



Navigating Risk at Hawaii's Pension System

**Thomas Williams, Executive Director
Employees' Retirement System
of the State of Hawaii**

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Agenda

- Risk Factors
- ERS Plan Background
 - State Economy / Membership
 - Assets / Investments
 - Unfunded Liability / Funding
- Navigating Risks
- Solutions and Initiatives
- Questions

ERS Background:

- **Established in 1925 by HRS §88-22**
- **Governed by 8 Trustees (4 elected by the membership, 3 appointed by the Governor, and the Director of Finance)**
- **Employers include: State of Hawaii, Counties of Honolulu, Hawaii, Maui and Kauai**
- **Total Members:** **138,561**
 - Active Employees: 65,911
 - Retirees & Beneficiaries: 46,927
 - Inactive, Non-retired Members: 25,723
- **Hawaii Population:** **1.43 Million**
 - ERS to Hawaii Population: 9.68%

ERS Benefits and State of Hawaii Economic Impacts

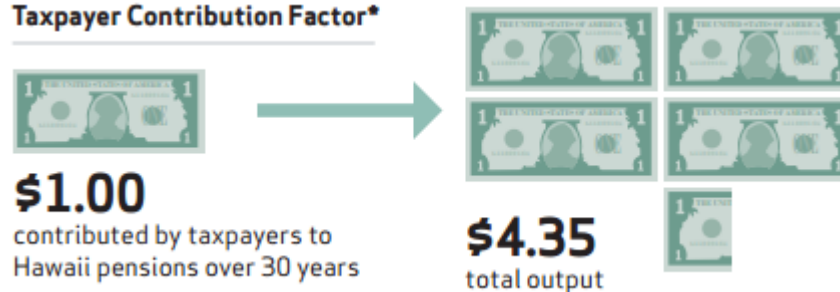
- Each \$1 paid out in pension benefits

Pension Benefit Multiplier



- Each \$1 “invested” by Hawaii taxpayers

Taxpayer Contribution Factor*



ERS Assets as of June 30, 2017

- Actuarially Accrued Liability **\$28.6B**
- Actuarial Value of Assets **\$15.7B**
- Unfunded Actuarial Liability **\$12.9B**
- Funded Ratio **54.9%**
- Expected Investment Return **7.0%**

Investment Performance as of March 31, 2018

Portfolio Valuation (\$000's)

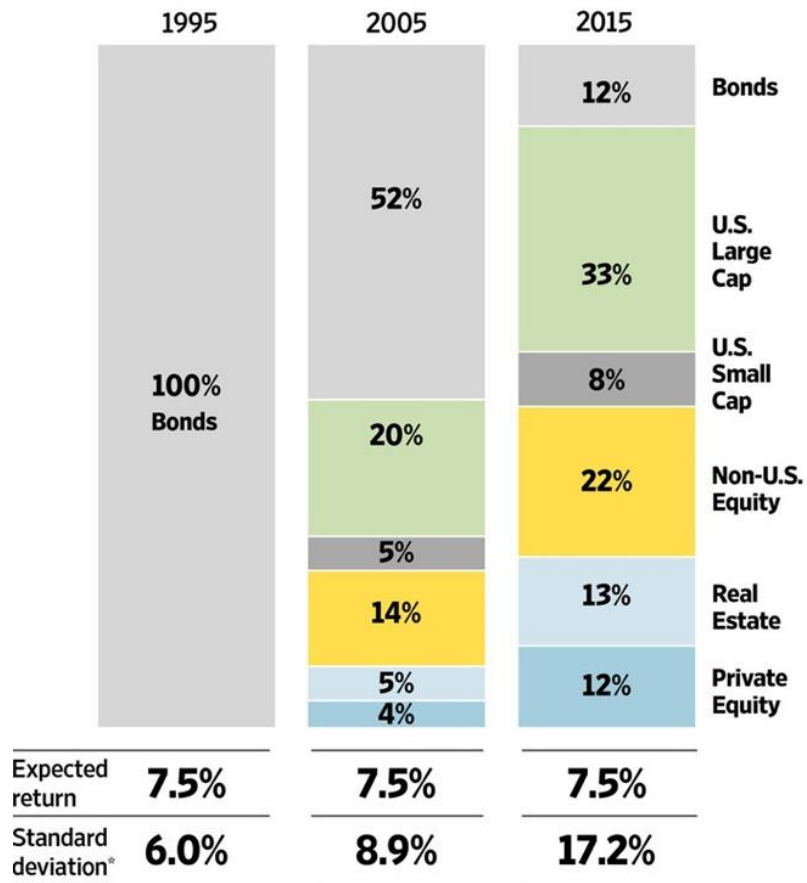
	Quarter	1 Year
Total Fund		
Beginning Market Value	16,942,472	15,368,285
Net Contributions	-240,212	-317,946
Gain/Loss/Expenses	-117,395	1,534,526
Ending Market Value	16,584,865	16,584,865

Performance vs. Policy Benchmark and Median Public Fund

	Quarter	1 Year	3 Year	5 Year	10 Year
Total Portfolio*	-0.7	10.2	6.8	8.3	6.3
Policy Benchmark**	0.1	10.3	6.4	7.6	6.2
Excess Return	-0.8	-0.1	0.4	0.7	0.1
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Total Portfolio*	-0.7	10.2	6.8	8.3	6.3
Median Public Fund***	0.0	11.0	6.9	7.9	6.4
Excess Return	-0.7	-0.8	-0.1	0.4	-0.1

Illustration of Return Expectations

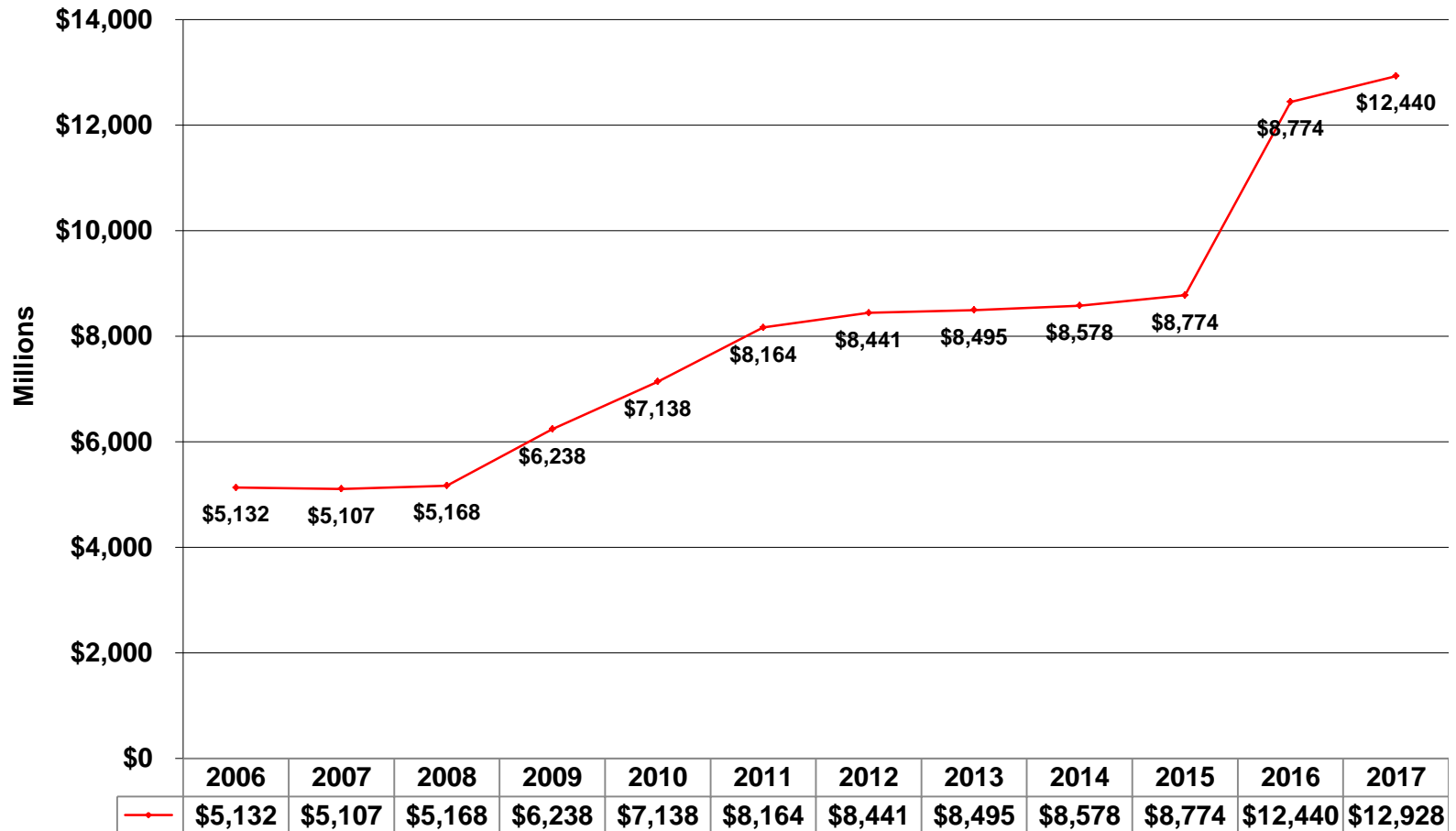
Estimates of what investors needed to earn 7.5%



*Likely amount by which returns could vary
Source: Callan Associates

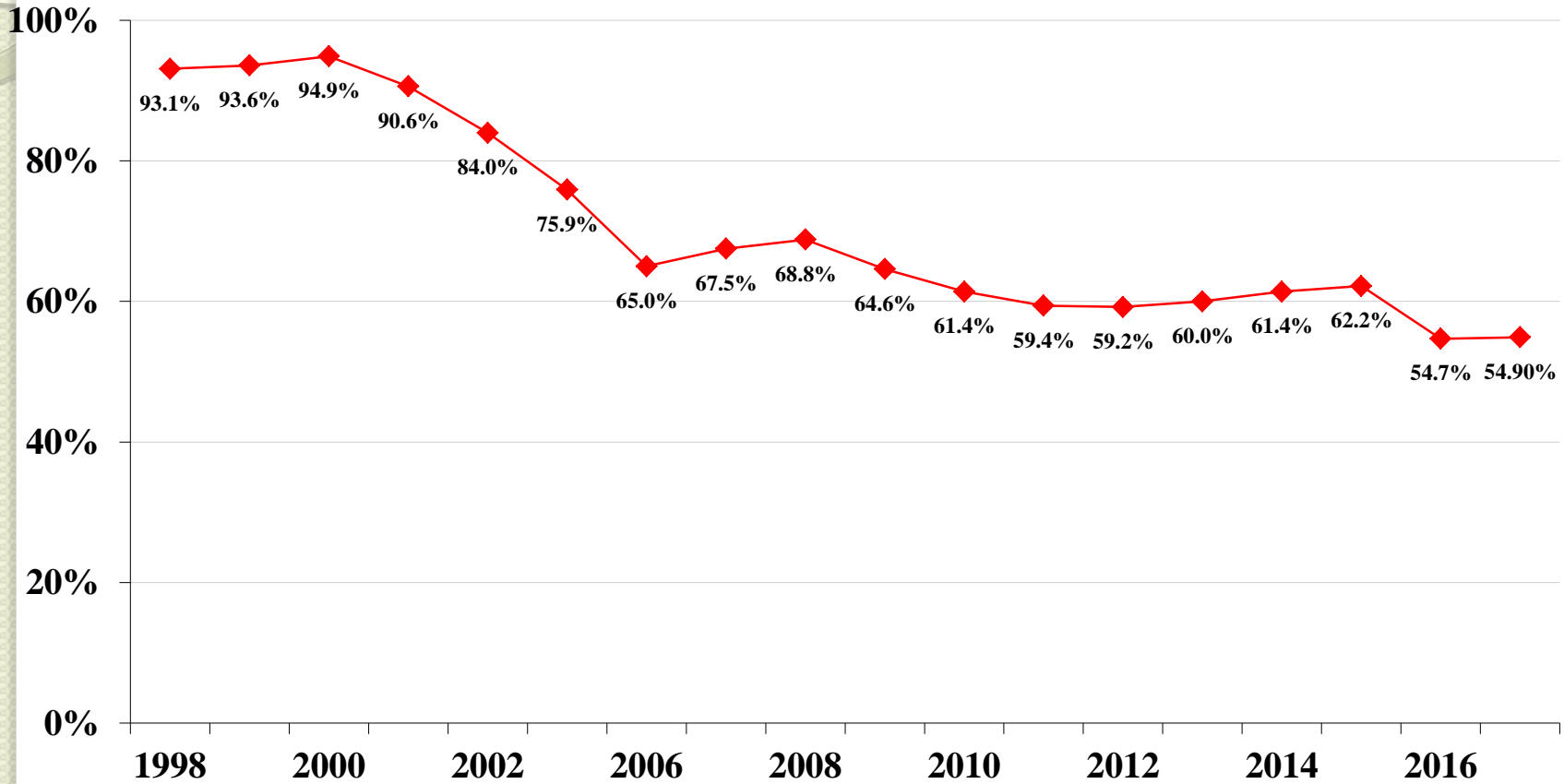
THE WALL STREET JOURNAL.

ERS Unfunded Actuarial Accrued Liability



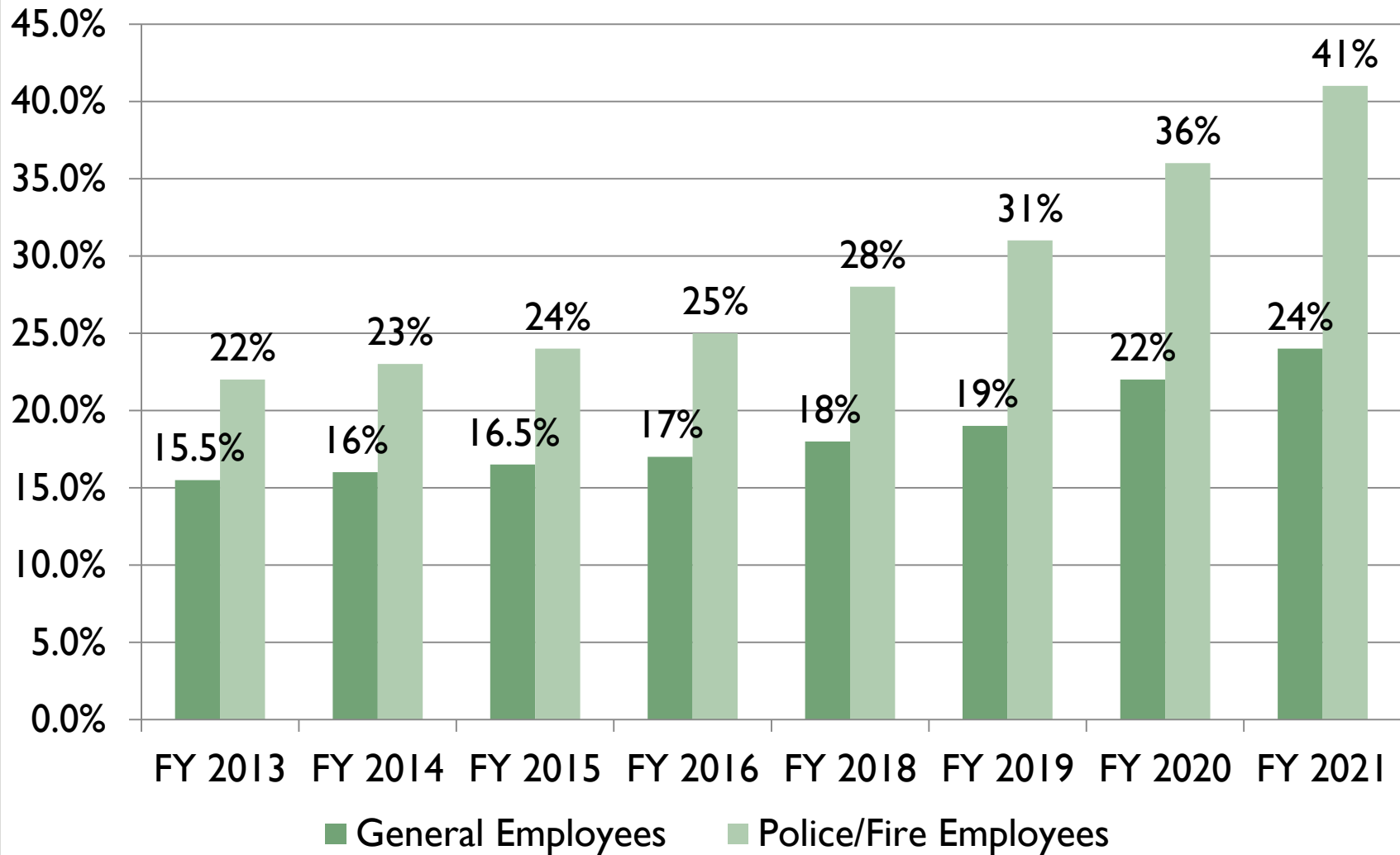
UAAL includes cumulative impact of prior diversions of ERS investment earnings, the 2008-2009 financial market crisis and 2017 updated assumptions.

Funded Ratio

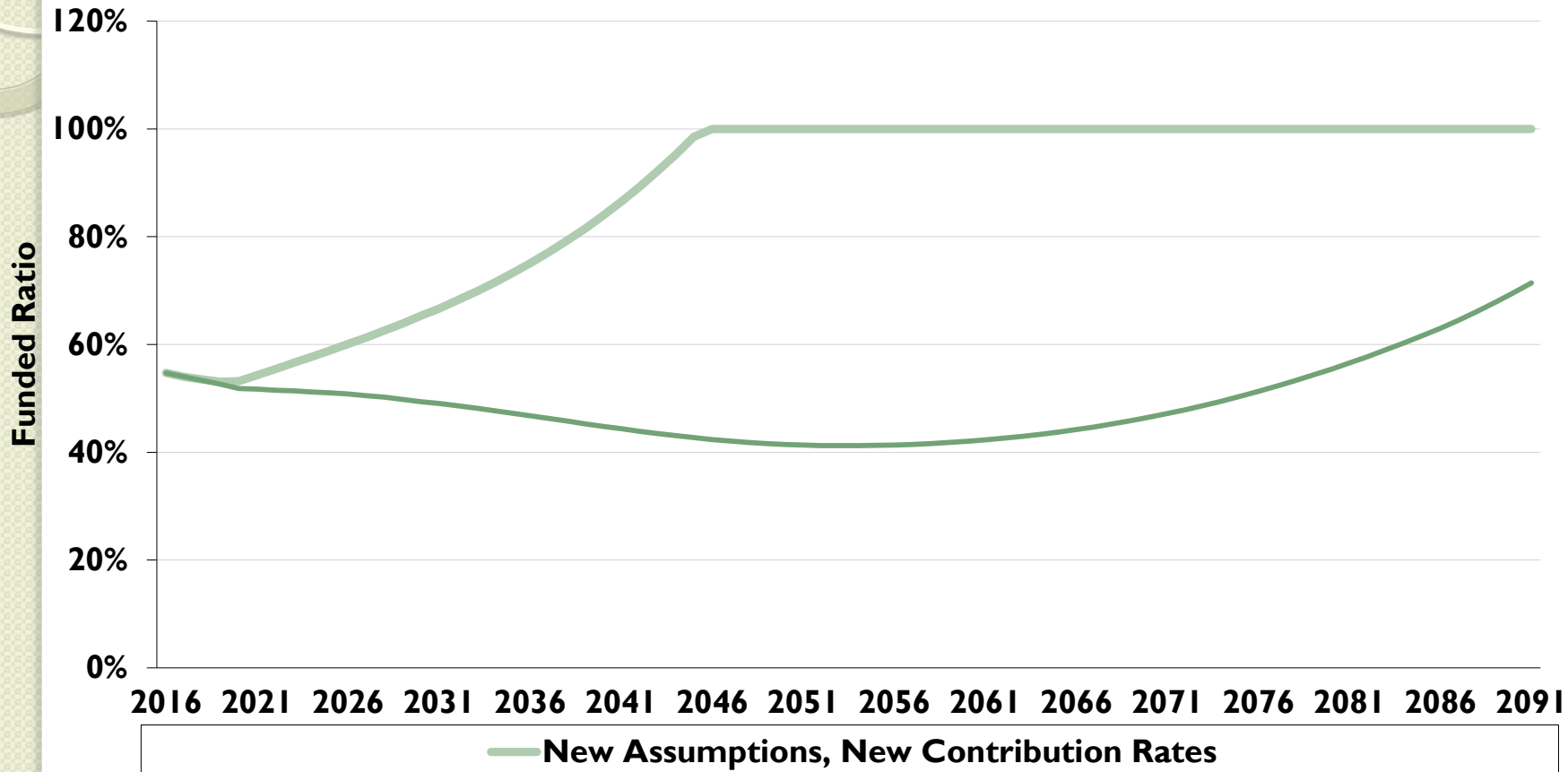


Funded Ratio is Actuarial Value of Assets divided by Actuarial Accrued Liabilities

Employer Contribution Rate Increases

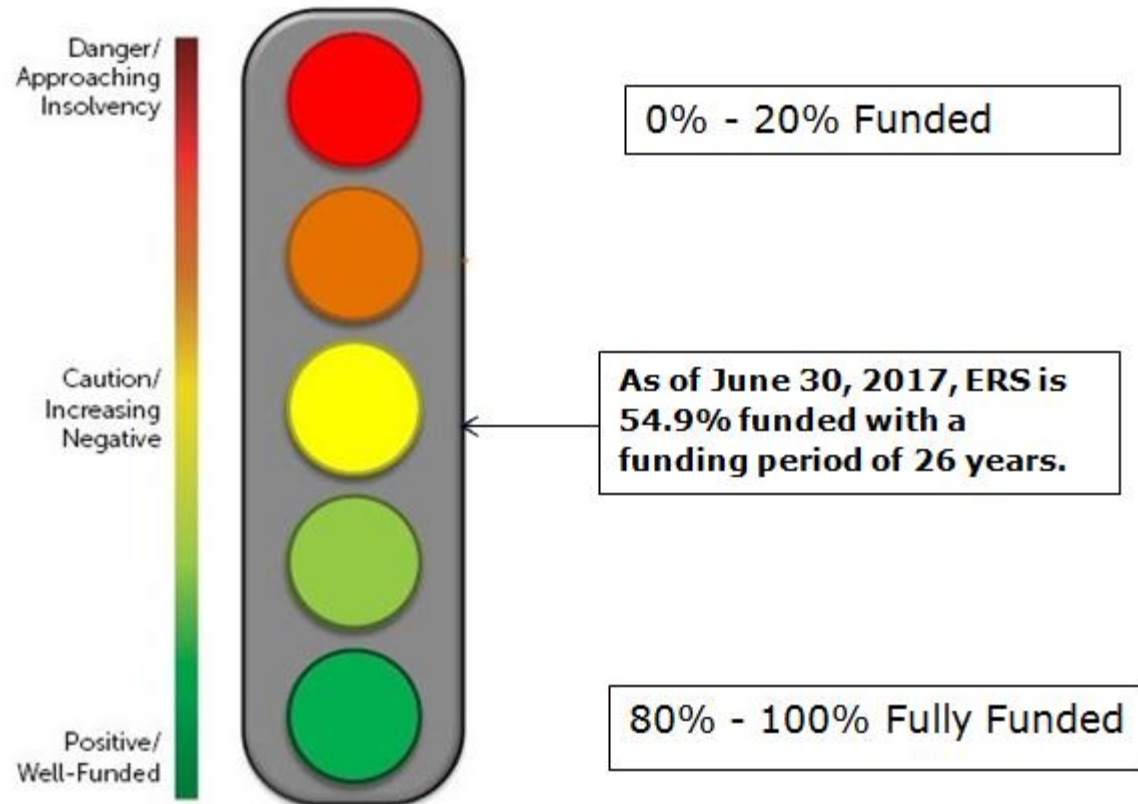


Impact of Higher Contribution Rates



New contribution rates: Incremental employer contribution rate increases from FY2018 through FY2021 ending and remaining at 41.0% for Police/Fire and 24% for All Other Employees
 Assumes all assumptions are met, including 7.0% return on *market* value of assets

Current Funded Status



ERS Risk Factors

- Longevity
- Investment Rate of Return
- Investment Performance

ERS Pensioners' Longevity

Ages	Numbers
Ages 70 to 79	15,999
Ages 80 to 89	8,129
Ages 90 to 99	2,158
Ages 100 +	68

ERS Pension Liabilities

ERS Retirees	As of June 30, 2017
Total Pension Benefit Payments	\$1,306,788,954
Average Monthly Pension (All Plans)	\$2,318
Average Monthly Pension (Contributory)	\$2,854
Average Monthly Pension (Noncontributory)	\$1,669
Average Monthly Pension (Hybrid)	\$2,178

No Single or Simple Solutions

2012 Pension Reforms:

New Tier of Benefits for all ERS Members

- Lower Benefit Multipliers
- Higher Vesting and Age Requirements
- Higher Member Contributions
- Lower Post-Retirement Benefits
- Employer Payments for “Pension Spiking”
- No overtime included in Compensation

Plan Design and Benefits

Changes for Current and Future Members:

- Compensation = Base Pay
- Average Final Compensation
- Unused Sick Leave Credit
- Post-Retirement Benefits
- Disability Retirement Benefits
- Defined Contribution Plan
- Dissociation Costs

Moratorium on Benefit Enhancements

- Current statute: HRS 88-99
- No ERS benefit enhancements until ERS is 100% fully funded
- Legislature, Employee Organizations, ERS Members and Retirees must adhere to moratorium on ERS benefits

Administrative Initiatives

- Budget
- Investment Staff
- Alternate Hybrid Plan



Questions?

**Mahalo for you attention and
interest!**

Contact Information



201 Merchant Street, Suite 1400

Honolulu, HI 96813

Phone: (808) 586-1735

Thomas Williams, Executive Director

- Phone: (808) 586-1700
- Email: thomas.williams@hawaii.gov