State of Hawaii Employer-Union Trust Fund
Postemployment Benefits Other than Pensions

July 1, 2009 Actuarial Valuation
Final Results – EUTF Board Briefing
May 18, 2011

Prepared by Aon Hewitt
Retirement Practice
Agenda

Section 1  Background
Section 2  Funding Impact
Section 3  Actuarial Liabilities
Section 4  Annual Required Contribution
Section 5  Other Issues
Section 6  Report References
Section 7  Questions???
Section 1: Background

- Other Postemployment Benefit (OPEB) Programs
  - EUTF
  - HSTA VEBA (separate valuation, combined in future) – sunset in 2010

- GASB Statements
  - GASB 43 (EUTF) and GASB 45 (Employers)
  - Accrual basis accounting for Employers
  - Effect of Statements
    - EUTF – Footnote regarding unfunded liability, effective June 30, 2007
    - Employers - annual accrual, effective fiscal year ending June 30, 2008

- EUTF Valuation
  - Based on GASB rules for Agent Multiple Employer Plans
  - Employer actuarial liabilities
    - Based on own employees (as opposed to cost sharing)
  - Employer annual costs
    - Dependent on funding levels of each respective employer
    - Required by statute to be at least equal to pay-as-you-go
Section 1: Background (cont.)

- **EUTF Reporting**
  - Minimal
  - Footnote disclosure

- **Employer Reporting**
  - Financial Statement Information
    - Annual Required Contributions (ARC) – actuarially determined annual cost
    - Annual OPEB Cost (AOC) – annual income statement expense
    - Net OPEB Obligation (NOO) – balance sheet liability; AOC less contributions
  - FYE 2010 Accounting (provided July 2010)
    - July 1, 2007 valuation basis (2009 for State)
    - Pay-as-you-go and pre-funding contributions from EUTF
  - FYE 2011 Accounting (provided October 2010 to March 2011)
    - July 1, 2009 valuation
  - FYE 2012 Accounting
    - July 1, 2009 valuation projections
  - FYE 2013 and 2014 Accounting
    - July 1, 2011 valuation
Section 1: Background (cont.)

- 2009 Valuation – Timeline of Events
  - Preliminary Valuation Results – September 2010
    - EUTF Board briefing
    - Employer Meetings
  - Employer Confirmations – October 2010 to March 2011
    - Contribution amounts – pay-as-you-go and prefunding from EUTF
    - Funding policy / discount rate – future funding expectation
    - Amortization methodology
  - Final Reports Issued – October 2010 to March 2011
    - Based on Employer confirmations
Section 2: Funding Impact

- Discount Rate Basis – Expected long-term yield on investments used to finance OPEB
  - Unfunded plans (i.e., pay-as-you-go) – based on employer assets
  - Pre-funded plans – based on plan investments

- Pre-funding enables use of higher discount rates

- Hawaii EUTF Assumptions
  - Unfunded plan – 4.0% / 5.0% (Employer assets)
  - Pre-funded plan - 7.0% (EUTF target investment return)
  - Assumption varies for each respective employer
    - Dependent upon employer’s assets and funding policy
Section 3: Actuarial Liabilities

- Present Value of Benefits – past and future service
- Actuarial Accrued Liabilities – past service
- Future Normal Costs – future service
  - Normal cost is NOT pay-as-you-go amount

Present Value of Benefits

- Actuarial Accrued Liability: 77%
- Future Normal Costs: 21%
- Normal Cost: 2%
Section 3: Actuarial Liabilities (cont.)

- **Why are liabilities so big?**
  - Almost 100,000 members (38,000 retirees, plus actives and other eligible)
    - More with HSTA VEBA
  - 20+ years of coverage
  - $10,000+ annual costs

- **Comparison to Prior Valuation**
  - Actuarial liabilities grow due to:
    - Participants earn additional benefits
    - Decrease in discounting period
  - Healthcare costs
    - Increases greater than assumed
    - Future trend updated
  - Discount rate
    - EUTF Investments (funded) – 7% target return (8% prior valuation)
    - State discount rate (unfunded) – 4% target return (5% prior valuation)
### Section 3: Actuarial Liabilities (cont.)

#### Actuarial Accrued Liability

<table>
<thead>
<tr>
<th>Year</th>
<th>2007 8%</th>
<th>2009 8%</th>
<th>2009 7%</th>
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<tbody>
<tr>
<td></td>
<td>$6,716.6</td>
<td>$10,349.5</td>
<td>$9,106.9</td>
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<td>2007</td>
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<td>2009</td>
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#### Actuarial Accrued Liability (Comparison to Prior Valuation)

<table>
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<tr>
<th>$ Millions</th>
<th>5% No Prefunding</th>
<th>Prefunding</th>
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5% No Prefunding: 2007 $10,349.5, 2009 $14,107.4
5% Prefunding: 2007 8% $6,716.6, 2009 8% $9,106.9, 2009 7% $10,435.7
Section 3: Actuarial Liabilities (cont.)

- 2007 actual (5% or 8%) - $9,194.3 million
- 2009 Pre-funded (7%) - $10,435.7 million
- 2009 Unfunded (5%) - $14,107.4 million
This chart includes EUTF and HSTA VEBA (included in plan for next valuation)
Section 4: Annual Required Contribution

- Sum of:
  - Unfunded AAL Amortization – past service payment
  - Normal Costs – future service payment
- 2 – 3 times pay-as-you-go amount

Comparison of ARC to Pay-As-You-Go (5% and 7%)
(Comparison to Prior Valuation)

- Costs are in addition to current payments for active employee coverage
- ARC based on prior valuation amortization method
Section 4: Annual Required Contribution (cont.)

- 2010 actual (5% or 8%) - $767.6 million
- 2011 Pre-funded (7%) - $887.0 million
- 2011 Unfunded (5%) - $1,126.5 million

ARC based on prior valuation amortization method
This chart includes EUTF and HSTA VEBA (included in plan for next valuation)

- 4% and 7% based on State’s amortization method
- Actual based on Employer specific discount rates and amortization methods
Section 5: Other Issues

- Funding policy

- Bond rating impact

- 2011 Valuation – Proposed Timeline
  - Information request from Aon Hewitt – June 2011
  - Information provided by EUTF, State, ERS – July 2011
  - Preliminary results – October / November 2011
  - Final results – December 2011
### Section 6: Report References

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<td>Appendix A, pg 36-37</td>
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<td>Results by employer (final results)</td>
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Section 7: Questions???