



REPORT TO LEGISLATURE

SECTION 124.3 OF ACT 158, SESSION LAWS OF HAWAII (SLH) 2008

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

December 2008

Hawaii Employer-Union Health Benefits Trust Fund
December 29, 2008
Report to the Legislature
Section 124.3 of Act 158, Session Laws of Hawaii (SLH) 2008

1) The use of funds and services rendered by the investment consultant and the cost of those services.

The Legislature appropriated \$300,000 in FY2008 and \$300,000 in FY 2009 for an investment consultant through Act 213, SLH2007, as amended by Act 158, SLH 2008. Further, Section 124.3 of Act 158, SLH 2008 required that the FY 2009 appropriation be treated as a non-recurring cost item and established certain reporting requirements. The Hawaii Employer-Union Health Benefits Trust Fund (EUTF) issued a Request for Proposals (RFP) on January 7, 2008 and entered into an agreement with Mercer Consulting for the two year period October 6, 2008 through October 5, 2010, with an option to extend for two (2) years. The contract amount for the initial two year period is \$260,000 and authorized FY 2008 funds were encumbered for this purpose.

Under the contract, Mercer is responsible to provide the following services in support of the EUTF in establishing and implementing its investment plan:

- A. Investment Policy and Procedure Manual
- B. Asset Allocation Plan
- C. Annual Asset Allocation Optimization
- D. Policy Analysis
- E. Public Market Analysis
- F. Performance Analysis
- G. Manager Search and Selection
- H. Manager Oversight
- I. Custodian Bank Search and Selection
- J. Attendance at Board and Committee Meetings
- K. Trustee and Staff Workshops
- L. General Research and Analysis

The EUTF Board of Trustees has established an Investment Committee and Mercer has begun its analysis of EUTF's mission and objectives, operational requirements, and current funding status. In January 2009, Mercer will begin to facilitate the development of the EUTF investment objectives and plan with the Board of Trustees. The timeline prepared by Mercer, subject to Investment Committee and Board approval, provides for completion of the asset allocation study and portfolio structural analysis by the end of March 2009, investment manager selection in April-May 2009, and implementation of the investment plan by the end of June 2009.

As part of the FB 2009-11 Budget Request, the EUTF submitted a request for \$300,000 in FY 2011 to continue the investment consultant services during the contract's two year extension period. The request was not included in the Executive Budget request and may be resubmitted for consideration in the supplemental budget.

2) The increase in the trust fund by pre-funding and its current unfunded liability, if any.

All employers except the State of Hawaii have begun to pre-fund Other Post Employment Benefits (OPEB). As of the date of this report the following amounts have been received from the respective employers:

Board of Water Supply – City & County of Honolulu	\$ 3,500,000.00
County of Hawaii	21,113,063.09
County of Hawaii – Dept of Water Supply	948,076.74
County of Maui	12,208,000.00
County of Kauai	<u>6,450,000.00</u>
TOTAL	\$44,219,139.83

Note: The City and County of Honolulu has announced its intent to transmit funds, but has not yet done so.

According to the EUTF's audited financial statements (Note M, page 50), the unfunded actuarial accrued liability (UAAL) as of July 1, 2007 was \$9,194,300,000.