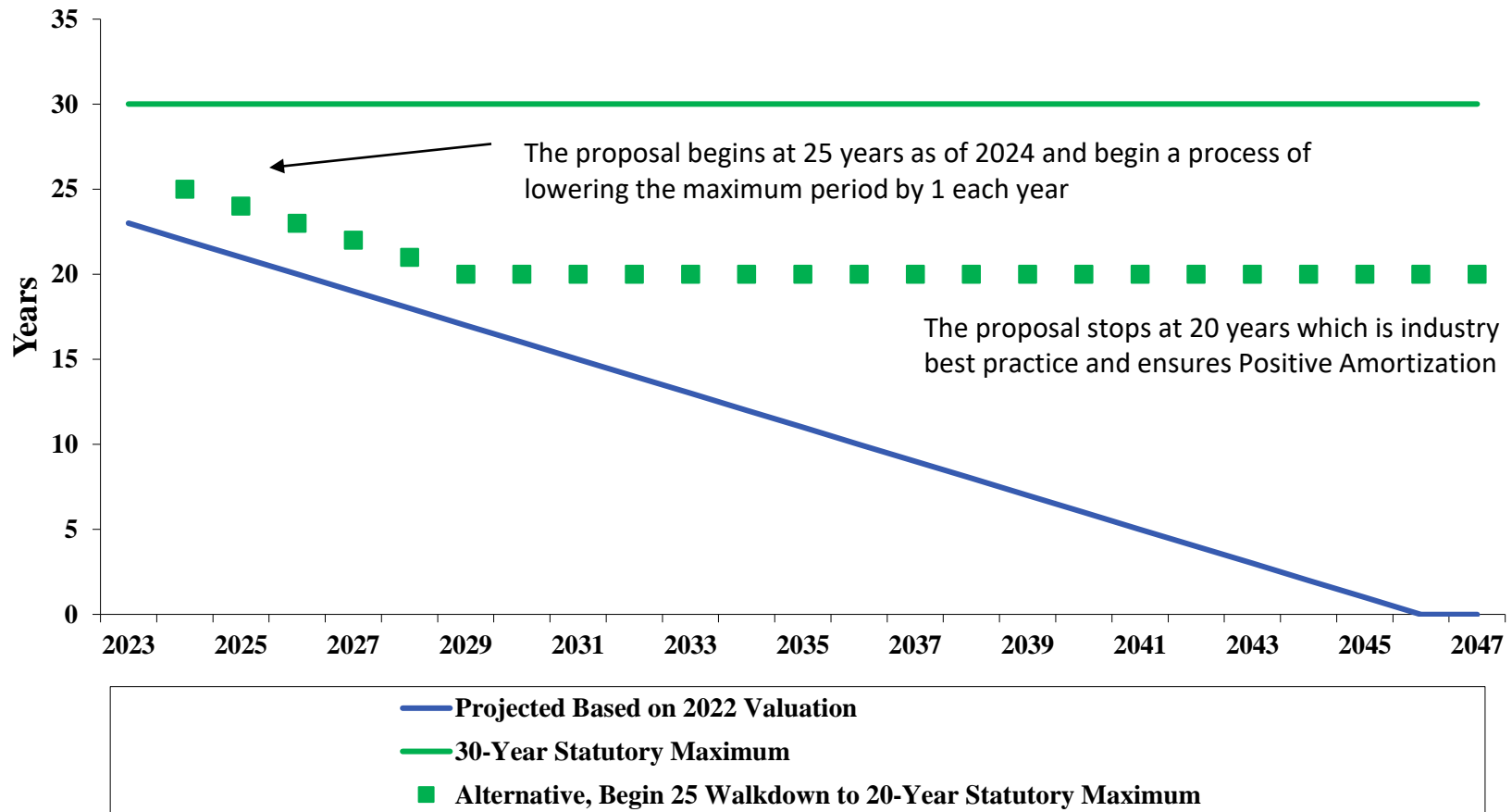
Compared to a survey of large public pension plans, the current 23-year funding period is the 74th percentile



However, the 30-year Statutory Maximum is at the high end of the range. Many States have, or are discussing, bringing that lower



We have recommended that the Statutory Maximum Funding Period begin to be lowered so that the contributions would react sooner and more appropriately in the future if necessary in order to continue the path towards full funding



Impact on Future Outcomes

- This proposal is not expected to have an impact on current or future employer contribution rates
 - Even if ERS returns approximately 6% going forward instead of the assumed 7%, the funding period would never breach the Statutory Maximum
- However, if for example actual returns are approximately 5% going forward, it would slowly increase contribution rates by about 1.5% of payroll over the next decade.
 - In comparison to the current 30-year provision that would never react in this scenario, this proposal would result in achieving 100% funding a decade sooner and save more than \$50 billion in total contributions over the long term.

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.
- We 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