



# **Hawaii Employer-Union Health Benefits Trust Fund State of Hawaii**

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

June 30, 2021 and 2020

Submitted by  
**THE AUDITOR**  
STATE OF HAWAII

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

Financial Statements and Supplementary Information

June 30, 2021 and 2020

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# **PART I**

## **INTRODUCTION SECTION**

November 29, 2021

The Auditor  
State of Hawaii:

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

We have completed our audits 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 years ended June 30, 2021 and 2020. 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 audits 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 audits of the EUTF's financial statements as of and for the years ended June 30, 2021 and 2020, 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 audits 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 audits 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 years ended June 30, 2021 and 2020, 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 Financial Statements

We have audited the accompanying statements 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 statements 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, 2021 and 2020, and the related statements of revenues, expenses, and changes in net position, and cash flows of the enterprise fund, as well as the statements of changes in fiduciary net position of the OPEB Trust for the years 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.

### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes 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.

### *Auditors' Responsibility*

Our responsibility is to express opinions on these financial statements based on our audits. We conducted our audits 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.



An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

### ***Opinions***

In our opinion, the 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, 2021 and 2020, and the respective changes in financial position and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Emphasis of 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, 2021 and 2020, and the changes in its financial position, or, where applicable, its cash flows for the years 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.

### ***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 identified in the table of contents be presented to supplement the basic financial statements. Such information, 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 audits 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.

*Other Information*

Our audits were conducted for the purpose of forming opinions on the financial statements that collectively comprise the EUTF's basic financial statements. The schedules 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.

The supplementary 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. Such information has been subjected to the auditing procedures applied in the audits 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 November -, 2021, 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  
November 29, 2021

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

Management's Discussion and Analysis

June 30, 2021 and 2020

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 years ended June 30, 2021 and 2020. 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, 2018 and July 1, 2018, respectively, for one-year with two one-year extensions through December 31, 2020 and June 30, 2021, respectively. All extensions have been exercised by the EUTF. The EUTF also entered into contracts for medical, prescription drug, and/or chiropractic for retirees effective January 1, 2021 for two-years with two one-year extensions through December 31, 2024.

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, 2021 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.

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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

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Management's Discussion and Analysis

June 30, 2021 and 2020

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 9 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
  - Statements of net position - These statements summarize the assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position of this enterprise fund.
  - Statements of revenues, expenses, and changes in net position - These statements summarize the financial results of the operations for the years.
  - Statements of cash flows - These statements identify the sources and uses of cash and cash equivalents.
- OPEB Trust - Retiree Healthcare Benefits
  - Statements of fiduciary net position - These statements summarize the assets, liabilities, and net position of this fiduciary fund.
  - Statements of changes in fiduciary net position - These statements summarize the financial results of the operations for the years.

**Financial Highlights**

For the fiscal years ended June 30, 2021 and 2020, contributions to the EUTF were as follows:

	<u>2021</u>	<u>2020</u>
Employer contributions	\$ 1,987,012,473	\$ 1,541,772,836
Employee contributions	213,500,981	218,683,650

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

Management's Discussion and Analysis

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For the fiscal years ended June 30, 2021 and 2020, the EUTF incurred the following:

	<u>2021</u>	<u>2020</u>
Carrier payments - fully-insured plans	\$ 885,709,003	\$ 842,982,546
Benefit claims - self-insured	352,472,543	340,410,387
Medicare Part B reimbursements	99,356,417	92,442,703
Administrative operating expenses	9,327,338	8,929,226

**Financial Analysis**

***Enterprise Fund***

A summary of the EUTF's net position for active employees is shown below as of June 30, 2021 and 2020:

	<u>2021</u>	<u>2020</u>	<u>Change</u>	<u>% Change</u>
<b>Assets:</b>				
Current assets	\$ 265,308,594	\$ 222,202,981	\$ 43,105,613	19.4%
Capital assets, net	5,206,502	295,111	4,911,391	1664.3%
Total assets	<u>270,515,096</u>	<u>222,498,092</u>	<u>48,017,004</u>	21.6%
<b>Deferred outflows of resources</b>	<u>1,832,178</u>	<u>2,015,650</u>	<u>(183,472)</u>	-9.1%
<b>Liabilities:</b>				
Current liabilities	54,227,931	51,649,554	2,578,377	5.0%
Noncurrent liabilities	14,526,965	14,165,202	361,763	2.6%
Total liabilities	<u>68,754,896</u>	<u>65,814,756</u>	<u>2,940,140</u>	4.5%
<b>Deferred inflows of resources</b>	<u>688,655</u>	<u>154,738</u>	<u>533,917</u>	345.0%
<b>Net position:</b>				
Net investment in capital assets	5,206,502	295,111	4,911,391	1664.3%
Unrestricted	<u>197,697,221</u>	<u>158,249,137</u>	<u>39,448,084</u>	24.9%
Total net position	<u>\$ 202,903,723</u>	<u>\$ 158,544,248</u>	<u>\$ 44,359,475</u>	28.0%

**HAWAII EMPLOYER-UNION HEALTH BENEFITS TRUST FUND  
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Management's Discussion and Analysis

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The enterprise fund's total assets increased by \$48.0 million or 21.6% during the fiscal year ended June 30, 2021. The overall increase is due primarily to an increase in net capital assets of \$4.9 million related to the acquisition of a new benefits administration system and an increase in unrestricted net position of \$39.4 million.

The enterprise fund's total liabilities increased by \$2.9 million or 4.5% due primarily to the increases in premiums payable of \$1.9 million and benefit claims payable of \$669,000, offset by a decrease in due to employees, net of \$330,000.

The enterprise fund's total net position increased by \$44.4 million or 28.0% during the fiscal year ended June 30, 2021. This is attributable to \$42.1 million in operating income and \$2.2 million in investment income during the fiscal year ended June 30, 2021.

A summary of the EUTF's net position for active employees is shown below as of June 30, 2020 and 2019:

	<u>2020</u>	<u>2019</u>	<u>Change</u>	<u>% Change</u>
<b>Assets:</b>				
Current assets	\$ 222,202,981	\$ 167,307,145	\$ 54,895,836	32.8%
Capital assets, net	295,111	361,558	(66,447)	-18.4%
Total assets	<u>222,498,092</u>	<u>167,668,703</u>	<u>54,829,389</u>	32.7%
<b>Deferred outflows of resources</b>	<u>2,015,650</u>	<u>2,116,589</u>	<u>(100,939)</u>	-4.8%
<b>Liabilities:</b>				
Current liabilities	51,649,554	50,282,014	1,367,540	2.7%
Noncurrent liabilities	14,165,202	13,619,847	545,355	4.0%
Total liabilities	<u>65,814,756</u>	<u>63,901,861</u>	<u>1,912,895</u>	3.0%
<b>Deferred inflows of resources</b>	<u>154,738</u>	<u>239,260</u>	<u>(84,522)</u>	-35.3%
<b>Net position:</b>				
Net investment in capital assets	295,111	361,558	(66,447)	-18.4%
Unrestricted	<u>158,249,137</u>	<u>105,282,613</u>	<u>52,966,524</u>	50.3%
Total net position	<u>\$ 158,544,248</u>	<u>\$ 105,644,171</u>	<u>\$ 52,900,077</u>	50.1%

The enterprise fund's total assets increased by \$54.8 million or 32.7% during the fiscal year ended June 30, 2020. The overall increase is due primarily to an increase in net position of \$52.9 million.

**HAWAII EMPLOYER-UNION HEALTH BENEFITS TRUST FUND  
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Management's Discussion and Analysis

June 30, 2021 and 2020

The enterprise fund's current liabilities increased by \$1.4 million or 2.7% due primarily to the increases in premiums payable of \$903,000 and benefit claims payable of \$853,000, offset by a decrease in due to employees, net of \$301,000.

The enterprise fund's total net position increased by \$52.9 million or 50.1% during the fiscal year ended June 30, 2020. This is attributable to \$49.0 million in operating income and \$3.9 million in investment income during the fiscal year ended June 30, 2020.

A summary of changes in net position for the years ended June 30, 2021 and 2020, for active employees follows:

	<u>2021</u>	<u>2020</u>	<u>Change</u>	<u>% Change</u>
<b>Revenues:</b>				
Operating revenues	\$ 133,478,019	\$ 146,639,846	\$ (13,161,827)	-9.0%
Nonoperating revenues	2,219,112	3,855,481	(1,636,369)	-42.4%
Total revenues	135,697,131	150,495,327	(14,798,196)	-9.8%
<b>Operating expenses</b>	<u>91,337,656</u>	<u>97,595,250</u>	<u>(6,257,594)</u>	-6.4%
Change in net position	44,359,475	52,900,077	(8,540,602)	-16.1%
<b>Net position at beginning of year</b>	<u>158,544,248</u>	<u>105,644,171</u>	<u>52,900,077</u>	50.1%
<b>Net position at end of year</b>	<u>\$ 202,903,723</u>	<u>\$ 158,544,248</u>	<u>\$ 44,359,475</u>	28.0%

The enterprise fund's total revenues decreased by \$14.8 million, or 9.8%, during the fiscal year ended June 30, 2021. The decrease is primarily attributable to a \$5.3 million decrease in experience refunds, net, a \$7.1 million decrease in premium revenues for self-insured plans, a \$1.6 million decrease in investment income, and a \$600,000 decrease in performance penalties received from carriers.

The enterprise fund's operating expenses decreased by \$6.3 million, or 6.4%, during the fiscal year ended June 30, 2021. The decrease is due primarily to a decrease in benefits claims expense of \$6.6 million, offset by an increase in administrative operating expenses of \$398,000.



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

Management's Discussion and Analysis

June 30, 2021 and 2020

A summary of changes in net position for the years ended June 30, 2020 and 2019, for active employees follows:

	<u>2020</u>	<u>2019</u>	<u>Change</u>	<u>% Change</u>
<b>Revenues:</b>				
Operating revenues	\$ 146,639,846	\$ 100,508,881	\$ 46,130,965	45.9%
Nonoperating revenues	<u>3,855,481</u>	<u>3,305,928</u>	<u>549,553</u>	16.6%
Total revenues	150,495,327	103,814,809	46,680,518	45.0%
<b>Operating expenses</b>	<u>97,595,250</u>	<u>95,084,517</u>	<u>2,510,733</u>	2.6%
Change in net position	52,900,077	8,730,292	44,169,785	505.9%
<b>Net position at beginning of year</b>	<u>105,644,171</u>	<u>96,913,879</u>	<u>8,730,292</u>	9.0%
<b>Net position at end of year</b>	<u><u>\$ 158,544,248</u></u>	<u><u>\$ 105,644,171</u></u>	<u><u>\$ 52,900,077</u></u>	50.1%

The enterprise fund's total revenues increased by \$46.7 million, or 45.0%, during the fiscal year ended June 30, 2020. The increase is primarily attributable to a \$35.4 million increase in experience refunds, net due to lower than expected claims due to the coronavirus disease of 2019 (COVID-19) pandemic under fully-insured with risk sharing health benefit contracts, a \$12.8 million increase in premium revenues for self-insured plans primarily due to an increase in prescription drug premiums, and a \$550,000 increase in investment income, offset by a \$2.0 million decrease in performance penalties received from carriers.

The enterprise fund's operating expenses increased by \$2.5 million, or 2.6%, during the fiscal year ended June 30, 2020. Benefits claims expense for self-insured plans increased by \$1.8 million due to an increase in utilization and administrative operating expenses increased by \$641,000 due primarily to increases in personal and contracted services costs of \$314,000 and \$251,000, respectively.

**HAWAII EMPLOYER-UNION HEALTH BENEFITS TRUST FUND  
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Management's Discussion and Analysis

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***OPEB Trust***

A summary of the OPEB Trust's fiduciary net position as of June 30, 2021 and 2020 follows:

	<u>2021</u>	<u>2020</u>	<u>Change</u>	<u>% Change</u>
<b>Assets:</b>				
Cash and cash equivalents	\$ 959,133,749	\$ 415,650,467	\$ 543,483,282	130.8%
Investments	4,686,513,610	3,552,639,263	1,133,874,347	31.9%
Invested securities lending collateral	8,761,880	18,498,805	(9,736,925)	-52.6%
Receivables:				
Employer contributions	390,000,000	-	390,000,000	100.0%
Rebates and other receivables from insurance companies	54,407,869	48,593,988	5,813,881	12.0%
Experience refunds due from insurance companies	29,471,728	5,925,802	23,545,926	397.3%
Other receivables	13,200	15,453	(2,253)	-14.6%
Deposits	8,165,204	8,165,204	-	0.0%
Total assets	<u>6,136,467,240</u>	<u>4,049,488,982</u>	<u>2,086,978,258</u>	51.5%
<b>Liabilities:</b>				
Premiums payable	27,136,514	26,500,167	636,347	2.4%
Benefit claims payable	21,045,859	19,849,143	1,196,716	6.0%
Securities lending collateral	8,761,880	18,498,805	(9,736,925)	-52.6%
Other payables	2,617,208	2,553,110	64,098	2.5%
Total liabilities	<u>59,561,461</u>	<u>67,401,225</u>	<u>(7,839,764)</u>	-11.6%
<b>Net position restricted for postemployment benefits other than pensions</b>	<u>\$ 6,076,905,779</u>	<u>\$ 3,982,087,757</u>	<u>\$ 2,094,818,022</u>	52.6%

Cash and cash equivalents and investments increased by \$1,677.4 million or 42.3% during the fiscal year ended June 30, 2021 primarily due to the increase in fiduciary net position of \$2,094.8 million.

Employer contributions receivable from State of Hawaii represents contributions of \$390 million in excess of the fiscal year 2021 annual required contribution (ARC) requirement.

Rebates and other receivables from insurance companies increased by \$5.8 million or 12.0% during the fiscal year ended June 30, 2021 primarily due to higher prescription drug rebates.

Experience refunds due from insurance companies increased by \$23.5 million or 397.3% during the fiscal year ended June 30, 2021 primarily due to lower than expected claims due to COVID-19 pandemic under the fully-insured with risk sharing health benefit contracts.

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

Management's Discussion and Analysis

June 30, 2021 and 2020

A summary of the OPEB Trust's fiduciary net position as of June 30, 2020 and 2019 follows:

	<u>2020</u>	<u>2019</u>	<u>Change</u>	<u>% Change</u>
<b>Assets:</b>				
Cash and cash equivalents	\$ 415,650,467	\$ 263,805,816	\$ 151,844,651	57.6%
Investments	3,552,639,263	3,033,026,203	519,613,060	17.1%
Invested securities lending collateral	18,498,805	25,872,169	(7,373,364)	-28.5%
Receivables:				
Rebates and other receivables from insurance companies	48,593,988	41,558,884	7,035,104	16.9%
Experience refunds due from insurance companies	5,925,802	789,858	5,135,944	650.2%
Other receivables	15,453	70,758	(55,305)	-78.2%
Deposits	8,165,204	8,165,204	-	0.0%
Total assets	<u>4,049,488,982</u>	<u>3,373,288,892</u>	<u>676,200,090</u>	20.0%
<b>Liabilities:</b>				
Premiums payable	26,500,167	24,907,386	1,592,781	6.4%
Benefit claims payable	19,849,143	18,065,109	1,784,034	9.9%
Securities lending collateral	18,498,805	25,872,169	(7,373,364)	-28.5%
Other payables	2,553,110	2,164,551	388,559	18.0%
Total liabilities	<u>67,401,225</u>	<u>71,009,215</u>	<u>(3,607,990)</u>	-5.1%
<b>Net position restricted for postemployment benefits other than pensions</b>	<u>\$ 3,982,087,757</u>	<u>\$ 3,302,279,677</u>	<u>\$ 679,808,080</u>	20.6%

Cash and cash equivalents and investments increased by \$671.5 million or 20.4% during the fiscal year ended June 30, 2020 primarily due to the increase in fiduciary net position of \$679.8 million.

Rebates and other receivables from insurance companies increased by \$7.0 million or 16.9% during the fiscal year ended June 30, 2020 primarily due to higher prescription drug rebates.

Experience refunds due from insurance companies increased by \$5.1 million or 650.2% during the fiscal year ended June 30, 2020 primarily due to lower than expected claims due to the COVID-19 pandemic under fully-insured with risk sharing health benefit contracts.

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

Management's Discussion and Analysis

June 30, 2021 and 2020

A summary of the changes in the OPEB Trust's fiduciary net position for the years ended June 30, 2021 and 2020 follows:

	<u>2021</u>	<u>2020</u>	<u>Change</u>	<u>% Change</u>
<b>Additions:</b>				
Employer contributions	\$ 1,532,280,150	\$ 1,112,860,711	\$ 419,419,439	37.7%
Investment earnings, net	1,059,890,526	71,448,607	988,441,919	1383.4%
Other revenues, net	79,473	384,194	(304,721)	-79.3%
Total additions	2,592,250,149	1,184,693,512	1,407,556,637	118.8%
<b>Deductions:</b>				
Benefits claims expense and carrier payments, net of retiree contributions	497,432,127	504,885,432	(7,453,305)	-1.5%
Change in fiduciary net position	2,094,818,022	679,808,080	1,415,009,942	208.1%
<b>Net position restricted for postemployment benefits other than pensions:</b>				
Beginning of year	3,982,087,757	3,302,279,677	679,808,080	20.6%
End of year	<u>\$ 6,076,905,779</u>	<u>\$ 3,982,087,757</u>	<u>\$ 2,094,818,022</u>	52.6%

During the fiscal year ended June 30, 2021, the net position restricted for postemployment benefits other than pensions of the OPEB Trust increased by \$2,094.8 million or 52.6% primarily attributable to employer contributions of \$1,532.3 million and investment earnings, net of \$1,059.9 million, offset by benefits claims expense and carrier payments, net of retiree contributions of \$497.4 million.

Employer contributions increased by \$419.4 million or 37.7% during the fiscal year ended June 30, 2021 primarily due to an additional State contribution of \$390 million in excess of the fiscal year 2021 ARC requirement.

Investment earnings, net increased by \$988.4 million or 1,383.4% primarily due to higher annual money-weighted rate of return, net of investment expenses in fiscal year 2021 versus 2020 of 26.7% and 2.2%, respectively.

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

Management's Discussion and Analysis

June 30, 2021 and 2020

A summary of the changes in the OPEB Trust's fiduciary net position for the years ended June 30, 2020 and 2019 follows:

	<u>2020</u>	<u>2019</u>	<u>Change</u>	<u>% Change</u>
<b>Additions:</b>				
Employer contributions	\$ 1,112,860,711	\$ 1,077,341,812	\$ 35,518,899	3.3%
Investment earnings, net	71,448,607	131,734,223	(60,285,616)	-45.8%
Other revenues, net	384,194	1,670,125	(1,285,931)	-77.0%
Total additions	1,184,693,512	1,210,746,160	(26,052,648)	-2.2%
<b>Deductions:</b>				
Benefits claims expense and carrier payments, net of retiree contributions	504,885,432	487,892,445	16,992,987	3.5%
Change in fiduciary net position	679,808,080	722,853,715	(43,045,635)	-6.0%
<b>Net position restricted for postemployment benefits other than pensions:</b>				
Beginning of year	3,302,279,677	2,579,425,962	722,853,715	28.0%
End of year	<u>\$ 3,982,087,757</u>	<u>\$ 3,302,279,677</u>	<u>\$ 679,808,080</u>	20.6%

During the fiscal year ended June 30, 2020, the net position restricted for postemployment benefits other than pensions of the OPEB Trust increased by \$679.8 million or 20.6% primarily attributable to employer contributions of \$1,112.9 million and investment earnings, net of \$71.4 million, offset by benefit claims expense and carrier payments, net of retiree contributions of \$504.9 million.

Employer contributions increased by \$35.5 million or 3.3% during the fiscal year ended June 30, 2020 primarily due to the provisions of Act 268, which require that employer contributions consist of the normal cost and a payment to amortize the unfunded actuarial accrued liability over a 30-year closed period that are a level percentage of payroll.

Investment earnings, net decreased by \$60.3 million or 45.8% primarily due to lower annual money-weighted rate of return, net of investment expenses in fiscal year 2020 versus 2019 of 2.2% and 4.7%, respectively.

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

Management's Discussion and Analysis

June 30, 2021 and 2020

**Capital Assets**

The EUTF's capital assets consist of office furniture, equipment, computer equipment, and software.

The aggregate net capital assets was \$5.2 million as of June 30, 2021. Depreciation expense totaled \$105,000 for the fiscal year ended June 30, 2021. Construction in progress consists of capitalized costs for the new benefits administration system, which has not been placed in service as of June 30, 2021. There were no significant disposals of capital assets during the fiscal year ended June 30, 2021.

The aggregate net capital assets was \$295,000 as of June 30, 2020. Depreciation expense totaled \$94,000 for the year ended June 30, 2020. There were no significant additions or disposals of capital assets during the fiscal year ended June 30, 2020.

**Economic Factors Affecting Next Fiscal Year**

*Factors Affecting Fiscal Year 2022*

Active employee and retiree medical, prescription drug, dental, vision, and life insurance contracts were implemented effective July 1, 2020 through June 30, 2021, and January 1, 2021 through December 31, 2021, respectively.

*COVID-19 Developments*

The World Health Organization declared COVID-19 a pandemic in March 2020. While COVID-19 could negatively impact the EUTF's operating results, including investment performance and health care costs, the related financial impact and duration cannot be reasonably estimated at this time.

*New Benefits Administration System*

On June 1, 2020, the EUTF contracted with a third party to implement a new benefits administration system, with an expected "go-live" date on February 1, 2022. The benefits administration system is an integral part of the EUTF operations and maintains such information as member demographic, health plan enrollment, and payment history.

**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**

Statements of Net Position – Enterprise Fund

June 30, 2021 and 2020

<b>Assets:</b>	<u>2021</u>	<u>2020</u>
Current assets:		
Cash and cash equivalents	\$ 25,715,790	\$ 36,445,073
Investments	141,532,014	84,914,495
Receivables:		
Experience refunds due from insurance companies	36,150,955	40,112,331
Premiums receivable from State of Hawaii and counties	31,717,603	35,688,617
Rebates and other receivables from insurance companies	24,872,482	19,761,876
Prepaid expenses and other current assets	298,476	259,315
Deposits	5,021,274	5,021,274
Total current assets	<u>265,308,594</u>	<u>222,202,981</u>
Capital assets, net	<u>5,206,502</u>	<u>295,111</u>
Total assets	<u>270,515,096</u>	<u>222,498,092</u>
<b>Deferred Outflows of Resources:</b>		
Related to pension	1,301,600	1,161,946
Related to other postemployment benefits	<u>530,578</u>	<u>853,704</u>
Total deferred outflows of resources	<u>1,832,178</u>	<u>2,015,650</u>
<b>Liabilities:</b>		
Current liabilities:		
Premiums payable	46,410,646	44,531,061
Benefit claims payable	6,020,666	5,351,601
Vouchers and contracts payable	749,029	359,339
Accrued wages and employee benefits payable	429,096	401,893
Due to employees, net	396,613	727,074
Due to State of Hawaii and counties	91,167	164,182
Compensated absences, current portion	<u>130,714</u>	<u>114,404</u>
Total current liabilities	54,227,931	51,649,554
Noncurrent liabilities:		
Net pension liability	7,095,942	6,368,548
Net other postemployment benefits liability	6,962,636	7,499,345
Compensated absences, less current portion	<u>468,387</u>	<u>297,309</u>
Total liabilities	<u>68,754,896</u>	<u>65,814,756</u>
<b>Deferred Inflows of Resources:</b>		
Related to other postemployment benefits	663,024	113,039
Related to pension	<u>25,631</u>	<u>41,699</u>
Total deferred inflows of resources	<u>688,655</u>	<u>154,738</u>
<b>Net Position:</b>		
Net investment in capital assets	5,206,502	295,111
Unrestricted	<u>197,697,221</u>	<u>158,249,137</u>
Total net position	<u>\$ 202,903,723</u>	<u>\$ 158,544,248</u>

See accompanying notes to financial statements.

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

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

Years Ended June 30, 2021 and 2020

	<b>2021</b>	<b>2020</b>
<b>Operating revenues:</b>		
Premium revenues - self-insured	\$ 96,082,006	\$ 103,180,164
Experience refunds, net	36,505,380	41,831,383
Other revenues, net	890,633	1,628,299
Total operating revenues	133,478,019	146,639,846
<b>Operating expenses:</b>		
Benefits claims expense - self-insured	81,540,376	88,133,332
Administrative operating expenses	9,327,338	8,929,226
ACA fees	382,140	435,630
Depreciation	104,902	94,162
Change in incurred but not reported (IBNR) claims	(17,100)	2,900
Total operating expenses	91,337,656	97,595,250
Operating income	42,140,363	49,044,596
<b>Nonoperating revenues:</b>		
Investment income	2,219,112	3,855,481
Change in net position	44,359,475	52,900,077
<b>Net position at beginning of year</b>	158,544,248	105,644,171
<b>Net position at end of year</b>	\$ 202,903,723	\$ 158,544,248

See accompanying notes to financial statements.



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

Statements of Cash Flows – Enterprise Fund

Years Ended June 30, 2021 and 2020

	<b>2021</b>	<b>2020</b>
<b>Cash flows from operating activities:</b>		
Cash received from State of Hawaii, counties and individuals for premiums and benefits payments	\$ 675,114,080	\$ 661,623,230
Cash paid for premiums and benefit payments	(618,574,519)	(626,034,480)
Cash paid to employees	(4,996,665)	(4,954,120)
Cash paid to vendors	(2,857,479)	(3,341,812)
Net cash provided by operating activities	48,685,417	27,292,818
<b>Cash flows used in capital and related financing activities:</b>		
Purchase of computer equipment and software	(5,016,293)	(27,715)
<b>Cash flows from investing activities:</b>		
Purchase of investments	(56,580,189)	(21,812,111)
Interest and dividends received	2,181,782	2,031,531
Net cash used in investing activities	(54,398,407)	(19,780,580)
Net increase (decrease) in cash and cash equivalents	(10,729,283)	7,484,523
<b>Cash and cash equivalents at beginning of year</b>	36,445,073	28,960,550
<b>Cash and cash equivalents at end of year</b>	\$ 25,715,790	\$ 36,445,073

See accompanying notes to financial statements.

(Continued)

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

Statements of Cash Flows – Enterprise Fund (Continued)

Years Ended June 30, 2021 and 2020

	<b>2021</b>	<b>2020</b>
<b>Reconciliation of operating income to net cash provided by operating activities:</b>		
Operating income	\$ 42,140,363	\$ 49,044,596
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	104,902	94,162
Decrease (increase) in experience refunds due from insurance companies	3,961,376	(35,403,721)
Decrease in premiums receivable from State of Hawaii and counties	3,971,014	3,496,445
Decrease (increase) in rebates and other receivables from insurance companies	(5,110,606)	8,083,426
Decrease (increase) in prepaid expenses and other current assets	(39,161)	48,598
Decrease in deferred outflows of resources	183,472	100,939
Increase in premiums payable	1,879,585	902,622
Increase in benefit claims payable	669,065	852,513
Increase in vouchers and contracts payable	389,690	11,078
Increase in accrued wages and employee benefits payable	27,203	7,854
Decrease in amounts due to employees, net	(330,461)	(300,536)
Decrease in amounts due to State of Hawaii and counties	(73,015)	(109,983)
Increase in compensated absences	187,388	56,813
Increase in net pension liability	727,394	482,567
Increase (decrease) in net other postemployment benefits liability	(536,709)	9,967
Increase (decrease) in deferred inflows of resources	533,917	(84,522)
Total adjustments	6,545,054	(21,751,778)
Net cash provided by operating activities	\$ 48,685,417	\$ 27,292,818

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

Statements of Fiduciary Net Position – OPEB Trust

June 30, 2021 and 2020

	<b>2021</b>	<b>2020</b>
<b>Assets:</b>		
Cash and cash equivalents	\$ 959,133,749	\$ 415,650,467
Investments	4,686,513,610	3,552,639,263
Total cash and cash equivalents and investments	5,645,647,359	3,968,289,730
Invested securities lending collateral	8,761,880	18,498,805
Receivables:		
Employer contributions	390,000,000	-
Rebates and other receivables from insurance companies	54,407,869	48,593,988
Experience refunds due from insurance companies	29,471,728	5,925,802
Other receivables	13,200	15,453
Total receivables	473,892,797	54,535,243
Deposits	8,165,204	8,165,204
Total assets	6,136,467,240	4,049,488,982
<b>Liabilities:</b>		
Premiums payable	27,136,514	26,500,167
Benefit claims payable	21,045,859	19,849,143
Securities lending collateral	8,761,880	18,498,805
Investment fees payable	2,119,388	2,175,344
Other payables	497,820	377,766
Total liabilities	59,561,461	67,401,225
<b>Net position restricted for postemployment benefits other than pensions</b>	<b>\$ 6,076,905,779</b>	<b>\$ 3,982,087,757</b>

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

Statements of Changes in Fiduciary Net Position – OPEB Trust

Years Ended June 30, 2021 and 2020

	<b>2021</b>	<b>2020</b>
<b>Additions:</b>		
Employer contributions	\$1,532,280,150	\$1,112,860,711
Investment income:		
From investing activities:		
Net appreciation in the fair value of investments	1,006,119,998	13,785,645
Interest and dividends	62,780,384	65,323,871
	1,068,900,382	79,109,516
Less: investment expenses	9,508,087	8,148,602
Net investment income from investing activities	1,059,392,295	70,960,914
From securities lending activities:		
Securities lending income	638,669	625,090
Securities lending expenses	140,438	137,397
Net investment income from securities lending activities	498,231	487,693
Total net investment income	1,059,890,526	71,448,607
Other revenues, net	79,473	384,194
Total additions	2,592,250,149	1,184,693,512
<b>Deductions:</b>		
Benefits claims expense and carrier payments, net of retiree contributions	497,432,127	504,885,432
Change in fiduciary net position	2,094,818,022	679,808,080
<b>Net position restricted for postemployment benefits other than pensions:</b>		
Beginning of year	3,982,087,757	3,302,279,677
End of year	\$6,076,905,779	\$3,982,087,757

See accompanying notes to financial statements.

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

Notes to Financial Statements

June 30, 2021 and 2020

**(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, 2021 and 2020

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, 2021 and 2020:

	<b>2021</b>	<b>2020</b>
Active employees	65,065	66,433
Retirees	51,216	50,114
Dependents	81,222	82,411
Total	197,503	198,958

There were 9,972 and 10,087 inactives not yet receiving benefits, respectively, as of June 30, 2021 and 2020.

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

Notes to Financial Statements

June 30, 2021 and 2020

**(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, 2021 and 2020

***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 and Depreciation***

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.



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***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, the net difference between projected and actual earnings on pension/OPEB plan investments, 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, 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 8.

***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 years ended June 30, 2021 and 2020:

	<b>Enterprise Fund</b>	
	<b>2021</b>	<b>2020</b>
Balance at beginning of year	\$ 411,713	\$ 354,900
Additions	265,056	232,221
Reductions	(77,668)	(175,408)
Balance at end of year	599,101	411,713
Less current portion	(130,714)	(114,404)
Noncurrent portion	\$ 468,387	\$ 297,309

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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, 2021 and 2020 amounted to approximately \$1,260,000 and \$943,000, respectively.

***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 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 \$6,020,666 and \$5,351,601 for active employees and \$21,045,859 and \$19,849,143 for retirees as of June 30, 2021 and 2020, respectively, 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, 2021 and 2020.

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 statements 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 statements 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 statements 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, 2021 and 2020, the EUTF recognized gains of \$150,580 and \$307,058, respectively, related to active employees, and \$100,387 and \$26,386, respectively, 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.

***Other Postemployment Benefits***

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.

***Reclassifications***

Certain 2020 amounts have been reclassified to conform with the 2021 presentation. Such reclassifications had no effect on the previously reported changes in net position.

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***Recently Issued Accounting Pronouncements***

*GASB Statement No. 84*

During fiscal year 2021, the State implemented GASB Statement No. 84, *Fiduciary Activities*. The objective of this statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. This statement did not have any effect on the EUTF's financial statements.

*GASB Statement No. 87*

The GASB issued Statement No. 87, *Leases*. The objective of this statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This statement requires 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 provisions of the contract. The requirements of this statement are effective for reporting periods beginning after June 15, 2021. The EUTF is currently evaluating the impact that this statement will have on its financial statements.

*GASB Statement No. 92*

The GASB issued Statement No. 92, *Omnibus 2020*. The 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. The requirements of this statement are effective at multiple periods depending on when certain statements are implemented, postponed by GASB Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*, for one year. The EUTF is currently evaluating the impact that this statement will have on its financial statements.

*GASB Statement No. 93*

The GASB issued 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 (IBOR). The removal of London Interbank Offered Rate (LIBOR) as an appropriate benchmark interest rate is effective for reporting periods ending after December 31, 2021. All other requirements of this statement are effective for reporting periods beginning after June 15, 2020, postponed by GASB Statement No. 95 for one year. The EUTF is currently evaluating the impact that this statement will have on its financial statements.

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*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.

**(3) Cash and Cash Equivalents and Investments**

As of June 30, 2021 and 2020, the EUTF's cash and cash equivalents and investments are reported in the financial statements as follows:

	<b>June 30, 2021</b>		
	<b>Enterprise Fund</b>	<b>OPEB Trust</b>	<b>Total</b>
Cash and cash equivalents	\$ 25,715,790	\$ 959,133,749	\$ 984,849,539
Investments	141,532,014	4,686,513,610	4,828,045,624
Total	\$ 167,247,804	\$ 5,645,647,359	\$ 5,812,895,163
Invested securities lending collateral	\$ -	\$ 8,761,880	\$ 8,761,880
	<b>June 30, 2020</b>		
	<b>Enterprise Fund</b>	<b>OPEB Trust</b>	<b>Total</b>
Cash and cash equivalents	\$ 36,445,073	\$ 415,650,467	\$ 452,095,540
Investments	84,914,495	3,552,639,263	3,637,553,758
Total	\$ 121,359,568	\$ 3,968,289,730	\$ 4,089,649,298
Invested securities lending collateral	\$ -	\$ 18,498,805	\$ 18,498,805

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***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, 2021 and 2020, the carrying amount of these accounts were \$984,849,539 and \$452,095,540, respectively, and the related bank and money market balances were \$985,337,730 and \$452,681,675, respectively.

***Investments***

*EUTF Investment Pool*

The EUTF's investment pool, at fair value, consists of the following investments as of June 30, 2021 and 2020:

	<u>2021</u>	<u>2020</u>
Equity securities:		
Commingled funds - domestic	\$ 1,292,276,876	\$ 814,557,364
Commingled funds - international	781,532,592	703,634,690
Common stocks - domestic	454,707,471	382,633,192
Common stocks - international	22,857,706	14,350,957
Exchange traded funds - domestic	-	37,663,644
Exchange traded funds - international	-	27,518,973
Fixed income securities:		
U.S. treasury and government agency bonds	332,623,643	240,624,802
Commingled funds - domestic inflation	268,079,346	184,645,278
Mutual fund - domestic	234,740,630	156,863,645
Commingled funds - domestic core	-	109,944,355
Alternative investments	1,035,332,067	589,909,835
Real estate	406,476,663	375,657,105
Derivatives - equity options	(581,370)	(450,082)
Total investments	<u>\$ 4,828,045,624</u>	<u>\$ 3,637,553,758</u>

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*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, 2021 and 2020 as follows:

	<b>2021</b>	<b>2020</b>
Money market fund	\$ 8,761,880	\$ 18,498,805

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.

International equity - Northern Trust Common All Country World Index (ACWI) 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.

Domestic core fixed income - BlackRock U.S. Debt Index Fund B - primary objective is to provide investment results that correspond generally to the price and yield performance of Barclays US Aggregate Bond index.

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.



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*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 providing sufficient investment appreciation to meet the current and future OPEB 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;
  - (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

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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;
- (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;

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- (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;
- (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,

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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
- (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.

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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%

To prudently transition to the long-term policy mix an evolving policy plan was approved by the Board. As of June 30, 2021 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, 2021 is as follows:

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

*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.

<b>Asset Classification</b>	<b>Range</b>
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 years ended June 30, 2021 and 2020, the annual money-weighted rate of return on investments, net of investment expenses, for the OPEB Trust were 26.67% and 2.21%, respectively. 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, 2021 and 2020:

	<b>June 30, 2021</b>		
	<b>Total</b>	<b>Fair Value Measurements Using</b>	
		<b>Quoted Prices in Active Markets (Level 1)</b>	<b>Significant Other Observable Inputs (Level 2)</b>
Investments by fair value level:			
Equity securities:			
Common stocks - domestic	\$ 454,707,471	\$ 454,707,471	\$ -
Common stocks - international	22,857,706	22,857,706	-
Fixed income securities:			
U.S. treasury and government agency bonds	332,623,643	-	332,623,643
Mutual fund - domestic	234,740,630	234,740,630	-
Derivatives - equity options	(581,370)	-	(581,370)
Total investments measured by fair value levels	<u>1,044,348,080</u>	<u>\$ 712,305,807</u>	<u>\$ 332,042,273</u>
Investments measured at net asset value (NAV):			
Commingled funds:			
Domestic equity	1,292,276,876		
International equity	781,532,592		
Domestic inflation - linked fixed income	268,079,346		
Alternative investments	1,035,332,067		
Real estate	<u>406,476,663</u>		
Total investments measured at NAV	<u>3,783,697,544</u>		
Total investments measured at fair value	<u>\$ 4,828,045,624</u>		
Invested securities lending collateral - measured at NAV - money market fund	<u>\$ 8,761,880</u>		

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	<b>June 30, 2020</b>		
	<b>Total</b>	<b>Fair Value Measurements Using</b>	
		<b>Quoted Prices in Active Markets (Level 1)</b>	<b>Significant Other Observable Inputs (Level 2)</b>
Investments by fair value level:			
Equity securities:			
Common stocks - domestic	\$ 382,633,192	\$ 382,633,192	\$ -
Common stocks - international	14,350,957	14,350,957	-
Exchange traded funds - domestic	37,663,644	37,663,644	-
Exchange traded funds - international	27,518,973	27,518,973	-
Fixed income securities:			
Mutual fund - domestic	156,863,645	156,863,645	-
U.S. treasury and government agency bonds	240,624,802	-	240,624,802
Derivatives - equity options	(450,082)	-	(450,082)
Total investments measured by fair value levels	859,205,131	\$ 619,030,411	\$ 240,174,720
Investments measured at net asset value (NAV):			
Commingled funds:			
Domestic equity	814,557,364		
International equity	703,634,690		
Domestic inflation - linked fixed income	184,645,278		
Domestic core fixed income	109,944,355		
Alternative investments	589,909,835		
Real estate	375,657,105		
Total investments measured at NAV	2,778,348,627		
Total investments measured at fair value	\$ 3,637,553,758		
Invested securities lending collateral - measured at NAV - money market fund	\$ 18,498,805		

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Investments in common stocks, exchange traded funds, 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 net asset value (NAV) and to transact at that price.

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, 2021 and 2020. 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, 2021.

<b>Investments Measured at NAV</b>	<b>Fair Value June 30, 2021</b>	<b>Fair Value June 30, 2020</b>	<b>Unfunded Commitments</b>	<b>Redemption Frequency</b>	<b>Redemption Notice Period</b>
Commingled funds:					
Domestic equity	\$ 1,292,276,876	\$ 814,557,364	\$ -	Daily/ Monthly	Same as trade date/ Trade date - 2
International equity	781,532,592	703,634,690	-	Daily	Same as trade date
Domestic inflation - linked fixed income	268,079,346	184,645,278	-	Daily	Trade date - 2
Domestic core fixed income	-	109,944,355	-	Daily	Trade date - 2
Alternative investments	1,035,332,067	589,909,835	525,869,258	Monthly/ Quarterly/ Annually	Various up to trade date - 90
Real estate	406,476,663	375,657,105	29,133,285	Quarterly	Various up to trade date - 90
<hr/>					
Total investments measured at NAV	<u>\$ 3,783,697,544</u>	<u>\$ 2,778,348,627</u>	<u>\$ 555,002,543</u>		
Invested securities lending collateral - money market mutual fund - measured at NAV	<u>\$ 8,761,880</u>	<u>\$ 18,498,805</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, 2021:

<b>Debt Security Type</b>	<b>Fair Value</b>	<b>Effective Weighted Duration (Years)</b>	<b>Percent of Debt Securities</b>
Fixed income securities:			
U.S. treasury bonds	\$ 330,532,896	18.33	39.56%
Commingled funds - domestic inflation	268,079,346	7.09	32.09%
Mutual fund - domestic	234,740,630	2.80	28.10%
U.S. government agency bonds	2,090,747	9.79	0.25%
Total	<u>\$ 835,443,619</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.

Credit risk is measured by the assignment of a rating by a nationally recognized statistical rating organization, Standard and Poor's. At June 30, 2021, 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.

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*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, exchange traded funds, 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, 2021 and 2020, the EUTF had deposits in excess of Federal Deposit Insurance Corporation (FDIC) 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, which are not subjected to the GASB Statement No. 40 disclosure requirements, 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, common stocks, and exchange traded funds.

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The following table summarizes the EUTF's exposure to foreign currency risk in U.S. dollars as of June 30, 2021:

<b>Currencies</b>	<b>Cash and Cash Equivalents</b>	<b>Derivatives</b>	<b>Total</b>
Australian dollar	\$ 31,642	\$ (43,273)	\$ (11,631)
British pound sterling	(177,166)	9,156,314	8,979,148
Canadian dollar	(7,413)	6,666,426	6,659,013
Euro	(307,250)	4,666,532	4,359,282
Hong Kong dollar	1,431	-	1,431
Japanese yen	74,627	60,682,656	60,757,283
Swiss franc	26,689	(5,574)	21,115
	<u>\$ (357,440)</u>	<u>\$ 81,123,081</u>	<u>\$ 80,765,641</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.

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At June 30, 2021 and 2020, the total securities lent for collateral amounted to \$126,170,586 and \$223,491,829, respectively. At June 30, 2021 and 2020, the total cash and noncash collateral received amounted to \$8,761,880 and \$18,498,805, and \$120,985,204 and \$210,777,568, respectively.

Four of the five commingled funds held in the EUTF investment pool participate in securities lending.

*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 the net appreciation in fair value of investments in the accompanying statements 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, 2021, the net notional value of futures contracts was \$409,059,615.

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, 2021 with the related maturity information:

<u>Derivatives (by type)</u>	<u>Notional Value</u>	<u>Market Value</u>	<u>Maturity (range from)</u>
<b>Futures:</b>			
Equity futures long	\$ 247,564,688	\$ -	.2 year
Commodity futures long	118,285,558	-	.1 to .5 year
Foreign exchange contracts long	56,431,375	-	.2 year
Foreign exchange contracts short	(34,339,188)	-	.2 year
Fixed income futures long	56,034,688	-	.2 year
Fixed income futures short	(34,917,506)	-	.2 year
Futures total	409,059,615	-	
<b>Options:</b>			
Equity options written	-	(2,705,715)	under .1 year
Grand total	<u>\$ 409,059,615</u>	<u>\$ (2,705,715)</u>	

In addition, the EUTF holds investments in 27 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) Kepos Alternative Risk Premia Fund, LP managed by Kepos, and 3) ASB Allegiance Real Estate Fund, LP managed by ASB Allegiance. 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. 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. ASB Allegiance invests in core real estate properties and uses a strategy concentrating investments in the most attractive major metropolitan urban submarkets with strong economies, excellent mass-transit access and high barriers to entry. 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 years ended June 30, 2021 and 2020 was as follows:

	<b>Balance at July 1, 2020</b>	<b>Additions</b>	<b>Disposals</b>	<b>Balance at June 30, 2021</b>
Office furniture and equipment	\$ 982,870	\$ -	\$ -	\$ 982,870
Computer equipment and software	9,627,611	24,113	-	9,651,724
Less accumulated depreciation	(10,315,370)	(104,902)	-	(10,420,272)
Construction in progress	-	4,992,180	-	4,992,180
Capital assets, net	<u>\$ 295,111</u>	<u>\$ 4,911,391</u>	<u>\$ -</u>	<u>\$ 5,206,502</u>

	<b>Balance at July 1, 2019</b>	<b>Additions</b>	<b>Disposals</b>	<b>Balance at June 30, 2020</b>
Office furniture and equipment	\$ 982,870	\$ -	\$ -	\$ 982,870
Computer equipment and software	9,599,896	27,715	-	9,627,611
Less accumulated depreciation	(10,221,208)	(94,162)	-	(10,315,370)
Capital assets, net	<u>\$ 361,558</u>	<u>\$ (66,447)</u>	<u>\$ -</u>	<u>\$ 295,111</u>

**(5) 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.

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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.

The following is a summary of the insurance carriers and TPA and the funding arrangements for the medical, 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)

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***Medical***

*Humana - Fully-insured*

- Medical Advantage Plan - EUTF Medicare retirees (effective January 1, 2021)

***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

***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, 2021 and 2020:

	<u>2021</u>		<u>2020</u>	
	<u>Active Employees</u>	<u>Retirees</u>	<u>Active Employees</u>	<u>Retirees</u>
Experience refunds due from insurance companies:				
HDS	\$ 2,238,217	\$ 5,330,798	\$ 4,890,941	\$ -
HMSA	33,736,764	23,788,096	34,661,393	5,864,744
VSP	175,974	352,834	559,997	61,058
	<u>\$ 36,150,955</u>	<u>\$ 29,471,728</u>	<u>\$ 40,112,331</u>	<u>\$ 5,925,802</u>
Rebates and other receivables from insurance companies:				
Rebates receivable from CVS	\$ 24,678,417	\$ 7,884,583	\$ 17,008,920	\$ 4,191,624
Rebates and coverage gap discount receivable from Silverscript	-	34,548,662	-	29,880,891
Other receivables from CVS	-	11,854,583	2,543,129	14,443,624
Other receivables from HMSA	74,080	120,041	92,291	61,527
Other receivables from Kaiser	42,373	-	48,073	3,800
Other receivables from other carriers	77,612	-	69,463	12,522
	<u>\$ 24,872,482</u>	<u>\$ 54,407,869</u>	<u>\$ 19,761,876</u>	<u>\$ 48,593,988</u>

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	<u>2021</u>		<u>2020</u>	
	<u>Active Employees</u>	<u>Retirees</u>	<u>Active Employees</u>	<u>Retirees</u>
Premiums payable:				
HDS	\$ 3,228,567	\$ 2,843,819	\$ 3,138,804	\$ 2,685,811
HDS - HSTA VB	344,810	172,893	361,444	169,658
HMSA	26,076,179	17,446,173	24,877,870	16,908,345
HMSA - HSTA VB	2,982,293	649,235	3,129,863	642,156
Humana	-	1,579	-	-
Kaiser Hawaii	12,088,164	5,348,387	11,369,342	5,441,751
Kaiser Hawaii - HSTA VB	936,444	144,424	905,976	146,954
Minnesota Life	243,228	178,454	246,689	175,005
Minnesota Life - HSTA VB	20,785	9,505	22,578	9,637
VSP	447,366	325,694	434,018	304,959
VSP - HSTA VB	42,810	16,351	44,477	15,891
	<u>\$ 46,410,646</u>	<u>\$ 27,136,514</u>	<u>\$ 44,531,061</u>	<u>\$ 26,500,167</u>

**(6) 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.

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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 two years ended June 30, 2021:

	<b>Active Employees</b>	<b>Retirees</b>	<b>Total</b>
Balance at July 1, 2019	\$ 4,499,088	\$ 18,065,109	\$ 22,564,197
Claims and changes in estimates	113,556,044	221,802,270	335,358,314
Contractor processing administrative fees	935,691	4,116,382	5,052,073
Paid (including rebates) during the year	<u>(113,639,222)</u>	<u>(224,134,618)</u>	<u>(337,773,840)</u>
Balance at June 30, 2020	5,351,601	19,849,143	25,200,744
Claims and changes in estimates	120,032,063	227,303,682	347,335,745
Contractor processing administrative fees	924,546	4,212,252	5,136,798
Paid (including rebates) during the year	<u>(120,287,544)</u>	<u>(230,319,218)</u>	<u>(350,606,762)</u>
Balance at June 30, 2021	<u>\$ 6,020,666</u>	<u>\$ 21,045,859</u>	<u>\$ 27,066,525</u>

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Below is a summary of benefit claims payable by TPA at June 30, 2021 and 2020:

	<b>2021</b>		
	<b>Active Employees</b>	<b>Retirees</b>	<b>Total</b>
Benefit claims - CVS	\$ 5,672,914	\$ 3,855,083	\$ 9,527,997
Benefit claims - HMA	26,475	369	26,844
Benefit claims - Silverscript	-	16,479,404	16,479,404
IBNR for self-insured plans	245,500	357,300	602,800
Admin fee - CVS	69,621	10,504	80,125
Admin fee - HMA	6,156	-	6,156
Admin fee - Silverscript	-	343,199	343,199
	\$ 6,020,666	\$ 21,045,859	\$ 27,066,525
	<b>2020</b>		
	<b>Active Employees</b>	<b>Retirees</b>	<b>Total</b>
Benefit claims - CVS	\$ 4,977,833	\$ 3,735,265	\$ 8,713,098
Benefit claims - HMA	33,657	369	34,026
Benefit claims - Silverscript	-	15,427,766	15,427,766
IBNR for self-insured plans	262,600	338,700	601,300
Admin fee - CVS	70,770	10,606	81,376
Admin fee - HMA	6,741	-	6,741
Admin fee - Silverscript	-	336,437	336,437
	\$ 5,351,601	\$ 19,849,143	\$ 25,200,744

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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, 2021 and 2020 are as follows:

	<b>Active Employees</b>	<b>Retirees</b>	<b>Total</b>
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
	<b>\$ 5,021,274</b>	<b>\$ 8,165,204</b>	<b>\$ 13,186,478</b>

**(7) 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 years ended June 30, 2021 and 2020, are as follows:

	<b>2021</b>		
	<b>Active Employees</b>	<b>Retirees</b>	<b>Total</b>
Employer contributions:			
State of Hawaii	\$ 333,755,531	\$ 1,232,456,000	\$ 1,566,211,531
City & County of Honolulu	66,656,482	190,924,000	257,580,482
County of Hawaii	20,070,197	38,334,627	58,404,824
County of Maui	19,698,375	41,984,000	61,682,375
County of Kauai, including Department of Water Supply	9,341,622	18,919,000	28,260,622
Board of Water Supply - Honolulu	4,020,468	8,452,000	12,472,468
County of Hawaii - Department of Water Supply	1,189,648	1,210,523	2,400,171
	454,732,323	1,532,280,150	1,987,012,473
Active employee and retiree contributions	206,905,461	6,595,520	213,500,981
	<b>\$ 661,637,784</b>	<b>\$ 1,538,875,670</b>	<b>\$ 2,200,513,454</b>



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	<b>2020</b>		
	<b>Active Employees</b>	<b>Retirees</b>	<b>Total</b>
Employer contributions:			
State of Hawaii	\$ 315,924,218	\$ 814,659,000	\$ 1,130,583,218
City & County of Honolulu	62,311,978	184,467,000	246,778,978
County of Hawaii	18,804,546	41,464,000	60,268,546
County of Maui	18,346,780	43,849,711	62,196,491
County of Kauai, including Department of Water Supply	8,686,326	18,279,000	26,965,326
Board of Water Supply - Honolulu	3,732,438	8,165,000	11,897,438
County of Hawaii - Department of Water Supply	1,105,839	1,977,000	3,082,839
	428,912,125	1,112,860,711	1,541,772,836
Active employee and retiree contributions	212,718,694	5,964,956	218,683,650
	\$ 641,630,819	\$ 1,118,825,667	\$ 1,760,456,486

The required premium contributions for active employees include both contributions for self-insured and fully-insured plans. The self-insured contributions amounting to \$96,082,006 and \$103,180,164 for the years ended June 30, 2021 and 2020, respectively, are reported as operating revenues in the accompanying statements 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 statements of net position of the enterprise fund. Contributions related to the fully-insured plans for the years ended June 30, 2021 and 2020 reported in the enterprise fund amounted to \$565,555,778 and \$538,450,655, respectively.

OPEB Trust annual required contributions for retirees are reported as additions in the accompanying statements of changes in fiduciary net position – OPEB Trust and amounted to \$1,532,280,150 and \$1,112,860,711, respectively, for the years ended June 30, 2021 and 2020. Retiree contributions reduce benefit claims expense and carrier payments in the accompanying statements of changes in fiduciary net position – OPEB Trust and amounted to \$6,595,520 and \$5,964,956, respectively, for the years ended June 30, 2021 and 2020.

For the years ended June 30, 2021 and 2020, the OPEB Trust annual required contribution rate for the State of Hawaii, which includes the EUTF, was 36.0% and 24.7% of covered-employee payroll, respectively.

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**(8) 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.

*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, disability, and death 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.

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*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.

*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 surviving 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.

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*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.

*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 surviving 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.

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*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.

***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.

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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 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.

***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 multiplied by 120%, 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 three 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 years 2021 and 2020 were 41.0% and 36.0%, respectively, for police officers and firefighters, and 24.0% and 22.0%, respectively, for all other employees. Contributions to the pension plan from the EUTF were \$758,515 and \$651,101 for the fiscal years ended June 30, 2021 and 2020, respectively.

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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).

At June 30, 2021 and 2020, the EUTF reported a net pension liability of \$7,095,942 and \$6,368,548, respectively, for its proportionate share of the State's net pension liability. The net pension liability was measured as of June 30, 2020 and 2019, and the total pension liability used to calculate the net pension liability was determined by actuarial valuations as of those dates.

At June 30, 2021 and 2020, the EUTF's proportionate share of the State's (primary government) net pension liability was .09%.

There were no changes in actuarial assumptions during the fiscal year ended June 30, 2020. There were no changes between the measurement date, June 30, 2020, and the reporting date, June 30, 2021, that are expected to have a significant effect on the EUTF's proportionate share of the State's net pension liability.

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For the years ended June 30, 2021 and 2020, the EUTF recognized pension expense of \$1,330,187 and \$1,255,827, respectively. At June 30, 2021 and 2020, the EUTF reported deferred outflows of resources and deferred inflows of resources related to pension from the following sources:

	<b>Deferred Outflows of Resources</b>	
	<b>2021</b>	<b>2020</b>
Contributions subsequent to the measurement date	\$ 758,515	\$ 651,101
Net difference between projected and actual earnings on pension plan investments	394,809	41,236
Net differences between expected and actual experience	91,529	120,109
Changes in proportion and differences between contributions and proportionate share of contributions	46,908	12,293
Changes in assumptions	9,839	337,207
	\$ 1,301,600	\$ 1,161,946

	<b>Deferred Inflows of Resources</b>	
	<b>2021</b>	<b>2020</b>
Changes in proportion and differences between contributions and proportionate share of contributions	\$ 25,505	\$ 41,559
Changes in assumptions	126	140
	\$ 25,631	\$ 41,699

The \$758,515 reported as deferred outflows of resources related to pension at June 30, 2021 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, 2022.

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension at June 30, 2021 will be recognized in pension expense as follows:

**Year Ending June 30:**

2022	\$	208,774
2023		106,714
2024		115,245
2025		84,921
2026		1,800
		\$ 517,454



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***Actuarial Assumptions***

The total pension liability in the June 30, 2020 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 generational projections using the BB projection table for 2019 and with adjustments based on employee group type. Pre-retirement mortality rates are based on multiples of the RP-2014 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.

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

<b>Strategic Allocation (Risk-based Classes)</b>	<b>Target Allocation</b>	<b>Long-term Expected Real Rate of Return</b>
Broad growth	63.00%	7.90%
Diversifying strategies	37.00%	3.70%
	<u>100.00%</u>	

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*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:

	<b>1% Decrease (6.00%)</b>	<b>Discount Rate (7.00%)</b>	<b>1% Increase (8.00%)</b>
EUTF's proportionate share of the State's net pension liability	\$ 9,115,701	\$ 7,095,942	\$ 5,430,841

***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.ehawaii.gov/resources/financials>.

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***Payables to Pension Plan***

The State's employer contributions payable to the ERS was paid by June 30, 2021. Excess payments will be applied to amounts due in fiscal year 2022.

***Postemployment Health Care and Life Insurance Benefits***

*Plan Description*

The EUTF provides a single delivery system of health benefits for 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.

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, 2020, the State's plan members covered by benefit terms consisted of the following:

Inactive plan members or beneficiaries currently receiving benefits	37,767
Inactive plan members entitled to but not yet receiving benefits	7,576
Active plan members	<u>50,831</u>
Total plan members	<u><u>96,174</u></u>

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***Contributions***

Contributions are governed by Chapter 87A, HRS and may be amended through legislation. Contributions to the OPEB plan from the EUTF were \$352,067 and \$724,203 for the fiscal years ended June 30, 2021 and 2020, respectively. 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, 2021 and 2020, the EUTF reported a net OPEB liability of \$6,962,636 and \$7,499,345, respectively, for its proportionate share of the State's net OPEB liability. The net OPEB liability was measured as of July 1, 2020 and 2019, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of those dates.

At June 30, 2021 and 2020, the EUTF's proportionate share of the State's (primary government) net OPEB liability was .11%.

There were no changes between the measurement date, July 1, 2020, and the reporting date, June 30, 2021, that are expected to have a significant effect on the EUTF's proportionate share of the State's net OPEB liability.

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For the years ended June 30, 2021 and 2020, the EUTF recognized OPEB expense of \$688,469 and \$628,429, respectively. At June 30, 2021 and 2020, the EUTF reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	<b>Deferred Outflows of Resources</b>	
	<b>2021</b>	<b>2020</b>
Contributions subsequent to the measurement date	\$ 352,067	\$ 724,203
Changes in assumptions	82,563	110,050
Net difference between projected and actual earnings on OPEB plan investments	95,948	19,451
	\$ 530,578	\$ 853,704

  

	<b>Deferred Inflows of Resources</b>	
	<b>2021</b>	<b>2020</b>
Differences between expected and actual experience	\$ 618,994	\$ 113,039
Changes in assumptions	44,030	-
	\$ 663,024	\$ 113,039

The \$352,067 reported as deferred outflows of resources related to OPEB at June 30, 2021 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, 2022.

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB at June 30, 2021 will be recognized in OPEB expense as follows:

**Year Ending June 30:**

2022	\$ (97,209)
2023	(93,613)
2024	(92,695)
2025	(87,168)
2026	(113,828)
	\$ (484,513)

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***Actuarial Assumptions***

The total OPEB liability in the July 1, 2020 actuarial valuation was determined using the following actuarial assumptions adopted by the EUTF 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%, net of investment expenses, including inflation
Healthcare cost trend rates:	
PPO*	Initial rate of 7.50%; declining to a rate of 4.70% after 13 years
HMO*	Initial rate of 7.50%; declining to a rate of 4.70% after 13 years
Part B & Base Monthly Contribution (BMC)	Initial rate of 5.00%; declining to a rate of 4.70% after 10 years
Dental	Initial rate of 5.00% for first year, followed by 4.00% for all future years
Vision	Initial rate of 0.00% for first year, followed by 2.50% for all future years
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:

<b>Asset Class</b>	<b>Target Allocation</b>	<b>Long-Term Expected Real Rate of Return</b>
Non-U.S. equity	16.00%	7.72%
U.S. equity	14.00%	6.23%
Core real estate	10.00%	5.98%
Private equity	10.00%	9.66%
Trend following	8.00%	2.12%
U.S. microcap	6.00%	7.85%
Global options	6.00%	4.65%
Private credit	6.00%	5.50%
Long treasuries	6.00%	0.86%
Reinsurance	5.00%	4.34%
Alternative risk premia	5.00%	1.56%
TIPS	5.00%	0.11%
Core bonds	3.00%	0.08%
	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. 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 fiscal year ending June 30, 2021, and instead limit their contribution amounts to the OPEB benefits due. This temporary Act 268 suspension would not derail the EUTF's long-term funding progress. Even if Act 268 is suspended through fiscal year ending June 30, 2025, the OPEB plan's fiduciary net position is expected to be available to make all projected future benefit payments of current plan members. Act 229, SLH 2021 suspends the contribution requirement for fiscal years 2022 and 2023. The State made its full annual required contribution for the fiscal year ended June 30, 2021, and intends to make contributions for the fiscal years 2022 and 2023. 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.

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*Assumption Changes*

Assumption changes during the current measurement period include updating the trend rates to reflect the repeal of the excise tax of “Cadillac Tax” on high-cost employer health plans. The assumption changes had the effect of decreasing the total OPEB liability at June 30, 2021 by \$52,823.

*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, 2020.

	<b>Total OPEB Liability</b>	<b>Plan Fiduciary Net Position</b>	<b>Net OPEB Liability</b>
Beginning balance	\$ 9,032,570	\$ 1,533,225	\$ 7,499,345
Service cost	219,437	-	219,437
Interest on the total OPEB liability	704,668	-	704,668
Difference between expected and actual experience	(645,151)	-	(645,151)
Changes in assumptions	(52,823)	-	(52,823)
Employer contributions	-	724,203	(724,203)
Net investment income	-	38,667	(38,667)
Benefit payments	(324,085)	(324,085)	-
Administrative expense	-	(273)	273
Other	-	243	(243)
Net changes	(97,954)	438,755	(536,709)
Ending balance	\$ 8,934,616	\$ 1,971,980	\$ 6,962,636



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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:

	<b>1% Decrease (6.00%)</b>	<b>Discount Rate (7.00%)</b>	<b>1% Increase (8.00%)</b>
EUTF's proportionate share of the State's net OPEB liability	\$ 8,354,641	\$ 6,962,636	\$ 5,865,742

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:

	<b>1% Decrease</b>	<b>Healthcare Cost Trend Rate</b>	<b>1% Increase</b>
EUTF's proportionate share of the State's net OPEB liability	\$ 5,816,121	\$ 6,962,636	\$ 8,445,639

***Payables to the OPEB Plan***

The State's employer contributions payable to the EUTF was \$390,000,000 as of June 30, 2021.

***Deferred Compensation***

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.

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**(9) Commitments and Contingencies**

***Litigation***

*Dannenberg, 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.

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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. The trial court proceedings recommenced in August 2017 and the case was assigned to the Honorable Jeffrey Crabtree for trial.

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. The parties are continuing efforts to conduct and complete discovery in preparation for trial.

The Defendants intend to vigorously defend against the plaintiffs' claims in this lawsuit. Trial commenced on November 3, 2021. 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 years ended June 30, 2021 and 2020. Management believes that an unfavorable outcome, if any, will not have a material adverse effect on the EUTF's financial position.

*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.

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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.

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, 2021 and 2020. Management believes that an unfavorable outcome, if any, will not have a material adverse effect on the EUTF's financial position.

***Contract Commitments***

The EUTF is committed under contract awarded for consulting services and project management assistance in support of a new benefits administration system. This commitment amounted to approximately \$4.9 million at June 30, 2021.

**(10) 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.

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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 \$5,000,000 with respect to general liability claims, and the first \$500,000 of losses due to crime and \$1,000,000 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 for wrongful acts with a \$12,500,000 aggregate limit for products/completed operations, error and omission, and employee benefits liability, \$50,000,000 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 2021 and 2020, the EUTF paid \$46,373 and \$36,982, respectively 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.

**(11) 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.

At June 30, 2021, the future minimum rental commitment under the noncancelable operating lease through 2023 is as follows:

<b>Year Ending June 30:</b>	
2022	\$ 461,000
2023	349,000
	<hr/>
	\$ 810,000
	<hr/> <hr/>

Minimum rent payments are recognized on a straight-line basis over the term of the lease. The rent expense for the year ended June 30, 2021 and 2020 was \$471,876 and \$462,760, respectively.

**HAWAII EMPLOYER-UNION HEALTH BENEFITS TRUST FUND  
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**(12) OPEB Trust by Employer**

The fair value of the OPEB Trust by employer as of June 30, 2021 and 2020, respectively, are as follows:

	<b>2021</b>		
	<b>Long-term Investment Portfolio</b>	<b>Short-term Liquidity/ Operating Asset Pool</b>	<b>Net Position Restricted for Postemployment Benefits Other than Pensions</b>
State of Hawaii	\$ 3,732,999,638	\$ 242,404,309	\$ 3,975,403,947
City & County of Honolulu	980,961,340	52,803,551	1,033,764,891
County of Hawaii	277,196,080	12,613,640	289,809,720
County of Maui	403,741,062	12,760,079	416,501,141
County of Kauai	191,385,729	6,070,947	197,456,676
County of Kauai - Department of Water Supply	14,055,124	401,086	14,456,210
Board of Water Supply - Honolulu	115,272,896	3,416,754	118,689,650
County of Hawaii - Department of Water Supply	25,895,912	757,723	26,653,635
Honolulu Authority for Rapid Transportation	3,977,043	192,866	4,169,909
	<u>\$ 5,745,484,824</u>	<u>\$ 331,420,955</u>	<u>\$ 6,076,905,779</u>
	<b>2020</b>		
	<b>Long-term Investment Portfolio</b>	<b>Short-term Liquidity/ Operating Asset Pool</b>	<b>Net Position Restricted for Postemployment Benefits Other than Pensions</b>
State of Hawaii	\$ 2,275,680,155	\$ 180,036,408	\$ 2,455,716,563
City & County of Honolulu	692,656,748	39,402,907	732,059,655
County of Hawaii	204,070,519	9,405,227	213,475,746
County of Maui	297,095,396	9,379,873	306,475,269
County of Kauai	143,992,132	4,474,549	148,466,681
County of Kauai - Department of Water Supply	10,629,042	296,193	10,925,235
Board of Water Supply - Honolulu	88,830,548	2,553,365	91,383,913
County of Hawaii - Department of Water Supply	20,280,056	563,237	20,843,293
Honolulu Authority for Rapid Transportation	2,600,019	141,383	2,741,402
	<u>\$ 3,735,834,615</u>	<u>\$ 246,253,142</u>	<u>\$ 3,982,087,757</u>

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**(13) 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 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 of COVID-19 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 this pandemic.

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.

**(14) Subsequent Events**

The EUTF has evaluated subsequent events through November 29, 2021, 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  
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Required Supplementary Information (Unaudited)

**Schedule of Investment Returns  
Years Ended June 30, 2016 through 2021**

	<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>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  
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Required Supplementary Information (Unaudited)

Ten-Year Loss Development Information

Years Ended June 30, 2012 through 2021

***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 86 shows data for 10 successive policy years starting from the fiscal year ended June 30, 2012, 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.

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Required Supplementary Information (Unaudited)

Ten-Year Loss Development Information

Years Ended June 30, 2012 through 2021

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.

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Required Supplementary Information (Unaudited)

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

Years Ended June 30, 2012 through 2021

	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
1. Required contribution and investment revenue:										
Earned	\$ 153,831,438	\$ 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
Ceded	-	-	-	-	-	-	-	-	-	-
Net earned	<u>\$ 153,831,438</u>	<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>
2. Unallocated expenses	<u>\$ 2,142,126</u>	<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>
3. Estimated claims and expenses, end of policy year:										
Incurred	\$ 150,488,917	\$ 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
Ceded	-	-	-	-	-	-	-	-	-	-
Net incurred	<u>\$ 150,488,917</u>	<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>
4. Net paid (cumulative) as of:										
End of policy year	\$ 185,234,570	\$ 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
One year later	144,371,143	51,976,970	69,080,249	78,879,468	88,543,157	89,630,594	80,577,653	86,301,511	88,133,332	81,523,277
Two years later	144,371,143	51,976,970	69,080,249	78,879,468	88,543,157	89,630,594	80,577,653	86,301,511	81,523,277	-
Three years later	144,371,143	51,976,970	69,080,249	78,879,468	88,543,157	89,630,594	80,577,653	81,523,277	-	-
Four years later	144,371,143	51,976,970	69,080,249	78,879,468	88,543,157	89,630,594	-	-	-	-
Five years later	144,371,143	51,976,970	69,080,249	78,879,468	88,543,157	-	-	-	-	-
Six years later	144,371,143	51,976,970	69,080,249	78,879,468	-	-	-	-	-	-
Seven years later	144,371,143	51,976,970	69,080,249	-	-	-	-	-	-	-
Eight years later	144,371,143	51,976,970	-	-	-	-	-	-	-	-
Nine years later	144,371,143	-	-	-	-	-	-	-	-	-
5. Reestimated ceded claims and expenses	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
6. Reestimated net incurred claims and expenses:										
End of policy year	\$ 150,488,917	\$ 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
One year later	144,371,143	51,976,970	69,080,249	78,879,468	88,543,157	89,630,594	80,577,653	86,301,511	88,133,332	81,523,277
Two years later	144,371,143	51,976,970	69,080,249	78,879,468	88,543,157	89,630,594	80,577,653	86,301,511	81,523,277	-
Three years later	144,371,143	51,976,970	69,080,249	78,879,468	88,543,157	89,630,594	80,577,653	81,523,277	-	-
Four years later	144,371,143	51,976,970	69,080,249	78,879,468	88,543,157	89,630,594	-	-	-	-
Five years later	144,371,143	51,976,970	69,080,249	78,879,468	88,543,157	-	-	-	-	-
Six years later	144,371,143	51,976,970	69,080,249	78,879,468	-	-	-	-	-	-
Seven years later	144,371,143	51,976,970	69,080,249	-	-	-	-	-	-	-
Eight years later	144,371,143	51,976,970	-	-	-	-	-	-	-	-
Nine years later	144,371,143	-	-	-	-	-	-	-	-	-
7. Increase (decrease) in estimated net incurred claims and expenses from end of policy year	\$ (6,117,774)	\$ 5,158,200	\$ 13,400	\$ (10,400)	\$ (27,600)	\$ 22,300	\$ (7,100)	\$ (161,300)	\$ (2,900)	\$ -

See accompanying independent auditors' report.

**OTHER SUPPLEMENTARY INFORMATION**

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

Schedules of Administrative Operating Expenses - Enterprise Fund

Years Ended June 30, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Administrative operating expenses:		
Personal services	\$ 6,119,330	\$ 5,527,738
Contracted services	2,005,946	2,215,448
Occupancy	471,876	462,760
Repairs and maintenance	196,923	196,815
Postage	145,239	102,637
Printing and binding	138,420	124,859
Telephone	58,566	43,276
Insurance	56,577	61,965
Rental of equipment	25,056	31,062
Other	<u>109,405</u>	<u>162,666</u>
 Total administrative operating expenses	 <u><u>\$ 9,327,338</u></u>	 <u><u>\$ 8,929,226</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, 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 years ended June 30, 2021 and 2020, and the related notes to financial statements, and have issued our report thereon dated November 29, 2021.

**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 may exist that have not been identified.

### **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  
November 29, 2021