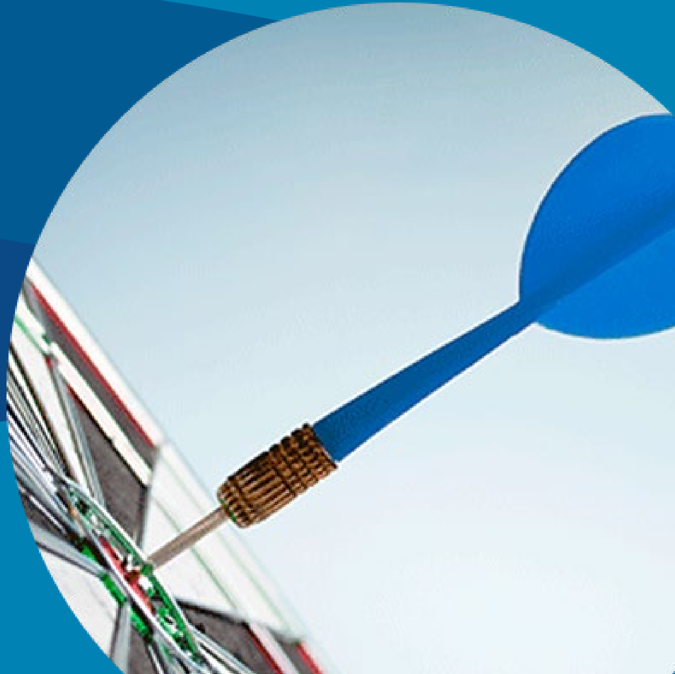
Employees' Retirement System of the State of Hawaii

Actuarial Valuation Results for Fiscal Year Ending June 30, 2024

January 13, 2025



Prepared by
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Purpose of the Actuarial Valuation

- Annual “health checkup” of ERS

- The ***primary*** purpose is to assess the current contribution policy set in statute
  - Determine whether the current contribution rates are expected to fully amortize the unfunded actuarial accrued liability (UAAL) over a period of 25 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

Actuarial Valuation Highlights

- Results are on track, if not ahead of, original projections from Act 17 (2017)

- The funding period decreased as expected from 23 years to 22 years
  - This is less than the current Statutory Maximum of 25 years for FY 2024

- The funded ratio improved from 62.2% to 63.0%
  - Funded Ratio: is the ratio of the actuarial assets to the actuarial liabilities

- The UAAL increased by approximately $300 million, from $13.7b to $14.0b
  - UAAL: the difference between the actuarial liabilities and the actuarial assets
  - While the UAAL was expected to increase, this increase was considerably larger than expected
  - Caused by larger than expected salary increases
    - 7.0% on average vs 4.8% expected for All Other Employees
    - 6.2% on average vs 5.7% expected for Police and Fire

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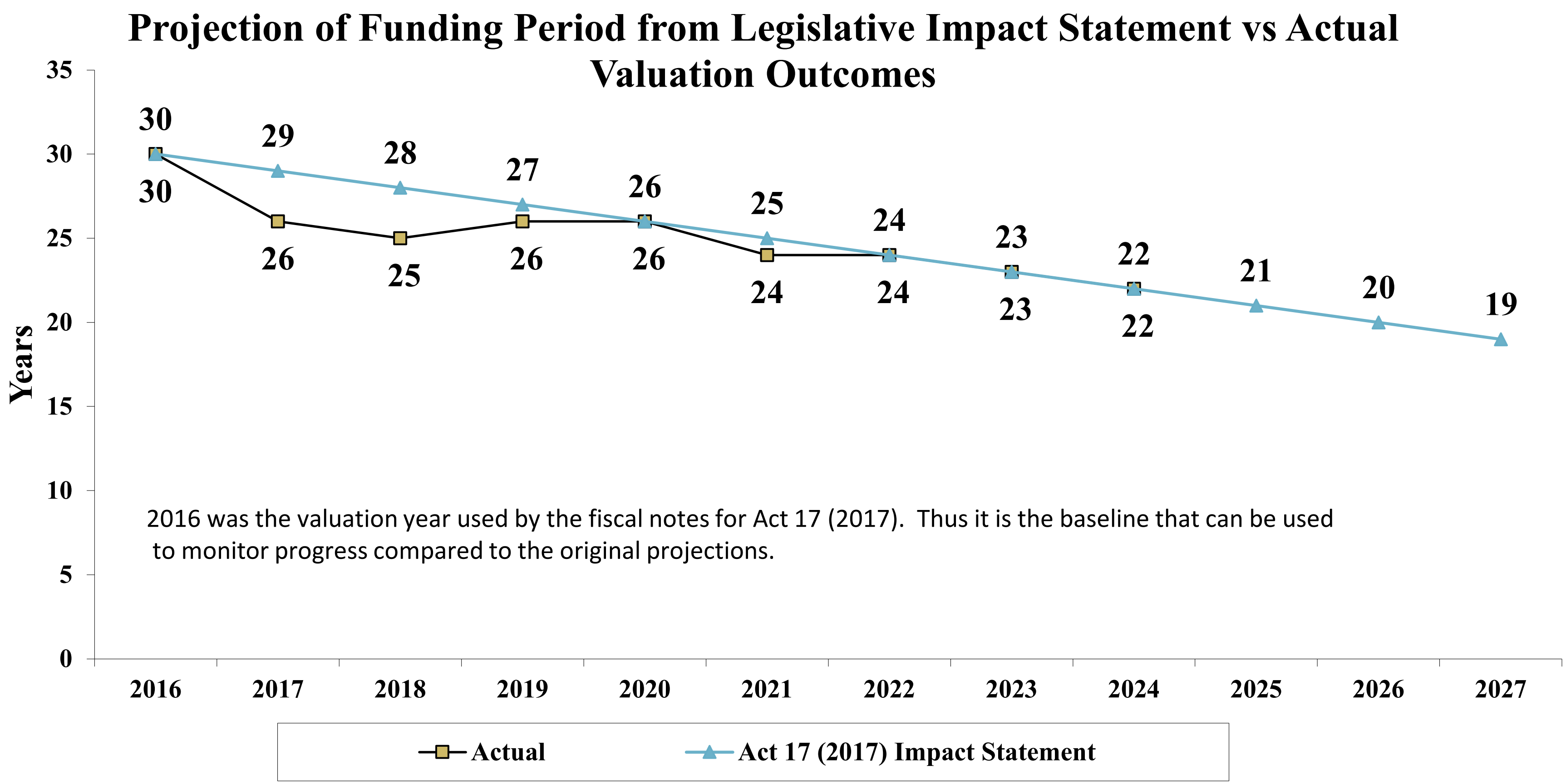
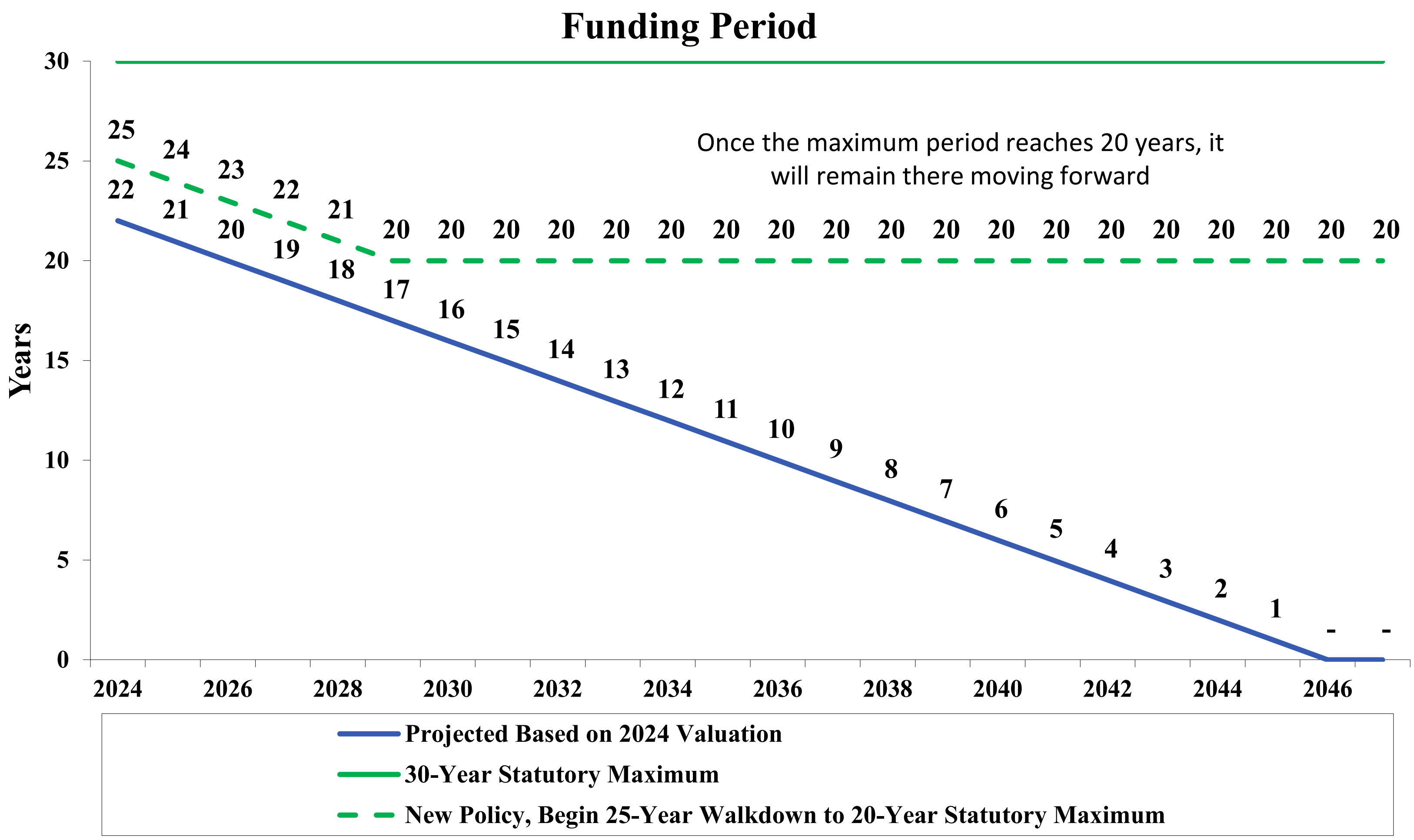
The Funding Period as of 2024 continues to track with the original projections from Act 17 (2017)

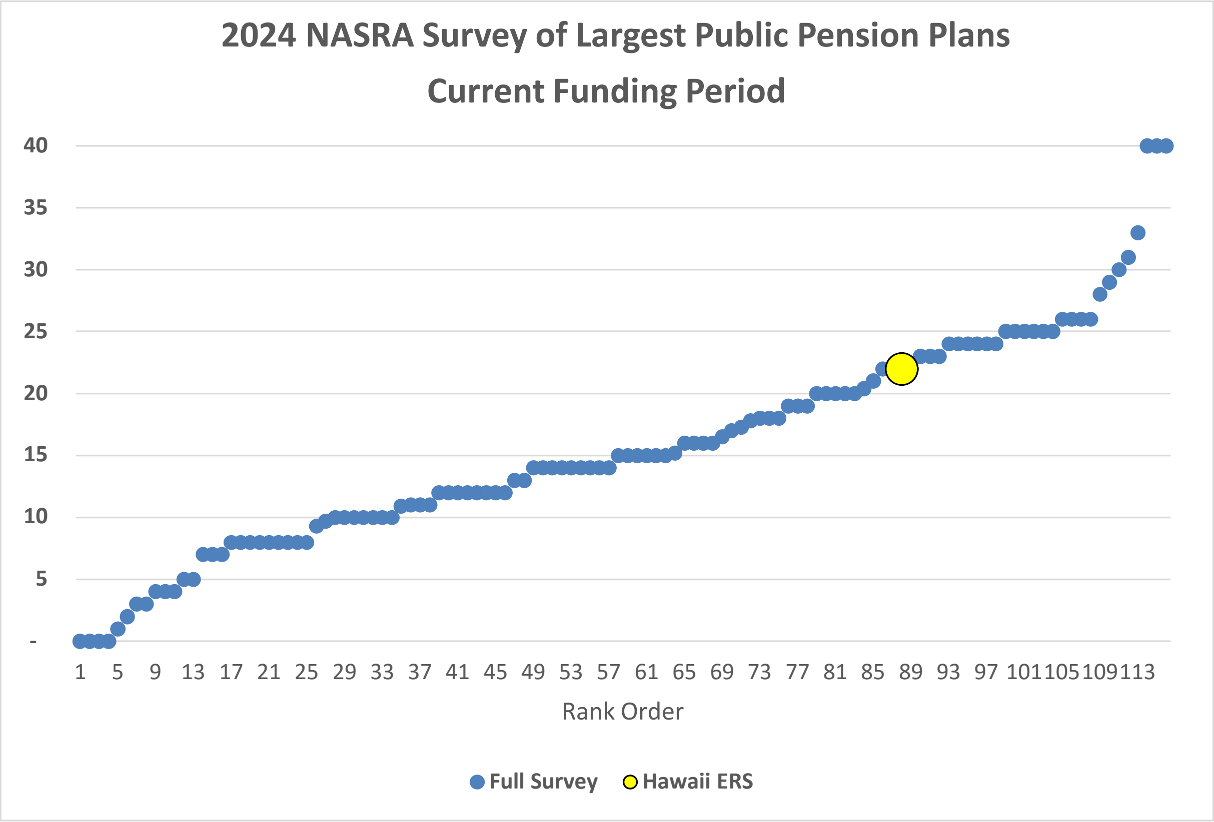


Assumes all assumptions met, including 7.00% return each year on the June 30, 2024 smoothed value of assets

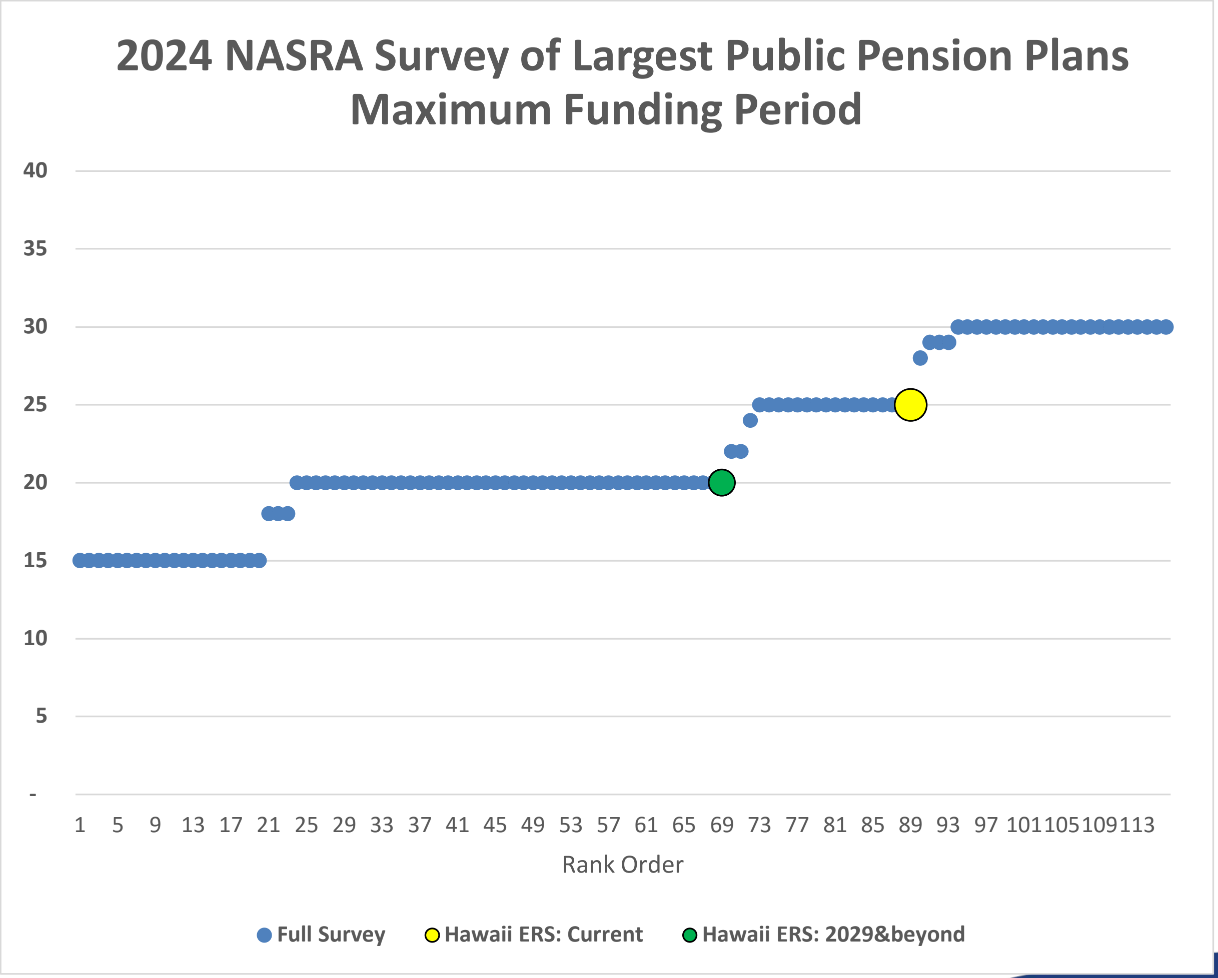
Act 192 (2024) lowered the maximum allowable funding period from 30 to 25 years as of 2024, and begins a process of lowering the maximum period by 1 each year until reaching 20.



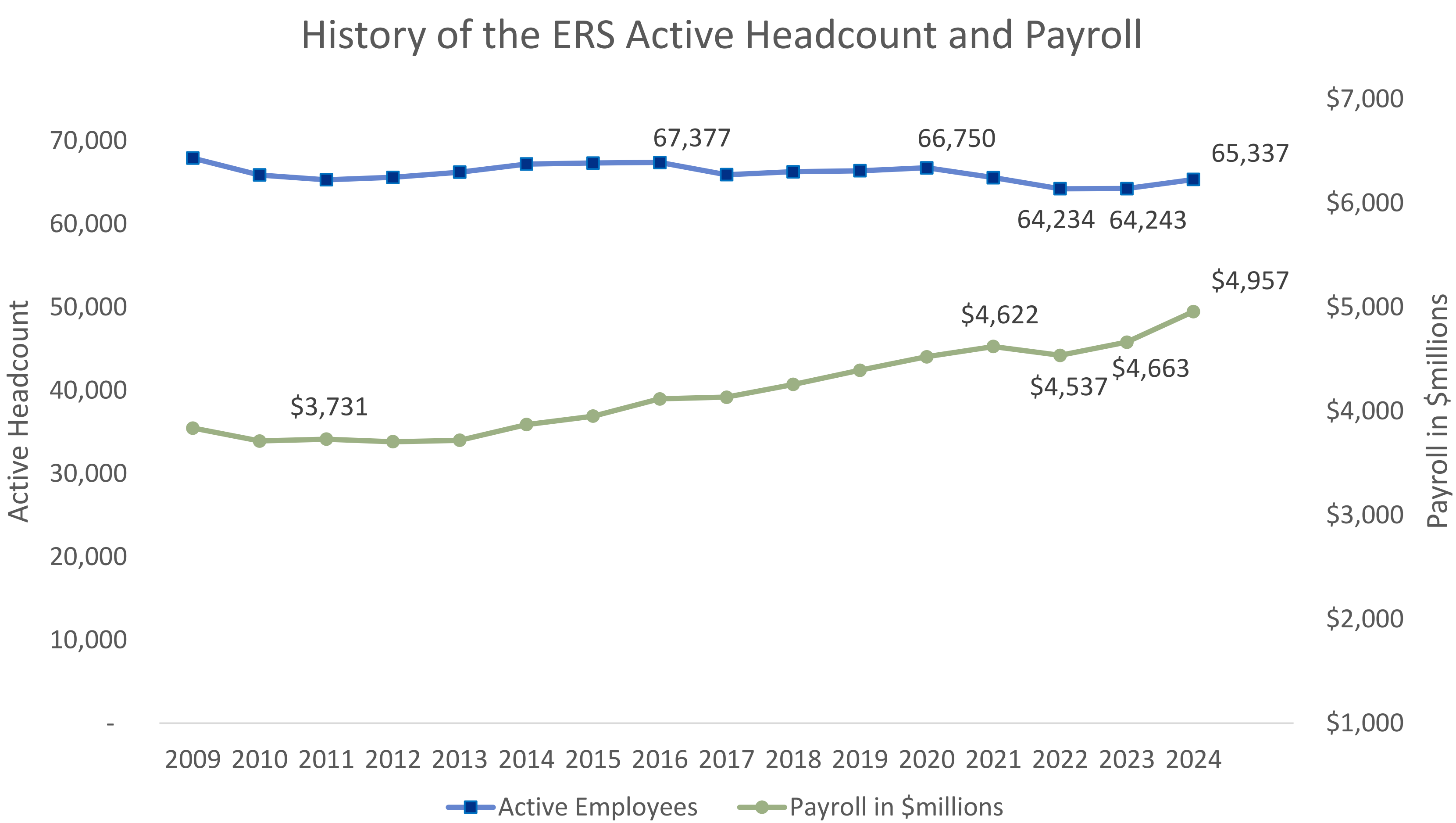
Compared to the 2024 NASRA survey of large public sector retirement systems, the current 22-year funding period is in the 74th percentile



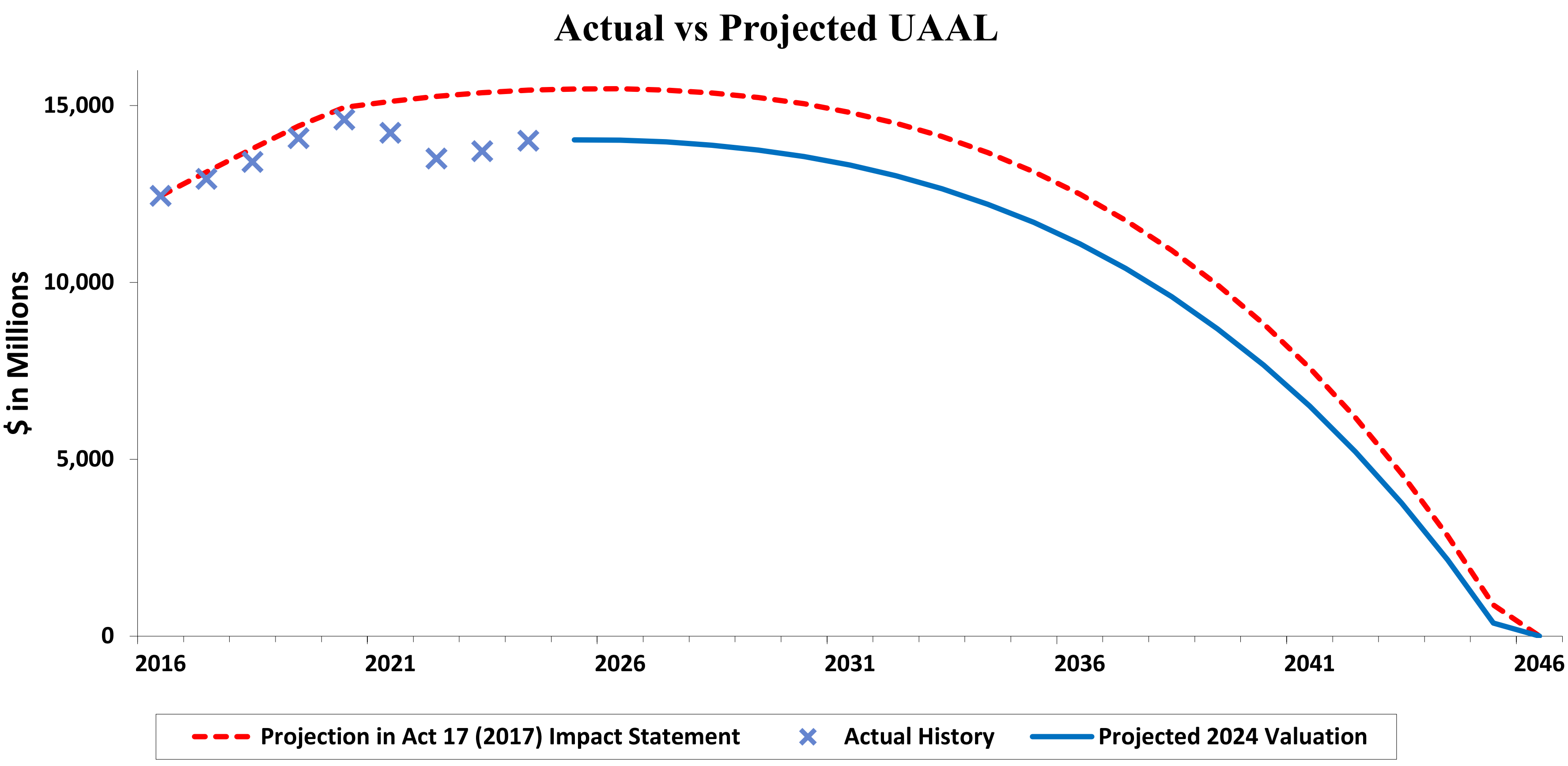
The new 20-year targeted statutory maximum funding period (as of June 30, 2029) is in line with best practices. Like Hawaii, many states with higher maximum funding periods have, or are discussing, lowering towards 20 years



The Headcount grew 1.7% from 2023 to 2024, back close to 2021 levels. This allowed covered payroll to grow and offset some of the impact from the salary increases. However, headcount is still 3% below the 67,377 used in the Act 17 (2017) impact statement.

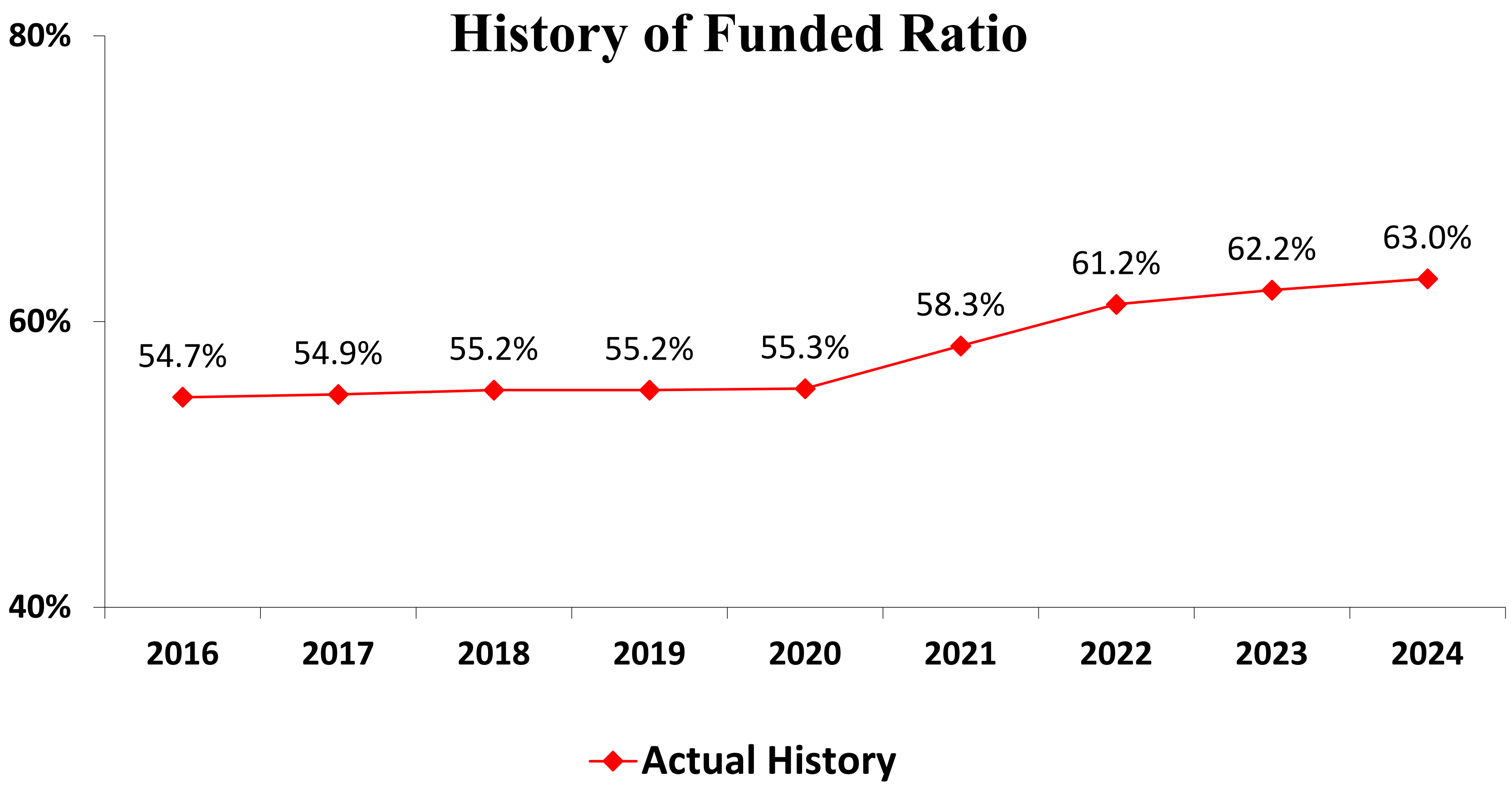


While the financing of the UAAL remains ahead of schedule, the process is still in the timeframe that the UAAL is expected to grow year over year. The UAAL is expected to begin to decline in FY26 or FY27.



Assumes all assumptions met, including 7.00% return each year on the June 30, 2024 smoothed value of assets

After being relatively flat while the contribution increases were phasing in, the Funded Ratio continues to improve with the disciplined, higher contributions.



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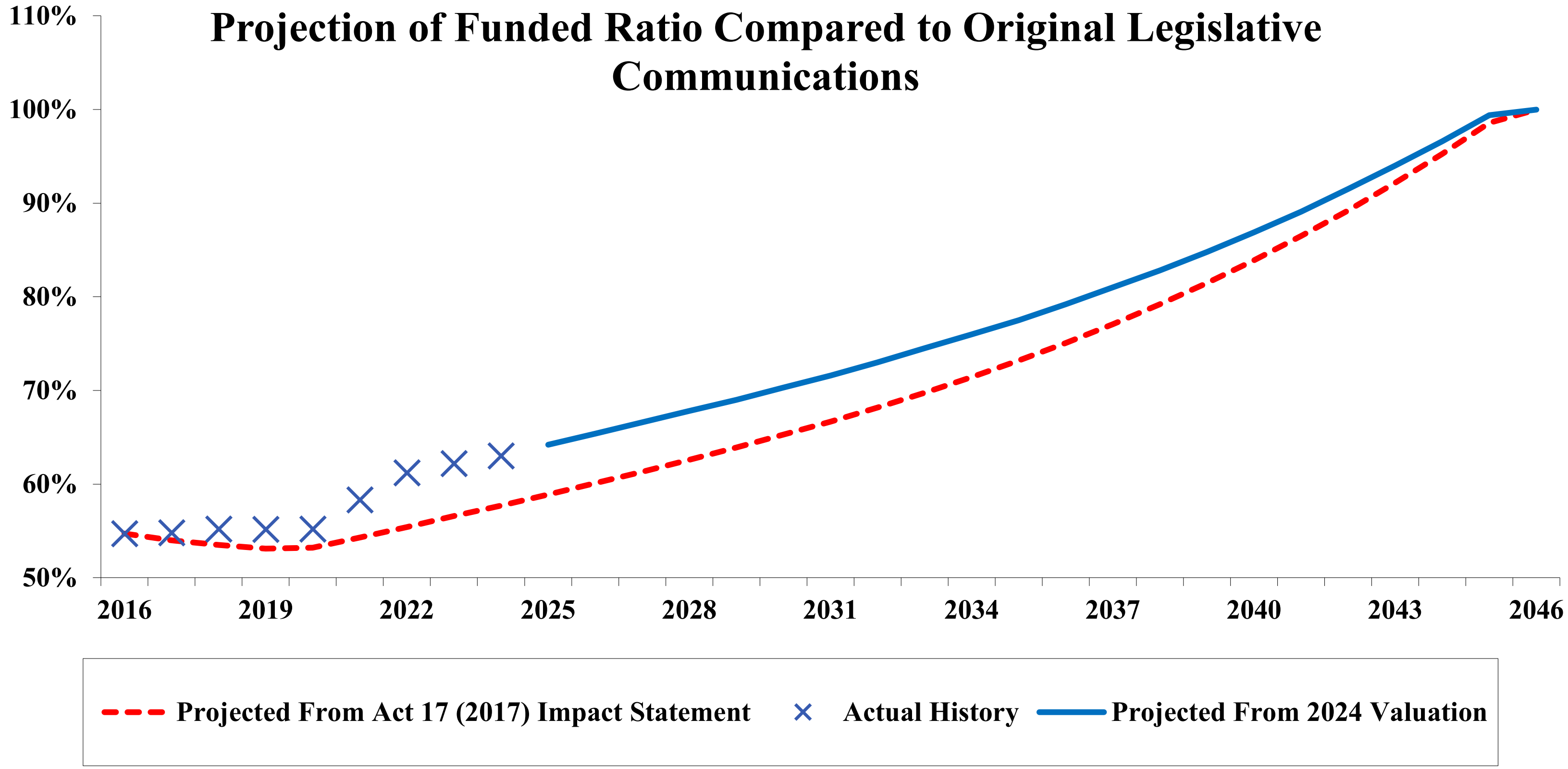
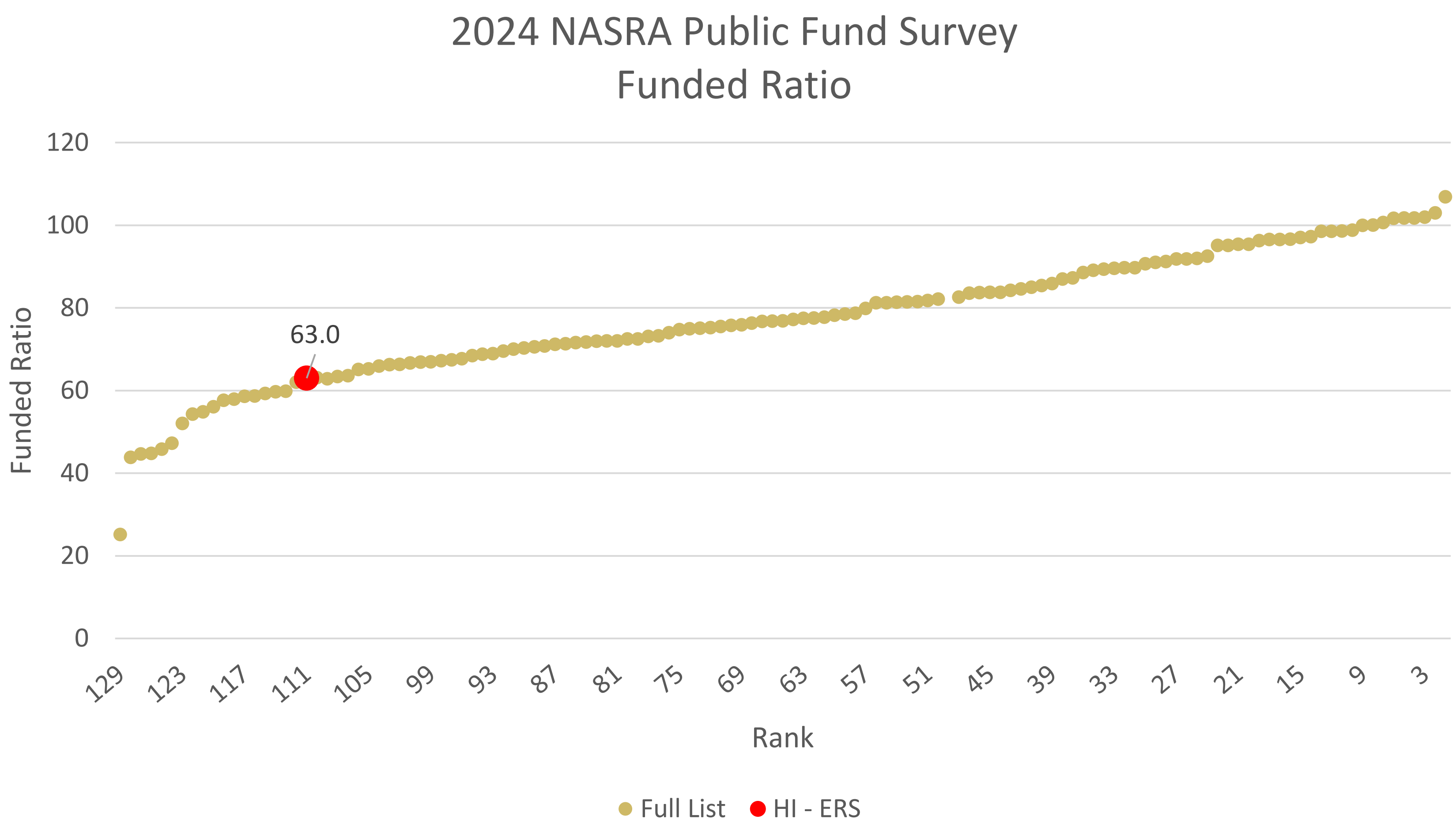
The Funded Ratio is still projected to reach full funding in 2046

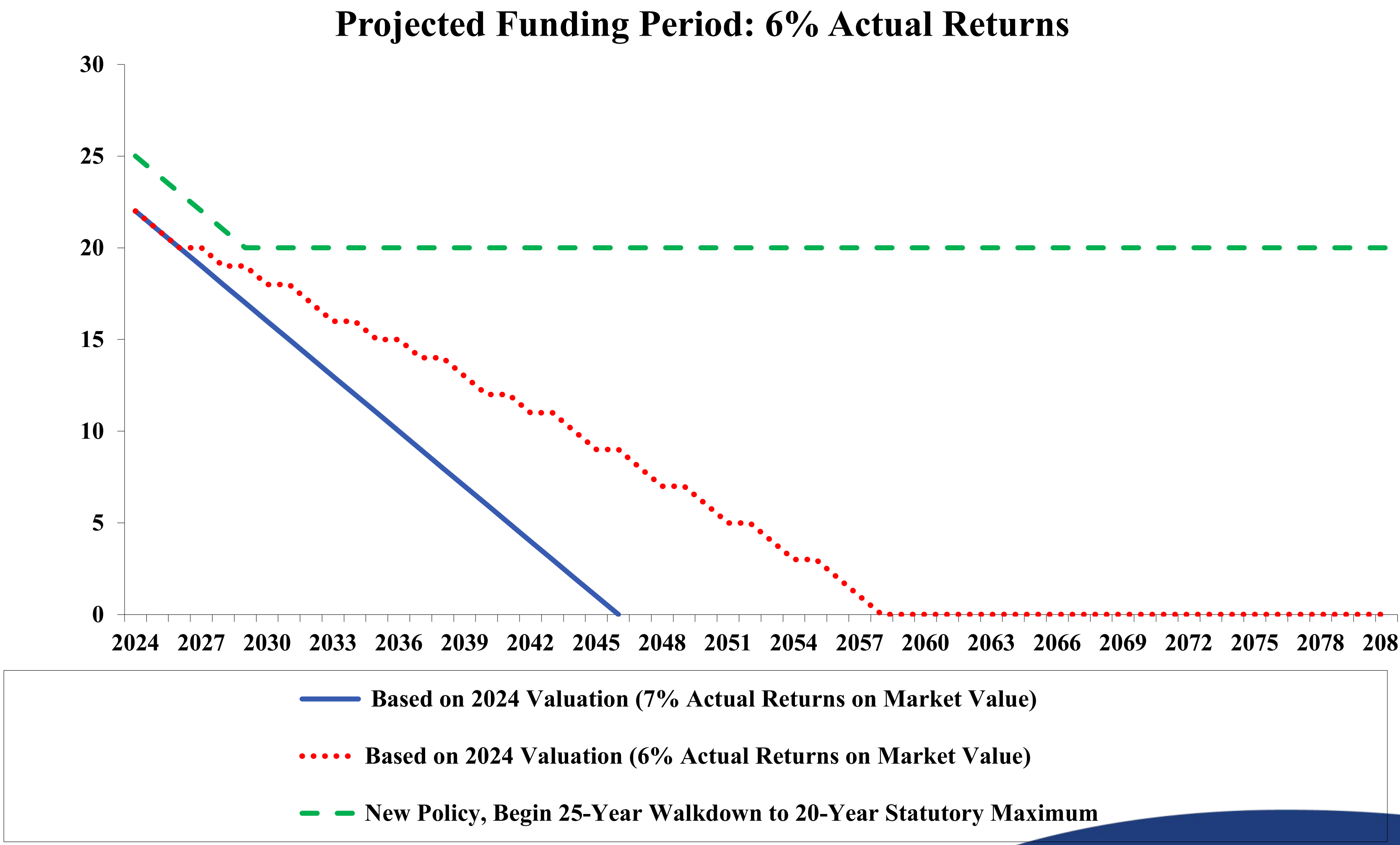


Assumes all assumptions met, including 7.00% return each year on the June 30, 2024 smoothed value of assets

For funded status, HI ERS ranks 110th out of 129 in the 2024 NASRA survey of large public sector retirement systems. The median system has a funded ratio of 77%.



The funding period under the new policy is not expected to breach the Maximum as long as ERS achieves 5.5% returns or better over the next 5 years



Funding Period Sensitivities

Assumes all other assumptions met

Scenario	Reach Positive Amortization	Reach Full Funding
8.0% Actual Returns	2 years	16 years
7.5% Actual Returns	2 years	19 years
7.0% Actual Returns*	2 years	22 years
6.5% Actual Returns	7 years	27 years
6.0% Actual Returns	14 years	34 years

Scenario	Reach Positive Amortization	Reach Full Funding
1% Annual Population Growth	2 years	20 years
0% Annual Population Growth**	2 years	22 years
1% Annual Population Decline	4 years	25 years

*Expected return assumption
**Expected growth assumption

Temporary Hazard Pay (THP) from 2020 through 2022

- There are ongoing settlements granting back pay for work during the pandemic
- Maui's known settlements are already in the 2024 valuation data and financials
- Employees (and retirees) of other employers will continue to receive payouts after this valuation period
- The total impact to the System is expected to be an increase in the UAAL of between \$240 million – \$350 million, and an increase of 6 – 12 months on the funding period, but could be less depending on several factors.
- Aside from Maui (whose payments occurred before the valuation date) we have not made an adjustment to the individual liabilities in the 2024 valuation for these payments but will wait and let the actual data develop over the next couple of valuation cycles, because
  - the negotiations are ongoing for some groups
  - the payments are after the valuation date
  - there are unknowns such as the amount of spiking revenue that will be generated
  - the impact could also be minimized by other salary increases
  - the result will not impact the contribution rates

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Valuation Summary

- The disciplined commitment to follow the contribution schedule from Act 17 (2017) 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.

- Act 192 (2024), implementing the new maximum amortization period, will better protect the System over the long term

- The reduction in the maximum funding period will be viewed favorably by bond raters and satisfies all of the new Actuarial Standards of Practice