

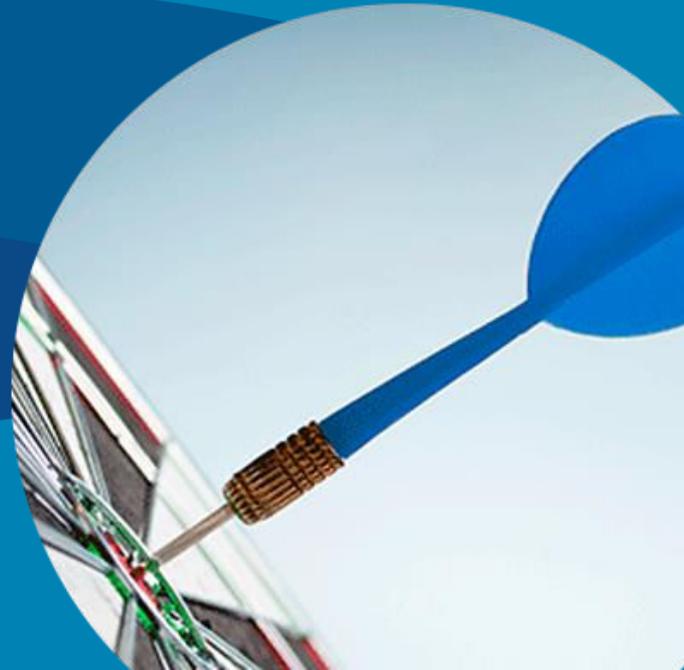


Hawaii EUTF

January 2023

July 1, 2022 Retiree Healthcare Valuation (OPEB)

Joseph Newton
Lewis Ward

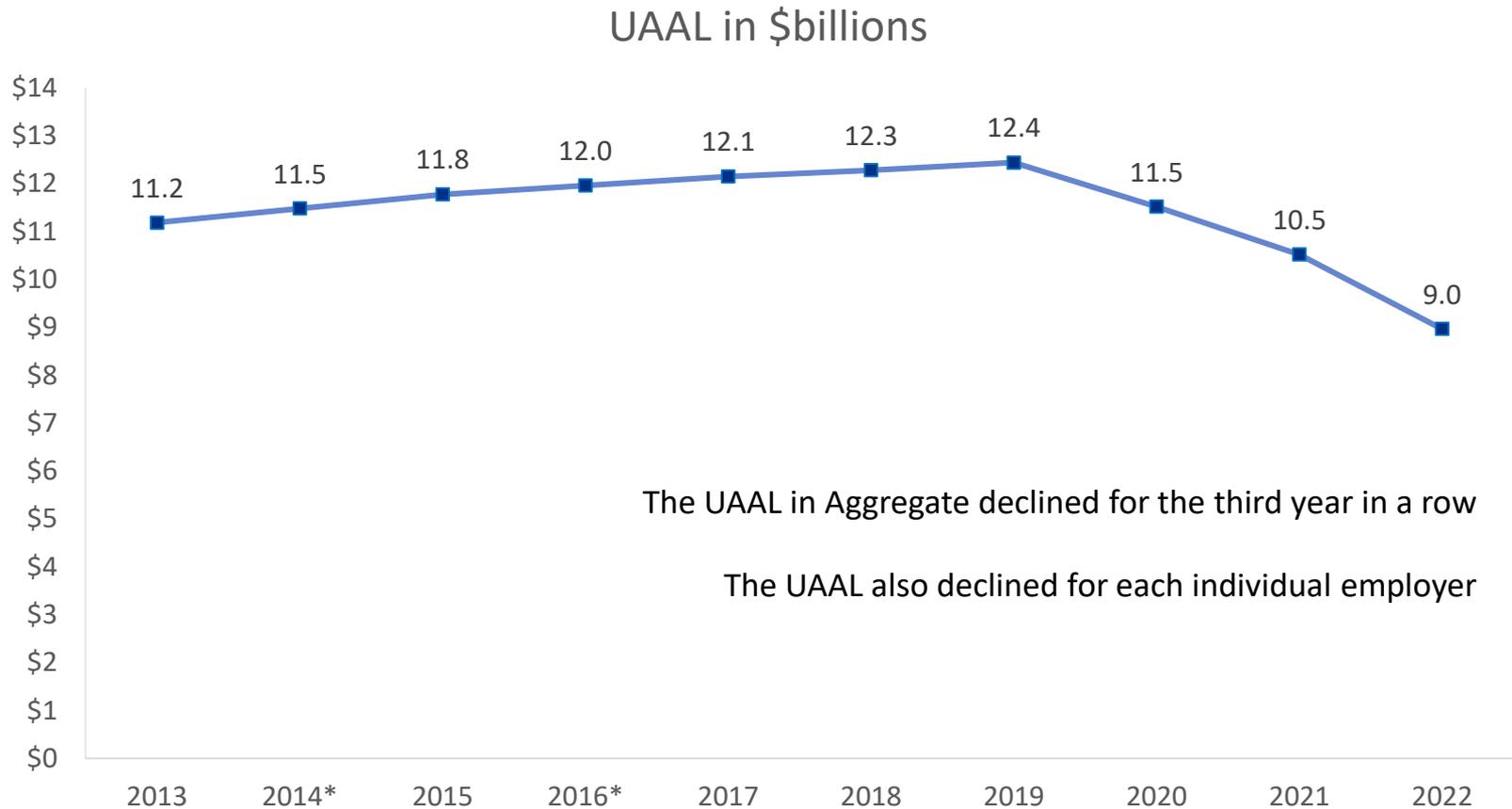


Premiums, BMC and Asset Volatility

	HMSA Post-65 Medical	HMSA Post-65 Rx	Kaiser Post-65	HMSA Pre-65 Medical	HMSA Pre-65 Rx	Kaiser Pre-65	BMC	Asset Return, Market Value	CPI
2017	5.7%	6.3%	4.2%	5.8%	12.5%	4.6%	10.0%	2.6%	1.0%
2018	4.6%	-24.5%	10.7%	4.6%	-18.5%	10.8%	0.0%	9.5%	1.6%
2019	1.3%	15.4%	1.4%	1.9%	7.3%	1.4%	1.1%	7.3%	2.9%
2020	9.2%	15.6%	-6.1%	9.1%	20.5%	-6.1%	6.7%	4.6%	1.6%
2021	2.0%	-1.1%	-1.4%	3.3%	-7.8%	-1.5%	2.7%	1.8%	0.6%
2022	-2.0%	2.2%	3.4%	-2.0%	0.9%	3.4%	14.5%	24.6%	5.4%
2023	-3.4%	5.6%	-6.0%	-4.3%	4.2%	-6.0%	-3.1%	-1.9%	9.1%
7-year average	2.4%	1.9%	0.7%	2.5%	2.0%	0.8%	4.4%	6.6%	3.2%

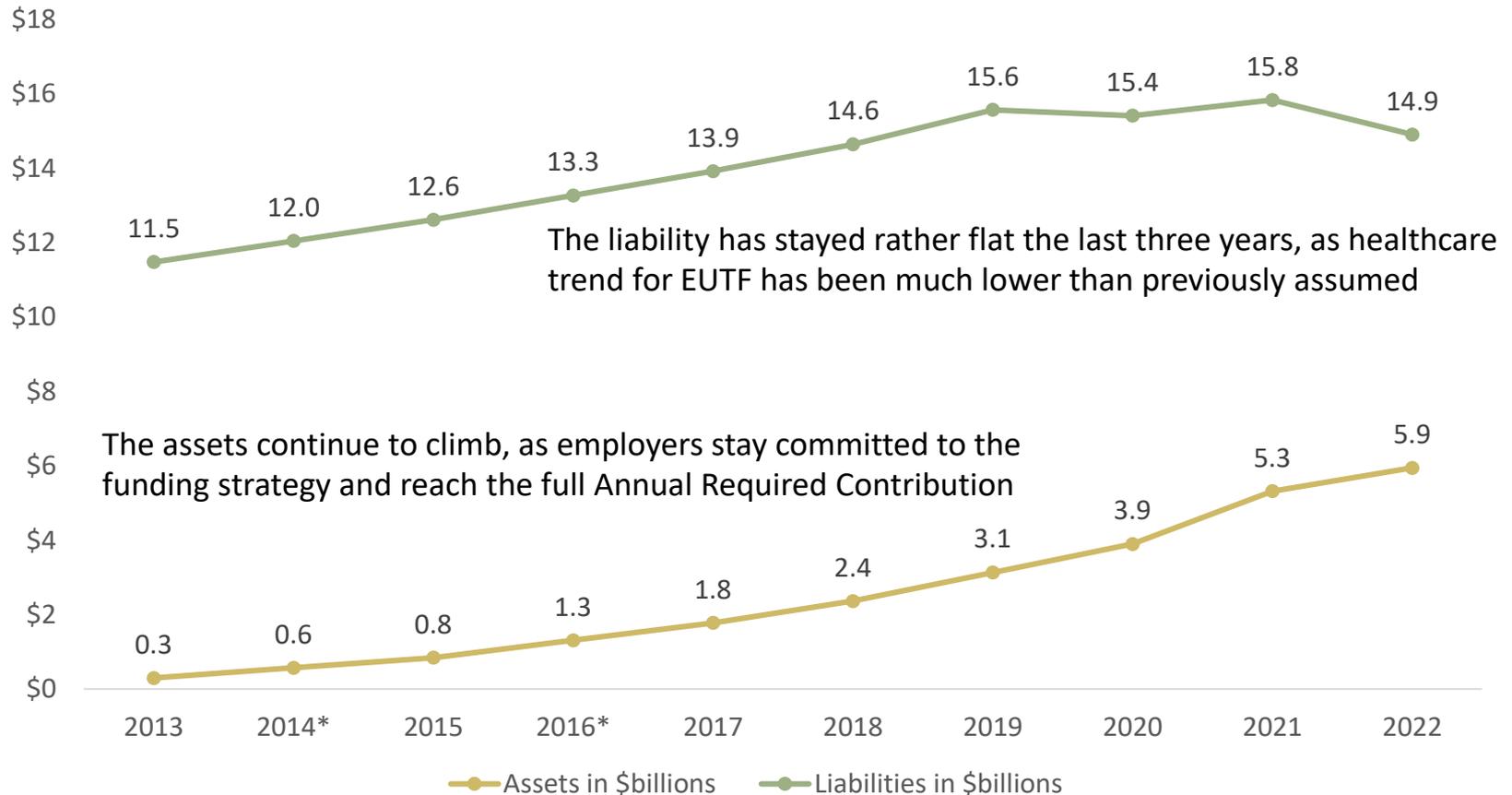
Premium increases were less than expected for all medical plans, resulting in an actuarial gain on the liabilities (liabilities growing slower than expected). This gain was compounded by the 3.1% decrease to BMC amounts, which mirrors the 3.1% Medicare 2023 Part B premium decrease.

History of the EUTF Unfunded Actuarial Accrued Liability



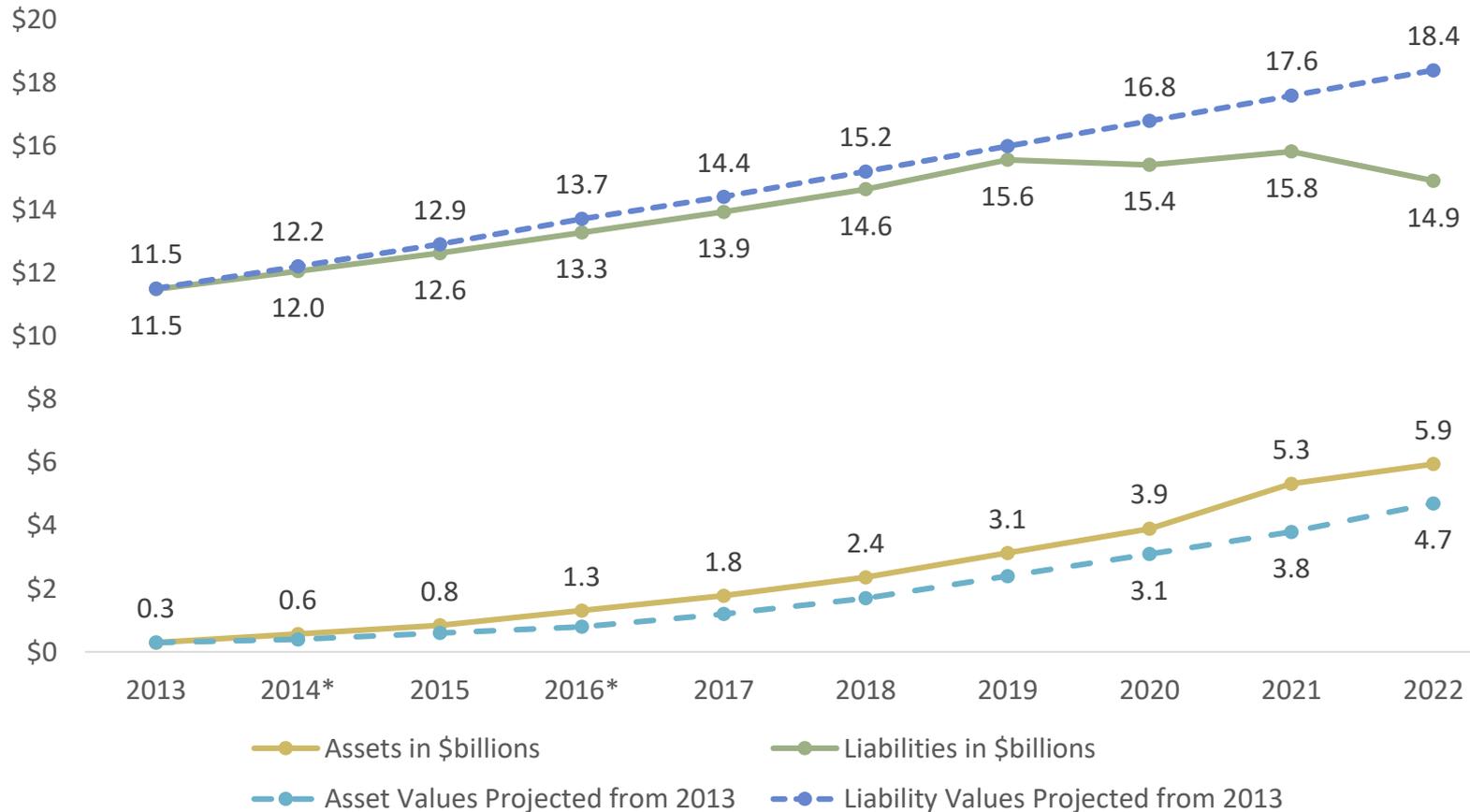
* Estimated, EUTF performed valuations every other year until 2017

History of the EUTF Assets and Liabilities



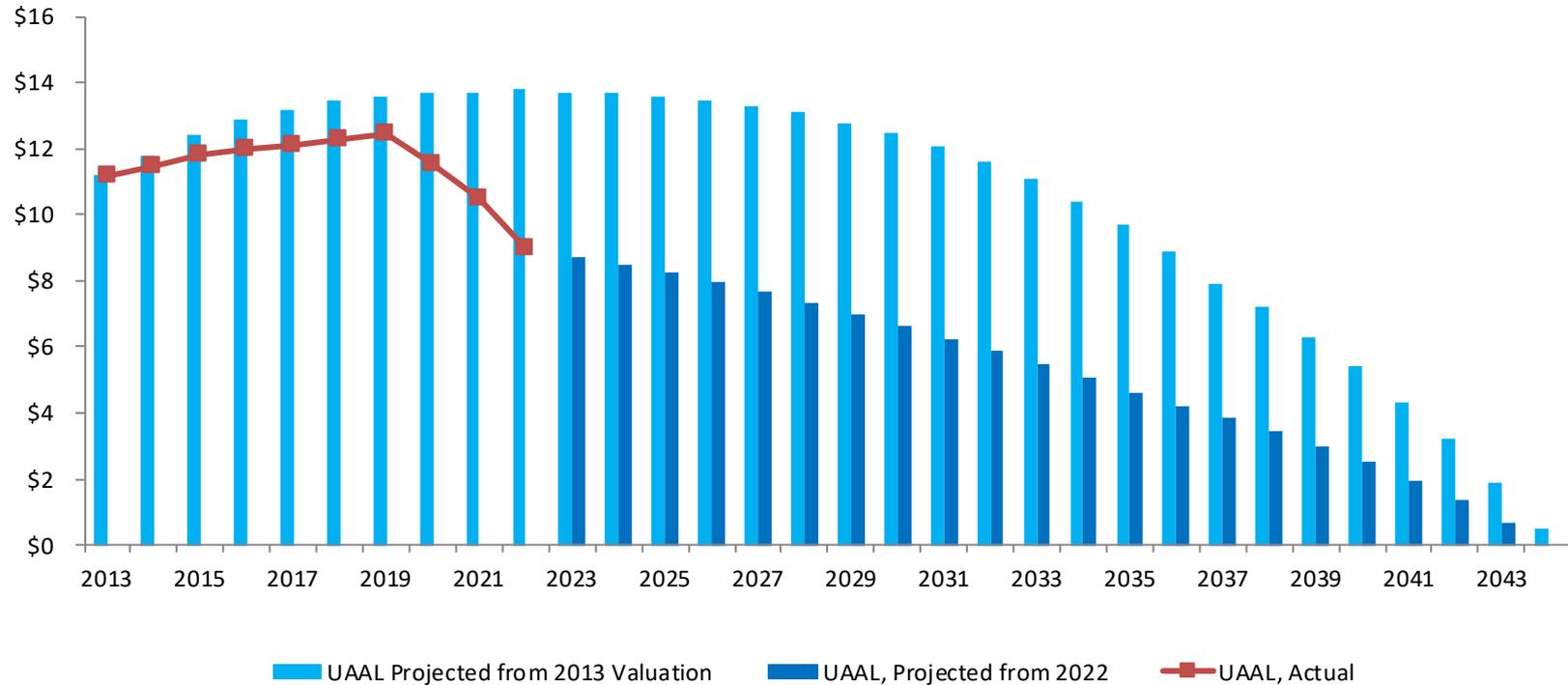
* Estimated, EUTF performed valuations every other year until 2017

History of the EUTF Assets and Liabilities: Compared to Previous Projections (2013)



* Estimated, EUTF performed valuations every other year until 2017

Comparison of 2013 and 2022 Projections of the UAAL



Actuarial Results – All Employers Combined

The 2022 liabilities were \$1.74 billion lower than expected, with more than 80% of the gain attributable to favorable 2023 premium experience

(\$ in millions)	Expected	Actual	\$ Difference	% Difference
	July 1, 2021	July 1, 2022		
	(1)	(2)	(3) - (2)	(3) / (2) - 1
1. Actuarial Accrued Liability	\$15,835	\$16,643	(\$1,737)	-10.4%
2. Actuarial Value of Assets	5,318	6,277	(332)	-5.3%
3. UAAL (1 - 2)	\$10,517	\$10,366	(\$1,404)	-13.5%
4. Funded Ratio (2 / 1)	33.6%	37.7%	39.9%	
5. UAAL/Payroll	225.2%	214.4%	195.9%	
For Fiscal Year	2024	2025	2025	
6. Required Contribution (ARC)	\$1,125	\$1,145	\$1,135	(\$10) -0.9%

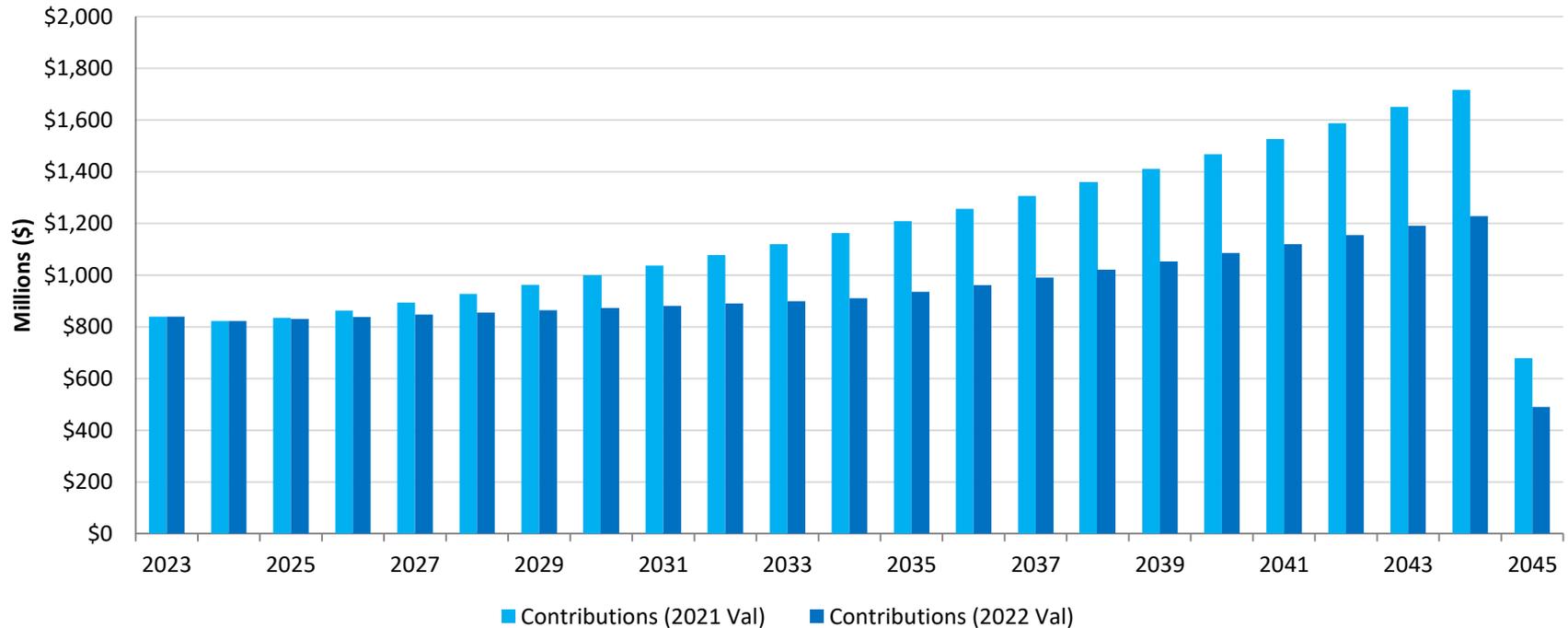


Actuarial Results – State

Similar story for the State.

(\$ in millions)	July 1, 2020	Expected July 1, 2022	Actual July 1, 2022	\$ Difference	% Difference
	(1)	(2)	(3)	(3) - (2)	(3) / (2) - 1
1. Actuarial Accrued Liability	\$11,602	\$12,199	\$10,908	(\$1,291)	-10.6%
2. Actuarial Value of Assets	3,477	4,157	3,821	(336)	-8.1%
3. UAAL (1 - 2)	\$8,125	\$8,042	\$7,087	(\$955)	-11.9%
4. Funded Ratio (2 / 1)	30.0%	34.1%	35.0%		
5. UAAL/Payroll	235.5%	225.3%	210.1%		
For Fiscal Year	2024	2025	2025		
6. Required Contribution (ARC)	\$822	\$834	\$830	(\$4)	-0.5%

State of Hawaii: Projected Contributions 2021 vs 2022



While the corridor funding produced an ARC only \$4 million less than expected for FY2025, the overall experience is projected will cumulatively lower the State's contribution by \$5 billion over the next 22 years.

Key Actuarial Measurements

July 1, 2022

(\$ millions)	State of Hawaii	Honolulu w/ HART	County of Hawaii	County of Maui	County of Kauai	Kauai DOW	Honolulu BWS	Hawaii DWS
AAL	\$ 10,908	\$ 2,373	\$571	\$577	\$274	\$19	\$150	\$35
<u>AVA</u>	<u>3,821</u>	<u>1,069</u>	<u>288</u>	<u>417</u>	<u>195</u>	<u>14</u>	<u>115</u>	<u>26</u>
UAAL	\$ 7,087	\$ 1,304	\$283	\$160	\$79	\$4	\$35	\$9
Funded Ratio								
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%
7/1/2022	35.0%	45.1%	50.4%	72.2%	71.2%	77.2%	76.5%	74.7%
ARC as a % of Payroll								
FYE24	22.2%	25.4%	22.5%	18.9%	18.8%	14.6%	19.0%	17.2%
FYE25	23.2%	26.4%	22.6%	19.6%	19.3%	15.9%	19.8%	18.9%
Normal Cost as a % of Payroll								
FYE25	6.9%	6.7%	6.3%	6.9%	7.1%	6.6%	6.4%	7.2%



Annual Required Contributions

(\$ thousands)	State of Hawaii	CC of Honolulu	County of Hawaii	County of Maui	County of Kauai	Kauai DOW	Honolulu BWS	Hawaii DWS
(1) FYE 2024 ARC	\$ 821,984	\$ 190,911	\$ 44,136	\$ 38,399	\$ 17,553	\$ 1,074	\$ 8,303	\$ 2,027
(2) FYE 2025 ARC	\$ 830,204	\$ 192,820	\$ 44,577	\$ 38,085	\$ 17,729	\$ 1,085	\$ 8,386	\$ 2,047
(3) Increase from prior year	1.0%	1.0%	1.0%	-0.8%	1.0%	1.0%	1.0%	1.0%

- The premium experience impacted all employers, and the FY2025 ARCs are all at the minimum 1% increase per the funding policy
- Contributions above the ARC in 2022 lowered the 2025 ARC for County of Maui

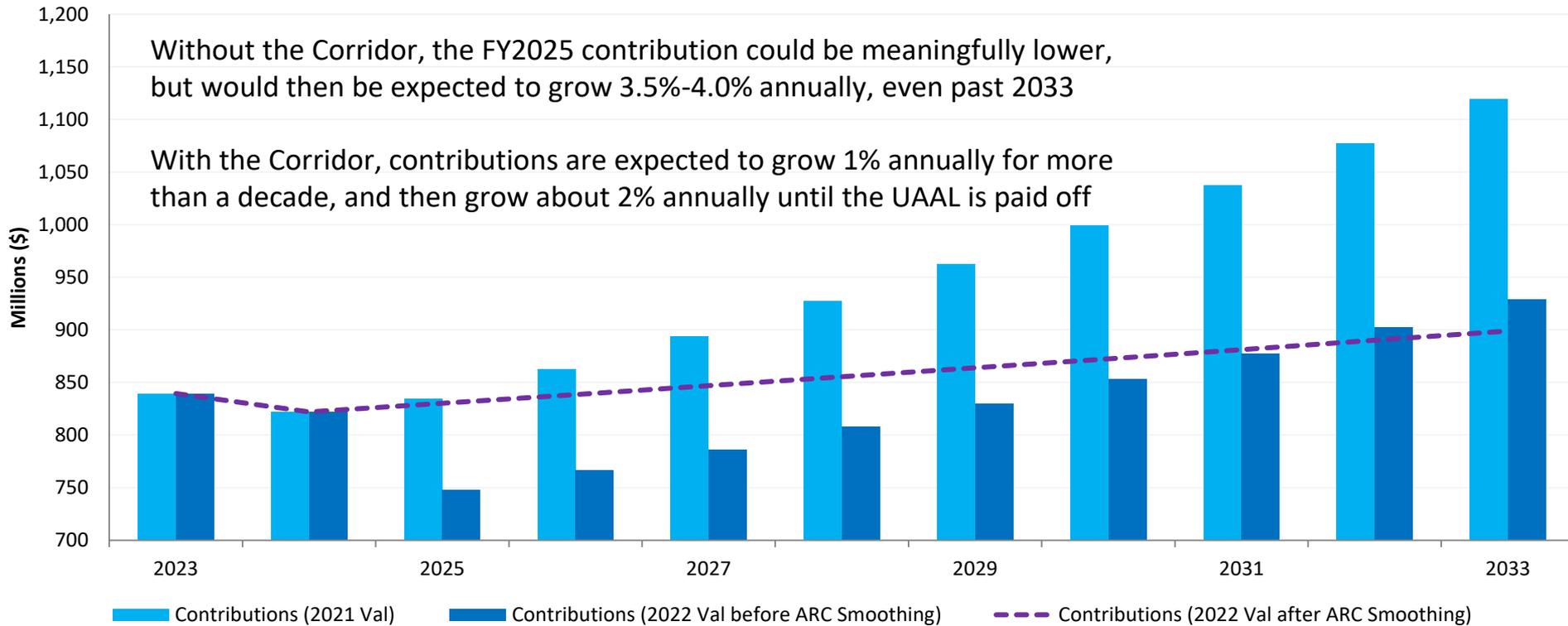
Funding Policy

- Highlights of how Actuarial Required Contributions (ARCs) are Determined
 - Contributions made of two components
 - “Normal Cost” to pay for new benefits being earned during the year
 - An Amortization Payment to pay off any UAAL
 - The Amortization Payments are determined over fixed schedules, with each year’s valuation being a combination of schedules from previous years and a new schedule for any gain or loss from the new year over a maximum of 20 years
- This initial amount will then be limited on how much it can change in one year
 - ARC corridor targets 3.00% growth annually
 - Actual ARC for a given year cannot be more than 2% away from the expected 3% growth
 - Minimum growth in one year of 1%
 - Maximum growth in one year of 5%
- Goals
 - Optimize the tradeoff between annual budget impact and providing benefit security

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 20 years as of 7/1/2024. 13 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 for all employers, 25% smaller for State of Hawaii
Is your funded ratio higher than it was 10 years ago?	★★★★★	Yes for all employers, from 0% to 35% for State of Hawaii, and 7% to 72% 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); 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% annual 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 at least every 3 years

State of Hawaii: 2% ARC Smoothing Corridor



The ARC corridor helps stabilize ARC growth, protect against adverse experience, and reach full funding sooner



While overall trend in the premiums has been less than assumed, the annual change in the premiums remains quite high

	HMSA Post-65 Medical	HMSA Post-65 Rx	Kaiser Post-65	HMSA Pre-65 Medical	HMSA Pre-65 Rx	Kaiser Pre-65	BMC	Asset Return, Market Value	CPI
2017	5.7%	6.3%	4.2%	5.8%	12.5%	4.6%	10.0%	2.6%	1.0%
2018	4.6%	-24.5%	10.7%	4.6%	-18.5%	10.8%	0.0%	9.5%	1.6%
2019	1.3%	15.4%	1.4%	1.9%	7.3%	1.4%	1.1%	7.3%	2.9%
2020	9.2%	15.6%	-6.1%	9.1%	20.5%	-6.1%	6.7%	4.6%	1.7%
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2022	-2.0%	2.2%	3.4%	-2.0%	0.9%	3.4%	14.5%	24.6%	5.4%
2023	-3.4%	5.6%	-6.0%	-4.3%	4.2%	-6.0%	-3.1%	-1.9%	9.1%
7-year average	2.4%	1.9%	0.7%	2.5%	2.0%	0.8%	4.4%	6.6%	3.2%
Standard Deviation	4.4%	13.6%	6.0%	4.6%	12.9%	6.1%	6.2%	8.6%	3.0%

Volatility Compared to ERS (a pension plan)

	Annual Rate of Change in Liability	
	EUTF	ERS
2018	5.2%	4.4%
2019	6.3%	4.9%
2020	-1.0%	4.1%
2021	2.7%	4.4%
2022	-5.9%	2.0%
Standard Deviation of Annual Change	5.0%	1.1%

EUTF has much more volatility and uncertainty from year to year

That is why the 2% funding corridor, and being disciplined with it, is important to maximizing the sustainability of EUTF



Summary

- Very favorable year in premium experience, funded status improvement, and contribution stability
- The Board's disciplined management of the healthcare program and costs are clearly having a positive impact in year to year results
- In addition, the Board's funding policy is providing a sustainable path to benefit security and budget predictability

Disclaimers

- This presentation is intended to be used in conjunction with the July 1, 2022 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.