EMPLOYEES' RETIREMENT SYSTEM OF THE STATE OF HAWAII

COMPREHENSIVE ANNUAL FINANCIAL REPORT

FOR THE FISCAL YEAR ENDED JUNE 30, 2009

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Prepared by the Staff of the:
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Employees' Retirement System

of the State of Hawaii

INTRODUCTORY SECTION

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Letter of Transmittal

NEIL ABERCROMBIE
GOVERNOR

STATE OF HAWAII
EMPLOYEES' RETIREMENT SYSTEM

December 8, 2011

Board of Trustees
Employees' Retirement System of the State of Hawaii

Dear Board Members:

We present the Comprehensive Annual Financial Report (CAFR) of the Employees' Retirement System for the fiscal year ended June 30, 2009. Responsibility for both the accuracy of the data, as well as the completeness and fairness of the presentation, rests with the management of the ERS. We trust that you and the members of the ERS will find this report useful in understanding your retirement system.

BACKGROUND

The ERS was established by the Legislature in 1925 to administer a retirement, disability, and survivor benefits program for State and county employees including teachers, professors, police officers, firefighters, judiciary employees, judges, and elected officials. The ERS is a qualified defined benefit public pension plan covered under Section 401(a) of the Internal Revenue Code. Hawaii Revised Statutes Chapter 88 and Hawaii Administrative Rules Title 6, Chapters 20 – 29 contain the language governing the pension trust. The ERS covers all eligible full-time and part-time State and county employees in the State of Hawaii. The ERS uses the entry age normal funding method to determine its current and future costs and appropriateness of its funding requirements. Funding for benefit payments comes from employer and member contributions, and investments.

On March 31, 2009, the ERS' total membership of 110,927 was comprised of 67,912 active members, 36,999 retirees and beneficiaries, and 6,016 inactive vested members. This represents a 2.1% growth in the total membership over the past year. Participating employers include the State of Hawaii, City and County of Honolulu, and the counties of Hawaii, Maui, and Kauai.

The ERS is also responsible for the custody of the Social Security Contribution Fund for the State of Hawaii. The Social Security contributions withheld from employees are remitted directly to the Internal Revenue Service by the State. As an agency type fund that is custodial in nature, the ERS has limited discretion in the management of this fund.

MAJOR ACCOMPLISHMENTS AND INITIATIVES IN FY 2009

Hybrid Plan Upgrade Program (HPUP) – Buck Consultants assisted the ERS with the communication effort to implement the Hybrid Plan Upgrade Program in April 2009. This program was a one-time opportunity for eligible Hybrid Plan members to increase their ERS pension benefits by "upgrading" their Noncontributory Plan service (1.25%) to Hybrid Plan service (2%) at a cost to members.

The election period was from October 1, 2009 to April 3, 2010, and the payment period was from October 1, 2009 to September 30, 2010.

A project team (Team) was established to work with the consultants to develop the communication materials to our Employers and members. The 24,000 members would each receive a "Hybrid Plan Upgrade Program Packet" with a personalized statement needed to make an informed decision on this conversion. This packet also provided the cost to upgrade their eligible Noncontributory service, presentation dates, accessing the website and call center representatives, and other reverent information about the program. During this period, the Team also cleaned up and completed the extraction of the service credit data, set the schedule for the statewide group presentations, developed and tested the website to make the election, established Call Center procedures and training, and determined the upgrade payment procedures from the various fund institutions. The Team and staff also worked to modify the computer system to receive the upgrade payments and convert the member's upgraded service.

The HPUP newsletters and Program Packets were mailed out in early September 2009 before the start of the election period.

Legislative Update - Below are highlights of the bills that were passed by the Legislature during this fiscal year:

- Act 41 – Omnibus Bill. These changes allowed members to use their deferred compensation funds, tax sheltered annuities, IRAs and private pensions to purchase membership service credits and to upgrade their Noncontributory Plan service to Hybrid Plan service; clarifies pension limitations; requires Employers to transmit payroll and personnel transaction electronically by July 1, 2010; conforms to the federal requirements to our laws for the Serviceman's Act under the federal Uniform Services Employment and Reemployment Rights Act (USERRA); and other housekeeping measures to clarify pension definitions.

- Act 47 – Federal Tax Qualification Bill. Repealed the Act 90 "paper retirements" for elected officials and judges who reached their 75% average final compensation limitations and allows certain newly election officials to make a one-time irrevocable election to join the ERS.

- Act 156 – Reemployment of retirants. Allows the State and counties to hire retired State or county government employees who are receiving retirement benefits to fill labor storage and difficult to fill exempt or civil service positions provided other requirements are met and made conforming amendments to Act 286, SLH 2006, for the rehiring of retired Department of Education teachers and administrators.

Accounting System and Reports

The accrual basis of accounting is used to record financial transactions. Expenses are recorded when the liability is incurred, and revenues are recorded in the accounting period in which they are earned and become measurable. Interest earned is accrued on a monthly basis. Accounts receivable at year end, in addition to accrued interest receivable, reflect accrued employer charges and investment proceeds due on sales that have not yet settled. Investments are recorded at fair value. Fixed assets are recorded at cost less accumulated depreciation.

The Notes *to the Financial Statements (Notes)* contain additional detailed information on the statutory provisions under which the ERS operates. In addition, the Notes include a summary of significant accounting policies, and provide explanatory information to help readers better understand the data contained in the financial statements.

The management of the ERS is responsible for and has implemented systems of internal accounting controls designed to provide reasonable assurances for the safeguarding of assets and the reliability of financial records. We believe that the internal accounting controls currently in place are adequate to meet the purpose for which they were intended. To the best of our knowledge and belief, the enclosed data, including the financial statements, supporting schedules and statistical tables is accurate in all material respects and is reported in a manner that fairly presents the financial position and results of the ERS' operations.

Investments

The Board of Trustees diversified the ERS' investment portfolio to secure consistent, positive long-term investment returns while preserving capital. The diversification of investments through a long-term asset allocation strategy is generally regarded as the most important decision made in the investment process. A summary of the ERS' long-term asset allocation strategy can be found in the Investment Section of this report.

Professional investment managers have been retained to execute the Board's investment strategies and have full discretion within statutory provisions, Board policies and their respective guidelines. The investment managers retained by the Board as of June 30, 2009 are listed in the Investment Section.

Net investment income, including dividends, interest, other investment earnings, and gains/losses on the sale of investments resulted in an investment loss of -1.937 billion in FY2009. This resulted in a negative investment loss of -17.5% for the year, using rate of return methodologies that are generally accepted by the Global Investment Performance Standards (GIPS).

Funding and Actuarial Overview

Like most pension funds across the nation, the ERS experienced a severe downturn in the investment market that impacted its funded status. While the overall objective of the ERS is to accumulate sufficient funds to meet current and future retirement, disability and death benefit obligations to retirees and beneficiaries, the downturn in the markets had a major impact on the ERS' funded ratio decreasing to 64.6% as of June 30, 2009. Other causes for the decreasing funded ratio included a liability experience loss that was created by higher than expected salary increases. These events resulted in an increase to the unfunded actuarial accrued liability to $6.236 billion as of June 30, 2009.

PROFESSIONAL SERVICES

Professional consultants are appointed by the Board of Trustees to perform professional services that are essential to the effective and efficient operation of the ERS. Opinions from KPMG, LLP, the auditors for the ERS, and the actuary, Gabriel, Roeder, Smith & Company, are included in this report. Pension Consulting Alliance, Inc. is the ERS' investment consultant, and their report on the ERS' investment program and performance results is also included in this report.

ACKNOWLEDGEMENTS

This report is from the collaborative efforts of the ERS staff and consultants to provide extensive and reliable information as a basis for making management decisions, determining compliance with legal provisions, and for determining responsible stewardship of the assets contributed by the ERS' members and their employers. This report will be provided to the Governor, legislators, State and county departments and other interested parties.

We would like to take this opportunity to express our gratitude to the Board of Trustees, ERS Staff, advisors, and the many people who worked so diligently to help our members.

Respectfully yours,

Wesley K Machida

Wesley K. Machida
Administrator

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Board of Trustees

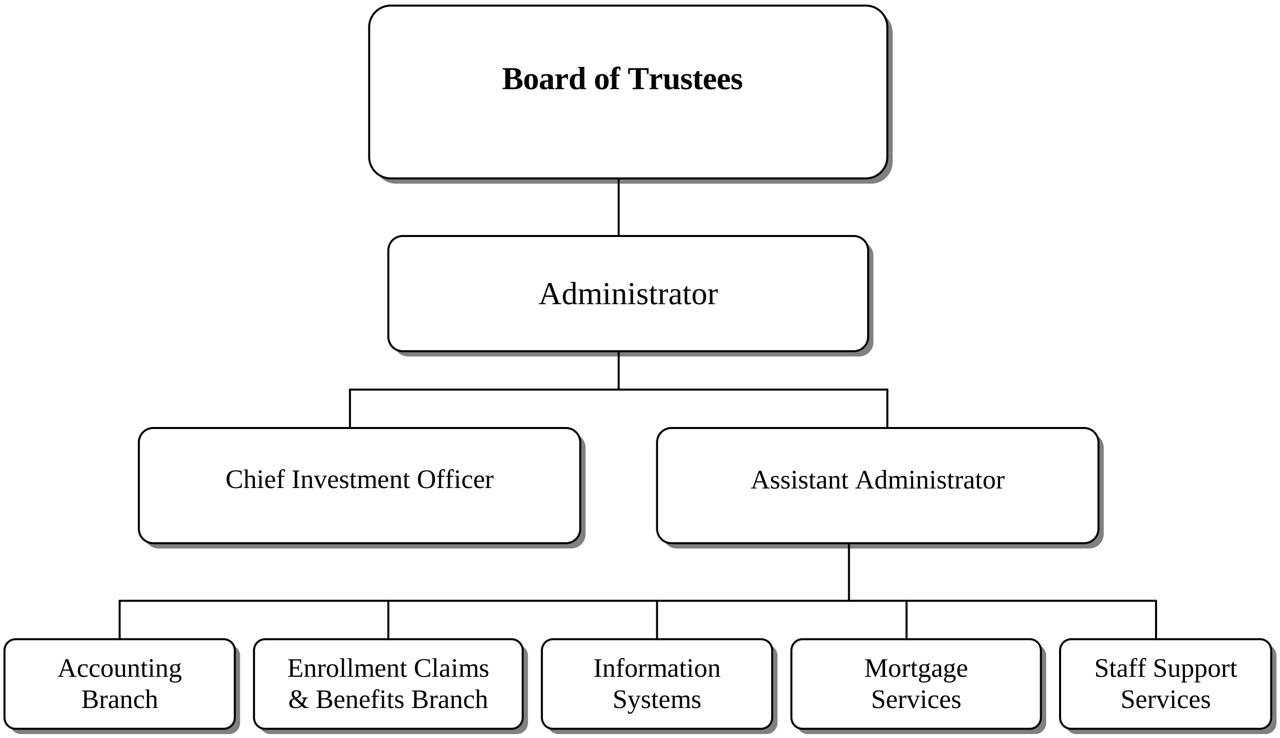
The Board of Trustees is the governing body of the Employees' Retirement System of the State of Hawaii, with certain areas of administrative control vested in the State Department of Budget and Finance.

Four of the eight members on the Board are elected by the membership: two general employees, a teacher and a retiree. Three members are citizens of the State, one of whom is an officer of a bank authorized to do business in the State or a person of similar experience, who are not employees and are appointed by the Governor. The State Director of Finance is an ex-officio member by statute.

Back Row (L-R): Wayne J. Yamasaki; Georgina K. Kawamura; Jackie Ferguson-Miyamoto, Chair; Pilialoha Lee Loy; Henry F. Beerman
Front Row (L-R): Alton T. Kuioka; Darwin J. Hamamoto; Colbert M. Matsumoto

	Date Current Term Began	Date Term Ends
Elected:		
Ms. Pilialoha E. Lee Loy	January 2, 2004	January 1, 2010
Mr. Darwin J. Hamamoto	January 2, 2006	January 1, 2012
Ms. Jackie Ferguson-Miyamoto, Chair	January 2, 2008	January 1, 2014
Mr. Wayne J. Yamasaki	January 2, 2008	January 1, 2014
Appointed:		
Mr. Alton T. Kuioka	March 31, 2005	January 1, 2011
Mr. Henry F. Beerman	July 1, 2003	April 30, 2011
Mr. Colbert M. Matsumoto	January 2, 2007	January 1, 2013
Ex-Officio:		
Ms. Georgina K. Kawamura	December 2, 2002	

Organizational Structure



Administrator	Wesley K. Machida
Assistant Administrator	Kanoe Margol
Chief Investment Officer	Rodney L. June

Actuary
Gabriel, Roeder, Smith and Company

Auditors
KPMG LLP

Legal Advisor
Attorney General of the State of Hawaii

Medical Board
Dr. Patricia L. Chinn, Chair
Dr. Howman Lam, Member
Dr. Gerald J. McKenna, Member

** A list of investment professionals is located in the *Investment Section* of this CAFR.

Plan Summary

The Employees' Retirement System (ERS) of the State of Hawaii was established by the Legislature in 1925 to provide retirement, disability and survivor benefits for State employees, teachers, professors, county employees, police officers, firefighters, judges and elected officials.

The ERS is a qualified defined benefit pension plan under Section 401(a) of the Internal Revenue Code. As such, the ERS is exempt from federal income taxation on its investment earnings. Since January 1, 1988, member contributions have been tax deferred under Section 414(h) of the Internal Revenue Code.

Members are covered by the provisions of the Contributory, Hybrid or Noncontributory retirement plan. Except for employees in certain positions who are required to be members of the Contributory Plan, most new employees from July 1, 2006 are enrolled in the Hybrid Plan.

Those in the Contributory Plan are required to make contributions to the ERS and may also be covered by Social Security. Employees in the following occupational groups are required to be members of the Contributory Plan: police officers, firefighters, judges, elected officials, legislative officers, attorney general investigators, narcotics enforcement investigators, and public safety investigations staff investigators. As of March 31, 2009, 7,487 active employees were enrolled in the Contributory Plan, or slightly more than 11.1% of our active members.

On July 1, 2006, the Hybrid Plan became effective pursuant to Act 179/2004. Members in the Hybrid Plan must also contribute to the ERS and are generally covered by Social Security. The Hybrid Plan covers most employees hired from July 1, 2006, as well as certain employees hired before July 1, 2006 who elected to join the Hybrid Plan. The Hybrid Plan membership will continue to increase going forward as most new employees hired from July 1, 2006 will be required to become a member of the Hybrid Plan. As of March 31, 2009, the Hybrid Plan had 37,716 members or about 55.5% of the ERS' active membership.

Members of the Noncontributory Plan do not make contributions to the ERS and are covered by Social Security. The Noncontributory Plan covers employees hired from July 1, 1984 to June 30, 2006, as well as employees hired before July 1, 1984 who elected to join the Noncontributory Plan. As of March 31, 2009, there were 22,709 active employees in the Noncontributory Plan, which represents over 33.4% of all active members on this date.

A summary of the general retirement benefits, including retirement options, for Contributory, Noncontributory and Hybrid members are on the following pages. For more detailed and current information on the Hybrid Plan please visit the ERS website at http://www4.hawaii.gov/ers/.

Summary of Retirement Benefit Plan Provisions

	Noncontributory Plan	Contributory Plan	Hybrid Plan
Employee Contributions	No employee contributions	7.8% of salary	6.0% of salary
Normal Retirement			
Eligibility	Age 62 and 10 years credited service; ***or*** Age 55 and 30 years credited service	Age 55 and 5 years credited service	Age 62 and 5 years credited service; ***or*** Age 55 and 30 years credited service
Benefit	1-1/4% of average final compensation* times years of credited service	2% of average final compensation* times years of credited service	2% of average final compensation* times years of credited service, with a split formula for Noncontributory service at 1-1/4%

* Average final compensation (AFC) is an average of the highest salaries during any three years of credited service, excluding any salary paid in lieu of vacation or if ERS membership occurred prior to 1/1/71, AFC may be an average of the highest salaries during any five years of credited service including any salary paid in lieu of vacation.

	Noncontributory Plan	Contributory Plan	Hybrid Plan
Early Retirement			
Eligibility	Age 55 and 20 years credited service	Any age and 25 years credited service	Age 55 with 20 years credited service
Benefit	Maximum allowance reduced 6% per year under age 62	Maximum allowance reduced 5% per year under age 55 plus 4% per year under age 50	Maximum allowance reduced 5% per year under age 62
Deferred Vesting			
Eligibility	10 years credited service	5 years credited service and contributions left in the ERS	5 years credited service and contributions left in the ERS
Benefit	Accrued maximum allowance payable as early as age 55 or at age 65 with 10 but less than 20 years of credited service	Accrued maximum allowance payable at age 55	Accrued maximum allowance payable as early as age 55 or at age 62 with 5 but less than 20 years of credited service

Summary of Retirement Benefit Plan Provisions (continued)

	Noncontributory Plan	Contributory Plan	Hybrid Plan
Annuity Savings Account			
Interest	Not applicable	4.5% per annum on employee contributions and accrued interest	4.5% per annum on employee contributions and accrued interest
Refund Eligibility	Not applicable	Contributions may be withdrawn upon retirement or termination of employment; upon refund, all service and any future retirement benefit will be forfeited	Contributions may be withdrawn upon retirement or termination of employment; upon refund, all service and any future retirement benefit will be forfeited
Refund Benefit			
- Terminates with less than 5 years credited service	Not applicable	Return of member's contributions and accrued interest	Return of member's contributions and accrued interest
- Terminates with 5 or more years of credited service	Not applicable	Return of member's contributions and accrued interest	Return of member's Hybrid Plan contributions and accrued interest, times 150%; plus any non-Hybrid contributions and accrued interest
Ordinary Disability			
Eligibility	10 years credited service	10 years credited service	10 years credited service
Benefit	1-1/4% of AFC times years of credited service, unreduced for age (Minimum is 12.5% of AFC)	1-3/4% of AFC times years of credited service, unreduced for age (Minimum is 30% of AFC)	2% of AFC times years of credited service, unreduced for age; split formula for Noncontributory service at 1-1/4% (Minimum is 25% of AFC)

Summary of Retirement Benefit Plan Provisions (continued)

	Noncontributory Plan	Contributory Plan	Hybrid Plan
Service-Connected Disability			
Eligibility	Any age or credited service	Any age or credited service	Any age or credited service
Benefit	Lifetime pension of 35% of AFC ** For accidents occurring before July 1, 2004, accrued maximum allowance, but not less than 15% of AFC	Lifetime pension of 50% of AFC plus refund of member's contributions and accrued interest ** For accidents occurring before July 7, 1998, a different benefit is used	Lifetime pension of 35% of AFC plus refund of member's contributions and accrued interest
Ordinary Death			
Eligibility	Active employee at time of death with at least 10 years of credited service	Active employee at time of death with at least 1 year of service	Active employee at time of death with at least 5 years of service
Benefit	Surviving spouse/reciprocal beneficiary (until remarriage or reentry into a new reciprocal beneficiary relationship) and dependent children (up to age 18) receive a benefit equal to a percentage of member's accrued maximum allowance unreduced for age; ***or*** Option B (100% Joint and Survivor) lifetime pension for surviving spouse/reciprocal beneficiary if member was eligible for retirement at time of death.	Lump sum payment of member's contributions and accrued interest plus a percentage of the salary earned in the 12 months preceding death; ***or*** Option 3 (50% Joint and Survivor) lifetime pension if member was not eligible for retirement at the time of death, credited with at least 10 years of service, and one beneficiary designated; ***or*** Option 2 (100% Joint and Survivor) lifetime pension if member was eligible for retirement at the time of death and one beneficiary designated; ***or*** If less than 1 year of service, return of member's contributions and accrued interest.	Lump sum payment of member's Hybrid Plan contributions and accrued interest (times 150%) plus return of non-Hybrid contributions and accrued interest; ***or*** Option 3 (50% Joint Survivor) lifetime pension if member was not eligible for retirement at the time of death, credited with at least 10 years of service and one beneficiary designated; ***or*** Option 2 (100% Joint Survivor) lifetime pension if member was eligible for retirement at the time of death, and one beneficiary designated; ***or*** If less than 5 years of service, return of member's contributions and accrued interest.

Summary of Retirement Benefit Plan Provisions (continued)

	Noncontributory Plan	Contributory Plan	Hybrid Plan
Service-Connected Death			
Eligibility	Any age or service	Any age or service	Any age or service
Benefit	Surviving spouse/reciprocal beneficiary receives monthly benefit equal to 30% of AFC (until remarriage or re-entry into a new reciprocal beneficiary relationship); additional benefits payable to surviving dependent children (up to age 18). If there is no spouse/reciprocal beneficiary or dependent children, no benefit is payable.	Lump sum payment of member's contributions and accrued interest to designated beneficiary, plus monthly benefit of 50% of AFC to surviving spouse/reciprocal beneficiary (until remarriage or re-entry into a new reciprocal beneficiary relationship). If there is no surviving spouse or reciprocal beneficiary, surviving dependent children (up to age 18) or dependent parents shall be eligible for a monthly benefit. If there is no spouse/reciprocal beneficiary or dependent children/parents, the ordinary death benefit shall be payable to the designated beneficiary.	Lump sum payment of member's contributions and accrued interest to designated beneficiary, plus monthly benefit of 50% of AFC to surviving spouse/reciprocal beneficiary (until remarriage or re-entry into a new reciprocal beneficiary relationship). If there is no surviving spouse or reciprocal beneficiary, surviving dependent children (up to age 18) or dependent parents shall be eligible for a monthly benefit. If there is no spouse/reciprocal beneficiary or dependent children/parents, the ordinary death benefit shall be payable to the designated beneficiary.

Summary of Retirement Benefit Plan Provisions (continued)

The plan provisions summarized in the preceding pages apply to teachers and most State and County employees. Special provisions applicable to other groups of employees are outlined below:

A) Police officers, firefighters, investigators of the Department of the Attorney General, narcotic enforcement investigators, and public safety investigations staff investigators contribute 12.2% of their monthly salary to the ERS instead of 7.8%. These members may retire at age 55 with 10 years of credited service or at any age with 25 years of credited service and receive a retirement benefit of 2-1/2% of average final compensation (AFC) for each year of such service up to a maximum of 80% AFC, provided the last 5 years is credited service in any of these occupations.

B) Judges, elected officials, and legislative officers may retire at age 55 with at least 5 years of credited service, or at any age with at least 10 years of credited service and receive a pension of 3-1/2% of AFC for each year of such service plus an annuity from their contributions allocable to the period of such service. This benefit cannot exceed 75% of the AFC. Judges hired after June 30, 1999 need 25 years of credited service in order to retire before age 55.

C) Sewer workers in specified classifications and water safety officers may retire at any age if they are credited with 25 years of such service with the last 5 or more years in these occupations. Those in the Hybrid Plan must contribute 9.75% of their salary to the ERS.

D) Emergency medical technicians (EMT) may retire at any age if they are credited with 30 years of such service with the last 5 or more years in these occupations effective June 30, 2003. The years of service to qualify for early retirement is gradually being reduced through June 30, 2008 when 25 years of EMT service will qualify these members for early retirement. Hybrid Plan members are required to contribute 9.75% of their salary to the ERS.

Post Retirement Benefit

Each retiree's original retirement allowance is increased by 2.5% on each July 1 beginning the calendar year after retirement. This cumulative benefit is not compounded and increases each year by another 2.5% of the original retirement allowance without a ceiling (i.e., 2.5% of the original retirement allowance the first year, 5% the second year, 7.5% the third year, etc.).

Taxation of Benefits

All retirement benefits are subject to Federal income tax but are exempt from Hawaii State income tax. Certain occupational (work related) disability benefits are exempt from Federal income tax. Arrangements to initiate voluntary withholding of Federal income tax can be made at any time. The ERS provides retirees with a 1099-R tax form on or before January 31 of each year.

Additional Benefits

Retirees, their spouses and dependent children under age 19 are eligible to receive life insurance, medical, dental, vision, and prescription drug coverage from the Employer-Union Health Benefits Trust Fund (EUTF) if they were hired before July 1, 1996, and retire with at least 10 years of continuous credited service. If they were first hired after June 30, 1996, health benefits are available on a cost-sharing basis as long as the member retires with at least 10 years of continuous service. A dependent of a retiree who is a full-time student at an accredited college, university or technical school and who is 19 through 23 years old is also eligible for coverage. A retiree with a hire date after July 1, 2001 will only receive coverage for him or herself on a cost sharing basis.

Unused sick leave is excluded from credited service in determining health benefit coverage.

Retirees are responsible for premiums in excess of the amount of employer contributions. Retirees and their spouses are eligible to receive a reimbursement of the Medicare Part B medical insurance premium. More information is available on the EUTF's website at www.eutf.hawaii.gov.

Applying for Retirement

A service retirement application can be filed with the ERS 150 days but no less than 30 days prior to the effective date of retirement. Once the application has been filed, cancellation prior to the effective date of retirement is permitted; however, the law requires mandatory retirement upon the third application. Members may obtain retirement information and application forms at the following locations:

Oahu Office
City Financial Tower
201 Merchant Street, Suite 1400
Honolulu, HI 96813
Phone: (808) 586-1735
Fax: (808) 587-5766

Kauai Office
3060 Eiwa Street, Room 302
Lihue, Hawaii 96766
Phone: (808) 274-3010
Fax: (808) 241-3193

Hawaii Office
101 Aupuni Street, Suite 208
Hilo, Hawaii 96720
Phone: (808) 974-4076
Fax: (808) 974-4078

Maui Office
54 S. High Street, Room 218
Wailuku, Hawaii 96793
Phone: (808) 984-8181
Fax: (808) 984-8183

Molokai and Lanai
Toll-free to Oahu:
1-800-468-4644, ext 61735

Continental U.S. only
Toll free to Oahu
1-888-659-0708

Counseling Service

It is the policy of the ERS to render every possible service to its members; however, as thousands of inquiries are received and answered annually, in addition to the actual processing of claims and benefits, present staff and appropriations restrict this service to those members whose immediate welfare is dependent upon the prompt settlement of benefits. Members who are definite about retirement should contact the ERS to request formal retirement estimates. For members who are not planning immediate retirement and interested in their benefit status a retirement benefit calculator and other retirement information are available on the ERS' website at www4.hawaii.gov/ers.

Retirement Options

CONTRIBUTORY AND HYBRID PLANS

Maximum Allowance: The member receives a lifetime maximum allowance; at death, the difference between the value of the member's contributions at the time of retirement and the retirement allowance paid prior to death is paid to the designated beneficiary(ies) or estate.

Option One: The member receives a reduced lifetime allowance based on age; at death, the difference between the initial insurance reserve and the retirement allowance paid prior to death is paid to the designated beneficiary(ies) or estate. In lieu of the lump-sum balance, the beneficiary may elect to receive an allowance for life based on the value of the balance; provided that the allowance is not less than $100 per month.

Option Two (100% Joint and Survivor): The member receives a reduced lifetime allowance based on ages of both the member and the sole beneficiary and at death; the same allowance is paid to the designated beneficiary for life. Should the designated beneficiary predecease the retiree, another beneficiary cannot be named and all payments will cease at the retiree's death. For retirements on or after December 1, 2004, should the beneficiary predecease the retiree, the retiree's reduced pension "pops up" or increases to the corresponding Maximum Allowance instead of remaining at the reduced amount.

Option Three (50% Joint and Survivor): This plan is similar to Option Two. The member receives a reduced lifetime allowance which is higher than Option Two and is based on ages of both the member and the sole beneficiary; however, at death one-half of the allowance is paid to the designated beneficiary for life. Like Option Two, should the designated beneficiary predecease the retiree, another beneficiary cannot be named and all payments will cease at the retiree's death. For retirements on or after December 1, 2004, should the beneficiary predecease the retiree, the retiree's reduced pension "pops up" or increases to the corresponding Maximum Allowance instead of remaining at the reduced amount.

Option Four: This option allows the member to devise a plan that will provide a benefit according to the member's specifications. It requires certification by the Actuary and approval of the Board of Trustees. The following Option Four plans have been approved:

Combination of Options Five and Maximum Allowance: The member receives a reduced lifetime allowance and is allowed to withdraw the pre-1987 nontaxable contributions, 50% of accumulated contributions, or 75% of accumulated contributions (Hybrid Plan members are not allowed the 75% option); at death, the difference between the value of the member's contributions at the time of retirement and the retirement allowance paid prior to death is paid to the designated beneficiary(ies) or estate.

Combination of Options Five and One: The member receives a reduced lifetime allowance and is allowed to withdraw the pre-1987 nontaxable contributions, 50% of accumulated contributions, or 75% of accumulated contributions (Hybrid Plan members are not allowed the 75% option); at death, the difference between the initial insurance reserve and the retirement allowance paid prior to death is paid to the designated beneficiary(ies) or estate.

Combination of Options Five and Two: The member receives a reduced lifetime allowance based on ages of both the member and the sole beneficiary, and is allowed to withdraw the pre-1987 nontaxable contributions, 50% of accumulated contributions, or 75% of accumulated contributions (Hybrid Plan members are not allowed the 75% option); at death, the same allowance is paid to the designated beneficiary for life. As in the case of Option Two, should the designated beneficiary predecease the retiree, another beneficiary cannot be named and all payments will cease at the retiree's death. For retirements on or after December 1, 2004, should the beneficiary predecease the retiree, the retiree's reduced pension "pops up" or increases to the corresponding Maximum Allowance instead of remaining at the reduced amount.

Retirement Options (continued)

CONTRIBUTORY AND HYBRID PLANS (continued)

Combination of Options Five and Three: The member receives a reduced lifetime allowance based on ages of both the member and the sole beneficiary, and is allowed to withdraw the pre-1987 nontaxable contributions, 50% of accumulated contributions, or 75% of accumulated contributions (Hybrid Plan members are not allowed the 75% option); at death, one-half of the allowance is paid to the designated beneficiary for life. As in the case of Option Three, should the designated beneficiary predecease the retiree, another beneficiary cannot be named and all payments will cease at the retiree's death. For retirements on or after December 1, 2004, should the beneficiary predecease the retiree, the retiree's reduced pension "pops up" or increases to the corresponding Maximum Allowance instead of remaining at the reduced amount.

Option Five: The member receives a reduced lifetime allowance and is allowed to withdraw all accumulated contributions; at death, there is no further benefits payable.

Option Four and Option Five are restricted to those members with at least ten years of credited service excluding unused sick leave credit.

Regardless of the option selected, should death of the Contributory or Hybrid member occur during the first year of retirement, the designated beneficiary may elect to receive benefits as if death had occurred immediately prior to retirement in lieu of the death benefits described above.

NONCONTRIBUTORY PLAN

Maximum Allowance: The member receives a lifetime pension and at death, there is no further benefit payable.

Option A (50% Joint and Survivor): The member receives a reduced lifetime pension and at death, one-half of the pension is paid to the sole designated beneficiary for life. Should the designated beneficiary predecease the retiree, another beneficiary cannot be named and all payments will cease upon the retiree's death. For retirements on or after December 1, 2004, should the beneficiary predecease the retiree, the retiree's reduced pension "pops up" or increases to the corresponding Maximum Allowance instead of remaining at the reduced amount.

Option B (100% Joint and Survivor): The member receives a reduced lifetime pension and at death, the same pension is paid to the sole designated beneficiary for life. Like Option A, should the designated beneficiary predecease the retiree, another beneficiary cannot be named and all payments will cease upon the retiree's death. For retirements on or after December 1, 2004, should the beneficiary predecease the retiree, the retiree's reduced pension "pops up" or increases to the corresponding Maximum Allowance instead of remaining at the reduced amount.

Option C (Ten-Year Guarantee): The member receives a reduced lifetime pension. Should death occur within ten years of retirement, the same pension will be paid to the designated beneficiary, or otherwise to the retiree's estate for the balance of the ten-year period. Should the designated beneficiary predecease the retiree, another beneficiary can be named.

Regardless of the option selected, should death occur during the first year of retirement, the designated beneficiary may elect to receive benefits under Option B in lieu of the death benefits described above, provided that if the retiree would not have been permitted by applicable law or the rules of the Board to name the designated beneficiary under Option B, the designated beneficiary may elect to receive the death benefit under Option A.

Legislative Highlights 2009

The following Acts were passed by the 2009 Legislature and approved by the Governor:

Act 121 Retirement Plan Changes

- Amends Hybrid Plan Upgrade provisions for qualified members by:
  - Using December 31, 2008 as the valuation date to determine the cost to upgrade a member's Noncontributory service to Hybrid service. Previously, the valuation date was the last day of the sixth calendar month preceding the date of the Board's published notice allowing the upgrade.
  - Extending the payment deadline for members who are absent from the State due to military service by allowing them to make their lump sum payment within 180 days after they return to service.

- Clarifies that ordinary disability retirements will be effective on the first day of the month or December 31, but no earlier than thirty days from the date the application was filed or the date the member terminated service, whichever is later.

- Clarifies that a challenge to an application for disability retirement or accidental death benefits is considered a petition for a contested case hearing and not an "appeal" of a Medical Board's decision.

- Allows approved attorney's fees and costs to be paid to the member or survivor instead of being paid only on a reimbursable basis.

- Clarifies that the cap on the maximum retirement allowance (i.e., 75% or 80% of AFC) imposed on certain members (police officers, firefighters, certain public safety officers, judges and elected officials) apply to their "tack-on" benefits if they retire and subsequently return to work.

- Allows ERS to stop collecting retirement contributions from certain retirees (police officers, firefighters, certain public safety officers, judges and elected officials) when their maximum retirement allowance exceeds the 75% or 80% cap on benefits during subsequent re-employment periods.

- Includes other housekeeping amendments to clarify and conform existing statutes to current practice.

Act 85 Salary Reductions

- Reduces the salaries of the governor, lieutenant governor, justices/judges, administrative directors, State department directors/deputy directors, and members of the legislature by 5% for a two-year period beginning July 1, 2009. Their reduced salaries will be used for retirement benefit computation purposes.

- On July 1, 2011, restores their salaries to the level that would have been payable on July 1, 2009 had their salaries not been reduced.

Legislative Highlights 2009 (continued)

Act 190 State Salaries

- Stipulates that in cases where an employee's salary is overpaid or underpaid, the determination of that individual's AFC (average final compensation) shall be based on the compensation that should have been paid during that period.

- Establishes a 2-year statute of limitation for the employing agency to recover any indebtedness resulting from any salary or wage overpayment.

Act 181 State Income Tax on Deferred Compensation and TSA Plans Distributions

- Imposes State income taxes on "rollovers" (but not on "trustee-to-trustee transfers") from deferred compensation and tax-sheltered annuity plans to ERS when used to purchase membership service credits or to upgrade a member's Noncontributory service to Hybrid service in the Hybrid Plan.

- Applicable to tax years after December 31, 2008.

Employees' Retirement System

of the State of Hawaii

FINANCIAL SECTION

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Independent Auditors' Report

KPMG LLP
PO Box 4150
Honolulu, HI 96812-4150

The Board of Trustees
Employees' Retirement System of the State of Hawaii:

We have audited the accompanying combining statements of plan net assets – all trust and agency funds of the Employees' Retirement System of the State of Hawaii (the ERS) as of June 30, 2009 and 2008, and the related statements of changes in plan net assets – all trust funds for the years then ended. These financial statements are the responsibility of the ERS' management. Our responsibility is to express an opinion 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 of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the ERS' internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the plan net assets of the ERS as of June 30, 2009 and 2008, and its changes in plan net assets for the years then ended, in conformity with U.S. generally accepted accounting principles.

Board of Trustees
Employees' Retirement System of the State of Hawaii

In accordance with *Government Auditing Standards*, we have also issued our report dated December 6, 2011, on our consideration of the ERS' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages 27 through 33 and the schedules of funding progress and employer contributions on pages 58 and 59 are not a required part of the basic financial statements, but are supplementary information required by U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements of the ERS taken as a whole. The supplementary information included in schedules 1 through 4 for the years ended June 30, 2009 and 2008, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory, investment, actuarial, and statistical sections have not been subjected to the auditing procedures applied in the audits of the basic financial statements, and accordingly, we express no opinion on them.

KPMG LLP

December 6, 2011

Management's Discussion and Analysis (MD&A) of the Employees' Retirement System of the State of Hawaii (the ERS) provides highlights and comparisons of the financial position and performance of the ERS as of and for the years ended June 30, 2009 and 2008. The MD&A is presented as a narrative overview and analysis in conjunction with the Letter of Transmittal, which is included in the Introductory Section of the ERS Comprehensive Annual Financial Report (CAFR). For more detailed information pertaining to the ERS' financial activities, the reader should also review the actual financial statements, including the notes and supplementary schedules.

Overview of the Financial Statements

The ERS is responsible for administering a defined benefit pension plan for state government, local government, and public education employees in the State of Hawaii (the State). The ERS also oversees the short-term investments of the federal Social Security employer contributions for the State in the Social Security Contribution Fund (Contribution Fund).

The ERS' financial statements include fiduciary type funds that are used to account for resources held for the benefit of parties outside of the ERS. The primary fund is defined as a pension trust fund as these assets are held for the benefit of its members and their beneficiaries for the payment of pension benefits, while the Contribution Fund is an agency type fund that is custodial in nature. Throughout this discussion and analysis, units of measure (i.e., billions, millions, and thousands) are approximate, being rounded up or down to the nearest tenth of the respective unit value.

This discussion and analysis is intended to serve as an introduction to the ERS' financial reporting, which comprises of the following components:

- The combining statements of plan net assets provide a snapshot of the financial position of the ERS at June 30, 2009 and 2008. These financial statements reflect the resources available to pay benefits to members, including retirees and beneficiaries, at the end of the fiscal years reported.
- The statements of changes in plan net assets summarize the ERS' financial activities that occurred during the fiscal year from July 1, 2008 to June 30, 2009 (FY 2009) and the fiscal year from July 1, 2007 to June 30, 2008 (FY 2008). The financial statements measure the changes in the resources available to pay pension benefits to members, retirees, and beneficiaries for fiscal years 2009 and 2008.
- The notes to financial statements provide additional information that is essential to a full understanding of the financial statements. The notes are an integral part of the financial statements and include detailed information that is essential to a full understanding of the data provided in the basic financial statements.
- The required supplementary information immediately following the notes to financial statements provides two schedules showing historical actuarial information concerning the funded status of the ERS and the employer contributions, along with related notes.

Financial Highlights

- The remaining supplementary information provides additional detailed information concerning the changes in operating funds established by legislation, and the operating and investment related expenses of the ERS.
- During the fiscal year ended June 30, 2009, plan net assets decreased by $2.0 billion, or approximately 18.7%, from $10.8 billion as of June 30, 2008. The pension plan net assets of the ERS decreased by $0.7 billion, or 5.4%, during fiscal year ended June 30, 2008, from $11.5 billion as of June 30, 2007. The decrease in assets during the past two fiscal years reflects the instability in the global markets and loss of investor confidence worldwide. This compared to an increase in net plan assets of $1.5 billion, or 15.4%, during fiscal year ended June 30, 2007.
- The ERS experienced a 17.5% and 3.5% loss on investments during FY 2009 and FY 2008 compared to the positive return on pension plan assets of 17.7% return in FY 2007. Most assets classes experienced negative returns due to worldwide economic troubles; however, the fixed income .produced consistently strong returns.
- No significant legislation was enacted during the 2009 or 2008 legislative sessions that impacted the benefit provisions of the Pension Trust. In FY 2007, ERS implemented a new contributory "Hybrid Plan" from legislation passed in 2004, which provides future retirees enhance benefits on a cost-neutral basis to the employers since members pay for the improved benefits. This has resulted in an overall increase in member contributions due to the number of Noncontributory Plan members that elected to transfer to the Hybrid Plan and new hires.

  The employer contribution requirements increased effective July 1, 2008, in order to improve the funding status of the pension trust. See the "Legislative Highlights 2009" in the Introductory Section of the CAFR for a summary of the 2009 legislative changes affecting the ERS and its membership. A historical summary of legislation impacting the ERS actuarial valuations are located in the "Summary of Plan Changes" in the Actuarial Section.
- The funded ratio decreased to 64.6% as of June 30, 2009 with the continued investment losses experienced over the past two years. This compares with an increase in the funded ratio to 68.8% on June 30, 2008 as a result of providing for market smoothing to realize actuarial investment gains and losses and compares to 67.5% on June 30, 2007. The corresponding unfunded actuarial accrued liability (UAAL) of the ERS increased to $6.2 billion on June 30, 2009 after remaining relatively stable at $5.2 billion, and $5.1 billion on June 30, 2008, and 2007, respectively. Please refer to the ERS' 2008 and 2007 CAFR for results of the actuarial valuation for those years.
- Total employee and employer contributions increased by $104.3 million, or 16.0% during FY 2009, $53.0 million, or 8.8%, during FY 2008 and $119.4 million, or 24.9%, during FY 2007. Increases for FY 2009 was due to the increase in required employer contribution rates, while FY 2008 and FY 2007 were primarily due to implementation of the new contributory Hybrid Plan that resulted in over 34,000 additional members making contributions to the ERS.
- Total pension plan benefit payouts increased $41.4 million or 5.2% during FY 2009 to $833.7 million compared to $31.3 million or 4.1% during FY 2008 to $792.3 million, and an increase of $40.5 million, or 5.6%, during FY 2007 to $761.0 million. Pension benefits continues to increase due to additional retirees and beneficiaries (36,999 in 2009, 36,260 in 2008, and 35,324 in 2007), an increase in the average pension benefit for new retirees, and the annual 2.5% post retirement increase.

- Administrative expenses increased by $2.3 million to $13.0 million in FY 2009, $1.1 million to $10.7 million in FY 2008, and $1.1 million to $9.6 million in FY 2007. Administrative expenses for all years were within the ERS' budgeted amounts. The main increase in FY 2009 was due to an increase maintenance costs for ERS' new pension management system and obtaining additional resources to manage backlogs resulting from the undertaking of several multi-year projects in 2005 that had implementation deadlines. The significant increase in maintenance fees is from implementing current computer technology for our pension management and imaging systems, and the expiration of the warranty periods for these recently installed systems. Higher costs were due to obtaining additional resources to handle backlogs resulting from increased workload of projects and staff vacancies; negotiated pay raises for employees, and increased communication mailings with the computer system conversion.
- Increases in FY2007 and FY 2008 expenses were due to increased staffing and several multi-year projects undertaken in late-FY 2005 to improve services and benefits to our members. The projects included the development of a communications and election campaign for the new Hybrid Plan that became effective on July 1, 2006; costs related to a new pension management information computer system; and the member statement project.

Analysis of Plan Net Assets for Pension Trust

Summary of Plan Net Assets
June 30, 2009, 2008, and 2007
(Dollars in millions)

	2009	2008	FY 2009 % change	2007	FY 2008 % change
Assets:					
Cash and short-term investments	$ 413.5	$ 716.3	(42.3) %	$ 805.9	(11.1) %
Receivables	443.3	384.0	15.4	260.9	47.2
Investments	8,922.1	11,034.3	(19.1)	11,367.5	(2.9)
Invested securities lending collateral	758.8	1,235.0	(38.6)	1,457.1	(15.2)
Capital assets	11.6	11.4	1.8	9.6	18.8
Total assets	10,549.3	13,381.0	(21.2)	13,901.0	(3.7)
Liabilities:					
Securities lending liability	758.8	1,235.0	(38.6)	1,457.1	(15.2)
Investment accounts and other payables	975.2	1,299.2	(24.9)	981.5	32.4
Total liabilities	1,734.0	2,534.2	(31.6)	2,438.6	3.9
Plan net assets	$ 8,815.3	$ 10,846.8	(18.7)	$ 11,462.4	(5.4)

Summary of Changes in Plan Net Assets
June 30, 2009, 2008, and 2007
(Dollars in millions)

	2009	2008	FY 2009 % change	2007	FY 2008 % change
Additions:					
Contributions	$ 756.4	$ 652.1	16.0 %	$ 599.1	8.8 %
Net investments income (loss)	(1,937.3)	(461.0)	(320.2)	1,705.0	(127.0)
Total additions	(1,180.9)	191.1	(717.9)	2,304.1	(91.7)
Deductions:					
Retirement benefit payments	833.7	792.3	5.2	761.0	4.1
Refund of contributions	3.9	3.7	5.4	3.5	5.7
Administrative expenses	13.0	10.7	21.5	9.6	11.5
Total deductions	850.6	806.7	5.4	774.1	4.2
Increase (decrease) in plan net assets	$ (2,031.5)	$ 615.6	(430.0)	$ 1,530.0	(59.8)

Investments, Investment Income, and Investment Expense

The ERS is a long-term investor and manages its pension assets with long-term objectives in mind. A primary element of the ERS' investment philosophy is diversification among various asset classes. The ERS makes estimates of long-term market returns and establishes an asset allocation strategy taking into account the risks associated with each asset class.

In FY 2009, the ERS incurred a 17.5% loss on investment assets due to losses in the real estate and equity markets. In FY 2008, the ERS experienced a 3.5% loss on investment assets with the start of turmoil in the world economy after several years of positive returns. The ERS' pension trust assets earned 17.7% on the investment portfolio in FY 2007. Only the international fixed income asset class had earnings in excess of the 8% portfolio benchmark for FY 2009 with returns of 9.82%, while domestic fixed income earned 5.80%. These positive earnings were more than offset by negative return in the remaining asset classes of domestic and international equities, real estate and alternative investments of -27.3%, -31.5%, -26.7% and -11.19%, respectively. The overall net investment loss resulting from the double-digit negative returns in FY 2009 was $1,937.3 million, following a net loss of $461.0 million in FY 2008 and net investment income of $1,705.0 million in FY 2007.

The asset distribution of the ERS' investment securities for the pension trust, excluding pending trade settlements and securities lending collateral, at June 30, 2009, 2008, and 2007 is presented below at fair value. Investment balances between the asset classes will change over time based on market sectors' performance and our rebalancing efforts to maintain asset allocation targets. Changes will also occur for financial reporting since certain real estate and alternative investments are reported on the consolidated method of accounting using the value of the underlying investments since ERS is the majority owner of the business organization. Please refer to the Investment Section of the CAFR for a discussion on asset allocation plan targets and investments by investment strategy.

Investments in short-term securities and cash are held by external investment managers for liquidity to settle pending trades and investments, and should not exceed ten percent of the investments. Fluctuations will occur based on the trading activity and timing of the settlements. The allocation to equity securities, including index funds and alternative investments, declined during FY 2009 and FY 2008, due to investment losses, portfolio rebalancing, and changes in manager line-up. Changes for

FY 2007 were due to the outstanding performance returns of the asset class and changes in the real estate manager line-up, with increases used to pay pension benefits and fund real estate and fixed income managers.

Asset Class
June 30, 2009, 2008, and 2007
(Dollars in millions)

	2009	**%**	**2008**	**%**	**2007**	**%**
Short term investments and cash	$ 413.5	4.5 %	$ 716.3	6.1 %	$ 805.9	6.6 %
Equity securities	4,541.7	48.6	6,156.2	52.4	7,126.2	58.5
Fixed income	3,000.9	32.1	3,258.3	27.7	2,729.2	22.4
Real estate	950.0	10.2	1,163.5	9.9	1,119.1	9.3
Alternative investments	429.5	4.6	456.4	3.9	393.1	3.2
Total assets	9,335.6	100.0	11,750.7	100.0	12,173.5	100.0
Less loans on real estate and alternative investments	257.9		283.0		281.0	
	$ 9,077.7		$ 11,467.7		$ 11,892.5	

Fixed income securities decreased in FY 2009 from cash requirements to pay pension benefits, although there were positive investment earnings. Fixed income securities increased in FY 2008 reflects positive investment earnings and rebalancing the portfolio per ERS' asset allocation strategy. In FY 2007, additional manager funding was offset by weak investment returns in the bond markets.

The decrease in real estate assets for FY 2009 reflects the decline in values following an increase in FY 2008 from positive investment earnings and funding additional managers. Although investment returns were positive for FY 2007, real estate related assets decreased due to the elimination on an investment manager during the year, and the pending funding of other investments.

Investment expenses consist primarily of investment management fees paid to external investment advisor firms that oversee the ERS' investment portfolio. Investment expenses decreased in FY 2009 and FY 2008 due to lower asset values that are used to calculate investment manager fees. The decrease in FY 2007 investment manager fees was due to a smaller increase in asset values compared to the previous year. Incentive fees are only paid to real estate managers upon the final disposition of the asset, although the net increase/decrease in the estimated fee is accrued for financial statement presentation annually. Net changes in the incentive fees are included in the liability for accounts and other payables on the combined statements of plan net assets. The decrease in FY 2009 investment management fees was also affected by the elimination of incentive fees accrued since certain asset values fell below the threshold return which incentive fees are earned from.

The ERS requires external managers to provide the ERS with a "most favored nations" contract clause that guarantees the ERS with the lowest management fees the managers offer their clients for investment accounts with similar investment mandates and similar account size. Certain investment managers may receive an incentive fee for superior investment returns while maintaining an acceptable level of investment risk.

In FY 2008, ERS completed the procurement for our custodian banking and securities lending services that resulted in lower total custody fees and securities lending management fees effective April 1, 2008.

Contributions

Contributions from employers and employees totaled $756.5 million, $652.1 million, and $599.1 million during FY 2009, FY 2008, and FY 2007, respectively. This represents an increase of $104.3 million, $53.0 million, and $119.4 million for the three years, respectively. Contributions increased during FY 2009 with higher employer contribution rates that became effective on July 1, 2008, higher employee salaries and the continued increase in members required to make contributions to ERS. Effective July 1, 2008, legislation passed in FY 2007, which increased employer contributions from 15.75% to 19.70% of covered payroll for police officers and firefighters and 13.75% to 15% for all other employees. Please refer to the Financial Section in the Employees' Retirement System (ERS) 2009 and 2008 Comprehensive Annual Financial Report (CAFR) for more information. The FY 2008 increase includes higher total payrolls and continued increase in the number of Hybrid members making contributions. The FY 2007 increase reflects approximately 30,000 more members making contributions to the ERS with the start of the Hybrid Plan.

Pension Plan Benefits and Expenses

Pension benefit payments are the primary expense of the ERS with payments totaling $833.7 million during FY 2009, $792.3 million during FY 2008, and $761.0 million during FY 2007. Pension benefits continued to increase during the three fiscal years due to the additional number of new retirees, higher pension benefits for recent retirees, and the annual post retirement increase for ERS' retirees.

Refunds to terminating members continued to increase slightly during the three years due to an increase in members making contributions under the Hybrid Plan and taking a refund compared previously to most members not making contributions to the ERS as a member of the Noncontributory Plan.

During FY 2009, administrative expenses increased $2.3 million due to increased post-warranty maintenance for ERS' new computer and imaging systems, special project consulting fees related to the finalization of benefit payments, and postage costs for informational mailings to members related to the transition of pension payments to our new pension management computer system. In FY 2008, administrative expenses increased $1.1 million to $10.7 million due to filling recently established positions and costs due to increased workload resulting from undertaking three major projects since 2005. These projects that began in 2005 increased the ERS' workload in the near term, reflect the ERS' long-term investment to improve members' services and benefits over the longer term. In FY 2007, administrative expenses increased $1.1 million to $9.6 million. The FY 2008 and 2007 expense increases relates to the phased-in approach of computer and office automation projects, including increases in maintenance and depreciation. Certain functionality of the new pension management information system and financial accounting packages were implemented during the fiscal year. For FY 2008, the largest increase reflects professional fees to support staff assigned to the multi-year projects. There was a decrease in computer and automation expenses with the capitalization of project costs in accordance with generally accepted accounting principles. Repairs and maintenance costs have increased over the past several years with the implementation of new server based technology required to operate the pension administration system that replaced legacy computer systems developed in the late-1980s. Personnel related costs included overtime due to increased workload for the three multi-year projects and salary and fringe benefit rate increases.

Pension Plan Changes

Pension plan changes, including legislative and Board of Trustees' actions, are summarized in the Introductory Section and Actuarial Section of the CAFR. The new "contributory" Hybrid Plan effective July 1, 2006 provides benefit enhancements to the members compared to the Noncontributory Plan, and was implemented on a cost-neutral basis to the employers. There is a three-year moratorium on benefit enhancements from January 2, 2008 to January 2, 2011, if there is a UAAL in the pension trust.

Actuarial Valuations and Funded Status

The ERS uses an actuarial reserve type of funding that is financed by member contributions, employer contributions, and earnings from invested assets. An independent actuarial valuation of the ERS' actuarial assets and liabilities is performed annually. As part of this valuation, the progress towards funding pension obligations of the retirement system is measured by comparing the actuarial value of assets to actuarial accrued liability. This measurement is referred to as the funded ratio or funded status.

The actuarial funded status decreased to 64.6% as of June 30, 2009 after increasing to 68.8% as of June 30, 2008, from 67.5% as of June 30, 2007 The ERS' UAAL increased to $6.2 billion after holding steady at $5.1 billion for several years. The decline in FY 2009 is primarily the result of investment losses in the past two fiscal years.

The improvement in the funded status as of June 2008 and June 2007 and stabilizing of the UAAL during that time is a combination of deferring part of our market loss, four years of positive investment earnings, and an increase in future required employer contribution rates.

The UAAL and funded ratio changes in prior years also include the impact of the employers' past practice of using the ERS' excess investment earnings to reduce their contributions. The diversion prevented the ERS from establishing reserves to weather periods of weak investment returns and capturing the earnings potential of the contributions when markets rise.

Under the percentage of payroll methodology for employer contribution funding, one of the primary purposes of the valuation report is to determine whether the adequacy of the current employer contribution rates is sufficient to amortize the UAAL within a specific number of years. Under the standards established by the Governmental Accounting Standards Board Statement No. 25 (GASB No. 25) that the ERS implemented in 1997, the standard for funding periods of the UAAL should not exceed 30 years.

The aggregate funding period, including the value of future employer and employee contributions, for the ERS as of June 30, 2009 was 28.2 years. This compares to 22.6 years and 25.5 years as of June 30, 2008 and 2007, respectively.

Requests for Information

This financial report is designed to provide a general overview of the Employees' Retirement System of the State of Hawaii's finances. For questions concerning any information in this report or for additional information, contact the Employees' Retirement System of the State of Hawaii, 201 Merchant Street, Suite 1400, Honolulu, Hawaii 96813.

Combining Statements of Plan Net Assets – All Trust and Agency Funds

June 30, 2009 and 2008

	2009		
	Pension Trust	Agency	
	Employees' Retirement System	Social Security Contribution	Total
Assets			
Cash and short-term investments (notes C(2) and F)			
Cash	$ 26,590,042	$ -	$ 26,590,042
Short-term investments	386,918,118	-	386,918,118
	413,508,160	-	413,508,160
Receivables			
Accounts receivable and others	8,447,716	-	8,447,716
Investment sales proceeds	352,928,523	-	352,928,523
Accrued investment income	38,325,734	-	38,325,734
Employer appropriations	39,667,378	-	39,667,378
Member contributions	3,899,010	-	3,899,010
	443,268,361	-	443,268,361
Investments, at fair value (notes C(2) and F)			
Equity securities	4,541,676,625	-	4,541,676,625
Fixed income securities	3,000,889,114	-	3,000,889,114
Real estate investments	950,005,842	-	950,005,842
Alternative investments	429,565,075	-	429,565,075
	8,922,136,656	-	8,922,136,656
Other			
Invested securities lending collateral (note F)	758,820,569	-	758,820,569
Equipment, at cost, net of depreciation	11,604,979	-	11,604,979
	770,425,548	-	770,425,548
Total assets	10,549,338,725	-	10,549,338,725
Liabilities			
Disbursements in excess of cash balances (note F)	4,660,418	-	4,660,418
Accounts and other payables	42,126,168	-	42,126,168
Investment commitments payable	670,580,396	-	670,580,396
Due to employers	-	-	-
Securities lending collateral (note F)	758,820,569		758,820,569
Notes payable (note C(2))	257,866,002	-	257,866,002
Total liabilities	1,734,053,553	-	1,734,053,553
Commitments and contingencies (notes F, G, and H)			
Net assets held in trust for pension benefits (note D) (a schedule of funding progress is presented on page 58)	$ 8,815,285,172	$ -	$ 8,815,285,172

See accompanying notes to financial statements

Financial Statements (continued)

2008		
Pension Trust	Agency	
Employees' Retirement System	Social Security Contribution	Total
$ 65,686,061	$ 4,291	$ 65,690,352
650,617,640	9,471,937	660,089,577
716,303,701	9,476,228	725,779,929
8,510,307	-	8,510,307
318,541,558	-	318,541,558
41,405,112	-	41,405,112
11,765,521	-	11,765,521
3,742,183	-	3,742,183
383,964,681	-	383,964,681
6,156,177,101	-	6,156,177,101
3,258,260,064	-	3,258,260,064
1,163,527,397	-	1,163,527,397
456,361,916	-	456,361,916
11,034,326,478	-	11,034,326,478
1,235,028,470	-	1,235,028,470
11,358,647	-	11,358,647
1,246,387,117	-	1,246,387,117
13,380,981,977	9,476,228	13,390,458,205
1,592,615	-	1,592,615
60,375,577	-	60,375,577
954,150,572	-	954,150,572
-	9,476,228	9,476,228
1,235,028,470	-	1,235,028,470
283,045,778	-	283,045,778
2,534,193,012	9,476,228	2,543,669,240
$ 10,846,788,965	$ -	$ 10,846,788,965

Financial Statements (continued)

Statements of Changes in Plan Net Assets – All Trust Funds

Years ended June 30, 2009 and 2008

	2009	2008
Additions		
Appropriations and contributions (notes A(4) and E)		
Employers	$ 578,672,058	$ 488,770,028
Members	177,781,610	163,375,639
Total contributions	756,453,668	652,145,667
Investment income (loss) (note F)		
From investing activities		
Net depreciation in fair value of investments	(2,224,141,979)	(778,897,646)
Interest on fixed income securities	140,213,583	124,116,798
Dividends on equity securities	88,239,771	112,013,702
Income on real estate investments	111,671,360	111,807,589
Interest on short-term investments	7,458,746	23,169,090
Alternative investment income	8,022,909	33,960,293
Miscellaneous	3,978,365	4,404,811
	(1,864,557,245)	(369,425,363)
Less investment expenses	80,503,576	101,514,821
Net investment loss from investing activities	(1,945,060,821)	(470,940,184)
From securities lending activities		
Securities lending income	15,777,475	61,308,269
Securities lending expenses		
Borrower rebates	6,668,106	49,457,874
Management fees	1,366,017	1,973,291
Less securities lending activities expense	8,034,123	51,431,165
Net investment income from securities lending activities	7,743,352	9,877,104
Total net investment loss	(1,937,317,469)	(461,063,080)
Total additions	(1,180,863,801)	191,082,587
Deductions		
Benefit payments (note A(3))	833,691,245	792,312,830
Refunds of member contributions	3,937,464	3,668,857
Administrative expenses	13,011,283	10,728,801
Total deductions	850,639,992	806,710,488
Net decrease in net assets	(2,031,503,793)	(615,627,901)
Net assets held in trust for pension benefits (note D)		
Beginning of year	10,846,788,965	11,462,416,866
End of year	$ 8,815,285,172	$ 10,846,788,965

See accompanying notes to financial statements.

June 30, 2009 and 2008

Note A – Description of the ERS

1. General

The Employees' Retirement System of the State of Hawaii (the ERS) began operations on January 1, 1926, having been established by the Territorial Legislature in the preceding year. The ERS is a cost-sharing, multiple-employer public employee retirement system established to administer a pension benefits program for all State and county employees, including teachers, police officers, firefighters, correction officers, judges, and elected officials. The ERS provides retirement, survivor and disability benefits with multiple benefit structures known as the contributory, hybrid and noncontributory plans.

Employer, pensioner, and employee membership data as of March 31, 2009 and 2008 are as follows:

	2009	2008
Employers:		
State	1	1
County	4	4
Total employers	5	5
Pensioners and beneficiaries currently receiving benefits:		
Pensioners currently receiving benefits:		
Police and firefighters	2,962	2,925
All other employees	31,467	30,968
Total pensioners	34,429	33,893
Beneficiaries currently receiving benefits:		
Police and firefighters	190	175
All other employees	2,380	2,192
Total beneficiaries	2,570	2,367
Total pensioners and beneficiaries	36,999	36,260
Terminated vested members entitled to benefits but not yet receiving benefits:		
Police and firefighters	242	198
All other employees	5,774	5,649
Total terminated vested members	6,016	5,847
Current employees:		
Vested:		
Police and firefighters	3,917	3,904
All other employees	38,187	37,824
Nonvested:		
Police and firefighters	1,038	1,011
All other employees	24,770	23,850
Total current employees	67,912	66,589
Total membership	110,927	108,696

Note A – Description of the ERS (continued)

2. The Financial Reporting Entity

As required by U.S. generally accepted accounting principles, these financial statements present the ERS (the primary government) as a separate reporting entity from the State of Hawaii (the State). The ERS is not part of the State's financial reporting entity because it is a separate legal entity that is fiscally independent of the State. The ERS was established by Chapter 88 of the Hawaii Revised Statutes and is governed by a Board of Trustees (the Board) as discussed below. The ERS is comprised of the Employees' Retirement System and Social Security Contribution Funds.

The Board administers the ERS on behalf of public employees of both the State and county governments. Except for limited administrative functions, the State does not have the power to supervise or control the Board in the exercise of its functions, duties, and powers. The Board consists of eight members. The State Director of Finance is a statutory member of the Board. Four members of the Board are elected by members of the ERS and the other three members of the Board are appointed by the Governor. Decisions are made with the concurring vote of five members of the Board. The Board appoints the Administrator and Chief Investment Officer and engages actuarial and other services required to transact the business of the ERS.

3. Plan Descriptions and Funding Policy

Members of the ERS belong to the contributory, hybrid, or noncontributory plan. All assets of the ERS (in the Pension Trust) may be used to pay benefits to any member of the ERS. Contribution rates are determined by state law. Effective July 1, 2008, the employer contribution rate for employees in the Police and Fire category increased from 15.75% to 19.70%, and the rate for employees in the All Other category increased from 13.75% to 15.00%. These employer contribution rates are applied to the total covered payroll in each respective category to determine the required employer contributions. Administration of the Pension Trust is financed through contributions from the employers and employees (if applicable) and investment earnings.

Employees covered by Social Security on June 30, 1984 were given the option of joining the noncontributory plan or remaining in the contributory plan. All new employees hired after June 30, 1984 and before July 1, 2006, who are covered by Social Security, were generally required to join the noncontributory plan. Qualified employees in the contributory and noncontributory plan were given the option of joining the Hybrid Plan effective July 1, 2006, or remaining in their existing plan. Starting July 1, 2006, all new employees covered by Social Security are required to join the Hybrid Plan.

The three plans provide a monthly retirement allowance equal to the benefit multiplier % (1.25% or 2%) multiplied by the average final compensation (AFC) multiplied by years of credited service. The AFC is the average salary earned during the five highest paid years of service, including the payment of salary in lieu of vacation, or three highest paid years of service, excluding the payment of salary in lieu of vacation, if the employee became a member prior to January 1, 1971. The AFC for members hired on or after this date is based on the three highest paid years of service excluding the payment of salary in lieu of vacation.

Note A – Description of the ERS (continued)

3. Plan Descriptions and Funding Policy (continued)

For post retirement increases, every retiree's original retirement allowance is increased by 2-1/2% on each July 1 following the calendar year of retirement. This cumulative benefit is not compounded and increases each year by 2-1/2% of the original retirement allowance without a ceiling (2-1/2% of the original retirement allowance the first year, 5% the second year, 7-1/2% the third year, etc.).

The following summarizes the three plan provisions relevant to the largest employee groups of the respective plan. Retirement benefits for certain groups, such as police officers, firefighters, some investigators, sewer workers, judges, and elected officials, vary from general employees. All contributions, benefits, and eligibility requirements are governed by Chapter 88 of the Hawaii Revised Statutes. For a more detailed summary of benefits for general employees and a description of special provisions to other groups of employees, refer to the Summary of Retirement Benefit Plan Provisions contained in the *Introductory Section* of this report.

Contributory Plan

General employees in the contributory plan are required to contribute 7.8% of their salary and are fully vested for benefits upon receiving 5 years of credited service. Under the contributory plan, employees may retire with full benefits at age 55 and 5 years credited service, or may retire early at any age with at least 25 years of credited service and reduced benefits. The benefit multiplier is 2% for employees covered by Social Security.

Police officers, fire-fighters, and certain other members that are not covered by Social Security contribute 12.2% of their salary and receive a retirement benefit using the benefit multiplier of 2-1/2% for qualified service, up to a maximum of 80% of AFC. These members may retire at age 55 with 10 years of credited service or at any age with 25 years of credited service, provided the last 5 years of credited service is any of the qualified occupations.

Hybrid Plan

General employees in the Hybrid Plan are required to contribute 6% of their salary and are fully vested for benefits upon receiving 5 years of credited service. Employees may retire with full benefits at age 62 and 5 years of credited service or at age 55 and 30 years of credited service, or may retire at age 55 and 20 years service with reduced benefits. The benefit multiplier used to calculate retirement benefits is 2%.

Noncontributory Plan

General employees in the noncontributory plan are fully vested upon receiving 10 years of credited service. The employer is required to make all contributions for these members. Employees may retire with full benefits at age 62 years and 10 years of credited service or age 55 and 30 years of credited services or age 55 years and 20 years of credited service with reduced benefits. The benefit multiplier used to calculate retirement benefits is 1-1/4%.

Note A – Description of the ERS (continued)

3. Plan Descriptions and Funding Policy (continued)

Ordinary disability retirement benefits require a minimum of ten years of service, whereas service-connected disability resulting from a job-related accident does not have any service requirement. Under all three plans, there is no age requirement.

Ordinary death benefits under the contributory, hybrid, and noncontributory plans require at least one year, five years, and ten years of service, respectively. Under all three plans, there is no service requirement for service-connected death benefits.

Schedule of Funded and Funding Progress

Actuarial valuation date	June 30, 2009
Actuarial value of assets (a)	$11,400,116,874
Actuarial Accrued Liability (AAL)	
Entry Age (b)	$17,636,432,316
Unfunded AAL (UAAL) (b-a)	$6,236,315,442
Percent Funded (a/b)	64.6%
Annual covered payroll (c)	$4,030,121,060
UAAL Percentage of Covered Payroll ((b-a)/c)	155%

Multi-year trend information regarding whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits can be found in the required supplementary information following the *Notes to the Financial Statements.*

Additional information as of the June 30, 2009 actuarial valuation follows:

Valuation date	June 30, 2009
Actuarial cost method	Entry Age Normal
Amortization method	Level percent, open
Remaining amortization period as of June 30, 2009	28.2 years
Asset valuation method	4-year smoothed market
Actuarial assumptions	
Investment rate of return (set by statute) *	8.00%
Projected salary increases *	4.00% to 17.75%
* Includes inflation at	3.00%
Cost of living adjustments (COLAs) **	2.5%

** COLAs are not compounded; they are based on original pension amounts.

4. The ERS as Employer

As an employer, the ERS participates in its pension benefits program, through the State. The ERS provides benefits for all of its full-time employees through the contributory or noncontributory plan. Contributions are calculated as part of the State's total contribution requirements and are reimbursed to the State's General Fund as part of the fringe benefit rate on the ERS' employees' actual salaries.

Note A – Description of the ERS (continued)

4. **The ERS as Employer (continued)**

The required pension contributions by all participating employers (in thousands) for the years ended June 30, 2009, 2008, and 2007, were $526,538, $510,727, and $476,754, respectively, which represented 13.1%, 13.5%, and 13.6% of covered payroll. Actual contributions (in thousands) by all employers for the years ended June 30, 2009, 2008, and 2007, were $578,672, $488,770, and $454,494, respectively, which represented 109.9%, 95.7%, and 95.3%, of the required contributions for each year.

5. **Other Post Employment Benefits (OPEB)**

In addition to the retirement benefits provided by the ERS Pension Trust, the participating employers, pursuant to Hawaii Revised Statutes (HRS) Chapter 87, provides certain health care and life insurance benefits to all qualified employees and retirees.

For employees hired before July 1, 1996, the employer pays the entire monthly healthcare premium for employees retiring with ten or more years of credited service, and 50% of monthly premiums for employees retiring with fewer than ten years of credited services.

For employees hired after June 30, 1996, and who retire with fewer than 10 years of service, the employer makes no contributions. For those retiring with more than 10 years but fewer than 15 years, the employer pays 50% of the retired employees' monthly Medicare or non-Medicare premium. For employees hired after June 30, 1996 and who retire with at least 15 years but fewer than 25 years of credited service, the employer pays 75% of the retired employees' monthly Medicare or non-Medicare premium; for those retiring with over 25 years of credited service, the employer pays the entire healthcare premium.

Retirees are eligible for $2,372 of employer-sponsored, basic life insurance coverage with premiums paid entirely by the employer.

Note B – Social Security Contribution Fund

The Social Security Contribution Fund (Contribution Fund) was established under Section 88-224 of the HRS for the following purposes:

1. To receive all federal Social Security employers' contributions from the State and interest and penalties on unpaid amounts;

2. To receive any appropriations to the Contribution Fund;

3. To pay amounts required to be paid to the Internal Revenue Service (IRS); and

4. To invest and collect income on resources held by the Contribution Fund.

Note B – Social Security Contribution Fund (continued)

All other non-State governmental agencies remit Social Security contributions directly to the IRS. Social Security contributions withheld from employees are remitted directly to the IRS by the employers. The Contribution Fund is considered an agency fund for financial reporting purpose

Note C – Summary of Accounting Policies

A summary of the significant accounting policies consistently applied in the preparation of the accompanying financial statements follows:

1. Basis of Accounting

Fiduciary funds are used to account for assets held by the ERS in a trustee capacity or as an agent for individuals, private organizations, other governments, and/or other funds. The fiduciary fund types used by the ERS are a pension trust fund and an agency fund. Each of the fiduciary funds is considered a separate fiscal and accounting entity with a self-balancing set of accounts that comprise its assets, liabilities, equity, revenues and expenditures, or expenses, as appropriate. The accounting and reporting treatment applied to a fund is determined by its measurement focus. The Pension Trust Fund is accounted for on a flow of economic resources measurement focus. As an agency fund, the Contribution Fund is custodial in nature and does not measure results of operations.

The 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.

2. Investments

Pursuant to Sections 88-119 and 88-119.5 of the HRS, the Pension Trust Fund may invest in real estate loans and mortgages; preferred and common stocks; government obligations; corporate obligations; certain other debt obligations (such as obligations secured by collateral of certain other authorized securities listed here, obligations issued or guaranteed by certain development banks, insurance company obligations); real property; alternative investments; and other securities and futures contracts. The investment decision is further dictated by internal investment policies and asset allocation established by the Board. Use of leverage is restricted to certain asset classes in order to enhance yields of approved investments and/or to facilitate diversification of the portfolio. The use of debt must result in positive leverage where cash flow is in excess of debt service. Assets in the Pension Trust Fund may be invested in any of these assets, while investments in the Contribution Fund are limited to investment grade, short-term marketable securities.

Note C – Summary of Accounting Policies (continued)

2. Investments (continued)

Investments are reported at fair value. Where appropriate, the fair value includes disposition costs. Short-term investments are reported at cost, which approximates fair value. Securities (categorized as fixed-income, equity, index funds, and alternative investments) traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Mortgages are valued on the basis of future principal and interest payments. Fair values of limited partnership investments are based on valuations of the underlying companies of the limited partnerships as reported by the general partner. Fair values of commingled funds are determined based on the underlying asset values. The fair value of real estate investments is based on independent appraisals and estimated values. Investments that do not have an established market are reported at estimated fair value.

Notes payable are shown at estimated fair values. Notes payable consists of mortgage notes within the limited liability companies and limited partnerships that is secured by real estate of the respective company.

3. Interest and Earnings Allocation

Pursuant to Sections 88-21 and 88-107 of the HRS, the Board shall annually allocate interest and other earnings of the Pension Trust Fund to the funds of the Pension Trust Fund, as follows:

a. Annuity Savings Fund – Fixed at 4-1/2% regular interest rate

b. Expense Fund – To be credited with all money to pay the administrative expenses of the ERS

c. Pension Accumulation Fund – To be credited with any remaining investment earnings.

4. Risk Management

The ERS reports liabilities, as discussed in note G, related to certain types of losses (including torts, theft of, damage to, or destruction of assets, errors or omissions, natural disasters, and injuries to employees) when it is probable that the losses have occurred and the amount of those losses can be reasonably estimated.

5. Use of Estimates

In preparing financial statements in conformity with U.S. generally accepted accounting principles, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, 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.

Note C – Summary of Accounting Policies (continued)

5. **Use of Estimates (continued)**

Investments in venture capital and other alternative assets tend to be illiquid and the underlying assets are generally not publicly traded companies. Because of the inherent uncertainty in valuing privately held securities, the fair value may differ from the values that would have been used had a ready market for such securities existed, and the difference can be material. Accordingly, the realized value received upon the sale of the asset may differ from the recorded fair value.

6. **Reclassification**

Certain balances of the financial statements have been reclassified for the year ending June 30, 2008 to be comparable with the current year presentation.

Note D – Description of Funds

Section 88-109 of the HRS requires the establishment and maintenance of specific funds within the ERS. The funds in the Pension Trust Fund and their purposes are described hereunder:

1. **Pension Accumulation Fund**

To accumulate contributions made by the State and counties, transfers of retired members' contributions plus related interest income from the Annuity Savings Fund and income from investments. All pension benefits, including the pensioners' bonus, are paid through this fund.

2. **Annuity Savings Fund**

To accumulate members' contributions and related interest income. Upon a member's retirement, the accumulated contributions and related interest income are transferred to the Pension Accumulation Fund or refunded to the member upon termination.

3. **Expense Fund**

To pay all the expenses necessary in connection with the administration and operation of the ERS. The Board estimates the amount of money necessary to be paid into the expense fund for the ensuing biennium to provide for the expense of operation of the ERS, and pays that amount into the expense account from the investment earnings of the ERS, subject to review by the legislature and approval by the Governor.

Note D – Description of Fund (continued)

Net assets held in trust for pension benefits as of June 30, 2009 and 2008 are as follows:

	2009	2008
Pension Accumulation Fund	$ 7,530,363,041	$ 9,726,795,072
Annuity Savings Fund	1,270,761,230	1,105,627,636
Expense Fund	14,160,901	14,366,257
Total net assets held in trust for pension benefits	$ 8,815,285,172	$ 10,846,788,965

Note E – Contributions

The ERS' funding policy provides for periodic employer contributions expressed as a percentage of annual covered payroll. The funding method used to calculate the total employer contribution required is the entry age normal actuarial cost method. Employer contributions are governed by Chapter 88 of the HRS.

Since July 1, 2005, employer contribution rates are a fixed percentage of compensation, including the normal cost plus amounts required to pay for the unfunded actuarial accrued liability. As of July 1, 2008, employers contribute 19.70% for their police officers and firefighters, and 15.00% for all other employees. Employer rates are set by statute based on the recommendation of the ERS actuary resulting from an experience study conducted every five years.

From July 1, 2005 to June 30, 2008, the required contribution rates for employers were 15.75% for their police officers and firefighters, and 13.75% for all other employees.

Prior to July 1, 2005, the actuary calculated an annual contribution amount for the employer contribution consisting of the "normal cost" plus the level annual payments required to amortize the unfunded actuarial accrued liability over the closed period ending June 30, 2029. The employer normal cost is the level percentage of payroll contribution required to pay all benefits. Actuarial gains and losses resulting from differences between actual and assumed experience are reflected in the employer unfunded accrued liability.

Member contributions rates are statutorily established in accordance with Chapter 88 of the HRS, and are discussed in note A.3. Plan Descriptions and Funding Policy above.

Note F – Deposits and Investment Risk Disclosures

1. **Deposits**

Custodial Credit Risk for Deposits is the risk that in the event of a bank failure, the ERS' deposits may not be returned to them. The ERS has not adopted a formal policy specific to custodial credit risk. The ERS' policy is to deposit cash in excess of operating requirements in income producing investments to maximize investment income.

The deposits are held in several financial institutions, including the custodian bank for processing investment transactions. Per State statute, deposits, held by banks located in the State, in excess of Federal Deposit Insurance Corporation (FDIC) coverage are guaranteed by securities pledged as collateral by the bank with the State Director of Finance. Uninsured and uncollateralized amounts are primarily cash held by the investment custodian for settlement of investment transactions. The float caused by outstanding checks in the operating funds is invested, thus causing a possible negative book balance. Deposits are presented in the basic financial statements at cost, which represents market or fair value. The float for outstanding checks is included in the liabilities section of the Combining Statement of Plan Net Assets.

At June 30, 2009 and 2008, the carrying amount of deposits totaled approximately $26,590,042 and $64,097,737, respectively, and the corresponding bank balance was $26,793,679 and $68,023,794, respectively, of which $26,330,945 and $67,474,390, respectively, were exposed to custodial credit risk. The following shows the aggregate book and bank balances of all cash accounts.

	June 30, 2009	June 30, 2008
Carrying Amounts of Deposit - Book		
Cash	$ 26,590,042	$ 65,690,352
Disbursements in excess of cash balances	(4,660,418)	(1,592,615)
Total book balances	$ 21,929,624	$ 64,097,737
Depository Account - Bank Investment Custodian		
Insured	$ 462,734	$ 549,404
Subject to custodial credit risk		
Uninsured and collateral held by pledging bank's trust department not in the ERS' name (in name of Director of Finance, State of Hawaii)	1,371,183	3,288,164
Uninsured and uncollateralized	24,959,762	64,186,226
Total subject to custodial credit risk	26,330,945	67,474,390
Total bank balances	$ 26,793,679	$ 68,023,794

Note F – Deposits and Investment Risk Disclosures (continued)

2. Investments

As a long-term investor, the ERS has established through its investment policy that preservation of capital is the primary goal of the ERS. Preservation of capital is to be attained with a consistent, positive return for the fund by diversifying the investment portfolio. The ERS recognizes risk associated for individual securities or asset classes may be reduced through diversification. Investments will be prudent and consistent with the best investment practices, in accordance with the Board's asset allocation strategy, assigned investment mandate, and in compliance with Chapter 88, HRS, as amended. The following table shows the investments of the ERS by investment type as of June 30, 2009 and 2008. Please refer to note C(2) above for a discussion of fair value on investments.

Investments	**June 30, 2009**	**June 30, 2008**
Short-term securities pool, Social Security Contribution Fund	$ -	$ 9,471,937
Short-term securities, domestic	-	32,000,524
Short-term securities, international	-	13,224,380
Short-term securities pools	386,918,118	605,293,129
Fixed income securities, domestic (including fixed income options, futures, and swaps of ($7,891,409) and ($6,773,761) as of June 30, 2009 and 2008, respectively)	2,013,742,531	1,959,136,223
Fixed income securities, international (including fixed income options, futures, and swaps of $6,849,080 and ($1,951,628) as of June 30, 2009 and 2008, respectively)	674,477,969	845,612,034
Equity securities, domestic	1,763,531,123	2,470,161,206
Equity securities, international	1,099,321,530	1,652,032,945
Real estate investments	950,005,842	1,163,527,397
Alternative investments	429,565,075	456,361,916
Equity securities, domestic (pooled including index funds)	1,054,798,551	974,163,732
Equity securities, international (pooled including index funds)	201,964,144	288,658,161
Investments held by broker-dealers under securities lending program (excluding securities sold, pending trade settlement):		
Short-term investments, domestic	-	99,607
Fixed income securities, domestic	304,762,539	431,995,246
Fixed income securities, international	7,906,075	21,516,561
Equity securities, domestic	260,463,128	548,282,911
Equity securities, international	161,598,149	222,878,146
Total investments	$ 9,309,054,774	$ 11,694,416,055
Securities lending collateral pool	$ 758,820,569	$ 1,235,028,470

Note F – Deposits and Investment Risk Disclosures (continued)

3. Credit Risk Debt Securities

The ERS' fixed-income managers are assigned a domestic - "core bond" or "core bond plus" – or an international mandate by the Board. The ERS expects its debt securities investment managers to maintain diversified portfolios by using the following guidelines:

- Securities with a quality rating of below BBB are considered below investment grade.
- Invest in commercial paper (rated A1/P1); certificates of deposits and bankers acceptance; U.S. government and agency securities; 144A private placements; convertible bonds; collateralized mortgage obligations and asset backed securities; and corporate debt issues rated BBB or better.
- Domestic managers assigned a "core bond plus" mandate may:
  - Invest in preferred stock up to 10% of portfolio market value.
  - Allocate up to 15% in below investment grade or nonrated instruments, but the average credit rating for this "high yield" portion may not be below B rating.
    - Emerging market debt of up to 7.5% of portfolio (counted against the 15% below investment grade limit) must be owned by U.S. dollar denominated issues only; must be B rating or higher; and limited to countries in the JP Morgan Emerging Bond Index.
  - Allocate up to 15% of portfolio to non-U.S. dollar bonds (exclusive of any emerging market debt, which is applied to high yield allocation as outlined above).
- International managers may:
  - Not invest in U.S. dollar denominated securities, with the exception of cash equivalents.
  - Invest in foreign government securities and foreign corporate debt issues as described above for domestic securities.
  - Foreign debt securities are restricted to BBB or better quality rating.
  - Invest up to 10% of portfolio in emerging market debt and emerging market currency.

A table of the ERS' fixed income securities as of June 30, 2009 and 2008 is below. The weighted quality rating average of the domestic debt securities, excluding pooled investments, at June 30, 2009 is AA and the fair value of below grade investments is $194,369,154 or 8.4% of domestic securities in the portfolio. The weighted average of the international debt securities investments at June 30, 2009 is A and the fair value of below grade investments is $40,347,033 or 5.9% of the international allocation. On June 30, 2008, the weighted quality rating average of the domestic debt securities, excluding pooled investments, is AA and the fair value of below grade investments is $135,893,053 or 5.7% of the domestic securities. The weighted average of the international debt securities investments is AA and the fair value of below grade investments is $32,998,931 or 3.8% of the international section. All short-term investments, not held in a pooled investment, are rated A1/P1 or better.

4. Custodial Credit Risk

Custodial credit risk for investments is the risk that, in the event of a failure of the counterparty, the ERS will not be able to recover the value of the investment or collateral securities that are in the possession of an outside party. All securities, except certain pooled funds, are registered in the name of the ERS and are held in the possession of the ERS' custodial bank, Northern Trust. Pooled funds not held by the custodial bank, such as certain equity investments, are registered in the name of the ERS.

Note F – Deposits and Investment Risk Disclosures (continued)

5. Concentrations of Credit Risk

The ERS' debt securities managers are expected to maintain diversified portfolios by sector, quality, and maturity as discussed above in Credit Risk Debt Securities.

Equity securities shall be diversified by industry and in number. An investment manager may not hold more than 5% of an individual company's stock; if that company's securities represent less than 3% of the investment manager's respective benchmark. (If those securities constitute more than 3% of the respective benchmark, then the manager shall not hold more than the benchmark weight plus 2 percentage points.)

At June 30, 2009 and 2008, there was no single issuer exposure within the ERS' portfolio that comprises over 5% of the overall portfolio, or an investment that exceeded the above manager guidelines, and therefore, there is no concentration of credit risk.

Quality Rating	June 30, 2009			June 30, 2008		
	Domestic	International	Total	Domestic	International	Total
AAA	$ 465,594,105	$ 223,985,704	$ 689,579,809	$ 541,283,140	$ 414,288,738	$ 955,571,878
AA	100,959,980	97,000,550	197,960,530	129,171,228	202,741,005	331,912,233
A	319,583,597	185,258,595	504,842,192	190,575,081	160,126,391	350,701,472
BBB	195,147,438	135,792,162	330,939,600	131,934,681	56,973,530	188,908,211
BB	78,019,924	11,143,986	89,163,910	57,217,546	22,866,780	80,084,326
B	51,903,134	13,706,804	65,609,938	55,153,681	10,194,498	65,348,179
CCC	24,988,344	801,084	25,789,428	5,204,316	-	5,204,316
CC	3,857,347	2,664,057	6,521,404	-	-	-
C	2,858,304	33,837	2,892,141	112,950	-	112,950
D	120,717	270,750	391,467	-	-	-
Not rated	32,621,384	11,726,515	44,347,899	18,204,559	(62,347)	18,142,212
Total credit risk debt securities	1,275,654,274	682,384,044	1,958,038,318	1,128,857,182	867,128,595	1,995,985,777
U.S. government and agencies	1,042,850,796	-	1,042,850,796	1,262,274,287	-	1,262,274,287
Total debt securities investment	$ 2,318,505,070	$ 682,384,044	$ 3,000,889,114	$ 2,391,131,469	$ 867,128,595	$ 3,258,260,064

6. Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The ERS 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.

Note F – Deposits and Investment Risk Disclosures (continued)

6. Interest Rate Risk (continued)

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. At June 30, 2009 and 2008, the table below shows fixed income investment securities by investment type, amount, and the effective weighted duration for the ERS' total portfolio. Interest rate risk associated with swaps and other derivative instruments are discussed in the derivatives disclosure below:

Effective Duration of Fixed Income Assets by Security Type

	June 30, 2009		June 30, 2008	
	Fair value	Effective Weighted Duration (Years)	Fair Value	Effective Weighted Duration (Years)
Domestic Fixed Income Securities				
Asset backed securities	$ 51,085,672	0.5	$ 70,097,972	0.4
Commercial mortgage backed securities	39,449,002	5.6	31,202,698	4.7
Corporate bonds	756,918,045	4.5	585,863,914	4.4
Fixed income options, futures, and swaps	(7,891,409)	n/a	(6,773,761)	n/a
Government agencies	126,609,694	2.1	56,433,923	3
Government bonds	-	n/a	-	n/a
Government mortgage backed securities	1,037,843,273	2.1	1,102,982,600	4.6
Municipal/provincial bonds	10,662,216	10.8	7,145,676	11.6
Non-government backed CMOs	82,286,276	1.5	155,106,878	1.6
Other fixed income	-	n/a	9,932,411	0.3
U.S. Treasuries	221,542,301	3.8	379,139,158	7
Total fixed income securities, domestic	$ 2,318,505,070	3.3	$ 2,391,131,469	4.6
International Fixed Income Securities				
Asset backed securities	$ 1,105,577	0.1	$ 12,587,964	0.1
Corporate bonds	303,722,984	4.6	234,033,156	4.1
Fixed income options, futures, and swaps	6,849,080	n/a	(1,951,628)	n/a
Government agencies	102,208,327	5.5	175,222,843	6.2
Government bonds	225,070,475	5.9	397,603,283	6.2
Municipal/provincial bonds	39,340,310	4.3	30,693,676	3.9
Non-government backed CMOs	4,447,291	0	11,617,277	0.1
Other fixed income	-	n/a	7,322,024	0
Total fixed income securities, international	$ 682,744,044	5.1	$ 867,128,595	5.4
Fixed Income Securities - All	$ 3,001,249,114	3.7	$ 3,258,260,064	4.6

7. Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely impact the fair value of an investment. The foreign currency risk exposure to the ERS arises from the international fixed income and international equity investment holdings.

Note F – Deposits and Investment Risk Disclosures (continued)

7. Foreign Currency Risk (continued)

Board policy limits the use of foreign currency as a defensive measure to protect the portfolio value of non-U.S. equity and non-U.S. fixed income investments. External investment managers authorized to invest in these securities are given full discretion regarding their respective portfolio's foreign currency exposures, including using currency forward contracts, as established by their investment mandate. Cross-hedging is only allowed in non-U.S. fixed income portfolios. Counterparties for foreign currency derivatives must be rated A or equivalent. Derivatives investments are discussed in more detail below.

The following table summarizes the ERS' exposure to foreign currency risk in U.S. dollars as of June 30, 2009 and 2008. (Amounts are in millions, and securities denominated in U.S. dollars are not presented.)

	June 30, 2009				June 30, 2008			
Currency (dollars in millions)	Cash and STIF	Fixed Income	Equity	Total	Cash and STIF	Fixed Income	Equity	Total
Australian Dollar	$ 1	$ 46	$ 40	$ 87	$ 5	$ 38	$ 47	$ 90
Brazilian Real	-	1	11	12	-	1	20	21
New Bulgarian Lev	-	-	-	-	-	-	2	2
Canadian Dollar		1	11	12	15	9	15	39
Czech Koruna	-	-	1	1	-	-	3	3
Danish Krone	-	8	10	18	-	9	9	18
Egyptian Pound	-	-	2	2	-	-	2	2
Euro	2	282	323	607	-	349	555	904
British Pound Sterling	1	57	211	269	8	65	244	317
Hong Kong Dollar	-	-	84	84	5	-	61	66
Hungarian Forint	-	22	2	24	-	-	5	5
Indonesian Rupiah	-	-	1	1	-	-	6	6
Israeli Shekel	-	-	-	-	-	-	3	3
Japanese Yen	2	51	174	227	4	146	281	431
Korean Won	-	-	22	22	-	-	27	27
Mexican Peso	-	-	8	8	-	-	17	17
Malaysian Ringgit	-	-	3	3	-	-	-	-
Norwegian Krone	-	-	12	12	-	-	29	29
New Zealand Dollar	-	24	-	24	-	28	-	28
Polish Zloty	-	41	4	45	-	46	9	55
Romanian Leu	-	-	-	-	-	-	1	1
Swedish Krona	-	-	7	7	1	9	8	18
Singapore Dollar	-	-	10	10	2	-	14	16
Swiss Franc	-	-	89	89	-	-	97	97
Thai Baht	-	-	7	7	-	-	8	8
New Turkish Lira	-	-	5	5	-	-	10	10
New Taiwan Dollar	-	-	17	17	1	-	25	26
South African Rand	-	14	7	21	-	-	4	4
Pooled investments (multi-currency)	-	-	202	202	-	-	289	289
Total	$ 6	$ 547	$ 1,263	$ 1,816	$ 41	$ 700	$ 1,791	$ 2,532

Note F – Deposits and Investment Risk Disclosures (continued)

8. Securities Lending

The ERS participated in a securities lending program administered by its bank custodians. Under this program, which is permissible under Chapter 88 of the HRS, certain equity and fixed-income securities of the ERS were lent to participating broker-dealers and banks (borrowers). In return, the ERS received cash, securities issued or guaranteed by the U.S. government, and/or letters of credit as collateral. The ERS did not have the ability to pledge or sell collateral securities absent of borrower default. Borrowers were required to deliver collateral for each loan equal to: (a) in the case of loaned fixed-income securities and loaned equity securities denominated in U.S. dollars or whose primary trading market was located in the U.S., 102% of the market value of the loaned securities; and (b) in the case of loaned equity securities not denominated in U.S. dollars or whose primary trading market was not located in the U.S., 105% of the market value of the loaned securities. The collateral was marked to market daily. If the market value of the collateral fell below the minimum collateral requirements, additional collateral was provided. Securities on loan for cash collateral with the broker dealers are identified in the schedule of investments above; securities on loan for securities collateral are classified according to the underlying security. At June 30, 2009 and 2008, the ERS had no credit risk exposure to borrowers because the market value of collateral held by the ERS exceeded the market value of securities loaned. As of June 30, 2009 and 2008, the market value of securities loaned amounted to approximately $734,729,892 and $1,224,772,471, respectively, and the associated collateral amounted to approximately $761,075,558 and $1,264,158,946 (of which $758,820,569 and $1,235,028,470 was in the form of cash), respectively. In addition, the bank custodians indemnified the ERS by agreeing to purchase replacement securities or return cash collateral in the event the borrower failed to return the loaned security or failed to pay the ERS for income distributions by the securities' issuers while the securities are on loan.

The ERS did not impose any restrictions on the amount of loans the bank custodian made on behalf of the ERS. Also, the ERS and the borrowers maintained the right to terminate securities lending transactions on demand. Cash collateral is invested in the lending agent's short-term investment pool. As such, the maturities of the investments made with cash collateral generally did not match the maturities of the securities loans. The extent of such mismatch as of June 30, 2009 and 2008 was 56 and 73 days, respectively.

9. Derivative Financial Instruments

Derivatives are instruments (securities or contracts) whose value is dependent on such things as stock or bond prices, interest rate levels, or currency exchange rates. These are financial arrangements between two parties whose payments are based on or "derived" from the performance of some agreed-upon benchmark. As with any investment, derivative contracts are subject to various types of credit and market risks. Notably, these would include the possible inability of a counterparty to meet the terms of the contract, changes in the market value of the underlying collateral, or changes in the interest rate environment. The ERS enters into various derivative investment contracts to hedge, for the minimization of transaction costs and as a means of implementing value added strategies to enhance returns as authorized by Board policy.

Note F – Deposits and Investment Risk Disclosures (continued)

9. Derivative Financial Instruments (continued)

Generally, derivatives are subject both to market risk and counterparty risk. The derivatives utilized by the ERS 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 ERS anticipates that counterparties will be able to satisfy their obligations under the contracts.

Derivative securities are priced and accounted for at their fair value. For exchange traded securities such as futures and options, closing prices from the securities exchanges are used. For fixed income derivatives such as collateralized mortgage obligations (CMOs), commercial pricing services (where available) or bid-side prices from a broker/dealer are used. Foreign exchange contracts are valued at the price at which the transaction could be settled by offset in the forwards markets.

The tables on the following pages summarize certain of the ERS' investments in derivative securities and contracts, held at June 30, 2009 and 2008, and their associated credit and market risks are described as follows: including currency forwards, futures, options and swaps. The notional values associated with these derivative instruments are generally not recorded in the financial statements; however, the amounts for the exposure (unrealized gains/losses) on these instruments are recorded. Interest risks associated with these investments are included in the tables. Investments in limited partnerships and commingled funds may include derivatives that are not shown in the derivative totals.

Forward Currency Exchange Contracts

The ERS enters into various forward currency exchange contracts to manage exposure to changes in foreign currency exchange rates and to facilitate the settlement of foreign security transactions. A forward contract is an agreement to buy or sell a specific amount of currency at a specific delivery or maturity date for an agreed-upon price. Risks associated with such contracts include movements in the value of the foreign currency relative to the U.S. dollar and the ability of the counterparty to perform in accordance with the terms of the contract. Changes in the market value of open and closed forward contracts are recorded as net appreciation (depreciation) in fair value of investments in the Statement of Changes in Plan Net Assets – All Trust Funds. The fair value of forward currency exchange contracts outstanding at June 30, 2009 and 2008 is as follows:

	June 30, 2009	June 30, 2008
Forward currency purchases	$ 968,376,969	$ 853,882,344
Forward currency sales	(992,851,154)	(856,669,031)
Unrealized losses	$ (24,474,185)	$ (2,786,687)

Note F – Deposits and Investment Risk Disclosures (continued)

9. Derivative Financial Instruments (continued)

Futures

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 (exchange traded) thereby minimizing the ERS' credit risk. The net change in the futures contracts 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 securities in the Statement of Changes in Plan Net Assets – All Trust Funds. At June 30, 2009 and 2008, the ERS' investments had the following notional balances:

Futures Contracts ***Notional amount covered by Contract***	**June 30, 2009**	**June 30, 2008**
Long - cash and cash equivalents - futures	$ -	$ (3,217,203)
Short - cash and cash equivalents - futures	-	804,856,871
Long - debt securities - futures	(10,884,828)	(72,539,416)
Short - debt securities - futures	170,928,800	183,780,816
Net notional amounts on open contracts	$ 160,043,972	$ 912,881,068

Options

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

At June 30, 2009 and 2008, the ERS' investments had the following option balances:

Options	**June 30, 2009**	**June 30, 2008**
Cash and cash equivalents written put options	$ (394)	$ -
Fixed income purchased call options	9,331,788	2,180,705
Fixed income written call options	-	(4,261,589)
Fixed income purchased put options	-	236,454
Fixed income written put options	(50,035)	(572,350)
Unrealized gains (losses)	$ 9,281,359	$ (2,416,780)

Note F – Deposits and Investment Risk Disclosures (continued)

9. Derivative Financial Instruments (continued)

Mortgage-Backed Securities

The ERS invests in mortgage-backed securities issued or backed by the U.S. government or its agencies, or corporate issues rated AAA by at least one of the major rating agencies. A mortgage-backed security depends on the underlying pool of mortgage loans to provide the cash flow to make principal and interest payments on the security. Therefore, they are sensitive to prepayments by mortgagees, which may result from a decline in interest rates. For example, if interest rates decline and homeowners refinance mortgages, thereby prepaying the mortgages underlying these securities, the cash flows from interest payments are reduced and the value of these securities declines. Conversely, if homeowners pay on mortgages longer than anticipated, the cash flows are greater and the return on the investment would be higher than anticipated. A collateralized mortgage obligation (CMO) is a mortgage-backed security that is comprised of classes of bonds created by prioritizing the cash flows of the underlying mortgage pool. Mortgage-backed securities held by the ERS as of June 30, 2009 and 2008 are presented in the tables within this note.

Swaps

Swaps represent an agreement between two or more parties to exchange sequences of cash flows over a period in the future. At June 30, 2009 and 2008, the ERS had interest rate, credit default swaps, and total return swaps as allowed by Board policy. In the most common type of interest rate swap arrangement, one party agrees to pay fixed-interest payments on designated dates to a counterparty who, in turn, agrees to make return interest payments that float with some reference rate. Credit default swaps are the most common global credit market derivative that allows flexibility as an active portfolio management tool based on its ability to customize the exposure to corporate credit such as credit spreads and default risks. Total return swaps combine both market risk and credit risk in a single product as the holder also receives capital gains or losses. Credit default spreads and total return swaps are also used to gain access to global markets that do not have the transparency or efficiency of the U.S. credit markets. Gains and losses from swaps are determined on market values and are included in the net appreciation in fair value of securities in the Statement of Changes in Plan Net Assets – All Trust Funds.

Derivatives, such as interest rate swaps, total return swaps, and credit default swaps, are a tool or instrument used to manage interest rate, credit quality, and yield curve exposures of the investments. In certain situations, derivatives may result in a lower overall cost to the portfolio than owning individual securities underlying the derivatives. When evaluating securities, risk and return are measured at the security and portfolio levels.

Note F – Deposits and Investment Risk Disclosures (continued)

9. Derivative Financial Instruments (continued)

Swaps (continued)

On June 30, 2009 and 2008, the ERS' investments had the following market value balances as shown in the tables below:

Swaps - by Currency	June 30, 2009	June 30, 2008
Interest rate swaps		
in Australian Dollars	$ (758,869)	$ (410,182)
in British Pound Sterling	5,233,906	(973,464)
in Canadian Dollars	-	(5,316)
in Euro	757,462	1,140,845
in Japanese Yen	7,425	(435,233)
in United States Dollars	5,853,766	664,126
total	11,093,690	(19,224)
Credit default swaps		
in United States Dollars	(8,026,584)	(6,232,684)
total	(8,026,584)	(6,232,684)
Retail price index (inflation) swaps		
in Euro	88,182	-
total	88,182	-
Total return swaps		
in United States Dollars	-	(56,702)
total	-	(56,702)
Unrealized gains (losses)	$ 3,155,288	$ (6,308,610)

Note G – Risk Management

The ERS is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors or omissions; natural disasters; and injuries to employees. As required by state law, the ERS participates in coverage with the State. The State retains various risks and insures certain excess layers with commercial insurance policies. The excess layers are consistent with the prior fiscal year. Settled claims for the State have not exceeded the coverage provided by commercial insurance policies during the fiscal years ended June 30, 2009 and 2008. Losses not covered by insurance are generally paid from legislative appropriations.

Note G – Risk Management (continued)

1. **Torts**

   The ERS is involved in various litigation and claims, including claims regarding retirement benefits, the outcome of which cannot be presently determined. In the opinion of management, the outcome of these actions will not have a material adverse effect on the ERS' financial position.

2. **Property and Liability Insurance**

   The ERS also purchased property and liability insurance for all real estate owned from outside carriers. During the past three fiscal years, no loss settlements exceeded insurance coverages.

3. **Workers' Compensation Policy**

   The State has a self-insured workers' compensation policy. Workers' compensation claims are paid from legislative appropriations.

Note H – Commitments

In the normal course of business, the ERS enters into commitments with associated risks. The ERS adheres to the same credit policies, financial and administrative controls, and risk limiting and monitoring procedures for these commitments as for all investments.

For the ERS asset allocation plan for investments, the ERS has future financial commitments of up to an additional $731,000,000 as of June 30, 2009, consisting of $79,000,000 in real estate, $252,000,000 in alternative investments, and 400,000,000 in domestic equities. Investment-related financial commitments were $292,494,000 as of June 30, 2008, consisting of $85,053,000 in real estate and $207,441,000 in alternative investments.

Note I – Deferred Compensation Plan

The ERS does not sponsor a deferred compensation program. The ERS' employees are eligible to participate in the deferred compensation plan sponsored by the State. The State-sponsored plan was created in accordance with Internal Revenue Code Section 457. The plan, available to all ERS employees, permits them to defer a portion of their salaries until future years. The deferred compensation is not available to the employees until termination, retirement, death, or an unforeseeable emergency. All compensation deferred under the plan is held in trust by a custodian for the exclusive benefit of participants and beneficiaries.

Required Supplementary Information

June 30, 2009

Schedule of Funding Progress
(In thousands)

Actuarial Valuation Date	Actuarial Value of Assets (1)	Actuarial Accrued Liability (AAL) (2)*	Unfunded Actuarial Accrued Liability (3)*= (2)-(1)	Funded Ratio (4)=(1)/(2)	Annual Covered Payroll (5)	UAAL as a Percentage of Annual Covered Payroll (6)=(3)/(5)
June 30:						
2009	$ 11,400,117	$ 17,636,432	$ 6,236,315	64.6%	$ 4,030,121	154.7%
2008	11,380,961	16,549,069	5,168,108	68.8%	3,782,103	136.6%
2007 **	10,589,773	15,696,546	5,106,773	67.5%	3,507,040	145.6%
2006 *	9,529,371	14,661,399	5,132,028	65.0%	3,238,267	158.5%
2005	8,914,839	12,985,989	4,071,150	68.6%	3,041,083	133.9%
2004	8,797,133	12,271,331	3,474,198	71.7%	2,865,106	121.3%

Note: * Assumption changes and new Hybrid Plan effective June 30, 2006.

** New salary scale assumption effective June 30, 2007.

Schedule of Employer Contributions
(In thousands)

	Annual Required Contribution	Actual Contribution	Percentage Contributed
Fiscal year ended June 30,:			
2009	$ 526,538	$ 578,672	109.9%
2008	510,727	488,770	95.7%
2007	476,754	454,494	95.3%
2006 *	423,446	423,446	100.0%
2005	328,717	328,717	100.0%
2004	235,686	235,686	100.0%

* Effective July 1, 2005, the required contributions are based on contribution rates and not specific dollar amounts.

Notes to Required Supplementary Information

June 30, 2009

The information presented in the required supplementary schedules was determined as part of the actuarial valuation at the dates indicated. Additional information as of the latest actuarial valuation follows:

Valuation date	June 30, 2009
Actuarial cost method	Entry Age Normal
Amortization method	Level percent, open
Remaining amortization period as of June 30, 2009	28.2 years
Asset valuation method	4-year smoothed market
Actuarial assumptions:	
Investment rate of return (set by statute)*	8.0%
Projected salary increases (set by statute)*	4.0% to 17.75%
*Includes inflation at 3.0%	
Cost-of-living adjustments (COLAs) **	2.5% (not compounded)

** COLAs are not compounded; they are based on original pension amount.

Combining Schedules of Changes in Plan Net Assets – All Trust Funds

Years ended June 30, 2009 and 2008

	2009			
	Pension Accumulation Fund	**Annuity Savings Fund**	**Expense Fund**	**Total**
Additions				
Appropriations and contributions:				
Employers	$ 578,672,058	$ -	$ -	$ 578,672,058
Members		177,781,610	-	177,781,610
Net investment loss	(1,937,317,469)	-	-	(1,937,317,469)
Total additions	(1,358,645,411)	177,781,610	-	(1,180,863,801)
Deductions				
Benefit payments	833,691,245	-	-	833,691,245
Refunds of member contributions	-	3,937,464	-	3,937,464
Administrative expenses	-	-	13,011,283	13,011,283
Total deductions	833,691,245	3,937,464	13,011,283	850,639,992
Other changes in net assets held in trust for pension benefits:				
Transfer due to retirement of members	57,464,065	(57,464,065)	-	-
Transfer of interest allocation	(48,753,513)	48,753,513	-	-
Transfer to pay administrative expenses	(13,700,216)	-	13,700,216	-
Return of unrequired funds due to savings in administrative expenses	894,289	-	(894,289)	-
	(4,095,375)	(8,710,552)	12,805,927	-
Net increase (decrease)	(2,196,432,031)	165,133,594	(205,356)	(2,031,503,793)
Net assets held in trust for pension benefits:				
Beginning of year	9,726,795,072	1,105,627,636	14,366,257	10,846,788,965
End of year	$ 7,530,363,041	$ 1,270,761,230	$ 14,160,901	$ 8,815,285,172

See accompanying independent auditors' report.

Schedule 1

2008			
Pension Accumulation Fund	**Annuity Savings Fund**	**Expense Fund**	**Total**
$ 488,770,028	$ -	$ -	$ 488,770,028
	163,375,639	-	163,375,639
(461,063,080)	-	-	(461,063,080)
27,706,948	163,375,639	-	191,082,587
792,312,830	-	-	792,312,830
-	3,668,857	-	3,668,857
-	-	10,728,801	10,728,801
792,312,830	3,668,857	10,728,801	806,710,488
110,292,076	(110,292,076)	-	-
(45,568,941)	45,568,941	-	-
(11,025,246)	-	11,025,246	-
388,546	-	(388,546)	-
54,086,435	(64,723,135)	10,636,700	-
(710,519,447)	94,983,647	(92,101)	(615,627,901)
10,437,314,519	1,010,643,989	14,458,358	11,462,416,866
$ 9,726,795,072	$ 1,105,627,636	$ 14,366,257	$ 10,846,788,965

See accompanying independent auditors' report.

Schedule 2

Social Security Contribution Fund

Statements of Changes in Assets and Liabilities

Years ended June 30, 2009 and 2008

	2009			
	Beginning Balance	**Additions**	**Deductions**	**Ending Balance**
Assets				
Cash	$ 4,291	$ 9,471,937	$ 9,476,228	$ -
Short-term investments	9,471,937	-	9,471,937	-
Total assets	$ 9,476,228	$ 9,471,937	$ 18,948,165	$ -
Liabilities				
Due to employers	$ 9,476,228	$ 208,684,771	$ 218,160,999	$ -
Total liabilities	$ 9,476,228	$ 208,684,771	$ 218,160,999	$ -

	2008			
	Beginning Balance	**Additions**	**Deductions**	**Ending Balance**
Assets				
Cash	$ 4,638	$ -	$ 347	$ 4,291
Short-term investments	18,883,875	10,650,113	20,062,051	9,471,937
Total assets	$ 18,888,513	$ 10,650,113	$ 20,062,398	$ 9,476,228
Liabilities				
Payable to Internal Revenue Service	$ -	$ -	$ -	$ -
Due to employers	18,888,513	196,186,415	205,598,700	9,476,228
Total liabilities	$ 18,888,513	$ 196,186,415	$ 205,598,700	$ 9,476,228

See accompanying independent auditors' report.

Supplementary Information (continued)

Schedules of Administrative Expenses

Years ended June 30, 2009 and 2008

	2009	2008
Personnel services		
Salaries and wages	$ 4,679,619	$ 4,448,790
Fringe benefits	1,717,565	1,544,787
Net change in unused vacation credits	7,788	168,055
Total personnel services	6,404,972	6,161,632
Professional services		
Actuarial	93,000	93,000
Auditing and tax consulting	133,613	138,000
Disability hearing expenses	110,495	97,585
Legal services	346,075	310,875
Medical	396,745	416,869
Other services	1,002,087	488,629
Total professional services	2,082,015	1,544,958
Communication		
Postage	192,705	97,307
Printing and binding	74,149	49,208
Telephone	71,307	60,456
Travel	44,276	34,204
Total communication	382,437	241,175
Rentals		
Rental of equipment	24,021	50,037
Rental of premises	19,037	17,230
Total rentals	43,058	67,267
Other		
Armored car service	8,310	8,671
Computer and office automation systems	146,632	227,187
Equipment	6,269	6,350
Repairs and maintenance	1,844,696	890,853
Stationery and office supplies	50,554	50,192
Miscellaneous	94,279	78,829
Total other	2,150,740	1,262,082
Depreciation	1,948,061	1,451,687
	$ 13,011,283	$ 10,728,801

See accompanying independent auditors' report.

Schedule 4

Schedules of Investment Expenses

Years ended June 30, 2009 and 2008

	2009	2008
Real estate and alternative investment expenses		
Operating expenses	$ 53,034,808	$ 53,286,730
Mortgage interest	14,868,884	16,500,661
Total real estate and alternative investment expenses	67,903,692	69,787,391
Investment expenses		
Investment manager/advisor fees	$ 12,079,010	$ 30,710,444
Bank custodian fees	150,000	346,500
Other investment expenses	370,874	670,486
Total investment expenses	12,599,884	31,727,430
Securities lending expenses		
Borrower rebates	6,668,106	49,457,874
Management fees	1,366,017	1,973,291
Total securities lending expenses	8,034,123	51,431,165
	$ 88,537,699	$ 152,945,986

See accompanying independent auditors’ report.

Employees' Retirement System

of the State of Hawaii

INVESTMENT SECTION

Letter from Chief Investment Officer

NEIL ABERCROMBIE
GOVERNOR

STATE OF HAWAII
EMPLOYEES' RETIREMENT SYSTEM

December 8, 2011

Board of Trustees
201 Merchant Street, Suite 1400
Honolulu, HI 96813

Dear Members of the Board:

I am pleased to present investment highlights and performance for the Investment Section of the Comprehensive Annual Financial Report (CAFR) for the fiscal year ending June 30, 2009.

- ERS Plan assets were valued at $10.8 billion as of June 30, 2009. The ERS continues to be ranked as one of the 125 largest defined benefit plans in the United States.

- The ERS investment portfolio outperformed its public fund peer group by 0.9% over the fiscal year, outperformed its Policy Benchmark by 0.3% over the past three years, and by 0.1% over the past five years ending June 30, 2009.

CHALLENGES

During the fiscal year ending June 30, 2009, the stock markets reached their highest peak in history, with the Dow Jones Industrial Average reaching 11,782 on August 11, 2008. While some investors believed that there was no foreseeable end to the creation of wealth that helped to benefit a large number of Americans and other people around the world, some economic observers were unable to believe that economic and market conditions could continue to support such high security valuations without eventually experiencing a significant market correction – and they were right!

Since the peak of the market, a series grim market phenomena and gloomy economic indicators have surfaced, including an increase in defaults on sub-prime residential loans, excessive use of financial leverage, rises in unemployment and inflation, greater volatility in energy prices, wider swings in currency rates, and notable cases of business misdeeds. These kinds of events are merely reflections of an economy and market that may be in need of reckoning.

Employees' Retirement System
of the State of Hawaii

City Financial Tower • 201 Merchant Street, Suite 1400 • Honolulu, Hawaii 96813-2980
Telephone (808) 586-1735 • Fax (808) 586-1677 • http://www4.hawaii.gov/ers

STABILITY

Despite the growing difficulties in the global capital markets, the ERS Investment Office continues to manage Plan assets in conformance with the goals, objectives, and procedures of the ERS Investment Policy ("Policy"). Policy defines the structure by which the investment portfolio is developed, managed, and monitored; it includes the asset allocation strategic targets that further define the optimal mix of stocks, bonds, real estate, and alternative investments. If thoughtfully modeled, the asset allocation strategic targets should yield an optimal balance between attractive rates of return and prudent levels of investment risk. Thus, as the global economy continues to present formidable challenges to institutional investors, it becomes increasingly important that the Plan avoid "chasing returns" and, instead, be committed to its long-term Policy.

PROGRESS

The Policy functions as an anchor for an Investment Program that naturally exists within a dynamic, complex, and evolving global economy. Yet over time, the Policy should periodically be evaluated against shifting market conditions and, if necessary, undergo the appropriate adjustments. As such, staff and the general investment consultant have commenced on a structured approach to expand Policy, such as allowing a greater degree of non-US exposure in response to rising economic growth in many regions of the world.

To be sure, the US and non-US fixed income asset classes are in the process of becoming one global fixed income asset class that should create an enhanced optimal risk-return profile; the public equity, alternative investment, and real estate asset classes will be considered next. Finally, an asset/liability study will be initiated in the near future to determine the appropriate changes to the asset allocation policy and to consider new investment strategies.

Your Investment Office staff is keenly aware that their most important responsibility is to help protect and grow the plan assets leading to the timely payment of retirement benefits for its members and beneficiaries. To that end, we are dedicated to fulfilling that responsibility by practicing the highest degrees of investment management excellence with prudence, care, and integrity.

Respectfully yours,

Rod June

Rod June
Chief Investment Officer

Letter from Investment Consultant

514 NW 11th Avenue, Suite 203
Portland, OR 97209
Phone: 503.226.1050
Fax: 503.226.7702
www.pensionconsulting.com

Los Angeles • Portland • New York

December 6, 2011

Board of Trustees
Employees' Retirement System of the State of Hawaii
City Financial Tower
201 Merchant Street, Suite 1400
Honolulu, HI 96813-2980

Dear Trustees:

Enclosed is our report on investment activity for the Hawaii Employees' Retirement System for periods ended June 30, 2009, as requested by the Government Financial Officers' Association (GFOA).

Hawaii ERS-Total Fund Performance

The total assets of the Retirement System were $8.8 billion as of June 30, 2009, a decrease of roughly $2.0 billion for the fiscal year. The portfolio generated mixed absolute and relative performance results across all of the major asset classes with the exception of both domestic and international fixed income which produced consistently strong returns. The decrease in assets was primarily due to poor performance within the Real Estate and Equity asset classes. The investment return for the total fund expressed as a time-weighted total rate of return was minus (17.5%) for the 2009 fiscal year, compared to the benchmark's return of minus (16.9%). For the three-year period ending June 30, 2009 the total fund returned minus (2.1%) per annum versus the benchmark's minus (2.0%) and the Northern Trust Public Funds Greater than $1 Billion database Median of minus (2.8%). For the trailing five-year period the total fund matched its benchmark's return posting an annual return of +2.9% while the Northern Trust Public Funds Greater than $1 Billion database median returned +2.3% per annum.

Asset Class Performance

Domestic equity returned minus (27.3%) for the fiscal year, versus the Domestic Equity Blended Index's minus (25.8%) and the Northern Trust Domestic Equity Database median of minus (26.2%). Domestic fixed-income was up +5.8% for the fiscal year versus the Domestic Fixed Income Blended Index return of +5.4% and the Northern Trust Fixed-Income Database median return of +4.7%. International equity returned minus (31.5%) for the 2009 fiscal year versus the International Equity Blended Index return of minus (30.8%) whereas international fixed-income returned +9.8% versus the International Fixed Blended Index return of +7.6%. Real Estate returned minus (26.7%) for the year ending June 30, 2009 versus the NCREIF Total Index return of minus (14.7%). Alternative investments were a negative contributor to performance, returning (11.2%) for the fiscal year.

Letter from Investment Consultant (continued)

Market Conditions

The market backdrop for most of fiscal year 2009 was characterized by a near complete freeze in credit markets sending global markets for risk assets into a unison tailspin. Only in the last three months of the fiscal year did market participants experience the first glimmer of a market recovery after massive governmental intervention in global capital markets. All equity classes produced negative returns, both domestically and outside the United States. Fixed income classes produced mixed results with full-faith-and-credit securities outperforming credit sensitive securities. Solvency concerns continued to weigh on credit sensitive issuers with increased concern surrounding the ability of leverage participants to roll their maturities forward.

During the fiscal year 2009, equities within the U.S. declined by minus (26.2%) while non-U.S. equities declined by minus (31.0%). Developed international equity markets dropped along with U.S. markets driven by poor prospects for global growth going forward. The dollar showed stability during the fiscal year out-gaining other major currencies as investors sought the relative safety of U.S. dollars..

Trends that began in fiscal year 2008 continued in fiscal year 2009. Growth stocks, as a group, outperformed value stocks while stocks of smaller companies outpaced stocks of larger companies. Emerging markets equities remained a one bright spot in international equities, outperforming developed markets for the fiscal year. This result was due largely to the favorable growth prospects for the emerging economies relative to developed economies and a less leveraged financial system as well as a less leveraged populous and fiscal authority.

During the fiscal year, bond markets produced returns mainly in line with expectations. Investment-grade bonds, as measured by the Barclays Capital Aggregate Bond Index, returned +6.1%. Government bonds outpaced credit as investors remained highly risk adverse. Mortgage-backed bonds increased by +9.4%, investment-grade corporate bonds rose by +4.1%, and high-yield corporate bonds returned minus (2.4%). Both U.S. and Non-U.S. Government bonds benefited from risk aversion and a globally coordinated reduction in interest rates.

Fiscal 2009 proved to contain both the depth of the recession and the early stages of a recovery built on government stimulus. For most of fiscal year 2009 the market for risk assets around the world converged in a selling crescendo as markets participants looked to re-price risk and de-lever. By the fourth quarter, however, it became evident that global monetary and fiscal authorities were determined to prevent a full depression and were prepared to use any tool in forestalling such an outcome no matter how unorthodox the solution. Throughout the tumultuous market conditions of the past few years, with its constant review and oversight, the Board continues to position the Retirement System for competitive long-term performance consistent with its objectives.

Sincerely,

Pension Consulting Alliance, Inc.

Report on Investment Activity for the
Employees' Retirement System of the State of Hawaii
Prepared by Pension Consulting Alliance, Inc.
December 2011

Outline of Investment Policies

The primary goal of the Plan is the preservation of capital. The Board of Trustees seeks preservation of capital with a consistent, positive return for the Fund. Although pure speculation is to be avoided, the Board appreciates the fact that an above average return is associated with a certain degree of risk. Risk to be assumed must be considered appropriate for the return anticipated and consistent with the total diversification of the Fund.

Expected Annualized Return and Risk

Based on 2009 capital market projections for 10 years, the target allocation is expected to achieve an average annualized return of 8.5% (5.5% real return with expected inflation of 3.0%). The annual nominal return over this 10-year period is expected to fall within a range of -5.9% and 22.9% two-thirds of the time.

Long-range Asset Allocation Target

The ERS will strategically invest in the following asset classes:

	Strategic Allocation	
Domestic Equity	41%	
International Equity	17%	
Domestic Fixed-Income	21%	
International Fixed-Income	7%	
Equity Real Estate	9%	*
Alternative Investments	5%	**

* The real estate target will be the percentage actually invested up to 9% of the total fund. Changes in the real estate target will be offset by an equal percentage change in the domestic equity target.

** The alternatives target will be the percentage actually invested up to 5% of the total fund. Changes in the alternatives target will be offset by an equal percentage change in the domestic equity target.

The target is evaluated on the basis of assets designated to each asset class by the Board, rather than on a current invested position. The target will be pursued primarily by cash flow on a long-term basis and will be revised if significant changes occur within the economic and/or capital market environment according to the rebalancing guidelines. The target is to be reviewed annually for reasonableness relative to significant economic and market changes. A formal asset allocation/liability study is conducted at least every three years to verify or amend the targets. The last formal asset allocation/liability study was completed in 2005. At that time, the Board chose to maintain the current strategic asset allocation implemented July 1, 2000. The target was reviewed in 2006. A full asset/liability study will next take place during fiscal year 2010.

Report on Investment Activity by Investment Consultant (continued)

Manager Evaluation

Individual domestic and international equity and bond managers are measured against relevant indexes and their respective peer groups of managers. Market indices and peer group benchmarks are assigned to each manager and are intended as a guide for the investment manager to understand the risk/reward posture of their portfolio. Real Estate managers are measured against the median performance of the State Street Real Estate database and the NCREIF Total Index. Managers have full discretion to manage the risk posture of their portfolios relative to their designated market index and may, with conviction and appropriate expertise, execute security strategies not reflected by their market index as long as they conform to the investment guidelines and the laws of the State of Hawaii.

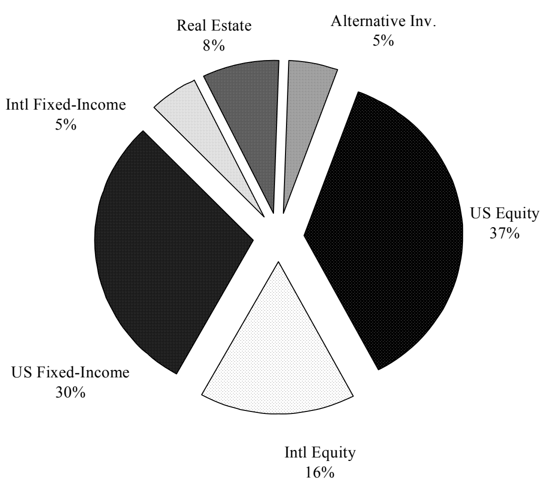
Investment Practices

The full Investment Policy Statement (IPS) describes in detail acceptable investment practices, manager reporting requirements, manager performance guidelines, the distribution of brokerage commissions, and securities lending guidelines. Revisions to the IPS took place during fiscal year 2007, covering manager monitoring criteria and Sudan-related divestment guidelines.

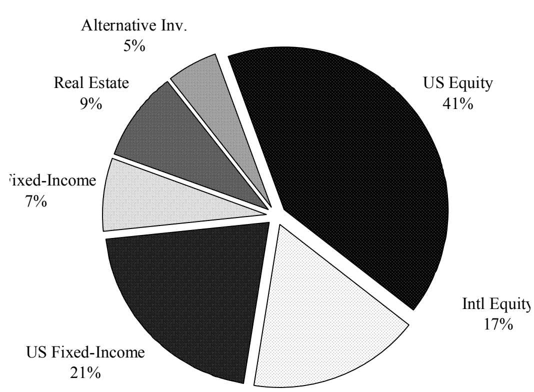
All rates of return are calculated using methodologies that are generally accepted by the Global Investment Performance Standards (GIPS). All domestic equity manager returns are daily, time-weighted rates of return based on custodial data. International equity, domestic fixed-income, and international fixed-income returns are monthly, time-weighted returns. Real estate returns are calculated using statements received directly from the manager. This ensures that the performance is based on accurate cash flows and appraisal values.

Asset Allocation as of June 30, 2009:

Actual Asset Allocation



Target Asset Allocation



Report on Investment Activity by Investment Consultant (continued)

Investment Results as of June 30, 2009:

	Year Ended June 30, 2009	2008	2007	2006	2005	Three Years Ended 6/2009	Five Years Ended 6/2009
Domestic Equity	**(27.43%)**	**(11.39%)**	**20.03%**	**9.39%**	**8.87%**	**(8.23%)**	**(1.65%)**
Domestic Equity Blended Index[1]	(25.83%)	(12.84%)	19.99%	9.68%	7.43%	(8.12%)	(1.78%)
NT Total Domestic Equity*	(28.16%)	(12.32%)	19.75%	10.53%	8.53%	(8.23%)	(1.51%)
Domestic Fixed-Income	**5.80%**	**6.31%**	**6.40%**	**(0.13%)**	**7.21%**	**6.17%**	**5.09%**
Blended Fixed Income Blended Index[2]	5.35%	7.12%	6.12%	(0.81%)	6.80%	6.19%	4.88%
NT Domestic Fixed*	4.69%	6.41%	6.28%	(0.01%)	7.67%	5.56%	4.375%
International Equity	**(31.45%)**	**(7.93%)**	**29.81**	**26.52%**	**17.12%**	**(6.43%)**	**3.95%**
International Equity Blended Index[3]	(30.76%)	(8.33%)	29.67%	28.05%	16.68%	(6.29%)	4.22%
NT Non-U.S. Equity*	(29.96%)	(8.29%)	29.28%	27.17%	14.70%	(5.99%)	3.85%
International Fixed-Income	**9.82%**	**14.58%**	**2.00%**	**0.96%**	**7.17%**	**8.67%**	**6.79%**
International Fixed Blended Index[4]	7.60%	18.72%	2.20%	(0.02%)	7.75%	9.29%	7.06%
NT Non-U.S. Fixed*	2.28%	2.65%	7.10%	1.43%	8.88%	5.63%	5.90%
Real Estate	**(26.74%)**	**7.64%**	**17.69%**	**27.08%**	**13.70%**	**(2.46%)**	**6.04%**
NCREIF Total Property Index (lagged)	(14.68%)	13.58%	16.59%	20.19%	15.55%	4.15%	9.43%
NT Real Estate Funds*	(27.81%)	5.79%	15.48%	17.88%	19.67%	(2.73%)	5.48%
Alternative Investments	**(11.19%)**	**11.43%**	**22.46%**	**24.56%**	**17.92%**	**6.62%**	**12.22%**
Total Fund	**(17.54%)**	**(3.51%)**	**17.81%**	**11.50%**	**10.53%**	**(2.13%)**	**2.93%**
Composite Benchmark[5]	(16.94%)	(3.14%)	16.99%	11.01%	9.78%	(1.95%)	2.85%
NT Public Funds > $1 Billion*	(18.37%)	(4.41%)	17.50%	10.18%	10.55%	(2.77%)	2.28%

* *Universe data provided by Northern Trust: Public Funds (DB) > $1 Billion, Median Results*

1 80% S&P 500 Index, 10% S&P Mid Cap 400 Index and 10% Russell 2000 Index through 12/31/08; Russell 3000 Index thereafter.

2 BC Aggregate Index through 6/30/08; 85% BC US Universal Index and 15% Multiverse Non-US Hedged Index thereafter.

3 85% MSCI EAFE Free ND Index and 15% MSCI Emerging Markets ND Index.

4 Citigroup Non-US WGBI through 6/30/08; BC Multiverse Non-US Hedged Index thereafter.

5 34.9% S&P 500 Index, 4.5% S&P 400 Mid Cap Index, 4.5% Russell 2000 Index, 14.5% MSCI EAFE Free ND Index, 2.5% MSCI Emg Mkts ND Index, 21.0% BC Aggregate Index, and 7.00% CG WGBI ex US Index through 6/30/08;

34.9% S&P 500 Index, 4.5% S&P 400 Mid Cap Index, 4.5% Russell 2000 Index, 14.5% MSCI EAFE Free ND Index, 2.5% MSCI Emg Mkts ND Index, 7.5% NCREIF Property Index lagged, 3.6% Alternative Investments, 21.0% BC Universal Index, and 7.00% BC Multiverse ex USD Hedged Index through 12/31/08;

41.0% Russell 3000 Index, 14.5% MSCI EAFE Free ND Index, 2.5% MSCI Emg Mkts ND Index, 9.0% NCREIF Property Index lagged, 5.0% Alternative Investments, 21.0% BC Universal Index, and 7.0% BC Multiverse ex USD Hedged Index thereafter.

Investment Professionals

INVESTMENT MANAGERS

U.S. EQUITIES
- Ark Asset Management Co.
- Bank of Hawaii
- Barrow, Hanley, Mewhinney & Strauss
- CM Bidwell & Associates
- CS McKee Investment Managers
- Denver Investment Advisors
- Goldman Sachs Asset Management
- Independence Investment Associates
- Jennison Associates
- Mellon Capital Management Corporation
- Oppenheimer Capital Corporation
- Systematic Investment Management
- T. Rowe Price

REAL ESTATE
- Angelo Gordon
- Heitman Capital Management
- Invesco Realty Advisors
- LaSalle Investment Management
- CB Richard Ellis

INTERNATIONAL EQUITIES
- Acadian Asset Management
- JP Morgan Chase
- Artio Global (Julius Baer) Investment Management
- Mercator Asset Management
- New Star Institutional Managers
- Philadelphia International Advisors
- Rexiter Capital Management
- State Street Global Advisors

FIXED-INCOME
- Bishop Street Capital Management
- Bradford and Marzec
- Oechsle International Advisors
- Pacific Income Advisers
- Pacific Investment Management Company
- Western Asset Management Company

ALTERNATIVE INVESTMENTS
- Abbott Capital Management, LLC
- Hancock Timber Resource Group
- GK Macquarie Newport

OTHER SERVICE PROVIDERS

COMMISSION RECAPTURE BROKERS
- Knight Equity Markets, LP
- LJR Recapture Services
- Rochdale Securities Corporation

CUSTODIAL BANK
- Northern Trust Company

INVESTMENT ADVISOR
- Pension Consulting Alliance, Inc.
- Courtland Partners

Investment Schedules

List of Assets Directly Held (by fair value)*

as of June 30, 2009 (excludes investments in pooled vehicles)

** A complete list of holdings is available for review upon request.*

	Par / Shares	Security	Coupon	Maturity	Standard & Poors	Fair Value
Domestic Fixed Income						
1	208,800,000	Federal Nat Mortg (TBA July 30 Single Family)	5.000%	12/1/2099	Agency	$ 212,584,500
2	108,500,000	Federal Nat Mortg (July 30 Single Family)	6.000%	12/31/2040	Agency	113,382,500
3	44,410,000	United States Treasury Note Inflation	0.985%	4/15/2010	AAA	49,983,899
4	44,500,000	Federal Home Loan Mortgage Co (Tranche 00592)	0.926%	5/4/2011	AAA	44,590,246
5	30,112,175	Federal Nat Mortg (Pool #735224)	5.500%	2/1/2035	Agency	31,245,778
6	23,164,000	United States Treasury Note	2.750%	10/31/2013	AAA	23,592,905
7	21,686,000	United States Treasury Note	1.500%	10/31/2010	AAA	21,926,584
8	18,370,000	United States Treasury Note	3.375%	7/31/2013	AAA	19,249,758
9	18,184,899	Federal Nat Mortg (Pool #995112)	5.500%	7/1/2036	Agency	18,858,122
10	17,465,000	Federal Nat Mortg (TBA July 30 Single Family)	4.500%	12/1/2099	Agency	17,426,787
International Fixed Income						
1	68,915,000	Republic of Poland	4.750%	4/25/2012	A	21,293,383
2	14,115,000	Republic of Hellenic	4.600%	5/20/2013	BBB+	20,788,484
3	13,923,000	Kingdom of Belgium	4.000%	3/28/2014	AA+	20,490,817
4	15,749,000	Republic of Greece	4.700%	3/20/2024	BBB+	20,406,632
5	14,105,000	Freistaat Bayern	3.375%	1/21/2013	AAA	20,279,107
6	66,257,000	Republic of Poland	5.750%	9/23/2022	A	19,783,915
7	13,669,000	Eksportfinans ASA	4.375%	9/20/2010	AA	19,736,044
8	14,286,000	Republic of Korea	3.625%	11/2/2015	A	17,433,285
9	7,344,000	EDF Energy	5.750%	3/8/2024	A	12,007,387
10	2,740,910,000	Republic of Hungary	5.500%	2/12/2014	BBB-	11,972,354
Domestic Equities						
1	1,922,039	Microsoft Corp				45,686,867
2	292,775	International Business Machines Corp				30,571,566
3	807,295	JPMorgan Chase & Company				27,536,832
4	534,695	Proctor & Gambple Co.				27,322,915
5	190,275	Apple Inc.				27,100,868
6	399,836	Occidental Peteroleum Corp				26,313,207
7	1,340,464	Cisco Systems				24,986,249
8	1,149,513	Oracle Corp				24,622,568
9	417,419	Johnson & Johnson				23,709,399
10	419,658	Pepsico Inc				23,064,404
International Equities						
1	434,353	Total SA				23,443,758
2	10,795,516	Vodafone Group				20,836,515
3	379,323	Schlumberger Ltd				20,525,168
4	958,760	Glaxosmithkline				16,870,910
5	443,767	Nestle SA				16,697,113
6	114,523	Roche Holdings AG Genusscheine				15,553,351
7	794,401	AXA				14,920,030
8	659,491	Telefonica SA				14,911,566
9	226,031	BNP Paribas				14,663,211
10	567,614	ENI SPA				13,415,360

Investment Schedules (continued)

Investments Summary

(Dollar values expressed in thousands)

		Fair Value as of June 30, 2009	Percentage		Fair Value as of June 30, 2008	Percentage
Equity securities						
Common stock	$	3,269,388	36.64%	$	4,865,927	44.10%
Index funds		1,145,710	12.84%		1,103,014	10.00%
Pooled and others		126,579	1.42%		187,236	1.70%
		4,541,677	50.90%		6,156,177	55.80%
Fixed income securities						
Mortgage-backed securities		1,159,579	13.00%		1,289,292	11.68%
U.S. Government bonds		221,542	2.48%		379,139	3.44%
Foreign bonds		682,384	7.65%		867,129	7.86%
U.S. corporate bonds		756,918	8.48%		585,864	5.31%
Asset backed securities		51,085	0.57%		70,098	0.64%
Pooled and others		129,381	1.45%		66,738	0.60%
		3,000,889	33.63%		3,258,260	29.53%
Others						
Real estate equities		950,006	10.65%		1,163,527	10.54%
Alternative investments		429,565	4.82%		456,362	4.13%
		1,379,571	15.47%		1,619,889	14.67%
Total, investments at fair value	$	8,922,137	100.00%	$	11,034,326	100.00%

Schedule of Investment Fees

by Asset Class Allocation

(Dollar values expressed in thousands)

		Fair value as of June 30, 2009		Total FY 2009 Investment Fees	Basis Points	
Equities						
U.S. equities	$	3,273,414	$	8,387	26 bp	
International equities		1,361,554		5,773	42	
		4,634,968		14,160	31	
Fixed Income						
U.S. bonds		2,596,901		3,843	15	
International bonds		425,525		961	23	
		3,022,426		4,804	16	
Other Asset Allocations						
Real estate		692,324		(9,835)	(142)	****
Alternative investments		429,682		2,346	55	
		1,122,006		(7,489)	(67)	
Other Investment Services						
Custodian fees				150	n/a	
Investment consultant fees				604	n/a	
Total	$	8,779,400	$	12,229	14	

***** Note: Certain real estate investment advisors are eligible for an incentive fee if their investment returns outperform the investment benchmark return in terms of real performance. The net increase or decrease in performance fees during the fiscal year is reported in the financial statements based on the accrual method of accounting, as the fair value of investments increases or decreases in the net appreciation/(depreciation) for ERS' assets.. The incentive fee is only paid when the asset is sold if the total return for the asset is greater than the benchmark return. For fiscal year ended June 30, 2009, there was a significant decline in the value of ERS assets, including real estate, which eliminated incentive fees accrued in prior fiscal years.*

Investment Schedules (continued)

Schedule of Broker Commissions

The Employees' Retirement System participates in a Commission Recapture Program with three brokerage firms for equity trades, which are listed in the Investment Professionals section. Domestic and international investment managers are required to direct at least 35% of all brokerage transactions to participating brokers, subject to best execution. Commissions charged per share are based on the investment manager's normal rate schedule. All commissions recaptured are used exclusively by the ERS for the benefit of its members and beneficiaries. ERS does not guarantee participating brokers any minimums, required volumes or fees. During the fiscal year ended June 30, 2009 the ERS recaptured $1,467,214 in commissions.

The following is a list of brokers who received $35,000 or more in commissions during Fiscal Year 2009. A complete list of all commissions is available for review upon request.

			Commission	
Brokerage Firms	Shares Traded	Dollar Volume of Trades	Dollar Amount	Per Share
Merrill Lynch Pierce Fenner & Smith	45,869,740	$ 697,440,140	$ 973,252	$ 0.021
Exectution Services Inc	32,985,332	834,134,020	843,618	0.026
Bear Stearns & Co	38,384,469	486,547,094	381,754	0.010
Credit Suisse First Boston	53,356,649	369,148,311	341,752	0.006
BNY Brokerage	13,979,312	369,667,221	301,375	0.022
J P Morgan Chase Bank	13,232,266	207,255,314	256,806	0.019
Donaldson & Co	6,918,993	191,609,509	240,899	0.035
Series	5,098,109	124,334,852	226,920	0.045
Stifiel Nicoulaus & Co	5,998,186	148,744,176	224,377	0.037
UBS Warburg	18,244,825	201,310,491	204,343	0.011
Investment Technology Group	12,564,845	346,918,577	197,082	0.016
Morgan Stanley	35,799,154	170,620,107	190,889	0.005
Citigroup Global Markets	14,330,127	134,848,874	188,597	0.013
Goldman Sachs	18,252,445	125,407,983	172,773	0.009
INSTINET	32,797,287	213,351,744	169,569	0.005
Deutsche Bank	22,239,452	149,608,313	158,420	0.007
Pershing DLJ	13,999,265	124,266,238	157,434	0.011
Macquarie Securities	11,286,133	87,759,724	135,331	0.012
Sanford C Bernsten Co	5,458,034	131,411,988	125,874	0.023
Muriel iebert	2,068,530	63,707,939	74,472	0.036
Alex Brown and Sons	1,929,067	74,257,118	72,858	0.038
Credit Lyonnais Securities	19,598,584	45,390,999	64,781	0.003
Robert W Baird & Co	1,659,168	55,996,831	61,536	0.037
National Financial Services	1,306,398	28,304,465	42,288	0.032
Bank of America Securities	1,278,590	42,265,209	40,948	0.032
BNP Paribas	4,674,307	27,422,740	40,435	0.009
Morgan Keegan & Co	1,083,952	28,371,121	40,057	0.037
Lehman Brothers	2,456,913	57,684,055	38,216	0.016
Societe General	2,824,427	36,912,138	36,627	0.013
Others (includes 143 firms)	125,020,528	829,283,829	1,000,798	0.008
Commissioned equity trades	564,695,087	$ 6,403,981,120	$ 7,004,081	
Less commissions recaptured			(1,467,214)	
Trades at net commission	564,695,087	$ 6,403,981,120	$ 5,536,867	$ 0.010

Employees' Retirement System
of the State of Hawaii

ACTUARIAL SECTION

Letter from the Actuary

GRS Gabriel Roeder Smith & Company
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January 21, 2010

Board of Trustees
Employees' Retirement System of
The State of Hawaii
City Financial Tower
201 Merchant St., Ste. 1400
Honolulu, HI 96813-2980

Dear Trustees:

Subject: Actuarial Valuation as of June 30, 2009

We certify that the information contained in the 2009 actuarial valuation report is accurate and fairly presents the actuarial position of the Employees' Retirement System of the State of Hawaii (ERS) as of June 30, 2009.

All calculations have been made in conformity with generally accepted actuarial principles and practices and with the Actuarial Standards of Practice issued by the Actuarial Standards Board. In our opinion, the results presented comply with the requirements of the Hawaii statutes and, where applicable, the Internal Revenue Code, ERISA, and the Statements of the Governmental Accounting Standards Board. The undersigned are independent actuaries. One or more of them are an Enrolled Actuary and/or a Member of the American Academy of Actuaries. All are experienced in performing valuations for large public retirement systems.

Actuarial valuations

The primary purpose of the valuation report is to determine the adequacy of the current employer contribution rate through measuring the resulting funding period, to describe the current financial condition of ERS, and to analyze changes in ERS's condition. In addition, the report provides information required by ERS in connection with Governmental Accounting Standards Board Statement No. 25 (GASB No. 25), and it provides various summaries of the data.

Valuations are prepared annually, as of June 30th of each year, the last day of ERS's plan year and fiscal year.

Financing objectives

Contribution rates are established by Law that, over time, are intended to remain level as a percent of payroll. The employee and employer contribution rates have been set by Law and are intended to provide for the normal cost plus the level percentage of payroll required to amortize the unfunded actuarial accrued liability (UAAL) over a period not in excess of 30 years.

Letter from the Actuary (continued)

Board of Trustees
January 21, 2010
Page 2

Progress toward realization of financing objectives

The actuarial accrued liability, the unfunded actuarial accrued liability (UAAL), and the calculation of the resulting funding period illustrate the progress toward the realization of financing objectives. Like most pension funds across the country, the System was significantly impacted by the severe downturn in the investment markets during fiscal year 2009. Based on this actuarial valuation as of June 30, 2009, ERS's underfunded status has increased significantly because of a loss on the actuarial assets as result of market investment losses. In addition, the System had a the liability experience loss which was caused by higher than expected salary increases. The UAAL is now $6.236 billion.

The Legislature increased the employer contribution rates to 19.70% for Police and Fire employees and 15.00% for All Other Employees, effective July 1, 2008. Based on these contribution rates and the Employee contributions, the remaining amortization period is 28.2 years. Because this period is less than 30 years, the financing objectives of ERS are currently being realized.

In the absence of significant actuarial losses, the employer contribution rates in fiscal year 2010 and beyond would normally be sufficient to satisfy the GASB No. 25 Annual Required Contribution (ARC) requirements. However, only a portion of the investment losses of fiscal year 2009 have been recognized in this valuation. As the remainder of the losses is recognized in future valuations it is likely that the current employer contribution rates will no longer be sufficient to satisfy the GASB ARC.

Benefit provisions and Legislative changes

There was no legislation enacted that impacted the benefit provisions of the System. See the *Summary of Retirement Benefit Plan Provisions* in the Introductory Section of this CAFR for more details on the benefit provisions.

Assumptions and methods

The actuarial assumptions used were adopted by the Board on August 14, 2006 based on the recommendations provided by an Experience Study performed by us. While the current investment return assumption is the assumption recommended in the Study, the assumption is actually set by legislative action. Further detail on the assumptions and methods may be found in the *Summary of Actuarial Methods and Assumptions* of this section.

In our opinion, the assumptions are internally consistent and are reasonably based on the actual experience of ERS. These assumptions are also in full compliance with all parameters established by GASB No. 25.

Letter from the Actuary (continued)

Board of Trustees
January 21, 2010
Page 3

The results of the actuarial valuation are dependent on the actuarial assumptions used. Actual results can and almost certainly will differ, as actual experience deviates from the assumptions. Even seemingly minor changes in the assumptions can materially change the liabilities, calculated contribution rates and funding periods. The actuarial calculations are intended to provide information for rational decision making.

Data

Member data for retired, active, and inactive participants was supplied as of March 31, 2009, by ERS's staff. We have not subjected this data to any auditing procedures, but have examined the data for reasonableness and consistency with the prior year's data. Asset information was supplied by ERS's staff.

Responsibility for Tables and Schedules

The actuary is responsible for the information with respect to years after 1999 in the Required Supplementary Information, the Schedule of Employer Contributions, and the Notes To Required Supplementary Information in the Financial Section of the ERS's Comprehensive Annual Financial Report (CAFR). Information with respect to years prior to 2000 was supplied by ERS.

Tables and schedules in the Actuarial Section of the CAFR were generally prepared directly by the Actuary. Certain of these tables, however, were prepared by ERS utilizing information from this report. When those tables were prepared by ERS from our report, they are so noted.

All of our work conforms with generally accepted actuarial principles and practices, and with the Actuarial Standards of Practice issued by the Actuarial Standards Board. In our opinion, our calculations also comply with the requirements of state law and, where applicable, the Internal Revenue Code, ERISA, and the Statements of the Governmental Accounting Standards Board. The undersigned are independent actuaries and consultants. Mr. Newton is an Enrolled Actuaries, a Member of the American Academy of Actuaries and meets the Qualification Standards of the American Academy of Actuaries. Finally, all of the undersigned are experienced in performing valuations for large public retirement systems.

Sincerely,

Joe Newton, FSA, EA Consultant	Lewis Ward Consultant	Linna Ye, ASA Actuary

Executive Summary

The following summarizes the key results of the June 30, 2009 actuarial valuation of the Employees' Retirement System of the State of Hawaii (ERS).

Item	**2009**	**2008**
Membership		
• Number of		
- Active members	67,912	66,589
- Retirees and beneficiaries	36,999	36,260
- Inactive, vested	6,016	5,847
- Total	110,927	108,696
• Covered payroll for active members	$3,838.0 million	$3,601.7 million
• Actual benefit payments and refunds	$842.6 million	$796.0 million
Assets		
• Actuarial value	$11,400.1 million	$11,381.0 million
• Market value	$8,818.0 million	$10,846.8 million
• Return on actuarial value	0.9%	8.9%
• Return on market value	(18.0%)	(4.1%)
• Employer contributions during fiscal year	$578,635,281	$488,770,028
• External cash flow %	(1.0%)	(1.4%)
Actuarial Information		
• Total normal cost % (employee + employer)	12.55%	12.54%
• Unfunded actuarial accrued liability (UAAL)	$6,236.3 million	$5,168.1 million
• Funded ratio (based on actuarial assets)	64.6%	68.8%
• Funded ratio (based on market assets)	50.0%	65.5%
• Funding period (years)	28.2	22.6
• Employer contribution rate % of projected payroll * For FY 2010 & Beyond	15.47%	15.46%
• GASB ARC for FY 2010		
% of projected payroll		
Police and Fire Employees	19.91%	17.84%
All Other Employees	14.62%	13.66%
Composite – All Employees	15.17%	14.09%

* Weighted average of 19.70% Contribution Rate for Police and Firefighters and 15.00% Contribution Rate for All Other Employees beginning July 1 2008.

Actuarial Certification Statement

	Police and Firefighters June 30, 2009	All Other Employees June 30, 2009	All Employees June 30, 2009
1. Gross normal cost as a percentage of pay	18.79%	11.83%	12.55%
2. Present value of future benefits			
a. Active employees	$ 2,249,782,797	$ 9,647,080,045	$ 11,896,862,842
b. Inactive members	25,468,378	242,957,644	268,426,022
c. Pensioners and beneficiaries	1,372,093,536	7,211,936,414	8,584,029,950
d. Total	$ 3,647,344,711	$ 17,101,974,103	$ 20,749,318,814
3. Present value of future employee and employer contributions			
a. Present value of future normal costs	$ 657,810,931	$ 2,455,075,567	$ 3,112,886,498
b. Present value of future employee contributions	427,691,434	1,026,599,348	1,454,290,782
c. Present value of future employer normal cost (Item 3a - Item 3b)	$ 230,119,497	$ 1,428,476,219	$ 1,658,595,716
4. Actuarial accrued liability (Item 2d - Item 3a)	$ 2,989,533,780	$ 14,646,898,536	$ 17,636,432,316
5. Actuarial value of assets			
a. Annuity Savings Fund	$ 616,875,800	$ 663,124,200	$ 1,280,000,000
b. Pension Accumulation Fund	1,472,216,680	8,647,900,194	10,120,116,874
c. Total	$ 2,089,092,480	$ 9,311,024,394	$ 11,400,116,874
6. Unfunded actuarial accrued liability	$ 900,441,300	$ 5,335,874,142	$ 6,236,315,442
7. Adequacy of contribution rates			
a. Statutory Contribution Rate for Fiscal Year 2010	15.75%	13.75%	13.95%
b. Statutory Contribution Rate beginning Fiscal Year 2010	19.70%	15.00%	15.47%
c. Funding period in years as of June 30, 2009	31	27.6	28.2
8. GASB Annual Required Contribution	19.91%	14.62%	15.17%

The actuarial valuation as of June 30, 2009 is based on the provisions of Chapter 88 of the Hawaii Revised Statutes, as amended. The assumptions used in the cost calculations were those adopted by the Board of Trustees on August 14, 2006 based on statutory requirements and on the actuary's actuarial experience investigation report covering the five-year period July 1, 2000 – June 30, 2005. The actuarial calculations were performed by qualified actuaries in accordance with accepted actuarial procedures.

In our opinion, the contributions required to meet ERS's liabilities were calculated in accordance with the provisions of Chapter 88 regarding the funding of the Employees' Retirement System on an actuarial reserve basis.

Gabriel Roeder Smith & Company

Actuarial Certification Statement (continued)

All of our work conforms with generally accepted actuarial principles and practices, and with the Actuarial Standards of Practice issued by the Actuarial Standards Board. In our opinion, our calculations also comply with the requirements of state law and, where applicable, the Internal Revenue Code, ERISA, and the Statements of the Governmental Accounting Standards Board. The undersigned is an independent actuary and consultant. Mr. Newton is an Enrolled Actuaries, a Member of the American Academy of Actuaries and meets the Qualification Standards of the American Academy of Actuaries. Finally, he is experienced in performing valuations for large public retirement systems.

Joseph P Newton,, FSA, EA
Senior Consultant & Actuary

Summary of 2009 Actuarial Valuation

Exhibit 1
Development of Employer Cost

	Police and Firefighters June 30, 2009	All Other Employees June 30, 2009	All Employees June 30, 2009
1. Payroll (adjusted for one year's pay increase)	$ 405,782,581	$ 3,624,338,479	$ 4,030,121,060
2. Gross normal oost (Exhibit 3)	18.79%	11.83%	12.55%
3. Employer normal cost rate (Exhibit 3)	6.59%	5.78%	5.88%
4. Present value future benefits (Exhibit 2)	$ 3,647,344,711	$ 17,101,974,103	$ 20,749,318,814
5. Present value future employer contributions	$ 230,119,497	$ 1,428,476,219	$ 1,658,595,716
6. Present value future employee contributions	$ 427,691,434	$ 1,026,599,348	$ 1,454,290,782
7. Actuarial accrued liability (Item 4 - Item 5 - Item 6)	$ 2,989,533,780	$ 14,646,898,536	$ 17,636,432,316
8. Actuarial value of assets	$ 2,089,092,480	$ 9,311,024,394	$ 11,400,116,874
9. Unfunded actuarial accrued liability (UAAL) (Item 7 - Item 8)	$ 900,441,300	$ 5,335,874,142	$ 6,236,315,442
10. Funding period			
a. Statutory Contribution Rate Beginning July 1, 2009	19.70%	15.00%	15.47%
b. Less Employer normal cost	-6.59%	-5.78%	-5.88%
c. Employer Amortization payment (level %) (Item 10a + Item 10b)	13.11%	9.22%	9.59%
d. Funding Period in years	31.0	27.6	28.2

	Police and Firefighters June 30, 2008	All Other Employees June 30, 2008	All Employees June 30, 2008
1. Payroll (adjusted for one year's pay increase)	$ 373,473,901	$ 3,408,628,842	$ 3,782,102,743
2. Gross normal oost (Exhibit 3)	18.78%	11.83%	12.54%
3. Employer normal cost rate (Exhibit 3)	6.58%	5.79%	5.89%
4. Present value future benefits (Exhibit 2)	$ 3,388,246,758	$ 16,049,268,403	$ 19,437,515,161
5. Present value future employer contributions	$ 213,543,889	$ 1,353,580,123	$ 1,567,124,012
6. Present value future employee contributions	$ 397,591,395	$ 923,730,700	$ 1,321,322,095
7. Actuarial accrued liability (Item 4 - Item 5 - Item 6)	$ 2,777,111,474	$ 13,771,957,580	$ 16,549,069,054
8. Actuarial value of assets	$ 2,076,350,165	$ 9,304,610,839	$ 11,380,961,003
9. Unfunded actuarial accrued liability (UAAL) (Item 7 - Item 8)	$ 700,761,309	$ 4,467,346,741	$ 5,168,108,050
10. Funding period			
a. Statutory Contribution Rate Beginning July 1, 2008	19.70%	15.00%	15.46%
b. Less Employer normal cost	-6.58%	-5.79%	-5.89%
c. Employer Amortization payment (level %) (Item 10a + Item 10b)	13.12%	9.21%	9.57%
d. Funding Period in years	22.7	22.5	22.6

Gabriel Roeder Smith & Company

Summary of 2009 Actuarial Valuation (continued)

Exhibit 2
Actuarial Present Value of Future Benefits

	Police and Firefighters June 30, 2009	All Other Employees June 30, 2009	All Employees June 30, 2009
1. Active members			
a. Service retirement benefits	$ 2,134,640,502	$ 8,760,536,315	$ 10,895,176,817
b. Termination benefits	74,612,087	688,066,918	762,679,005
c. Survivor benefits	30,776,107	117,925,709	148,701,816
d. Disability retirement benefits	9,754,101	80,551,103	90,305,204
e. Total	$ 2,249,782,797	$ 9,647,080,045	$ 11,896,862,842
2. Retired members			
a. Service retirement	$ 1,288,240,681	$ 6,781,867,166	$ 8,070,107,847
b. Disability retirement	26,367,284	127,237,567	153,604,851
c. Beneficiaries	57,485,571	302,831,681	360,317,252
d. Total	$ 1,372,093,536	$ 7,211,936,414	$ 8,584,029,950
3. Inactive members			
a. Vested terminations	$ 22,898,429	$ 242,312,509	$ 265,210,938
b. Nonvested terminations	2,569,949	645,135	3,215,084
c. Total	$ 25,468,378	$ 242,957,644	$ 268,426,022
4. Total actuarial present value of future benefits	$ 3,647,344,711	$ 17,101,974,103	$ 20,749,318,814

	Police and Firefighters June 30, 2008	All Other Employees June 30, 2008	All Employees June 30, 2008
1. Active members			
a. Service retirement benefits	$ 1,950,194,975	$ 8,082,533,862	$ 10,032,728,837
b. Termination benefits	70,108,943	611,632,705	681,741,648
c. Survivor benefits	28,380,596	107,799,287	136,179,883
d. Disability retirement benefits	9,040,885	74,034,778	83,075,663
e. Total	$ 2,057,725,399	$ 8,876,000,632	$ 10,933,726,031
2. Retired members			
a. Service retirement	$ 1,236,454,997	$ 6,537,375,832	$ 7,773,830,829
b. Disability retirement	25,959,362	117,299,769	143,259,131
c. Beneficiaries	50,015,777	263,233,053	313,248,830
d. Total	$ 1,312,430,136	$ 6,917,908,654	$ 8,230,338,790
3. Inactive members			
a. Vested terminations	$ 18,027,645	$ 250,127,923	$ 268,155,568
b. Nonvested terminations	63,578	5,231,194	5,294,772
c. Total	$ 18,091,223	$ 255,359,117	$ 273,450,340
4. Total actuarial present value of future benefits	$ 3,388,246,758	$ 16,049,268,403	$ 19,437,515,161

Gabriel Roeder Smith & Company

Summary of 2009 Actuarial Valuation (continued)

Exhibit 3
Analysis of Normal Cost

	Police and Firefighters June 30, 2009	All Other Employees June 30, 2009	All Employees June 30, 2009
1. Normal cost as a percent of pay			
a. Service retirement benefits	16.04%	8.40%	9.19%
b. Deferred termination benefits	0.70%	1.22%	1.17%
c. Refunds	1.46%	1.82%	1.78%
d. Disability retirement benefits	0.16%	0.18%	0.18%
e. Survivor benefits	0.43%	0.21%	0.23%
f. Total	18.79%	11.83%	12.55%
2. Employee contribution rate	12.20%	6.05%	6.67%
3. Effective employer normal cost rate (Item 1f – Item 2)	6.59%	5.78%	5.88%

	Police and Firefighters June 30, 2008	All Other Employees June 30, 2008	All Employees June 30, 2008
1. Normal cost as a percent of pay			
a. Service retirement benefits	16.04%	8.39%	9.18%
b. Deferred termination benefits	0.69%	1.24%	1.18%
c. Refunds	1.47%	1.82%	1.78%
d. Disability retirement benefits	0.15%	0.17%	0.17%
e. Survivor benefits	0.43%	0.21%	0.23%
f. Total	18.78%	11.83%	12.54%
2. Employee contribution rate	12.20%	6.04%	6.65%
3. Effective employer normal cost rate (Item 1f – Item 2)	6.58%	5.79%	5.89%

Gabriel Roeder Smith & Company

Summary of 2009 Actuarial Valuation (continued)

Exhibit 4
Development of Actuarial Value of Assets

			Year Ending June 30, 2009
1.	Market value of assets at beginning of year	$	10,846,788,965
2.	Net new investments		
	a. Contributions	$	763,155,820
	b. Benefits paid		(839,128,651)
	c. Refunds		(3,485,038)
	d. Subtotal		(79,457,869)
3.	Market value of assets at end of year	$	8,817,953,015
4.	Net earnings (Item 3 - Item 1 - Item 2d)	$	(1,949,378,081)
5.	Assumed investment return rate		8%
6.	Expected return	$	864,564,802
7.	Excess / (shortfall) return (Item 4 – Item 6)	$	(2,813,942,883)
8.	Deferred amount as of June 30, 2009:		

Period End		Excess Return	Percent Deferred		Deferred Amount
June 30, 2009 (Item 7 above)	$	(2,813,942,883)	75%	$	(2,110,457,162)
June 30, 2008 (From 2008 report)		(1,383,031,789)	50%		(691,515,895)
June 30, 2007 (From 2007 report)		879,236,790	25%		219,809,198
June 30, 2006 (From 2006 report)		253,933,634	0%		-
				$	(2,582,163,859)

9.	Actuarial value of assets as of June 30, 2009 (Item 3 - Item 8)	$	11,400,116,874
10.	Ratio of actuarial value to market value		129.3%

Summary of 2009 Actuarial Valuation (continued)

Exhibit 5
Total Experience Gain or Loss

Item	Police and Firefighters June 30, 2009	All Other Employees June 30, 2009	All Employees June 30, 2009
A. Calculation of total actuarial gain or loss			
1. Unfunded actuarial accured liability (UAAL), as of June 30, 2008	$ 700,761,309	$ 4,467,346,741	$ 5,168,108,050
2. Normal cost for the year (employer and employee)	$ 70,138,399	$ 335,912,110	406,050,509
3. Less: Contributions and assessments for the year	$ (118,758,258)	$ (644,397,562)	$ (763,155,820)
4. Interest at 8%			
a. On UAAL	$ 56,060,905	$ 357,387,739	$ 413,448,644
b. On normal cost	2,805,536	13,436,484	16,242,020
c. On contributions	(4,750,330)	(25,775,902)	(30,526,232)
d. Total	$ 54,116,111	$ 345,048,321	$ 399,164,432
5. Expected UAAL as of June 30, 2009 (Sum of Items 1– 4)	$ 706,257,561	$ 4,503,909,610	$ 5,210,167,171
6. Actual UAAL as of June 30, 2009	$ 900,441,300	$ 5,335,874,142	$ 6,236,315,442
7. Total gain (loss) for the year (Item 5 – Item 6)	$ (194,183,739)	$ (831,964,532)	$ (1,026,148,271)
B. Source of gains and losses			
8. Asset gain (loss) for the year (Exhibit 6)	$ (148,371,066)	$ (660,313,759)	$ (808,684,825)
9. Salary gain (loss) for the year	(56,722,949)	(176,374,644)	(233,097,593)
10 Other liability gain (loss) for the year	$ 10,910,276	$ 4,723,871	$ 15,634,147
11 Change in benefit provisions	-	-	-
12 Total gain (loss) for the year	$ (194,183,739)	$ (831,964,532)	$ (1,026,148,271)

Summary of 2009 Actuarial Valuation (continued)

Exhibit 6
Investment Experience Gain or Loss

Item	June 30, 2009	June 30, 2008
1. Actuarial assets, beginning of year	$ 11,380,961,003	$ 10,589,772,857
2. Total contributions during year	$ 763,155,820	$ 652,145,667
3. Benefits and refunds paid	$ (842,613,689)	$ (795,981,687)
4. Assumed net investment income at 8%		
a. Beginning of year assets	$ 910,476,880	$ 847,181,829
b. Contributions	$ 30,526,233	$ 26,085,827
c. Benefits and refunds paid	$ (33,704,548)	$ (31,839,267)
d. Total	$ 907,298,565	$ 841,428,389
5. Expected actuarial assets, end of year (Sum of Items 1 through 4)	$ 12,208,801,699	$ 11,287,365,226
6. Actual actuarial assets, end of year	$ 11,400,116,874	$ 11,380,961,003
7. Asset gain (loss) for year (Item 6 – Item 5)	$ (808,684,825)	$ 93,595,777
8. Asset gain (loss) as a percent of actuarial value of assets, end of year (Item 7 / Item 6)	(7.09%)	0.82%

Exhibit 7
Analysis of Changes in Valuation Results

	UUAL ($ Millions)		Funding Period		GASB ARC	
	Amount	Change	Amount	Change	Amount	Change
1. 2008 Valuation	$5,168	$ -	22.6 years		14.59%	
2. 2009 Expected valuation results using expected contributions, closed amortization period	5,205	37	21.6 years	-1.0 years	14.01%	-0.58%
3. 2009 expected valuation results using actual contributions	5,210	5	21.6 years	0.0 years	14.02%	0.01%
4. 2009 valuation results using expected assets, expected payroll, expected liabilities, and actual salaries	5,443	233	23.3 years	1.7 years	14.38%	0.36%
5. 2009 valuation results using expected assets, expected payroll, and actual liabilities	5,428	(16)	23.1 years	-0.2 years	14.35%	-0.03%
6. 2009 valuation results using actual liabilities, actual assets, and expected payroll	6,236	809	29.8 years	6.7 years	15.61%	1.26%
7. 2009 valuation results using actual liabilities, actual assets, and actual payroll	6,236	-	28.2 years	-1.6 years	15.33%	-0.28%
8. 2009 valuation results, resetting to 30 year amortization	6,236	-	28.2 years	0.0 years	15.17%	-0.16%

Gabriel Roeder Smith & Company

Summary of 2009 Actuarial Valuation (continued)

Exhibit 8
Highlights of Last Five Annual Actuarial Valuations
2005 through 2009

Item	Valuation Date: June 30				
	2005	2006	2007	2008	2009
Number of active members	63,073	64,069	65,251	66,589	67,912
Number of inactive members	4,938	5,164	5,554	5,847	6,016
Number of pensioners	31,344	32,199	33,117	33,893	34,429
Number of beneficiaries	1,957	2,105	2,207	2,367	2,570
Average monthly contributory plan pension amount	$ 1,717	$ 1,792	$ 1,869	$ 1,941	$ 2,019
Average monthly noncontributory plan pension amount	$ 1,305	$ 1,335	$ 1,359	$ 1,388	$ 1,421
Average monthly hybrid plan pension amount	n/a	n/a	$ 1,453	$ 1,603	$ 1,602
Average monthly beneficiary amount	$ 966	$ 989	$ 1,025	$ 1,062	$ 1,109
Total actuarial value of assets ($millions)	$ 8,915	$ 9,529	$ 10,590	$ 11,381	$ 11,400
Unfunded actuarial accrued liabilities ($millions)	$ 4,071.1	$ 5,132.0	$ 5,106.8	$ 5,168.1	$ 6,236.3
Funding Period (in years) (1)	25.7	35.2	25.5	22.6	28.2

Item	Fiscal Year				
(Dollar amounts in millions(2))	2004-2005	2005-2006	2006-2007	2007-2008	2008-2009
Total calculated appropriations(2)	$ 322.8	$ 423.4	$ 454.5	$ 488.8	$ 578.6
EIR Program appropriations(2)	5.9	-	-	-	-
Excess investment earnings credit(2)	-	-	-	-	-
Net employers appropriations(2)	$ 328.7	$ 423.4	$ 454.5	$ 488.8	$ 578.6

(1) Beginning with the 2004 valuation, the purpose of the valuation is to determine the remaining amortization period based on the statutory contribution rates. Prior valuations determined the dollar amount needed to amortize the UAAL over a fixed period of time.

(2) Beginning with the fiscal year beginning July 1, 2005, a dollar contribution amount is not determined under the provisions of Act 181/2004. Instead a fixed percentage of payroll is contributed (15.75% for Police and Fire, 13.75% for All Others). Beginning July 1, 2008, the percentages will increase to 19.70% for Police and Fire, 15.00% for All Others.

Summary of Actuarial Methods and Assumptions (continued)
(Adopted on August 14, 2006 and on June 30, 2007)

I. *Valuation Date*

The valuation date is June 30th of each plan year. This is the date as of which the actuarial present value of future benefits and the actuarial value of assets are determined.

II. *Actuarial Cost Method*

The funding period required to amortize the unfunded actuarial accrued liability (UAAL) is determined using the Entry Age Actuarial Cost Method. This method assigns the plan's total unfunded liabilities (the actuarial present value of future benefits less the actuarial value of assets) to various periods. The unfunded actuarial accrued liability is assigned to years prior to the valuation, and the normal cost is assigned to the year following the valuation. The remaining costs are assigned to future years.

The normal cost is the level percentage of payroll contribution required to accumulate the needed funds to pay all expected benefits. This percentage of payroll is then applied to the total compensation for the prior year for all active members, and is then adjusted for the payroll growth assumption.

The actuarial accrued liability is the difference between the total present value of future benefits and the actuarial present value of future normal costs. The unfunded actuarial accrued liability (UAAL) is the excess of the actuarial accrued liability over the actuarial value of assets.

Since the State statutes governing the System establish the current employee and Employer contribution rates, the actuarial valuation determines the number of years required to amortize (or fund) the UAAL on a level percentage of payroll basis, taking into account the payroll growth assumption and the normal cost expressed as a percent of pay.

Because of this amortization procedure, any change in the unfunded actuarial accrued liability due to (i) actuarial gains and losses, (ii) changes in actuarial assumptions, or (iii) amendments, affects the funding period.

III. *Funding of Unfunded Actuarial Accrued Liability*

All of the following concepts will be discussed on an aggregate basis with regards to the contributory, the Hybrid, and the noncontributory plans. The total normal cost for benefits provided by ERS is 12.49% of payroll, which is 9.61% of payroll less than the total contributions required by Law (15.46% from employers plus 6.64% in the aggregate from employees). Since only 5.85% of the employer’s 15.46% contribution is required to meet the normal cost (6.64% comes from the employee contribution), it is intended that the remaining 9.91% of payroll will be used to amortize any unfunded actuarial accrued liabilities over a period of years in the future, assuming that total payroll increases by 3.50% per year.

Summary of Actuarial Methods and Assumptions (continued)
(Adopted on August 14, 2006 and on June 30, 2007)

IV. *Actuarial Value of Assets*

The actuarial value of assets is equal to the market value, adjusted for a four-year phase in of actual investment return in excess of expected investment return. The actual return is calculated net of investment and administrative expenses, and the expected investment return is equal to the assumed investment return rate multiplied by the prior year's market value of assets, adjusted for contributions, benefits paid, and refunds.

V. *Actuarial Assumptions*

A. Economic Assumptions

1. Investment return: 8% per year, compounded annually, composed of an assumed 3.00% inflation rate and a 5.00% net real rate of return. (Set by legislative action.)
2. Payroll growth rate: 3.50% per annum.
3. Salary increase rate: As shown below

	General Employees		Teachers	
Years of Service	Service-related Component	Total Annual Rate of Increase Including 3.00% Inflation Component and 1.00% General Increase Rate	Service-Related Component	Total Annual Rate of Increase Including 3.00% Inflation Component and 1.50% General Increase Rate
0	4.00%	8.00%	4.00%	8.50%
1	2.50%	6.50%	3.00%	7.50%
2	1.50%	5.50%	2.50%	7.00%
3	1.00%	5.00%	2.00%	6.50%
4	0.75%	4.75%	1.50%	6.00%
5	0.50%	4.50%	1.00%	5.50%
6	0.50%	4.50%	1.00%	5.50%
7	0.25%	4.25%	0.75%	5.25%
8	0.25%	4.25%	0.75%	5.25%
9	0.25%	4.25%	0.75%	5.25%
10	0.25%	4.25%	0.50%	5.00%
11	0.25%	4.25%	0.50%	5.00%
12	0.25%	4.25%	0.50%	5.00%
13	0.00%	4.00%	0.50%	5.00%
14	0.00%	4.00%	0.50%	5.00%
15 or more	0.00%	4.00%	0.00%	4.50%

Summary of Actuarial Methods and Assumptions (continued)
(Adopted on August 14, 2006 and on June 30, 2007)

	Police & Firefighters	
Years of Service	Service-related Component	Total Annual Rate of Increase Including 3.00%Inflation Component and 1.75% General Increase Rate
0	13.00%	17.75%
1	11.00%	15.75%
2 or more	0.00%	4.75%

Salary increases are assumed to occur once a year on July 1. Therefore, the pay used for the period between the valuation date and the first anniversary of the valuation date is equal to the reported pay for the prior year, annualized if necessary, and then increased by the salary increase assumption.

B. Demographic Assumptions

1. Post-Retirement Mortality rates

General Employees

a. Healthy males – Client Specific Table for males, 90% multiplier.

b. Healthy females - Client Specific Table for females, 90% multiplier.

c. Disabled males - 1994 US Group Annuity Mortality Static Table for males, set forward ten years.

d. Disabled females - 1994 US Group Annuity Mortality Static Table for females, set forward eleven years.

Teachers

a. Healthy males – Client Specific Table for male teachers, 75% multiplier.

b. Healthy females - Client Specific Table for female teachers, 65% multiplier.

c. Disabled males - 1994 US Group Annuity Mortality Static Table for males, set forward four years.

d. Disabled females - 1994 US Group Annuity Mortality Static Table for males, set forward six years.

Summary of Actuarial Methods and Assumptions (continued)
(Adopted on August 14, 2006 and on June 30, 2007)

Police and Fire

a. Healthy males – 1994 US Group Annuity Mortality Static Table for males, 85% multiplier.

b. Healthy females - 1994 US Group Annuity Mortality Static Table for females, 85% multiplier.

c. Disabled males - 1994 US Group Annuity Mortality Static Table for males, set forward five years.

d. Disabled females - 1994 US Group Annuity Mortality Static Table for females, set forward five years.

2. Pre-retirement Mortality Rates

The male pre-retirement mortality rates are multiples of a table that has the RP-2000 Male Employee rates for ages 1 to 70 and the RP-2000 Combined Male rates for ages above 70. Similarly, the female pre-retirement rates are multiples of a table that has the RP-2000 Female Employee rates for ages 1 to 70 and the RP-2000 Combined Female rates for ages above 70. The following table shows the factors that are used in conjunction with the tables described above to derive the final ordinary and accidental death rates.

	General Employees	Teachers	Police and Fire
Type	Male and Females	Male and Females	Male and Females
Ordinary	40%	35%	15%
Accidental	10%	5%	35%

3. Disability rates – The assumed total disability rates for employees covered by the contributory plan, hybrid plan, and the noncontributory plan at select ages are multiples of the client specific table that follows:

Age	Male & Female
25	0.000%
30	0.001%
35	0.008%
40	0.026%
45	0.064%
50	0.146%
55	0.198%
60	0.217%

Note: The disability rates project the percentage of employees at each age that is assumed to become disabled before retiring. Multiples of the rates above are assumed

Summary of Actuarial Methods and Assumptions (continued)
(Adopted on August 14, 2006 and on June 30, 2007)

to be ordinary disability or accidental disability, and vary by employee group as follows:

Type	General Employees		Teachers		Police and Fire
	Male	Female	Male	Female	Male & Female
Ordinary	150%	95%	40%	40%	70%
Accidental	20%	5%	5%	5%	35%

4. Termination Rates - Separate male and female rates, based on both age and service, developed from 2006 Experience Study. Rates reflect terminations for causes other than death, disability or retirement. Employees eligible for retirement are assumed to have no probability of termination. Sample rates are shown below:

<u>For first 6 years of service</u>

Expected Terminations per 100 lives

Years of Service	General Employees		Teachers		Police and Fire
	Male	Female	Male	Female	Male & Female
0	15.5	18.5	32.0	28.0	11.0
1	12.5	16.5	22.0	22.0	7.5
2	10.5	12.5	14.0	15.0	4.0
3	9.0	10.0	12.0	14.0	4.0
4	7.0	8.0	10.0	11.0	4.0
5	6.5	7.0	9.0	8.0	4.0

<u>After first 6 years of service</u>

Expected Terminations per 100 lives

Age	General Employees		Teachers		Police and Fire
	Male	Female	Male	Female	Male & Female
25	6.08	7.38	4.35	6.50	2.00
30	5.04	4.82	4.12	5.80	2.82
35	4.03	3.75	3.80	4.41	2.50
40	3.36	3.02	3.38	3.32	1.66
45	2.81	2.49	2.57	2.65	0.94
50	2.58	2.62	2.56	2.60	0.66
55	3.67	3.92	4.53	4.97	0.00
60	4.00	4.24	5.59	4.66	0.00

Summary of Actuarial Methods and Assumptions (continued)
(Adopted on August 14, 2006 and on June 30, 2007)

5. Retirement rates - Separate male and female rates, based on age, developed from the 2006 Experience Study. Sample rates are shown below:

Expected Retirements per 100 Lives

	Contributory Plan and Hybrid Plan					Noncontributory Plan			
	General Employees		Teachers		Police and Fire	General Employees		Teachers	
Age	Male	Female	Male	Female	Male & Female	Male	Female	Male	Female
45	1	0	0	0	18	0	0	0	0
46	1	0	0	0	18	0	0	0	0
47	1	0	0	0	18	0	0	0	0
48	1	0	0	0	18	0	0	0	0
49	1	0	0	0	18	0	0	0	0
50	2	1	1	0	18	0	0	0	0
51	2	1	1	0	18	0	0	0	0
52	2	1	1	1	18	0	0	0	0
53	2	1	4	1	18	0	0	0	0
54	6	5	7	4	25	0	0	0	0
55	20	20	20	22	25	10	10	10	13
56	15	10	15	18	22	9	10	9	12
57	15	10	15	18	22	9	10	9	12
58	15	10	15	18	22	9	10	9	15
59	15	12	15	18	22	9	10	9	18
60	15	12	14	18	30	10	15	10	18
61	18	15	14	18	30	18	15	10	18
62	35	35	14	25	30	30	25	15	30
63	20	25	14	18	30	30	25	10	16
64	20	20	14	18	30	25	25	10	16
65	35	45	25	25	100	40	30	24	30
66	25	25	25	25	100	35	30	18	20
67	30	30	25	30	100	30	25	15	20
68	25	40	25	40	100	30	25	15	20
69	25	40	25	40	100	30	25	15	20
70	25	25	25	25	100	20	25	15	25
71	25	25	25	25	100	20	25	15	25
72	25	25	25	25	100	20	25	15	25
73	25	25	25	25	100	20	25	15	25
74	25	25	25	25	100	20	25	15	25
75	100	100	100	100	100	100	100	100	100

Summary of Actuarial Methods and Assumptions (continued)
(Adopted on August 14, 2006 and on June 30, 2007)

C. Other Assumptions

1. Percent married: 77% of male employees and 57.6% of female employees are assumed to be married.

2. Age difference: Male members are assumed to be four years older than their spouses, and female members are assumed to be four years younger than their spouses.

3. Percent electing annuity on death for contributory participants (when eligible): All of the spouses of married participants who die after becoming eligible for a retirement benefit are assumed to elect an annuity or a refund, whichever is more valuable at time of participant's death.

4. Percent electing deferred termination benefit: vested terminating members are assumed to elect a refund or a deferred benefit, whichever is more valuable at the time of termination.

5. Assumed age for commencement of deferred benefits: Members electing to receive a deferred benefit are assumed to commence receipt when eligible for early retirement.

6. Administrative expenses: The assumed investment return rate represents the anticipated net return after payment of all investment and administrative expenses.

7. Reemployment, purchase of service, transfers: No recognition is made of (i) future member reimbursements upon reemployment, (ii) future purchase of additional service, or (iii) special transfer provisions.

8. Sick Leave: It is assumed that all members will have their benefit service increased by sick leave and the following loads will be applied by group:

General Employees	3.75%
Teachers	4.25%
Police and Fire	5.00%

9. COLA delay: It is assumed that the first COLA will be received 9 months after retirement.

10. There will be no recoveries once disabled.

11. No surviving spouse will remarry and there will be no children's benefit.

12. Pay increase timing: Beginning of (fiscal) year. This is equivalent to assuming that reported pays represent amounts paid to members during the year ended on the valuation date.

13. Decrement timing: Retirements and terminations of Teachers are assumed to occur at the beginning of the year. All other decrements are assumed to occur mid-year.

Summary of Actuarial Methods and Assumptions (continued)
(Adopted on August 14, 2006 and on June 30, 2007)

14. Eligibility testing: Eligibility for benefits is determined based upon the age nearest birthday and service nearest whole year on the date the decrement is assumed to occur.

15. Decrement relativity: Decrement rates are used directly from the Experience Study, without adjustment for multiple decrement table effects.

16. Incidence of Contributions: Contributions are assumed to be received continuously throughout the year based upon the computed percent of payroll shown in this report, and the actual payroll payable at the time contributions are made.

17. Benefit Service: All members are assumed to accrue 1 year of service each year. Exact fractional service is used to determine the amount of benefit payable.

VI. <u>Participant Data</u>

Participant data was supplied on CD-ROM for (i) active members, (ii) inactive vested members, who are entitled to a future deferred benefit, (iii) members and beneficiaries receiving benefits.

Salary supplied for the current year was based on the earnings for the March preceding the valuation date. This salary was compared to March base pay plus a twelve-month average of overtime, with the greater of the two being used for valuation pay.

VII. <u>Dates of Adoption of Assumptions and Methods</u>

Generally, actuarial assumptions and methods were adopted by the Board of Trustees on August 14, 2006 as recommended by Gabriel, Roeder, Smith & Company. The legislature sets the investment return assumption. The salary scale assumption prior to the June 30, 2007 valuation was also set by statute. The 2007 Legislature removed this constraint as of June 30, 2007, and this assumption is now set by the Board based on the Actuary’s recommendations.

Summary of Plan Changes

Act 65, effective July 1, 1999

Requires judges who enter or re-enter service after June 30, 1999 to be at least 55 years old and five years of service or have 25 years of service to retire.

Act 100, effective June 30, 1999

Uses actuarial investment earnings in excess of a ten percent (10%) actuarial investment yield rate to reduce the employer's contribution requirements by $147.0 million and $50.6 million for fiscal years ending June 30, 2000 and 2001, respectively.

Act 284, effective June 30, 2001

Provide an increase in pension benefits for current retirees with military service who retired prior to July 2, 1989. A retirant who rendered honorable active military service could be granted up to 4 years of military service credits based upon his/her years of credited service under the ERS, not to exceed his/her actual years of military service. The years of military service credits granted are based on the following schedule:

- 0 years for retirants with less than 8 years of credited service
- Up to 2 years of retirants with 8 years or more of credited service
- Up to 3 years of retirants with 20 years or more of credited service
- Up to 4 years of retirants with 25 years or more of credited service

For each year of military service credits granted on the schedule above, the retirant will be provided a $36.00 increase is his/her monthly pension or retirement allowance.

Act 199, effective June 30, 2003

Emergency Medical Technicians (EMTs) are allowed to retire with an unreduced benefit after 25 years of service regardless of age, of which the last five or more years prior to retirement must be in that capacity. This feature is phased in one year at a time, July 1, 2003 through June 30, 2008.

Act 177, effective July 1, 2004

This Act allows police officers with a permanent service-connected disability to retain the 2-1/2% benefit multiplier for each year of service as a police officer.

Act 179, effective July 1, 2004

This Act increased the Noncontributory service-connected disability formula to 35% of average final compensation. The Act also changed the methodology for crediting interest on contributions for terminated members so that interest continues to accrue until the date of refund. The Act adds a "pop-up" feature to the joint & survivor benefit options if the beneficiary pre-deceases the retiree.

This Act also created the new Hybrid Plan which will become effective July 1, 2006.

Summary of Plan Changes (continued)

Act 181, effective July 1, 2004

This Act establishes fixed employer contribution rates as a percentage of compensation effective July 1, 2005. Employers will contribute 15.75% for their police officers and firefighters and 13.75% for other employees.

Act 183, effective July 1, 2004

This Act amends the ERS statutes to comply with the federal tax limits on compensation retroactive to July 1, 1996.

Act 56, effective December 1, 2004

This Act amends the ERS statutes to allow the automatic cost-of-living-adjustment to be reflected when determining actuarial equivalent optional forms of payment.

Act 256, effective July 1, 2007

Legislation was enacted to remove the statutory salary increase assumption form the statutes and to grant the System's Board of Trustees the authority to set the salary scale assumption. As a result of that legislation, the Board adopted effective with this valuation the salary scale increase assumption recommended by GRS as a result of the Experience Study performed in 2006.

Legislation was also enacted to increase the employer contribution rates to the System. Effective July 1, 2008, the employer contribution rate for Police and Fire employees will increase from 15.75% to 19.70% and the rate for All Other employees will increase from 13.75% to 15.00%.

Ten-Year Actuarial Schedules (continued)

Ten Year Actuarial Schedules
2000 to 2009

- Retirement System Membership **
  - 2009 Membership Data *
- Historical Summary of Active Member Data *
- Pensioners, Average Annual Pension and Active Member/Ptensioner Comparison **
- Number of Retirants and Beneficiaries **
- Solvency Test **
- Employer Contribution Rates as a Percentage of Payroll **
- Employer Appropriations to Pension Accumulation Fund, Appropriation Years 2000-2001 to 2009-2010 **

Note: * Prepared by Gabriel, Roeder, Smith & Company
** Compiled by ERS Staff from actuary reports, or other data.

Retirement System Membership **
2000 to 2009

March 31,	Active Members	Inactive Vested Members	Pensioners & Beneficiaries	Total Membership
2000	59,191	3,016	28,715	90,922
2001	59,992	3,416	29,660	93,068
2002	62,208	3,835	30,330	96,373
2003	62,292	4,150	31,389	97,831
2004	62,573	4,501	32,297	99,371
2005	63,073	4,938	33,301	101,312
2006	64,069	5,164	34,304	103,537
2007	65,251	5,554	35,324	106,129
2008	66,589	5,847	36,260	108,696
2009	67,912	6,016	36,999	110,927

** Schedule compiled by ERS Staff from actuary reports.

Ten-Year Actuarial Schedules (continued)

2009 Membership Data*

March 31, 2009

	Police and Firefighters		All Other Employees		All Employees	
	June 30, 2009	June 30, 2008	June 30, 2009	June 30, 2008	June 30, 2009	June 30, 2008
1. Active members						
a. Number	4,955	4,915	62,957	61,674	67,912	66,589
b. Total payroll	$ 383,990,376	$ 353,376,984	$3,454,010,026	$3,248,345,266	$3,838,000,402	$3,601,722,250
c. Average salary	$ 77,496	$ 71,898	$ 54,863	$ 52,670	$ 56,514	$ 54,089
d. Average age	41.0	40..8	47.2	47.1	46.8	46.6
e. Average service	13.6	13.3	12.8	12.9	12.9	12.9
2. Inactive members						
a. Number	242	198	5,774	5,649	6,016	5,847
b. Total annual deferred benefits	$ 3,783,554	$ 2,968,626	$ 41,172,623	$ 41,090,755	$ 44,956,177	$ 44,059,381
c. Average annual deferred benefit	$ 15,635	$ 14,993	$ 7,131	$ 7,274	$ 7,473	$ 7,535
3. Service retirees						
a. Number	2,794	2,756	30,149	29,685	32,943	32,441
b. Total annual benefits	$ 109,398,947	$ 104,209,828	$ 644,026,292	$ 617,724,664	$ 753,425,239	$ 721,934,492
c. Average annual benefit	$ 39,155	$ 37,812	$ 21,361	$ 20,809	$ 22,871	$ 22,254
4. Disabled retirees						
a. Number	168	169	1,318	1,283	1,486	1,452
b. Total annual benefits	$ 2,693,142	$ 2,633,489	$ 12,925,859	$ 12,070,600	$ 15,619,001	$ 14,704,089
c. Average annual benefit	$ 16,031	$ 15,583	$ 9,807	$ 9,408	$ 10,511	$ 10,127
5. Beneficiaries						
a. Number	190	175	2,380	2,192	2,570	2,367
b. Total annual benefits	$ 5,018,325	$ 4,381,336	$ 29,182,882	$ 25,795,764	$ 34,201,207	$ 30,177,100
c. Average annual benefit	$ 26,412	$ 25,036	$ 12,262	$ 11,768	$ 13,308	$ 12,749

* Prepared by Gabriel, Roeder, Smith & Company

Historical Summary of Active Member Data*

2000 to 2009

Year Ending June 30,	Active Members		Covered Payroll		Average Salary			
	Number	Percent Increase	Amount in $ Millions	Percent Increase	$ Amount	Percent Increase	Average Age	Average Service
2000	59,191	1.4%	2,275.3	4.1%	38,440	2.6%	45.5	13.0
2001	59,992	1.4%	2,350.2	3.3%	39,175	1.9%	45.6	13.3
2002	62,208	3.7%	2,568.7	9.3%	41,292	5.4%	45.8	13.2
2003	62,292	0.1%	2,718.4	5.8%	43,640	5.7%	46	13.1
2004	62,573	0.5%	2,755.5	1.4%	44,037	0.9%	46	13.0
2005	63,073	0.8%	2,924.5	6.1%	46,368	5.3%	46.3	13.0
2006	64,069	1.6%	3,113.7	6.5%	48,599	4.8%	46.4	13.0
2007	65,251	1.8%	3,340.5	7.3%	51,194	5.3%	46.5	13.0
2008	66,589	2.1%	3,601.7	7.8%	54,089	5.7%	46.6	12.9
2009	67,912	2.0%	3,838.0	6.6%	56,514	4.5%	46.8	12.9

* Prepared by Gabriel, Roeder, Smith & Company

Ten-Year Actuarial Schedules (continued)

Pensioners, Average Annual Pension and Active Member/Pensioner Comparison**

2000 to 2009

March 31,	Number of Pensioners	Average Annual Pension (1)	Ratio of Active Members per Pensioner
2000	27,357	$16,632	2.2
2001	28,210	$16,853	2.1
2002	28,770	$17,898	2.1
2003	29,730	$18,601	2.1
2004	30,503	$19,279	2.1
2005	31,344	$19,980	2.0
2006	32,199	$20,052	1.9
2007	33,117	$21,161	1.8
2008	33,893	$21,734	1.9
2009	34,429	$22,337	1.9

** Schedule compiled by ERS Staff from actuary reports.

(1) Pension amount includes base pension plus 2.5% post-retirement increases (excludes other bonuses and cost-of-living adjustments).

Number of Retirants and Beneficiaries**

2000 to 2009

As of Mar 31,	Added	Average Added to Rolls	Removed	Average Removed from Rolls	Total	Average Pension	% Chg
Retirants [1]							
2000	1,549	n/a	784	n/a	28,715	$16,632	3.20%
2001	1,668	n/a	723	n/a	29,660	$16,853	1.30%
2002	1,229	$18,707	739	$12,559	28,770	$17,898	4.10%
2003	1,723	$20,292	763	$12,836	29,730	$18,601	3.90%
2004	1,630	$20,136	857	$13,596	30,503	$19,279	3.60%
2005	1,694	$21,228	853	$12,608	31,344	$19,980	3.60%
2006	1,664	$20,562	809	$14,032	32,199	$20,583	3.02%
2007	1,785	$20,782	873	$14,697	33,117	$21,161	2.81%
2008	1,712	$20,715	936	$15,396	33,893	$21,734	2.71%
2009	1,531	$20,861	995	$16,053	34,429	$22,337	2.77%
Beneficiaries [1]							
2002	176	$11,904	66	$6,660	1,560	$10,499	4.50%
2003	147	$12,137	48	$6,068	1,659	$10,909	3.90%
2004	177	$12,588	42	$7,596	1,794	$11,395	4.50%
2005	220	$10,395	57	$8,756	1,957	$11,587	1.70%
2006	214	$11,819	66	$10,455	2,105	$11,862	2.37%
2007	179	$14,161	71	$10,132	2,213	$12,305	3.74%
2008	229	$14,244	75	$10,659	2,367	$12,749	3.61%
2009	298	$14,518	95	$9,772	2,570	$13,308	4.38%

Notes: [1] Beneficiary counts are included in retirant counts through 2001. As of March 31, 2001, there were 28,210 retirants and 1,450 beneficiaries, receiving annual retirement benefits of $17,202 and $10,050, respectively.

n/a Information not available.

** Schedule compiled by ERS staff from actuary reports.

Gabriel Roeder Smith & Company

Ten-Year Actuarial Schedules (continued)

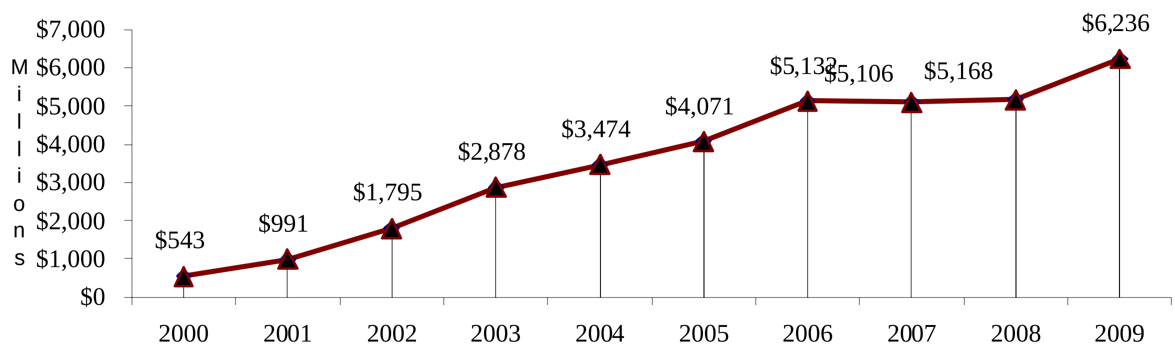
Solvency Test**
1999 to 2009

June 30,	Actuarial Accrued Liabilities (AAL) Active Member Contributions (1)	Retirees, Beneficiaries, and Inactive Vested Members (2)	Active and Inactive Members Employer Financed Portion (3)	Actuarial Value of Assets (4)	Cumulative Portion of Actuarial Accrued Liabilities Covered by Assets Column (1) (5)	Column (2) (6)	Column (3) (7)
2000	938.0	4,914.5	3,817.8	9,204.7	100%	100%	87.8%
2001	876.0	5,232.4	4,398.5	9,516.0	100%	100%	77.5%
2002	889.9	5,499.4	4,820.9	9,415.2	100%	100%	62.7%
2003	872.3	5,912.3	5,167.5	9,074.0	100%	100%	44.3%
2004	870.3	6,278.6	5,122.4	8,797.1	100%	100%	32.2%
2005	864.9	6,641.6	5,479.5	8,914.8	100%	100%	25.7%
2006	844.0	7,458.4	6,359.0	9,529.4	100%	100%	19.3%
2007	914.1	7,856.1	6,926.4	10,589.8	100%	100%	26.3%
2008	1,029.5	8,230.3	7,289.2	11,381.0	100%	100%	29.1%
2009	1,168.9	8,584.0	7,883.4	11,400.1	100%	100%	20.9%

(Amounts in $millions)

** Schedule compiled by ERS Staff from actuary reports

Unfunded Actuarial Accrued Liability FY 1999-2009



Ten-Year Actuarial Schedules (continued)

Employer Contribution Rates as a Percentage of Payroll **

2000 to 2009

Actuarial Valuation as of June 30,	Police and Firefighters			All Other Employees			All Active Employees		
	Normal Cost Rate	Amortization Percent	Total Employer Rate	Normal Cost Rate	Amortization Percent	Total Employer Rate	Normal Cost Rate	Amortization Percent	Total Employer Rate
2000	13.17%	-8.82%	4.35%	6.03%	3.72%	9.75%	6.72%	2.50%	9.22%
2001	3.88%	4.16%	8.04%	5.59%	4.86%	10.45%	5.42%	4.78%	10.20%
2002	3.88%	6.46%	10.34%	5.62%	5.87%	11.49%	5.45%	5.93%	11.38%
2003	4.27%	11.06%	15.33%	5.73%	8.74%	14.47%	5.59%	8.96%	14.55%
2004	4.41%	11.34%	15.75%	5.75%	8.00%	13.75%	5.54%	8.41%	13.95%
2005	4.36%	11.39%	15.75%	5.76%	7.99%	13.75%	5.55%	8.40%	13.95%
2006	4.69%	11.06%	15.75%	5.16%	8.59%	13.75%	5.11%	8.84%	13.95%
2007	6.56%	9.19%	15.75%	5.75%	8.00%	13.75%	5.85%	8.10%	13.95%
2008	6.58%	13.12%	19.70%	5.79%	9.21%	15.00%	5.89%	9.57%	15.46%
2009	6.59%	13.11%	19.70%	5.78%	9.22%	15.00%	5.88%	9.59%	15.47%

Note: Effective with the June 30, 2004 valuation, the employer contribution rate is statutorily changed to a percentage of pay of 15.75% of actual pay for Police and Fire and 13.75% of actual pay for All Other Employees, per Act 181/2004 SLH. Effective July 1, 2008, the employer contribution rate increased to 19.70% of actual pay for Police and Fire and 15.00% of actual pay for All Other Employees, per Act 256/2006 SLH.

** Schedule compiled by ERS Staff from actuary reports.

Ten-Year Actuarial Schedules (continued)

Employer Appropriations to Pension Accumulation Fund**

Appropriation Years 2001-2002 to 2010-2011

(Amounts in Millions)

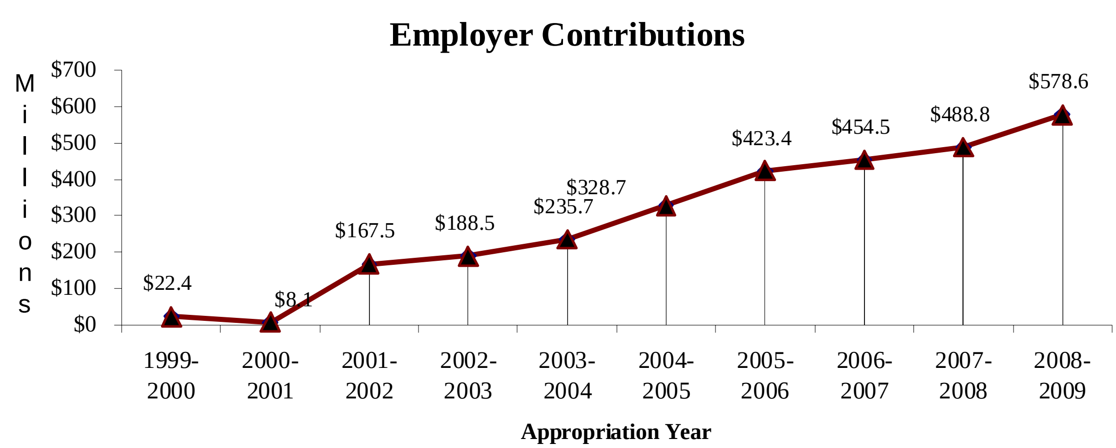
	Investment Yield Rate					
Fiscal Year	Assumed for Actuarial Valuation	Actuarial Investment Return	Appropriation Year	Total Calculated Contribution (1)	Investment Earnings Adjustment	Employer Appropriations
1999-2000	8.0%	12.58%	2001-2002	201.2	(33.7)	167.5
2000-2001	8.0%	8.91%	2002-2003	188.5	-	188.5
2001-2002	8.0%	2.62%	2003-2004	235.7	-	235.7
2002-2003	8.0%	0.18%	2004-2005	328.7	-	328.7
2003-2004	8.0%	0.80%	2005-2006	N/A	-	N/A
2004-2005	8.0%	4.76%	2006-2007	N/A	-	N/A
2005-2006	8.0%	9.76%	2007-2008	N/A	-	N/A
2006-2007	8.0%	12.98%	2008-2009	N/A	-	N/A
2007-2008	8.0%	8.89%	2009-2010	N/A	-	N/A
2008-2009	8.0%	0.87%	2010-2011	N/A	-	N/A

Notes: (1) 2001 results adjusted for reamortization of Unfunded Actuarial Accrued Liability and Early Incentive Retirement Program to June 30, 2029 under Act 147/2002.

(2) Beginning with the valuation for fiscal year 1996-97 (appropriation fiscal year 1999-2000), the actuarial investment income is the sum of the expected net investment income based on the actuarial assumption of 8% and a four-year smoothing of the difference between the market value of assets at year-end and the expected actuarial value of assets. In prior years, the actuarial investment income was the sum of interest, dividends, and net realized gains less net realized losses and investment expenses.

(3) Beginning fiscal year 2005/2006 employers will contribute 15.75% of actual payroll for Police and Fire and 13.75% for All Other Employees, per Act 181/2004 SLH. Effective July 1, 2008, the employer contribution rate increased to 19.70% of actual pay for Police and Fire and 15.0s0% of actual pay for All Other Employees, per Act 256/2006 SLH.

** Schedule compiled by ERS Staff from actuary reports.



State Retirement Systems' Funded Ratios

Funded Ratio	**Number of General State Retirement Systems (excluding separate systems for teachers, school employees, or municipal employees)**				
100% or more	7	Oregon PERS	110.5%	Delaware SEPP	103.7%
		North Carolina TSERS	106.1%	Utah URS	100.8%
		Florida FRS	105.6%	Vermont VSRS	100.8%
		Idaho PERS	105.5%		
90% to 99%	15	Wisconsin WRS	99.5%	Wyoming WRS	94.0%
		Indiana PERF	97.6%	North Dakota PERS	93.4%
		Pennsylvania PSERS	97.1%	New Mexico PERA	92.8%
		South Dakota SDRS	97.1%	Ohio PERS	92.6%
		West Virginia PERS	97.0%	Minnesota MSRS	92.5%
		Tennessee SETHEEPP	96.2%	Montana PERS	91.1%
		Texas ERS	95.6%	Iowa PERS	90.2%
		Georgia ERS	94.5%		
80% to 89%	8	Arkansas PERS	89.1%	Michigan MSERS	85.1%
		California PERS	87.2%	Arizona ASRS	83.3%
		Missouri MOSERS	86.8%	Alabama ERS	81.1%
		Massachusetts SERS	85.1%	Virgina VRS	80.8%
70% to 79%	9	Nevada PERS	78.8%	Colorado PERA	73.3%
		Alaska PERS	78.2%	Washington PERS	73.1%
		New Jersey PERS	76.6%	Oklahoma PERS	72.6%
		Maryland MSRPS	74.7%	Maine MSRS	71.1%
		Mississippi PERS	73.7%		
Less than 70%	9	South Carolina SCRS	69.6%	Kentuucky KERS	58.4%
		Kansas PERS	69.4%	Illinois SERS	54.2%
		Hawaii ERS *	**68.8%**	Rhode Island ERSRI	53.4%
		Louisiana LASERS	67.2%	Connecticut SERS	53.3%
		New Hampshire NHRS	67.0%		

Compiled from various sources by Gabriel, Roeder, Smith & Company

Note: GASB 25 funded ratios are shown for 48 general state retirement systems for valuation year(s) through January 1, 2008. A funded ratio is not shown for the Nebraska System because it is a defined contribution plan. A funded ratio for the New York System does not exist because of the use of the Aggregate Cost Method.

*** Hawaii's GASB 25 funded ratio for the fiscal year ended June 30, 2009 was 64.6%.**

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Employees' Retirement System

of the State of Hawaii

STATISTICAL SECTION

Summary

Plan Membership

Membership in the ERS increased by 2,231 to 110,927 for FY 2009, or slightly less than 2.1 percent for the year. Active members increased by 1,323, retired members and beneficiaries increased by 739, and terminated-vested members increased by 169. Membership data for the last ten years ended June 30, 2009 may be found on the following pages.

Net Assets vs. Liabilities

The charts on page 114 graphically represent the funding progress of the ERS for the ten years ended June 30, 2009. The area charts show the portion of the pension liabilities that are unfunded compared to the portion covered by assets in the pension trust and illustrate the funded ratio of the ERS for the ten years ended June 30, 2009.

The existence of the unfunded actuarial accrued liabilities is not necessarily an indication of the inability to meet financial obligations, but the existence of the unfunded actuarial accrued liabilities is important and must be monitored and controlled.

The remainder of this section contains various statistical and historical data considered useful in evaluating the condition of the ERS.

All nonaccounting data is taken from ERS' internal sources except for that information which is derived from the actuarial valuations.

Changes in Plan Net Assets

Last Ten Fiscal Years

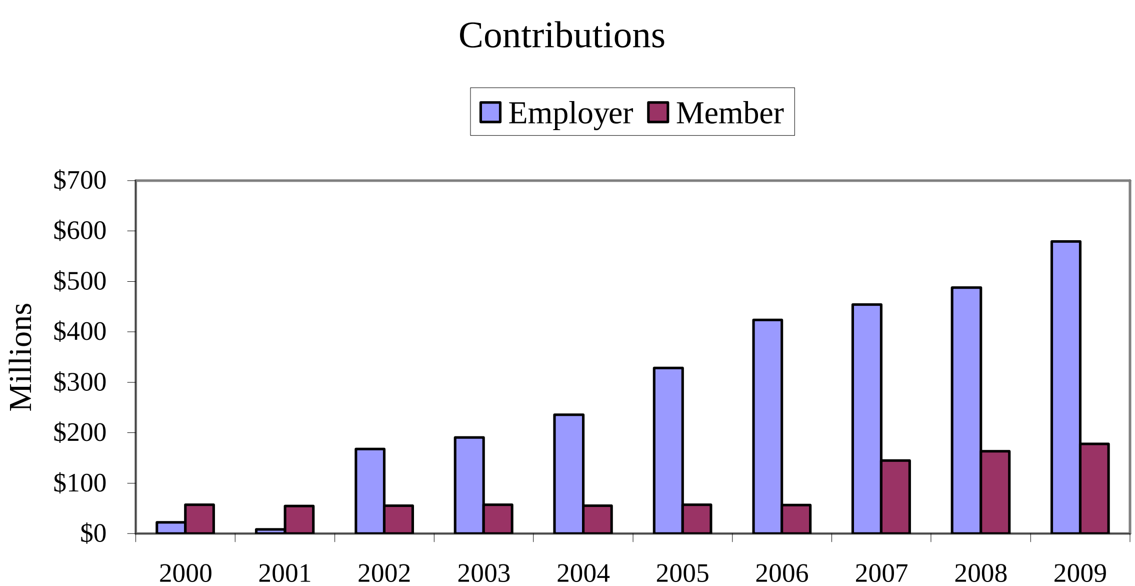
Fiscal Year Ended June 30,:	2000	2001	2002	2003	2004
Additions					
Employer Contributions	$ 22,392,100	$ 8,131,900	$ 167,458,900	$ 190,586,276	$ 235,685,796
Member contributions	57,358,185	54,489,895	55,451,216	57,214,521	55,116,452
Investment income (net of expense)	695,151,054	(679,605,059)	(503,995,093)	146,140,751	1,236,414,927
Total additions to plan net assets	774,901,339	(616,983,264)	(281,084,977)	393,941,548	1,527,217,175
Deductions					
Benefits	514,401,221	544,906,809	565,559,305	602,805,080	636,214,617
Refunds	4,318,654	3,892,377	3,244,334	2,605,602	2,328,796
Administrative expenses	4,168,717	4,893,712	5,754,832	6,780,824	10,468,508
Other	-	-	-	2,800	-
Total deductions from plan net assets	522,888,592	553,692,898	574,558,471	612,194,306	649,011,921
Change in plan net assets	$ 252,012,747	$(1,170,676,162)	$ (855,643,448)	$ (218,252,758)	$ 878,205,254
Plan net assets, beginning of year	9,679,759,504	9,931,772,251	8,761,096,089	7,905,452,641	7,687,199,883
Plan net assets, end of year	$9,931,772,251	$ 8,761,096,089	$ 7,905,452,641	$ 7,687,199,883	$ 8,565,405,137

Fiscal Year Ended June 30,:	2005	2006	2007	2008	2009
Additions					
Employer Contributions	$ 328,716,718	$ 423,445,597	$ 454,494,286	$ 488,770,028	$ 578,672,058
Member contributions	57,054,621	56,257,953	144,658,185	163,375,639	177,781,610
Investment income (net of expense)	931,710,183	988,347,837	1,704,957,268	(461,063,080)	(1,937,317,469)
Total additions to plan net assets	1,317,481,522	1,468,051,387	2,304,109,739	191,082,587	(1,180,863,801)
Deductions					
Benefits	676,316,347	720,542,990	761,004,748	792,312,830	833,691,245
Refunds	3,442,466	2,487,279	3,497,590	3,668,857	3,937,464
Administrative expenses	7,259,906	8,477,837	9,601,756	10,728,801	13,011,283
Other	-	-	-	-	-
Total deductions from plan net assets	687,018,719	731,508,106	774,104,094	806,710,488	850,639,992
Change in plan net assets	$ 630,462,803	$ 736,543,281	$ 1,530,005,645	$ (615,627,901)	$ (2,031,503,793)
Plan net assets, beginning of year	8,565,405,137	9,195,867,940	9,932,411,221	11,462,416,866	10,846,788,965
Plan net assets, end of year	$9,195,867,940	$ 9,932,411,221	$11,462,416,866	$ 10,846,788,965	$ 8,815,285,172

Contributions

Employer Contribution Rates as a Percentage of Payroll

Fiscal Year	Police & Firefighters	All Other Employees	Composite Rate
2000	4.35%	9.75%	9.22%
2001	8.04%	10.45%	10.20%
2002	10.34%	11.49%	11.38%
2003	15.33%	14.47%	14.55%
2004	15.75%	13.75%	13.95%
2005	15.75%	13.75%	13.95%
2006	15.75%	13.75%	13.95%
2007	15.75%	13.75%	13.95%
2008	15.75%	13.75%	13.95%
2009	19.70%	15.00%	15.46%



Deductions from Plan Net Assets for Benefit Payments by Type

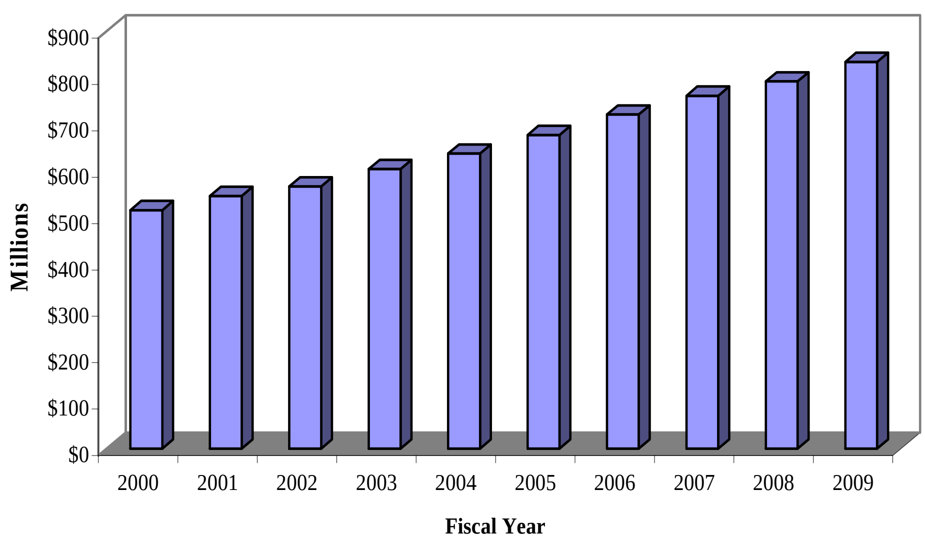
Last Ten Fiscal Years

Fiscal Year Ended June 30,:	2000	2001	2002	2003	2004
Recurring benefit payments					
Service	$ 460,293,937	$ 491,957,932	$ 518,579,831	$ 557,439,020	$ 594,915,118
Disability	8,305,398	8,950,018	9,336,267	10,047,637	10,502,367
Death	2,644,579	2,369,546	2,465,179	1,749,855	3,147,690
subtotal	471,243,914	503,277,496	530,381,277	569,236,512	608,565,175
Refund Option payments (one-time)	43,157,307	41,629,313	35,178,028	33,568,568	27,649,442
Total benefit payments	$ 514,401,221	$ 544,906,809	$ 565,559,305	$ 602,805,080	$ 636,214,617

Fiscal Year Ended June 30,:	2005	2006	2007	2008	2009 **
Recurring benefit payments					
Service	$ 632,088,342	$ 673,165,361	$ 712,580,450	$ 748,158,330	$ 754,432,615
Disability	11,780,739	12,666,891	13,432,834	13,707,170	15,619,011
Death	2,793,149	3,875,024	2,794,068	2,293,557	34,201,206
subtotal	646,662,230	689,707,276	728,807,352	764,159,057	804,252,832
Refund Option payments (one-time)	29,654,117	30,835,714	32,197,396	28,153,773	29,438,413
Total benefit payments	$ 676,316,347	$ 720,542,990	$ 761,004,748	$ 792,312,830	$ 833,691,245

** From FYE 6/30/2009, death benefits includes payments to continuing beneficiaries.

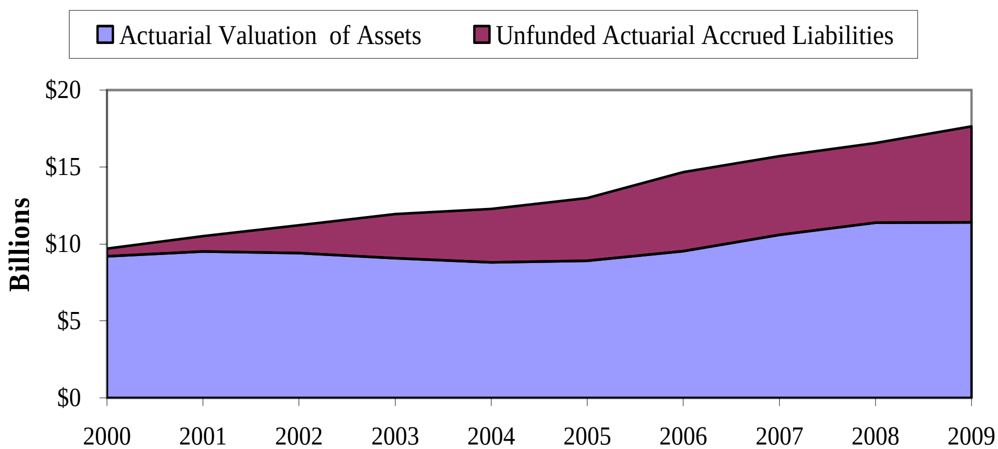
Benefit Payments



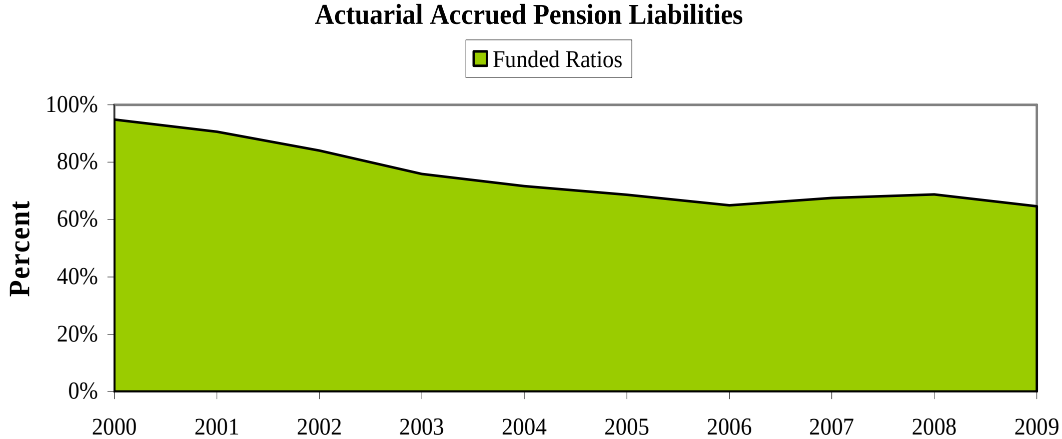
Actuarial Valuation of Assets vs. Actuarial Pension Liabilities

	Dollars in Billions			
Fiscal Year	Actuarial Valuation of Assets	Unfunded Actuarial Liabilities	Actuarial Accrued Liabilities	Funded Ratios
2000	$ 9.205	$ 0.494	$ 9.699	94.9%
2001	9.516	0.991	10.507	90.6%
2002	9.415	1.795	11.210	84.0%
2003	9.074	2.878	11.952	75.9%
2004	8.797	3.474	12.271	71.7%
2005	8.915	4.071	12.986	68.6%
2006	9.529	5.132	14.661	65.0%
2007	10.590	5.107	15.697	67.5%
2008	11.381	5.168	16.549	68.8%
2009	11.400	6.236	17.636	64.6%

Actuarial Accrued Liabilities



Actuarial Valuation of Assets as a Percent of Actuarial Accrued Pension Liabilities



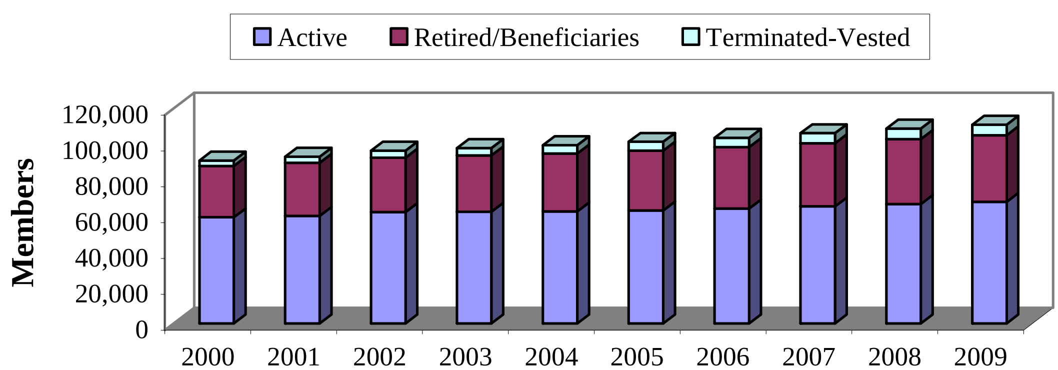
Participating Employers and Membership in ERS

Last Ten Fiscal Years

ERS Membership

As of March 31,:	Active	Retired/Beneficiaries	Terminated-Vested	Totals
2000	59,191	28,715	3,016	90,922
2001	59,992	29,660	3,416	93,068
2002	62,208	30,330	3,835	96,373
2003	62,292	31,389	4,150	97,831
2004	62,573	32,297	4,501	99,371
2005	63,073	33,301	4,938	101,312
2006	64,069	34,304	5,164	103,537
2007	65,251	35,324	5,554	106,129
2008	66,589	36,260	5,847	108,696
2009	67,912	36,999	6,016	110,927

ERS Membership



Participating Employers and Active Members

As of March 31,:	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
State of Hawaii	45,451	46,185	48,242	48,445	48,704	49,203	49,973	50,756	51,719	52,704
City & County of Honlulu	8,190	8,236	8,323	8,223	8,158	8,101	8,167	8,363	8,512	8,640
- Board of Water Supply	657	616	589	568	554	568	560	556	526	554
Hawaii County	2,034	2,043	2,056	2,028	2,081	2,097	2,223	2,315	2,459	2,527
Kauai County	992	1,000	1,042	1,034	1,051	1,067	1,088	1,109	1,125	1,160
Maui County	1,867	1,912	1,956	1,994	2,025	2,037	2,055	2,152	2,248	2,327
Total	59,191	59,992	62,208	62,292	62,573	63,073	64,066	65,251	66,589	67,912

Benefit Payments by Retirement Type and Option

As of March 31, 2009

Retired Contributory Members

Monthly Benefit	Number of Recipients	Type of Retirement * 1	2	3	4	5	Retirement Option Max	Opt. 1	Opt. 2	Opt. 3	Opt. 4	Opt. 5	Other
$ 1 - 300	1,233	1,012	12	8	-	201	310	344	164	57	133	225	-
301 - 600	2,194	1,821	105	37	6	225	286	218	133	56	608	891	2
601 - 900	2,255	1,879	88	53	13	222	241	157	120	47	848	837	5
901 - 1,200	2,204	1,889	45	76	11	183	229	139	121	55	896	761	3
1,201 - 1,500	2,086	1,873	22	65	4	122	197	109	98	35	905	740	2
1,501 - 1,800	2,086	1,917	16	37	7	109	142	94	113	38	908	785	6
1,801 - 2,100	1,940	1,824	4	28	4	80	140	72	72	24	817	811	4
2,101 - 2,400	1,995	1,923	2	13	3	54	136	44	66	27	802	917	3
2,401 - 2,700	1,958	1,872	4	13	3	66	142	59	71	33	828	822	3
2,701 - 3,000	1,690	1,640	1	6	4	39	156	44	53	32	844	557	4
3,001	5,250	5,102	-	12	6	130	684	169	297	189	2,981	929	1
	24,891	22,752	299	348	61	1,431	2,663	1,449	1,308	593	10,570	8,275	33

Retired Hybrid Members

Monthly Benefit	Number of Recipients	Type of Retirement * 1	2	3	4	5	Retirement Option Max	Opt. 1	Opt. 2	Opt. 3	Opt. 4	Opt. 5	Other
$ 1 - 300	50	45	-	-	3	2	25	6	10	7	2	-	-
301 - 600	160	124	16	-	15	5	66	18	43	26	5	2	-
601 - 900	158	122	21	2	9	4	63	13	33	21	14	14	-
901 - 1,200	126	97	16	3	4	6	46	5	40	22	9	4	-
1,201 - 1,500	99	83	7	1	-	8	34	5	30	10	10	10	-
1,501 - 1,800	90	85	3	1	1	-	34	6	25	14	8	3	-
1,801 - 2,100	80	78	2	-	-	-	27	9	14	19	7	4	-
2,101 - 2,400	93	91	-	-	1	1	37	8	21	15	11	1	-
2,401 - 2,700	65	63	1	-	1	-	20	3	19	13	7	3	-
2,701 - 3,000	51	51	-	-	-	-	23	6	6	6	5	5	-
3,001	100	100	-	-	-	-	41	7	16	18	13	5	-
	1,072	939	66	7	34	26	416	86	257	171	91	51	-

Retired Noncontributory Members

Monthly Benefit	Number of Recipients	Type of Retirement * 1	2	3	4	5	Retirement Option Max	Opt. A	Opt. B	Opt. C	Other
$ 1 - 300	815	490	57	18	108	142	257	160	251	40	107
301 - 600	2,388	1,752	261	73	68	234	1,192	352	644	134	66
601 - 900	1,633	1,266	159	25	32	151	845	278	401	81	28
901 - 1,200	1,127	949	75	11	10	82	562	226	270	62	7
1,201 - 1,500	844	741	45	1	3	54	437	143	212	50	2
1,501 - 1,800	692	626	22	1	3	40	342	130	172	48	-
1,801 - 2,100	735	699	11	-	3	22	395	141	136	62	1
2,101 - 2,400	949	920	4	-	1	24	604	151	106	88	-
2,401 - 2,700	751	733	2	-	-	16	533	116	52	50	-
2,701 - 3,000	410	399	-	-	1	10	272	71	52	15	-
3,001	692	670	-	-	3	19	431	148	84	29	-
	11,036	9,245	636	129	232	794	5,870	1,916	2,380	659	211

* Type of Retirement
1 – Normal retirement for age & service
2 – Ordinary disability retirement
3 – Occupational disability retirement
4 – Survivor payment – death in service
5 – Survivor payment – normal or disability retirement

Note: Refer to Plan Summary in the Introductory Section for descriptions of the types of retirements and benefit options selected by the members.

Average Monthly Service Pensions
by Years of Credited Service

		Years of Credited Service							
As of March 31,		0-9	10-14	15-19	20-24	25-29	30-34	35+	All
2000	Average Monthly Benefit	$221	$426	$730	$1,032	$1,691	$2,044	$2,210	$1,414
	Number of Active Retirants	1,368	3,107	2,941	3,336	6,435	6,139	2,936	26,262
2001	Average Monthly Benefit	$225	$435	$746	$1,058	$1,739	$2,101	$2,269	$1,462
	Number of Active Retirants	1,322	3,192	3,001	3,416	6,598	6,508	3,052	27,089
2002	Average Monthly Benefit	$241	$467	$800	$1,140	$1,837	$2,200	$2,380	$1,523
	Number of Active Retirants	1,366	3,443	3,098	3,459	6,970	6,592	2,669	27,597
2003	Average Monthly Benefit	$241	$449	$788	$1,125	$1,837	$2,216	$2,384	$1,533
	Number of Active Retirants	1,298	3,535	3,166	3,581	7,127	7,037	2,802	28,546
2004	Average Monthly Benefit	$246	$463	$804	$1,156	$1,892	$2,298	$2,494	$1,597
	Number of Active Retirants	1,238	3,635	3,207	3,654	7,180	7,439	2,917	29,270
2005	Average Monthly Benefit	$255	$473	$823	$1,187	$1,951	$2,386	$2,599	$1,663
	Number of Active Retirants	1,193	3,738	3,244	3,715	7,233	7,806	3,091	30,020
2006	Average Monthly Benefit	$261	$489	$843	$1,210	$2,007	$2,446	$2,679	$1,719
	Number of Active Retirants	1,149	3,790	3,330	3,813	7,346	8,083	3,313	30,824
2007	Average Monthly Benefit	$272	$504	$865	$1,240	$2,064	$2,509	$2,765	$1,773
	Number of Active Retirants	1,126	3,907	3,393	3,918	7,470	8,315	3,536	31,665
2008	Average Monthly Benefit	$291	$518	$882	$1,266	$2,119	$2,574	$2,853	$1,824
	Number of Active Retirants	1,137	3,981	3,481	4,034	7,560	8,511	3,737	32,441
2009	Average Monthly Benefit	$368	$548	$925	$1,319	$2,218	$2,672	$2,997	$1,906
	Number of Active Retirants	1,184	3,987	3,555	4,173	7,570	8,615	3,859	32,943

Retirees and Beneficiaries

(Recurring Benefit Payments)

Tabulated by Fiscal Year that Payments Started as of March 31, 2009

Valuation Year	Number	Total Annual Benefits	Monthly Average Benefit	Valuation Year	Number	Total Annual Benefits	Monthly Average Benefit
1944	1	$ 375	$ 31	1983	587	$ 9,850,966	$ 1,398
1955	1	4,432	369	1984	641	10,806,378	1,405
1957	2	15,365	640	1985	722	12,950,984	1,495
1958	3	24,591	683	1986	805	15,185,452	1,572
1959	5	30,008	500	1987	1,197	23,966,992	1,669
1960	4	33,722	703	1988	704	11,679,531	1,383
1961	7	36,433	434	1989	864	15,863,022	1,530
1962	5	31,829	530	1990	935	18,967,809	1,691
1963	2	20,819	867	1991	1,060	22,188,011	1,744
1964	7	41,144	490	1992	990	22,496,790	1,894
1965	5	43,198	720	1993	1,010	24,612,871	2,031
1966	15	109,516	608	1994	1,070	25,446,175	1,982
1967	13	129,210	828	1995	1,991	57,140,512	2,392
1968	12	106,973	743	1996	1,929	52,554,082	2,270
1969	27	228,927	707	1997	799	16,179,593	1,687
1970	37	368,190	829	1998	806	16,143,683	1,669
1971	29	223,427	642	1999	1,140	25,001,978	1,828
1972	82	967,391	983	2000	1,404	32,320,277	1,918
1973	101	1,182,672	976	2001	1,604	36,400,153	1,891
1974	76	860,674	944	2002	1,339	31,138,755	1,938
1975	122	1,527,792	1,044	2003	1,730	43,785,951	2,109
1976	163	2,194,578	1,122	2004	1,701	39,898,275	1,955
1977	237	3,301,005	1,161	2005	1,788	42,170,995	1,965
1978	250	3,640,375	1,213	2006	1,770	39,779,390	1,873
1979	309	4,497,787	1,213	2007	1,897	41,693,653	1,832
1980	367	5,426,646	1,232	2008	1,888	39,724,574	1,753
1981	471	6,882,107	1,218	2009	1,765	35,520,771	1,677
1982	510	7,848,730	1,282				
				Total	36,999	$ 803,245,539	$ 1,809

Total Benefits Payable

(Recurring Benefit Payments)

Tabulated by Attained Ages of Benefit Recipients as of March 31, 2009

	Service Retirement		Disability Retirement		Survivors and Beneficiaries		Total	
Attained Ages	No.	Annual Benefits	No.	Annual Benefits	No.	Annual Benefits	No.	Annual Benefits
Under 20	-	-	-	-	68	$ 180,113	68	$ 180,113
20-24	-	-	-	-	12	129,299	12	$ 129,299
25-29	-	-	-	-	25	224,025	25	$ 224,025
30-34	-	-	-	$ -	30	271,852	30	$ 271,852
35-39	1	16,230	9	101,184	61	644,549	71	$ 761,963
40-44	1	$ 10,859	18	154,419	73	762,992	92	$ 928,270
45-49	54	2,079,025	82	813,054	97	1,231,656	233	$ 4,123,735
50-54	233	9,343,276	169	1,651,220	145	1,564,335	547	$ 12,558,831
55-59	1,997	57,686,790	302	3,386,907	227	2,923,316	2,526	$ 63,997,013
60-64	5,782	162,341,840	335	3,525,057	295	4,311,751	6,412	$ 170,178,648
65-69	6,778	163,287,324	213	2,303,342	339	5,400,929	7,330	$ 170,991,595
70-74	5,691	132,470,759	114	1,169,612	297	4,425,191	6,102	$ 138,065,562
75-79	5,192	108,293,889	99	1,055,770	341	5,224,706	5,632	$ 114,574,365
80-84	3,910	70,467,625	69	756,786	296	4,225,440	4,275	$ 75,449,851
85-89	2,271	34,194,384	56	513,536	175	1,748,518	2,502	$ 36,456,438
90-94	810	10,572,566	17	158,933	69	763,957	896	$ 11,495,456
95-99	184	2,234,657	3	29,191	18	153,268	205	$ 2,417,116
100 & over	39	426,098	-	-	2	15,309	41	$ 441,407
Total	32,943	$ 753,425,322	1,486	$ 15,619,011	2,570	$ 34,201,206	36,999	$ 803,245,539