

January 30, 2023

VIA EMAIL

The Honorable Ronald D. Kouchi
Senate President
415 South Beretania Street
Hawai'i State Capitol, Room 409
Honolulu, Hawai'i 96813

VIA EMAIL

The Honorable Scott K. Saiki
Speaker, House of Representatives
415 South Beretania Street
Hawai'i State Capitol, Room 431
Honolulu, Hawai'i 96813

RE: Financial Audit of the Hawai'i Employer-Union Health Benefits Trust Fund

Dear President Kouchi and Speaker Saiki:

The audit report on the financial statements of the Hawai'i Employer-Union Health Benefits Trust Fund for the fiscal year ended June 30, 2022, was issued on December 7, 2022. The Office of the Auditor retained KKDLY LLC to perform the financial audit. For your information, we are attaching a copy of the two-page Auditor's Summary of the financial audit report.

You may view the financial audit report and Auditor's Summary on our website at:

https://files.hawaii.gov/auditor/Reports/2022_Audit/EUTF2022.pdf; and

https://files.hawaii.gov/auditor/Reports/2022_Audit/EUTF_Summary_2022.pdf.

If you have any questions about the report, please contact me.

Very truly yours,

Leslie H. Kondo
State Auditor

LHK:LYK:emo

Attachment

cc/attach (Auditor's Summary only): Members of the Senate
Members of the House of Representatives
Carol Taniguchi, Senate Chief Clerk
Brian Takeshita, House Chief Clerk

Auditor's Summary

Financial Audit of the Hawai'i Employer-Union Health Benefits Trust Fund

Financial Statements, Fiscal Year Ended June 30, 2022

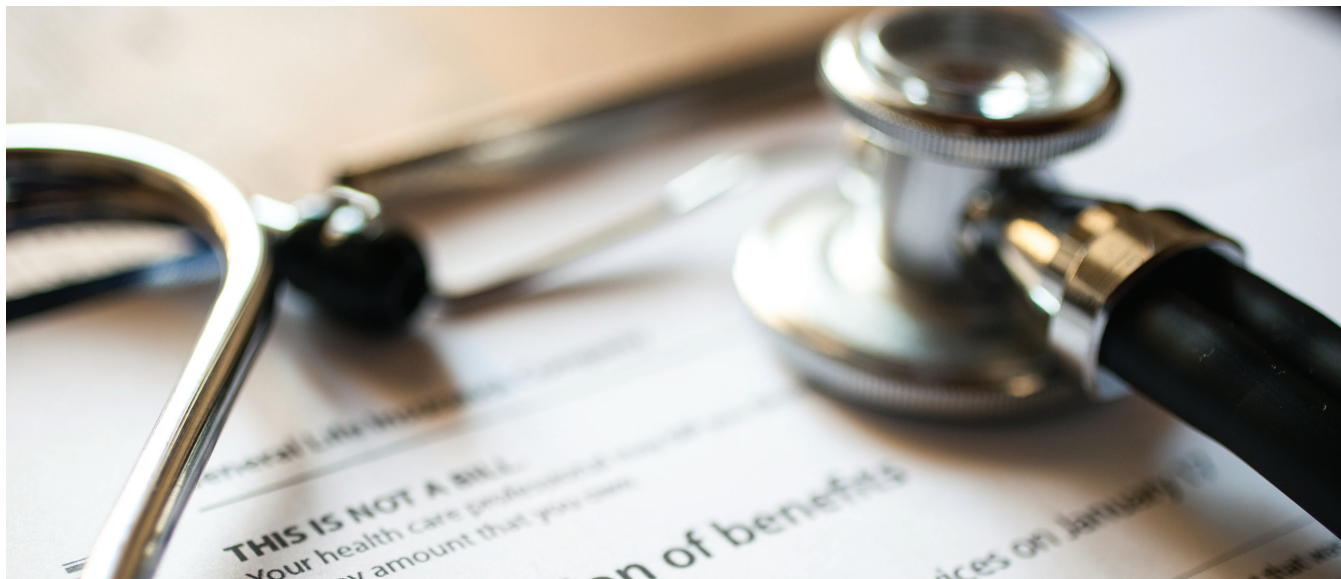


PHOTO: ISTOCK.COM

***THE PRIMARY PURPOSE** of the audit was to form an opinion on the fairness of the presentation of the financial statements for the Hawai'i Employer-Union Health Benefits Trust Fund, as of and for the fiscal year ended June 30, 2022. The audit was conducted by KKDLY LLC.*

About the Trust Fund

The Hawai'i Employer-Union Health Benefits Trust Fund (EUTF) is a state agency that provides eligible State of Hawai'i and county (Honolulu, Hawai'i, Maui, and Kaua'i) employees and retirees and their eligible dependents with health and life insurance benefits. EUTF is administered by a board of trustees composed of ten trustees appointed by the Governor. The trust fund currently provides medical, prescription drug, dental, vision, chiropractic, supplemental medical and prescription, and group life insurance benefits. Effective June 30, 2013, the board established a separate trust fund (the OPEB Trust Fund) to receive employer contributions to pre-fund other post-employment benefits (OPEB) for retirees and their beneficiaries. EUTF is administratively attached to the State of Hawai'i Department of Budget and Finance.

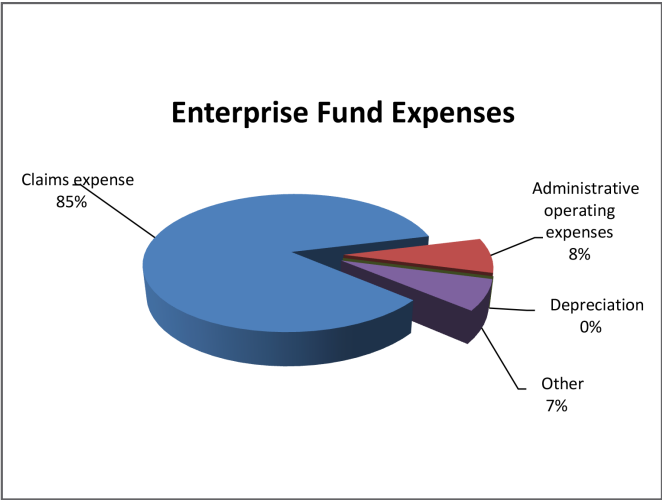
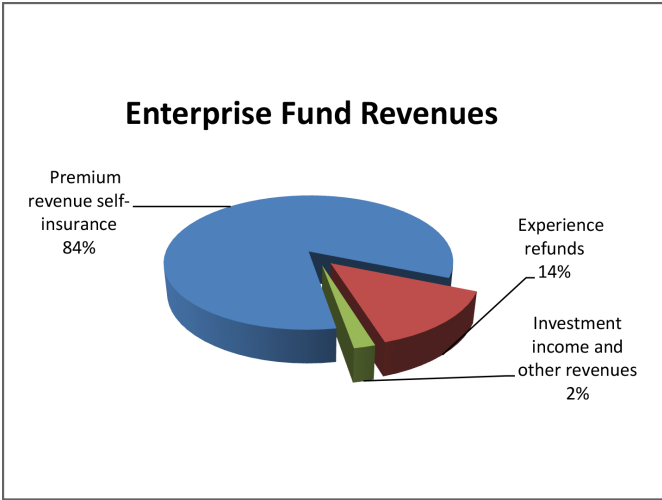
Financial Highlights

EUTF USES THE OPEB TRUST FUND to account for OPEB assets, liabilities, net position and operations related to post-employment health benefits for retirees and their beneficiaries, including all employer OPEB contributions for retirees and their beneficiaries. An enterprise fund is used to account for active employee healthcare benefits.

ENTERPRISE FUND: For the fiscal year ended June 30, 2022, revenues totaled \$115.5 million and expenses totaled \$121 million, resulting in a net loss of \$5.5 million. Revenues consisted of premium revenue self-insurance of \$97.1 million, experience refunds of \$16.1 million, and investment earnings and other revenues of \$2.3 million.

Expenses consisted of benefit claims expenses of \$102.4 million, administrative operating expenses of \$9.4 million, depreciation of \$500,000, and other operating expenses of \$8.7 million.

As of June 30, 2022, assets and deferred outflows of resources totaled \$266.9 million and liabilities and deferred inflows of resources totaled \$69.5 million, resulting in a net position of \$197.4 million.



OPEB TRUST FUND: For the fiscal year ended June 30, 2022, total additions of \$726 million, included \$845.6 million from employer contributions, \$120.4 million from net investment losses, and \$800,000 from other sources. Total deductions were \$517 million, resulting in a change of fiduciary net position of \$209 million.

As of June 30, 2022, the OPEB Trust Fund net position balance totaled \$6.29 billion. The OPEB Trust Fund held \$6.35 billion in assets and \$62.2 million in liabilities.

Auditors' Opinion

EUTF RECEIVED AN UNMODIFIED OPINION that its financial statements were presented fairly, in all material respects, in accordance with generally accepted accounting principles.

Findings

THERE WERE NO REPORTED DEFICIENCIES in internal control over financial reporting that were considered to be material weaknesses and no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

For the complete report and financial statements visit our website at:
https://files.hawaii.gov/auditor/Reports/2022_Audit/EUTF2022.pdf



Hawaii Employer-Union Health Benefits Trust Fund State of Hawaii

Financial Statements and Supplementary Information
(With Independent Auditors' Report)

June 30, 2022

Submitted by
**THE AUDITOR
STATE OF HAWAII**

**HAWAII EMPLOYER-UNION HEALTH BENEFITS TRUST FUND
STATE OF HAWAII**

Financial Statements and Supplementary Information

June 30, 2022

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**HAWAII EMPLOYER-UNION HEALTH BENEFITS TRUST FUND
STATE OF HAWAII**

Financial Statements and Supplementary Information

June 30, 2022

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PART I

INTRODUCTION SECTION

December 7, 2022

The Auditor
State of Hawaii:

Board of Trustees
Hawaii Employer-Union Health Benefits Trust Fund
State of Hawaii:

We have completed our audit of the financial statements of the Hawaii Employer-Union Health Benefits Trust Fund of the State of Hawaii (the EUTF), as of and for the year ended June 30, 2022. We transmit herewith our independent auditors' report containing our opinions on those financial statements and our independent auditors' report 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 opinions on the fair presentation of the EUTF's financial statements in accordance with accounting principles generally accepted in the United States of America.
2. To consider the EUTF's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements.
3. To perform tests of the EUTF's compliance with certain provisions of laws, regulations, and contracts, 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 EUTF's financial statements as of and for the year ended June 30, 2022, 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 EUTF's financial statements, we considered the EUTF's internal control over financial reporting to determine our auditing procedures for the purpose of expressing our opinions on the financial statements. We also performed tests of the EUTF's compliance with certain provisions of laws, regulations, and contracts, 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, the EUTF's financial statements and the related notes, required supplementary information, and other supplementary information as of and for the year ended June 30, 2022, and our independent auditors' report thereon.
3. The Internal Control and Compliance Section contains our independent auditors' report on the EUTF's 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*.

* * * * *

We would like to take this opportunity to express our appreciation for the courtesy and assistance extended to us by the personnel of the EUTF 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,

KKDLY LLC

PART II
FINANCIAL SECTION

Independent Auditors' Report

The Auditor
State of Hawaii:

Board of Trustees
Hawaii Employer-Union Health Benefits Trust Fund
State of Hawaii:

Report on the Audit of the Financial Statements

Opinions

We have audited the statement of net position of the enterprise fund of the Hawaii Employer-Union Health Benefits Trust Fund of the State of Hawaii (the Trust Fund) and the statement of fiduciary net position of the Hawaii Employer-Union Health Benefits Trust Fund for Other Post-Employment Benefits (the OPEB Trust), collectively referred to as the EUTF, as of June 30, 2022, and the related statement of revenues, expenses, and changes in net position, and cash flows of the enterprise fund, as well as the statement of changes in fiduciary net position of the OPEB Trust for the year then ended, and the related notes to financial statements, which collectively comprise the EUTF's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of the enterprise fund of the Trust Fund, as well as the financial position of the OPEB Trust, as of June 30, 2022, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States (*Government Auditing Standards*). 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 EUTF 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.

Emphasis of Matters

Change in Accounting Principle

As discussed in Note 2, the EUTF adopted the provisions of Governmental Accounting Standards Board Statement No. 87, *Leases*, as of July 1, 2021. Our opinions are not modified with respect to this matter.

Relationship to the State of Hawaii

As discussed in Note 1, the financial statements of the EUTF are intended to present the financial position, the changes in financial position and, where applicable, cash flows of only that portion of the State of Hawaii that is attributable to the transactions of the EUTF. They do not purport to, and do not, present fairly the financial position of the State of Hawaii as of June 30, 2022, and the changes in its financial position, or, where applicable, its cash flows for the year then ended, in accordance with accounting principles generally accepted in the United States of America. Our opinions are not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the 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 EUTF's 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 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 auditing standards generally accepted in the United States of America 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 judgement made by reasonable user based on the financial statements.

In performing an audit in accordance with auditing standards generally accepted in the United States of America 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 EUTF's 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 judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the EUTF's 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.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the schedule of investment returns, and the ten-year loss development 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 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.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the EUTF's basic financial statements. The schedule of administrative operating expenses—enterprise fund (supplementary information) 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 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 auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 7, 2022, on our consideration of the EUTF's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, and contracts 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 EUTF's 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 EUTF's internal control over financial reporting and compliance.

KKDL Y LLC

Honolulu, Hawaii
December 7, 2022

**HAWAII EMPLOYER-UNION HEALTH BENEFITS TRUST FUND
STATE OF HAWAII**

Management's Discussion and Analysis

June 30, 2022

This section of the Hawaii Employer-Union Health Benefits Trust Fund of the State of Hawaii (the EUTF) financial report presents the reader with an introduction and overview of the EUTF's financial performance as of and for the fiscal year ended June 30, 2022. This discussion has been prepared by management and should be read in connection with the financial statements and the notes thereto, which follow this section.

The EUTF is the state agency that provides eligible State of Hawaii (the State) and county (Honolulu, Hawaii, Maui, and Kauai) employees and retirees and their eligible dependents with health and life insurance benefits at a cost affordable to both the public employers and participants beginning July 1, 2003.

Active employee healthcare benefits and other postemployment benefits (OPEB) retiree healthcare benefits (including their respective beneficiaries) are reported separately for accounting purposes. Accordingly, the EUTF reports the active employee healthcare benefits as risk financing in conformity with Governmental Accounting Standards Board (GASB) Statement No. 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues* (Statement No. 10), as amended, while the OPEB retiree healthcare benefits, which meets the requirements of a qualifying trust, are reported in conformity with GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans* (Statement No. 74).

The EUTF entered into contracts for medical, prescription drug, chiropractic, and supplemental health insurance with carriers and third-party administrators (TPA) for retirees and active employees effective January 1, 2021 and July 1, 2021, respectively, for two years with two one-year extensions through December 31, 2025 and June 30, 2025, respectively.

The EUTF entered into contracts for dental, vision, and life insurance plans with carriers for retirees and active employees effective January 1, 2019 and July 1, 2020, respectively, for one-year with three one-year extensions through December 31, 2022 and June 30, 2023, respectively. Extensions through December 31, 2022 have been exercised by the EUTF.

The following plans are fully-insured with one-way risk sharing (rates are experience rated and are negotiated; surpluses [premiums exceed claims, administrative fees, and retention charged by the insurance carrier] are retained by the EUTF and the carrier is responsible for any shortfalls [claims, administrative fees, and retention charged by the insurance carrier exceed premiums], and risk is retained by the carrier): All Hawaii Medical Service Association (HMSA) medical plans; Hawaii Dental Service (HDS) dental plans; and Vision Service Plan (VSP) vision plans. For plans on the HMSA contract, surpluses are netted against shortfalls on all plans offered by HMSA (e.g., 90/10, 80/20, 75/25, and HMO). However, surpluses and shortfalls are not netted between the active employee and retiree group contracts.

**HAWAII EMPLOYER-UNION HEALTH BENEFITS TRUST FUND
STATE OF HAWAII**

Management's Discussion and Analysis

June 30, 2022

The following plans are fully-insured (rates are experience rated and are negotiated, surpluses and shortfalls are retained by the carrier, and risk is retained by the carrier): Kaiser medical and prescription drug plans; and Securian Financial life insurance plan.

The CVS Caremark and Silverscript prescription drug plans and Hawaii-Mainland Administrators (HMA) supplemental medical and prescription drug plan are self-insured (rates are experience rated and set by the Board, administrative fees and actual claims are paid to the TPA, surplus and shortfalls are retained by the EUTF and risk is retained by the EUTF).

The Federal Affordable Care Act (ACA) became effective July 1, 2011 for the EUTF's active employee medical and prescription drug plans. The following are the changes to the EUTF's active employee plans due to ACA: 1) The plan lost its grandfather status due to the increase in the employees' share of premiums; 2) The definition of dependent child was expanded to age 26 and requirements that the child be unmarried and a full time student were dropped for medical and prescription drug only (additional dependents were enrolled as a result); 3) Plans included coverage for women's preventive services in line with the guidelines developed by the Institute of Medicine and supported by the Health Resources and Services Administration (the HRSA), including providing services without a copayment, cost share or deductible when rendered by a participating provider; 4) The imposition of ACA fees (i.e., PCORI - Patient-Centered Outcomes Research Institute, and insurer fees); and 5) Effective July 1, 2014 elimination of the EUTF and HSTA VB HMSA supplemental plans and the bundling of the HMSA medical and CVS Caremark prescription drug plans.

Act 245, Session Laws of Hawaii 2005 (partially codified as Chapter 87D, Hawaii Revised Statutes (HRS)), temporarily authorized employee organizations to establish voluntary employees' beneficiary association (VEBA) trusts to provide health benefits to state and county employees in their bargaining units outside of the EUTF. It established a three-year pilot program to allow for the analysis of the costs and benefits of a VEBA trust against those of the EUTF. Effective March 1, 2006, the Hawaii State Teachers Association (HSTA) implemented the three-year pilot program. As a result, all active HSTA employees were enrolled in the VEBA trust and subsequently cancelled from the EUTF's health benefit plans. Act 245's sunset dates were amended three times: July 1, 2009, July 1, 2010, and December 31, 2010.

In addition, Chapter 87D, HRS, which authorized the establishment of the VEBA, also included the option for HSTA retirees to make a one-time choice to either remain with the EUTF or transfer to the HSTA VEBA benefit plans. The option period was from October through November 2006. As a result, approximately 1,400 HSTA retirees transferred to the HSTA VEBA. HSTA employees that retired on or after March 1, 2006 were required to be enrolled with the HSTA VEBA.

As a result of Act 245 sunset on December 31, 2010, effective January 1, 2011, approximately, 12,500 HSTA VEBA active employees and 2,500 retirees were transferred back to the EUTF. In December 2010, Judge Sakamoto (Kono, et al v Abercrombie, Civil No. 10-1-1966-09 KKS) ruled that HSTA VEBA members (actives and retirees) were entitled to the same standard of coverage in benefits when they were transitioned to the EUTF on January 1, 2011. As a result, the EUTF created new plans for the HSTA VEBA members (both active and retirees) that matched their HSTA VEBA benefits. The enrollment of HSTA VEBA members into the newly created health and other benefit plans was done by

**HAWAII EMPLOYER-UNION HEALTH BENEFITS TRUST FUND
STATE OF HAWAII**

Management's Discussion and Analysis

June 30, 2022

the EUTF solely to comply with Judge Sakamoto's ruling and does not create any constitutional or contractual right to the benefits under these plans. The State does not agree with Judge Sakamoto's ruling. If Judge Sakamoto's ruling is overturned, stayed, or modified, the EUTF reserves the right to move HSTA VEBA members into regular EUTF plans. See further discussion in Note 10 to the financial statements.

Overview of the Financial Statements

The financial statements of the EUTF include the following statements:

- Enterprise Fund - Active Employee Healthcare Benefits
 - Statement of net position - This statement summarizes the assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position of this enterprise fund.
 - Statement of revenues, expenses, and changes in net position - This statement summarizes the financial results of the operations for the year.
 - Statement of cash flows - This statement identifies the sources and uses of cash and cash equivalents.
- OPEB Trust - Retiree Healthcare Benefits
 - Statement of fiduciary net position - This statement summarizes the assets, liabilities, and net position of this fiduciary fund.
 - Statement of changes in fiduciary net position - This statement summarizes the financial results of the operations for the year.

Financial Highlights

For the fiscal years ended June 30, 2022 and 2021, contributions to the EUTF were as follows:

| | <u>2022</u> | <u>2021</u> |
|------------------------|------------------|------------------|
| Employer contributions | \$ 1,299,138,986 | \$ 1,987,012,473 |
| Employee contributions | 222,648,183 | 213,500,981 |

**HAWAII EMPLOYER-UNION HEALTH BENEFITS TRUST FUND
STATE OF HAWAII**

Management's Discussion and Analysis

June 30, 2022

For the fiscal years ended June 30, 2022 and 2021, the EUTF incurred the following:

| | 2022 | 2021 |
|--|----------------|----------------|
| Carrier payments - fully-insured plans | \$ 900,132,474 | \$ 885,709,003 |
| Benefit claims - self-insured | 382,345,033 | 352,472,543 |
| Medicare Part B reimbursements | 113,087,942 | 99,356,417 |
| Administrative operating expenses | 9,384,029 | 9,327,338 |

Financial Analysis

Enterprise Fund

A summary of the EUTF's net position for active employees is shown below as of June 30, 2022 and 2021:

| | 2022 | 2021 | Change | % Change |
|---------------------------------------|----------------|----------------|----------------|-----------------|
| Assets: | | | | |
| Current assets | \$ 256,894,832 | \$ 265,308,594 | \$ (8,413,762) | -3.2% |
| Capital assets, net | 8,604,999 | 5,206,502 | 3,398,497 | 65.3% |
| Total assets | 265,499,831 | 270,515,096 | (5,015,265) | -1.9% |
| Deferred outflows of resources | 1,427,055 | 1,832,178 | (405,123) | -22.1% |
| Liabilities: | | | | |
| Current liabilities | 54,884,848 | 54,227,931 | 656,917 | 1.2% |
| Noncurrent liabilities | 12,446,349 | 14,526,965 | (2,080,616) | -14.3% |
| Total liabilities | 67,331,197 | 68,754,896 | (1,423,699) | -2.1% |
| Deferred inflows of resources | 2,209,487 | 688,655 | 1,520,832 | 220.8% |
| Net position: | | | | |
| Net investment in capital assets | 8,408,034 | 5,206,502 | 3,201,532 | 61.5% |
| Unrestricted | 188,978,168 | 197,697,221 | (8,719,053) | -4.4% |
| Total net position | \$ 197,386,202 | \$ 202,903,723 | \$ (5,517,521) | -2.7% |

**HAWAII EMPLOYER-UNION HEALTH BENEFITS TRUST FUND
STATE OF HAWAII**

Management's Discussion and Analysis

June 30, 2022

The enterprise fund's total assets decreased by \$5.0 million or 1.9% during the fiscal year ended June 30, 2022. The overall decrease is due primarily to decreases in experience refunds from insurance companies of \$17.7 million and rebates and other receivables from insurance companies of \$9.8 million, offset by increases in investments of \$16.6 million and an increase in capital assets of \$3.4 million related to the acquisition of a new benefits administration system.

The enterprise fund's total liabilities decreased by \$1.4 million or 2.1% due primarily to the decrease in net pension liability of \$1.8 million.

The enterprise fund's total net position decreased by \$5.5 million or 2.7% during the fiscal year ended June 30, 2022. This was attributable to investment loss of \$8.7 million, offset by operating income of \$3.2 million for fiscal year ended June 30, 2022.

A summary of changes in net position for the years ended June 30, 2022 and 2021, for active employees follows:

| | <u>2022</u> | <u>2021</u> | <u>Change</u> | <u>% Change</u> |
|--|-----------------------|-----------------------|-----------------------|-----------------|
| Revenues: | | | | |
| Operating revenues | \$ 115,421,553 | \$ 133,478,019 | \$ (18,056,466) | -13.5% |
| Nonoperating revenues | (8,697,832) | 2,219,112 | (10,916,944) | -492.0% |
| Total revenues | 106,723,721 | 135,697,131 | (28,973,410) | -21.4% |
| Operating expenses | 112,241,242 | 91,337,656 | 20,903,586 | 22.9% |
| Change in net position | (5,517,521) | 44,359,475 | (49,876,996) | -112.4% |
| Net position at beginning of year | 202,903,723 | 158,544,248 | 44,359,475 | 28.0% |
| Net position at end of year | <u>\$ 197,386,202</u> | <u>\$ 202,903,723</u> | <u>\$ (5,517,521)</u> | -2.7% |

The enterprise fund's total revenues decreased by \$29.0 million or 21.4% during the fiscal year ended June 30, 2022. The decrease is primarily attributable to a \$20.4 million decrease in experience refunds and a \$10.9 million decrease in investment income, offset by a \$985,000 increase in premium revenues for self-insured plans.

The enterprise fund's operating expenses increased by \$20.9 million or 22.9% during the fiscal year ended June 30, 2022. The increase is due primarily to a \$20.8 million increase in benefits claims expense for self-insured plans.

**HAWAII EMPLOYER-UNION HEALTH BENEFITS TRUST FUND
STATE OF HAWAII**

Management's Discussion and Analysis

June 30, 2022

OPEB Trust

A summary of the OPEB Trust's fiduciary net position as of June 30, 2022 and 2021 follows:

| | <u>2022</u> | <u>2021</u> | <u>Change</u> | <u>% Change</u> |
|--|-------------------------|-------------------------|-----------------------|-----------------|
| Assets: | | | | |
| Cash and cash equivalents | \$ 881,398,857 | \$ 959,133,749 | \$ (77,734,892) | -8.1% |
| Investments | 5,234,011,202 | 4,686,513,610 | 547,497,592 | 11.7% |
| Invested securities lending collateral | 11,022,710 | 8,761,880 | 2,260,830 | 25.8% |
| Receivables: | | | | |
| Employer contributions | 112,111,493 | 390,000,000 | (277,888,507) | -71.3% |
| Premiums receivable from State of Hawaii and counties | 37,159,714 | - | 37,159,714 | 100.0% |
| Rebates and other receivables from insurance companies | 32,861,781 | 54,407,869 | (21,546,088) | -39.6% |
| Experience refunds due from insurance companies | 31,312,576 | 29,471,728 | 1,840,848 | 6.2% |
| Other receivables | 11,081 | 13,200 | (2,119) | -16.1% |
| Deposits | 8,165,204 | 8,165,204 | - | 0.0% |
| Total assets | <u>6,348,054,618</u> | <u>6,136,467,240</u> | <u>211,587,378</u> | 3.4% |
| Liabilities: | | | | |
| Premiums payable | 27,610,889 | 27,136,514 | 474,375 | 1.7% |
| Benefit claims payable | 20,879,666 | 21,045,859 | (166,193) | -0.8% |
| Securities lending collateral | 11,022,710 | 8,761,880 | 2,260,830 | 25.8% |
| Other payables | 2,671,652 | 2,617,208 | 54,444 | 2.1% |
| Total liabilities | <u>62,184,917</u> | <u>59,561,461</u> | <u>2,623,456</u> | 4.4% |
| Net position restricted for postemployment benefits other than pensions | <u>\$ 6,285,869,701</u> | <u>\$ 6,076,905,779</u> | <u>\$ 208,963,922</u> | 3.4% |

Cash and cash equivalents and investments increased by \$469.8 million or 8.3% during the fiscal year ended June 30, 2022 primarily due to the increase in fiduciary net position of \$209.0 million.

Employer contributions receivable from State of Hawaii decreased by \$277.9 million or 71.3%. Employer contributions receivable at June 30, 2022 of \$112.1 million represents contributions towards the fiscal year 2022 annual required contribution (ARC) requirement.

Premiums receivable from State of Hawaii and counties of \$37.2 million relates to the employer contributions towards the monthly benefits premiums and Medicare Part B premium reimbursements for retirees.

**HAWAII EMPLOYER-UNION HEALTH BENEFITS TRUST FUND
STATE OF HAWAII**

Management's Discussion and Analysis

June 30, 2022

Rebates and other receivables from insurance companies decreased by \$21.5 million or 39.6% during the fiscal year ended June 30, 2022 primarily due to lower prescription drug rebates.

A summary of the changes in the OPEB Trust's fiduciary net position for the years ended June 30, 2022 and 2021 follows:

| | <u>2022</u> | <u>2021</u> | <u>Change</u> | <u>% Change</u> |
|---|-------------------------|-------------------------|-----------------------|-----------------|
| Additions: | | | | |
| Employer contributions | \$ 845,554,637 | \$ 1,532,280,150 | \$ (686,725,513) | -44.8% |
| Net investment income (loss) | (120,409,106) | 1,059,890,526 | (1,180,299,632) | -111.4% |
| Other revenues, net | 830,885 | 79,473 | 751,412 | 945.5% |
| Total additions | 725,976,416 | 2,592,250,149 | (1,866,273,733) | -72.0% |
| Deductions: | | | | |
| Benefits claims expense and carrier payments, net of retiree contributions | 517,012,494 | 497,432,127 | 19,580,367 | 3.9% |
| Change in fiduciary net position | 208,963,922 | 2,094,818,022 | (1,885,854,100) | -90.0% |
| Net position restricted for postemployment benefits other than pensions: | | | | |
| Beginning of year | 6,076,905,779 | 3,982,087,757 | 2,094,818,022 | 52.6% |
| End of year | <u>\$ 6,285,869,701</u> | <u>\$ 6,076,905,779</u> | <u>\$ 208,963,922</u> | 3.4% |

During the fiscal year ended June 30, 2022, the net position restricted for postemployment benefits other than pensions of the OPEB Trust increased by \$209.0 million or 3.4% primarily attributable to employer contributions of \$845.6 million offset by investment losses, net of \$120.4 million and benefits claims expense and carrier payments, net of retiree contributions of \$517.0 million.

Employer contributions decreased by \$686.7 million or 44.8% during the fiscal year ended June 30, 2022 primarily due to Act 229, SLH 2021, which extended the suspension of the employer contribution for the fiscal year 2022 ARC requirement. Additionally, the State made a contribution of \$390 million in excess of the fiscal year 2021 ARC requirement in the prior year.

Net investment income (loss) decreased by \$1,180.3 million or 111.4% primarily due to lower annual money-weighted rate of return, net of investment expense in fiscal year 2022.

**HAWAII EMPLOYER-UNION HEALTH BENEFITS TRUST FUND
STATE OF HAWAII**

Management's Discussion and Analysis

June 30, 2022

Capital Assets

The EUTF's capital assets consist of office furniture, equipment, computer equipment, software, and right-to-use lease assets.

The aggregate net capital assets was \$8.6 million as of June 30, 2022. Depreciation and amortization expense totaled \$494,000 for the fiscal year ended June 30, 2022. There were no significant disposals of capital assets during the fiscal year ended June 30, 2022.

Economic Factors Affecting Next Fiscal Year

Factors Affecting Fiscal Year 2023

New active employee and retiree dental and vision contracts will be implemented effective January 1, 2023 through December 31, 2024, and July 1, 2023 through June 30, 2025, respectively.

Economic Uncertainties

On March 11, 2020, the World Health Organization declared the coronavirus infection known as COVID-19 to be a global pandemic. The pandemic, together with the recent geopolitical events and rising inflation, has adversely affected the global economy by, among other things, disrupting supply chains, creating significant volatility and disruption in financial markets, and increasing unemployment levels. The full impact on the EUTF's operating results, including investment performance and health care costs, cannot be reasonably estimated at this time because of the uncertainties surrounding the duration and severity of these matters.

Request for Information

This financial report is designed to provide the Board of Trustees, the State Auditor, and our membership, with a general overview of the EUTF's finances and to account for the money it receives. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to:

Hawaii Employer-Union Health Benefits Trust Fund
201 Merchant Street, Suite 1700
Honolulu, Hawaii 96813

**HAWAII EMPLOYER-UNION HEALTH BENEFITS TRUST FUND
STATE OF HAWAII**

Statement of Net Position – Enterprise Fund

June 30, 2022

Assets:

| | |
|--|--------------------|
| Current assets: | |
| Cash and cash equivalents | \$ 24,055,205 |
| Investments | 158,108,964 |
| Receivables: | |
| Premiums receivable from State of Hawaii and counties | 36,165,064 |
| Experience refunds due from insurance companies | 18,408,658 |
| Rebates and other receivables from insurance companies | 15,070,458 |
| Prepaid expenses and other current assets | 65,209 |
| Deposits | <u>5,021,274</u> |
| Total current assets | 256,894,832 |
| Capital assets, net | <u>8,604,999</u> |
| Total assets | <u>265,499,831</u> |

Deferred Outflows of Resources:

| | |
|--|------------------|
| Related to pension | 1,006,837 |
| Related to other postemployment benefits | <u>420,218</u> |
| Total deferred outflows of resources | <u>1,427,055</u> |

Liabilities:

| | |
|---|-------------------|
| Current liabilities: | |
| Premiums payable | 46,251,491 |
| Benefit claims payable | 5,913,811 |
| Vouchers and contracts payable | 1,312,606 |
| Accrued wages and employee benefits payable | 445,174 |
| Due to employees, net | 579,729 |
| Due to State of Hawaii and counties | 88,643 |
| Lease payable, current portion | 158,844 |
| Compensated absences, current portion | <u>134,550</u> |
| Total current liabilities | 54,884,848 |
| Noncurrent liabilities: | |
| Net pension liability | 5,307,643 |
| Net other postemployment benefits liability | 6,622,639 |
| Lease payable, less current portion | 38,121 |
| Compensated absences, less current portion | <u>477,946</u> |
| Total liabilities | <u>67,331,197</u> |

Deferred Inflows of Resources:

| | |
|--|------------------|
| Related to pension | 1,502,560 |
| Related to other postemployment benefits | <u>706,927</u> |
| Total deferred inflows of resources | <u>2,209,487</u> |

Net Position:

| | |
|----------------------------------|-----------------------|
| Net investment in capital assets | 8,408,034 |
| Unrestricted | <u>188,978,168</u> |
| Total net position | <u>\$ 197,386,202</u> |

See accompanying notes to financial statements.

HAWAII EMPLOYER-UNION HEALTH BENEFITS TRUST FUND
STATE OF HAWAII

Statement of Revenues, Expenses, and Changes in Net Position – Enterprise Fund

Year Ended June 30, 2022

| | |
|---|------------------------------|
| Operating revenues: | |
| Premium revenues - self-insured | \$ 97,066,919 |
| Experience refunds, net | 16,131,554 |
| Other revenues, net | <u>2,223,080</u> |
| Total operating revenues | <u>115,421,553</u> |
| Operating expenses: | |
| Benefits claims expense - self-insured | 102,377,396 |
| Administrative operating expenses | 9,384,029 |
| Depreciation and amortization | 493,817 |
| Change in incurred but not reported (IBNR) claims | <u>(14,000)</u> |
| Total operating expenses | <u>112,241,242</u> |
| Operating income | 3,180,311 |
| Nonoperating revenues: | |
| Investment loss | <u>(8,697,832)</u> |
| Change in net position | (5,517,521) |
| Net position at beginning of year | <u>202,903,723</u> |
| Net position at end of year | <u><u>\$ 197,386,202</u></u> |

See accompanying notes to financial statements.

HAWAII EMPLOYER-UNION HEALTH BENEFITS TRUST FUND
STATE OF HAWAII

Statement of Cash Flows – Enterprise Fund

Year Ended June 30, 2022

Cash flows from operating activities:

| | |
|---|--------------------|
| Cash received from State of Hawaii, counties and individuals for premiums and benefits payments | \$ 711,583,986 |
| Cash paid for premiums and benefit payments | (675,514,387) |
| Cash paid to employees | (5,205,679) |
| Cash paid to vendors | <u>(3,554,374)</u> |
| Net cash provided by operating activities | <u>27,309,546</u> |

Cash flows used in capital and related financing activities:

| | |
|---|--------------------|
| Purchase of computer equipment and software | (3,500,381) |
| Principal repayments of lease payable | <u>(194,967)</u> |
| Net cash used in capital and related financing activities | <u>(3,695,348)</u> |

Cash flows used in investing activities:

| | |
|---|---------------------|
| Purchase of investments, net | (27,951,034) |
| Interest and dividends received | <u>2,676,251</u> |
| Net cash used in investing activities | <u>(25,274,783)</u> |
| Net decrease in cash and cash equivalents | (1,660,585) |

Cash and cash equivalents at beginning of year 25,715,790

Cash and cash equivalents at end of year \$ 24,055,205

Noncash capital and related financing activities:

| | |
|---|--------------------------|
| Right-to-use lease assets and related lease payable | <u><u>\$ 391,932</u></u> |
|---|--------------------------|

See accompanying notes to financial statements.

(Continued)

**HAWAII EMPLOYER-UNION HEALTH BENEFITS TRUST FUND
STATE OF HAWAII**

Statement of Cash Flows – Enterprise Fund (Continued)

Year Ended June 30, 2022

**Reconciliation of operating income to net cash provided by
operating activities:**

| | |
|--|-----------------------------|
| Operating income | <u>\$ 3,180,311</u> |
| Adjustments to reconcile operating income to net cash provided by operating activities: | |
| Depreciation and amortization | 493,817 |
| Decrease (increase) in assets and deferred outflows of resources: | |
| Premiums receivable from State of Hawaii and counties | (4,447,461) |
| Experience refunds due from insurance companies | 17,742,297 |
| Rebates and other receivables from insurance companies | 9,802,024 |
| Prepaid expenses and other current assets | 233,267 |
| Deferred outflows of resources | 405,123 |
| Increase (decrease) in liabilities and deferred inflows of resources: | |
| Premiums payable | (159,155) |
| Benefit claims payable | (106,855) |
| Vouchers and contracts payable | 563,577 |
| Accrued wages and employee benefits payable | 16,078 |
| Due to employees, net | 183,116 |
| Due to State of Hawaii and counties | (2,524) |
| Compensated absences | 13,395 |
| Net pension liability | (1,788,299) |
| Net other postemployment benefits liability | (339,997) |
| Deferred inflows of resources | <u>1,520,832</u> |
| Total adjustments | <u>24,129,235</u> |
| Net cash provided by operating activities | <u><u>\$ 27,309,546</u></u> |

See accompanying notes to financial statements.

**HAWAII EMPLOYER-UNION HEALTH BENEFITS TRUST FUND
STATE OF HAWAII**

Hawaii Employer-Union Health Benefits Trust Fund
for Other Post-Employment Benefits

Statement of Fiduciary Net Position – OPEB Trust

June 30, 2022

Assets:

| | |
|--|----------------|
| Cash and cash equivalents | \$ 881,398,857 |
| Investments | 5,234,011,202 |
| Total cash and cash equivalents and investments | 6,115,410,059 |
| Invested securities lending collateral | 11,022,710 |
| Receivables: | |
| Employer contributions | 112,111,493 |
| Premiums receivable from State of Hawaii and counties | 37,159,714 |
| Rebates and other receivables from insurance companies | 32,861,781 |
| Experience refunds due from insurance companies | 31,312,576 |
| Other receivables | 11,081 |
| Total receivables | 213,456,645 |
| Deposits | 8,165,204 |
| Total assets | 6,348,054,618 |

Liabilities:

| | |
|-------------------------------|------------|
| Premiums payable | 27,610,889 |
| Benefit claims payable | 20,879,666 |
| Securities lending collateral | 11,022,710 |
| Investment fees payable | 2,227,255 |
| Other payables | 444,397 |
| Total liabilities | 62,184,917 |

**Net position restricted for postemployment benefits
other than pensions**

\$ 6,285,869,701

See accompanying notes to financial statements.

HAWAII EMPLOYER-UNION HEALTH BENEFITS TRUST FUND
STATE OF HAWAII

Hawaii Employer-Union Health Benefits Trust Fund
for Other Post-Employment Benefits

Statement of Changes in Fiduciary Net Position – OPEB Trust

Year Ended June 30, 2022

Additions:

| | |
|--|-----------------------|
| Employer contributions | <u>\$ 845,554,637</u> |
| Investment loss: | |
| From investing activities: | |
| Net depreciation in the fair value of investments | (195,029,446) |
| Interest and dividends | <u>85,541,920</u> |
| | (109,487,526) |
| Less: investment expenses | <u>11,161,500</u> |
| Net investment loss from investing activities | <u>(120,649,026)</u> |
| From securities lending activities: | |
| Securities lending income | 307,523 |
| Securities lending expenses | <u>67,603</u> |
| Net investment income from securities lending activities | <u>239,920</u> |
| Total net investment loss | <u>(120,409,106)</u> |
| Other revenues, net | <u>830,885</u> |
| Total additions | 725,976,416 |

Deductions:

| | |
|--|--------------------|
| Benefits claims expense and carrier payments, net of retiree contributions | <u>517,012,494</u> |
| Change in fiduciary net position | 208,963,922 |

Net position restricted for postemployment benefits other than pensions:

| | |
|-------------------|--------------------------------|
| Beginning of year | <u>6,076,905,779</u> |
| End of year | <u><u>\$ 6,285,869,701</u></u> |

See accompanying notes to financial statements.

**HAWAII EMPLOYER-UNION HEALTH BENEFITS TRUST FUND
STATE OF HAWAII**

Notes to Financial Statements

June 30, 2022

(1) Financial Reporting Entity

Chapter 87A, Hawaii Revised Statutes (HRS) established the Hawaii Employer-Union Health Benefits Trust Fund (the Trust Fund). The Trust Fund was established to design, provide, and administer health and other benefit plans for State of Hawaii (the State) and county (Honolulu, Hawaii, Maui, and Kauai) employees, retirees and their eligible dependents beginning July 1, 2003. Chapter 87, HRS that established the Hawaii Public Employees Health Fund (the Health Fund) was repealed and the net assets of the Health Fund were transferred to the Trust Fund.

Act 245, Session Laws of Hawaii (SLH) 2005, established a voluntary employees' beneficiary association (the VEBA) trust pilot program for the administration of the healthcare benefits for active employees and retirees, which the Hawaii State Teachers Association (the HSTA) implemented in March 2006. The program sunset date was December 31, 2010, and the VEBA trust was terminated. Effective January 1, 2011, all HSTA employees and retirees receiving benefits under the VEBA trust were enrolled in the benefit programs administered through the Trust Fund.

The Trust Fund is administered by a Board of Trustees (the Board) composed of 10 trustees appointed by the Governor of the State. The Board is responsible for determining the nature and scope of benefit plans offered by the Trust Fund, negotiating and entering into contracts with insurance carriers, establishing eligibility and management policies for the Trust Fund, and overseeing all Trust Fund activities. The Board relies on professional services provided by a salaried Administrator, the State Department of the Attorney General, a benefits consultant, and an investment consultant.

Chapter 87A, HRS was amended on July 9, 2012 to allow the Board to establish a separate trust fund for the purpose of receiving employer contributions that will pre-fund other post-employment benefits (OPEB) for retirees and their beneficiaries. Pursuant to this amendment, the Board executed an irrevocable declaration of trust establishing the Hawaii Employer-Union Health Benefits Trust Fund for Other Post-Employment Benefits (the OPEB Trust) effective June 30, 2013. The OPEB Trust is governed by the Board of the Trust Fund. Its assets are held for the exclusive purpose of providing other post-employment benefits and are legally protected from creditors. The OPEB Trust financial statements are included as part of the basic financial statements of the Trust Fund (collectively referred to as the EUTF).

**HAWAII EMPLOYER-UNION HEALTH BENEFITS TRUST FUND
STATE OF HAWAII**

Notes to Financial Statements

June 30, 2022

Act 268, SLH 2013 (Act 268), further amended Chapter 87A, HRS (codified as Chapter 87A-42). Effective July 1, 2018, annual employer contributions for retirees and their beneficiaries are equal to the amount of the annual required contribution as determined by an actuary and placed into the OPEB Trust. The annual required contribution is defined as the employer's contribution that is sufficient to cover (1) the normal cost, which is the cost of other post-employment benefits attributable to the current year of service, and (2) an amortization payment, which is a catch-up payment for past service costs to fund the unfunded actuarial accrued liability over the next 30 years. Accordingly, all employer contributions for retirees and their beneficiaries are required to be placed in the OPEB Trust effective July 1, 2018.

The EUTF, an agent multiple-employer defined benefit OPEB plan, is administratively attached to the State Department of Budget and Finance. The EUTF's financial statements reflect only its portion of the fund type categories. The State Comptroller maintains the central accounts for all State funds and publishes annual financial statements for the State, which includes the EUTF's financial activities.

The EUTF currently provides medical, prescription drug, chiropractic, dental, vision, supplemental medical and prescription drug, and group life insurance benefits. The medical plans include a statewide preferred provider organization (PPO) benefit plan and a federally-qualified health maintenance organization (HMO) plan.

The employers' share of benefit plan contributions for collectively bargained employees are negotiated by the State and counties with the exclusive representative of each employee bargaining unit. Employer contributions for retirees are prescribed by the HRS. Any remaining premium balance is paid by employees through payroll deductions or premium conversion plan reductions and paid by retirees directly, if applicable.

The EUTF provided insurance coverage to the following individuals as of June 30, 2022:

| | |
|------------------|-----------------------|
| Active employees | 63,394 |
| Retirees | 52,398 |
| Dependents | <u>79,140</u> |
| Total | <u><u>194,932</u></u> |

**HAWAII EMPLOYER-UNION HEALTH BENEFITS TRUST FUND
STATE OF HAWAII**

Notes to Financial Statements

June 30, 2022

(2) Summary of Significant Accounting Policies

The financial statements of the EUTF have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP). The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The EUTF's significant accounting policies are described below.

Financial Statement Presentation, Measurement Focus, and Basis of Accounting

Financial Statement Presentation

The reporting of active and postemployment (including their respective beneficiaries) healthcare benefits provided through the same plan should separate the two benefits for accounting purposes between active and postemployment healthcare benefits. Accordingly, the EUTF reports the postemployment healthcare benefits in conformity with GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans* (Statement No. 74), and the active employee healthcare benefits as risk financing in conformity with GASB Statement No. 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues* (Statement No. 10), as amended.

Proprietary Fund (Enterprise Fund)

The accounting for the active employee healthcare benefits is reported as an enterprise fund. An enterprise fund is used to account for the acquisition, operation, and maintenance of government facilities and services that are entirely or predominantly supported by user charges. The enterprise fund operations are reported using the economic resources measurement focus and the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of the timing of cash flows.

The enterprise fund distinguishes operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services or goods in connection with the enterprise fund's ongoing operations. Revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses. The principal operating revenues and operating expenses are premium revenues and benefit claims expenses, respectively, for self-insured plans. Investment income is reported as nonoperating revenues.

OPEB Trust

The EUTF accounts for the OPEB assets, liabilities, net position, and operations related to postemployment health benefits for retirees and their beneficiaries in the OPEB Trust, including cash and cash equivalents, investments, premium contributions and payments, investment income, employer OPEB contributions, and benefit claims expense and carrier payments.

**HAWAII EMPLOYER-UNION HEALTH BENEFITS TRUST FUND
STATE OF HAWAII**

Notes to Financial Statements

June 30, 2022

Cash Equivalents

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

Investments

Investments are reported at fair value. 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.

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 year, or at the time of purchase for assets purchased during the year, and the last day of the year.

Securities Lending

The EUTF receives cash and noncash collateral under securities lending agreements. The EUTF 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. Cash collateral received under securities lending agreements are invested in a money market fund and are reported at fair value. 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 from securities lending activities in the accompanying financial statements.

Receivables

Receivables consist primarily of amounts due from employers for health benefits premium contributions and experience refunds, rebates and other receivables from insurance companies, as well as amounts due from individuals for overpayment of Medicare Part B reimbursements. An allowance for employer receivables is not considered necessary based on past collection experience. The Medicare Part B reimbursement receivables from individuals are reported as net receivables and were based on management's estimate of amounts considered collectible.

Capital Assets, Net

The EUTF's capital assets consist of office furniture and equipment, and computer equipment and software with estimated useful lives greater than one year and with an acquisition cost greater than \$5,000. Purchased capital assets are valued at cost. Donated capital assets are recorded at their fair value at the date of donation. Depreciation expense is determined using the straight-line method over the assets' estimated useful life of seven years.

Capital assets also include right-to-use lease assets (lease assets). Refer to *Leases* section below for the EUTF's accounting policy for lease assets and related amortization.

**HAWAII EMPLOYER-UNION HEALTH BENEFITS TRUST FUND
STATE OF HAWAII**

Notes to Financial Statements

June 30, 2022

Leases

The EUTF recognizes lease liabilities and lease assets for leases with an initial, individual value of \$25,000 or more with a lease term greater than one year. Variable payments based on future performance of the lessee or usage of the underlying asset are not included in the measurement of the lease liability.

At the commencement of a lease, the EUTF initially measures the lease liability at the present value of payments expected to be made during the lease term. Subsequently, the lease liability is reduced by the principal portion of lease payments made.

Lease assets are recorded at the amount of the initial measurement of the lease liabilities and modified by any lease payments made to the lessor at or before the commencement of the lease term, less any lease incentives received from the lessor at or before the commencement of the lease term along with any initial direct costs that are ancillary charges necessary to place the lease assets into service. Lease assets are amortized using the straight-line method over the shorter of the lease term or the useful life of the underlying asset, unless the lease contains a purchase option that the EUTF has determined is reasonably certain of being exercised. In this case, the lease asset is amortized over the useful life of the underlying asset.

Key estimates and judgments related to leases include how the EUTF determines (1) the discount rate it uses to discount the expected lease payments to present value, (2) lease term, and (3) lease payments.

- The EUTF uses the interest rate charged by the lessor as the discount rate. When the interest rate charged by the lessor is not provided, the EUTF generally uses its estimated incremental borrowing rate as the discount rate for leases.
- The lease term includes the noncancellable period of the lease. Lease payments included in the measurement of the lease liability are composed of fixed payments and purchase option price that the EUTF is reasonably certain to exercise.

The EUTF monitors changes in circumstances that would require a remeasurement of its lease and will remeasure any lease asset and liability if certain changes occur that are expected to significantly affect the amount of the lease liability.

Lease assets are reported as right-to-use along with other capital assets (see Note 4) and lease liabilities are reported as lease payable (see Note 5) in the accompanying statement of net position – enterprise fund.

**HAWAII EMPLOYER-UNION HEALTH BENEFITS TRUST FUND
STATE OF HAWAII**

Notes to Financial Statements

June 30, 2022

Deferred Outflows of Resources and Deferred Inflows of Resources

Deferred outflows (inflows) of resources represent a consumption of (benefit to) net position that applies to a future period. The deferred outflows of resources related to pension and OPEB resulted from changes in assumptions, differences between expected and actual experience, and changes in proportion and differences between contributions and proportionate share of contributions, which will be amortized over five years, and the EUTF's contributions to the pension and OPEB plans subsequent to the measurement date of the actuarial valuations for the pension and OPEB plans, which will be recognized as a reduction of the net pension liability and net OPEB liability in the subsequent fiscal year. The deferred inflows of resources related to pension and OPEB resulted from differences between expected and actual experience, changes in assumptions, the net difference between projected and actual earnings on pension/OPEB plan investments, and changes in proportion and differences between contributions and proportionate share of contributions, which will be amortized over five years.

The EUTF's deferred outflows/inflows of resources related to pension and OPEB are detailed in Note 9.

Compensated Absences

All employees earn vacation at the rate of one and three-quarters working days for each month of service. Vacation days may be accumulated to a maximum of 90 days. Employees are entitled to receive cash payment for accumulated vacation upon termination. The accompanying enterprise fund financial statements present the cost of accumulated unpaid vacation as a liability.

A reconciliation of changes in compensated absences liabilities for accumulated vacation is as follows for the year ended June 30, 2022:

| | |
|------------------------------|--------------------------|
| Balance at beginning of year | \$ 599,101 |
| Additions | 259,867 |
| Reductions | <u>(246,472)</u> |
| Balance at end of year | 612,496 |
| Less current portion | <u>(134,550)</u> |
| Noncurrent portion | <u><u>\$ 477,946</u></u> |

**HAWAII EMPLOYER-UNION HEALTH BENEFITS TRUST FUND
STATE OF HAWAII**

Notes to Financial Statements

June 30, 2022

All employees earn sick leave credits at the rate of one and three-quarters working days for each month of service. Sick leave credits may be accumulated without limit. Sick leave can be taken only in the event of illness and is not convertible to pay upon termination of employment. Accordingly, no liability for unpaid sick leave credits is reported in the accompanying enterprise fund financial statements. However, an EUTF employee who retires or leaves government service in good standing with sixty days or more of unused sick leave is entitled to additional service credit in the Employees' Retirement System of the State of Hawaii (the ERS) at the rate of one additional month of service for each 20 days of unused sick leave. Accumulated sick leave as of June 30, 2022 amounted to approximately \$1,369,000.

Risk Management

The EUTF is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors or omissions; natural disasters; and workers' compensation. A liability for a claim is established if information indicates that it is probable that a liability has been incurred as of the date of the financial statements and the amount of the loss is reasonably estimable.

The estimated reserve for losses and loss adjustment costs include the accumulation of estimates for losses and claims reported prior to fiscal year-end, nonincremental estimates (based on projections of historical developments) of claims incurred but not reported, and nonincremental estimates of costs for investigating and adjusting all incurred and unadjusted claims. Amounts reported are subject to the impact of future changes in economic and social conditions. The EUTF believes that, given the inherent variability in any such estimates, the reserves are within a reasonable and acceptable range of adequacy. Reserves are continually monitored and reviewed and, as settlements are made and reserves adjusted, the differences are reported in current operations.

Benefits Claims Expense and Carrier Payments

The benefits claims expense for self-insured prescription drug plans and the supplemental medical and drug plan includes the ultimate net cost of all reported claims incurred through the end of the fiscal year for healthcare benefits. The benefits claims expense also includes an additional estimate for unreported claims that have been incurred as of fiscal year-end.

Management has made certain assumptions based on currently available information and industry statistics in determining the benefits claims expense. Accordingly, the ultimate costs may vary significantly from the estimated amounts reported in the financial statements. Management believes that, given the inherent variability in benefits claims expense, such aggregate liabilities are within a reasonable range of adequacy. Such estimates are based on estimated claims cost reported prior to fiscal year-end, and estimates (based on actuarial projections of historical loss development) of claims cost incurred but not reported. Reserves are continually reviewed and adjusted as experience develops or new information becomes known. Rebates receivable are generally recorded in the period that the claim is paid and is netted against the cost of the claim.

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Management recorded its best estimate for the obligation of unpaid claims of \$5,913,811 for active employees and \$20,879,666 for retirees as of June 30, 2022, based on the EUTF's benefits consultant's estimate for the liability for unpaid claims. These amounts include administrative fees payable to the third party administrator for services provided and for benefits claims incurred as of June 30, 2022.

Benefits claims expense for active employees are reported in the enterprise fund. In accordance with Statement No. 10, only benefits claims expense (and related premium revenue) for self-insured plans, where the risk of loss for these self-insured plans are retained by the EUTF, are reported in the accompanying statement of revenues, expenses, and changes in net position – enterprise fund. Premiums paid to carriers for fully-insured plans (and related required premiums from employers) for active employees are included as components of premiums receivable from State of Hawaii and counties in the statement of net position – enterprise fund.

For retirees, benefits claims expense for self-insured plans and premiums paid to carriers for fully-insured plans (and related contributions from employers) are reported in the accompanying statement of changes in the fiduciary net position – OPEB Trust in accordance with Statement No. 74. Retiree contributions reduce reported benefits claims expense and carrier payments.

Carrier Payment Methodology

Premiums paid to the carriers are calculated on a monthly basis by multiplying the total number of active employees and retirees enrolled in the various plans on the last day of the month by the premium rates set forth in the contract agreements, whereas employer and employee billings are calculated on a semi-monthly basis. As a result, the EUTF recognizes a gain or loss between the total premiums actually collected from the employers and employees and the total premiums actually paid to the carriers. For the years ended June 30, 2022, the EUTF recognized gains of \$877,247 related to active employees, and losses of \$33,572 related to retirees.

Chapter 87A, HRS states that employer contributions are irrevocable. In addition, Chapter 87A, HRS does not require the EUTF to return insurance carrier refunds, rate credits and other earnings, as authorized by the Board, to identifiable employees who participated in ascertainable years that created the refund or credit. Accordingly, the EUTF recognizes the gains as increases in experience refunds and the related receivable as experience refunds due from insurance companies.

Premium Revenues - Self-insured

Premium revenues - self-insured are recognized over the coverage period.

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Experience Refunds

For fully-insured with risk sharing health benefit contracts, the EUTF recognizes estimated experience refunds. Management has made certain assumptions based on currently available information in determining the estimated experience refunds. Accordingly, the ultimate gains may vary significantly from the estimated amounts reported in the accompanying financial statements.

Pension

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pension, and pension expense, information about the fiduciary net position of the EUTF's participation in the ERS and additions to/deductions from the ERS's fiduciary net position have been determined on the same basis as they are reported by the ERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with benefit terms. The ERS's investments are reported at fair value.

Postemployment Benefits Other Than Pension

For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the EUTF's participation in the OPEB plan and additions to/deductions from the OPEB plan's fiduciary net position have been determined on the same basis as they are reported by the EUTF. For this purpose, benefit payments are recognized when due and payable in accordance with benefit terms. The EUTF's investments are reported at fair value.

Use of Estimates

In preparing financial statements in conformity with GAAP, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates

Recently Issued Accounting Pronouncements

GASB Statement No. 87

The GASB issued Statement No. 87, *Leases*, to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It also establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. This change in accounting

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principle did not have a significant effect on the EUTF's financial statements for the year ended June 30, 2022. Upon implementation on July 1, 2021, the EUTF recognized lease liabilities and right-to-use assets as the lessee. There was no effect on net position previously reported as of July 1, 2021.

GASB Statement No. 92

During fiscal year 2022, the EUTF implemented GASB Statement No. 92, *Omnibus 2020*. The primary objectives of this statement are to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB statements. This statement did not have a material effect on the EUTF's financial statements.

GASB Statement No. 93

During fiscal year 2022, the EUTF implemented GASB Statement No. 93, *Replacement of Interbank Offered Rates*. The primary objective of this statement is to address those and other accounting and financial reporting implications that result from the replacement of an interbank offered rate. This statement did not have a material effect on the EUTF's financial statements.

GASB Statement No. 96

The GASB issued Statement No. 96, *Subscription-Based Information Technology Arrangements*. This statement provides guidance on the accounting and financial reporting for subscription-based information technology arrangements for government end users. The requirements of this statement are effective for reporting periods beginning after June 15, 2022. The EUTF is currently evaluating the impact that this statement will have on its financial statements.

GASB Statement No. 99

The GASB issued Statement No. 99, *Omnibus*. The primary objectives of this statement are to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB Statements. Certain requirements of this statement are effective immediately while other requirements are effective for reporting periods beginning after June 15, 2022 and June 15, 2023, respectively. The EUTF is currently evaluating the impact that this statement will have on its financial statements.

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GASB Statement No. 100

The GASB issued Statement No. 100, *Accounting Changes and Error Corrections – an amendment of GASB Statement No. 62*. The primary objective of this statement is to enhance accounting and financial reporting requirements for accounting changes and error corrections to provide more understandable, reliable, relevant, consistent, and comparable information for making decisions or assessing accountability. The requirements of this statement are effective for reporting periods beginning after June 15, 2023. The EUTF is currently evaluating the impact that this statement will have on its financial statements.

GASB Statement No. 101

The GASB issued 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. The requirements of this statement are effective for reporting periods beginning after December 15, 2023. The EUTF is currently evaluating the impact that this statement will have on its financial statements.

(3) Cash and Cash Equivalents and Investments

As of June 30, 2022, the EUTF’s cash and cash equivalents and investments are reported in the financial statements as follows:

| | Enterprise Fund | OPEB Trust | Total |
|---|----------------------------|-------------------|------------------|
| Cash and cash equivalents | \$ 24,055,205 | \$ 881,398,857 | \$ 905,454,062 |
| Investments | 158,108,964 | 5,234,011,202 | 5,392,120,166 |
| Total | \$ 182,164,169 | \$ 6,115,410,059 | \$ 6,297,574,228 |
| Invested securities lending collateral | \$ - | \$ 11,022,710 | \$ 11,022,710 |

Cash and Cash Equivalents

The EUTF maintains bank accounts and a money market account at a major financial institution located in Hawaii and a cash management account with a broker-dealer. As of June 30, 2022, the carrying amount of these accounts were \$905,454,062 and the related bank and money market balances were \$905,964,298.

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Investments

EUTF Investment Pool

The EUTF's investment pool, at fair value, consists of the following investments as of June 30, 2022:

| | |
|---|--------------------------------|
| Equity securities: | |
| Commingled funds - domestic | \$ 1,139,856,372 |
| Commingled funds - international | 716,324,854 |
| Common stocks - domestic | 374,260,823 |
| Common stocks - international | 18,322,916 |
| Fixed income securities: | |
| U.S. treasury and government agency bonds | 299,200,700 |
| Commingled funds - domestic inflation | 295,153,381 |
| Mutual fund - domestic | 253,879,941 |
| Alternative investments | 1,762,127,993 |
| Real estate | 543,165,342 |
| Derivatives - equity options | <u>(10,172,156)</u> |
| Total investments | <u><u>\$ 5,392,120,166</u></u> |

Invested Securities Lending Collateral

Cash received under the EUTF's securities lending program is invested in a money market fund and reported at fair value as of June 30, 2022 as follows:

| | |
|-------------------|-----------------------------|
| Money market fund | <u><u>\$ 11,022,710</u></u> |
|-------------------|-----------------------------|

Commingled Funds

Domestic equity:

Northern Trust Russell 3000 Index Fund - Lending - primary objective is to approximate the risk and return characteristics of the Russell 3000 Index. This index is commonly used to represent the broad U.S. equity market.

Lombard Odier - Alternative risk premia - primary objective is to target a 10% long-term volatility level seeking to harvest value, carry, and momentum risk premia/factors across a diverse set of assets (equities, commodities, currencies, and fixed income) using instruments such as futures, currency forwards, and swaps.

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International equity - Northern Trust Common All Country World Index EX-US Fund - Lending - primary objective is to provide investment results that approximate the overall performance of the MSCI All Country World EX-US Index.

Domestic inflation-linked fixed income - BlackRock U.S. Inflation-Linked Bond Fund B - primary objective is to maximize real return by investing in inflation-linked fixed income securities issued by the U.S. government.

Mutual Fund

Fixed income - domestic - Vanguard Short-Term Corporate Bond Index Fund - seeks to track the performance of a market-weighted corporate bond index with a short-term dollar-weighted average maturity. This index includes U.S. dollar-denominated, investment-grade, fixed-rate, taxable securities issued by industrial, utility, and financial companies, with maturities between one and five years.

Money Market Fund

The money market fund seeks to maximize current income to the extent consistent with the preservation of capital and maintenance of liquidity by investing exclusively in high quality money market investments.

Investments Authorized

The Board is responsible for safekeeping these monies and has appointed an Investment Committee responsible for making recommendations to the Board related to investing EUTF assets in compliance with applicable HRS and with the foremost intention of preserving capital and then providing sufficient investment appreciation to meet the current and future retiree healthcare benefit payments. The Investment Committee's duties include making recommendations to the Board related to investment policies for the EUTF and periodically reviewing their appropriateness in light of changes in the EUTF expected cash flows, market conditions, actuarial variables, or other pertinent developments. Money is invested in accordance with the EUTF's Statement of Investment Policy and Guidelines (the Investment Policy).

Section 87A-24(2) of the HRS empowers the Board to invest monies "in the same manner specified in section 88-119." Permissible investments under section 88-119 "Investments" are as follows:

- (1) Real estate loans and mortgages. Obligations (as defined in section 431:6-101) of any of the following classes:
 - (a) Obligations secured by mortgages of nonprofit corporations desiring to build multi-rental units (ten units or more) subject to control of the government for occupancy by families displaced as a result of government action;

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- (b) Obligations secured by mortgages insured by the Federal Housing Administration;
- (c) Obligations for the repayment of home loans made under the Servicemen's Readjustment Act of 1944 or under Title II of the National Housing Act;
- (d) Other obligations secured by first mortgages on unencumbered improved real estate owned in fee simple; provided that the amount of the obligation at the time investment is made therein shall not exceed eighty percent of the value of the real estate and improvements mortgaged to secure it, and except that the amount of the obligation at the time investment is made therein may exceed eighty percent but no more than ninety percent of the value of the real estate and improvements mortgaged to secure it; provided further that the obligation is insured or guaranteed against default or loss under a mortgage insurance policy issued by a casualty insurance company licensed to do business in the State. The coverage provided by the insurer shall be sufficient to reduce the EUTF's exposure to not more than eighty percent of the value of the real estate and improvements mortgaged to secure it. The insurance coverage shall remain in force until the principal amount of the obligation is reduced to eighty percent of the market value of the real estate and improvements mortgaged to secure it, at which time the coverage shall be subject to cancellation solely at the option of the Board. Real estate shall not be deemed to be encumbered within the meaning of this subparagraph by reason of the existence of any of the restrictions, charges, or claims described in section 431:6-308;
- (e) Other obligations secured by first mortgages of leasehold interests in improved real estate; provided that:
 - (i) Each leasehold interest at the time shall have a current term extending at least two years beyond the stated maturity of the obligation it secures; and
 - (ii) The amount of the obligation at the time investment is made therein shall not exceed eighty percent of the value of the respective leasehold interest and improvements, and except that the amount of the obligation at the time investment is made therein may exceed eighty percent but no more than ninety percent of the value of the leasehold interest and improvements mortgaged to secure it; provided further that the obligation is insured or guaranteed against default or loss under a mortgage insurance policy issued by a casualty insurance company licensed to do business in the State. The coverage provided by the insurer shall be sufficient to reduce the EUTF's exposure to not more than eighty percent of the value of the leasehold interest and improvements mortgaged to secure it. The insurance coverage shall remain in force until the principal amount of the obligation is reduced to eighty percent of the market value of the leasehold interest and improvements mortgaged to secure it, at which time the coverage shall be subject to cancellation solely at the option of the Board;

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- (f) Obligations for the repayment of home loans guaranteed by the Department of Hawaiian Home Lands pursuant to section 214(b) of the Hawaiian Homes Commission Act, 1920; and
- (g) Obligations secured by second mortgages on improved real estate for which the mortgagor procures a second mortgage on the improved real estate for the purpose of acquiring the leaseholder's fee simple interest in the improved real estate; provided that any prior mortgage shall not contain provisions that might jeopardize the security position of the EUTF or the borrower's ability to repay the mortgage loan.

The Board may retain the real estate, including leasehold interests therein, as it may acquire by foreclosure of mortgages or in enforcement of security, or as may be conveyed to it in satisfaction of debts previously contracted; provided that all the real estate, other than leasehold interests, shall be sold within five years after acquiring the same, subject to extension by the governor for additional periods not exceeding five years each, and that all the leasehold interests shall be sold within one year after acquiring the same, subject to extension by the governor for additional periods not exceeding one year each;

- (2) Government obligations, etc. Obligations of any of the following classes:
 - (a) Obligations issued or guaranteed as to principal and interest by the United States or by any state thereof or by any municipal or political subdivision or school district of any of the foregoing; provided that principal of and interest on the obligations are payable in currency of the United States; or sovereign debt instruments issued by agencies of, or guaranteed by foreign governments;
 - (b) Revenue bonds, whether or not permitted by any other provision hereof, of the State or any municipal or political subdivision thereof, including the Board of Water Supply of the City and County of Honolulu, and street or improvement district bonds of any district or project in the State; and
 - (c) Obligations issued or guaranteed by any federal home loan bank, including consolidated federal home loan bank obligations, the Home Owner's Loan Corporation, the Federal National Mortgage Association, or the Small Business Administration;
- (3) Corporate obligations. Below investment grade or nonrated debt instruments, foreign or domestic, in accordance with investment guidelines adopted by the Board;
- (4) Preferred and common stocks. Shares of preferred or common stock of any corporation created or existing under the laws of the United States or of any state or district thereof or of any country;
- (5) Obligations eligible by law for purchase in the open market by Federal Reserve banks;

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- (6) Obligations issued or guaranteed by the International Bank for Reconstruction and Development, the Inter-American Development Bank, the Asian Development Bank, or the African Development Bank;
- (7) Obligations secured by collateral consisting of any of the securities or stock listed above and worth at the time the investment is made at least fifteen percent more than the amount of the respective obligations;
- (8) Insurance company obligations. Contracts and agreements supplemental thereto providing for participation in one or more accounts of a life insurance company authorized to do business in Hawaii, including its separate accounts, and whether the investments allocated thereto are comprised of stocks or other securities or of real or personal property or interests therein;
- (9) Interests in real property. Interests in improved or productive real property in which, in the informed opinion of the Board, it is prudent to invest funds of the EUTF. For purposes of this paragraph, "real property" includes any property treated as real property either by local law or for federal income tax purposes. Investments in improved or productive real property may be made directly or through pooled funds, including common or collective trust funds of banks and trust companies, group or unit trusts, limited partnerships, limited liability companies, investment trusts, title-holding corporations recognized under section 501(c) of the Internal Revenue Code of 1986, as amended, similar entities that would protect the EUTF's interest, and other pooled funds invested on behalf of the EUTF by investment managers retained by the EUTF;
- (10) Other securities and futures contracts. Securities and futures contracts in which in the informed opinion of the Board, it is prudent to invest funds of the EUTF, including currency, interest rate, bond, and stock index futures contracts and options on the contracts to hedge against anticipated changes in currencies, interest rates, and bond and stock prices that might otherwise have an adverse effect upon the value of the EUTF's securities portfolios; covered put and call options on securities; and stock; whether or not the securities, stock, futures contracts, or options on futures are expressly authorized by or qualify under the foregoing paragraphs, and notwithstanding any limitation of any of the foregoing paragraphs (including paragraph (4)); and

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- (11) Private placements. Investments in institutional blind pool limited partnerships, limited liability companies, or direct investments that make private debt and equity investments in privately held companies, including but not limited to investments in Hawaii high technology businesses or venture capital investments that, in the informed opinion of the Board, are appropriate to invest funds of the EUTF. In evaluating venture capital investments, the Board shall consider, among other things, the impact an investment may have on job creation in Hawaii and on the state economy. The Board shall report annually to the legislature on any Hawaii venture capital investments it has made; provided that if the Board determines it is not prudent to invest in any Hawaii venture capital investments the Board shall report the rationale for the decision. The Board, by January 1, 2008, shall develop criteria to determine the amount of funds that may be prudently invested in Hawaii private placement investments.

Strategic Allocation

Strategic allocation refers to the strategic deployment of assets among the major classes of investments permitted under the HRS. It is the primary determinant of success in meeting long-term investment objectives. The EUTF's strategic allocation is established by the Board with input from the Investment Committee, the general consultant, and staff, and is a function of the Board's expectations of current and future liquidity and income needs, eligible investment types under the HRS, expectations of strategic class investment performance likely to be achieved over the long-term, and risk tolerance.

The Board implements its strategic allocation policy through the use of full discretion investment managers who invest the assets of the portfolios assigned to them, subject to specific investment guidelines provided by the Board or provided by the fund's governing documents.

In October 2020, the EUTF Board approved new OPEB Trust long-term strategic allocation targets. The high-level risk-based allocation targets are as follows:

Approved Long-term High-level Class Targets:

| | |
|-------------------------|--------|
| Aggressive growth | 18.50% |
| Traditional growth | 27.50% |
| Stabilized growth | 23.00% |
| Diversifying strategies | 31.00% |

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To prudently transition to the long-term policy mix an evolving policy plan was approved by the Board. As of June 30, 2022 the evolving policy plan for the OPEB Trust is as follows:

| <u>Asset Class/Strategy</u> | <u>Stage 1</u> | <u>Stage 2</u> | <u>Stage 3</u> | <u>Long-term Policy</u> |
|---------------------------------|----------------|----------------|----------------|-------------------------|
| <u>Expected Completion Date</u> | <u>1/1/21</u> | <u>1/1/22</u> | <u>1/1/23</u> | <u>1/1/24</u> |
| Private equity | 4.5% | 8.0% | 12.0% | 12.5% |
| U.S. microcap | 7.5% | 7.0% | 6.0% | 6.0% |
| Global equity | 35.0% | 32.0% | 29.0% | 27.5% |
| U.S. REITs | 2.0% | 1.0% | 0.0% | 0.0% |
| Global options | 7.0% | 6.0% | 5.0% | 5.0% |
| Private credit | 4.0% | 6.0% | 7.0% | 8.0% |
| Real assets | 10.0% | 10.0% | 10.0% | 10.0% |
| Core fixed income | 0.0% | 0.0% | 0.0% | 0.0% |
| US TIPs | 5.0% | 5.0% | 5.0% | 5.0% |
| Reinsurance | 5.0% | 5.0% | 5.0% | 5.0% |
| Long treasuries | 6.0% | 6.0% | 6.0% | 6.0% |
| Alternative risk premia | 5.0% | 5.0% | 5.0% | 5.0% |
| Systematic trend following | 9.0% | 9.0% | 10.0% | 10.0% |
| | <u>100%</u> | <u>100%</u> | <u>100%</u> | <u>100%</u> |

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The portfolio policy plan for the EUTF's short-term liquidity/operating asset pool as of June 30, 2022 is as follows:

| Strategic Classification | Target |
|---|---------------|
| Short-term investment: | |
| Cash and cash equivalents and short-term fixed income | 100.00% |
| Long-term investment: | |
| Global equity | 50.00% |
| Long treasuries | 13.00% |
| Alternative risk premia | 13.50% |
| Systematic trend following | 23.50% |
| | 100.00% |

Asset Class Ranges

The Board will utilize the following asset class ranges/bounds in managing the OPEB Trust long-term investment portfolio. These ranges apply to the prevailing evolving policy allocation that is in effect. Considering the inherent characteristics of private markets classes, such classes do not have ranges but will be managed in-line with approved pacing models/schedules.

| Asset Classification | Range |
|-----------------------------|--------------|
| Private equity/non-core RE | --- |
| U.S. microcap | ±2% |
| U.S. equity | ±3% |
| Non-U.S. equity | ±3% |
| U.S. REITs | ±2% |
| Global options | ±2% |
| Private credit | --- |
| Real assets | --- |
| Core fixed income | ±2% |
| US TIPs | ±2% |
| Reinsurance | ±2% |
| Long treasuries | ±2% |
| Alternative risk premia | ±2% |
| Systematic trend following | ±2% |

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These ranges apply to the prevailing evolving policy allocation of the short-term liquidity/operating asset pool portfolio.

| <u>Asset Classification</u> | <u>Range</u> |
|-----------------------------|--------------|
| Global equity | ±4% |
| Long treasuries | ±3% |
| Alternative risk premia | ±2% |
| Systematic trend following | ±2% |

Rebalancing

The Board has a policy of rebalancing the portfolio when actual strategic allocations fall outside of the strategic class ranges. Subject to market conditions, portfolio rebalancing will be executed by staff on a systematic basis when strategic allocations fall outside of the strategic class ranges. In order to minimize transaction costs and operational risks, EUTF cash flows, such as contributions received or benefits paid, will be the primary mechanism used to achieve rebalancing objectives when strategic allocations are not at the targets but are not outside the strategic class ranges. Staff will have the authority to rebalance towards strategic allocation targets without cash flows and when actual allocations are not outside of the strategic class ranges if the intent is to reduce overall portfolio risk.

Rate of Return

For the year ended June 30, 2022, the annual money-weighted rate of return (loss) on investments, net of investment expenses, for the OPEB Trust was (1.78%). The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Fair Value Hierarchy

The EUTF's investments are measured at fair value. The EUTF categorizes its fair value measurement within the fair value hierarchy established by GAAP. Fair value is a market-based measurement of the price that would be 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.

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The fair value hierarchy categorizes the inputs to valuation techniques used to measure fair value of the assets into three levels. Level 1 inputs are unadjusted quoted prices in active markets for identical assets; Level 2 are 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; and Level 3 inputs are valuations derived from valuation techniques in which significant inputs are unobservable.

The asset's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques maximize the use of relevant observable inputs and minimize the use of unobservable inputs. 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.

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The following is a summary of the EUTF's fair value measurements as of June 30, 2022:

| | <u>Total</u> | <u>Fair Value Measurements Using</u> | |
|--|-------------------------|--|--|
| | | <u>Quoted Prices in Active Markets (Level 1)</u> | <u>Significant Other Observable Inputs (Level 2)</u> |
| Investments by fair value level: | | | |
| Equity securities: | | | |
| Common stocks - domestic | \$ 374,260,823 | \$ 374,260,823 | \$ - |
| Common stocks - international | 18,322,916 | 18,322,916 | - |
| Fixed income securities: | | | |
| U.S. treasury and government agency bonds | 299,200,700 | - | 299,200,700 |
| Mutual fund - domestic | 253,879,941 | 253,879,941 | - |
| Derivatives - equity options | (10,172,156) | - | (10,172,156) |
| Total investments measured by fair value levels | <u>935,492,224</u> | <u>\$ 646,463,680</u> | <u>\$ 289,028,544</u> |
| Investments measured at net asset value (NAV): | | | |
| Commingled funds: | | | |
| Domestic equity | 1,139,856,372 | | |
| International equity | 716,324,854 | | |
| Domestic inflation - linked fixed income | 295,153,381 | | |
| Alternative investments | 1,762,127,993 | | |
| Real estate | <u>543,165,342</u> | | |
| Total investments measured at NAV | <u>4,456,627,942</u> | | |
| Total investments measured at fair value | <u>\$ 5,392,120,166</u> | | |
| Invested securities lending collateral - measured at NAV - money market fund | <u>\$ 11,022,710</u> | | |

Investments in common stocks and a mutual fund are valued at the daily closing price as reported by the fund. The mutual fund held by the EUTF is an open-end mutual fund that is registered with the SEC. The fund is required to publish its daily NAV and to transact at that price.

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Investments in U.S. government securities, including U.S. treasury and government agency bonds, are based on quoted market prices or pricing models maximizing the use of observable inputs for similar securities.

The fair value of futures is determined using the market approach based upon quoted market prices. For exchange-traded securities, such as futures and options, closing prices from the securities exchanges are used.

Investments in commingled funds are valued at NAV. Investments in a money market fund are valued at the NAV of the custodian bank liquid asset portfolio. In addition, real estate and alternative investments held in limited partnerships and limited liability companies (as described in the *Derivatives* section) are measured at their respective NAV and are generally audited annually. The NAV is based on the fair value of the underlying assets held by the fund less its liabilities.

There have been no changes in the methodologies used at June 30, 2022. The preceding measurements described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. The market volatility of equity-based investments is expected to substantially impact the value of such investments at any given time. It is likely that the value of the EUTF's investments has fluctuated since June 30, 2022.

| <u>Investments Measured at NAV</u> | <u>Fair Value June 30, 2022</u> | <u>Unfunded Commitments</u> | <u>Redemption Frequency</u> | <u>Redemption Notice Period</u> |
|--|-------------------------------------|---------------------------------|--|---------------------------------------|
| Commingled funds: | | | | |
| Domestic equity | \$ 1,139,856,372 | \$ - | Daily/ Monthly | Same as trade date/ Trade date - 2 |
| International equity | 716,324,854 | - | Daily | Same as trade date |
| Domestic inflation - linked fixed income | 295,153,381 | - | Daily | Trade date - 2 |
| Alternative investments | 1,762,127,993 | 905,277,452 | Monthly/ Quarterly/Semi- Annually/ Annually | Various up to trade date - 90 |
| Real estate | 543,165,342 | 142,863,484 | Quarterly | Various up to trade date - 90 |
| | <hr/> | <hr/> | | |
| Total investments measured at NAV | <u>\$ 4,456,627,942</u> | <u>\$ 1,048,140,936</u> | | |
| Invested securities lending collateral - money market mutual fund - measured at NAV | <u>\$ 11,022,710</u> | | | Same as trade date |

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Interest Rate Risk

Interest rate risk is the risk that changes in the interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The EUTF 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. The table below shows fixed income investment securities by investment type, amount, and the effective weighted duration for the EUTF's total portfolio as of June 30, 2022:

| Debt Security Type | Fair Value | Effective Weighted Duration (Years) | Percent of Debt Securities |
|---------------------------------------|-----------------------|--|---|
| Fixed income securities: | | | |
| U.S. treasury bonds | \$ 297,470,624 | 17.01 | 35.07% |
| Commingled funds - domestic inflation | 295,153,381 | 6.91 | 34.80% |
| Mutual fund - domestic | 253,879,941 | 2.77 | 29.93% |
| U.S. government agency bonds | 1,730,076 | 8.73 | 0.20% |
| Total | <u>\$ 848,234,022</u> | | <u>100.00%</u> |

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligation to the holder of the investment. Information regarding the EUTF's credit risk on derivative investments is discussed below in the derivative disclosures, while policies related to credit risk for the securities lending program is discussed below in the securities lending disclosures.

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Credit risk is measured by the assignment of a rating by a nationally recognized statistical rating organization, Standard and Poor's. At June 30, 2022, the EUTF investments include one fixed income oriented commingled fund and one fixed income oriented mutual fund: the BlackRock U.S. Inflation- Linked Bond Fund with ratings ranging from AAA to NR and the Vanguard Short-Term Corporate Bond Index Fund B with ratings ranging from Aaa to Baa. The EUTF's direct holdings in U.S. treasury and government agency bonds have an AAA rating.

Custodial Credit Risk

Custodial credit risk is the risk that, in the event of the failure of the counterparty, the EUTF will not be able to recover the value of its investments residing at its custodian bank or collateral securities that are lent by the custodian bank to outside party(ies). The EUTF's investments are held at custodian banks. The EUTF's custodians are Northern Trust Corporation (Northern Trust) and Bank of Hawaii (BOH). Northern Trust and BOH are "Qualified Custodians" as defined within Rule 206(4)-2 of the Investment Advisers Act of 1940 for which funds or securities are held separate from bank assets. The EUTF did not have custodial credit risk related to its equity and fixed income securities, including commingled funds, common stocks, U.S. treasury and government agency bonds, a mutual fund, and securities lending activities.

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the EUTF will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The EUTF's Investment Policy or the HRS do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits. At times and as of June 30, 2022, the EUTF had deposits in excess of Federal Deposit Insurance Corporation and SIPC limits.

Concentration of Credit Risk

The EUTF provides guidelines regarding portfolio diversification by placing limits on the amount it may invest in any one issuer, types of investment instruments, and position limits per issue of an investment instrument.

Other than U.S. government securities, the EUTF does not have investments in any single issuer that represent 5 percent or more of fiduciary net position or total investments.

Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely impact the fair value of an investment. The EUTF's asset allocation and investment policy allows for active and passive investments in international securities. The foreign currency risk exposure to the EUTF arises from the international equity investment holdings, including commingled funds and common stocks.

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The following table summarizes the EUTF's exposure to foreign currency risk in U.S. dollars as of June 30, 2022:

| Currencies | Cash and Cash Equivalents | Derivatives | Total |
|------------------------|--------------------------------------|-------------------------|------------------------|
| Australian dollar | \$ 110,228 | \$ 49,505 | \$ 159,733 |
| British pound sterling | 3,162,373 | 92,568,841 | 95,731,214 |
| Canadian dollar | 3,226,594 | 3,719,912 | 6,946,506 |
| Euro | 1,452,555 | (120,840,118) | (119,387,563) |
| Hong Kong dollar | 1,416 | - | 1,416 |
| Japanese yen | 219,409 | (81,396,857) | (81,177,448) |
| Swiss franc | 45,249 | (7,761) | 37,488 |
| | <u>\$ 8,217,824</u> | <u>\$ (105,906,478)</u> | <u>\$ (97,688,654)</u> |

Securities Lending

The EUTF participates in a securities lending program administered by its custodian bank, Northern Trust. Under this program, which is permissible by State statutes and the EUTF's Investment Policy, certain equity securities are lent to participating broker-dealers and banks (borrowers). In return, the EUTF receives cash, securities, and/or letters of credit as collateral at 102% to 105% of the principal plus accrued interest for reinvestment. The collateral is marked to market daily. If the market value of the collateral falls below the minimum collateral requirements, additional collateral is provided. Accordingly, management believes that the EUTF had no credit risk exposure to borrowers because the amounts the EUTF owed the borrowers equaled or exceeded the amounts the borrowers owed the EUTF. The contract with the EUTF requires the custodian bank to indemnify the EUTF. In the situation when a borrower goes into default, the custodian bank will liquidate the collateral to purchase replacement securities. Any shortfall between the replacement securities cost and the collateral value is covered by the custodian bank. All securities loans can be terminated on demand within a period specified in each agreement by either the EUTF or the borrowers.

Cash collateral is invested in a separate account by the custodian bank using approved lender's investment guidelines. As such, maturities of the investments made with cash collateral generally do not match the maturities of the securities loans. The EUTF does not impose any restrictions on the amount of loans the bank custodian makes on behalf of the EUTF. The securities lending program in which the EUTF participates only allows pledging or selling securities in the case of borrower default.

At June 30, 2022, the total securities lent for collateral amounted to \$123,745,674. At June 30, 2022, the total cash and noncash collateral received amounted to \$11,022,710 and \$116,370,373, respectively.

Three of the four commingled funds held in the EUTF investment pool participate in securities lending.

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Derivatives

The EUTF holds investments in options and futures. The EUTF enters into various derivative investment contracts to hedge, minimize transaction costs, and to implement value added strategies to enhance returns as authorized by the EUTF's Investment Policy.

Generally, derivatives are subject both to market risk and counterparty risk. The derivatives utilized by the EUTF 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. The EUTF investment managers seek to control this risk through counterparty credit evaluations and approvals, counterparty credit limits, posting collateral, and exposure monitoring procedures. The EUTF anticipates that counterparties will be able to satisfy their obligations under the contracts.

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 thereby minimizing the EUTF's credit risk. The net change in the futures contract value is settled daily in cash with the exchanges. Net gains or losses arising from the daily settlements are included in net depreciation in the fair value of investments in the accompanying statement of changes in fiduciary net position – OPEB Trust. The notional amount is the nominal or the underlying face amount that is used to calculate payments made on that instrument or contract. At June 30, 2022, the net notional value of futures contracts was \$575,473,779.

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 EUTF 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 EUTF pays a premium at the outset of the agreement and the counterparty bears the risk of an unfavorable instrument underlying the option.

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The following table summarizes the EUTF's investments in derivative securities and contracts held at June 30, 2022 with the related maturity information:

| <u>Derivatives (by type)</u> | <u>Notional Value</u> | <u>Market Value</u> | <u>Maturity (range from)</u> |
|----------------------------------|------------------------|------------------------|----------------------------------|
| Futures: | | | |
| Equity futures long | \$ 115,307,477 | \$ - | .2 year |
| Equity futures short | (52,515,464) | - | .2 year |
| Commodity futures long | 82,766,774 | - | .1 to .5 year |
| Commodity futures short | (35,549,271) | - | .2 to .3 year |
| Foreign exchange contracts short | (230,169,960) | - | .2 year |
| Fixed income futures short | (455,313,335) | - | .2 year |
| Futures total | (575,473,779) | - | |
| Options: | | | |
| Equity options written | - | (13,795,738) | under .1 year |
| Grand total | <u>\$(575,473,779)</u> | <u>\$ (13,795,738)</u> | |

In addition, the EUTF holds investments in 36 limited partnerships and two limited liability companies. The three largest limited partnerships consist of investments in: 1) Adaptive Trend Fund, LP managed by AlphaSimplex, 2) Pillar ENSO Fund managed by Pillar Capital Management Limited, and 3) Kepos Alternative Risk Premia Fund, LP managed by Kepos. AlphaSimplex uses a systematic trend following strategy that captures price trends by trading across four major futures market segments (equities, commodities, currencies, and fixed income) in more than 70 markets. Pillar Capital Management Limited is an actively managed portfolio that invests in various forms of insurance-linked securities (e.g., catastrophe bonds, collateralized reinsurance, etc.) where returns/premiums are generally sourced from natural catastrophe insurance policies or derivatives thereof. Kepos utilizes a risk-balanced approach to harvest value, carry, and momentum risk premia across broad asset classes (e.g., equity, fixed income, currencies, and commodities). The fund targets a 10% long-term volatility level. The limited liability companies consist of 1) the Prime Property Fund, LLC managed by Morgan Stanley and 2) the Pimco Private Income Fund managed by Pacific Investment Management Company. Morgan Stanley invests in core real estate properties and uses a strategy investing in existing, high quality, well-leased properties in major metropolitan markets and submarkets across the United States and diversified across sectors. Pacific Investment Management Company implements an opportunistic income-oriented strategy with the flexibility to invest across residential mortgage, commercial real estate, corporate credit, and specialty lending.

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(4) Capital Assets

The enterprise fund's capital asset activity for the year ended June 30, 2022 was as follows:

| | Balance at July 1, 2021 | Additions | Disposals | Balance at June 30, 2022 |
|---------------------------------|------------------------------------|----------------------|-----------------------|-------------------------------------|
| Capital assets: | | | | |
| Office furniture and equipment | \$ 982,870 | \$ - | \$ - | \$ 982,870 |
| Computer equipment and software | 9,651,724 | 8,492,561 | - | 18,144,285 |
| Construction in progress | 4,992,180 | 3,500,381 | (8,492,561) | - |
| Less accumulated depreciation | <u>(10,420,272)</u> | <u>(295,685)</u> | <u>-</u> | <u>(10,715,957)</u> |
| | <u>5,206,502</u> | <u>11,697,257</u> | <u>(8,492,561)</u> | <u>8,411,198</u> |
| Right-to-use lease assets: | | | | |
| Building and improvements | \$ - | \$ 339,654 | \$ - | \$ 339,654 |
| Equipment | - | 52,278 | - | 52,278 |
| Less accumulated amortization | - | (198,131) | - | (198,131) |
| Total right-to-use lease assets | <u>-</u> | <u>193,801</u> | <u>-</u> | <u>193,801</u> |
| Total capital assets, net | <u>\$ 5,206,502</u> | <u>\$ 11,891,058</u> | <u>\$ (8,492,561)</u> | <u>\$ 8,604,999</u> |

(5) Lease Payable

The EUTF has entered into leases for building space and equipment use (see Note 12). The terms of the agreements range from 5 to 7 years. The calculated interest rate used was 2.87%.

Principal and interest payments to maturity are as follows:

| Year Ending June 30, | Principal | Interest | Total |
|---------------------------------|-------------------|-----------------|-------------------|
| 2023 | \$ 158,844 | \$ 3,041 | \$ 161,885 |
| 2024 | 10,246 | 963 | 11,209 |
| 2025 | 10,546 | 662 | 11,208 |
| 2026 | 10,853 | 356 | 11,209 |
| 2027 | <u>6,476</u> | <u>62</u> | <u>6,538</u> |
| Total | <u>\$ 196,965</u> | <u>\$ 5,084</u> | <u>\$ 202,049</u> |

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A reconciliation of changes in lease payable is as follows for the year ended June 30, 2022:

| | | |
|------------------------------|----|----------------------|
| Balance at beginning of year | \$ | - |
| Additions | | 391,932 |
| Reductions | | <u>(194,967)</u> |
| Balance at end of year | | 196,965 |
| Less current portion | | <u>(158,844)</u> |
| Noncurrent portion | \$ | <u><u>38,121</u></u> |

(6) Health and Life Insurance Benefit Contracts

The EUTF's primary purpose is to provide active employees, retirees, and dependent-beneficiaries with health benefit plans and group life insurance. To effectuate this purpose, the EUTF enters in multi-year health benefit and life insurance contracts with carriers and administrators. The active employee and retiree contracts are on a fiscal year and calendar year, respectively.

The health benefit and life insurance contracts utilize three different financial arrangements:

Self-insured

Rates are experience rated and are set by the Board acting on the advice of the benefits consultant. Due to the size of the pool, there is no stop loss insurance associated with these plans. The EUTF pays administrative fees to the third-party administrator (the TPA) and pays actual claims. If claims are less than the premium collections from the employers, employees, and retirees (the surplus), the surplus funds are retained by the EUTF. However, if claims are greater than the premium collections (the shortfall), the EUTF is responsible for the shortfall.

Fully-insured

Rates are experience rated and are negotiated. Surpluses are retained by the insurance carrier and the insurance carrier is responsible for any shortfalls. Risk is retained by the insurance carrier.

Fully-insured with One-Way Risk Sharing

Rates are experience rated and are negotiated. Surpluses (premiums in excess of claims and administrative fees and retention charged by the insurance carrier) are retained by the EUTF, while the insurance carrier is responsible for any shortfalls.

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The following is a summary of the insurance carriers and TPA and the funding arrangements for the medical, chiropractic, prescription drug, dental, vision, and life insurance:

Medical and Chiropractic

Hawaii Medical Service Association (HMSA) - *Fully-insured with one-way risk sharing*

- PPO plans - EUTF active employees 90/10, 80/20, and 75/25, and HSTA VB active employees 90/10 and 80/20
- HMO plan - EUTF active employees
- Retiree PPO plans – EUTF (excluding chiropractic) and HSTA VB retirees 90/10

Medical, Chiropractic, and Prescription Drug

Kaiser Permanente (Kaiser) - *Fully-insured*

- Comprehensive HMO plans - EUTF and HSTA VB active employees
- Standard HMO plan - EUTF active employees
- Retiree Comprehensive HMO plans – EUTF (excluding chiropractic) and HSTA VB retirees (non-Medicare and Senior Advantage Medicare)

Medical

Humana - *Fully-insured*

- Medical Advantage Plan - EUTF Medicare retirees

Prescription Drug

CVS Caremark - *Self-insured*

- Prescription drug coverage for HMSA PPO and HMO plans - EUTF and HSTA VB active employees and non-Medicare retirees

Silverscript - *Self-insured*

- Prescription drug coverage through an employer group waiver plan for non-Kaiser retirees - EUTF and HSTA VB Medicare retirees

Dental

Hawaii Dental Service (HDS) - *Fully-insured with one-way risk sharing*

- EUTF and HSTA VB active employees and retirees
- Supplemental plan for HSTA VB active employees

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Vision

Vision Service Plan (VSP) - *Fully-insured with one-way risk sharing*

- EUTF and HSTA VB active employees and retirees

Life Insurance

Securian Financial - *Fully-insured*

- Term life insurance - EUTF and HSTA VB active employees and retirees

Supplemental Medical and Prescription Drug

Hawaii-Mainland Administrators (HMA) - *Self-insured*

- EUTF active employees

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All Contracts

The following is a summary of the experience refunds due from insurance companies, rebates and other receivables from insurance companies, and premiums payable balances by insurance company at June 30, 2022:

| | Active Employees | Retirees |
|--|-----------------------------|-----------------|
| Experience refunds due from insurance companies: | | |
| HDS | \$ 3,578,932 | \$ 3,543,274 |
| HMSA | 14,417,054 | 27,769,302 |
| VSP | 412,672 | - |
| | \$ 18,408,658 | \$ 31,312,576 |
| Rebates and other receivables from insurance companies: | | |
| Rebates receivable from CVS | \$ 14,977,015 | \$ 4,696,616 |
| Other receivables from CVS | 93,443 | - |
| Rebates and coverage gap discount receivable from Silverscript | - | 24,026,762 |
| Other receivables from Silverscript | - | 4,138,403 |
| | \$ 15,070,458 | \$ 32,861,781 |
| Premiums payable: | | |
| HDS | \$ 2,962,047 | \$ 3,188,883 |
| HDS - HSTA VB | 318,923 | 170,956 |
| HMSA | 26,431,750 | 17,295,789 |
| HMSA - HSTA VB | 2,794,618 | 625,252 |
| Humana | - | 3,502 |
| Kaiser Hawaii | 12,150,497 | 5,642,836 |
| Kaiser Hawaii - HSTA VB | 863,715 | 143,927 |
| Minnesota Life | 235,087 | 182,718 |
| Minnesota Life - HSTA VB | 18,915 | 9,332 |
| VSP | 437,295 | 331,652 |
| VSP - HSTA VB | 38,644 | 16,042 |
| | \$ 46,251,491 | \$ 27,610,889 |

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(7) Benefits Claims Expense

The EUTF is self-insured for the prescription drug plans and the supplemental medical and prescription drug plan. Under the self-insured arrangement, the TPA provides the EUTF with provider networks, claims processing, cost containment, and other services. Instead of premiums, the EUTF pays administrative fees to the TPA for the services rendered and reimburses the TPA for claims paid.

Activity in the liability for unpaid benefits claims expense related to the self-insured supplemental medical and prescription drug plans is as follows for the year ended June 30, 2022:

| | Active Employees | Retirees | Total |
|---|-----------------------------|----------------------|----------------------|
| Balance at June 30, 2021 | \$ 6,020,666 | \$ 21,045,859 | \$ 27,066,525 |
| Claims and changes in estimates | 132,616,809 | 244,476,317 | 377,093,126 |
| Contractor processing administrative fees | 954,732 | 4,297,175 | 5,251,907 |
| Paid (including rebates) during the year | (133,678,396) | (248,939,685) | (382,618,081) |
| Balance at June 30, 2022 | <u>\$ 5,913,811</u> | <u>\$ 20,879,666</u> | <u>\$ 26,793,477</u> |

Below is a summary of benefit claims payable by TPA at June 30, 2022:

| | Active Employees | Retirees | Total |
|-------------------------------|-----------------------------|----------------------|----------------------|
| Benefit claims - CVS | \$ 5,575,215 | \$ 2,738,821 | \$ 8,314,036 |
| Benefit claims - HMA | 29,201 | 369 | 29,570 |
| Benefit claims - Silverscript | - | 17,399,996 | 17,399,996 |
| IBNR for self-insured plans | 231,500 | 375,400 | 606,900 |
| Admin fee - CVS | 68,052 | 14,628 | 82,680 |
| Admin fee - HMA | 9,843 | - | 9,843 |
| Admin fee - Silverscript | - | 350,452 | 350,452 |
| | <u>\$ 5,913,811</u> | <u>\$ 20,879,666</u> | <u>\$ 26,793,477</u> |

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According to the terms of contracts with TPA's, the EUTF was required to make a deposit to cover estimated claims costs for the self-insured prescription drug plans. The deposits held by the TPAs for the self-insured prescription drug plans as of June 30, 2022 are as follows:

| | Active Employees | Retirees | Total |
|------------------------------|-----------------------------|---------------------|----------------------|
| CVS - drug contract | \$ 4,958,000 | \$ 1,742,000 | \$ 6,700,000 |
| Silverscript - drug contract | - | 6,423,204 | 6,423,204 |
| HMA - drug contract | 63,274 | - | 63,274 |
| | <u>\$ 5,021,274</u> | <u>\$ 8,165,204</u> | <u>\$ 13,186,478</u> |

(8) Summary of Required Premium Contributions and OPEB Trust Annual Required Contributions

The employer and employee required premium contributions for active employees and OPEB Trust annual required contributions for retirees for the year ended June 30, 2022, are as follows:

| | Active Employees | Retirees | Total |
|--|-----------------------------|-----------------------|------------------------|
| Employer contributions: | | | |
| State of Hawaii | \$ 333,462,476 | \$ 533,563,242 | \$ 867,025,718 |
| City & County of Honolulu | 65,364,959 | 198,487,000 | 263,851,959 |
| County of Hawaii | 20,181,402 | 38,439,395 | 58,620,797 |
| County of Maui | 19,902,887 | 44,547,000 | 64,449,887 |
| County of Kauai, including Department of Water Supply | 9,465,983 | 19,452,000 | 28,917,983 |
| Board of Water Supply - Honolulu | 4,036,284 | 8,918,000 | 12,954,284 |
| County of Hawaii - Department of Water Supply | 1,170,358 | 2,148,000 | 3,318,358 |
| | <u>453,584,349</u> | <u>845,554,637</u> | <u>1,299,138,986</u> |
| Active employee and retiree contributions | 216,396,585 | 6,251,598 | 222,648,183 |
| | <u>\$ 669,980,934</u> | <u>\$ 851,806,235</u> | <u>\$1,521,787,169</u> |

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The required premium contributions for active employees include both contributions for self-insured and fully-insured plans. The self-insured contributions amounting to \$97,066,919 for the year ended June 30, 2022, are reported as operating revenues in the accompanying statement of revenues, expenses, and changes in net position of the enterprise fund. The contributions related to the fully-insured plans are included as a component of the premiums receivable from State of Hawaii and counties in the accompanying statement of net position of the enterprise fund. Contributions related to the fully-insured plans for the year ended June 30, 2022 reported in the enterprise fund amounted to \$572,914,015.

OPEB Trust annual required contributions for retirees are reported as additions in the accompanying statement of changes in fiduciary net position – OPEB Trust and amounted to \$845,554,637 for the year ended June 30, 2022. Retiree contributions reduce benefit claims expense and carrier payments in the accompanying statement of changes in fiduciary net position – OPEB Trust and amounted to \$6,251,598 for the year ended June 30, 2022.

For the year ended June 30, 2022, the OPEB Trust annual required contribution rate for the State (primary government), which includes the EUTF, was 19.5% of covered-employee payroll.

(9) Retirement Benefits

Pension Plan

Plan Description

Generally, all full-time employees of the State and counties, which includes the EUTF, are required to be members of the ERS, a cost-sharing multiple-employer defined benefit pension plan that administers the State's pension benefits program. Benefits, eligibility, and contribution requirements are governed by Chapter 88, HRS and can be amended through legislation.

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Benefits Provided

The ERS Pension Trust is comprised of three pension classes for membership purposes and considered to be a single plan for accounting purposes since all assets of the ERS may legally be used to pay the benefits of any of the ERS members or beneficiaries. The ERS provides retirement, survivor, and disability benefits with three membership classes known as the noncontributory, contributory, and hybrid retirement classes. The three classes provide a monthly retirement allowance equal to the benefit multiplier (generally 1.25% to 2.25%) multiplied by the average final compensation multiplied by years of credited service. Average final compensation for members hired prior to July 1, 2012 is an average of the highest salaries during any three years of credited service, excluding any salary paid in lieu of vacation for members hired January 1, 1971 or later and the average of the highest salaries during any five years of credited service including any salary paid in lieu of vacation for members hired prior to January 1, 1971. For members hired after June 30, 2012, average final compensation is an average of the highest salaries during any five years of credited service excluding any salary paid in lieu of vacation.

Each retiree's original retirement allowance is increased on each July 1 beginning the calendar year after retirement. Retirees first hired as members prior to July 1, 2012 receive a 2.5% increase each year of their original retirement allowance without a ceiling. Retirees first hired as members after June 30, 2012 receive a 1.5% increase each year of their original retirement allowance without a ceiling. The annual increase is not compounded.

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

Noncontributory Class

Retirement Benefits

General employees' retirement benefits are determined as 1.25% of average final compensation multiplied by the years of credited service. Employees with 10 years of credited service are eligible to retire at age 62. Employees with 30 years of credited service are eligible to retire at age 55.

Disability Benefits

Members are eligible for service-related disability benefits regardless of length of service and receive a lifetime pension of 35% of their average final compensation. 10 years of credited service is required for ordinary disability. Ordinary disability benefits are determined in the same manner as retirement benefits but are payable immediately, without an actuarial reduction, and at a minimum of 12.5% of average final compensation.

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Death Benefits

For service-connected deaths, the surviving spouse/reciprocal beneficiary receives a monthly benefit of 30% of the average final compensation until remarriage or re-entry into a new reciprocal beneficiary relationship. Additional benefits are payable to surviving dependent children up to age 18. If there is no spouse/reciprocal beneficiary or surviving dependent children, no benefit is payable.

Ordinary death benefits are available to employees who were active at the time of death with at least 10 years of credited service. The surviving spouse/reciprocal beneficiary (until remarriage/reentry into a new reciprocal beneficiary relationship) and surviving dependent children (up to age 18) receive a benefit equal to a percentage of member's accrued maximum allowance unreduced for age or, if the member was eligible for retirement at the time of death, the surviving spouse/reciprocal beneficiary receives 100% joint and survivor lifetime pension and the surviving dependent children receive a percentage of the member's accrued maximum allowance unreduced for age.

Contributory Class for Members Hired Prior to July 1, 2012

Retirement Benefits

General employees' retirement benefits are determined as 2% of average final compensation multiplied by the years of credited service. General employees with five years of credited service are eligible to retire at age 55.

Police officers and firefighters' retirement benefits are determined using the benefit multiplier of 2.5% for qualified service, up to a maximum of 80% of average final compensation. Police officers and firefighters with five years of credited service are eligible to retire at age 55. Police officers and firefighters with 25 years of credited service are eligible to retire at any age, provided the last five years is service credited in these occupations.

Disability Benefits

Members are eligible for service-related disability benefits regardless of length of service and receive a one-time payment of the member's contributions and accrued interest plus a lifetime pension of 50% of their average final compensation. 10 years of credited service is required for ordinary disability. Ordinary disability benefits are determined as 1.75% of average final compensation multiplied by the years of credited service but are payable immediately, without an actuarial reduction, and at a minimum of 30% of average final compensation.

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Death Benefits

For service-connected deaths, the surviving spouse/reciprocal beneficiary receives a lump sum payment of the member's contributions and accrued interest plus a monthly benefit of 50% of the average final compensation until remarriage or re-entry into a new reciprocal beneficiary relationship. If there is no surviving spouse/reciprocal beneficiary, surviving dependent children (up to age 18) or dependent parents are eligible for the monthly benefit. If there is no spouse/reciprocal beneficiary or surviving dependent children/parents, the ordinary death benefit is payable to the designated beneficiary.

Ordinary death benefits are available to employees who were active at time of death with at least one year of service. Ordinary death benefits consist of a lump sum payment of the member's contributions and accrued interest plus a percentage of the salary earned in the 12 months preceding death, or 50% joint and survivor lifetime pension if the member was not eligible for retirement at the time of death but was credited with at least 10 years of service and designated one beneficiary, or 100% joint and survivor lifetime pension if the member was eligible for retirement at the time of death and designated one beneficiary.

Contributory Class for Members Hired After June 30, 2012

Retirement Benefits

General employees' retirement benefits are determined as 1.75% of average final compensation multiplied by the years of credited service. General employees with 10 years of credited service are eligible to retire at age 60.

Police officers and firefighters' retirement benefits are determined using the benefit multiplier of 2.25% for qualified service, up to a maximum of 80% of average final compensation. Police officers and firefighters with 10 years of credited service are eligible to retire at age 60. Police officers and firefighters with 25 years of credited service are eligible to retire at age 55, provided the last five years is service credited in these occupations.

Disability and Death Benefits

Members are eligible for service-related disability benefits regardless of length of service and receive a lifetime pension of 50% of their average final compensation plus refund of contributions and accrued interest. 10 years of credited service is required for ordinary disability.

For police officers and firefighters, ordinary disability benefits are 1.75% of average final compensation for each year of service and are payable immediately, without an actuarial reduction, at a minimum of 30% of average final compensation.

Death benefits for contributory members hired after June 30, 2012 are generally the same as those for contributory members hired June 30, 2012 and prior.

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Hybrid Class for Members Hired Prior to July 1, 2012

Retirement Benefits

General employees' retirement benefits are determined as 2% of average final compensation multiplied by the years of credited service. General employees with five years of credited service are eligible to retire at age 62. General employees with 30 years of credited service are eligible to retire at age 55.

Disability Benefits

Members are eligible for service-related disability benefits regardless of length of service and receive a lifetime pension of 35% of their average final compensation plus refund of their contributions and accrued interest. 10 years of credited service is required for ordinary disability. Ordinary disability benefits are determined in the same manner as retirement benefits but are payable immediately, without an actuarial reduction, and at a minimum of 25% of average final compensation.

Death Benefits

For service-connected deaths, the designated surviving spouse/reciprocal beneficiary receives a lump sum payment of the member's contributions and accrued interest plus a monthly benefit of 50% of the average final compensation until remarriage or re-entry into a new reciprocal beneficiary relationship. If there is no surviving spouse/reciprocal beneficiary, surviving dependent children (up to age 18) or dependent parents are eligible for the monthly benefit. If there is no spouse/reciprocal beneficiary or surviving dependent children/parents, the ordinary death benefit is payable to the designated beneficiary.

Ordinary death benefits are available to employees who were active at time of death with at least five years of service. Ordinary death benefits consist of a lump sum payment of the member's contributions and accrued interest plus a percentage multiplied by 150%, or 50% joint and survivor lifetime pension if the member was not eligible for retirement at the time of death but was credited with at least 10 years of service and designated one beneficiary, or 100% joint and survivor lifetime pension if the member was eligible for retirement at the time of death and designated one beneficiary.

Hybrid Class for Members Hired After June 30, 2012

Retirement Benefits

General employees' retirement benefits are determined as 1.75% of average final compensation multiplied by the years of credited service. General employees with 10 years of credited service are eligible to retire at age 65. Employees with 30 years of credited service are eligible to retire at age 60. Sewer workers, water safety officers, and emergency medical technicians may retire with 25 years of credited service at age 55.

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Disability and Death Benefits

Provisions for disability and death benefits generally remain the same except for ordinary death benefits. Ordinary death benefits are available to employees who were active at time of death with at least 10 years of service. Ordinary death benefits consist of a lump sum payment of the member's contributions and accrued interest, or 50% joint and survivor lifetime pension if the member was not eligible for retirement at the time of death but was credited with at least 10 years of service and designated one beneficiary, or 100% joint and survivor lifetime pension if the member was eligible for retirement at the time of death and designated one beneficiary.

Contributions

Contributions are governed by Chapter 88, HRS and may be amended through legislation. The employer rate is set by statute based on the recommendations of the ERS actuary resulting from an experience study conducted every five years. Since July 1, 2005, the employer contribution rate is a fixed percentage of compensation, including the normal cost plus amounts required to pay for the unfunded actuarial accrued liabilities. The contribution rates for fiscal year 2022 were 41%, for police officers and firefighters, and 24.0% for all other employees. Contributions to the pension plan from the EUTF were \$784,227 for the year ended June 30, 2022.

The employer is required to make all contributions for noncontributory members. Contributory members hired prior to July 1, 2012 are required to contribute 7.8% of their salary, except for police officers and firefighters who are required to contribute 12.2% of their salary. Contributory members hired after June 30, 2012, are required to contribute 9.8% of their salary, except for police officers and firefighters who are required to contribute 14.2% of their salary. Hybrid members hired prior to July 1, 2012 are required to contribute 6.0% of their salary. Hybrid members hired after June 30, 2012 are required to contribute 8.0% of their salary.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pension

Measurement of the actuarial valuation of the pension liability, pension expense, and deferred outflows of resources and deferred inflows of resources related to pension is made for the State as a whole and is not separately computed for the individual state departments and agencies such as the EUTF. The State allocates the pension liability, pension expense, and deferred outflows of resources and deferred inflows of resources related to pension to the various departments and agencies based upon a systematic methodology. Additional disclosures and required supplementary information stipulated by GASB Statement Nos. 68 and 71 pertaining to the State's net pension liability, pension expense, and deferred outflows of resources and deferred inflows of resources related to pension can be found in the State's Annual Comprehensive Financial Report (ACFR).

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At June 30, 2022, the EUTF reported a net pension liability of \$5,307,643 for its proportionate share of the State's net pension liability. The net pension liability was measured as of June 30, 2021, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date.

At June 30, 2021, the EUTF's proportionate share of the State's (primary government) net pension liability was .08%.

There were no changes in actuarial assumptions during the year ended June 30, 2021. There were no changes between the measurement date, June 30, 2021, and the reporting date, June 30, 2022, that are expected to have a significant effect on the EUTF's proportionate share of the State's net pension liability.

For the year ended June 30, 2022, the EUTF recognized pension expense of \$767,619. At June 30, 2022, the EUTF reported deferred outflows of resources and deferred inflows of resources related to pension from the following sources:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|---|--|
| Contributions subsequent to the measurement date | \$ 784,227 | \$ - |
| Net differences between expected and actual experience | 193,340 | - |
| Changes in proportion and differences between contributions and proportionate share of contributions | 29,270 | (35,886) |
| Net difference between projected and actual earnings on pension plan investments | - | (1,232,786) |
| Changes in assumptions | - | (233,888) |
| | \$ 1,006,837 | \$ (1,502,560) |

The \$784,227 reported as deferred outflows of resources related to pension at June 30, 2022 resulting from the EUTF's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2023.

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Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension at June 30, 2022 will be recognized in pension expense as follows:

Year Ending June 30:

| | | |
|------|----|--------------------|
| 2023 | \$ | (271,776) |
| 2024 | | (256,990) |
| 2025 | | (308,421) |
| 2026 | | (448,645) |
| 2027 | | 5,882 |
| | | <u>5,882</u> |
| | \$ | <u>(1,279,950)</u> |

Actuarial Assumptions

The total pension liability in the June 30, 2021 actuarial valuation was determined using the following actuarial assumptions adopted by the ERS Board of Trustees on August 12, 2019, based on the 2018 experience study for the five-year period from July 1, 2013 through June 30, 2018:

| | |
|---------------------------|---|
| Inflation | 2.50% |
| Payroll growth rate | 3.50% |
| Investment rate of return | 7.00% per year, compounded annually including inflation |

There were no changes to ad hoc postemployment benefits including cost of living allowances.

Post-retirement mortality rates are based on the 2019 Public Retirees of Hawaii mortality table, with adjustments based on generational projections using the BB projection table for 2019 and full generational projections in future years. Pre-retirement mortality rates are based on multiples of the Pub-2010 mortality table based on the occupation of the member.

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 “re-sampling with a replacement” that directly keys in on specific plan-level risk factors as stipulated by the ERS Board of Trustees) 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 combined to produce the long-term expected rate of return by weighting the expected future nominal rates of return (real returns and inflation) by the target asset allocation percentage.

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The target asset allocation and best estimates of geometric real rates of return for each major asset class are summarized in the following table:

| Strategic Allocation (Risk-based Classes) | Target Allocation | Long-term Expected Real Rate of Return |
|--|------------------------------|---|
| Broad growth | 63.00% | 8.00% |
| Diversifying strategies | 37.00% | 5.10% |
| Total investments | 100.00% | |

Discount Rate

The discount rate used to measure the total pension liability was 7.00%, consistent with the rate used at the prior measurement date. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that contributions from the State, which includes the EUTF, will be made at statutorily required rates, actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. 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.

Sensitivity of the EUTF's Proportionate Share of the State's Net Pension Liability to Changes in the Discount Rate

The following presents the EUTF's proportionate share of the State's net pension liability calculated using the discount rate of 7.00%, as well as what the EUTF's proportionate share of the State's net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.00%) or one percentage point higher (8.00%) than the current rate:

| | 1% Decrease (6.00%) | Discount Rate (7.00%) | 1% Increase (8.00%) |
|---|------------------------------------|--------------------------------------|------------------------------------|
| EUTF's proportionate share of the State's net pension liability | \$ 7,244,530 | \$ 5,307,643 | \$ 3,710,792 |

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Pension Plan Fiduciary Net Position

The pension plan's fiduciary net position is determined on the same basis used by the pension plan. The ERS's financial statements are prepared using the accrual basis of accounting under which expenses are recorded when the liability is incurred, and revenues are recorded in the accounting period in which they are earned and become measurable. Employer and member contributions are recognized in the period in which the contributions are due. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan. Investment purchases and sales are recorded as of their trade date. Administrative expenses are financed exclusively with investment income.

There were no significant changes after the report measurement date. Detailed information about the pension plan's fiduciary net position is available in the separately issued ERS financial report. The ERS's complete financial statements are available at <http://ers.hawaii.gov/resources/financials>.

Payables to Pension Plan

The State's employer contributions payable to the ERS was paid by June 30, 2022. Excess payments will be applied to amounts due in fiscal year 2023.

Postemployment Health Care and Life Insurance Benefits

Plan Description

The EUTF provides a single delivery system of health care and life insurance benefits for all qualified state and county workers, retirees, and their dependents.

For employees hired before July 1, 1996, the State pays the entire base monthly contribution for employees retiring with 10 years or more of credited service, and 50% of the base monthly contribution for employees retiring with fewer than 10 years of credited service. A retiree can elect a family plan to cover dependents.

For employees hired after June 30, 1996, but before July 1, 2001, and who retire with less than 10 years of service, the State makes no contributions. For those retiring with at least 10 years but fewer than 15 years of service, the State pays 50% of the base monthly contribution. For employees retiring with at least 15 years but fewer than 25 years of service, the State pays 75% of the base monthly contribution. For employees retiring with at least 25 years of service, the State pays 100% of the base monthly contribution. Retirees in this category can elect a family plan to cover dependents.

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For employees hired on or after July 1, 2001, and who retire with less than 10 years of service, the State makes no contributions. For those retiring with at least 10 years but fewer than 15 years of service, the State pays 50% of the base monthly contribution. For those retiring with at least 15 years but fewer than 25 years of service, the State pays 75% of the base monthly contribution. For employees retiring with at least 25 years of service, the State pays 100% of the base monthly contribution. Only single plan coverage is provided for retirees in this category. Retirees can elect family coverage but must pay the difference.

Members Covered by Benefit Terms

At July 1, 2021, the State's plan members covered by benefit terms consisted of the following:

| | |
|---|----------------------|
| Inactive plan members or beneficiaries currently receiving benefits | 38,534 |
| Inactive plan members entitled to but not yet receiving benefits | 7,539 |
| Active plan members | <u>49,700</u> |
| Total plan members | <u><u>95,773</u></u> |

Contributions

Contributions are governed by Chapter 87A, HRS and may be amended through legislation. Contributions to the OPEB plan from the EUTF were \$346,488 for the year ended June 30, 2022. The EUTF is required to make all contributions for their members.

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

Measurement of the actuarial valuation of the OPEB liability, OPEB expense, and deferred outflows of resources and deferred inflows of resources related to OPEB is made for the State as a whole and is not separately computed for the individual state departments and agencies such as the EUTF. The State allocates the OPEB liability, OPEB expense, and deferred outflows of resources and deferred inflows of resources related to OPEB to the various departments and agencies based upon a systematic methodology. Additional disclosures and required supplementary information stipulated by GASB Statement No. 75 pertaining to the State's net OPEB liability, OPEB expense, and deferred outflows of resources and deferred inflows of resources related to OPEB can be found in the State's ACFR.

At June 30, 2022, the EUTF reported a net OPEB liability of \$6,622,639 for its proportionate share of the State's net OPEB liability. The net OPEB liability was measured as of July 1, 2021, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date.

At June 30, 2022, the EUTF's proportionate share of the State's (primary government) net OPEB liability was .11%.

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There were no changes between the measurement date, July 1, 2021, and the reporting date, June 30, 2022, that are expected to have a significant effect on the EUTF's proportionate share of the State's net OPEB liability.

For the year ended June 30, 2022, the EUTF recognized OPEB expense of \$160,754. At June 30, 2022, the EUTF reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|---|--|
| Contributions subsequent to the measurement date | \$ 346,488 | \$ - |
| Changes in assumptions | 73,730 | (41,204) |
| Differences between expected and actual experience | - | (653,569) |
| Net difference between projected and actual earnings on OPEB plan investments | - | (12,154) |
| | \$ 420,218 | \$ (706,927) |

The \$346,488 reported as deferred outflows of resources related to OPEB at June 30, 2022 resulting from the EUTF's contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ending June 30, 2023.

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB at June 30, 2022 will be recognized in OPEB expense as follows:

Year Ending June 30:

| | | |
|------|----|-----------|
| 2023 | \$ | (147,961) |
| 2024 | | (147,340) |
| 2025 | | (143,601) |
| 2026 | | (161,080) |
| 2027 | | (33,215) |
| | \$ | (633,197) |

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Actuarial Assumptions

The total OPEB liability in the July 1, 2021 actuarial valuation was determined using the following actuarial assumptions adopted by the EUTF's Board of Trustees on January 13, 2020, based on the experience study covering the five-year period ended June 30, 2018:

| | |
|--|--|
| Inflation | 2.50% |
| Salary increases | 3.50% to 7.00%, including inflation |
| Investment rate of return | 7.00% |
| Healthcare cost trend rates: | |
| PPO* | Initial rate of 7.25%; declining to a rate of 4.70% after 12 years |
| HMO* | Initial rate of 7.25%; declining to a rate of 4.70% after 12 years |
| Part B & Base Monthly Contribution (BMC) | Initial rate of 5.00%; declining to a rate of 4.70% after 9 years |
| Dental | 4.00% |
| Vision | 2.50% |
| Life insurance | 0.00% |

* Blended rates for medical and prescription drugs.

Mortality rates are based on system-specific mortality tables utilizing scale BB to project generational mortality improvement.

The long-term expected rate of return on OPEB plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of OPEB plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

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The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

| Asset Class | Target Allocation | Long-Term Expected Real Rate of Return |
|-------------------------|------------------------------|---|
| U.S. equity | 16.00% | 6.09% |
| Private equity | 12.50% | 10.19% |
| Non-U.S. equity | 11.50% | 7.12% |
| Real assets | 10.00% | 6.16% |
| Trend following | 10.00% | 2.01% |
| Private credit | 8.00% | 5.83% |
| U.S. microcap | 6.00% | 7.62% |
| Long treasuries | 6.00% | 1.06% |
| Global options | 5.00% | 4.33% |
| TIPS | 5.00% | -0.07% |
| Alternative risk premia | 5.00% | 1.46% |
| Reinsurance | 5.00% | 4.44% |
| | 100.00% | |

Single Discount Rate

The discount rate used to measure the total OPEB liability was 7.00%, based on the expected rate of return on OPEB plan investments of 7.00%. Beginning with the fiscal year 2019 contribution, the State's funding policy is to pay the recommended actuarially determined contribution, which is based on layered, closed amortization periods. Based on those assumptions, the OPEB plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive plan members. In July 2020, the Governor's office issued the Tenth Proclamation related to the COVID-19 Emergency, allowing employers of the EUTF to suspend Act 268 contributions for the year ended June 30, 2021, and instead limit their contribution amounts to the OPEB benefits due. This relief provision related to OPEB funding was extended to years ending June 30, 2022 and 2023 by Act 229, SLH 2021. The OPEB plan's fiduciary net position is expected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

Assumption Changes

There were no assumption changes during the current measurement period.

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OPEB Plan Fiduciary Net Position

The OPEB plan's fiduciary net position has been determined on the same basis used by the OPEB plan. The EUTF's financial statements are prepared using the accrual basis of accounting under which revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of the timing of the cash flows. Employer contributions are recognized in the period in which the contributions are due. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan. Investment purchases and sales are recorded on a trade-date basis. Administrative expenses are financed exclusively with investment income.

There were no significant changes after the report measurement date.

Changes in the EUTF's Proportionate Share of the State's Net OPEB Liability

The following table represents a schedule of changes in the EUTF's proportionate share of the State's net OPEB liability. The ending balances are as of the measurement date, July 1, 2021.

| | Total OPEB Liability | Plan Fiduciary Net Position | Net OPEB Liability |
|--|---------------------------------|--|-------------------------------|
| Beginning balance | \$ 8,934,616 | \$ 1,971,980 | \$ 6,962,636 |
| Service cost | 67,537 | - | 67,537 |
| Interest on the total OPEB liability | 224,192 | - | 224,192 |
| Difference between expected and actual experience | (95,156) | - | (95,156) |
| Employer contributions | - | 352,067 | (352,067) |
| Net investment income | - | 184,559 | (184,559) |
| Benefit payments | (102,452) | (102,452) | - |
| Administrative expense | - | (94) | 94 |
| Other | - | 38 | (38) |
| Net changes | 94,121 | 434,118 | (339,997) |
| Ending balance | <u>\$ 9,028,737</u> | <u>\$ 2,406,098</u> | <u>\$ 6,622,639</u> |

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Sensitivity of the EUTF's Proportionate Share of the State's Net OPEB Liability to Changes in the Discount Rate and Healthcare Cost Trend Rates

The following table presents the EUTF's proportionate share of the State's net OPEB liability calculated using the discount rate of 7.00%, as well as what the EUTF's proportionate share of the State's net OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (6.00%) or one percentage point higher (8.00%) than the current discount rate:

| | 1% Decrease (6.00%) | Discount Rate (7.00%) | 1% Increase (8.00%) |
|--|------------------------------------|--------------------------------------|------------------------------------|
| EUTF's proportionate share of the State's net OPEB liability | \$ 8,191,851 | \$ 6,622,639 | \$ 5,384,511 |

The following table represents the EUTF's proportionate share of the State's net OPEB liability calculated using the assumed healthcare cost trend rate, as well as what the EUTF's proportionate share of the State's net OPEB liability would be if it were calculated using the trend rate that is one percentage point lower or one percentage point higher than the current healthcare cost trend rate:

| | 1% Decrease | Healthcare Cost Trend Rate | 1% Increase |
|--|------------------------|---|------------------------|
| EUTF's proportionate share of the State's net OPEB liability | \$ 5,317,673 | \$ 6,622,639 | \$ 8,308,267 |

Payables to the OPEB Plan

The State's employer contributions payable to the EUTF was \$35,475,000 as of June 30, 2022.

Deferred Compensation Plan

The State offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, which is available to all State employees, permits employees to defer a portion of their compensation until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency.

All plan assets are held in a trust fund to protect them from claims of general creditors. The State has no responsibility for loss due to the investment or failure of investment of funds and assets in the plan, but does have the duty of due care that would be required of an ordinary prudent investor. Accordingly, the assets and liabilities of the State's deferred compensation plan are not reported in the State's nor the EUTF's financial statements.

**HAWAII EMPLOYER-UNION HEALTH BENEFITS TRUST FUND
STATE OF HAWAII**

Notes to Financial Statements

June 30, 2022

(10) Commitments and Contingencies

Litigation

Dannenber, et al. v. State of Hawaii, Civil No.: 06-1-1141 JPC

This class action was originally filed in June 2006 as Marion Everson, et al. v. State of Hawaii, et al. In this action, several State and County retirees filed a Complaint in the State of Hawaii Circuit Court of the First Circuit (the Circuit Court) against the EUTF, the Board, and the State of Hawaii (collectively, the Defendants), as well as various county governments that participate in the EUTF's health benefits plans. The plaintiffs allege various claims based on an argument that the EUTF is constitutionally, statutorily, and contractually required to provide health benefit plans that provide retirees and their dependents with benefits that are substantially equal to those provided to active employees and their dependents. The plaintiffs seek declaratory and injunctive relief, damages, and attorneys' fees and costs.

On December 10, 2012, the plaintiffs filed a motion for partial summary judgment seeking judgment in their favor on the liability issues in the lawsuit, i.e., that the plaintiffs be granted their requested declaratory and injunctive relief, and that the Defendants be found liable for monetary damages in an amount to be determined later. On July 25, 2013, the Defendants filed their motion for partial summary judgment seeking judgment in its favor on all of the plaintiffs' claims that are based on the allegations that: (1) the Defendants violated the constitutional, contractual, and statutory rights of the plaintiffs by not providing healthcare benefits for retirees and their dependents that were equivalent to those provided to active employees and their dependents; (2) the Defendants violated the constitutional and contractual rights of the plaintiffs by not providing healthcare benefits to retirees and their dependents that are equivalent to those provided to other employee-beneficiaries and dependent-beneficiaries, regardless of age; and; (3) the Defendants were negligent in providing health benefits to retirees and their dependents. Both motions were heard by the Circuit Court on October 30, 2013.

On August 29, 2013, the First Circuit Court entered an order granting plaintiff's Motion for Class Action Certification. The class certified is for all employees (and their dependent beneficiaries) who began working for the Territory of Hawaii, State of Hawaii or any political subdivision thereof, before July 1, 2003, and who have accrued or will accrue a right to postretirement health benefits as a retiree or dependent-beneficiary of such a retiree.

On October 16, 2014, the Circuit Court ruled that the plaintiff's accrued health benefits have not been reduced, diminished, or impaired as the health benefits that retirees receive under the EUTF are the same or substantially the same as the health benefits retirees received under the Hawaii Public Employees Health Fund. The plaintiffs filed a motion for reconsideration of the order or alternatively for an interlocutory appeal.

**HAWAII EMPLOYER-UNION HEALTH BENEFITS TRUST FUND
STATE OF HAWAII**

Notes to Financial Statements

June 30, 2022

The Circuit Court denied the motion. Plaintiffs subsequently stipulated to dismiss their claims premised on the contribution cap, which readied the case for final judgment. Plaintiffs appealed to the Intermediate Court of Appeals. On Defendant's request, the Hawaii Supreme Court accepted the case on transfer. Briefing on the appeal and cross-appeal was completed in October 2015. In May 2016, the case was argued before the Hawaii Supreme Court. In October 2016, the Hawaii Supreme Court issued an opinion affirming the Circuit Court's decision in the Defendant's favor to a large extent, but also ruling that the Defendant's were not entitled to judgment as a matter of law, and remanded the case to the trial court.

Plaintiffs filed a Third Amended Complaint on December 28, 2017. Since that time, the parties have conducted discovery and have filed several motions, including motions related to the purported class of plaintiffs. The State's motion to decertify the class was granted. On December 3, 2018, the plaintiffs filed motions to recertify the class and to certify a damages subclass. On February 6, 2019, the court granted the plaintiffs' motion to recertify and an order granting the plaintiffs' motion for recertification was filed on June 21, 2019.

Trial commenced on November 3, 2021 and was completed on November 30, 2021. Proposed findings of fact and conclusions of law were submitted by the parties, and the Court has taken its ruling under advisement. The next phase of the trial will commence sometime after the Court issues its ruling. In addition, an action for declaratory relief was filed on August 31, 2022, and a first amended complaint was filed on October 3, 2022 by various insurers that have provided a defense for the lawsuit. Insurance coverage counsel has been retained to defend the State in this action. The insurer plaintiffs are seeking a declaration that they have no duty to defend the State under various insurance policies with respect to the lawsuit. The insurer plaintiffs have also requested that the Court find that the insurer plaintiffs are entitled to reimbursement of defense costs incurred, the amount of which was not specified but may be in excess of the initial policy of insurance that has been exhausted.

At this time, the outcome of this lawsuit cannot be determined and no amount has been recorded in the financial statements as of or for the year ended June 30, 2022. Management believes that an unfavorable outcome, if any, will not have a material adverse effect on the EUTF's financial position.

**HAWAII EMPLOYER-UNION HEALTH BENEFITS TRUST FUND
STATE OF HAWAII**

Notes to Financial Statements

June 30, 2022

Kono, et al. v. Abercrombie, Civil No. 10-1-1966-09 KKS

On September 14, 2010, the trustees of the Hawaii State Teachers Association Voluntary Employees' Beneficiary Association Trust (the VEBA Trust) and certain individuals who allegedly participated in health and other benefit plans provided by the VEBA Trust health plans filed a complaint in the Circuit Court against the State alleging: (1) the State diminished and impaired accrued health benefits for the active and retired teachers participating in the VEBA Trust health plans in violation of Article XVI, Section 2 of the Hawaii Constitution, by enacting Act 106, SLH 2010 (Act 106) and transferring the VEBA members to the EUTF and/or reassigning the administration of the VEBA Trust health benefit plans from the VEBA Trust to the EUTF; and (2) the State had taken \$3.96 million in surplus funds from the VEBA Trust and this similarly diminished or impaired the VEBA Trust members' accrued health benefits in violation of Article XVI, Section 2.

The State filed a motion for judgment on the pleadings seeking dismissal of the lawsuit. The plaintiffs filed a motion for preliminary injunction seeking to prevent the transfer of VEBA Trust participants to the EUTF health plans under Act 106. On December 7, 2010, both motions were heard by the Circuit Court. The Circuit Court gave an oral ruling that denied both motions but held that VEBA Trust participants had a right to maintain the standard of coverage benefits they had enjoyed under the VEBA Trust health plans when they were transferred to the EUTF on January 1, 2011. The Circuit Court also indicated that to the extent that the VEBA Trust surplus that was paid to the State was an accrued benefit of the VEBA Trust members who had paid into that surplus, the appropriate remedy was that such amounts should be set aside to ensure that former VEBA Trust participants can maintain their standard of coverage benefits.

On March 15, 2011, pursuant to its oral ruling, the Circuit Court issued an order denying the State's motion for judgment on the pleadings, and an order denying plaintiff's motion for preliminary injunction, and a final judgment.

The State filed an appeal of the Circuit Court's orders and the final judgment. The Hawaii Intermediate Court of Appeals (the ICA) dismissed the appeal because the form of final judgment did not comply with certain requirements. On October 6, 2011, the Circuit Court issued an amended final judgment. On October 14, 2011, the State filed an appeal of the amended final judgment, the final judgment, and certain other orders entered by the Circuit Court. On November 4, 2011, the plaintiffs filed a cross-appeal. On April 24, 2013, the ICA issued a memorandum opinion vacating the Circuit Court's entry of the final and amended final judgments and certain related orders. The ICA said that entry of these judgments was improper as no dispositive motion was pending at the time the Circuit Court terminated the litigation. The ICA remanded the case back to the Circuit Court for further proceedings consistent with the ICA's opinion.

**HAWAII EMPLOYER-UNION HEALTH BENEFITS TRUST FUND
STATE OF HAWAII**

Notes to Financial Statements

June 30, 2022

No trial date has yet been set. The State intends to vigorously defend against the plaintiffs' claims in this lawsuit. The outcome of this lawsuit cannot be determined and no amount has been recorded in the financial statements as of or for the year ended June 30, 2022. Management believes that an unfavorable outcome, if any, will not have a material adverse effect on the EUTF's financial position.

(11) Risk Management

The EUTF is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors and omissions; natural disasters; and workers' compensation. In accordance with HRS 87A-25, the EUTF has obtained fiduciary liability insurance with an annual aggregate for losses of \$10 million.

The State purchases policies that provide coverage for all state entities, including the EUTF. The State generally retains the first \$1,000,000 per occurrence of property losses such as fires, and 3% of a property's replacement cost value for catastrophic losses such as hurricanes, earthquakes, and floods, the first \$7,500,000 with respect to general liability claims, and the first \$500,000 of losses due to crime and \$5,000,000 of losses due to cyber liability claims. Losses in excess of those retention amounts are insured with commercial insurance carriers. The limit per occurrence for property losses is \$200,000,000, except for terrorism, which is \$100,000,000 per occurrence. The annual aggregate limit for general liability losses is \$7,500,000 per occurrence, \$5,000,000 for cyber liability losses, and for crime losses, the limit per occurrence is \$10,000,000 with no aggregate limit.

The EUTF is covered under the State's self-insurance program for workers' compensation. During fiscal year 2022, the EUTF paid \$46,326 in workers' compensation premiums to the State's General Fund.

Settled claims have not exceeded the coverage provided by commercial insurance companies in any of the past 10 fiscal years.

(12) Lease Commitment

The EUTF's office is located in the City Financial Tower. The State Department of Accounting and General Services (lessee) leases the EUTF's office from the ERS (lessor). The lease was amended on July 20, 2015 increasing the total rental area to 13,601 square feet and extending the term for seven years starting 60 days after completion of the improvements to the suites, which was February 1, 2016. Effective June 30, 2021, the lessee terminated and canceled the lease as it pertains to 2,640 square feet of floor area resulting in a new rental area of 10,961 square feet. Rent on this lease is paid by the EUTF. In addition, the EUTF has various lease agreements for office equipment. See Notes 4 and 5 for reported right-to-use lease asset and lease payable related to this lease.

**HAWAII EMPLOYER-UNION HEALTH BENEFITS TRUST FUND
STATE OF HAWAII**

Notes to Financial Statements

June 30, 2022

(13) OPEB Trust by Employer

The fair value of the OPEB Trust by employer as of June 30, 2022, are as follows:

| | Long-term Investment Portfolio | Short-term Liquidity/ Operating Asset Pool | Net Position Restricted for Postemployment Benefits Other than Pensions |
|---|---|---|--|
| State of Hawaii | \$ 3,774,693,203 | \$ 285,430,762 | \$ 4,060,123,965 |
| City & County of Honolulu | 1,059,530,748 | 61,652,740 | 1,121,183,488 |
| County of Hawaii | 288,132,412 | 14,793,161 | 302,925,573 |
| County of Maui | 418,437,537 | 15,008,104 | 433,445,641 |
| County of Kauai | 195,372,095 | 7,135,793 | 202,507,888 |
| County of Kauai - Department of Water Supply | 14,319,553 | 475,373 | 14,794,926 |
| Board of Water Supply - Honolulu | 115,069,705 | 3,971,704 | 119,041,409 |
| County of Hawaii - Department of Water Supply | 26,175,184 | 912,836 | 27,088,020 |
| Honolulu Authority for Rapid Transportation | 4,577,552 | 181,239 | 4,758,791 |
| | <u>\$ 5,896,307,989</u> | <u>\$ 389,561,712</u> | <u>\$ 6,285,869,701</u> |

(14) Economic Uncertainties

On March 11, 2020, the World Health Organization declared the coronavirus infection known as COVID-19 to be a global pandemic. The pandemic, together with the recent geopolitical events and rising inflation, has adversely affected the global economy by, among other things, disrupting supply chains, creating significant volatility and disruption in financial markets, and increasing unemployment levels. The full impact on the EUTF's operating results, including investment performance and health care costs, cannot be reasonably estimated at this time because of the uncertainties surrounding the duration and severity of these matters.

The Fourteenth Supplementary Proclamation, issued by Hawaii Governor David Y. Ige on October 13, 2020, suspended specific provisions of law. Included were Sections 87A-42(b) – (f), HRS, other post-employment benefits trust, 87A-43, HRS, payment of public employer contributions to the other post-employment benefits trust, and 237-31(3), HRS, remittances, related to the requirement for public employers to pay the annual required contribution to the EUTF in the fiscal year 2020-2021. Act 229, SLH 2021 continued the suspension for fiscal years 2021-2022 and 2022-2023.

**HAWAII EMPLOYER-UNION HEALTH BENEFITS TRUST FUND
STATE OF HAWAII**

Notes to Financial Statements

June 30, 2022

(15) Subsequent Events

The EUTF has evaluated subsequent events through December 7, 2022, the date at which the financial statements were available to be issued, and determined that there are no other items to disclose.

REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)

**HAWAII EMPLOYER-UNION HEALTH BENEFITS TRUST FUND
STATE OF HAWAII**

Required Supplementary Information (Unaudited)

**Schedule of Investment Returns
Years Ended June 30, 2016 through 2022**

| | <u>2022</u> | <u>2021</u> | <u>2020</u> | <u>2019</u> | <u>2018</u> | <u>2017</u> | <u>2016</u> |
|---|---------------|---------------|--------------|--------------|--------------|--------------|--------------|
| Annual money-weighted rate of return, net of investment expenses | <u>-1.78%</u> | <u>26.67%</u> | <u>2.21%</u> | <u>4.69%</u> | <u>7.34%</u> | <u>9.28%</u> | <u>2.95%</u> |

Schedule is intended to show information for 10 years. Additional years will be built prospectively as data becomes available.

See accompanying independent auditors' report.

**HAWAII EMPLOYER-UNION HEALTH BENEFITS TRUST FUND
STATE OF HAWAII**

Required Supplementary Information (Unaudited)

Ten-Year Loss Development Information

Year Ended June 30, 2022

Self-Insured Healthcare Plans for Active Employees

The EUTF began providing and administering fully-insured health and other benefit plans beginning July 1, 2003. The EUTF also began providing self-insured plans effective July 1, 2007 through December 31, 2011 for medical plans and continues to offer self-insured prescription drug plans for active employees. Therefore, the loss development table on page 81 shows data for 10 successive policy years starting from the year ended June 30, 2013, for active employee self-insured plans.

The table on the following page illustrates how the EUTF's earned revenue (net of reinsurance) and investment income compare to related costs of loss (net of loss assumed by reinsurers) and other expenses assumed by the EUTF related to the self-insured activities as of the end of each of the past 10 years.

The rows of the table are defined as follows:

- (1) This line shows the total of each fiscal year's gross earned contribution revenue and investment revenue, contribution revenue ceded to reinsurers, and net earned contribution revenue and reported investment revenue.
- (2) This line shows each fiscal year's other operating costs of the EUTF including overhead and claims expense not allocable to individual claims.
- (3) This line shows the EUTF's gross incurred claims and allocated claim adjustment expenses, claims assumed by reinsurers, and net incurred claims and allocated adjustment expenses (both paid and accrued) as originally reported at the end of the first year in which the event that triggered coverage under the contract occurred (called policy year).
- (4) This section of 10 rows shows the cumulative net amounts paid as of the end of successive years for each policy year.
- (5) This line shows the latest re-estimated amount of claims assumed by reinsurers as of the end of the current year for each policy year.
- (6) This section of 10 rows shows how each policy year's net incurred claims increased or decreased as of the end of successive years. This annual re-estimation results from new information received on known claims, reevaluation of existing information on known claims, and emergence of new claims not previously known.
- (7) This line compares the latest re-estimated net incurred claims amount to the amount originally established (line 3) and shows whether this latest estimate of net claims cost is greater or less than originally thought.

**HAWAII EMPLOYER-UNION HEALTH BENEFITS TRUST FUND
STATE OF HAWAII**

Required Supplementary Information (Unaudited)

Ten-Year Loss Development Information

Year Ended June 30, 2022

As data for individual policy years mature, the correlation between original estimates and re-estimated amounts commonly is used to evaluate the accuracy of net incurred claims currently recognized in less mature policy years. The columns of the tables show data for successive policy years.

**HAWAII EMPLOYER-UNION HEALTH BENEFITS TRUST FUND
STATE OF HAWAII**

Required Supplementary Information (Unaudited)

Self-Insured Active Employee Healthcare Benefit Plans
Ten-Year Loss Development Information

Years Ended June 30, 2013 through 2022

| | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 |
|--|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|-----------------------|
| 1. Required contribution and investment revenue: | | | | | | | | | | |
| Earned | \$ 51,774,778 | \$ 58,365,379 | \$ 73,318,620 | \$ 84,751,959 | \$ 92,776,406 | \$ 87,451,628 | \$ 94,610,513 | \$108,069,954 | \$ 99,006,422 | \$ 86,787,180 |
| Ceded | - | - | - | - | - | - | - | - | - | - |
| Net earned | <u>\$ 51,774,778</u> | <u>\$ 58,365,379</u> | <u>\$ 73,318,620</u> | <u>\$ 84,751,959</u> | <u>\$ 92,776,406</u> | <u>\$ 87,451,628</u> | <u>\$ 94,610,513</u> | <u>\$108,069,954</u> | <u>\$ 99,006,422</u> | <u>\$ 86,787,180</u> |
| 2. Unallocated expenses | <u>\$ 1,241,104</u> | <u>\$ 1,101,332</u> | <u>\$ 1,324,632</u> | <u>\$ 1,545,900</u> | <u>\$ 1,744,179</u> | <u>\$ 1,565,548</u> | <u>\$ 1,547,580</u> | <u>\$ 1,837,013</u> | <u>\$ 1,871,307</u> | <u>\$ 2,042,692</u> |
| 3. Estimated claims and expenses, end of policy year: | | | | | | | | | | |
| Incurred | \$ 46,818,770 | \$ 69,066,849 | \$ 78,889,868 | \$ 88,570,757 | \$ 89,608,294 | \$ 80,584,753 | \$ 86,462,811 | \$ 88,136,232 | \$ 81,523,277 | \$ 102,275,131 |
| Ceded | - | - | - | - | - | - | - | - | - | - |
| Net incurred | <u>\$ 46,818,770</u> | <u>\$ 69,066,849</u> | <u>\$ 78,889,868</u> | <u>\$ 88,570,757</u> | <u>\$ 89,608,294</u> | <u>\$ 80,584,753</u> | <u>\$ 86,462,811</u> | <u>\$ 88,136,232</u> | <u>\$ 81,523,277</u> | <u>\$ 102,275,131</u> |
| 4. Net paid (cumulative) as of: | | | | | | | | | | |
| End of policy year | \$ 52,654,087 | \$ 69,825,153 | \$ 82,307,251 | \$ 92,379,275 | \$ 89,832,650 | \$ 84,612,745 | \$ 94,822,793 | \$ 81,876,626 | \$ 85,964,817 | \$ 92,756,495 |
| One year later | 51,976,970 | 69,080,249 | 78,879,468 | 88,543,157 | 89,630,594 | 80,577,653 | 86,301,511 | 88,133,332 | 81,540,377 | - |
| Two years later | 51,976,970 | 69,080,249 | 78,879,468 | 88,543,157 | 89,630,594 | 80,577,653 | 86,301,511 | 88,133,332 | - | - |
| Three years later | 51,976,970 | 69,080,249 | 78,879,468 | 88,543,157 | 89,630,594 | 80,577,653 | 86,301,511 | - | - | - |
| Four years later | 51,976,970 | 69,080,249 | 78,879,468 | 88,543,157 | 89,630,594 | 80,577,653 | - | - | - | - |
| Five years later | 51,976,970 | 69,080,249 | 78,879,468 | 88,543,157 | 89,630,594 | - | - | - | - | - |
| Six years later | 51,976,970 | 69,080,249 | 78,879,468 | 88,543,157 | - | - | - | - | - | - |
| Seven years later | 51,976,970 | 69,080,249 | 78,879,468 | - | - | - | - | - | - | - |
| Eight years later | 51,976,970 | 69,080,249 | - | - | - | - | - | - | - | - |
| Nine years later | 51,976,970 | - | - | - | - | - | - | - | - | - |
| 5. Reestimated ceded claims and expenses | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| 6. Reestimated net incurred claims and expenses: | | | | | | | | | | |
| End of policy year | \$ 46,818,770 | \$ 69,066,849 | \$ 78,889,868 | \$ 88,570,757 | \$ 89,608,294 | \$ 80,584,753 | \$ 86,462,811 | \$ 88,136,232 | \$ 81,523,277 | \$ 102,377,397 |
| One year later | 51,976,970 | 69,080,249 | 78,879,468 | 88,543,157 | 89,630,594 | 80,577,653 | 86,301,511 | 88,133,332 | 81,540,377 | - |
| Two years later | 51,976,970 | 69,080,249 | 78,879,468 | 88,543,157 | 89,630,594 | 80,577,653 | 86,301,511 | 88,133,332 | - | - |
| Three years later | 51,976,970 | 69,080,249 | 78,879,468 | 88,543,157 | 89,630,594 | 80,577,653 | 86,301,511 | - | - | - |
| Four years later | 51,976,970 | 69,080,249 | 78,879,468 | 88,543,157 | 89,630,594 | 80,577,653 | - | - | - | - |
| Five years later | 51,976,970 | 69,080,249 | 78,879,468 | 88,543,157 | 89,630,594 | - | - | - | - | - |
| Six years later | 51,976,970 | 69,080,249 | 78,879,468 | 88,543,157 | - | - | - | - | - | - |
| Seven years later | 51,976,970 | 69,080,249 | 78,879,468 | - | - | - | - | - | - | - |
| Eight years later | 51,976,970 | 69,080,249 | - | - | - | - | - | - | - | - |
| Nine years later | 51,976,970 | - | - | - | - | - | - | - | - | - |
| 7. Increase (decrease) in estimated net incurred claims and expenses from end of policy year | \$ 5,158,200 | \$ 13,400 | \$ (10,400) | \$ (27,600) | \$ 22,300 | \$ (7,100) | \$ (161,300) | \$ (2,900) | \$ 17,100 | \$ - |

See accompanying independent auditors' report.

OTHER SUPPLEMENTARY INFORMATION

**HAWAII EMPLOYER-UNION HEALTH BENEFITS TRUST FUND
STATE OF HAWAII**

Schedule of Administrative Operating Expenses - Enterprise Fund

Year Ended June 30, 2022

Administrative operating expenses:

| | |
|---|--------------------------------|
| Personal services | \$ 5,032,811 |
| Contracted services | 3,102,258 |
| Repairs and maintenance | 471,839 |
| Occupancy | 215,825 |
| Postage | 156,620 |
| Printing and binding | 133,939 |
| Insurance | 62,923 |
| Telephone | 53,241 |
| Rental of equipment | 24,245 |
| Other | <u>130,328</u> |
| Total administrative operating expenses | <u><u>\$ 9,384,029</u></u> |

See accompanying independent auditors' report.

PART III

INTERNAL CONTROL AND COMPLIANCE SECTION

Independent Auditors' Report 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
Hawaii Employer-Union Health Benefits Trust Fund
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 Hawaii Employer-Union Health Benefits Trust Fund of the State of Hawaii and the Hawaii Employer-Union Health Benefits Trust Fund for Other Post-Employment Benefits (collectively referred to as the EUTF) as of and for the year ended June 30, 2022, and the related notes to financial statements, and have issued our report thereon dated December 7, 2022.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the EUTF's 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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the EUTF's internal control. Accordingly, we do not express an opinion on the effectiveness of the EUTF's 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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that were not identified.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the EUTF's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and contracts, 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*.

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 entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

KKDL Y LLC

Honolulu, Hawaii
December 7, 2022