



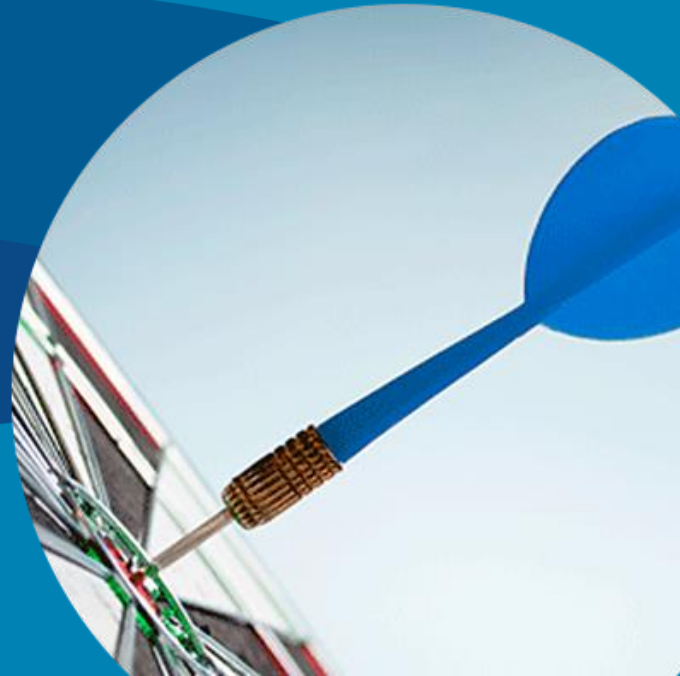
Hawaii EUTF

January 2022

July 1, 2021 Retiree Healthcare Valuation (OPEB)

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Key Actuarial Measurements

July 1, 2021

(\$ millions)	State of Hawaii	Honolulu w/ HART	County of Hawaii	County of Maui	County of Kauai	Kauai DOW	Honolulu BWS	Hawaii DWS
AAL	\$ 11,602	\$ 2,513	\$601	\$610	\$290	\$19	\$161	\$37
<u>AVA</u>	<u>3,477</u>	<u>904</u>	<u>254</u>	<u>367</u>	<u>175</u>	<u>13</u>	<u>105</u>	<u>24</u>
UAAL	\$ 8,125	\$ 1,610	\$348	\$243	\$115	\$6	\$56	\$14
Funded Ratio								
7/1/2018	12.1%	19.7%	27.3%	42.9%	43.0%	51.7%	52.2%	51.2%
7/1/2019	16.1%	23.8%	30.7%	46.0%	48.1%	54.1%	53.9%	54.5%
7/1/2020	21.0%	29.4%	36.4%	52.5%	53.4%	59.8%	58.8%	60.4%
7/1/2021	30.0%	36.0%	42.2%	60.2%	60.2%	66.4%	65.1%	63.5%
ARC as a % of Payroll								
FYE23	22.8%	24.8%	22.1%	19.7%	18.8%	16.1%	18.4%	17.5%
FYE24	22.2%	25.4%	22.5%	18.9%	18.8%	14.6%	19.0%	17.2%
Normal Cost as a % of Payroll								
FYE24	7.7%	7.4%	7.8%	7.5%	7.7%	7.1%	7.1%	7.8%



Actuarial Results – All Employers Combined

The 2021 assets were \$580 million greater than expected, primarily due to excess contributions from the State (\$390 million) and favorable asset performance.

The 2021 liabilities were \$377 million lower than expected. 2.0% of the 2.3% liability gain was attributable to the favorable 2022 premium experience.

(\$ in millions)	July 1, 2020	Expected July 1, 2021	Actual July 1, 2021	\$ Difference	% Difference
	(1)	(2)	(3)	(3) - (2)	(3) / (2) - 1
1. Actuarial Accrued Liability	\$15,412	\$16,212	\$15,835	(\$377)	-2.3%
2. Actuarial Value of Assets	3,898	4,738	5,318	580	12.2%
3. UAAL (1 - 2)	\$11,514	\$11,474	\$10,517	(\$957)	-8.3%
4. Funded Ratio (2 / 1)	25.3%	29.2%	33.6%		
5. UAAL/Payroll	246.9%	237.7%	225.2%		
For Fiscal Year	2023	2024	2024		
6. Required Contribution (ARC)	\$1,138	\$1,173	\$1,125	(\$48)	-4.1%



Actuarial Results – State of Hawaii Only

The State contributed \$1.232 billion in FYE21, \$390 million more than the ARC of \$842 million.

(\$ in millions)	July 1, 2020	Expected July 1, 2021	Actual July 1, 2021	\$ Difference	% Difference
	(1)	(2)	(3)	(3) - (2)	(3) / (2) - 1
1. Actuarial Accrued Liability	\$11,273	\$11,863	\$11,602	(\$261)	-2.2%
2. Actuarial Value of Assets	2,371	2,959	3,477	518	17.5%
3. UAAL (1 - 2)	\$8,902	\$8,904	\$8,125	(\$779)	-8.7%
4. Funded Ratio (2 / 1)	21.0%	24.9%	30.0%		
5. UAAL/Payroll	258.6%	250.0%	235.5%		
For Fiscal Year	2023	2024	2024		
6. Required Contribution (ARC)	\$839	\$867	\$822	(\$45)	-5.2%

Actuarial Results – Gains and Losses

Calculation of total actuarial gain or loss

	Aggregate	State of Hawaii
(1) UAAL as of July 1, 2020	\$ 11,514	\$ 8,902
(2) Normal cost, including administrative expenses	325	242
(3) Interest (includes offset for earnings on contributions)	778	602
(4) Expected contributions (minimum required)	(1,143)	(842)
(5) Expected UAAL as of July 1, 2021	\$ 11,474	\$ 8,904
(6) Actual UAAL as of July 1, 2021	10,517	8,125
(7) Total (gain)/loss for the year (item 6 - item 5)	(957)	(779)

Sources of gains and losses:

(8) Asset (gain)/loss for the year	\$ (143)	\$ (85)
(9) (Gain)/loss due to contributions*	(403)	(403)
(10) Other liability (gain)/loss**	(411)	(291)
(11) Change in assumptions	-	-
(12) Change in benefit provisions	-	-
(13) Total (gain)/loss for the year	\$ (957)	\$ (779)

* State of Hawaii contributed \$390 million more than required in FYE21.

** The liability gain was mostly driven by favorable premium changes. The liability gain also includes actual demographic experience compared to assumptions (retirements, terminations, deaths, etc.)



Premiums, BMC and Asset Volatility

	HMSA Post-65 Medical	HMSA Post-65 Rx	Kaiser Post-65	HMSA Pre-65 Medical	HMSA Pre-65 Rx	Kaiser Pre-65	Dental	Vision	BMC	Asset Return Market Value
2016	9.4%	16.8%	5.2%	10.8%	30.4%	6.2%	5.0%	3.0%	16.1%	3.1%
2017	5.7%	6.3%	4.2%	5.8%	12.5%	4.6%	3.7%	-2.5%	10.0%	2.6%
2018	4.6%	-24.5%	10.7%	4.6%	-18.5%	10.8%	5.6%	-7.1%	0.0%	9.5%
2019	1.3%	15.4%	1.4%	1.9%	7.3%	1.4%	1.3%	-6.5%	1.1%	7.3%
2020	9.2%	15.6%	-6.1%	9.1%	20.5%	-6.1%	5.0%	0.0%	6.7%	4.6%
2021	2.0%	-1.1%	-1.4%	3.3%	-7.8%	-1.5%	3.9%	4.3%	2.7%	1.8%
2022	-2.0%	2.2%	3.4%	-2.0%	0.9%	3.4%	1.3%	0.0%	14.5%	24.6%
7-year average	4.3%	3.4%	2.4%	4.7%	5.3%	2.6%	3.7%	-1.3%	7.1%	7.4%

Premium increases were less than expected for all medical plans, especially the HMSA plans, resulting in an actuarial gain on the liabilities. This gain was partially offset by the 14.5% increase to BMC amounts, which mirrors the 14.5% Medicare 2022 Part B premium increase.

EUTF – Recent Funding Policy Changes

- Recent Changes
 - 2% ARC smoothing corridor to limit annual ARC changes
 - 20-year bases for financing new losses, instead of 30-years
 - Use gains to offset the large, initial UAAL funding base
 - Reset all existing UAAL amortization bases to match remaining period of initial funding period (clean-up)
- Goals
 - Better manage contribution volatility
 - Accelerate funding of actuarial losses
 - Use favorable experience to benefit employers as much as possible
 - Ease into expected contribution drop off (2045 for State)

ARC Smoothing with 2% Corridor

(\$ thousands)	State of Hawaii	CC of Honolulu	County of Hawaii	County of Maui	County of Kauai	Kauai DOW	Honolulu BWS	Hawaii DWS
(1) FYE 2023 ARC	\$ 839,445	\$ 188,090	\$ 42,910	\$ 38,344	\$ 17,294	\$ 1,058	\$ 8,180	\$ 1,961
(2) Calculated FYE 2024 ARC without Limitation	804,999	189,796	44,136	34,654	16,498	1,036	7,661	2,027
(2a) Increase from prior year	-4.1%	0.9%	2.9%	-9.6%	-4.6%	-2.1%	-6.3%	3.4%
(3) FYE 2024 ARC under 2% Corridor Methodology	\$ 821,984	\$ 190,911	\$ 44,136	\$ 38,399	\$ 17,553	\$ 1,074	\$ 8,303	\$ 2,027
(3a) Increase from prior year	-2.1%	1.5%	2.9%	0.1%	1.5%	1.5%	1.5%	3.4%
(3b) Corridor adjustment due to excess contributions	-3.6%	0.0%	0.0%	-1.4%	0.0%	0.0%	0.0%	0.0%

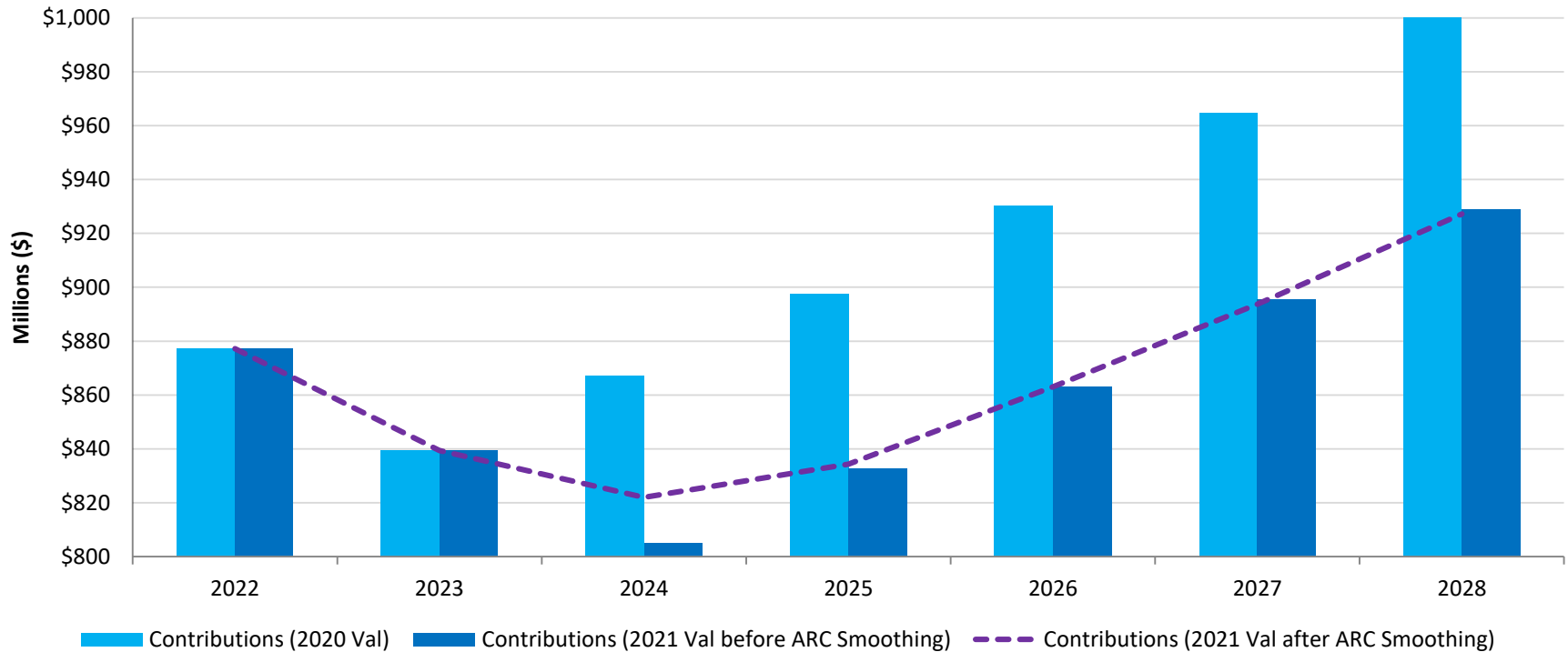
Smoothing impacted the FYE24 ARC for six employers.

Excess contributions lowered the corridor for the State and County of Maui.



State of Hawaii

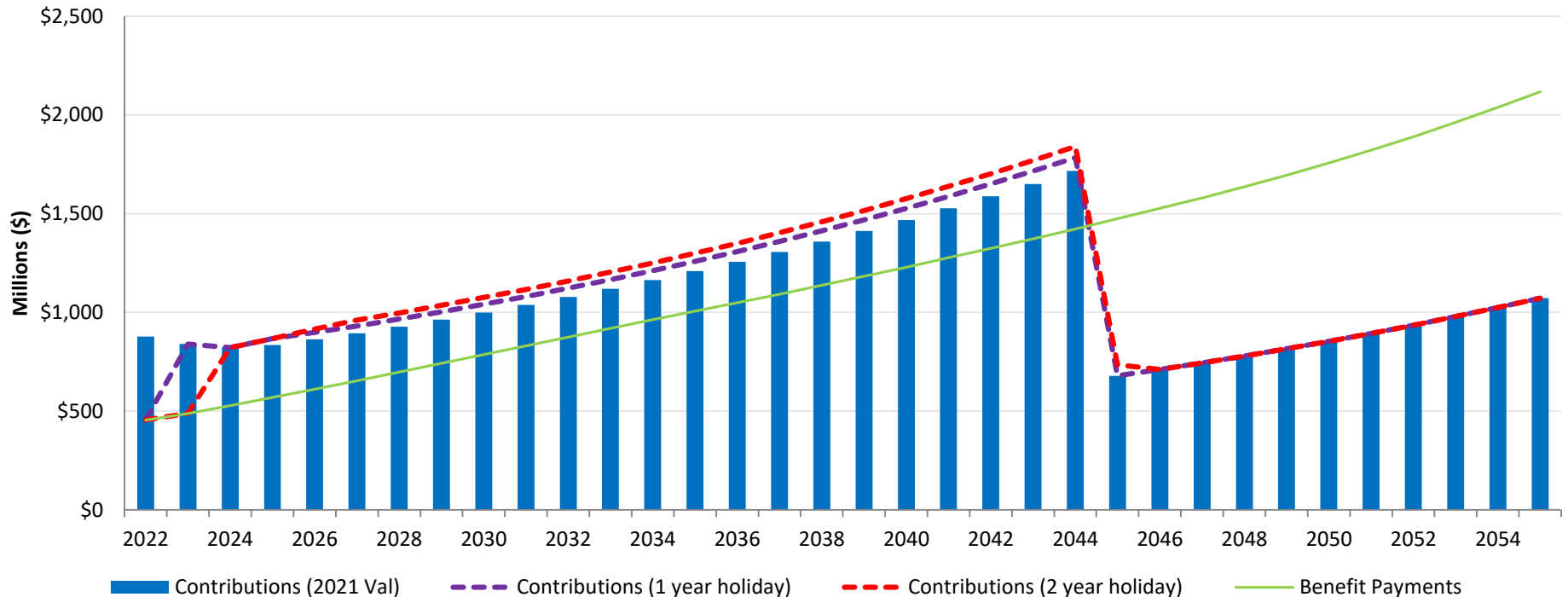
2% ARC Smoothing Corridor



The 2% ARC corridor keeps contributions very level in dollar terms from FYE23 through FYE25. Employers can elect to undo this change in any future year.

State of Hawaii

COVID Funding Relief Extended to FYE23



A one-year contribution holiday saves \$422 million in FYE22, but adds \$565 million to the total contributions over the next 34 years. A two-year contribution holiday would save \$773 million in the short-run, but adds \$1.046 billion to the 34 year total.

Funding Policy – Industry Best Practices

	Stars (out of 5)	Comments
What is the amortization period for the current UAAL based on the required contribution?	★★★★★	State has effective remaining period of 23 years as of 7/1/2021. 16 years for other employers (except HART) Use of closed amortization periods is a best practice
Based on current practices and assumptions, is your UAAL expected to be lower 10 years from now?	★★★★★	Yes, 10% smaller for State of Hawaii; 50% smaller for County of Maui
Is your funded ratio higher than it was 10 years ago?	★★★★★	Yes, from 0% to 30% for State of Hawaii, and 7% to 60% for County of Maui
Does the policy provide a reasonable allocation of the cost of benefits and the required funding to the years of service (i.e. demographic matching)? Does the policy provide accountability and transparency?	★★★★★	Yes, ACT 268 requires the ARC to fund the normal cost (benefits being earned by current employees) and amortize the UAAL. Initial 30-year UAAL amortization period; new gains and losses now amortized over 20 years or less. Recent changes eliminated negative amortization.
Does the policy seek to manage and control future contribution volatility to the extent reasonably possible, consistent with other policy goals?	★★★★	Yes, 2% ARC smoothing corridor based on input from budget directors. Other smoothing mechanisms include 4-year asset smoothing and 20-year amortization layers for new losses.
Does the Board regularly review actuarial assumptions?	★★★★★	All assumptions reviewed every 3 years ERS Experience Study will impact the 2022 valuation

Disclaimers

- This presentation is intended to be used in conjunction with the July 1, 2021 actuarial valuation. This presentation should not be relied on for any purpose other than the purpose described in the valuation report.
- This presentation shall not be construed to provide tax advice, legal advice or investment advice.