Board Packet List of Documents

Board of Trustees Meeting
September 14, 2026

- Meeting Agenda
- Reports by Staff
  2. ERS Operations Report – Oct 2026
  3. Compliance Office Staff Report
- New Business
  1. 2027 Board of Trustees Schedule of Meetings
  2.1 Compliance Office Quarterly Update Report on Enterprise Governance, Risk, Compliance, and Modernization Project
  2.2 Internal Audit Update Report by KMH LLP
  2.3 Draft Auditor's Report and Financial Statements of the ERS by KKDLY LLC

Board Packet Documents are available for public for inspection on the Employees' Retirement System's Website: https://ers.ehawaii.gov/board-and-committee-agendas-and-meeting-packets; and in the Employees' Retirement System's Office, 201 Merchant Street, Suite 1400, Honolulu, HI 96813

NOTICE OF REGULAR MEETING

AGENCY: Board of Trustees of the Employees' Retirement System of the State of Hawaii

DATE: Monday, November 9, 2026; 9:00 a.m.

PLACE: City Financial Tower, 201 Merchant Street, Suite 1200, Honolulu, Hawaii 96813

The meeting will be conducted pursuant to HRS §92-3.7, under which Members of the Board of Trustees and members of the public may participate via interactive conference technology or in person at the meeting place stated above.

Members of the public may provide testimony in person or by teleconference, either audio or video, at the following link or phone number:
https://teams.microsoft.com/meet/2731653466116261?p=1tZiZHeEHOtdXRL7HY
Or join by entering meeting ID: 273 165 346 611 626 1 Passcode: VR3TV969

Individuals testifying at the meeting are requested to limit their testimony to three (3) minutes or an amount of time otherwise designated by the Chairperson.

Or +1 808-829-4853 United States, Honolulu (Toll)
Conference ID: 430 401 65#

In the event audiovisual communication cannot be maintained with participating Trustees and quorum is lost, the meeting shall be automatically recessed for up to 30 minutes, during which time, an attempt to restore audiovisual communication will be made. If such attempt is unsuccessful, all Trustees, members of the public, staff and other interested individuals may continue to participate in the meeting via telephone using the above-listed telephone and conference ID numbers, whereby audio-only communication will be established for all participants and the meeting will continue. If reconvening the meeting is not possible because neither audiovisual nor audio-only communication can be re-established, the meeting will be terminated.

AGENDA

QUORUM/CALL TO ORDER

PUBLIC COMMENT

Members of the public may provide in-person testimony at the meeting, or, alternatively, may submit written testimony in advance on these agenda items via e-mail or postal mail with receipt recommended by 4:30 p.m. on Friday, November 6, 2026, in order to ensure it is distributed in time for consideration. Please address written testimony if by e-mail to: dale.kanae@hawaii.gov or by postal mail to: Employees' Retirement System of the State of Hawaii, Board of Trustees, 201 Merchant Street, Suite 1400, Honolulu, HI 96813.

REPORTS BY STAFF

1. Executive Director's Report on the Administration of the System with Respect to Significant Developments in Investments, Policy, Potential Legislation, and Regulatory Matters.
2. Deputy Executive Director's Report on the Operations of the System with Respect to Issues Affecting Member Services, Accounting, and Information Systems.
3. Compliance Office Staff Report on General Duties, Current and Future Projects, Goals, and Achievements.

Pursuant to HRS §92-5(a)(4), the Board of Trustees may enter into Executive Session 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 these matters.

NEW BUSINESS

1. Discussion and Action Regarding the Election of the 2027 Board of Trustees Officers and Committee Assignments, and Approval of the 2027 Board of Trustees Schedule of Meetings.
2. Report of Activity by the Administrative & Audit Committee.
   2.1. Compliance Office Quarterly Update Report on Enterprise Governance, Risk, Compliance, and Modernization Project.
   2.2. Internal Audit Update Report by KMH LLP on the Current Status of Activities Completed During September and October 2026, and an Update on the Completion Status of Management Action Plans for Past Non-Information Technology Internal Audit Observations and Recommendations.
   2.3. Draft Auditor's Report and Financial Statements of the Employees' Retirement System by KKDLY LLC.

Pursuant to HRS §92-5(a)(4), the Board of Trustees may enter into Executive Session 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 these matters.

EXECUTIVE SESSION

1. Executive Session, pursuant to §88-27.5(a)(1) and (3) and HRS §92-5(a)(4), to conduct discussions and deliberations relating to, and if appropriate, to make a decision on investments or prospective investments by the system that require the consideration of information or records that are exempt from disclosure under HRS Chapter 92F, including information and records that are proprietary information or confidential business information, 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 the Approval of Strategic Asset Allocation Targets.
2. Executive Session, pursuant to HRS §92-5(a)(4) and (6), to consider sensitive matters related to Cyber Security that involves Information Security, Technology Risk Management, and the protection of Employees' Retirement System Information Assets, and to consider and consult with the Board's attorneys on questions and issues pertaining to the Board's powers, duties, privileges, immunities, and liabilities with respect to such matters.
3. Executive Session, pursuant to HRS §92-5(a)(2) and (4), to consider the hire, evaluation, dismissal, or discipline of ERS' Deputy Executive Director, where consideration of matters affecting privacy will be involved; and to consider and consult with the Board's attorneys on questions and issues pertaining to the Board's powers, duties, privileges, immunities, and liabilities with respect to this matter.

ADJOURNMENT

If you require auxiliary aid/service or other accommodation due to a disability, please contact Dale Kehau Kanae at (808) 586-1706 or dale.kanae@hawaii.gov as soon as possible, preferably by Wednesday, November 4, 2026, and the ERS will try to obtain the auxiliary aid/service or accommodation, but cannot guarantee that the request can be fulfilled.

Upon request, this notice can be made available in large print.

Coffee-type refreshments will be served as an integral part of the meeting.

Employees' Retirement System
Monthly Operations Report Highlights – October 2026

- **STAFFING (updated through 11/1/2026)**

	Position Title	Vacant Date	Recruitment Status
1.	Deputy Executive Director	6/16/26	Recruitment process.
2.	Program Specialist	4/1/25	4/3/25 – rqst sent to ARO-HR to open recruitment
3.	Program Specialist	New pos.	4/19/24 – draft Position Description (PD) sent to ARO-HR for review and approval
4.	Information Security Officer	New pos.	3/31/26 -draft reorg packet in review w/ARO Fiscal
5.	Account Clerk V	10/17/22	11/14/25 – draft Position Description (PD) sent to ARO-HR for review and approval
6.	Account Clerk V	5/1/24	6/30/25 – revised PD in review w/ARO-HR
7.	Account Clerk V	1/1/25	Pending PD update
8.	Account Clerk V	8/1/25	11/14/25 – draft Position Description (PD) sent to ARO-HR for review and approval
9.	Administrative Assistant II	7/25/23	7/1/25 – reorg required per ARO-HR
10.	Procurement & Supply Spcl IV	2/3/26	10/29/26 – 3 interviews scheduled.
11.	Information Technology Band B (Programmer)	11/1/24	10/28/26 – 10 interviews scheduled.
12.	Information Technology Band A (Systems)	12/17/24	10/8/26 – no selection made; in process of revising interview questions.
13.	Information Technology Band B (Systems)	12/16/25	10/8/26 – no selection made; in process of revising interview questions.
14.	General Professional VI	5/1/24	10/28/26 – follow up rqst sent to ARO-HR to open IVA recruitment.
15.	General Professional VI (NIOSS)	5/16/20	10/28/26 – follow up rqst sent to ARO-HR to open IVA recruitment.
16.	General Professional VI	3/16/22	10/28/26 – follow up rqst sent to ARO-HR to open IVA recruitment.
17.	Retirement Claims Examiner IV	10/27/26	Opening of recruitment pending.
18.	Retirement Claims Examiner III	10/27/26	10/14/26 – 10 interviews scheduled.
19.	Retirement Claims Examiner III	10/27/26	10/14/26 – 10 interviews scheduled.
20.	Retirement Claims Examiner III	4/7/26	10/14/26 – 10 interviews scheduled.
21.	Office Assistant IV	10/1/25	10/19/26 – rcvd new Cert list; 8 eligible candidates.
22.	Office Assistant IV	6/9/26	10/19/26 – rcvd new Cert list; 10 eligible candidates.
23.	Office Assistant III	9/16/26	10/22/26 – rqst sent to ARO-HR to open recruitment.
24.	Chief Investment Officer	6/1/26	Recruitment in process
25.	Investment Officer	New pos.	7/1/25- draft PD sent to ARO for review and approval.
26.	Investment Officer (Credit Markets)	9/1/26	Recruitment pending

- **MAJOR ACHIEVEMENTS, etc.**

A. Retirement Benefits Branch (RBB)

- Finals – The Team finalized 209 retirees on estimated pension with 861 pending. The Team has 10 applications over the 6-month standard. Currently, the Team continues to finalize June 2026 retirements.

- Neighbor Island & Outreach Activities
  - 10/1 - New Employee Orientation -Kauai
  - 10/1 - New Employee Orientation Fire -Kauai
  - 10/13 - Kona Filing Session
  - 10/16 - New Employee Orientation - Kauai
  - 10/20 - Island Savings Benefits Fair Oahu

- Call Center Activities

Calls Received

TOTAL	Retiree	Active	Other	Action Request Call Backs
2,468	630	1,518	317	3

Types of Inquiries

Retirement	General Office	Taxes (W4P & 1099)	EUTF	HIDRO	THP	Enrollment	Website	Refunds	Income Verification	Other
1,460	70	86	108	9	18	15	94	252	126	230

B. Accounting Branch

- FY 2025 audit work is continuing; audit report scheduled to be issued in late Fall 2026.

- Continued working with Vitech/Linea on documenting V3/V3locitiy user test cases to help validate employer/member data in Pension Administration System

- Temporary Hazard Pay (THP) adjustments taking longer than expected due to employer data reporting issues and ERS staff resources.

C. Information Systems Branch (IS)

- Completed monthly patching and updating

- Completed monthly security vulnerabilities review

- Completed network firewall upgrades for the Honolulu and Neighbor Island Offices

- Completed neighbor island laptop upgrades
- Created and tested automated image deployments to new laptops and desktops
- Completed monthly PA, PWH, AE batches
- Created forms for the new check printer software
- Configured ERS Cloud servers to send security logs to ETS.
- Completed phase 1 migration to new check printing software
- Class Code Reports – Returned to Agency: 130
- Replaced old desktop shortcuts with new ones for IS, SSS, Accounting, and Investments branches
- For the outstanding 66 JIRA tickets, Sprint 1 initial review completed
- Semi-Annual inspection of data center fire suppression system
- Created and tested automated image deployments to new laptops and desktops

D. Administration

- HRS 88-64 (Act 46, SLH 2023) implementation, process requests to review related cases, tax treatment of reported contributions
- Act 87 (SLH 2015) Employer Reporting (with Retirement Benefits and Accounting branches)
- Completed 5 Uniform Information Practices Act research and responses
- Completed Hawaii Domestic Relations Orders review and requests for information (stats compiled and provided to the Board semi-annually)
- Met with GOV-Policy for 2027 proposed ERS legislation
- Provided on-site logistical support at the October Investment Summit
- Prepared October 20, 2026, Employees' Benefit Fair Presentation PowerPoint
- DHRD Publications reviewed, edited and returned to DHRD on October 28, 2026
- Attended V3locity/Majesco/Linea Meetings

E. Staff Support Services Branch (SSS)

- Walk in members: 608 in October, compared to 612 in September
- Document Scanning and Indexing (on-going) – major backlog (approx. +2 million)

Activities (August)	Documents Completed
Time Sensitive	3,759
Indexed (backlog)	1,552

- **WEB STATISTICS for October 2026**

  - Member Information – Sessions = 19,896
  - General ERS Website – Sessions = 22,260

  Top 12 viewed site pages (descending order):

	Page	**Page views**
1.	Benefits Calculator	6,500
2.	Members > Planning for Retirement	6,076
3.	Members > Member Forms	3,849
4.	Resources > Contact Us	3,307
5.	Members > Active	3,070
6.	Resources > All Forms	2,609
7.	Home > Administration	1,568
8.	Retirees > Pension Info	1,131
9.	Resources > All Publications	835
10.	Members > Members-faqs	807
11.	Members > Leaving Employment	737
12.	Resources > Financials	733

RETIREMENT BENEFITS BRANCH ACTIVITIES – October 2026

Activities	Standard	Completed	Standard Percentage	Pending	Remarks
1. Enrollment	Within 1 month of receipt - Enrollment Forms	89	100% (Sep 100%)	539	All pending still within the standard. Enrollments received from 10/8/2026 to present.
2. Estimates Requests	Within 6 months of retirement date	277	100% (Sep 100%)	225	Pending is still within the standard
3. Initial Payments	After 1 month of retirement date	133	100% (Sep 100%)	0	10/01/2026 retirements: Service (128); OD (4); SCD (1)
4. Refund Requests	Within 1 month after request, send letter	110	100% (Sep 100%)	11	Pending is still within the standard
5. Refund Payments	Within 2 months after receipt of applications	135	100% (Sep 100%)	26	26 out of 86 pending payments: incomplete applications. Pending still within the standard
6. Deaths (Active members)	Within 1 month of report of death, send letter	23	100 % (Sep 100%)	0	4 deaths reported – No benefits.
7. Death Payment (Active members)	Within 1 month of receipt of death claim form(s)	17	100% (Sep 100%)	11	11 out of 27 claims – unable to process as missing & incorrect information. Pending resubmission by beneficiary.
8. Deaths (Retiree/Beneficiary)	Within 1 month of report of death, send letter	222	73% (Sep 82%)	262	262 pending – includes reported & vendor reported notifications. For vendor reported, no action taken unless there is a benefit to be paid.
9. Death Payments (Beneficiary)	Within 1 month of receipt of death claim form(s)	86	100% (Sep 100%)	40	40 out of 126 claims – unable to process as missing & incorrect information. Pending resubmission by beneficiary.
10. Ordinary Disability	Within 6 months complete application	3	66% (Sep 91%)	69	2 of 3 met the 6-month standard.
11. Service-Connected Disability/ Death	Within 14 months complete application	4	75% (Sep 50%)	64	3 of 4 met the 14-month standard.

Disability Standard – Below are the disability applications completed in October 2026 by the ERS Administration (Executive Director) based on the revised Chapter 23, Hawaii Administrative Rules, on the Preliminary Decisions by the Medical Board (MB). All applications are now reviewed by the Deputy Attorney General (DAG) after staff review.

Disability	Initials	Date Application Filed	Date Completed	Months	Reason For Delay
Ordinary	SS	1/16/2026	9/10/2026	7	
	VM	2/23/2026	9/29/2026	7	
	MV	10/7/2025	9/29/2026	12	OD&SCD applications processed simultaneously
			Average	**9**	
Service-Connected	VM	2/23/2026	9/29/2026	7	
	MV	10/7/2025	9/29/2026	12	
	SS	1/16/2026	10/12/2026	8	
			Average	**9**	
Accidental Death	JC	5/23/2025	9/10/2026	16	Pending documents from applicant
			Average	**16**	

Finals Report
Board of Trustees Meeting
October 31, 2026

Finals Production as of October 31, 2026

2026													
Retirements Filed	**Jan**	**Feb**	**Mar**	**Apr**	**May**	**Jun**	**Jul**	**Aug**	**Sept**	**Oct**	**Nov**	**Dec**	**Total**
LY Finalized	**121**	**122**	**163**	**156**	**153**	**140**	**281**	**206**	**140**	**124**	**142**	**186**	**1,934**
TY Projection	*170*	*180*	*200*	*220*	*220*	*220*	*220*	*230*	*230*	*230*	*230*	*230*	*2,580*
Actual (filed)	**164**	**190**	**152**	**121**	**140**	**292**	**319**	**326**	**268**	**209**			**2,181**
Ord. Death	3	3	2	1	1	2	5	5	0	1			23
RMD	0	0	0	0	0	0	0	0	0	2			2
Total Finalized	**167**	**193**	**154**	**122**	**141**	**294**	**324**	**331**	**268**	**212**	**0**	**0**	**2,206**
Begin Pending	1,075	1,515	1,401	1,364	1,385	1,337	1,316	1,198	1,063	937			
New Retirements	596	73	108	139	91	266	193	187	139	128			1,920
Add'l (BOT & svc adj.)	8	3	7	3	1	5	8	4	3	5			47
Completion	-164	-190	-152	-121	-140	-292	-319	-326	-268	-209	0	0	-2,181
End Pending	**1,515**	**1,401**	**1,364**	**1,385**	**1,337**	**1,316**	**1,198**	**1,063**	**937**	**861**	**0**	**0**	

1. Highlights

- 212 Cases were finalized and to be paid in October.
- 209 Retirements, including 9 disability retirements and 2 RMD.
- 1 Active death monthly pension

- 6 cases were finalized with Act 134 Interest paid totaling $406.31.
  - $67.72 average interest paid.
- 36 Anti-spiking (Act 153) cases
- 861 Service and Disability retirements pending finalization.
  - Continue finalizing June 2026 retirements with 98.84% of the inventory within benchmark.
- Resources are currently at 4 Retirement Claims Examiner IV at full-time status.

2. Aging Status Standard: To finalize pensions within 6 months or interest starts on the 7th month

Pending Status:

Backlog Cases over 6 months:	10 (1.16%)	including 11 Disability retirements.
Benchmark Cases within 6 months:	851 (98.84%)	including 14 disability retirements.
Total:	861	

3. Re-Finalization

- Finals team has been re-finalizing DOE hazard pay cases.
- Non-Finals staff have started refinalizations for UPW, State & County THP cases on overtime.
- Pay adjustments due to late HIP reporting and retroactive pay increases per CBA add to backlog

BOARD OF TRUSTEES OF THE
EMPLOYEES' RETIREMENT SYSTEM OF THE
STATE OF HAWAII

2027 SCHEDULE OF MEETINGS

Monday, January 11
Monday, March 8
Tuesday, May 11*
Monday, July 12
Monday, September 13
Monday, November 8

This schedule is subject to change at any time.

All regular meetings shall be held on the second Monday of the month unless otherwise agreed upon by the Trustees. All special meetings shall be on days agreed upon by the Trustees. (Reference: ERS Board of Trustees Operating Policies, Rev. 1/9/06.)

*Noted Change:

- Tuesday, May 11, to accommodate for Mother's Day, Sunday, May 9.

Employees' Retirement System
of the State of Hawaii

Compliance Office Governance Quarterly Report

Employees' Retirement System of the State of Hawai'i

Board of Trustees · November 2026
Chief Compliance Officer · Kona Mann

Today's Governance Discussion

01	**Executive Summary**	What has advanced, what remains a concern, and what evidence comes next.
02	**Five Priority Risks**	Current progress and remaining exposure across the five priority areas.
03	**Human Capital & Cybersecurity**	Progress, remaining exposure, and the next evidence expected.
04	**Employer Compliance (Act 87)**	FY2026 testing results, recurring patterns, and corrective-action expectations.
05	**Procurement & Financial Reporting**	Process improvement, capacity, remediation milestones, and remaining concerns.
06	**Internal Audit Remediation**	Movement from open findings toward actions, evidence, and independent closure.

Executive Summary

Movement since the last report and the areas that now warrant Board visibility

01	**Employer Compliance**	Testing now provides a measurable baseline: 67 employers, 2,409 samples, 860 exceptions and a 35.7% testing exception rate.
02	**Internal Audit**	Optro is moving open findings into defined remediation actions, owners, due dates and evidence. Accounting improvement work now has milestones.
03	**Top Risks**	Five previously identified priority areas remain the reporting focus: human capital, cybersecurity, employer reporting, procurement and financial reporting.
04	**ERM**	Formal assessment is progressing. RSM's validated prioritization and heat map will replace the preliminary view when ready.
05	**Reporting Advancement**	The report is shifting from describing activity to showing evidence, ownership, milestones and whether exposure is actually decreasing.

BOARD TAKEAWAY | ERS is moving from identifying issues toward structured remediation. The five priority risks remain visible. The reporting is advancing by showing measurable results and remediation progress where evidence exists.

Five Priority Risks – Progress & Current Concern

Six areas are highlighted for near-term visibility based on known operational conditions, open remediation work and current management activity. They are not formally ranked or scored.

5
priority areas tracked

2
areas with new visible evidence

Nov 2026
RSM progress update expected

01 **Governance – Human Capital**
Recruitments progressing; succession, knowledge transfer and sustainable coverage remain the concern.

02 **Cybersecurity**
RSM/vISO work progressing; detailed technical status remains with specialist reporting.

03 **Employer Reporting**
Measurable baseline established; recurring patterns now visible.

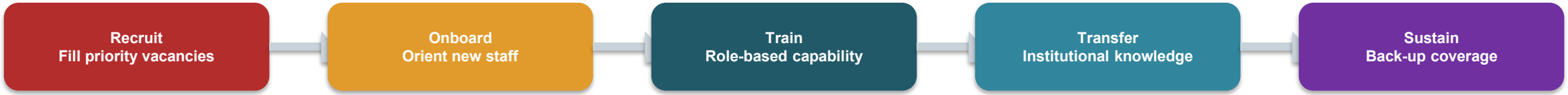
04 **Procurement & Contracting**
Recruitment and process-improvement work are progressing.

05 **Financial Reporting / ACFR**
Defined remediation work is underway; execution remains the test.

Governance - Human Capital – Progress & Remaining Exposure

Recruitments are progressing. The remaining governance concern is whether hiring translates into sustainable capability, succession and backup coverage.

Current Remediation Process:



Current Concern

• Critical knowledge remains concentrated in experienced staff.

• Recruitment alone does not solve succession or continuity.

• Modernization adds workload while ERS rebuilds capacity.

• Retirements and turnover can accelerate knowledge loss.

Progress

Recruitment activity is progressing. Management continues to fill priority vacancies and rebuild capacity.

What Comes Next

Show whether hiring translates into documented knowledge, cross-training, succession planning, interim coverage and fewer single-person dependencies.

ACCOUNTABILITY **DED + Branch Management**

Cybersecurity – Progress & Remaining Exposure

RSM/vISO work is progressing. This update keeps the enterprise exposure visible without duplicating or getting ahead of specialist cyber reporting.

01

Current Concern

Third-party exposure, incident readiness and vulnerability remediation remain important enterprise concerns.

02

Progress

vISO, policy, incident-response, vulnerability-management and third-party-risk work continue.

03

What Comes Next

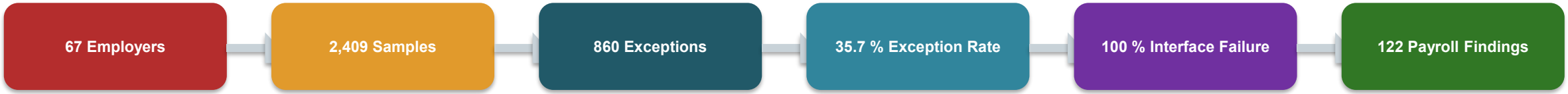
RSM/vISO reporting should show current posture, remediation movement, material challenges and next actions.

BOARD LENS | Is the security program becoming more sustainable while significant exposures remain visible?

Employer Reporting – Measurable Results

This area has advanced from activity reporting to a measurable compliance baseline and recurring patterns that can now be tracked through corrective action.

Current Results:



What The Results Show

- Personnel-interface file failures were systemic.
- Few Round 1–2 payroll findings were corrected.
- Requirements are interpreted inconsistently.
- Charter schools had the highest Round 3 exception rates.

Next Steps Response

Standardize requirements and pay-code mapping; clarify common guidance; review the interface process; track corrections; target training and escalation where patterns persist.

What Comes Next

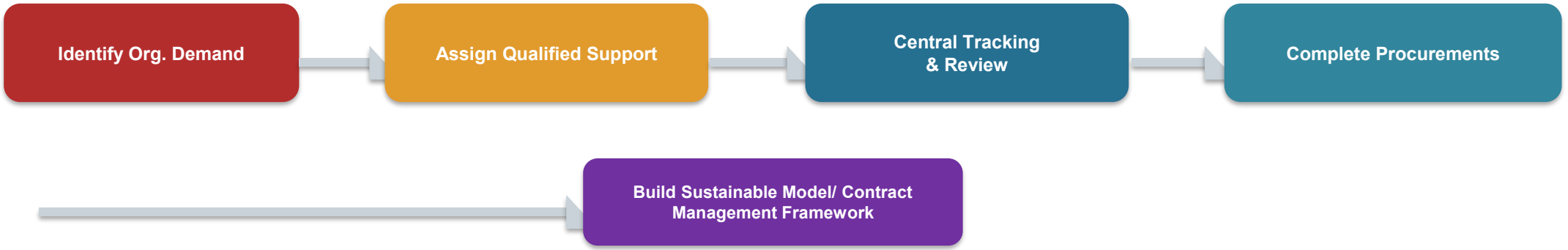
Assign owners and target dates; complete Round 3 correction tracking; use future testing to show whether exception and correction rates improve.

ACCOUNTABILITY **CCO + Operational Owners**

Contracting & Procurement – Progress & Remaining Exposure

Recruitment and process-improvement work are progressing. The remaining concern is maintaining throughput and controls while building a sustainable procurement and contract-management capability.

Board Lens:



Current Concern

Limited dedicated capacity can affect contract timing, vendor support, compliance and timely execution of agency needs.

Progress

Qualified staff continue to support procurement while recruitment progresses. Defined improvement work now includes assessment, policies/procedures and contract-lifecycle monitoring.

Next Evidence

Recruitment results plus completion of the November improvement milestones: current-state assessment, policies/procedures and standardized lifecycle-monitoring tools.

ACCOUNTABILITY **Accounting Branch Chief + DED**

Financial Reporting / ACFR – Progress & Remaining Exposure

Financial reporting remains a concern, but remediation is becoming more structured. The next test is execution against defined ACFR, accounts-payable and budget-governance milestones.

Current Remediation Process:



Current Concern

Timely, repeatable financial reporting remains important to audit readiness, management visibility, accountability and continuity.

Progress

Improvement work now includes ACFR process assessment, a master calendar, accountability matrix, standardized workpapers and documented policies/procedures, with milestones through January 2027.

What Comes Next

Demonstrate completion against the roadmap, attach evidence, identify overdue actions early and move completed remediation to KMH for validation.

BOARD LENS **Are defined remediation actions restoring a reliable reporting and control environment?**

ACCOUNTABILITY **Accounting Branch Chief + DED**

Internal Audit Remediation – From Open Findings to Evidence

Internal Audit reporting is advancing from a list of open findings toward a repeatable remediation process with actions, owners, dates, evidence and independent validation.

WHAT HAS ADVANCED

- Risks carried forward from management input, prior audit work and the existing ERS Risk Dashboard.
- A complete preliminary risk universe.
- Six near-term priorities selected for Board visibility based on known conditions and active governance matters.

CURRENT CONCERN

- A facilitated enterprise-wide assessment across leadership and branches.
- Formally validated likelihood and impact scoring.
- Validated residual risk, risk appetite or treatment prioritization.

WHAT PROGRESS SHOULD LOOK LIKE

- Structured interviews and facilitated prioritization.
- A refined risk register and consistent terminology.
- Validated assessment / heat map and treatment planning.
- A repeatable ERM reporting process.

BOARD TAKEAWAY | Management owns remediation. KMH validates closure. Compliance makes progress, delay and remaining exposure visible to the Board.

Employees' Retirement System
of the State of Hawaii

Compliance Office Modernization Quarterly Report

Employees' Retirement System of the State of Hawai'i

Board of Trustees · November 2026
Chief Compliance Officer · Kona Mann

Today’s Modernization Project Discussion

01	**Executive Summary**	What’s changed, what is moving, and what the Board should watch.
02	**Contract & Migration Readiness**	Year-end execution path and the consequence of delay.
03	**People & Organizational Readiness**	Whether committed capacity can support migration and operations.
04	**Testing & Delivery Readiness**	Testing gap, required pace and shared delivery accountability.
05	**Progress & Quick Wins**	Visible delivery progress and near-term outcomes.
06	**Next 90 Days**	The few conditions that determine migration readiness.

Executive Summary

What changes since the last report and what matters next…

01	**Contract**	ERS and Majesco are working toward a year-end migration agreement. Early December is the working target to preserve time for final approvals and execution.
02	**Resources**	Branch Chiefs are resourcing toward Linea's approximately 14 FTE-equivalent model; Administration is pursuing intern support for pre-migration work.
03	**Testing**	About 900 test candidate scripts are scoped; 176 are approved and 724 remain. A sustained pace near 30 per week would be needed to finish by the end of March.
04	**Team Alignment**	RBB SMEs are strongly engaged. PM coordination, communication and inclusion are improving across the program.
05	**Quick Wins**	Website inquiry form and FAQ improvements are nearing rollout, providing visible member-service progress before migration.

BOARD TAKEAWAY | The project is moving. Is management converting contract progress, committed capacity and improved coordination into measurable migration readiness?

Contract & Migration Readiness

ERS and Majesco share the objective of executing the migration agreement before year-end. The working target is early December to preserve time for final approvals and execution.

Align

October/ November

- Resolve MSSA / SOW must-haves
- Consolidate ERS positions
- Maintain joint working cadence
- PAC Approvals

Finalize

Early December

- Complete contract negotiations
- Prepare agreements
- Move to B&F for approvals

Execute

Before Year End

- Execute migration agreement
- Secure migration schedule
- Align scope and outcomes

WHY TIMING MATTERS

SCOPE & ACCOUNTABILITY

Execution establishes one baseline for scope, responsibilities, acceptance, outcomes and payment.

SCHEDULE POSITION

Year-end execution positions ERS for migration scheduling and limits additional downstream delay.

COST & WORKFORCE IMPACT

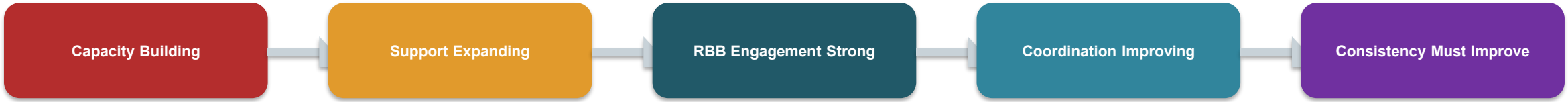
Further delay will extend cost, uncertainty and pressure on staff and project momentum.

BOARD TAKEAWAY | Both parties are invested in year-end execution. Is the agreement progressing fast enough to protect year-end execution and ERS' place on the migration schedule?

People & Organizational Readiness – Capacity Must Become Delivery

Management is assembling the resource model. The oversight question is whether that capacity becomes dependable project delivery without materially affecting operations.

Current Lens:



Capacity Committed

- Branch Chiefs resourcing toward ~14 FTE-equivalent model.
- DLIR intern support being pursued for pre-migration work.
- RBB SMEs showing strong ownership and engagement.

Delivery Test

- Are committed resources available when needed?
- Are SME expectations and decision rights clear?
- Is capacity producing measurable weekly delivery?

Management Response

Confirm resource commitments and apply one project playbook for SME participation, deadlines, decisions and escalation while branches protect daily operations.

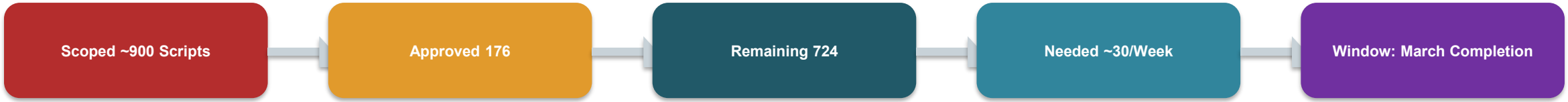
ACCOUNTABILITY **CCO + Systems Supervisor + Linea**

BOARD TAKEAWAY | Is committed capacity translating into delivery without materially affecting core operations?

Testing & Delivery Readiness

Testing is the clearest near-term delivery constraint. The issue is shared across ERS, Linea and Majesco and requires a predictable weekly rhythm.

Current Lens:



Delivery Gap

Testing, data remediation, defect support and process documentation require sustained branch time. Delay in decisions or staffing pushes work downstream while vendor and project costs continue.

Shared Accountability

- Branches may not have the capabilities and resources to close work streams.
- Branch Chiefs own the balance of operations and project work: set priorities, name decision-makers, assign staff, protect critical services and escalate capacity conflicts early.

Management Response

Validate the resource demand against actual workloads. Decide what continues, what can be deferred or reassigned, and where added support is required. Do not allow unresolved decisions to become schedule delay.

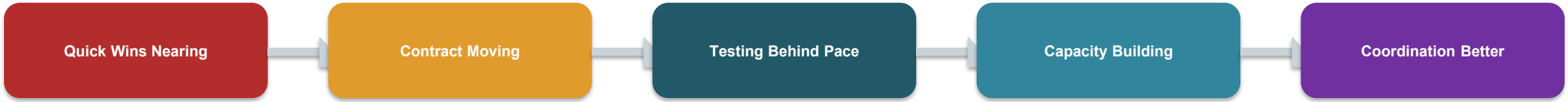
ACCOUNTABILITY **CCO + Systems Supervisor + Linea**

COMMITTEE TAKEAWAY | Is testing throughput increasing fast enough to protect the migration path, and are quality or turnaround issues being resolved?

Next 90 Days – What the Committee Should Watch

The next 90 days should show whether recent progress is becoming repeatable delivery and whether the remaining dependencies are being reduced.

Current Lens:



Visible Delivery

- Website inquiry form nearing rollout and measurement.
- FAQ moving toward final approval and placement.
- RBB SME engagement and PM coordination strengthening delivery

Management Milestones

- Complete substantive contract work by early December; execute by year-end.
- Increase testing toward the agreed weekly pace.
- Complete resource commitments and add support

Escalation Triggers

Escalate when contract timing, testing pace, resource availability or delayed decisions begin affecting migration readiness, cost, schedule or core operations.

ACCOUNTABILITY CCO

COMMITTEE TAKEAWAY | Are the key dependencies shrinking each reporting period, or are they beginning to affect cost, schedule, readiness or operations?

KMHLLP

Employees' Retirement System Internal Audit

Administrative & Audit Committee Update Report

October 13, 2026

Employees' Retirement System of the State of Hawaii

CONFIDENTIAL

This report is prepared solely for the internal use of the Employees' Retirement System management, the Administrative & Audit Committee, and the Board of Trustees. Distribution requires prior approval from the Administrative & Audit Committee or management.

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Executive Summary

Overview of key matters, priorities, and status updates

Administrative and Other Matters

- Internal Audit continues to support ERS in addressing longstanding non-IT audit findings and other areas requiring attention. This assistance is provided under the direction of the Administrative & Audit Committee and Board, without assuming management responsibilities.
- Regular meetings with the Executive Director continue to ensure ongoing visibility into internal audit activities and facilitate discussion of emerging organizational priorities.
- Weekly meetings are held with the Chief Compliance Officer to discuss the status of key ERS initiatives, including audit finding remediation, CCO initiatives, and other strategic priorities.

Risk Assessment Re-Evaluation & Two-Year Audit Plan

- Internal Audit and Enterprise Risk Management (ERM) completed combined risk assessment interviews in September 2026 with executive management, branch leadership, and select members of the Board of Trustees.
- Draft results of the risk assessment and the proposed 2027-2028 Internal Audit Plan, informed by stakeholder feedback and other risk assessment considerations, will be discussed and evaluated with executive management in October 2026; the final risk assessment and two-year audit plan will be presented at the first Administrative & Audit Committee meeting in calendar year 2027.

V3locity Pension Administration System ("PAS") Assessment and Updates

- Internal Audit maintains visibility over PAS migration progress through ongoing participation in leadership meetings and review of project artifacts, including workplans, timelines, and related documentation. Discussions with Linea Solutions are planned to further understand the timing of major operational and IT milestones and activities.

Executive Summary (continued)

Overview of key matters, priorities, and status updates

Internal Audit Support and Remediation Activities Update (August to September 2026)

- Internal Audit developed a comprehensive priority improvement areas roadmap (see page 4) identifying priority improvement areas, responsible branches, planned activities, and target completion dates. Detailed workplans for each area were developed to support timely execution. Progress against the roadmap will be monitored and reported periodically to the Administrative & Audit Committee.
- Established recurring meetings with participating branches to monitor progress on both priority improvement areas and open internal audit remediation activities, discuss status updates, and support timely achievement of target completion dates.
- Non-IT audit finding remediation continues to advance through Internal Audit's collaboration with management (see pages 5 to 7). This is supported by a dedicated five-person team and a detailed workplan that strengthens accountability and enables concurrent progress across workstreams.

ERS Priority Improvement Areas Summary

Areas in which Internal Audit is providing support

In consultation with executive management, Internal Audit will continue to provide support to ERS throughout the term of its contract in the priority improvement areas identified below. The table summarizes each focus area, the support to be provided by Internal Audit, and the estimated hours required to complete the work.

	Area	Support Needed	Estimated Hours
1.	Non-IT Open Internal Audit Findings	Assist with the remediation of seven open non-IT internal audit findings, encompassing the completion of 10 remediation tasks and related sub-tasks. Support activities will include developing and documenting draft policies, procedures, and other key documentation; enhancing operational processes and controls; and providing training.	450 to 500
2.	Accounts Payable Process	Support the implementation of a centralized procure-to-pay process, including procurement, contract management, and accounts payable, through process documentation, policy development, and enhanced invoice aging and accountability reporting.	300 to 350
3.	Budget Development and Oversight	Assist with formalizing and strengthening the budget process by documenting procedures, defining roles and responsibilities, enhancing the annual budget calendar, and standardizing periodic management reporting.	150 to 200
4.	Contracting and Procurement	Support the establishment of a centralized procurement and contract management framework aligned with Chapter 103D and SPO guidance through standardized policies, procedures, templates, core competencies for execution, and systems to track procurement and contract lifecycles.	150 to 200
5.	Annual ACFR Audit Process Improvements	Assist in revamping the current ACFR audit management framework to improve its structure and establish a repeatable process that is clearly understood across the Accounting Branch, enhancing accountability, consistency, and oversight. This includes the creation of a master calendar and milestones, a schedule and disclosure owner accountability matrix, standardized workpapers, documentation of policies and procedures, and recurring status meetings.	350 to 400

ERS Priority Improvement Areas Roadmap

Priority areas in which Internal Audit will provide support, with planned activities and targeted completion dates. Target completion dates are based on and contingent upon the availability of Accounting Branch personnel.

Priority Improvement Area	Aug 2026	Sep 2026	Oct 2026	Nov 2026	Dec 2026	Jan 2027
Accounts Payable Process 300 to 350 hours *Accounting Branch / Cash Disbursements Section*	Assess and document current procure-to-pay process	Assist in developing a refined procure-to-pay process	Document the refined procure-to-pay process	Support the design and rollout of an invoice aging and accountability reporting process		
Budget Development and Oversight 150 to 200 hours *Accounting Branch*	Assess and document current budget process		Support the enhancement of the budget planning process	Assist management with developing updated budget policies and procedures		Assist in establishing a standardized budget-to-actual reporting process
Contracting and Procurement 150 to 200 hours *Accounting Branch / Executive Admin*			Assess the current procurement and contracting environment	Assist management with developing procurement and contract management policies and procedures and standard templates	Assist with establishing a contract and purchase order tracking and monitoring process	
Annual ACFR Audit Process Improvements 350 to 400 hours *Accounting Branch / Investment Audit Section*	Assess and document current ACFR preparation and audit process		Assist in developing a master calendar and milestone framework Assist in developing a schedule and disclosure accountability matrix	Assist with standardizing and enhancing ACFR workpaper documentation and reporting processes Assist management with enhancing existing and developing new ACFR policies and procedures		

Reports with Open Non-IT Internal Audit Finding Remediation

Open non-IT findings by review with risk rating, remediation tasks, and start and target completion dates

Responding to feedback from the previous A&AC meeting, the table below clarifies the status of open non-IT internal audit findings by review and identifies the report issuance date, finding identifier, and original risk rating. Each entry in the Task column presents Internal Audit's recommendations, accompanied by a remediation timeline specifying start and target completion dates approved by the Executive Director.

Review Name	Report Issue Date	Responsible Branch	ID	Finding Level	Task	Start Date	Target Date*
Member Enrollment & Re-Enrollment Process	April 2024	Compliance (K. Mann) / Staff Support Services (D. Tomimoto)	ME-2	High	Develop file management, organization and storage policies and procedures that align with guidance from the State of Hawaii Records Management Branch	July 2026	April 2027
		Retirement Benefits (L. Kobayashi)	ME-5	Medium	Update Return to Work Transfers policies, procedures and processes to improve clarity and incorporate a reconciliation process	July 2026	January 2027
Financial Reporting Process	April 2019	Accounting (L. Wolfe)	FR-3-1	Medium	Develop financial reporting framework policies	July 2026	March 2027
			FR-3-2	Medium	Develop financial reporting framework procedures and provide training	October 2026	March 2027
			FR-4-1	Medium	Develop investment accounting policies	July 2026	March 2027
			FR-4-2	Medium	Develop investment accounting procedures and provide training	October 2026	March 2027
			FR-5-1	Medium	Develop a process to detect and track errors in employer submissions	July 2026	November 2026
			FR-5-2	Medium	Enhance employer education and support by increasing communications with employers on identified errors	July 2026	December 2026
Human Resources – Personnel Development and Retention	October 2020	Accounting (L. Wolfe)	HR-2	Medium	For the Accounting Branch: Identify successor(s) and develop succession plan	August 2026	October 2026
Employer Communication & Reporting Framework	July 2022	Accounting (L. Wolfe)	ECR-3	Low	Develop procedures for reviewing and processing employer-specific Work Reports, and use those procedures to cross-train Work Reports Team staff	September 2026	June 2027

*** Target dates have been finalized and approved by the Executive Director. These dates will remain unchanged as the original baseline for tracking progress.**

Non-IT Internal Audit Finding Remediation — Progress

Sub-task completion against open non-IT internal audit findings

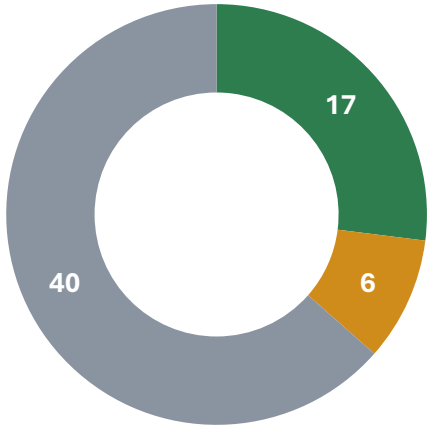
23
Sub-tasks complete

15
In progress

25
Not started

~37%
Sub-task completion rate

SUB-TASK COMPLETION — As of August 10, 2026

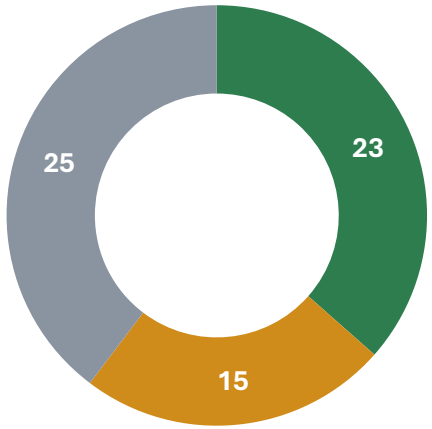


Complete In Progress Not Started

63 sub-tasks tracked across open non-IT internal audit findings as of the last committee meeting in August.

~27% complete

SUB-TASK COMPLETION — As of October 1, 2026



Complete In Progress Not Started

63 sub-tasks tracked across open non-IT internal audit findings as of October 1, 2026.

~37% complete

WHAT THE MOVEMENT SHOWS

Focused Remediation Assistance

While management continues to balance remediation efforts with ongoing operational priorities and strategic initiatives, Internal Audit has maintained a core team of five resources to support remediation activities. Work has been strategically distributed across the team to advance multiple workstreams concurrently and sustain progress toward remediation.

Remediation Workplan Execution

The detailed remediation workplan's tasks and sub-tasks for each finding continue to serve as an effective roadmap for management, supporting accountability, progress monitoring, and the successful advancement of remediation activities.

Collaborative Remediation Effort

Management continues to actively engage with Internal Audit throughout the remediation process, promoting timely information sharing, documentation support, and steady progress toward remediation objectives.

Non-IT Internal Audit Finding Remediation — Task and Sub-Task Detail

Task and sub-task status by finding, with target completion dates

The table below summarizes the overall remediation status for each finding, including the number of sub-tasks completed, in progress, and not yet started.

ID	Task	Business Risk	Target Date	Complete	In Progress	Not Started	Progress
ME-2	Develop file management, organization and storage policies and procedures that align with guidance from the State of Hawaii Records Management Branch	The lack of a formal process and documentation increases the risk of data inaccuracies, missing documentation, and non-compliance with applicable recordkeeping requirements.	April 2027	3	4	5	**25%**
ME-5	Update Return to Work Transfers policies, procedures and processes to improve clarity and incorporate a reconciliation process	Errors in service credit records may negatively affect retirement eligibility and benefits while requiring additional ERS resources to resolve.	January 2027	5	2	2	**56%**
FR-3-1	Develop financial reporting framework policies	Inadequate and outdated policies and procedures increase the risk of delayed decision-making and financial reporting, misaligned stakeholder expectations, and ineffective succession and knowledge transfer.	March 2027	3	1	3	**43%**
FR-3-2	Develop financial reporting framework procedures and provide training		March 2027	–	2	3	**0%**
FR-4-1	Develop investment accounting policies	Without effective alignment of policies, procedures, and training between the Investment Office and Accounting Branch, ERS faces an increased risk of material misstatements in its financial statements.	March 2027	3	1	3	**43%**
FR-4-2	Develop investment accounting procedures and provide training		March 2027	–	2	3	**0%**
FR-5-1	Develop a process to detect and track errors in employer submissions	Inadequate employer reporting processes may lead to inaccurate pension liabilities, delayed financial reporting, and errors in member benefit payments.	November 2026	1	1	–	**50%**
FR-5-2	Enhance employer education and support by increasing communications with employers on identified errors		December 2026	2	1	–	**67%**
HR-2	For the Accounting Branch: Identify successor(s) and develop succession plan	Failure to establish effective succession planning and knowledge transfer processes may result in operational disruptions and the loss of critical institutional knowledge.	October 2026 **(Completed)**	6	–	–	**100%**
ECR-3	Develop procedures for reviewing and processing employer-specific Work Reports, and use those procedures to cross-train Work Reports Team staff	Limited staff redundancy and knowledge transfer may result in delayed work report processing, loss of institutional knowledge, and inaccurate salary and contribution data.	June 2027	–	1	6	**0%**

2026 Internal Audit Plan Results Summary

Audit plan schedule, budget-to-actual hours, and estimated time to complete (ETC)

Internal Audit Plan (Approved by A&AC in February 2026)

Internal Audit Plan Period: January 1, 2026 through December 31, 2026

PROJECT	Q1 2026			Q2 2026			Q3 2026			Q4 2026			Hours			
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Budget	Actual	ETC	Variance
Carryover Projects																
Contracting & Procurement Review													200	45	-	(155)
Benefit Claims & Refund and Retiree Overpayments Processing Review													375	160	-	(215)
Member/Retiree Record Processing, Retention, and Storage													350	20	-	(330)
Assurance																
Biennial Follow-Up Review													300	22	-	(278)
Investment Management, Monitoring & Performance Evaluation													450	-	-	(450)
Advisory & Other																
V3locity Assessment and Updates													250	37	100	(113)
Extension of vISO Initiative - Roadmap Implementation													275	310	-	35
IA Recommendation & Implementation Assistance and Other Support													100	630	1,000	1,530
Risk Assessment Re-Evaluation & Two-Year Audit Plan													250	109	141	-
Compliance Office Collaboration and Assistance													150	132	30	12
Reporting, Communication and Other Administration													350	299	75	24
												Total Hours	**3,050**	**1,764**	**1,346**	**60**

In Process

Project Started but Postponed due to IA Effort Redirection

Project Deferred due to IA Effort Redirection

Advisory & Other Projects

Meetings, Board Support, Other

Key:

Budget: Original Approved Budget and Budget Changes Approved by the A&AC
Actual: Actual Hours Incurred through September 30, 2026
ETC: Estimated Time to Complete
Variance: [(Actual + ETC) - Budget] = over / (under) budget

ACCUITY

Presentation to the Board of Trustees of the Employees' Retirement System of the State of Hawaii

Financial Audit of the ERS
Year Ended June 30, 2025

November 9, 2026



Financial Audit of the ERS
Agenda

- ***Presenters:***
  - *Robyn Kawamura, Engagement Leader*
  - *Ralph Kanetoku, Partner*
  - *YeeYan Lim, Manager*

- ***Scope of Services and Reports Delivered***

- ***Information on the Conduct of Our Audit***

- ***Significant Deficiency***

- ***Open Discussion***

Scope of Services and Reports Delivered
Year Ended June 30, 2025

Scope of Services

- Audit of the financial statements of the Employees' Retirement System of the State of Hawaii (the ERS) as of and for the year ended June 30, 2025.

- Audit of the schedule of employer allocations and schedule of pension amounts by employer as of and for the year ended June 30, 2025.

Reports Delivered

- Independent auditors' report on the ERS' financial statements
    - Auditing standards generally accepted in the United States of America and Government Auditing Standards
    - Unmodified opinion on the financial statements

Scope of Services and Reports Delivered, cont.
Year Ended June 30, 2025

Reports Delivered, continued

- Independent auditors' report on internal control over financial reporting and on compliance
  - No material weaknesses in internal control over financial reporting identified
  - One significant deficiency in internal control over financial reporting identified
  - No instances of noncompliance or other matters required to be reported
- Required communications letter to the State Auditor and the Board of Trustees of the ERS
- Independent accountants' report on the employer allocation and pension amount schedules
  - Unmodified opinion on schedules

Information on the Conduct of Our Audit
Year Ended June 30, 2025

Qualitative Aspects of Accounting Policies

- Management is responsible for selecting and using appropriate accounting policies. The ERS' significant accounting policies are described in Note B.

- During fiscal year 2025, the ERS implemented GASB Statement No. 101, *Compensated Absences*.

  - Accrual of accrued sick leave and salary – related payments
  - GASB statement No. 101 did not have a material effect on the financial statements.

- We noted no transactions lacking authoritative guidance or consensus.

- All significant transactions were recognized in the proper period.

Information on the Conduct of Our Audit, cont.
Year Ended June 30, 2025

No Significant Difficulties or Disagreements

- We experienced delays in receiving certain financial information, which delayed the financial reporting process. We encountered no other significant difficulties in dealing with management during the audit.

- We did not have disagreements with management that would have caused a modification of our report.

Accounting Estimates

- Significant estimates included the valuation of investments and the actuarial valuation of total pension liability, including revised salary, mortality, termination, retirement, disability, and sick-leave assumptions.

- We determined the key factors and assumptions were reasonable in relation to the financial statements taken as a whole.

Information on the Conduct of Our Audit, cont.
Year Ended June 30, 2025

Corrected and Uncorrected Misstatements

We identified two uncorrected misstatements related to the classification between investments and receivables. The effects of the uncorrected misstatements are immaterial to the ERS' financial statements taken as a whole.

Independence

We confirm that we are independent accountants with respect to the ERS under all relevant professional and regulatory standards.

Significant Deficiency
Year Ended June 30, 2025

Finding 2025-001: Inadequate Financial Reporting Continuity and Oversight

- **Condition:** The ERS relied extensively on one individual for critical financial reporting functions. Extended absences resulted in significant delays, and other personnel did not have sufficient knowledge or authority to timely provide certain documentation.

- **Cause and Effect:** Critical knowledge and responsibilities were concentrated in one individual without sufficient cross-training or contingency procedures. No material misstatements resulted from the condition.

- **Recommendation:** Delegate certain financial reporting responsibilities, cross-train personnel, document key processes, assign backups, and enhance supervisory oversight.

Employees' Retirement System of the State of Hawaii

Financial Statements and Supplementary Information

(With Report of Independent Auditors Thereon)

June 30, 2025

DRAFT - 11.02.2026

Submitted by
The Auditor
State of Hawaii

Employees' Retirement System of the State of Hawaii
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DRAFT - 11.02.2026

Part I
Introduction Section

DRAFT - 11.02.2026

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DRAFT - 11.02.2026

November XX, 2026

The Auditor
State of Hawaii

Board of Trustees
Employees' Retirement System of the State of Hawaii

We have completed our audit of the financial statements of the Employees' Retirement System of the State of Hawaii (the "ERS"), as of and for the year ended June 30, 2025. We transmit herewith our report of independent auditors containing our opinion on those financial statements and our report of independent auditors on internal control over financial reporting and on compliance and other matters based on an audit of financial statements performed in accordance with Government Auditing Standards.

Audit Objectives

The objectives of the audit were as follows:

1. To provide an opinion on the fair presentation of the ERS' financial statements in accordance with accounting principles generally accepted in the United States of America.

2. To consider the ERS' internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements.

3. To perform tests of the ERS' compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts.

Scope of Audit

We performed our audit of the ERS' financial statements as of and for the year ended June 30, 2025, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

As part of the audit of the ERS' financial statements, we considered the ERS' internal control over financial reporting to determine our auditing procedures for the purpose of expressing our opinion on the financial statements. We also performed tests of the ERS' compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements.

Organization of Report

This report has been organized into three parts as follows:

1. The Introduction Section describes briefly the objectives and scope of our audit and the organization and contents of this report.

2. The Financial Section includes management's discussion and analysis (unaudited), the ERS' financial statements and the related notes, required supplementary information (unaudited), and other supplementary information as of and for the year ended June 30, 2025, and our report of independent auditors thereon.

3. The Internal Control and Compliance Section contains our report of independent auditors on the ERS' internal control over financial reporting and on compliance and other matters based on an audit of financial statements performed in accordance with Government Auditing Standards and the related finding in Appendix A – Significant Deficiency in Internal Control over Financial Reporting.

We would like to take this opportunity to express our appreciation for the courtesy and assistance extended to us by the personnel of the ERS during the course of our engagement. Should you wish to discuss any of the matters contained herein, we will be pleased to meet with you at your convenience.

Very truly yours,

DRAFT - 11.02.2026

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Part II
Financial Section

DRAFT - 11.02.2026

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DRAFT - 11.02.2026

Report of Independent Auditors

The Auditor
State of Hawaii

Board of Trustees
Employees' Retirement System of the State of Hawaii

Opinion

We have audited the accompanying statement of fiduciary net position of the Employees' Retirement System of the State of Hawaii (the "ERS") as of June 30, 2025, and the related statement of changes in fiduciary net position for the year then ended, and the related notes to financial statements, which collectively comprise the ERS' basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the fiduciary net position of the ERS as of June 30, 2025, and the changes in fiduciary net position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Financial Statements* section of our report. We are required to be independent of the ERS and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the ERS' ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and Government Auditing Standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and Government Auditing Standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the ERS' internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgement, there are conditions or events, considered in the aggregate, that raise substantial doubt about the ERS' ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the schedule of changes in the employers' net pension liability and related ratios, the schedule of the employers' net pension liability, and the schedule of investment returns (collectively the required supplementary information) be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in

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accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the ERS' basic financial statements. The supplementary information included in Schedules 1 through 4 as listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information included in Schedules 1 through 3 has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with generally accepted auditing standards. In our opinion, the supplementary information included in Schedules 1 through 3 is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The information included in Schedule 4 has not been subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated November __, 2026, on our consideration of the ERS' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the ERS' internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the ERS' internal control over financial reporting and compliance.

Honolulu, Hawaii
November __, 2026

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This Management's Discussion and Analysis (MD&A) of the Employees' Retirement System of the State of Hawaii (the ERS) provides highlights and comparisons of the financial position and performance of the ERS as of and for the year ended June 30, 2025. The MD&A is presented as a narrative overview and analysis in conjunction with the Letter of Transmittal, which is included in the Introductory Section of the separately issued ERS Annual Comprehensive Financial Report (the ACFR). For more detailed information pertaining to the ERS' financial activities, the reader should also review the actual financial statements, including the notes and supplementary information.

Overview of the Financial Statements

The ERS is responsible for administering a defined-benefit pension plan for state government, local government, and public education employees in the State of Hawaii (the State).

The ERS' financial statements include fiduciary type funds that are used to account for resources held for the benefit of parties outside of the ERS. The primary fund is defined as a Pension Trust Fund as these assets are held for the benefit of its members and their beneficiaries for the payment of pension benefits. Throughout this discussion and analysis, units of measure (i.e., billions, millions, and thousands) are approximate, being rounded up or down to the nearest tenth of the respective unit value.

This discussion and analysis is intended to serve as an introduction to the ERS' financial reporting, which comprises the following components:

- The two main basic financial statements include the statement of fiduciary net position as of June 30, 2025, and the related statement of changes in fiduciary net position for the fiscal year from July 1, 2024 to June 30, 2025 (FY 2025). These provide a snapshot of the resources available at the end of the fiscal year and a summary of changes in resources available to pay pension benefits to members, retirees, and beneficiaries.

- The related notes to financial statements are an integral part of the basic financial statements and include detailed information that is essential to a full understanding of the data provided in the basic financial statements.

- The required supplementary information, which includes the schedules of changes in the employers' net pension liability and related ratios, employers' net pension liability, and investment returns, and the related notes to required supplementary information, are required to be presented to supplement the basic financial statements for placing the financial statements in an appropriate operational, economic, or historical context.

- The other supplementary information is derived from and relates directly to the underlying accounting and other records used to prepare the financial statements, and provides additional detailed information concerning the changes in operating reserves established by legislation, and the operating and investment related expenses of the ERS. The other supplementary information also includes a report on employer social security contribution amounts for the State that are paid directly to the Internal Revenue Service (IRS). This information is separate from the financial information of the Pension Trust Fund.

Financial Highlights

- The fiduciary net position increased to $24.9 billion as of June 30, 2025, with an increase in funded status during the fiscal year to 62.9%. The ERS' fiduciary net position was $23.7 billion, for a 62.6% funded status as of June 30, 2024.

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- The ERS investment return (net of fees, and contains lagged and non-lagged components) was 5.3% for the 2025 fiscal year compared to 7.2% for the 2024 fiscal year, using the time-weighted rate of return methodologies that are generally accepted by the Global Investment Performance Standards (GIPS) (that is shown in the *Investment Section* of the ACFR). Under Governmental Accounting Standards Board (GASB) Statement No. 67, *Financial Reporting for Pension Plans – an amendment of GASB Statement No. 25*, the annual money-weighted return on ERS' pension plan investments, net of pension plan investment expense, was 6.0% and 6.6% for FY 2025 and FY 2024, respectively.

Effective October 1, 2014, the Board of Trustees of the ERS (the Board) approved the adoption of a change in its asset allocation policy from the asset-class policy to a new risk-based asset allocation framework (with four major asset classes: Broad Growth, Principal Protection, Real Return, and Crisis Risk Offset). Following the completion of the 2019 Asset Liability Study, the Board adopted a new long-term strategic allocation policy, in July 2020, that established two major asset classes of Broad Growth and Diversifying Strategies. Most prevailing classes and sub-classes were renamed and/or reorganized allocations to better align with risk allocations, while a few classes were eliminated as part of this policy update.

As a result of the 2023 Asset-Liability Study, the Board updated the strategic class framework that incorporated new naming conventions and improved definitions of sub-asset classes to better align with the ERS risk allocation and restructured certain invested opportunities to better align with their characteristics. These revisions became effective during the 2024 fiscal year on January 1, 2024. Please refer to Note E.1, *Investment Policy*, for more detailed information on the asset allocation policy.

- During 2025 and 2024, there was no significant legislation passed that significantly affects the operations or provisions of the pension trust.

- Total pension liability as of June 30, 2025 increased to $39.6 billion from $37.8 billion as of June 30, 2024, while the corresponding net pension liability increased to $14.7 billion as of June 30, 2025 from $14.1 billion as of June 30, 2024. Covered payroll for the ERS increased in FY 2025 to $5.3 billion compared to FY 2024 of $4.9 billion for a 6.4% increase.

- The fiduciary net position as a percentage of total pension liability increased to 62.9% from 62.6% as of June 30, 2025 and June 30, 2024, respectively, while the funded ratio on an actuarial basis increased to 63.6% from 63.0%, respectively. The main difference between the two methods is under GASB Statement No. 67 for financial reporting purposes, the fiduciary net position is based only on the market value of assets while under actuarial value for the net assets for funding purposes allows for a four-year market smoothing of assets of net appreciation.

- Contributions from members and employers increased by $112.2 million during FY 2025, or 6.5% from FY 2024. The increase is primarily an increase in covered payroll from an increase in active members and pay increases, more active members being required to contribute, and new employees contributing at higher contribution rates. The historical summary of legislation impacting the ERS actuarial valuations is discussed in more detail in the "Summary of Plan Changes" in the Actuarial Section of the ACFR.

- Total benefit payments increased by $99.4 million, or 5.3% in FY 2025 from FY 2024. Pension benefits continue to increase due to 1.5% more retirees and beneficiaries (56,673 in 2025 compared to 55,820 in 2024), an increase in the average pension benefit for new retirees, and the annual 2.5% or 1.5% postretirement increase paid to most retirees.

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- Administrative expenses increased by $6.0 million to $24.0 million in FY 2025 from $18.0 million in FY 2024. The increase in administrative expenses is primarily the result of an increase in computer related (equipment, cloud and maintenance) and payroll related (retro salaries paid and increase in liabilities for compensated leave absence accrual) costs. Administrative expenses for all years were within the ERS' budgeted amounts.

Analysis of Fiduciary Net Position

Summary of Fiduciary Net Position
June 30, 2025 and 2024
(Dollars in millions)

	2025	2024	FY 2025 % Change
Assets			
Cash and cash equivalents and short-term investments	$ 1,277.8	$ 816.5	56.5 %
Receivables	502.0	352.3	42.5 %
Investments	23,354.2	22,740.8	2.7 %
Invested securities lending collateral	1,018.9	765.6	33.1 %
Equipment, net	1.9	3.0	(36.7) %
Total assets	26,154.8	24,678.2	6.0 %
Liabilities			
Securities lending collateral	1,018.9	765.6	33.1 %
Investment accounts and other payables	210.1	212.0	(0.9) %
Total liabilities	1,229.0	977.6	25.7 %
Fiduciary net position restricted for pensions	$ 24,925.8	$ 23,700.6	5.2 %

Summary of Changes in Fiduciary Net Position
Years Ended June 30, 2025 and 2024
(Dollars in millions)

	2025	2024	FY 2025 % Change
Additions			
Contributions	$ 1,850.6	$ 1,738.4	6.5 %
Net investment income	1,400.9	1,461.9	(4.2) %
Total additions, net	3,251.5	3,200.3	1.6 %
Deductions			
Benefit payments	1,977.9	1,878.5	5.3 %
Refunds of member contributions	24.4	28.6	(14.7) %
Administrative expenses	24.0	18.0	33.3 %
Total deductions	2,026.3	1,925.1	5.3 %
Increase in fiduciary net position restricted for pensions	1,225.2	1,275.2	(3.9) %
Fiduciary net position restricted for pensions:			
Beginning	23,700.6	22,425.4	
Ending	$ 24,925.8	$ 23,700.6	

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Investments, Investment Income, and Investment Expense

The ERS is a long-term investor and manages its pension assets with long-term objectives in mind. A primary element of the ERS' investment philosophy is diversification among various asset classes. The ERS makes estimates of long-term market returns and establishes an asset allocation strategy taking into account the risks associated with each asset class.

Investments for the risk-based allocation policy approved in FY 2015, as revised, based on the type of security for financial reporting are listed below. In 2016, the ERS began using this framework with four major asset classes that shifts the portfolio asset allocation from a return-based process to a risk-based process that makes use of strategic/functional classes that in-turn utilize underlying asset classes and strategies. Each of these classes is designed to achieve a certain goal (e.g., Real Return class) and/or be exposed to a specific set of macroeconomic risks that are common among the different strategy types and/or assets within the class (e.g., Broad Growth class). As a result of this structure, each strategic class is expected to be exposed to a set of major and minor macroeconomic risks. Following a 2019 Asset Liability Study that was completed in FY 2020, the Board adopted a new long-term strategic allocation policy. As part of the long-term strategic policy, the portfolio transitioned to two major asset classes (rather than four). Prevailing classes and sub-classes were remapped to the two major strategic classes where applicable as part of the FY 2020 implementation. As a result of the 2023 Asset-Liability Study, the strategic class framework incorporated new naming conventions and improved definitions of sub-asset classes to better align with the ERS risk allocation and restructured certain invested opportunities to better align with their characteristics. These revisions became effective during the 2024 fiscal year on January 1, 2024. Information about ERS' investment program is available on the ERS website at https://ers.ehawaii.gov/investments/program.

The asset distribution of the ERS' investment securities for the pension trust, excluding pending trade settlements and securities lending collateral, at June 30, 2025 and 2024 are presented below at fair value. Fluctuations will occur based on the trading activity and timing of the settlements. Investment balances between the asset classes will change over time based on market sectors' performance and our rebalancing efforts to maintain asset allocation targets. Please refer to the Investment Section of the ACFR for a discussion on the risk-based methodology, asset allocation plan targets, and investments by investment strategy.

Asset Class
June 30, 2025 and 2024
(Dollars in millions)

	2025	%	2024	%
Cash and cash equivalents and short term investments	$ 1,277.8	5.2%	$ 816.5	3.5%
Equity securities	5,225.5	21.2%	5,277.4	22.4%
Fixed income securities	5,844.8	23.7%	5,200.0	22.1%
Real assets investments	4,786.7	19.4%	4,261.7	18.1%
Alternative investments	7,497.2	30.5%	8,001.7	33.9%
Total investment assets	$ 24,632.0	100.0%	$ 23,557.3	100.0%

As calculated by BNY Mellon, the ERS' custodial bank, the rate of return (net of fees time-weighted rate of returns) on the ERS investment portfolio was a 5.3% return for FY 2025, versus the overall ERS investment target of 7.0%. The Broad Growth asset class returned 8.4% during the fiscal year while the Diversifying Strategies asset class produced a (-2.2%) return. This compares to an overall return on the portfolio of 7.2% in FY 2024. Total net investment income decreased to $1,400.9 million versus $1,461.9 million in FY 2024.

The ERS had positive returns of 8.4% in the Broad Growth asset class including positive returns in global equity (+9.6%) global credit (+8.7%), and real assets (+5.7%). During FY 2025 the Diversifying Strategies returned (-2.2%) led by positive returns in illiquid diversifying (+2.6%), that offset negative returns in liquid defensive/diversifying (-

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2.9%). A summary of investment returns (by sub-component of the risk-based allocation) is included within the *Report on Investment Activity by Investment Consultant* that is located in the Investment Section of the ACFR.

The ERS participates in a securities lending program through its global custodian as a way to earn incremental income to enhance the investment portfolio yield.

Investment expenses includes investment management fees paid to external investment advisor firms that oversee the ERS' investment portfolio. Total investment management fees earned by external investment advisors decreased slightly in FY 2025 from FY 2024 due to lower investment earnings. Investment advisor fees include incentive fees for superior investment returns by the manager above their corresponding benchmark, while maintaining an acceptable level of investment risk. The ERS requires external managers to provide the ERS with a "most favored nations" contract clause that guarantees the ERS with the lowest management fees the managers offer their clients for investment accounts with similar investment mandates and similar account size.

Contributions

Contributions from employers and employees totaled $1,850.6 million and $1,738.4 million in FY 2025 and FY 2024, respectively. During FY 2025, total contributions increased by $112.2 million, or 6.5%, primarily from pay raises that resulted in an increase in covered payroll from an increase in active members and pay increases, more active members being required to contribute, and new employees contributing at higher rates.

Pension Plan Benefits and Expenses

Pension benefit payments continue to be the primary deduction of the ERS with payments increasing to $1,977.9 million in FY 2025 from $1,878.5 million in FY 2024. The pension benefits increase is attributed to the continued net increase in the number of retirees being paid, higher pension benefits for recent retirees, and the annual postretirement increase for ERS' retirees.

Refunds to terminating hybrid and contributory class members decreased to $24.4 million in FY 2025 from $28.6 million in FY 2024.

Administrative expenses increased to $24.0 million in FY 2025 from $18.0 million in FY 2024 as a result of an increase in computer related (cloud, equipment, and repairs) and personnel related (retroactive salaries and wages and an increase in accrued compensated sick and vacation leave absence liabilities) costs.

Pension Plan Changes

There was no significant legislation passed in 2025 and 2024 that affects pension plan provisions. Pension plan changes, including legislative and the Board's actions, are summarized in the Introductory Section and Actuarial Section of the ACFR.

Actuarial Valuations and Measurement of Net Pension Liability

The funding status increased during FY 2025 on the fiduciary net position (market asset basis) to 62.9% as of June 30, 2025 from 62.6% as of June 30, 2024.

During FY 2025, the ERS' investment portfolio earned 5.3% based on the market value of assets. This compares to rate of return for the actuarial value of 6.5% in FY 2025, which is different than the market return calculation due to the smoothing methodology used in the determination of the actuarial value of assets.

The total pension liability for fiscal year ended June 30, 2025 is based on the actuarial valuation performed as of June 30, 2025 and a measurement date of June 30, 2025.

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Per the valuation as of June 30, 2025, the ERS' total pension liability was $39.6 billion, covered payroll was $5.3 billion and the ERS' fiduciary net position was $24.9 billion, resulting in a net pension liability of $14.7 billion. The ERS' fiduciary net position as a percentage of total pension liability was 62.9% and 62.6% as of June 30, 2025 and 2024, resulting in the net pension liability as a percentage of covered payrolls of 279.1% and 285.9%, respectively. The increase in pension liabilities is the result of an experience study performed as of June 30, 2024 which reflected increases in payroll and individual salaries.

Based on the results of the actuarial valuation as of June 30, 2025, including existing statutory employer contribution rates, the ERS actuary determined that the funding period for paying off the unfunded actuarial accrued liability (UAAL) of the ERS Pension Trust decreased to 21 years from 22 years as of June 30, 2025. Because this period is less than the 24 years, the objectives set in Hawaii Revised Statutes (HRS) are currently being realized. HRS§88-122(e)(1) state that the employer contribution rates are subject to adjustment when the funding period is in excess of the statutory requirement, currently 24 years for June 30, 2025. (Per Act 192, SLH 2024, decreased the maximum funding period from 30 years to 25 years effective June 30, 2024. In addition, the maximum funding period will decrease by 1 each year in the future until the maximum funding period reaches 20 years effective June 30, 2029, at which point it will continue to be 20 years for all future years.)

The actuarial assumptions and changes to the assumptions are discussed in Note F, *Pension Liability*, and in the required supplementary information – Unaudited section. The Actuarial Section in the ACFR contains more information on changes to the actuarial assumptions.

Requests for Information

This financial report is designed to provide a general overview of the ERS' finances. For questions concerning any information in this report or for additional information, contact the Employees' Retirement System of the State of Hawaii, 201 Merchant Street, Suite 1400, Honolulu, Hawaii 96813.

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Employees' Retirement System of the State of Hawaii
Statement of Fiduciary Net Position
June 30, 2025

Assets		
Cash and cash equivalents and short-term investments:		
Cash and cash equivalents	$	65,388,878
Short-term investments		1,212,439,859
		1,277,828,737
Receivables		
Employer and member contributions		330,227,213
Investment sales proceeds		123,112,167
Accrued investment income		44,979,369
Accounts receivable and other		3,647,251
		501,966,000
Investments, at fair value		
Equity securities		5,225,471,302
Fixed income securities		5,844,803,600
Real assets investments		4,786,724,544
Alternative investments		7,497,209,137
		23,354,208,583
Other assets		
Invested securities lending collateral		1,018,899,592
Equipment, at cost, net of depreciation		1,898,766
		1,020,798,358
Total assets		26,154,801,678
Liabilities		
Accounts and other payables		91,490,886
Payable for securities purchased		118,605,407
Securities lending collateral		1,018,899,592
Total liabilities		1,228,995,885
Fiduciary net position restricted for pensions	$	24,925,805,793

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The accompanying notes are an integral part of the financial statements.

Employees' Retirement System of the State of Hawaii
Statement of Changes in Fiduciary Net Position
Year Ended June 30, 2025

Additions		
Contributions		
Employer contributions	$	1,479,559,382
Member contributions		371,067,993
Total contributions		1,850,627,375
Investment income		
From investing activities:		
Net appreciation in fair value of investments		754,001,685
Interest on fixed income securities		395,273,383
Alternative investment income		293,974,799
Dividends on equity securities		66,530,979
Income on real assets investments		47,161,779
Interest on short-term investments		14,624,298
Miscellaneous		193,118
		1,571,760,041
Less investment expenses		175,099,189
Net investment income from investing activities		1,396,660,852
From securities lending activities:		
Securities lending income		51,938,628
Less: securities lending expenses, net		47,724,887
Net investment income from securities lending		4,213,741
Total net investment income		1,400,874,593
Total additions, net		3,251,501,968
Deductions		
Benefit payments		1,977,937,411
Refunds of member contributions		24,367,929
Administrative expenses		24,023,191
Total deductions		2,026,328,531
Net increase in fiduciary net position		1,225,173,437
Fiduciary net position restricted for pensions		
Beginning of year		23,700,632,356
End of year	$	24,925,805,793

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The accompanying notes are an integral part of the financial statements.

Note A – Description of the ERS

1. General

The Employees' Retirement System of the State of Hawaii (the ERS) began operations on January 1, 1926, having been established by the Territorial Legislature in the preceding year. The provisions of the ERS are contained in Chapter 88 of the Hawaii Revised Statutes (HRS) and applicable provisions of the federal Internal Revenue Code. The ERS is a cost-sharing, multiple-employer public employee retirement system established as a defined benefit pension plan to administer a pension benefits program for all State and county employees, including teachers, professors, police officers, firefighters, correction officers, judges, and elected officials.

The ERS is a qualified defined-benefit pension plan under Section 401(a) of the Internal Revenue Code. Since January 1, 1988, member contributions have been tax deferred under Section 414(h)(2) of the Internal Revenue Code, and Chapter 88 of the HRS (Chapter 88, HRS) mandates that employers pick up the employee contributions. These contributions are classified as member contributions in the financial statements. As a public entity, the ERS is not required to file a federal income tax return with the Internal Revenue Service. As a defined-benefit pension plan, the ERS is required to withhold federal income tax from member and benefit recipient payments in accordance with the Internal Revenue Code.

The ERS Pension Trust is comprised of three pension classes for membership purposes and considered to be a single plan for accounting purposes because all assets of the ERS may legally be used to pay the benefits of any of the ERS members or beneficiaries, as defined by the terms of the ERS. The ERS provides retirement, survivor, and disability benefits for three membership classes known as the contributory, hybrid, and noncontributory members.

Generally, all full-time employees of State and counties of Hawaii are required to be members of the ERS. Some positions of the State and counties of Hawaii are not eligible for ERS membership and may be covered by another separate retirement program. Membership of the plan and the benefits provided are based on the individual's employment group and ERS membership date. A member may belong to only one class based on their latest employment. A member may change classes in certain situations due to a change in their employment date or job classification. If a member earns service in different classes or benefit structures, the member's retirement benefit is bifurcated based on the applicable membership service earned (such as service credits and benefit multiplier percentage of such service).

The two major employment groups applicable to employer and member contribution rates, vesting requirements, and benefit provisions are (a) police and fire and (b) all other employees. There are four major benefit structures for contributory class members based on employment group and membership date while there are two benefit structures for hybrid class members based on their membership date as discussed below. The noncontributory class has one benefit structure.

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Employer, pensioner, and employee membership data as of March 31, 2025 are as follows:

Employers	
State	1
County	4
Total employers	5
Pensioners and beneficiaries currently receiving benefits:	
Pensioners currently receiving benefits:	
Police and fire	4,408
All other employees	46,659
Total pensioners	51,067
Beneficiaries currently receiving benefits:	
Police and fire	459
All other employees	5,147
Total beneficiaries	5,606
Total pensioners and beneficiaries currently receiving benefits	56,673
Terminated vested members entitled to benefits but not yet receiving benefits	
Police and fire	220
All other employees	8,472
Total terminated vested members	8,692
Inactive members	
Police and fire	1,080
All other employees	29,330
Total inactive members	30,410
Total terminated vested and inactive members	39,102
Active members	
Vested	
Police and fire	2,959
All other employees	30,687
Total vested members	33,646
Nonvested	
Police and fire	1,872
All other employees	31,308
Total nonvested members	33,180
Total active members	66,826
Total membership	162,601

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2. The Financial Reporting Entity

As required by accounting principles generally accepted in the United States of America (GAAP), these financial statements present the ERS (the primary government) as a separate reporting entity from the State of Hawaii (the State). The ERS is not part of the State's financial reporting entity because it is a separate legal entity that is fiscally independent of the State. The ERS was established by Chapter 88, HRS and is governed by a Board of Trustees (the Board) as discussed below.

The Board administers the ERS on behalf of public employees of both the State and county governments. Except for limited administrative functions, the State does not have the power to supervise or control the Board in the exercise of its functions, duties, and powers. The Board consists of eight members. The State Director of Finance is a statutory member of the Board. Four members of the Board are elected by members and retirants of the ERS and the other three members of the Board are appointed by the Governor. Decisions are made with the concurring vote of five members of the Board. The Board appoints the Executive Director and Chief Investment Officer and engages actuarial and other services required to transact the business of the ERS.

3. Class Descriptions and Funding Policy

Members of the ERS are contributory, hybrid, or noncontributory members. All assets of the ERS (in the Pension Trust) may be used to pay benefits to any member of the ERS. Contribution rates are determined by state law as a percentage-of-payroll.

The statutory employer contribution rate includes the normal cost and accrued liability contribution and is determined separately for two groups of employees: (a) police and fire and (b) all other employees. Employer contribution rates are subject to adjustment in certain situations based on the Pension Trust's funded status or actuarial investigations. The ERS performs an actuarial investigation of the experience at least once every three years, plus an annual actuarial valuation of the assets and liabilities of the funds of the Pension Trust. The Board adopts mortality, service, and other assumptions, factors, and tables as deemed appropriate and necessary, based on the actuarial investigation and actuary recommendation. The actuarial assumptions have been revised since the prior valuation to reflect the most recent experience study dated August 5, 2025. These changes in actuarial assumptions, primarily to projected salary increases and mortality rates, increased total pension liability by approximately $170 million while the investment return assumption was adopted beginning with the 2016 valuation. See the Actuarial Section in the separately issued ERS Annual Comprehensive Financial Report (the ACFR) for all actuarial assumptions used.

Effective July 1, 2008, the statutory employer contribution rate for employees in the police and fire group (Police and Fire) increased from 15.75% to 19.70%, and the rate for employees in the all other employees group (All Other Employees) increased from 13.75% to 15.00%. Per legislation passed in 2011, the rate for Police and Fire increased to 22.00% on July 1, 2012; 23.00% on July 1, 2013; 24.00% on July 1, 2014; and 25.00% on July 1, 2015, and the rate for All Other Employees increased to 15.50% effective July 1, 2012; 16.00% effective July 1, 2013; 16.50% effective July 1, 2014; and 17.00% effective July 1, 2015. These employer contribution rates are applied to the total covered payroll in each respective group to determine the required employer contributions. Administration of the Pension Trust is financed through contributions from the employers and employees (if applicable) and investment earnings.

Per Act 17 (SLH 2017), employer contribution rates from the State and counties increased pursuant to a phased-in contribution rate increase over four years beginning July 1, 2017. The rate for Police and Fire increased to 28.00% on July 1, 2017; 31.00% on July 1, 2018; 36.00% on July 1, 2019; and 41.00% on July 1, 2020; and the rate for All Other Employees increased to 18.00% on July 1, 2017; 19.00% on July 1, 2018; 22.00% on July 1, 2019; and 24.00% on July 1, 2020.

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Effective July 1, 2012, employers may be required to make additional employer contributions to the ERS in certain situations. This legislation requires employers to pay additional contributions if a retiring employee, who was first employed prior to July 1, 2012 and who was last employed by the employer, has significant non-base pay increases included in their average final compensation. The additional contribution is equal to the actuarial present value of the additional benefits earned due to the "excessive" non-base pay increases.

Until June 30, 1984, all employees were required to be contributory members. Employees covered by Social Security on June 30, 1984 were given the option of changing to a noncontributory member or remain a contributory member. All new employees hired after June 30, 1984 and before July 1, 2006, who are covered by Social Security, were generally required to be noncontributory members. Qualified employees that were contributory or noncontributory members were given the option to change to a hybrid class benefits structure effective July 1, 2006, or remain in their existing class. Starting July 1, 2006, all new employees covered by Social Security are required to be hybrid members, unless they are required to be contributory members. Most employees not covered by Social Security (primarily Police and Fire employees) are required to be contributory members.

The three membership classes provide a monthly retirement allowance (maximum allowance) equal to the benefit multiplier % (generally 1.25% to 2.25%), multiplied by the average final compensation (the AFC), multiplied by years of credited service. If a member earns service in a different benefit structure, the member's retirement benefit is bifurcated based on the applicable membership service earned (such as service credits and benefit multiplier percentage of such service). In lieu of the maximum allowance, the member may elect to receive an actuarially equivalent alternate retirement option with a reduced lifetime allowance (such as survivor benefit).

The AFC is the average salary earned during the five highest paid years of service, including the payment of salary in lieu of vacation, or three highest paid years of service, excluding the payment of salary in lieu of vacation, if the employee became a member prior to January 1, 1971. The AFC for members hired on or after this date, and before July 1, 2012, is based on the three highest paid years of service excluding the payment of salary in lieu of vacation. For new members hired after June 30, 2012, the AFC is based on the five highest paid years of service excluding the payment of salary in lieu of vacation.

For postretirement increases, every retiree's original retirement allowance is increased by 2.50% on each July 1 following the calendar year of retirement, if the retiree became an ERS member prior to July 1, 2012. This cumulative benefit is not compounded and increases each year by 2.50% of the original retirement allowance without a ceiling (2.50% of the original retirement allowance the first year, 5.00% the second year, 7.50% the third year, etc.). For new members hired after June 30, 2012, the postretirement annuity increase was decreased to 1.50% per year of the original retirement allowance without a ceiling (1.50% of the original retirement allowance the first year, 3.00% the second year, 4.50% the third year, etc.).

The following summarizes the provisions relevant to the largest employee groups of the respective membership class. Retirement benefits for certain groups, such as sewer workers, judges, and elected officials, vary from general employees.

All contributions, benefits, and eligibility requirements are governed by Chapter 88, HRS. For a more detailed summary of benefits for employees and a description of special provisions to groups of employees, refer to the Summary of Retirement Benefit Plan Provisions contained in the Introductory Section of the ACFR. All of the statutory member contributions discussed in this section are classified as "member contributions" in accordance with GASB Statement No. 82, *Pension Issues – an amendment of GASB Statements No. 67, No. 68, and No. 73*.

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Contributory

Police officers, firefighters, and certain other members that are not covered by Social Security first hired prior to July 1, 2012 contribute 12.20% of their salary and receive a retirement benefit using the benefit multiplier of 2.50% for qualified service, up to a maximum of 80% of the AFC. These members may retire at age 55 with 5 years of credited service or at any age with 25 years of credited service, provided the last 5 years of credited service is any of the qualified occupations.

Police officers, firefighters, and certain other members that are not covered by Social Security first hired after June 30, 2012 contribute 14.20% of their salary and receive a retirement benefit using the benefit multiplier of 2.25% for qualified service, up to a maximum of 80% of the AFC. These members may retire at age 60 with 10 years of credited service or at age 55 with 25 years of credited service, provided the last 5 years of credited service is any of the qualified occupations.

All other employees hired prior to July 1, 2012 are required to contribute 7.80% of their salary and are fully vested for benefits upon receiving 5 years of credited service. Contributory members may retire with full benefits at age 55 and 5 years of credited service. They may take early retirement at any age with at least 25 years of credited service and receive benefits reduced 5.00% per year under age 55 plus 4.00% per year under age 50. The benefit multiplier is 2.00% for employees covered by Social Security.

All other employees in the contributory class hired after June 30, 2012 are required to contribute 9.80% of their salary and are fully vested for benefits upon receiving 10 years of credited service. These members may retire with full benefits at age 60 and 10 years of credited service. Members may take early retirement at age 55 with 25 years of credited service and receive benefits reduced by 5.00% per year under age 60. The benefit multiplier is 1.75% for employees covered by Social Security.

Hybrid

All other employees hired before July 1, 2012 are required to contribute 6.00% of their salary and are fully vested for benefits upon receiving 5 years of credited service. Employees may retire with full benefits at age 62 and 5 years of credited service or at age 55 and 30 years of credited service. Early retirement benefits are available at age 55 and 20 years of credited service with benefits reduced by 5.00% per year under age 62. The benefit multiplier used to calculate retirement benefits is 2.00%. Hybrid members are covered by Social Security.

All other employees hired after June 30, 2012 are required to contribute 8.00% of their salary and are fully vested for benefits upon receiving 10 years of credited service. Employees may retire with full benefits at age 65 and 10 years of credited service or at age 60 and 30 years of credited service. Early retirement is available at age 55 and 20 years of credited service with benefits reduced 5.00% per year under age 65. The benefit multiplier used to calculate retirement benefits is 1.75%. Hybrid members are covered by Social Security.

Noncontributory

All other employees are fully vested upon receiving 10 years of credited service and are covered by Social Security. The employer is required to make all contributions for these members. Employees may retire with full benefits at age 62 and 10 years of credited service or age 55 and 30 years of credited service. Early retirement is available at age 55 and 20 years of credited service with benefits reduced by 6.00% per year under age 62. The benefit multiplier used to calculate retirement benefits is 1.25%.

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Ordinary disability retirement benefits require a minimum of 10 years of service, whereas service-connected disability resulting from a job-related accident does not have any service requirement. There is no age requirement to qualify for disability benefits.

Ordinary death benefits for contributory and noncontributory members require at least one year and 10 years of service, respectively. Ordinary death benefits for hybrid members require five years of service if hired prior to July 1, 2012 or 10 years of service if hired after June 30, 2012. There is no service requirement to qualify for service-connected death benefits.

4. The ERS as Employer

As an employer, the ERS participates in its pension benefits program, through the State. The ERS provides benefits for all of its full-time employees as contributory, hybrid, or noncontributory membership. Contributions are calculated as part of the State's total contribution requirements and are reimbursed to the State's General Fund as part of the fringe benefit rate on the ERS' employees' actual salaries.

5. Other Post Employment Benefits (OPEB)

In addition to the retirement benefits provided by the ERS Pension Trust, the participating employers, pursuant to Chapter 87A, HRS, provide certain healthcare and life insurance benefits for State and county qualified employees and retirees. The Hawaii Employer-Union Health Benefits Trust Fund (the EUTF) was established on July 1, 2003 to design, provide, and administer health benefits plans and a group life insurance benefits program for State and county employees and retirees.

Under Section 87A-33 of the HRS, the participating employers pay the EUTF a base monthly contribution for the health benefits plans of certain retired employees, including those who were hired before July 1, 1996 and retired after June 30, 1984, with 10 or more years of credited service.

Under Section 87A-34 of the HRS, the participating employers pay the EUTF one-half of the base monthly contribution for the health benefits plans of retired employees who were hired before June 30, 1996, and retired after June 30, 1984, with fewer than 10 years of credited service.

Under Sections 87A-35 and 87A-33(a)(6) of the HRS, the participating employers pay the EUTF for the health benefits plans of retired employees who were hired after June 30, 1996 but before July 1, 2001: (a) one-half of the base monthly contribution if the employee retired with between 10 and 15 years of credited service; (b) 75% of the base monthly contribution if the employee retired with between 15 and 25 years of credited service; and (c) 100% of the base monthly contribution if the employee retired with 25 or more years of credited service.

Under Section 87A-36 of the HRS, the participating employers pay the EUTF for the health benefits plans of retired employees who were hired after June 30, 2001: (a) one-half of the base monthly contribution for a self-only plan if the employee retired with between 10 and 15 years of credited service; (b) 75% of the base monthly contribution for a self-only plan if the employee retired with between 15 and 25 years of credited service; and (c) 100% of the base monthly contribution for a self-only plan if the employee retired with 25 or more years of credited service.

The net assets of the EUTF are not included in the ERS Pension Trust net assets. The EUTF issues a financial report that includes financial statements and required supplementary information.

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Note B – Summary of Significant Accounting Policies

A summary of the significant accounting policies consistently applied in the preparation of the accompanying financial statements follows:

1. Basis of Accounting

Fiduciary funds are used to account for assets held by the ERS in a trustee capacity or as an agent for other governments, and/or other funds. The fiduciary fund type used by the ERS is a Pension Trust Fund. The fiduciary fund is considered a separate fiscal and accounting entity with a self-balancing set of accounts that comprise its assets, liabilities, equity, revenues and expenditures, or expenses, as appropriate. The accounting and reporting treatment applied to a fund is determined by its measurement focus. The Pension Trust Fund is accounted for on a flow of economic resources measurement focus.

The financial statements are prepared in conformity with GAAP using the accrual basis of accounting. Administrative expenses are financed exclusively with investment income.

2. Cash Equivalents

All highly liquid investments with an original maturity of three months or less when purchased are considered to be cash equivalents.

3. Investments

The ERS' investment policy, including the legal authority, is discussed in Note E.1, *Investment Policy*. Investments are reported at fair value. Refer to Note E.3, *Investments*, for the ERS' fair value disclosures.

Purchases and sales of securities are recorded on a trade-date basis. Interest income is recorded on the accrual basis. Dividend income is recorded on the ex-dividend date.

Realized and unrealized gains and losses are recorded in the accompanying financial statements based on the difference between the fair value of assets at the beginning of the fiscal year, or at the time of purchase for assets purchased during the fiscal year, and the related fair value on the day investments are sold with respect to realized gains and losses, or on the last day of the fiscal year for unrealized gains and losses.

4. Revenue Recognition - Contributions

Contributions from employers and members are recognized in the period in which the contributions are legally due.

5. Payment of Benefits

Benefits and refunds are recognized when due and payable in accordance with the terms of the Pension Trust.

6. Securities Lending

The ERS records collateral received under securities lending agreements where the ERS has the ability to spend, pledge, or sell the collateral without borrower default. Liabilities resulting from these transactions are also recorded. Additionally, costs associated with securities transactions, broker commissions paid, and lending agent management fees are reported as investment expenses in the accompanying financial

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statements. The statement of fiduciary net position does not include detailed holdings of securities lending collateral by investment classification.

7. Interest and Earnings Allocation

Pursuant to Sections 88-21 and 88-107 of the HRS, the Board shall annually allocate interest and other earnings of the Pension Trust Fund, as follows:

a) *Annuity Savings Reserves* – Fixed at 4.50% regular interest rate for employees hired before July 1, 2011 and 2.00% regular interest rate for employees hired after June 30, 2011.

b) *Expense Reserves* – To be credited with all money to pay the administrative expenses of the ERS.

c) *Pension Accumulation Reserves* – To be credited with any remaining investment earnings.

8. Risk Management

The ERS reports liabilities, as discussed in Note G, *Risk Management*, related to certain types of losses (including torts, theft of, damage to, or destruction of assets, errors or omissions, workers' compensation, and acts of terrorism) when it is probable that the losses have occurred and the amount of those losses can be reasonably estimated.

9. Use of Estimates

In preparing financial statements in conformity with GAAP, management is required to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from those estimates.

Investments in limited partnerships and other alternative investments are illiquid and the underlying assets are generally not publicly traded companies. Because of the inherent uncertainty in valuing privately held securities, the fair value may differ from the values that would have been used had a ready market for such securities existed, and the difference can be material. Accordingly, the realized value received upon the sale of the asset may differ from the recorded fair value.

The total pension liability is based on actuarial valuation calculations that incorporate various actuarial and other assumptions, including discount rate, mortality, investment rate of return, inflation and payroll growth. The actuarial assumptions were based on the results of an experience study dated August 5, 2025.

10. Recently Issued or Adopted Accounting Pronouncements

GASB Statement No. 101

During fiscal year 2025, the ERS implemented GASB Statement No. 101, *Compensated Absences*. The primary objective of this statement is to better meet the information needs of financial statement users by updating the recognition and measurement guidance for compensated absences. This statement requires recognition of a liability for compensated absences that (1) is attributed to services already rendered; (2) accumulates; and (3) is more likely than not to be used for time off or otherwise paid or settled. Implementation of this statement did not have a material effect on the ERS' financial statements for the year ended June 30, 2025.

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GASB Statement No. 102

During fiscal year 2025, the ERS implemented GASB Statement No. 102, *Certain Risk Disclosures.* The primary objective of this statement is to provide users of government financial statements with information about risks related to a government's vulnerabilities due to certain concentrations or constraints that is essential to their analyses for making decisions or assessing accountability. The requirements of this statement did not have a material effect on the ERS' financial statements.

GASB Statement No. 103

The GASB issued Statement No. 103, *Financial Reporting Model Improvements*. The primary objective of this statement is to improve key components of the financial reporting model to enhance its effectiveness in providing information that is essential for decision making and assessing a government's accountability. The requirements of this statement are effective for reporting periods beginning after June 15, 2025. The ERS is currently evaluating the impact that this statement will have on its financial statements.

GASB Statement No. 104

The GASB issued Statement No. 104, *Disclosure of Certain Capital Assets*. The primary objective of this statement is to provide users of government financial statements with essential information about certain types of capital assets. The requirements of this statement are effective for reporting periods beginning after June 15, 2025. The ERS is currently evaluating the impact that this statement will have on its financial statements.

GASB Statement No. 105

The GASB issued Statement No. 105, *Subsequent Events*. The primary objective of this statement is to improve the financial reporting requirements for subsequent events, thereby enhancing consistency in their application and better meeting the information needs of financial statement users. The requirements of this statement are effective for reporting periods beginning after June 15, 2026. The ERS is currently evaluating the impact that this statement will have on its financial statements.

Note C – Description of Reserves

Section 88-109 of the HRS requires the establishment and maintenance of specific reserves within the ERS. The ERS Pension Trust Fund and its investment earnings, is a qualifying pension plan under Section 401(a) of the U.S. Internal Revenue Code that is exempt from taxation under Section 501(a). The reserves in the Pension Trust Fund and their purposes are described hereunder:

1. Pension Accumulation Reserves

To accumulate contributions made by the State and counties (except member contributions "picked up" as employer contributions pursuant to IRC Section 414(h)(2)), transfers of retired members' contributions plus related interest income from the Annuity Savings Reserves and income from investments. All pension benefits, including the pensioners' bonus, are paid through this reserve.

2. Annuity Savings Reserves

To accumulate members' contributions (including member contributions "picked up" as employer contributions pursuant to IRC Section 414(h)(2)) and related interest income. Upon a member's retirement, the accumulated contributions and related interest income are transferred to the Pension Accumulation Reserves or refunded to the member upon termination.

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3. Expense Reserves

To pay all the expenses necessary in connection with the administration and operation of the ERS, the Board estimates the amount of money necessary to be paid into the expense reserve for the ensuing biennium to provide for the expense of operation of the ERS, and pays that amount into the expense account from the investment earnings of the ERS, subject to review by the legislature and approval by the Governor.

Fiduciary net position restricted for pensions as of June 30, 2025 are as follows:

Pension accumulation reserves	$	20,666,278,217
Annuity savings reserves		4,247,650,480
Expense reserves		11,877,096
Total fiduciary net position restricted for pensions	$	24,925,805,793

Note D – Contributions

The ERS' funding policy provides for periodic employer contributions expressed as a percentage of annual covered payrolls. The funding method used to calculate the total employer contribution required is the entry age normal actuarial cost method. Employer contributions are governed by Chapter 88, HRS. The actuarially determined contribution rates may differ from the statutory contribution rates.

Employer rates are set by statute based on the recommendation of the ERS actuary resulting from an experience study conducted every three years. Employer contribution rates are a fixed percentage of compensation, including the normal cost plus amounts required to pay for the unfunded actuarial accrued liabilities. See Note A.3*, Class Descriptions and Funding Policy*, for the effective statutory employer contribution rates.

The employer normal cost is the level percentage of payroll contribution required to pay all benefits. Actuarial gains and losses resulting from differences between actual and assumed experience are reflected in the employer unfunded accrued liability.

Effective July 1, 2012, the last employer is required to make "additional contributions" to the ERS for employees that first became ERS members before July 1, 2012 and retire after June 30, 2012, if the member has "excessive" non-base pay during the last 10 years of employment. The additional contributions are based on the increased costs of the actuarial equivalent increase in pension benefits the member will be paid in retirement compared to the pension benefits that would be paid if the member did not have excess non-base pay in their AFC amount.

Member contribution rates are statutorily established in accordance with Chapter 88, HRS, and are discussed in Note A.3, *Class Descriptions and Funding Policy*. Since 1988, participating employers "pick up" ERS member contributions made by payroll deduction as "employer contributions" for tax purposes under IRC section 414(h)(2). These contributions are classified as member contributions being paid by the member for ERS purposes.

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Note E – Deposits and Investment Disclosures

1. Investment Policy

Investments are governed pursuant to Sections 88-119 and 88-119.5 of the HRS. The Pension Trust Fund may invest in real estate loans and mortgages; preferred and common stocks; government obligations; corporate obligations; certain other debt obligations (such as obligations secured by collateral of certain other authorized securities listed here, obligations issued or guaranteed by certain development banks, and insurance company obligations); real property; alternative investments; and other securities and futures contracts. Investments in the securities lending collateral pool are limited to investment grade, short-term marketable securities.

The investment decisions are further dictated by the Investment Policy Statement, internal investment policies and asset allocation established by the Board. As a long-term investor, the ERS has established through its investment policy that preservation of capital is the primary goal of the ERS. Preservation of capital is to be attained with a consistent, positive return for the fund by diversifying the investment portfolio. The ERS recognizes risk associated with individual securities or asset classes may be reduced through diversification. Investments will be prudent and consistent with the best investment practices, in accordance with the Board's asset allocation strategy, assigned investment mandate, and in compliance with Chapter 88, HRS, as amended.

Use of leverage is restricted to certain asset classes in order to enhance yields of approved investments and/or to facilitate diversification of the portfolio. The use of debt must result in positive leverage where cash flow is in excess of debt service. Plan assets are managed on a total return with the long-term objective of achieving and maintaining a fully funded status basis (when combined with receiving the required employer and member contribution requirements) for the benefits provided through the Pension Trust. As part of the investment policy, the Board reviews the asset allocation annually and should perform a formal asset allocation study at least every three years to verify or amend the targets.

The targets are designed to achieve a certain level of return, and associated level of risk, that is aligned with the plan's goals and objectives. The targets are evaluated on the basis of assets designated to each strategic class by the Board, rather than on a current invested position. The targets are pursued primarily by cash flow on a long-term basis and if significant changes occur within the economic and/or capital market environment according to the rebalancing guidelines. The targets are to be reviewed annually for reasonableness relative to significant economic and market changes.

The Board initiated and completed an asset-liability study during fiscal year 2023. As a result of the 2023 Asset-Liability Study, the Board adopted a new long-term strategic allocation policy which became effective on January 1, 2024. The new long-term strategic allocation policy maintained the two major strategic classes that were adopted as a result of the asset-liability study that began in fiscal year 2019 and have been in place since July 2020. In addition, the strategic class framework incorporated new naming conventions and improved definitions of sub-asset classes to better align with the ERS risk allocation and restructured certain invested opportunities to better align with their characteristics, while a few sub-classes were eliminated.

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As of June 30, 2025, the ERS was strategically invested in the following classes:

	Strategic Allocation (functional/risk-based classes) [1, 2, 3]
Broad Growth	70.0%
Diversifying Strategies	30.0%
Total	100.0%

[1] Uses an expected inflation of 2.3%.
[2] The strategic allocation is supported by a multitude of underlying sub-asset classes.
[3] Actual allocations varied.

The ERS utilizes two high-level strategic classes (Broad Growth and Diversifying Strategies) for allocating assets and managing risk within the total portfolio. Both of these strategic classes contain sub-components that in-turn utilize asset classes and/or specific strategies for implementation. The Broad Growth class utilizes three sub-components (Global Equity, Global Credit, and Real Assets) which are ultimately invested in public and private equity, public and private credit, real estate, agriculture, timber, and infrastructure. The Diversifying Strategies class is designed to be uncorrelated to the Broad Growth class and it utilizes two sub-components (Liquid Defensive/Diversifying and Illiquid Diversifying). The Diversifying Strategies class utilizes a multitude of asset classes and strategies, including defensive return capture, discretionary alpha, intermediate and long duration treasury, systematic trend following, idiosyncratic return capture, and insurance linked assets, among others. The ERS may also hold opportunities and other investments if they are determined to be additive to the portfolio's risk/return posture.

Based on the 2023 asset-liability study and updated capital markets assumptions (as of June 30, 2025), the total fund was positioned to achieve a long-term return of approximately 7.3% with an annualized volatility of approximately 11.1% over a horizon of 10-20 years. The resulting long-term strategic allocation policy came into effect in January 2024 (updated for 2025). The ERS will strategically invest in the following strategic asset classes:

Strategic Allocation (risk-based classes)	Strategic Class Weights	Expected Long-Term Geometric Average Return[1]	Expected Volatility
Broad Growth	70.0%	8.2%	15.8%
Diversifying Strategies	30.0%	4.5%	5.2%
Total portfolio	100.0%	7.3%	11.1%

[1] Uses an expected inflation of 2.3%

Rate of Return

For the year ended June 30, 2025, the annual money-weighted return on pension plan investments, net of pension plan investment expense, was 6.0%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for changing amounts actually invested.

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2. Cash and Cash Equivalents

Cash and cash equivalents include amounts in demand deposits for operations and invested funds held by ERS investment managers. The deposits are held in several financial institutions, including the custodian bank for processing investment transactions. Per State statute, deposits held by banks located in the State, in excess of Federal Deposit Insurance Corporation (FDIC) coverage are guaranteed by securities pledged as collateral by the bank with the State Director of Finance. Uninsured and uncollateralized amounts are primarily cash held by the investment custodian for settlement of investment transactions. Deposits are presented in the basic financial statements at cost, which represent market or fair value.

Custodial credit risk for deposits is the risk that in the event of a bank failure, the ERS' deposits may not be returned to them. The ERS has not adopted a formal policy specific to custodial credit risk. The ERS' policy is to deposit cash in excess of operating requirements in income producing investments to maximize investment income.

At June 30, 2025, the carrying amount of deposits totaled $65,388,878, and the corresponding bank balance was $75,515,969, of which $10,819,791 was exposed to custodial credit risk.

3. Investments

The following table shows the ERS' investments by investment type at fair value as of June 30, 2025:

Short-term investments		
Short-term bills and notes	$	5,917,597
Pooled and others		1,206,506,967
Equity securities		
Common stocks		3,753,789,005
Equity funds		1,458,912,561
Preferred shares and other		12,769,736
Fixed income securities		
U.S. Treasury bonds and notes		2,304,924,582
U.S. government agencies bonds		25,526,564
U.S. government-sponsored agency mortgage backed		375,319,163
U.S. government agency mortgage backed		45,186,626
U.S. corporate bonds		38,662,135
Non-U.S. corporate bonds		3,046,505
Fixed income funds		3,048,938,520
Derivative financial instruments		
Forwards - cash and short-term instruments		15,295
Futures and swaps - debt securities		3,199,505
Real assets investments		4,786,724,544
Alternative investments		7,497,209,137
Total investments	$	24,566,648,442
Short-term investments for securities lending collateral pool	$	1,018,899,592

Investments are measured at fair value. The ERS categorizes its fair value measurements within the fair value hierarchy established by GAAP. Fair value is a market-based measurement of the price that would be

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received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. A fair value measurement assumes that a transaction to sell an asset or transfer a liability takes place in either the principal market or most advantageous market (after taking into account transaction costs and transportation costs).

The fair value hierarchy categorizes the inputs to valuation techniques used to measure fair value into three levels. The hierarchy is based on the valuation inputs used to measure the fair value of the asset and give the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements).

- **Level 1** – Unadjusted quoted prices for identical instruments in active markets.

- **Level 2** – Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations in which all significant inputs are observable.

- **Level 3** – Valuations derived from valuation techniques in which significant inputs are unobservable.

If the fair value of an asset or a liability is measured using inputs from more than one level of the fair value hierarchy, the measurement is considered to be based on the lowest priority level input that is significant to the entire measurement. The categorization of investments within the hierarchy is based upon the pricing transparency of the instrument and should not be perceived as the particular investment's risk.

Fair Value Hierarchy Levels
Equity securities classified in Level 1 of the fair value hierarchy are valued using prices quoted in active markets for those securities based on published market prices, quotations from national security exchanges, and security pricing services as of each month-end closing of the New York Stock Exchange. Short-term investments and fixed income securities classified as Level 1 include U.S. Treasuries. Derivative financial instruments classified in Level 1 include certain options and futures which are valued using prices quoted in active markets for those securities.

Fixed income securities, credit default swaps, and invested securities lending collateral classified in Level 2 have non-proprietary information that was readily available to market participants from multiple independent sources, which are known to be actively involved in the market. Pricing inputs may include market quotations, yields, maturities, call features and ratings.

Preferred shares classified in Level 3 are private investments, thinly traded securities, where input data is sourced from instruments whose values are estimated, out of necessity, using unobservable inputs due to lack of comparable securities in the marketplace or are valued using discounted cash flows.

Real assets investments – real estate (direct investment) classified as Level 3 are individual properties valued internally by the investment companies at least annually, in accordance with standard industry practice, and are adjusted as frequently as quarterly if material market or operational changes have occurred. Properties are generally valued every one to three years by external third-party appraiser(s). The valuation techniques vary based on investment type and involve a certain degree of expert judgment.

Investments Measured at the Net Asset Value (NAV)
Investments measured at NAV are not required to be categorized in the fair value hierarchy levels. The fair value of investments in certain fixed income funds, equity funds, real assets and alternative investments are based on the investments' NAV per share (or its equivalent).

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Short-term investment funds, equity funds (not publicly traded), and fixed income funds (not publicly traded) are reported on their respective NAV. Fair value for these investments are based on the ERS' pro rata ownership percentage of the fund reported by the fund manager based on the fair value of the underlying assets that is determined by published market prices, or quotations from national security exchanges. Annual audits of the investments include a review of compliance with the investment company's valuation policies.

Real assets and alternative investments (pooled or commingled funds) are measured at their respective NAV and are generally audited annually. The most significant element of NAV is the fair value of the investment holdings. These holdings are valued by the general partners using valuation assumptions based on both market and property specific inputs, which are not observable and involve a certain degree of expert judgment.

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The following table shows the fair value hierarchy by investment type as of June 30, 2025:

		Fair Value Measurement Using		
	Total	Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments Measured by Fair Value Level				
Short-term investments				
Short-term bills and notes	$ 5,917,597	$ 5,917,597	$ -	$ -
Equity securities				
Common stocks	3,753,789,005	3,753,789,005	-	-
Preferred shares and other	12,769,736	12,726,896	-	42,840
Total equity securities	3,766,558,741	3,766,515,901	-	42,840
Fixed income securities				
U.S. Treasury bonds and notes	2,304,924,582	2,293,785,242	11,139,340	-
U.S. government agencies bonds	25,526,564	-	25,526,564	-
U.S. government-sponsored agency mortgage backed	375,319,163	-	375,319,163	-
U.S. government agency mortgage backed	45,186,626	-	45,186,626	-
U.S. corporate bonds	38,662,135	-	38,662,135	-
Non-U.S. corporate bonds	3,046,505	-	3,046,505	-
Total fixed income securities	2,792,665,575	2,293,785,242	498,880,333	-
Real assets investments - real estate (direct investment)	54,300,000	-	-	54,300,000
Total investments (excluding derivatives), measured by fair value level	6,619,441,913	6,066,218,740	498,880,333	54,342,840
Derivative financial instruments				
Currency purchases forwards	15,295	-	-	15,295
Index fixed income futures	3,001,349	3,001,349	-	-
Credit default swaps	198,156	-	198,156	-
Total derivative financial instruments	3,214,800	3,001,349	198,156	15,295
Total investments measured by fair value level	$ 6,622,656,713	$ 6,069,220,089	$ 499,078,489	$ 54,358,135
Invested Securities Lending Collateral				
Short-term investments				
Certificates of deposit	$ 248,799,222	$ -	$ 248,799,222	$ -
Repurchase agreements	546,355,631	-	546,355,631	-
Global commercial paper	100,349,999	-	100,349,999	-
Global asset backed notes	90,531,678	-	90,531,678	-
Global corporate notes	32,863,062	-	32,863,062	-
Total invested securities lending collateral	$ 1,018,899,592	$ -	$ 1,018,899,592	$ -

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Investments Measured at NAV

Short-term investments - pooled and other	$ 1,206,506,967
Equity funds	1,458,912,561
Fixed income funds	3,048,938,520
Real assets investments - real estate	2,244,962,638
Real assets investments - other	2,487,461,906
Alternative investments - diversifying strategies	2,327,329,167
Alternative investments - traditional	5,169,879,970
Total investments measured at NAV	$ 17,943,991,729

	June 30, 2025	Unfunded Commitments	Redemption Frequency (If Currently Eligible)	Redemption Notice Period (Days)
Short-term investments - pooled and other (a)	$ 1,206,506,967	$ -	Daily	1 day
Equity funds (b)	1,458,912,561	-	Daily	2 days
Fixed income funds (c)	3,048,938,520	516,648,000	Various	Various
Real assets investments - real estate (d)	2,244,962,638	1,068,869,000	Not eligible	n/a
Real assets investments - other (d)	2,487,461,906	493,328,000	Not eligible	n/a
Alternative investments - div. strategies (e)	2,327,329,167	-	Daily	1-2 days
Alternative investments - traditional (f)	5,169,879,970	2,292,258,000	Not eligible	n/a
Total investments measured at NAV	$ 17,943,991,729	$ 4,371,103,000		

(a) Short-term investments – pooled and other primarily consist of four pooled funds, including two pooled funds to invest excess cash at the ERS' custodian, The Bank of New York Mellon. NAV is based on the ERS' pro rata ownership percentage of the fund reported by the fund manager based on the fair value of the underlying assets that is determined by published market prices, or quotations from national security exchanges.

(b) Equity funds consist of three funds, including one fund that invests based on the all country world index. NAV is based on the ERS' pro rata ownership percentage of the fund reported by the fund manager based on the fair value of the underlying assets that is determined by published market prices, or quotations from national security exchanges.

(c) Fixed income funds consist of 17 private market limited partnerships or limited liability companies to capitalize in multiple strategies that target investments on a global basis including, but not limited to, obligations of leveraged, financially troubled, or liquidating businesses or entities, bank loans, high yield bonds, securitized credit (including debt issued by asset-backed security offerings), derivatives (such as swap agreements), etc. NAV is based on the ERS' pro rata ownership percentage of the fund reported by the fund manager based on the fair value of the underlying assets that is determined by published market prices or quotations from national security exchanges.

(d) Real assets investments (real estate and other) consist of limited partnerships, limited liability companies, or corporations, that are deemed to be investments, include 74 funds that primarily invest in U.S. real estate and 20 that invest in other real assets such as infrastructure, agriculture or other assets. The most significant element of NAV is the fair value of the investment holdings. These

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holdings are valued by the general partners using valuation assumptions based on both market and property specific inputs, which are not observable and involve a certain degree of expert judgment and are generally audited annually.

(e) Alternative investments – diversifying strategies consist of 17 limited partnerships or limited liability companies to provide stability, diversification, and liquidity complements to the Broad Growth strategic asset class that produce uncorrelated returns during both crisis and non-crisis periods for Broad Growth assets. These investments focus on capital efficiency and employ certain financial mechanisms to target specific levels of volatility (e.g., derivatives-based leverage). This approach emphasizes capital efficiency thereby enabling the relatively small capital base of the Diversifying Strategies strategic asset class to offset a meaningful level of volatility inherent in the Broad Growth strategic asset class. The most significant element of NAV is the fair value of the investment holdings. These holdings are valued using valuation assumptions based on both market and property specific inputs, which are not observable and involve a certain degree of expert judgment and are generally audited annually. The ERS determines when redemptions and/or contributions are made.

(f) Alternative investments – traditional consist of 221 limited partnerships or limited liability companies that invest in venture capital, growth equity, corporate finance/buyout, special situations, mezzanine debt, distressed debt, co/direct investments or specialty investments. The most significant element of NAV is the fair value of the investment holdings. These holdings are valued by the general partners using valuation assumptions based on both market and property specific inputs, which are not observable and involve a certain degree of expert judgment and are generally audited annually. Redemptions are controlled by the general partner/investment manager.

Reconciliation of Investments Measured by Fair Value Level and by NAV to the Statement of Fiduciary Net Position

	Investments Measured by Fair Value Level	Investments Measured by NAV	Derivative Investments Measured by Fair Value Level	Statement of Fiduciary Net Position
Short-term investments	$ 5,917,597	$ 1,206,506,967	$ 15,295	$ 1,212,439,859
Equity securities	3,766,558,741	1,458,912,561	-	5,225,471,302
Fixed income securities	2,792,665,575	3,048,938,520	3,199,505	5,844,803,600
Real assets investments	54,300,000	4,732,424,544	-	4,786,724,544
Alternative investments	-	7,497,209,137	-	7,497,209,137
	$ 6,619,441,913	$ 17,943,991,729	$ 3,214,800	$ 24,566,648,442
Invested securities lending collateral	$ 1,018,899,592	$ -	$ -	$ 1,018,899,592

4. Credit Risk

Credit risk is defined as the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Information regarding ERS' credit risk for derivative financial instruments is discussed in Note E.10, *Derivative Financial Instruments*, while policies related to credit risk for the securities lending program are discussed in Note E.9, *Securities Lending*.

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Risk Based Asset Class

The credit portfolio consists of investment strategies and assets that are largely exposed and/or susceptible to various collateral types (corporate cash flows, mortgages, various credit receivables, etc.) that produce relatively high levels of income. These investments may be traded in public markets or sourced through private issuance. Such investments typically contain relatively lower levels of risk and exhibit lower volatility than other Broad Growth components but do have exposure to growth-related characteristics. In addition, periodic income will likely be a material portion of the credit portfolio's investment return. The overall objectives of the Diversifying Strategies strategic asset class are to provide stability, diversification, and liquidity complements to the Broad Growth strategic asset class. This class can help diversify the Broad Growth strategic asset class during challenging periods, such as material equity market drawdowns. Individual investment managers have specific investment policy guidelines, limits, and/or requirements for their portfolio, that may include limits on, but not limited to, security type, sectors, currency, duration, credit rating and issue amounts.

The ERS may invest, across the Broad Growth and Diversifying Strategies asset classes, in directly held securities, partnerships/fund of ones or commingled funds which invest in liquid and less liquid corporate credit across the capital structure as well as opportunistically provide private financing. Investment instruments and/or strategies include but are not limited to the purchase and/or origination of investment grade, broadly syndicated high yield bonds, broadly syndicated leveraged loans, narrowly syndicated private debt ("club deals"), collateralized loan obligations ("CLO") debt and equity, municipal securities, capital solutions and convertibles. Other investment instruments and/or strategies include but are not limited to U.S. Treasuries and government-backed, high-quality, very liquid agencies, the purchase and/or origination of legacy non-agency residential mortgage-backed securities, asset backed securities, agency risk transfer, FNMA/Freddie preferred equity, non-qualified mortgage, origination, re-performing loans, credit tenant leases, bridge financings, and other types. Derivative financial instruments may be used for managing interest rate, volatility, term structure, country, currency, sector exposures, etc. as authorized by their mandate.

A table of the ERS' fixed income securities as of June 30, 2025 is below. All directly held fixed income investment securities (excluding funds) are rated at investment grade of Baa or better (average rating by S&P, Moody's and/or Fitch). All short-term investments, not held in a pooled investment, are rated A1/P1 or better.

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Credit Ratings – Average rating by S&P, Moody's, and Fitch as of June 30, 2025

Ratings	US Govt Agency	US Govt-Sponsored Agency Mortgage Backed	US Corporate Bonds	Non-US Corporate Bonds	Total
AAA	$ -	$ -	$ 229,695	$ -	$ 229,695
AA1	25,526,564	375,319,163	-	-	400,845,727
AA3	-	-	4,736,494	-	4,736,494
A1	-	-	6,150,939	3,046,505	9,197,444
A2	-	-	10,804,307	-	10,804,307
A3	-	-	11,139,213	-	11,139,213
BAA1	-	-	4,420,940	-	4,420,940
BAA2	-	-	1,180,547	-	1,180,547
	$ 25,526,564	$ 375,319,163	$ 38,662,135	$ 3,046,505	442,554,367
		US Treasury bonds and notes			2,304,924,582
		US government agency - Government National Mortgage Association (GNMAs) mortgage backed			45,186,626
		Subtotal directly held investments			2,792,665,575
		Fixed income funds			3,048,938,520
		Derivative financial instruments (debt securities)			3,199,505
		Total fixed income securities in investments			$ 5,844,803,600

5. Custodial Credit Risk

Custodial credit risk for investments is the risk that, in the event of a failure of the counterparty, the ERS will not be able to recover the value of the investment or collateral securities that are in the possession of an outside party. All securities, except certain pooled funds, are registered in the name of the ERS and are held in the possession of the ERS' custodial bank, The Bank of New York Mellon. Pooled funds not held by the custodial bank, such as certain equity investments, are registered in the name of the ERS. The ERS had $10,819,791 in cash and securities exposed to custodial credit risk as of June 30, 2025.

6. Concentrations of Credit Risk

The ERS' debt securities managers are expected to maintain diversified portfolios by sector, quality, and maturity as discussed in the Credit Risk section above.

Equity securities shall be diversified by industry and in number. An investment manager may not hold more than 5% of an individual company's stock if that company's securities represent less than 3% of the investment manager's respective benchmark. (If those securities constitute more than 3% of the respective benchmark the manager shall not hold more than the benchmark weight plus 2 percentage points.)

At June 30, 2025, there was no single issuer exposure within the ERS' portfolio that comprises over 5% of the overall portfolio, or an investment that exceeded the above manager guidelines, and therefore, there is no concentration of credit risk to report.

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7. Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The ERS has not adopted a formal policy that limits investment maturities as a means of managing its exposure to fair value changes arising from changing interest rates. External investment managers are given full discretion within their operational guidelines and are expected to maintain a diversified portfolio between and within sectors, quality, and maturity.

Duration is a measure of a debt investment's exposure to fair value changes arising from changes in interest rates. It uses the present value of cash flows, weighted for those cash flows as a percentage of the investment's full price. At June 30, 2025, the table below shows fixed income investment securities by investment type, amount, and the effective weighted duration for the ERS' total portfolio. Interest rate risk associated with swaps and other derivative instruments are discussed in the derivatives disclosure below.

The effective duration of fixed income investments by security type (excluding derivatives and fixed income funds) are as follows:

	Fair Value	Weighted Modified Duration (Years)
Fixed income investments		
U.S. Treasury bonds and notes	$ 2,304,924,582	7.4
U.S. government-sponsored agency mortgage backed	375,319,163	3.5
U.S. government agency mortgage backed	45,186,626	6.0
U.S. corporate bonds	38,662,135	4.8
U.S. government agencies bonds	25,526,564	4.5
Non-U.S. corporate bonds	3,046,505	6.1
Total	$ 2,792,665,575	6.8

8. Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely impact the fair value of an investment. The foreign currency risk exposure to the ERS arises from the international fixed income and international equity investment holdings. Board policy limits the use of foreign currency as a defensive measure to protect the portfolio value of non-U.S. equity and non-U.S. fixed income investments. External investment managers authorized to invest in these securities are given full discretion regarding their respective portfolio's foreign currency exposures, including using currency forward contracts, as established by their investment mandate. Cross-hedging is only allowed in non-U.S. fixed income portfolios. Counterparties for foreign currency derivative financial instruments must be rated A or equivalent. Derivative financial instruments are discussed in more detail in Note E.10, *Derivative Financial Instruments*.

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The following table summarizes the ERS' exposure to foreign currency risk in U.S. dollars as of June 30, 2025. (securities denominated in U.S. dollars are not presented):

	Cash and Short Term Instruments	Derivatives	Equities	Grand Total
Australian dollar	$ (69,200)	$ 22,070	$ 40,898,273	$ 40,851,143
Brazilian real	16,000	-	15,193,800	15,209,800
Canadian dollar	1,261,534	(2,418,296)	123,772,623	122,615,861
Chilean peso	3,664	-	4,207,195	4,210,859
Chinese yuan renminbi	-	-	2,312,978	2,312,978
Czech koruna	373	2,465	150,886	153,724
Danish krone	49,742	(302,027)	38,267,689	38,015,404
Euro currency unit	437,878	(103,570)	323,273,992	323,608,300
Hong Kong dollar	149,677	65,644	66,690,632	66,905,953
Indian rupee	-	-	104,529,018	104,529,018
Indonesian rupiah	2,169	-	1,020,602	1,022,771
Israeli shekel	206	301	4,688,918	4,689,425
Japanese yen	303,952	3,043,582	222,211,972	225,559,506
Malaysian ringgit	-	-	1,545,002	1,545,002
Mexican peso	369,759	-	823,545	1,193,304
New Taiwan dollar	563,955	-	110,968,303	111,532,258
New Zealand dollar	1,631	-	2,392,544	2,394,175
Norwegian krone	28	-	555,005	555,033
Polish zloty	4,386	-	497,551	501,937
Pound sterling	(328,408)	(1,167,812)	231,692,078	230,195,858
Singapore dollar	13,266	-	16,167,532	16,180,798
South African rand	3,639	-	1,949,022	1,952,661
South Korean won	2,262	779,621	26,687,470	27,469,353
Swedish krona	-	(13,167)	15,197,737	15,184,570
Swiss franc	382,228	(758,878)	39,573,885	39,197,235
Thai baht	-	-	1,170,646	1,170,646
Turkish lira	1,960	-	687,042	689,002
Total	$ 3,170,701	$ (850,067)	$ 1,397,125,940	$ 1,399,446,574

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9. Securities Lending

The ERS participates in a securities lending program administered by its bank custodian, The Bank of New York Mellon. Under this program, which is permissible under Chapter 88, HRS, certain equity and fixed-income securities of the ERS are lent to participating broker-dealers and banks (borrowers). In return, the ERS receives cash, securities issued or guaranteed by the U.S. government, securities issued or guaranteed by OECD (Organization for Economic Cooperation and Development) member states or their local authorities, Canadian Provincial debt, equity securities that are part of the U.S. and non U.S. indices, and/or letters of credit as collateral. The ERS does not have the ability to pledge or sell collateral securities absent of borrower default, thus only cash received as collateral is reported on the financial statements in accordance with accounting standards. Risk is mitigated by the investment policies and operational

procedures regarding issuer, credit, exposure and rating limits utilized in the securities lending program. Borrowers are required to deliver collateral for each loan equal to: (a) in the case of loaned fixed-income securities and loaned equity securities denominated in U.S. dollars or whose primary trading market was located in the U.S., 102% of the market value of the loaned securities; and (b) in the case of loaned equity securities not denominated in U.S. dollars or whose primary trading market was not located in the U.S., 105% of the market value of the loaned securities. The collateral is marked to market daily. If the market value of the collateral falls below the minimum collateral requirements, additional collateral is provided. In addition, the bank custodian indemnifies the ERS by agreeing to purchase replacement securities or return cash collateral in the event the borrower fails to return the loaned security or fails to pay the ERS for income distributions by the securities' issuers while the securities are on loan.

The ERS does not impose any restrictions on the amount of loans the bank custodian made on behalf of the ERS. Also, the ERS and the borrowers maintain the right to terminate securities lending transactions on demand. The Bank of New York Mellon invests the cash collateral related to the ERS' loaned securities in a separate account in accordance with the ERS investment policies and procedures as discussed in Note E.1, *Investment Policy*. As such, the maturities of the investments made with cash collateral generally do not match the maturities of the securities loans. The extent of such mismatch as of June 30, 2025 was 129 days.

At June 30, 2025, there was no credit risk exposure to borrowers since the ERS was collateralized as discussed above. The total securities on loan and collateral received are shown below.

Securities Lent for Collateral	Fair Value of Underlying Securities	Cash	Noncash
U.S. fixed income	$ 1,429,862,991	$ 693,058,323	$ 817,815,626
U.S. equities	275,593,988	259,083,092	23,911,435
International equities	145,294,624	66,758,177	90,334,559
	$ 1,850,751,603	$ 1,018,899,592	$ 932,061,620

10. Derivative Financial Instruments

Derivatives are financial instruments (securities or contracts) whose value is dependent on such things as stock or bond prices, interest rate levels, or currency exchange rates. These are financial arrangements between two parties whose payments are based on or "derived" from the performance of some agreed-upon benchmark. As with any investment, derivative contracts are subject to various types of credit and market risks. Notably, these would include the possible inability of the counterparty to meet the terms of the contract, changes in the market value of the underlying collateral, changes in the interest rate environment, and fluctuation in foreign currency rates. The ERS enters into various derivative investment contracts to hedge, for the minimization of transaction costs and as a means of implementing value added strategies to enhance returns as authorized by Board policy, as discussed below.

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Generally, derivatives are subject both to market risk and counterparty risk. The derivatives utilized by the ERS typically have no greater risk than their physical counterparts, and in many cases are offset by exposures elsewhere in the portfolio. Counterparty risk, the risk that the "other party" to a contract will default, is managed by utilization of exchange-traded futures and options where practicable (in which case the futures exchange is the counterparty and guarantees performance) and by careful screening of counterparties where use of exchange-traded products is impractical or uneconomical. ERS investment managers seek to control this risk through counterparty credit evaluations and approvals, counterparty credit limits, posting collateral, and exposure monitoring procedures. The ERS anticipates that counterparties will be able to satisfy their obligations under the contracts.

Derivative securities are priced and accounted for at their fair value. For exchange-traded securities such as futures and options, closing prices from the securities exchanges are used. Foreign exchange contracts are valued at the price at which the transaction could be settled by offset in the forwards markets.

The table below summarizes the ERS' investments in derivative securities and contracts held at June 30, 2025 and their associated risks. The various risks associated with these investments are included in the table expressed in terms of market values, summarized by the type of contract as follows: credit, equity, foreign exchange, interest, and other. Due to the level of risk associated with certain derivative investment securities, it is reasonably possible that changes in the values of investment securities will occur in the near term, and such changes could affect the amounts reported in the financial statements. ERS could be exposed to risk if the counterparties to the contracts are unable to meet the terms of the contracts. ERS investment managers seek to control this risk through counterparty credit evaluations and approvals, counterparty credit limits, posting collaterals, and exposure monitoring procedures.

The notional amount is the nominal or the underlying face amount that is used to calculate payments made on that instrument or contract. Changes in the market value of all derivative contracts are recorded as net appreciation in fair value of investments in the statement of changes in fiduciary net position.

The following table summarizes the ERS' investments in derivative securities and contracts held at June 30, 2025 with the related maturity information:

	Notional Value	Market Value	Maturity (Range From)
Forwards - Currency purchases	$ -	$ 15,295	0.0 years
Futures - Fixed income contracts	112,442,621	3,001,349	0.1 to 0.5 years
Swaps - Credit default swaps	-	198,156	5.0 years
Total	$ 112,442,621	$ 3,214,800	

Forward Currency Exchange Contracts and To-Be-Announced (TBA) Securities

The ERS enters into various forward currency exchange contracts to manage exposure to changes in foreign currency exchange rates and to facilitate the settlement of foreign security transactions. A forward contract is an agreement to buy or sell a specific amount of currency at a specific delivery or maturity date for an agreed-upon price. Risks associated with such contracts include movements in the value of the foreign currency relative to the U.S. dollar and the ability of the counterparty to perform in accordance with the terms of the contract.

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The TBA market that ERS invests in as part of its toolkit to manage interest rates and liquidity includes the forward trading of mortgage-backed securities (MBS) issued by federal agencies and federally sponsored agencies (commonly known as pass-through securities issued by Freddie Mac, Fannie Mae, and Ginnie Mae). The TBA market is one of the most liquid, and consequently the most important secondary market for mortgage loans as one MBS pool can be considered to be interchangeable with another pool.

Futures

Futures represent commitments to purchase (asset) or sell (liability) securities at a future date and at a specified price. Futures contracts are traded on organized exchanges (exchange traded) thereby minimizing the ERS' credit risk. The net change in the futures contracts value is settled daily in cash with the exchanges. Net gains or losses arising from the daily settlements are included in the net appreciation/(depreciation) in fair value of securities in the statement of changes in fiduciary net position. Refer to the table above for the net notional value of futures contracts at June 30, 2025.

Options

Options represent or give the buyers the right, but not the obligation, to buy or sell an asset at a preset price over a specified period. The option's price is usually a small percentage of the underlying asset's value. As a writer of financial options, the ERS receives a premium at the outset of the agreement and bears the risk of an unfavorable change in the price of the financial instrument underlying the option. As a purchaser of financial options, the ERS pays a premium at the outset of the agreement and the counterparty bears the risk of an unfavorable change in the price of the instrument underlying the option.

Swaps

Swaps represent an agreement between two or more parties to exchange sequences of cash flows over a period in the future. In the most common type of interest rate swap arrangement, one party agrees to pay fixed-interest payments on designated dates to a counterparty who, in turn, agrees to make return interest payments that float with some reference rate. Credit default swaps are the most common global credit market derivative that allows flexibility as an active portfolio management tool based on its ability to customize the exposure to corporate credit such as credit spreads and default risks. Credit default swaps and total return swaps are also used to gain access to global markets that do not have the transparency or efficiency of the U.S. credit markets. Gains and losses from swaps are determined on market values and are included in the net appreciation/(depreciation) in fair value of securities in the statement of changes in fiduciary net position.

Derivatives, such as interest rate swaps, total return swaps, and credit default swaps, are a tool or instrument used to manage interest rate, credit quality, and yield curve exposures of the investments. In certain situations, derivatives may result in a lower overall cost to the portfolio than owning individual securities underlying the derivatives. When evaluating securities, risk, and return are measured at the security and portfolio levels.

On June 30, 2025, credit ratings of the counterparty for ERS' investments in derivatives were as follows:

Counterparty	S&P's Rating	Fair Value
Intercontinental Exchange Inc.	A-	$ 198,156
Exchange traded derivatives	n/a	3,016,644
		$ 3,214,800

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Note F – Pension Liability

1. Net Pension Liability

The components of the net pension liability of the ERS at June 30, 2025, were as follows:

Total pension liability	$ 39,616,036,253
Less: plan fiduciary net position	24,925,805,793
Net pension liability	$ 14,690,230,460
Plan fiduciary net position as a percentage of total pension liability	62.92%
Net pension liability as a percentage of covered payroll	279.07%

Multi-year trend information regarding whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits can be found in the required supplementary information section, which follows the notes to financial statements.

2. Summary of Actuarial Assumptions

The total pension liability was determined using the provisions of the GASB Statements No. 67 and No. 82 actuarial valuation as of June 30, 2025. These GASB rules only define pension liability for financial reporting purposes. The actuarial assumptions were based on the results of an experience study as of June 30, 2024, with most of the assumptions based on the period from July 1, 2019, through June 30, 2024.

A summary of the actuarial valuation as of June 30, 2025 follows:

Valuation date	June 30, 2025
Actuarial cost method	Entry age normal
Amortization method	Level percent, open
Actuarial assumptions	
Inflation assumption	2.50%
Investment rate of return, including inflation at 2.50%	7.00%
Payroll growth rate	3.00% to 3.50%
Projected salary increases, including inflation at 2.50%	
- Police and fire employees	5.00% to 5.85%
- General employees	3.75% to 6.75%
- Teachers	3.85% to 6.85%
Cost of living adjustments (COLAs)	
- COLAs are not compounded; and are based on original pension amounts.	
- Membership date prior to July 1, 2012	2.50%
- Membership date after June 30, 2012	1.50%

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Mortality rate assumptions include the effects of the retirement status of members.

Active Members Mortality Rates:

Multiples of the Pub-2016, Employee Tables for active employees based on the occupation of the member as follows:

	General Employees	Teachers	Police and Fire
	Male and Female	Male and Female	Male and Female
Ordinary	95%	95%	80%
% of Ordinary Choosing Annuity	41%	52%	24%
Duty Related	5%	5%	20%

Post-Retirement Mortality Rates:

Healthy retirees: The 2022 Public Retirees of Hawaii mortality tables. The rates are projected on a fully generational basis by Scale MP from the year 2022 (with immediate convergence) and with multiplier and setbacks based on plan and group experience. The following are sample rates of the base table with the corresponding multipliers:

Healthy Annuitant Mortality Rates Before Projection (Multiplier Added)

	General Employees		Teachers		Police and Fire	
Age	Male	Female	Male	Female	Male	Female
50	0.2094%	0.1276%	0.1698%	0.0951%	0.2344%	0.1130%
55	0.3215%	0.1687%	0.2883%	0.1596%	0.3391%	0.1633%
60	0.5570%	0.3095%	0.4672%	0.2467%	0.6090%	0.2799%
65	0.8041%	0.4488%	0.7256%	0.4063%	0.8386%	0.4283%
70	1.2621%	0.7066%	1.0762%	0.6015%	1.3768%	0.6565%
75	2.0700%	1.0964%	1.7879%	0.9358%	2.2442%	1.0121%
80	3.5996%	2.1275%	3.0429%	1.6565%	3.9844%	1.8863%
85	6.5891%	4.1569%	5.5564%	3.2698%	7.2903%	3.6977%
90	11.9340%	8.3647%	10.1056%	6.5007%	13.1174%	7.3991%
Multiplier	102%	98%	97%	101%	100%	100%
Setback	---	(1)	1	1	(1)	---

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The following table provides the life expectancy for individuals retiring in future years based on the assumption with full generational projection:

Life Expectancy for an Age 65 Retiree in Years					
	Year of Retirement				
Gender	**2025**	**2030**	**2035**	**2040**	**2045**
			General Retirees		
Male	22.8	23.2	23.5	23.9	24.2
Female	26.3	26.6	26.9	27.2	27.5
			Teachers		
Male	24.1	24.5	24.9	25.2	25.5
Female	28.0	28.3	28.6	28.9	29.2
			Police and Fire		
Male	22.1	22.4	22.8	23.1	23.5
Female	27.1	27.4	27.7	28.0	28.3

Disabled retirees: Base table for healthy retiree's occupation, set forward three years, generational projection using the MP projection table from the year 2022 with immediate convergence. Minimum mortality rate of 3.5% for males and 2.5% for females.

Long-Term Expected Rate of Return

The long-term expected rate of return on pension plan investments was determined using a "top down approach" of the Client-Constrained Simulation-based Optimization Model (a statistical technique known as "resampling with replacement" that directly keys in on specific plan-level risk factors as stipulated by the ERS Board) in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are then combined to produce the long-term expected rate of return by weighting the expected future nominal rates of return (real returns + inflation) by the target asset allocation percentage. The rates of return based on ERS' investment consultant as of June 30, 2025, are summarized in the following table:

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Classes	Weights	Geometric Rate of	Volatility
Broad Growth			
Public equity	20.00%	6.70%	17.00%
Private equity	19.00%	9.80%	25.00%
Liquid credit	4.00%	6.30%	10.00%
Private credit	8.00%	8.70%	15.00%
Real estate	9.00%	7.20%	16.20%
Infrastructure	7.00%	7.30%	17.80%
Timber/agriculture/infrastructure	3.00%	4.60%	11.40%
Diversifying Strategies			
Systematic trend following	8.00%	3.40%	15.00%
Long US treasuries	4.00%	5.00%	12.00%
Intermediate government bonds	14.00%	4.40%	3.00%
Reinsurance	4.00%	4.80%	7.00%
	100.00%		

Discount Rate

A single discount rate of 7.00% was used to measure the total pension liability as of June 30, 2025, and was based on the expected rate of return on pension plan investments of 7.00%. The projection of cash flows used to determine this single discount rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

3. Sensitivity of the Net Pension Liability to Changes in Discount Rate

The following table presents the ERS' net pension liability as of June 30, 2025, calculated using a single discount rate of 7.00%, as well as what the ERS' net pension liability would be if it were calculated using a single discount rate that is 1–percentage-point lower (6.00%) or 1–percentage-point higher (8.00%) than the current discount rate.

1% Decrease (6.00%)	Current Discount Rate (7.00%)	1% Increase (8.00%)
$ 19,858,019,787	$ 14,690,230,460	$ 10,386,316,059

Note G – Risk Management

The ERS is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors or omissions; workers' compensation; and acts of terrorism. As required by state law, the ERS participates in coverage with the State. The State retains various risks and insures certain excess layers with commercial insurance policies. The excess layers insured with commercial insurance companies are consistent with the prior fiscal year. Settled claims for the State did not exceed the coverage provided by commercial insurance companies in any of the past 10 fiscal years. Losses not covered by insurance are generally paid from legislative appropriations.

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1. Torts

The ERS is involved in various litigation and claims, including claims regarding retirement benefits, the outcome of which cannot be presently determined. In the opinion of management, the outcome of these actions will not have a material adverse effect on the ERS' financial position.

2. Property and Liability Insurance

The ERS also purchased property and liability insurance for all real estate owned from outside carriers. During the past three fiscal years, no loss settlements exceeded insurance coverages.

3. Workers' Compensation Policy

The State has a self-insured workers' compensation policy. Workers' compensation claims are paid from legislative appropriations.

Note H – Commitments

In the normal course of business, the ERS enters into commitments with associated risks. The ERS adheres to the same credit policies, financial and administrative controls, and risk limiting and monitoring procedures for these commitments as for all investments.

The ERS has future financial commitments of up to $4,371,103,000 as of June 30, 2025, consisting of $516,648,000 for fixed income funds, $1,562,197,000 for real assets investments, and $2,292,258,000 for alternative investments.

Note I – Deferred Compensation Plan

The ERS does not sponsor a deferred compensation program. The ERS' employees are eligible to participate in the deferred compensation plan sponsored by the State. The State-sponsored plan was created in accordance with Internal Revenue Code Section 457. The plan, available to all ERS employees, permits them to defer a portion of their salaries. The deferred compensation is not available to the employees until termination, retirement, death, or an unforeseeable emergency. All compensation deferred under the plan is held in trust by a custodian for the exclusive benefit of participants and beneficiaries.

Note J – Temporary Hazard Pay

Between March 4, 2020 and March 25, 2022, State and county employers declared COVID-19 Emergencies (dates vary by employer agency) to control the spread of COVID-19 and provide for the health, safety, and welfare of the people of the State. Union and employee organizations, representing individuals employed by the State and county employers, requested THP on behalf of State and county employees designated to perform essential functions during the COVID-19 pandemic. Subsequently, arbitration/litigation was initiated by these parties to settle claims for THP (Temporary Hazard Pay).

For those employees and retirees who have settled and received their payments, payments have been incorporated into the pensionable earnings for impacted Tier 1 employees (membership date is prior to July 1, 2012). The payments are not included in the pensionable earnings of Tier 2 employees (membership

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date is after June 30, 2012). For those employees and retirees who have not yet settled and/or received payments, no adjustments have been made to individual liabilities as of the valuation date and the associated impacts will be reflected in the 2026 (and future) valuations. The remaining unknown THP claim amounts are not expected to materially impact the net pension liability.

THP payments made subsequent to June 30, 2025 have been reflected as accrued contributions in the ERS' fiscal year 2025 financial statements. The actuary incorporated an offsetting liability equal to those accrued contributions in the actuarial valuation (as a minimum impact). Known employer contributions attributable to THP for the year ended June 30, 2025 totaled $50,954,765.

Note K – Subsequent Events

The ERS has evaluated subsequent events through November__, 2026, the date at which the financial statements were available to be issued, and determined there are no other items to disclose.

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REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)

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Employees' Retirement System of the State of Hawaii
Required Supplementary Information (Unaudited)
Schedule of Changes in the Employers' Net Pension Liability and Related Ratios
As of and for the Years Ended June 30, 2016 to 2025

	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
A. Total pension liability										
1. Service cost	$ 484,278,499	$ 576,724,568	$ 584,470,193	$ 619,504,278	$ 626,699,489	$ 642,140,242	$ 613,550,345	$ 665,262,225	$ 753,649,057	$ 862,206,680
2. Interest on the total pension liability	1,748,619,873	1,894,622,190	1,976,275,120	2,063,885,936	2,164,804,653	2,252,271,074	2,349,503,644	2,397,116,921	2,495,354,170	2,609,562,788
3. Changes of benefit terms	-	-	-	-	-	-	-	-	-	-
4. Difference between expected and actual experience of the total pension liability	297,534,219	61,179,390	124,753,379	221,473,495	71,837,371	228,048,119	(361,275,093)	161,224,056	282,947,390	127,058,626
5. Changes of assumptions	2,915,922,677	-	-	60,320,037	-	-	(154,960,000)	-	-	169,995,764
6. Benefit payments	(1,232,589,353)	(1,306,788,954)	(1,395,881,342)	(1,469,634,809)	(1,545,589,761)	(1,651,431,372)	(1,738,751,492)	(1,795,410,787)	(1,878,501,292)	(1,977,937,411)
7. Refunds	(12,927,672)	(16,340,290)	(20,846,500)	(16,502,635)	(22,443,593)	(23,618,435)	(24,454,256)	(26,353,782)	(28,548,843)	(24,367,929)
8. Net change in total pension liability	4,200,838,243	1,209,396,904	1,268,770,850	1,479,046,302	1,295,308,159	1,447,409,628	683,613,148	1,401,838,633	1,624,900,482	1,766,518,518
9. Total pension liability - beginning	23,238,395,386	27,439,233,629	28,648,630,533	29,917,401,383	31,396,447,685	32,691,755,844	34,139,165,472	34,822,778,620	36,224,617,253	37,849,517,735
10. Total pension liability - ending	27,439,233,629	28,648,630,533	29,917,401,383	31,396,447,685	32,691,755,844	34,139,165,472	34,822,778,620	36,224,617,253	37,849,517,735	39,616,036,253
B. Plan fiduciary net position										
1. Contributions - employer	756,558,222	781,244,218	847,595,466	922,635,334	1,098,589,013	1,281,558,696	1,242,139,095	1,274,221,056	1,396,331,977	1,479,559,382
2. Contributions - employer (picked-up employee contributions)	235,079,968	249,211,751	257,294,033	270,764,670	284,142,994	299,473,128	292,422,087	309,509,309	341,769,694	370,747,098
3. Contributions - employee	1,721,893	1,492,316	2,133,901	2,458,908	3,255,037	1,153,318	605,473	251,744	296,386	320,895
4. Net investment income	(169,368,110)	1,934,512,507	1,225,572,599	932,696,412	358,282,664	4,662,225,761	164,559,035	826,902,875	1,461,900,137	1,400,874,593
5. Benefit payments	(1,232,589,353)	(1,306,788,954)	(1,395,881,342)	(1,469,634,809)	(1,545,589,761)	(1,651,431,372)	(1,738,751,492)	(1,795,410,787)	(1,878,501,292)	(1,977,937,411)
6. Refunds	(12,927,672)	(16,340,290)	(20,846,500)	(16,502,635)	(22,443,593)	(23,618,435)	(24,454,256)	(26,353,782)	(28,548,843)	(24,367,929)
7. Pension plan administrative expense	(13,960,587)	(14,986,159)	(15,784,490)	(13,798,866)	(17,782,865)	(19,049,861)	(17,497,621)	(18,549,472)	(18,000,678)	(24,023,191)
8. Other	-	-	-	-	-	-	-	-	-	-
9. Net change in plan fiduciary net position	(435,485,639)	1,628,345,389	900,083,667	628,619,014	158,453,489	4,550,311,235	(80,977,679)	570,570,943	1,275,247,381	1,225,173,437
10. Fiduciary net position - beginning	14,505,464,556	14,069,978,917	15,698,324,306	16,598,407,973	17,227,026,987	17,385,480,476	21,935,791,711	21,854,814,032	22,425,384,975	23,700,632,356
11. Fiduciary net position - ending	14,069,978,917	15,698,324,306	16,598,407,973	17,227,026,987	17,385,480,476	21,935,791,711	21,854,814,032	22,425,384,975	23,700,632,356	24,925,805,793
C. Net pension liability ending	$ 13,369,254,712	$ 12,950,306,227	$ 13,318,993,410	$ 14,169,420,698	$ 15,306,275,368	$ 12,203,373,761	$ 12,967,964,588	$ 13,799,232,278	$ 14,148,885,379	$ 14,690,230,460
D. Fiduciary net position as a percentage of the total pension liability	51.28%	54.80%	55.48%	54.87%	53.18%	64.25%	62.76%	61.91%	62.62%	62.92%
E. Covered payroll	$ 4,112,227,306	$ 4,243,521,876	$ 4,256,052,840	$ 4,376,216,753	$ 4,481,443,808	$ 4,667,346,006	$ 4,483,686,505	$ 4,674,478,467	$ 4,948,188,592	$ 5,263,947,424
F. Net pension liability as a percentage of covered payroll	325.11%	305.18%	312.94%	323.78%	341.55%	261.46%	289.23%	295.20%	285.94%	279.07%

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See accompanying notes to required supplementary information and report of independent auditors.

Employees' Retirement System of the State of Hawaii
Required Supplementary Information (Unaudited)
Schedule of the Employers' Net Pension Liability
June 30, 2016 to June 30, 2025

Fiscal Year	Total Pension Liability	Fiduciary Net Position	Net Pension Liability	Fiduciary Net Position as a % of Total Pension Liability	Covered Payroll	Net Pension Liability as a Percentage of Covered Payroll
2016	$ 27,439,233,629	$ 14,069,978,917	$ 13,369,254,712	51.28%	$ 4,112,227,306	325.11%
2017	28,648,630,533	15,698,324,306	12,950,306,227	54.80%	4,243,521,876	305.18%
2018	29,917,401,383	16,598,407,973	13,318,993,410	55.48%	4,256,052,840	312.94%
2019	31,396,447,685	17,227,026,987	14,169,420,698	54.87%	4,376,216,753	323.78%
2020	32,691,755,844	17,385,480,476	15,306,275,368	53.18%	4,481,443,808	341.55%
2021	34,139,165,472	21,935,791,711	12,203,373,761	64.25%	4,667,346,006	261.46%
2022	34,822,778,620	21,854,814,032	12,967,964,588	62.76%	4,483,686,505	289.23%
2023	36,224,617,253	22,425,384,975	13,799,232,278	61.91%	4,674,478,467	295.20%
2024	37,849,517,735	23,700,632,356	14,148,885,379	62.62%	4,948,188,592	285.94%
2025	39,616,036,253	24,925,805,793	14,690,230,460	62.92%	5,263,947,424	279.07%

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See accompanying notes to required supplementary information and report of independent auditors.

Employees' Retirement System of the State of Hawaii
Required Supplementary Information (Unaudited)
Schedule of Investment Returns
Years Ended June 30, 2016 to 2025

Fiscal Year	Annual Money-Weighted Rate of Return
2016	-1.2%
2017	13.7%
2018	7.8%
2019	5.7%
2020	2.1%
2021	26.9%
2022	0.8%
2023	3.8%
2024	6.6%
2025	6.0%

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See accompanying notes to required supplementary information and report of independent auditors.

Note A - Description

There have been no changes in benefit terms since the last valuation. The actuarial assumptions have been revised since the prior valuation to reflect the most recent experience study dated August 5, 2025. These changes in actuarial assumptions, primarily to projected salary increases and mortality rates, increased total pension liability by approximately $170 million.

Note B – Significant Factors Affecting Trends in Actuarial Information

2025 Changes in Actuarial Assumptions

The following changes were made to the actuarial assumptions as of June 30, 2024 to June 30, 2025:

- The assumed salary increase schedules for Teachers increased by 0.10% for all years. For Police and Fire Employees, the salary increase assumptions were revised to 5.85% from 5.75%, for the first 30 years of service and 5.00% thereafter. There was no change for General Employees.

- Pre-retirement mortality assumptions were updated from the Pub-2010 mortality tables to the Pub-2016 mortality tables for public sector employees. There was a change to the post-retirement base mortality and life expectancy tables for male Police and Fire Employees. There were no other changes to the post-retirement base mortality and life expectancy tables nor to the mortality improvement scale.

- Termination assumptions were updated to reflect recent experience, generally resulting in slightly higher turnover rates.

- Retirement assumptions were revised for all employee groups based on recent experience. The most significant change was a 2% increase in the annual probability of retirement for Police and Fire Employees before age 55.

- Disability assumptions were revised slightly based on experience and future expectations.

- The assumed amount of sick leave converted to service at retirement was increased slightly for Teachers and Police and Fire Employees.

2022 Changes in Actuarial Assumptions

The following changes were made to the actuarial assumptions as of June 30, 2021 to June 30, 2022:

- The administrative expenses assumption was increased from 0.35% to 0.40%.

- The general wage inflation assumption represents the average increase in wages in the general economy and is used to index salaries for each cohort of new entrants in projections. The general productivity component of the general wage inflation assumption for General Employees and Teachers decreased from 1.00% to 0.50%, that now yields a nominal assumption of 3.00%. There was no change to the assumption for Police and Firefighters employees.

- The assumed salary increase schedules increased for all employees. These schedules include an ultimate component for general wage inflation that may add on additional increases for individual merit (which would include promotions) and then an additional component for step rates based on service. The schedules of assumed salary increase, that are the same, for General Employees and Teachers increased to

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4.66%, from 4.41% for General Employees and from 4.37% for Teachers; while Police and Firefighters Employees schedules increased to 5.78% from 5.57%.

- Pre-retirement mortality rates increased for Police and Firefighters Employees.

- Retiree mortality is updated to the 2022 Public Retirees of Hawaii mortality tables. The rates are projected on a fully generational basis by the long-term rates of scale UMP from the year 2022 and with multiplier and setbacks based on plan and group experience.

- While there is no change to the assumption that mortality rates will continue to improve in the future using a fully generational approach, the improvement scale used to project future improvement is updated to the ultimate values of the most recently published Scale MP-2021. Further adjustments are applied to this set of base tables based on occupation (General Employees, Teachers, and Public Safety).

2019 Changes in Actuarial Assumptions

The following changes were made to the actuarial assumptions as of June 30, 2018 to June 30, 2019:

- The assumed salary increase schedules continues to include an ultimate component for general wage inflation that may add on additional increases for individual merit (which would include promotions) and then an additional component for step rates based on service. There were no changes for General Employees and Teachers. The overall impact increased for salary rate increase rates received for most Police and Firefighters over their career due to extending the 2-year step schedule to 25-years.

- Mortality rates generally decreased due to the continued improvements in using a fully generational approach and Scale BB (published by the Society of Actuaries), although mortality rates increased in certain age groups across all employment groups.

- The rates of disability of active employees increased for all General Employees and Teachers, and for Police and Firefighters from duty-related reasons.

- There were minor increases in the retirement rates for members in certain groups based on age, employment group and/or membership class.

2016 Changes in Actuarial Assumptions

The following changes were made to the actuarial assumptions as of June 30, 2015 to June 30, 2016:

- The investment rate of return assumption was decreased from 7.65% to 7.00%.

- Change the investment return assumption from net of all expenses to net of only investment expenses, add explicit charge for administrative expenses (0.35% of pay).

- The inflation assumption was decreased from 3.00% to 2.50%.

- Decrease the wage inflation (or employer budget growth) assumption from 4.00% to 3.50%.

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- The inflation component of salary increase rates decreased for all groups. The salary increase rates were changed to reflect a smaller productivity component for Teachers and Police and Firefighters. The service based component generally increased for most General Employees, decreased for most Teachers, and remain unchanged for most Police and Firefighters. The overall impact decreased assumed salary rate increase rates for all General Employees and Teachers, while remaining unchanged for almost all Police and Firefighters.

- The rates of mortality for active employees were decreased.

- The rates of mortality for healthy retirees and beneficiaries for most employee groups were decreased, adding an explicit assumption for continued future mortality improvement (generational approach).

- The rates of mortality for disabled retirees for most employee groups were decreased.

- The rates of disability of active employees increased for all General Employees, for Police and Firefighters from duty-related reasons and for Teachers from non-duty-related reasons.

- The rates of termination assumption for all employee groups was changed from separate male and female by employee group to a combined male and female by employee group. The rate of terminations for Police and Firefighters was increased. The rate of terminations for General Employees in the first six years of service decreased, and remains unchanged for other General Employees. After six years of service, the rates of termination generally increased for Teachers, and remained unchanged for other Teachers.

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Other Supplementary Information

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Schedule 1

Employees' Retirement System of the State of Hawaii
Combining Schedule of Changes in Fiduciary Net Position - All Trust Funds
Year Ended June 30, 2025

	Pension Accumulation Reserves	Annuity Savings Reserves	Expense Reserves	Total
Additions				
Appropriations and contributions				
Employers	$ 1,479,559,382	$ -	$ -	$ 1,479,559,382
Members	-	371,067,993	-	371,067,993
Net investment income	1,400,874,593	-	-	1,400,874,593
Total additions	2,880,433,975	371,067,993	-	3,251,501,968
Deductions				
Benefit payments	1,977,937,411	-	-	1,977,937,411
Refunds of member contributions	-	24,367,929	-	24,367,929
Administrative expenses	-	-	24,023,191	24,023,191
Total deductions	1,977,937,411	24,367,929	24,023,191	2,026,328,531
Other changes in net position restricted for pension benefits				
Transfer due to retirement of members	235,435,838	(235,435,838)	-	-
Transfer of interest allocation	(146,601,439)	146,601,439	-	-
Transfer to pay administrative expenses	(22,846,288)	-	22,846,288	-
Return of unrequired funds due to savings in administrative expenses	-	-	-	-
	65,988,111	(88,834,399)	22,846,288	-
Net increase (decrease)	968,484,675	257,865,665	(1,176,903)	1,225,173,437
Fiduciary net position restricted for pensions				
Beginning of year	19,697,793,542	3,989,784,815	13,053,999	23,700,632,356
End of year	$ 20,666,278,217	$ 4,247,650,480	$ 11,877,096	$ 24,925,805,793

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See report of independent auditors.

Employees' Retirement System of the State of Hawaii
Schedule of Administrative Expenses
Year Ended June 30, 2025

Personnel services		
Salaries and wages	$	9,417,720
Fringe benefits		5,268,551
Net change in accrued compensated absences		1,804,685
Total personnel services		16,490,956
Professional services		
Actuarial		160,100
Auditing and tax consulting		734,803
Disability hearing expenses		69,767
Legal services		796,325
Medical		449,664
Other services		125
Total professional services		2,210,784
Communication		
Postage		307,811
Printing and binding		79,040
Telephone		61,108
Travel		102,080
Total communication		550,039
Rentals		
Rental of equipment		79,804
Rental of premises		19,506
Total rentals		99,310
Other		
Repairs and maintenance		3,419,465
Office and other administrative costs		197,289
Total other		3,616,754
Depreciation		1,055,348
	$	24,023,191

DRAFT - 11.02.2026

See report of independent auditors.

Employees' Retirement System of the State of Hawaii
Schedule of Investment Expenses
Year Ended June 30, 2025

Real estate and alternative investment expenses	
Operating expenses	$ 6,710,209
Investment expenses	
Investment manager/advisor fees	98,360,300
Bank custodian fees	222,713
Other investment expenses	69,805,967
Total investment expenses	168,388,980
Securities lending expenses	
Borrower rebates	47,030,446
Management fees	694,441
Total securities lending expenses	47,724,887
	$ 222,824,076

DRAFT - 11.02.2026

See report of independent auditors.

Schedule 4

Employees' Retirement System of the State of Hawaii
Statement of Changes in Assets and Liabilities
Social Security Contribution Fund - (Unaudited)
Year Ended June 30, 2025

	Beginning Balance	Additions	Deductions	Ending Balance
Assets				
Receivable from employers	$ -	$ 324,384,399	$ 324,384,399	$ -
Total assets	$ -	$ 324,384,399	$ 324,384,399	$ -
Liabilities				
Due to employers	$ -	$ 324,384,399	$ 324,384,399	$ -
Total liabilities	$ -	$ 324,384,399	$ 324,384,399	$ -

Note A - Social Security Contribution Fund

The Social Security Contribution Fund (Contribution Fund) was established under Section 88-224 of the HRS for the following purposes:

1. To receive all federal Social Security employers' contributions from the State and interest and penalties on unpaid amounts;

2. To receive any appropriations to the Contribution Fund;

3. To pay amounts required to be paid to the Internal Revenue Service (the IRS); and

4. To invest and collect income on resources held by the Contribution Fund.

All other non-State governmental agencies remit Social Security contributions directly to the IRS. Social Security contributions withheld from employees are remitted directly to the IRS by the employers. At June 30, 2025, the ERS held no amounts in the Contribution Fund as all employer contribution amounts from the State were paid directly to the IRS.

DRAFT - 11.02.2026

See report of independent auditors.

Part III
Internal Control and Compliance Section

DRAFT - 11.02.2026

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Report of Independent Auditors on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With Government Auditing Standards

The Auditor
State of Hawaii

Board of Trustees
Employees' Retirement System of the State of Hawaii

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States (Government Auditing Standards), the financial statements of the Employees' Retirement System of the State of Hawaii (the ERS) as of and for the year ended June 30, 2025, and the related notes to financial statements, which collectively comprise the ERS' basic financial statements, and have issued our report thereon dated November __, 2026.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the ERS' internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the ERS' internal control. Accordingly, we do not express an opinion on the effectiveness of the ERS' internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a certain deficiency in internal control, described in the accompanying Appendix A as item 2025-001, that we consider to be a significant deficiency.

DRAFT - 11-02-2026

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the ERS' financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

ERS' Response to Finding

Government Auditing Standards requires the auditors to perform limited procedures on ERS' response to the finding identified in our audit and described in Appendix A – Significant Deficiency in Internal Control over Financial Reporting. The ERS' response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the ERS' internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the ERS' internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Honolulu, Hawaii
November__, 2026

DRAFT - 11.02.2026

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Appendix A – Significant Deficiency in Internal Control Over Financial Reporting

Finding 2025-001: Inadequate Financial Reporting Continuity and Oversight

Criteria

Management is responsible for establishing and maintaining an internal control system that provides reasonable assurance that the financial information is reliable and prepared in a timely fashion. Effective controls should include adequate segregation of responsibilities, cross-training, supervisory review, and contingency procedures to ensure continuity of critical financial reporting processes.

Condition

The ERS relied extensively on an individual to perform and oversee critical financial reporting functions, including preparation of schedules, account analyses, reconciliations, and responding to auditor requests. Extended absences of an individual resulted in significant delays in providing information necessary to support financial statement balances and disclosures. In several instances, management was unable to timely provide requested documentation because other personnel lacked sufficient knowledge and/or authority to perform the required functions.

Cause

Critical accounting knowledge and responsibilities were concentrated in an individual, and formal contingency procedures and cross-training had not been sufficiently established to ensure continuity of financial reporting activities during employee absences.

Effect

The lack of adequate continuity controls contributed to significant delays in the financial reporting process and increased the risk that errors or omissions in financial reporting could occur and not be detected and corrected on a timely basis. While we did not identify any material misstatements resulting from this condition, the deficiency is important enough to merit the attention of those charged with governance.

Recommendation

Management should develop and implement cross-training procedures, document key financial reporting processes, establish backup personnel for critical accounting functions, and enhance supervisory oversight to ensure continuity of financial reporting activities during employee absences.

Management Response

Management concurs with the recommendation and will implement procedures to reduce reliance on individual personnel and improve continuity of financial reporting operations.

DRAFT - 11.02.2026

Client: ***32038 - EMPLOYEES' RETIREMENT SYSTEM OF THE STATE OF HAWAII***
Engagement: ***Employees' Retirement System of the State of Hawaii***
Period Ending: ***6/30/2025***
Trial Balance: ***A6.00 - Trial Balance***
Workpaper: ***A10.3 - Proposed Journal Entries Report***

Account	Description	W/P Ref	Debit	Credit
Proposed Journal Entries				
Proposed Journal Entries JE # 1		**F7.18**		
To reclass investment balances to investment receivable.				
3.13020.5001.0000.00000	INVESTMENT SALES PRO		20,080,679.60	
3.16110.3910.0000.00000	ALT INV-DIV STRATEGY			19,946,094.82
3.16111.3910.0000.00000	ALT INV-DIV STRATEGY			134,584.78
Total			**20,080,679.60**	**20,080,679.60**
Proposed Journal Entries JE # 2		**F7.24**		
To reclass investment balances to investment receivable.				
3.13020.5001.0000.00000	INVESTMENT SALES PRO		5,959,601.07	
3.16110.3937.0000.00000	ALT INV-DIV STRATEGY			5,631,498.12
3.16111.3937.0000.00000	ALT INV-DIV STRATEGY			328,102.95
Total			**5,959,601.07**	**5,959,601.07**
	Total Proposed Journal Entries		**26,040,280.67**	**26,040,280.67**
	Total All Journal Entries		**26,040,280.67**	**26,040,280.67**

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The Auditor
State of Hawaii:

Board of Trustees
Employees' Retirement System of the State of Hawaii:

We have audited the financial statements of the Employees' Retirement System of the State of Hawaii (the ERS) as of and for the year ended June 30, 2025. Professional standards require that we provide you with information about our responsibilities under auditing standards generally accepted in the United States of America and *Government Auditing Standards*, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated May 28, 2025. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Matters

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the ERS are described in Note B to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year ended June 30, 2025. We noted no transactions entered into by the ERS during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

The most sensitive estimates affecting the ERS' financial statements are the valuation of investments and the actuarial valuation of total pension liability as of June 30, 2025.

Management's estimate of the valuation of its investments is based on the following:

Short-term investments – Short-term bills and notes and certain derivative financial instruments (currency purchase forwards) are valued using quoted market prices. Pooled and other funds are valued at net asset value (NAV) based on the pro rata ownership percentage of the fund reported by the fund manager.

Equity securities – Common stocks and certain preferred shares are valued using prices quoted in active markets for those securities based on published market prices, quotations from national security exchanges, and security pricing services. Other preferred shares are valued using non-proprietary information that are readily available to market participants from independent sources, as well as estimates for private investments and thinly traded securities. Equity funds are valued at NAV based on the fair value of the underlying assets that is determined by published market prices or quotations from national security exchanges.

Fixed income securities – U.S. treasury bonds are valued using published market prices or quotations from national security exchanges. Other U.S. government and agency securities are valued using non-proprietary information that are readily available to market participants from independent sources. Fixed income funds are valued at NAV based upon the fair value of the underlying assets that is determined by published market prices or quotations from national security exchanges.

Real assets investments – Investments in individual properties are valued by the investment companies at least annually based on investment type. Investments in limited partnerships, limited liability companies, and corporations are valued at NAV using valuation assumptions based on both market and specific inputs.

Alternative investments (traditional and diversifying strategies) – Investments in limited partnerships and limited liability companies are valued at NAV using valuation assumptions based on both market and specific inputs as reported by the general partners.

Invested securities lending collateral – Investments are valued using non-proprietary information that are readily available to market participants from independent sources.

We evaluated the key methods, assumptions, and data used in the valuation of investments and determined that they were reasonable in relation to the financial statements taken as a whole.

Management's estimate of the total pension liability as of June 30, 2025 is based on a third party actuarial valuation. We evaluated the key actuarial assumptions, methodology, and data used to develop the total pension liability in determining that it is reasonable in relation to the financial statements taken as a whole.

The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered significant delays in obtaining certain schedules, account analyses, reconciliations, and supporting documentation necessary to complete the audit as planned. We noted no other difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management.

During the course of our audit, we identified and discussed with management audit adjustments that have not been corrected in the ERS' financial statements as of and for the year ended June 30, 2025. We have reported these audit adjustments to management on a Summary of Uncorrected Misstatements and have received written representations from management that management believes the effects of the uncorrected misstatements are immaterial to the ERS' financial statements taken as a whole. The uncorrected misstatements are provided in Attachment I.

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditors' report. We are pleased to report that no such disagreements arose during the course of our audit.

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Management Representations

We have requested certain representations from management that are included in the management representation letter dated November __, 2026.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the ERS' financial statements or a determination of the type of auditors' opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We identified a significant deficiency in internal control over financial reporting, Finding No. 2025-001, Inadequate Financial Reporting Continuity and Oversight. The ERS relied extensively on one individual to perform and oversee critical financial reporting functions, including preparation of schedules, account analyses, reconciliations, and responding to auditor requests. Extended absences of this individual resulted in significant delays in receiving information necessary to support financial statement balances and disclosures. In several instances, management was unable to timely provide requested documentation because other personnel lacked sufficient knowledge and/or authority to perform the required functions. We did not identify any material misstatements resulting from this condition.

We recommended that management develop and implement cross-training procedures, document key financial reporting processes, establish backup personnel for critical accounting functions, and enhance supervisory oversight to ensure continuity of financial reporting activities during employee absences.

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the ERS' auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Independence

Our professional standards and other regulatory requirements specify that we communicate to you in writing, at least annually, confirmation that we are independent accountants with respect to the ERS.

We hereby confirm that as of November __, 2026, we are independent accountants with respect to the ERS under all relevant professional and regulatory standards.

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Other Matters

We applied certain limited procedures to the management's discussion and analysis, the schedule of changes in the employers' net pension liability and related ratios, the schedule of the employers' net pension liability, and the schedule of investment returns, which are required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

We were engaged to report on other supplementary information, which accompany the basic financial statements but are not RSI. With respect to the supplementary information included in the combining schedule of changes in fiduciary net position – all trust funds, the schedule of administrative expenses, and the schedule of investment expenses, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the basic financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the basic financial statements or to the basic financial statements themselves.

We were not engaged to report on the statement of changes in assets and liabilities – social security contribution fund, which accompany the basic financial statements but is not RSI. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Restriction on Use

This information is intended solely for the information and use of the Auditor, State of Hawaii, and the Board of Trustees and management of the ERS and is not intended to be, and should not be, used by anyone other than these specified parties.

Honolulu, Hawaii
November __, 2026

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Client: ***32038 - EMPLOYEES' RETIREMENT SYSTEM OF THE STATE OF HAWAII***
Engagement: ***Employees' Retirement System of the State of Hawaii***
Period Ending: ***6/30/2025***
Trial Balance: ***A6.00 - Trial Balance***
Workpaper: ***A10.3 - Proposed Journal Entries Report***

Account	Description	W/P Ref	Debit	Credit
Proposed Journal Entries				
Proposed Journal Entries JE # 1		**F7.18**		
To reclass investment balances to investment receivable.				
3.13020.5001.0000.00000	INVESTMENT SALES PRO		20,080,679.60	
3.16110.3910.0000.00000	ALT INV-DIV STRATEGY			19,946,094.82
3.16111.3910.0000.00000	ALT INV-DIV STRATEGY			134,584.78
Total			**20,080,679.60**	**20,080,679.60**
Proposed Journal Entries JE # 2		**F7.24**		
To reclass investment balances to investment receivable.				
3.13020.5001.0000.00000	INVESTMENT SALES PRO		5,959,601.07	
3.16110.3937.0000.00000	ALT INV-DIV STRATEGY			5,631,498.12
3.16111.3937.0000.00000	ALT INV-DIV STRATEGY			328,102.95
Total			**5,959,601.07**	**5,959,601.07**
	Total Proposed Journal Entries		**26,040,280.67**	**26,040,280.67**
	Total All Journal Entries		**26,040,280.67**	**26,040,280.67**

[ERS Letterhead]

November __, 2026

Accuity LLP
First Hawaiian Center
999 Bishop Street, Suite 2300
Honolulu, Hawaii

This representation letter is provided in connection with your audit of the schedule of employer allocations of the Employees' Retirement System of the State of Hawaii (the ERS) for the year ended June 30, 2025, and the related notes, and your audit of the total for all entities of the columns titled net pension liability, total deferred outflows of resources, total deferred inflows of resources, and total pension expense (specified column totals) included in the schedule of pension amounts by employer (collectively the Schedules) of the ERS as of and for the year ended June 30, 2025, and the related notes, all for the purpose of expressing our opinions as to whether the Schedules are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America (GAAP).

Certain representations in this letter are described as being limited to matters that are considered to be material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement. An omission or misstatement that is monetarily small in amount could be considered material as a result of qualitative factors.

We confirm, to the best of our knowledge and belief, as of November __, 2026, the following representations made to you during your audit.

Presentation of the Schedules

1. We have fulfilled our responsibilities, as set out in the terms of the audit engagement letter dated May 28, 2025, including our responsibility for the preparation and fair presentation of the Schedules.

2. The Schedules referred to above are fairly presented in conformity with GAAP.

3. We acknowledge our responsibility for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the Schedules that are free from material misstatement, whether due to fraud or error.

4. We acknowledge our responsibility for the design, implementation, and maintenance of internal control to prevent and detect fraud.

5. The methods, significant assumptions, and data used in making accounting estimates and their related disclosures are appropriate to achieve recognition, measurement, or disclosure that is reasonable in accordance with GAAP.

6. Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with GAAP.

7. All events subsequent to the date of the Schedules and for which GAAP requires adjustment or disclosure have been adjusted or disclosed.

8. We are not aware of any pending or threatened litigation, claims, or assessments or unasserted claims or assessments that are required to be accrued or disclosed in the Schedules in accordance with GAAP, and we have not consulted a lawyer concerning litigation, claims, or assessments.

9. With regard to the assistance provided in the preparation of the Schedules performed by you, we have:

    a. Assumed all management responsibilities.

    b. Designated Mr. Larry Wolfe, Accounting Manager, who has the suitable skill, knowledge, and experience to oversee the services.

    c. Evaluated the adequacy and results of the services performed.

    d. Accepted responsibility for the results of the services.

    e. Ensured that the data and records are complete and we have sufficient information to oversee the services.

Information Provided

10. We have provided you with:

    a. Access to all information, of which we are aware, that is relevant to the preparation and fair presentation of the Schedules (including information obtained from outside the general and subsidiary ledgers), such as records, documentation, and other matters.

    b. Additional information that you have requested from us for the purpose of the audit.

    c. Unrestricted access to persons within the ERS from whom you determined it necessary to obtain audit evidence.

    d. The actuarial reports and the Governmental Accounting Standards Board Statement Nos. 67 and 68 reports prepared by the ERS' actuary.

11. All material transactions have been recorded in the accounting records and are reflected in the Schedules.

12. We have disclosed to you the results of our assessment of the risk that the Schedules may be materially misstated as a result of fraud.

13. We have no knowledge of any fraud or suspected fraud affecting the ERS and involves:

    a. Management,

    b. Employees who have significant roles in internal control, or

    c. Others where the fraud could have a material effect on the Schedules.

14. We have no knowledge of any allegations of fraud or suspected fraud affecting the Schedules communicated by employees, former employees, analysts, regulators, or others.

15. We have no knowledge of any instances of noncompliance or suspected noncompliance with laws and regulations whose effects should be considered when preparing the Schedules.

16. We have disclosed to you the names of all of the ERS' related parties and all the related party relationships and transactions, including any side agreements.

17. We have no knowledge of any omissions from the participants' data (census data) provided to the ERS' actuary for the purpose of determining the total pension liability and other actuarially determined amounts in the Schedules.

18. The ERS agrees with the actuarial methods and assumptions used by the actuary for determining the total pension liability and other actuarially determined amounts in the Schedules and has no knowledge or belief that such methods or assumptions are inappropriate in the circumstances. We did not give any instructions, nor cause any to be given, to the ERS' actuary with respect to values or amounts derived, and we are not aware of any matters that have impacted the independence or objectivity of the ERS' actuary.

19. The following have been properly recorded or disclosed in the Schedules:

    a. The actuarial methods or assumptions used in calculating amounts recorded or disclosed in the Schedules.

    b. Plan provisions between the actuarial valuation date and the date of this letter.

Signature: _____
Larry Wolfe
Accounting Manager

Signature: _____
Kalbert Young
Executive Director

[Client's Letterhead]

November __, 2026

Accuity LLP
999 Bishop Street, Suite 2300
Honolulu, Hawaii 96813

This representation letter is provided in connection with your audit of the financial statements of the Employees' Retirement System of the State of Hawaii (the ERS), which comprise the statement of fiduciary net position as of June 30, 2025, and the related statement of changes in fiduciary net position for the year then ended, and the disclosures (collectively, the "financial statements"), for the purpose of expressing an opinion as to whether the financial statements are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America (GAAP).

Certain representations in this letter are described as being limited to matters that are material. Items are considered to be material, regardless of size, if they involve an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement. An omission or misstatement that is monetarily small in amount could be considered material as a result of qualitative factors.

We confirm, to the best of our knowledge and belief, as of November __, 2026, the following representations made to you during your audit.

Financial Statements

1. We have fulfilled our responsibilities, as set out in the terms of the audit engagement letter dated May 28, 2025, including our responsibility for the preparation and fair presentation of the financial statements in accordance with GAAP and for preparation of the supplementary information in accordance with the applicable criteria.

2. The financial statements referred to above are fairly presented in conformity with GAAP and include all properly classified funds and other financial information of the ERS required by GAAP to be included in the financial reporting entity.

3. We acknowledge our responsibility for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

4. We acknowledge our responsibility for the design, implementation, and maintenance of internal control to prevent and detect fraud.

5. The methods, significant assumptions, and data used in making accounting estimates and their related disclosures are appropriate to achieve recognition, measurement, or disclosure that is reasonable in accordance with GAAP.

6. Related party relationships and transactions, including revenues, expenses, loans, transfers, leasing arrangements, and guarantees, and amounts receivable from or payable to related parties have been appropriately accounted for and disclosed in accordance with GAAP.

7. Adjustments or disclosures have been made for all events, including instances of noncompliance, subsequent to the date of the financial statements that would require adjustment to or disclosure in the financial statements.

8. The effects of uncorrected misstatements are immaterial, both individually and in the aggregate, to the financial statements as a whole. A list of the uncorrected misstatements is attached to the representation letter as Attachment I.

9. The effects of all known actual or possible litigation, claims, and assessments have been accounted for and disclosed in accordance with GAAP.

10. Guarantees, whether written or oral, under which the ERS is contingently liable, if any, have been properly recorded or disclosed.

Information Provided

11. We have provided you with:

    a. Access to all information, of which we are aware, that is relevant to the preparation and fair presentation of the financial statements, such as records (including information obtained from outside of the general and subsidiary ledgers), documentation, and other matters.

    b. Additional information that you have requested from us for the purpose of the audit.

    c. Unrestricted access to persons within the ERS from whom you determined it necessary to obtain audit evidence.

    d. Minutes of the meetings of the Board of Trustees and the Administrative and Audit Committee, or summaries of actions of recent meetings for which minutes have not yet been prepared.

12. All material transactions have been recorded in the accounting records and are reflected in the financial statements.

13. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.

14. We have no knowledge of any fraud or suspected fraud that affects the ERS and involves:

    a. Management,

    b. Employees who have significant roles in internal control, or

    c. Others where the fraud could have a material effect on the financial statements.

15. We have no knowledge of any allegations of fraud or suspected fraud affecting the ERS' financial statements communicated by employees, former employees, regulators, or others.

16. We have no knowledge of instances of noncompliance or suspected noncompliance with provisions of laws, regulations, contracts, or grant agreements, or waste or abuse, whose effects should be considered when preparing financial statements.

17. We have disclosed to you all known actual or possible litigation, claims, and assessments whose effects should be considered when preparing the financial statements.

18. We have disclosed to you the names of the ERS' related parties and all the related party relationships and transactions, including any side agreements.

Government-specific

19. There have been no communications from regulatory agencies concerning noncompliance with, or deficiencies in, financial reporting practices.

20. We have a process to track the status of audit findings and recommendations.

21. We have identified to you any previous audits, attestation engagements, and other studies related to the objectives of the audit and whether related recommendations have been implemented.

22. We have identified to you any investigations or legal proceedings that have been initiated with respect to the period under audit.

23. We have provided our views on reported findings, conclusions, and recommendations, as well as our planned corrective actions, for the report.

24. The ERS has no plans or intentions that may materially affect the carrying value or classification of assets, liabilities, or net position.

25. We are responsible for compliance with the laws, regulations, and provisions of contracts and grant agreements applicable to us.

26. We have identified and disclosed to you all instances of identified an suspected fraud and noncompliance with provisions of laws, regulations, contracts, and grant agreements that we believe have a material effect on the financial statements.

27. There are no violations or possible violations of budget ordinances, laws and regulations (including those pertaining to adopting, approving, and amending budgets), and provisions of contracts and grant agreements, whose effects should be considered for disclosure in the financial statements, or as a basis for recording a loss contingency, or for reporting on noncompliance.

28. As part of your audit, you assisted with preparation of the financial statements and disclosures. We acknowledge our responsibility as it relates to those nonaudit services, including that we assume all management responsibilities; oversee the services by designating Mr. Larry Wolfe, Accounting Manager, who possesses suitable skill, knowledge, or experience; evaluate the adequacy and results of the services performed and accept

responsibility for the results of the services. We have reviewed, approved, and accepted responsibility for those financial statements and disclosures.

29. The ERS has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets nor has any asset been pledged as collateral.

30. The ERS has complied with all aspects of contractual agreements that would have a material effect on the financial statements in the event of noncompliance.

31. The financial statements include all fiduciary activities required by Governmental Accounting Standards Board (GASB) Statement No. 84, as amended.

32. The financial statements properly classify all funds and activities in accordance with GASB Statement No. 34.

33. Components of net position (pension accumulation reserves, annuity savings reserves, and expense reserves) are properly classified and, if applicable, approved.

34. Investments, derivative instrument transactions, and land and other real estate held by the ERS are properly valued.

35. Provisions for uncollectible receivables have been properly identified and recorded.

36. Deposits and investment securities and derivative instrument transactions are properly classified as to risk and are properly disclosed.

37. Capital assets are properly capitalized, reported, and, if applicable, depreciated or amortized.

38. We acknowledge our responsibility for the required supplementary information (RSI). The RSI is measured and presented within prescribed guidelines and the methods of measurement and presentation have not changed from those used in the prior period. We have disclosed to you any significant assumptions and interpretations underlying the measurement and presentation of the RSI.

39. With respect to the supplementary information on which an in-relation- to opinion is issued:

    a. We acknowledge our responsibility for presenting the supplementary information in accordance with GAAP, and we believe the supplementary information, including its form and content, is fairly presented in accordance with GAAP. The methods of measurement and presentation of the supplementary information have not changed from those used in the prior period, and we have disclosed to you any significant assumptions or interpretations underlying the measurement and presentation of the supplementary information.

    b. If the supplementary information is not presented with the audited financial statements, we will make the audited financial statements readily available to the intended users of the supplementary information no later than the date we issue the supplementary information and the auditors' report thereon.

40. With respect to the introductory, investment, actuarial, and statistical sections (other information):

a) We acknowledge that we have informed you of all documents that may comprise other information we expect to issue. The financial statements and other information you obtained prior to the auditors' report date are consistent with one another, and the other information does not contain any material misstatements.

b) With regard to the other information that will be included in the annual comprehensive financial report (the ACFR) that has not been obtained by you prior to the auditors' report date, we intend to prepare and issue the other information, as well as communicate the expected timing of issuance, and provide you with the final version of the documents when available and prior to the issuance of the ACFR.

41. We agree with the findings of specialists in evaluating the actuarial assumptions and methods used to measure pension liabilities and costs for financial accounting purposes are appropriate in the circumstances and have adequately considered the qualifications of the specialists in determining the amounts and disclosures used in the financial statements and underlying accounting records. We did not give or cause any instructions to be given to specialists with respect to the values or amounts derived in an attempt to bias their work, and we are not otherwise aware of any matters that have had an impact on the independence or objectivity of the specialists.

42. With respect to the advanced employers' contribution of approximately $68 million, no interest was accrued at the discretion of the Board of Trustees.

Signature: _____ Signature: _____

Title: _____ Title: _____

Employees' Retirement System of the State of Hawaii

Schedule of Employer Allocations and Schedule of Pension Amounts by Employer

(With Report of Independent Auditors Thereon)

June 30, 2025

DRAFT - 11.02.2026



Submitted by
The Auditor
State of Hawaii

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Report of Independent Auditors

The Auditor
State of Hawaii:

Board of Trustees
Employees' Retirement System of the State of Hawaii:

Opinions

We have audited the accompanying schedule of employer allocations of the Employees' Retirement System of the State of Hawaii (the "ERS") for the year ended June 30, 2025, and the related notes. We have also audited the total for all entities of the columns titled net pension liability, total deferred outflows of resources, total deferred inflows of resources, and total pension expense (specified column totals) included in the accompanying schedule of pension amounts by employer (collectively the "Schedules") of the ERS as of and for the year ended June 30, 2025, and the related notes.

In our opinion, the Schedules referred to above present fairly, in all material respects, the employer allocations and net pension liability, total deferred outflows of resources, total deferred inflows of resources, and total pension expense for the total of all participating entities for the ERS as of and for the year ended June 30, 2025, in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Schedules section of our report. We are required to be independent of the ERS and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Schedules

Management is responsible for the preparation and fair presentation of the Schedules in accordance with accounting principles generally accepted in the United States of America; and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the Schedules that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibilities for the Audit of the Schedules

Our objectives are to obtain reasonable assurance about whether the schedule of employer allocations and specified column totals included in the schedule of pension amounts by employer are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal

control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the schedule of employer allocations and specified column totals included in the schedule of pension amounts by employer.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.

- Identify and assess the risks of material misstatement of the schedule of employer allocations and specified column totals included in the schedule of pension amounts by employer, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts in the schedule of employer allocations and specified column totals included in the schedule of pension amounts by employer and the related disclosures.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the ERS' internal control. Accordingly, no such opinion is expressed.

- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the schedule of employer allocations and specified column totals included in the schedule of pension amounts by employer.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Other Matter

We have audited, in accordance with generally accepted auditing standards, the financial statements of the ERS as of and for the year ended June 30, 2025, and our report thereon, dated November __, 2026, expressed an unmodified opinion on those financial statements.

Restriction on Use

Our report is intended solely for the information and use of the Auditor, State of Hawaii, the Board of Trustees and management of the ERS, and the participating employers of the ERS and their auditors, and is not intended to be and should not be used by anyone other than these specified parties.

Honolulu, Hawaii

November__, 2026

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"Accuity" is the brand name under which Accuity LLP and Accuity Advisors, LLC provide professional services. Accuity LLP and Accuity Advisors, LLC practice as an alternative practice structure in accordance with the AICPA Code of Professional Conduct and applicable laws, regulations, and professional standards. Accuity LLP is a licensed independent CPA firm that provides attest services to its clients, and Accuity Advisors, LLC provides tax and business consulting services to their clients. Accuity Advisors, LLC, is not a licensed CPA firm.

Employees' Retirement System of the State of Hawaii
Schedule of Employer Allocations
Year Ended June 30, 2025

Employer		Employer Contributions	Allocation Percentage
Employer contributions, excluding contributions attributable to Temporary Hazard Pay			
Police and fire group			
State of Hawaii	$	13,743,421	4.90%
City and County of Honolulu		173,657,904	61.87%
County of Hawaii		45,355,797	16.16%
County of Maui		34,283,398	12.21%
County of Kauai		13,626,094	4.86%
Total police and fire group		280,666,614	100.00%
All other employees group			
State of Hawaii		774,952,146	67.51%
City and County of Honolulu		111,149,088	9.68%
County of Hawaii		30,855,998	2.69%
County of Maui		36,120,254	3.15%
County of Kauai		16,036,745	1.40%
Board of Water Supply, City and County of Honolulu		11,483,158	1.00%
Department of Water Supply, County of Hawaii		2,936,793	0.25%
Department of Water, County of Kauai		1,903,350	0.17%
Honolulu Authority for Rapid Transportation		482,083	0.04%
University of Hawaii		162,018,388	14.11%
Total all other employees group		1,147,938,003	100.00%
Employer contributions attributable to Temporary Hazard Pay		50,954,765	
Total employer contributions	$	1,479,559,382	

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The accompanying notes are an integral part of these financial statements.

Employees' Retirement System of the State of Hawaii
Schedule of Pension Amounts by Employer
As of and for the Year Ended June 30, 2025

		Deferred Outflows of Resources					Deferred Inflows of Resources				Pension Expense		
Employer	Net Pension Liability	Differences Between Expected and Actual Experience	Changes in Assumptions	Net Difference Between Projected and Actual Earnings on Pension Plan Investments	Changes in Proportion	Total Deferred Outflows of Resources	Differences Between Expected and Actual Experience	Changes in Assumptions	Changes in Proportion	Total Deferred Inflows of Resources	Proportionate Share of Allocable Plan Pension Expense	Net Amortization of Deferred Amounts from Changes in Proportion	Total Pension Expense
Police and fire grou													
State of Hawaii	$ 122,221,992	$ 3,046,669	$ 5,377,898	$ 8,637,037	$ 10,603,636	$ 27,665,240	$ 1,751,730	$ -	$ 297,478	$ 2,049,208	$ 12,888,920	$ 2,633,141	$ 15,522,061
City and County of Honolulu	1,544,361,849	38,496,828	67,953,575	109,135,106	4,240,523	219,826,032	22,134,351	-	33,823,922	55,958,273	162,860,677	(4,834,313)	158,026,364
County of Hawaii	403,354,877	10,054,563	17,748,046	28,503,797	22,327,325	78,633,731	5,781,028	-	1,674,179	7,455,207	42,535,788	6,485,279	49,021,067
County of Maui	304,886,623	7,600,011	13,415,338	21,545,361	9,083,025	51,643,735	4,369,745	-	4,781,406	9,151,151	32,151,818	(2,011,484)	30,140,334
County of Kauai	121,178,590	3,020,659	5,331,988	8,563,303	4,693,256	21,609,206	1,736,775	-	10,370,780	12,107,555	12,778,888	(2,272,623)	10,506,265
Total police and fire group	2,496,003,931	62,218,730	109,826,845	176,384,604	50,947,765	399,377,944	35,773,629	-	50,947,765	86,721,394	263,216,091	-	263,216,091
All other employees group													
State of Hawaii	8,232,101,370	191,898,024	19,902,603	429,415,120	50,821,399	692,037,146	27,788,431	24,347,288	56,282,460	108,418,179	738,210,895	8,156,857	746,367,752
City and County of Honolulu	1,180,705,886	27,523,364	2,854,571	61,589,737	36,806,336	128,774,008	3,985,612	3,492,059	18,628,121	26,105,792	105,879,399	8,693,556	114,572,955
County of Hawaii	327,774,700	7,640,736	792,455	17,097,872	11,046,916	36,577,979	1,106,442	969,427	908,317	2,984,186	29,393,085	7,585,266	36,978,351
County of Maui	383,695,423	8,944,301	927,654	20,014,891	13,708,133	43,594,979	1,295,209	1,134,819	11,389,535	13,819,563	34,407,757	5,238,599	39,646,356
County of Kauai	170,353,893	3,971,109	411,862	8,886,253	208,742	13,477,966	575,050	503,839	3,187,394	4,266,283	15,276,428	57,113	15,333,541
Board of Water Supply, City and County of Honolulu	121,982,396	2,843,524	294,915	6,363,027	1,628,297	11,129,763	411,766	360,775	8,895,626	9,668,167	10,938,730	(1,179,333)	9,759,397
Department of Water Supply, County of Hawaii	31,196,734	727,225	75,424	1,627,330	1,344,295	3,774,274	105,308	92,268	2,365,882	2,563,458	2,797,556	(552,378)	2,245,178
Department of Water, County of Kauai	20,218,759	471,318	48,883	1,054,681	1,874,051	3,448,933	68,251	59,799	861,295	989,345	1,813,110	(98,282)	1,714,828
Honolulu Authority for Rapid Transportation	5,121,039	119,376	12,381	267,131	3,645	402,533	17,287	15,146	8,601,772	8,634,205	459,227	(3,915,496)	(3,456,269)
University of Hawaii	1,721,076,329	40,119,907	4,161,015	89,777,344	15,189,854	149,248,120	5,809,697	5,090,260	21,511,266	32,411,223	154,336,935	(23,985,902)	130,351,033
Total all other employees group	12,194,226,529	284,258,884	29,481,763	636,093,386	132,631,668	1,082,465,701	41,163,053	36,065,680	132,631,668	209,860,401	1,093,513,122	-	1,093,513,122
Total	$ 14,690,230,460	$ 346,477,614	$ 139,308,608	$ 812,477,990	$ 183,579,433	$ 1,481,843,645	$ 76,936,682	$ 36,065,680	$ 183,579,433	$ 296,581,795	$ 1,356,729,213	$ -	$ 1,356,729,213

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The accompanying notes are an integral part of these financial statements.

Employees' Retirement System of the State of Hawaii
Notes to Schedule of Employer Allocations and Schedule of Pension Amounts by Employer
June 30, 2025

1. Plan Description

The Employees' Retirement System of the State of Hawaii (the "ERS") began operations on January 1, 1926, having been established by the Territorial Legislature in the preceding year. The provisions of the ERS are contained in Chapter 88 of the Hawaii Revised Statutes ("HRS") and applicable provisions of the federal Internal Revenue Code. The ERS is a cost-sharing, multiple-employer public employee retirement system established as a defined benefit pension plan to administer a pension benefits program for all State and county employees, including teachers, professors, police officers, firefighters, correction officers, judges, and elected officials.

The ERS Pension Trust is comprised of three pension classes for membership purposes and considered to be a single plan for accounting purposes because all assets of the ERS may legally be used to pay the benefits of any of the ERS members or beneficiaries, as defined by the terms of the ERS. The ERS provides retirement, survivor, and disability benefits for three membership classes known as contributory, hybrid, and noncontributory members.

Generally, all full-time employees of the State and counties of Hawaii are required to be members of the ERS. Some positions of the State and counties of Hawaii are not eligible for ERS membership and may be covered by another separate retirement program. Membership of the plan and the benefits provided are based on the individual's employment group and ERS membership date. A member may belong to only one class based on their latest employment. A member may change classes in certain situations due to a change in their employment date or job classification. If a member earns service in different classes or benefit structures, the member's retirement benefit is bifurcated based on the applicable membership service earned (such as service credits and benefit multiplier percentage of such service).

The two major employment groups applicable to employer and member contribution rates, vesting requirements, and benefit provisions are (a) police and fire and (b) all other employees. There are four major benefit structures for contributory class members based on employment group and membership date while there are two benefit structures for hybrid class members based on their membership date. The noncontributory class has one benefit structure.

2. Basis of Presentation

The accompanying schedule of employer allocations and schedule of pension amounts by employer (the Schedules) present amounts that are considered elements of the financial statements of the ERS or its participating employers. Accordingly, they do not purport to be a complete presentation of the fiduciary net position or changes in fiduciary net position of the ERS or its participating employers. The Schedules are prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. Such preparation requires management of the ERS to make a number of estimates and assumptions relating to the reported amounts. Due to the inherent nature of these estimates, actual results could differ from those estimates.

3. Allocation Methodology

Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions*, requires participating employers to recognize their proportionate share of the collective net pension liability, total deferred outflows of resources, total deferred inflows of resources, and total pension expense.

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Although the ERS administers one cost-sharing multiple-employer defined benefit pension plan, separate (sub) actuarial valuations are prepared to determine the actuarially determined contribution rate by group. Following this method, the measurement of the net pension liability, deferred outflows of resources, deferred inflows of resources, and pension expense are determined separately for the police and fire group and all other employees group of the plan.

To facilitate the separate (sub) actuarial valuations, the ERS maintains separate accounts to identify additions and deductions applicable to each group. The allocation percentages presented for each group in the schedule of employer allocations are applied to amounts presented in the schedule of pension amounts by employer. The allocation percentages for each group as of June 30, 2025, are based on the ratio of each employer's contributions to total employer contributions, excluding contributions attributable to Temporary Hazard Pay ("THP") for each group for the fiscal year ended June 30, 2025 (see Note 8). Employer allocation percentages have been rounded for presentation purposes, therefore amounts presented in the schedule of pension amounts by employer may result in immaterial differences.

4. Employer Contributions

The ERS' funding policy provides for periodic employer contributions expressed as a percentage of annual covered payrolls. The funding method used to calculate the total employer contribution required is the entry age normal actuarial cost method. Employer contributions are governed by Chapter 88 of the HRS. The actuarially determined contribution rates may differ from the statutory contribution rates.

Employer rates are set by statute based on the recommendations of the ERS actuary resulting from an experience study conducted every three years. Employer contribution rates are a fixed percentage of compensation, including the normal cost plus amounts required to pay for the unfunded actuarial accrued liabilities. The contribution rates were 41% for police and fire and 24% for all other employees for the year ended June 30, 2025.

Effective July 1, 2012, the last employer is required to make "additional contributions" to the ERS for employees that first became ERS members before July 1, 2012 and retire after June 30, 2012, if the member has "excessive" non-base pay during the last 10 years of employment. The additional contributions are based on the increased costs of the actuarial equivalent increase in pension benefits the member will be paid in retirement compared to the pension benefits that would be paid if the member did not have excess non-base pay in their Average Final Compensation amount.

5. Collective Net Pension Liability

The components of the collective net pension liability of the ERS at June 30, 2025, were as follows:

	Police and Fire Group	All Other Employees Group	Total
Total pension liability	$ 8,061,184,831	$ 31,554,851,422	$ 39,616,036,253
Less: plan fiduciary net position	(5,565,180,900)	(19,360,624,893)	(24,925,805,793)
Collective net pension liability	$ 2,496,003,931	$ 12,194,226,529	$ 14,690,230,460

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Actuarial Assumptions

The total pension liability reported as of June 30, 2025, was based on an actuarial valuation as of June 30, 2025. The actuarial assumptions have been revised since the prior valuation to reflect the most recent experience study dated August 5, 2025. These changes in actuarial assumptions, primarily to projected salary increases and mortality rates, increased total pension liability by approximately $170 million.

The following actuarial assumptions were used in the actuarial valuation:

Inflation assumption	2.50%
Investment rate of return, including inflation at 2.50%	7.00%
Payroll growth rate	3.00% to 3.50%
Projected salary increases, including inflation at 2.50%:	
Police and fire employees	5.00% to 5.85%
General employees	3.75% to 6.75%
Teachers	3.85% to 6.85%

Mortality rate assumptions include the effects of the retirement status of members.

Active Members Mortality rates are:

Multiples of the Pub-2016, Employee Tables for active employees based on the occupation of the member as follows:

	General Employees	Teachers	Police and Fire
Type	**Male and Female**	**Male and Female**	**Male and Female**
Ordinary	95%	95%	80%
% of Ordinary Choosing Annuity	41%	52%	24%
Duty Related	5%	5%	20%

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Post-Retirement Mortality rates are:

Healthy retirees: The 2022 Public Retirees of Hawaii mortality tables. The rates are projected on a fully generational basis by Scale MP from the year 2022 (with immediate convergence) and with multiplier and setbacks based on plan and group experience. The following are sample rates of the base table with the corresponding multipliers:

	Healthy Annuitant Mortality Rates Before Projection (Multiplier Added)					
	General Employees		Teachers		Police and Fire	
Age	Male	Female	Male	Female	Male	Female
50	0.2094%	0.1276%	0.1698%	0.0951%	0.2344%	0.1130%
55	0.3215%	0.1687%	0.2883%	0.1596%	0.3391%	0.1633%
60	0.5570%	0.3095%	0.4672%	0.2467%	0.6090%	0.2799%
65	0.8041%	0.4488%	0.7256%	0.4063%	0.8386%	0.4283%
70	1.2621%	0.7066%	1.0762%	0.6015%	1.3768%	0.6565%
75	2.0700%	1.0964%	1.7879%	0.9358%	2.2442%	1.0121%
80	3.5996%	2.1275%	3.0429%	1.6565%	3.9844%	1.8863%
85	6.5891%	4.1569%	5.5564%	3.2698%	7.2903%	3.6977%
90	11.9340%	8.3647%	10.1056%	6.5007%	13.1174%	7.3991%
Multiplier	102%	98%	97%	101%	100%	100%
Setback	-	(1)	1	1	(1)	-

The following table provides the life expectancy for individuals retiring in future years based on the assumption with full generational projection:

	Life Expectancy for an Age 65 Retiree in Years				
	Year of Retirement				
Gender	2025	2030	2035	2040	2045
General Retirees					
Male	22.8	23.2	23.5	23.9	24.2
Female	26.3	26.6	26.9	27.2	27.5
Teachers					
Male	24.1	24.5	24.9	25.2	25.5
Female	28.0	28.3	28.6	28.9	29.2
Police and Fire					
Male	22.1	22.4	22.8	23.1	23.5
Female	27.1	27.4	27.7	28.0	28.3

Disabled retirees: Base table for healthy retiree's occupation, set forward three years, generational projection using the MP projection table from the year 2022 with immediate convergence. Minimum mortality rate of 3.5% for males and 2.5% for females.

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Long-Term Expected Rate of Return

The long-term expected rate of return on pension plan investments was determined using a "top down approach" of the Client-Constrained Simulation-based Optimization Model (a statistical technique known as "resampling with replacement" that directly keys in on specific plan-level risk factors as stipulated by the ERS Board) in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are then combined to produce the long-term expected rate of return by weighting the expected future nominal rates of return (real returns + inflation) by the target asset allocation percentage. The rates of return based on ERS' investment consultant as of June 30, 2025, are summarized in the following table:

Classes	Strategic Class Weights	Long-Term Expected Geometric Rate of Return	Volatility
Broad Growth			
Public equity	20.00%	6.70%	17.00%
Private equity	19.00%	9.80%	25.00%
Liquid credit	4.00%	6.30%	10.00%
Private credit	8.00%	8.70%	15.00%
Real estate	9.00%	7.20%	16.20%
Infrastructure	7.00%	7.30%	17.80%
Timber/agriculture/infrastructure	3.00%	4.60%	11.40%
Diversifying Strategies			
Systematic trend following	8.00%	3.40%	15.00%
Long US treasuries	4.00%	5.00%	12.00%
Intermediate government bonds	14.00%	4.40%	3.00%
Reinsurance	4.00%	4.80%	7.00%
	100.00%		

The ERS utilizes two high-level strategic classes (Broad Growth and Diversifying Strategies) for allocating assets and managing risk within the total portfolio. Both of these strategic classes contain sub-components that in-turn utilize asset classes and/or specific strategies for implementation. The Broad Growth class utilizes three sub-components (Global Equity, Global Credit, and Real Assets) which are ultimately invested in public and private equity, public and private credit, real estate, agriculture, timber, and infrastructure. The Diversifying Strategies class is designed to be uncorrelated to the Broad Growth class and it utilizes two sub-components (Liquid Defensive/Diversifying and Illiquid Diversifying). The Diversifying Strategies class utilizes a multitude of asset classes and strategies, including defensive return capture, discretionary alpha, intermediate and long duration treasury, systematic trend following, idiosyncratic return capture, and insurance linked assets, among others. The ERS may also hold opportunities and other investments if they are determined to be additive to the portfolio's risk/return posture.

Discount Rate

A single discount rate of 7.00% was used to measure the total pension liability as of June 30, 2025, and was based on the expected rate of return on pension plan investments of 7.00%. The projection of cash flows used to determine this single discount rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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Sensitivity of the Collective Net Pension Liability to Changes in Discount Rate

The following table presents the ERS' collective net pension liability as of June 30, 2025, calculated using a single discount rate of 7.00%, as well as what the ERS' collective net pension liability would be if it were calculated using a single discount rate that is 1-percentage-point lower (6.00%) or 1-percentage-point higher (8.00%) than the current discount rate.

	1% Decrease (6.00%)	Current Discount Rate (7.00%)	1% Increase (8.00%)
Police and fire group	$ 3,547,560,545	$ 2,496,003,931	$ 1,620,231,068
All other employees group	16,310,459,242	12,194,226,529	8,766,084,991
Collective net pension liability	$ 19,858,019,787	$ 14,690,230,460	$ 10,386,316,059

6. Collective Deferred Outflows of Resources and Deferred Inflows of Resources

Annual changes to the collective net pension liability resulting from differences between expected and actual experience with regard to economic and demographic factors and from changes in assumptions about future economic or demographic factors or other inputs are deferred and amortized over the average of the expected remaining service life of active and inactive members. Differences between projected and actual earnings on pension plan investments are amortized over a closed period of five years.

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The following presents a summary of changes in the collective deferred outflows of resources and deferred inflows of resources (excluding employer specific amounts) for the year ended June 30, 2025:

	Year of Deferral	Amortization Period	Beginning of Year Balance	Additions	Deductions	End of Year Balance
Police and fire group						
Deferred outflows (inflows) of resources						
Differences between expected and	2020	5.2047 years	$ 2,387,219	$ -	$ (2,387,219)	$ -
actual experience	2021	5.1542 years	(7,533,219)	-	6,526,790	(1,006,429)
	2022	5.0644 years	(67,430,864)	-	32,663,664	(34,767,200)
	2023	5.1703 years	15,124,520	-	(4,770,692)	10,353,828
	2024	4.9866 years	23,283,389	-	(5,840,412)	17,442,977
	2025	4.9729 years	-	43,086,106	(8,664,181)	34,421,925
Subtotal			(34,168,955)	43,086,106	17,527,950	26,445,101
Changes in assumptions	2022	5.0644 years	6,782,957	-	(3,285,681)	3,497,276
	2025	4.9729 years	-	133,093,285	(26,763,716)	106,329,569
Subtotal			6,782,957	133,093,285	(30,049,397)	109,826,845
Net difference between	2021	5 years	(146,126,870)	-	146,126,870	-
projected and actual earnings on	2022	5 years	114,733,827	-	(57,366,914)	57,366,913
pension plan investments	2023	5 years	90,273,826	-	(30,091,276)	60,182,550
	2024	5 years	18,068,672		(4,517,169)	13,551,503
	2025	5 years	-	56,604,548	(11,320,910)	45,283,638
Subtotal			76,949,455	56,604,548	42,830,601	176,384,604
Group total			49,563,457	232,783,939	30,309,154	312,656,550
All other employees group						
Deferred outflows (inflows) of resources:						
Differences between expected and	2020	5.2047 years	438,125	-	(438,125)	-
actual experience	2021	5.1542 years	58,600,922	-	(50,771,895)	7,829,027
	2022	5.0644 years	(79,835,599)	-	38,672,546	(41,163,053)
	2023	5.1703 years	83,734,083	-	(26,412,038)	57,322,045
	2024	4.9866 years	202,922,451	-	(50,901,133)	152,021,318
	2025	4.9729 years	-	83,972,520	(16,886,026)	67,086,494
Subtotal			265,859,982	83,972,520	(106,736,671)	243,095,831
Changes in assumptions	2022	5.0644 years	(69,949,260)	-	33,883,580	(36,065,680)
	2025	4.9729 years	-	36,902,479	(7,420,716)	29,481,763
Subtotal			(69,949,260)	36,902,479	26,462,864	(6,583,917)
Net difference between	2021	5 years	(543,704,954)	-	543,704,954	-
projected and actual earnings on	2022	5 years	430,207,210	-	(215,103,607)	215,103,603
pension plan investments	2023	5 years	326,103,666	-	(108,701,223)	217,402,443
	2024	5 years	63,006,499		(15,751,625)	47,254,874
	2025	5 years	-	195,415,583	(39,083,117)	156,332,466
Subtotal			275,612,421	195,415,583	165,065,382	636,093,386
Group total			471,523,143	316,290,582	84,791,575	872,605,300
Total			$ 521,086,600	$ 549,074,521	$ 115,100,729	$ 1,185,261,850

Amounts reported as deferred outflows of resources and deferred inflows of resources (excluding employer specific amounts) related to pensions will be recognized in pension expense as follows:

Year Ending June 30	Police and Fire Group	All Other Employees Group	Total
2026	$ 118,950,855	$ 415,532,378	$ 534,483,233
2027	90,076,411	260,483,268	350,559,679
2028	57,840,573	133,858,508	191,699,081
2029	45,788,711	62,731,146	108,519,857
	$ 312,656,550	$ 872,605,300	$ 1,185,261,850

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Changes in Proportion

The previous amounts do not include employer specific deferred outflows of resources and deferred inflows of resources related to changes in proportion. These amounts should be recognized (amortized) by each employer over the average of the expected remaining service lives of all plan members, which are 4.9729 years, 4.9866 years, 5.1703 years, 5.0644 years, 5.1542 years, and 5.2047 years for the 2025, 2024, 2023, 2022, 2021, and 2020 amounts, respectively.

7. Collective Pension Expense

The components of allocable pension expense for the fiscal year ended June 30, 2025, are as follows:

	Police and Fire Group	All Other Employees Group	Total
Service cost	$ 215,075,043	$ 647,131,637	$ 862,206,680
Interest on the total pension liability	520,257,362	2,089,305,426	2,609,562,788
Employee contributions	(78,834,453)	(292,233,540)	(371,067,993)
Projected earnings on plan investments	(367,172,798)	(1,285,721,926)	(1,652,894,724)
Pension plan administrative expense	4,200,091	19,823,100	24,023,191
Recognition of deferred outflows and deferred inflows of resources			
Differences between expected and actual experience	(17,527,950)	106,736,671	89,208,721
Changes in assumptions	30,049,397	(26,462,864)	3,586,533
Differences between projected and actual earnings on pension plan investments	(42,830,601)	(165,065,382)	(207,895,983)
Total collective pension expense	$ 263,216,091	$ 1,093,513,122	$ 1,356,729,213

8. Temporary Hazard Pay

Between March 4, 2020 and March 25, 2022, State and county employers declared COVID-19 Emergencies (dates vary by employer agency) to control the spread of COVID-19 and provide for the health, safety, and welfare of the people of the State. Union and employee organizations, representing individuals employed by the State and county employers, requested THP on behalf of State and county employees designated to perform essential functions during the COVID-19 pandemic. Subsequently, arbitration/litigation was initiated by these parties to settle claims for THP.

For those employees and retirees who have settled and received their payments, payments have been incorporated into the pensionable earnings for impacted Tier 1 employees (membership date is prior to July 1, 2012). The payments are not included in the pensionable earnings of Tier 2 employees (membership date is after June 30, 2012). For those employees and retirees who have not yet settled and/or received payments, no adjustments have been made to individual liabilities as of the valuation date and the associated impacts will be reflected in the 2026 (and future) valuations. The remaining unknown THP claim amounts are not expected to materially impact the net pension liability.

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THP payments made subsequent to June 30, 2025 have been reflected as accrued contributions in the ERS' fiscal year 2025 financial statements. The actuary incorporated an offsetting liability equal to those accrued contributions in the actuarial valuation (as a minimum impact). Known employer contributions attributable to THP for the year ended June 30, 2025 totaled $50,954,765.

The breakdown of employer contributions relating to the THP are as follows:

Employer	Employer Contributions
Police and fire group	
State of Hawaii	$ 978,520
City and County of Honolulu	9,472,370
County of Hawaii	2,155,858
County of Maui	4,536
County of Kauai	736,617
All other employees group	
State of Hawaii	25,375,508
City and County of Honolulu	3,308,511
County of Kauai	1,265,186
Board of Water Supply, City and County of Honolulu	336,156
Department of Water Supply, County of Hawaii	142,791
Department of Water, County of Kauai	345
University of Hawaii	7,178,367
	$ 50,954,765

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