EMPLOYEES' RETIREMENT SYSTEM OF THE STATE OF HAWAII

COMPREHENSIVE ANNUAL FINANCIAL REPORT

FOR THE FISCAL YEAR ENDED JUNE 30, 2010

EMPLOYEES' RETIREMENT SYSTEM
OF THE
STATE OF HAWAII

COMPREHENSIVE ANNUAL FINANCIAL REPORT

FOR THE FISCAL YEAR ENDED JUNE 30, 2010

Prepared by the Staff of the:
Employees' Retirement System of the State of Hawaii
201 Merchant Street, Suite 1400
Honolulu, Hawaii 96813
(808) 586-1735 • (808) 586-1650
Facsimile (808) 586-1677 • http://www4.hawaii.gov/ers/

WESLEY K. MACHIDA, Administrator
KANOE MARGOL, Assistant Administrator
RODNEY L. JUNE, Chief Investment Officer

Table of Contents

Employees' Retirement System

of the State of Hawaii

INTRODUCTORY SECTION

This page intentionally left blank.

Letter of Transmittal (continued)

NEIL ABERCROMBIE
GOVERNOR

STATE OF HAWAII
EMPLOYEES' RETIREMENT SYSTEM

April 8, 2013

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, 2010. 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, 2010, the ERS' total membership of 111,226 was comprised of 65,890 active members, 38,441 retirees and beneficiaries, and 6,895 inactive vested members. This represents a less than 0.1% 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 2010

Hybrid Plan Upgrade Program (HPUP) – Work on this program continued during FY 2010 when a total of 8,231 of 24,000 eligible Hybrid members made a one-time elections 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. Approximately $189 million of the one-time HPUP payments that was collected during the fiscal year ended June 30, 2010 is reflected in the Member Contributions on the Statement of Changes in Plan Net Assets in the Financial Section of this CAFR.

A project team (Team) worked with the consultants to develop the communication materials to our Employers and members. The 24,000 members each received a "Hybrid Plan Upgrade Program Packet" with a personalized statement needed to make an informed decision on this conversion; the cost to upgrade their eligible Noncontributory service, and other reverent information about the program. The Team and staff also cleaned up service credit data, held statewide group presentations, developed and tested the website to make the election, established Call Center procedures and training, determined the upgrade payment procedures from the various fund institutions and worked to modify the ERS computer system to receive the upgrade payments and convert the member's upgraded service.

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

- Act 94 - Payment of Employees' Retirement System Benefits. These changes allow ERS benefits to be paid by direct deposit to a financial institution instead of by paper check effective April 1, 2010. It also converts pension benefits payments from a semi-monthly basis to a monthly basis for approximately 26,000 retirees and beneficiaries effective July 2011. Exempts the switch from semi-monthly to monthly payments for those retirees and beneficiaries who retired or became a beneficiary prior to January 1, 2003, is at least 80 years of age by January 1, 2011, and receives $800 or less of pension benefits each month.

- Act 179 - Reemployment of Retiree Benefits. Helps the ERS retain its federal tax-exempt status and imposes penalties upon retirees and employers are reemployed in violation of chapter 88, HRS and the Internal Revenue Code of 1986, as amended. Effective January 1, 2011, requires a 6 month retirement before an ERS retiree can return to work in a State or county temporary, part-time, casual, or other position that is excluded from ERS membership; requires a 12 month retirement period before an ERS retiree can return to work in a labor shortage, difficult-to-fill, or teacher shortage area positions; requires reimbursement of retirement allowances and administrative expenses, payment of employee and employer contributions, and interest for retirees reemployed in violations of this Act.

- Act 197 Relating to Definition of Sewer Worker. Amends the definition of 'sewer work', for ERS purposes to include certain supervisors to have the same early retirement benefits as workers in the same job class. Enables these Noncontributory Plan supervisors to take early retirement without reduction for age with at least 25 years of credited service at any age; provided the last 5 years or more prior to retirement is credited in the applicable job capacity.

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, 2010 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 gain of $1.026 billion in FY2010. This resulted in an investment gain of slightly less than 12.0% 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, although the ERS had a positive investment return during the year the severe downturn in the investment market over the past several years continued to be adversely impact the ERS 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 61.4% as of June 30, 2010. 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 (UAAL) to $7.138 billion as of June 30, 2010, and a corresponding aggregate funding period of 41.3 years used to determine the Annual Required Contribution rates under the standards established by the Governmental Accounting Standards Board Statement No. 25 (GASB No. 25).

Initiatives to Improve Funding (subsequent to June 30, 2010) - As a result of the June 30, 2010 valuation, the 2011 State Legislature made significant changes to employer contribution rates per Act 163/2011 (SLH). This legislation increases the employer contribution rates, reduced the actuarial investment return assumption from 8.00% to 7.75%, and made changes to the benefits and member contribution rates for new members hired after June 30, 2012. Changes affecting new members are discussed in more details in the notes to the financial statements.

Based on these changes, the UAAL increased to $8.2 billion, the actuarial funded ratio decreased to 59.4%, and the aggregate funding period decreased to 25.0 years, as determined in the June 30, 2011 actuarial valuation (available on the ERS website at http://ers.ehawaii.gov/).

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

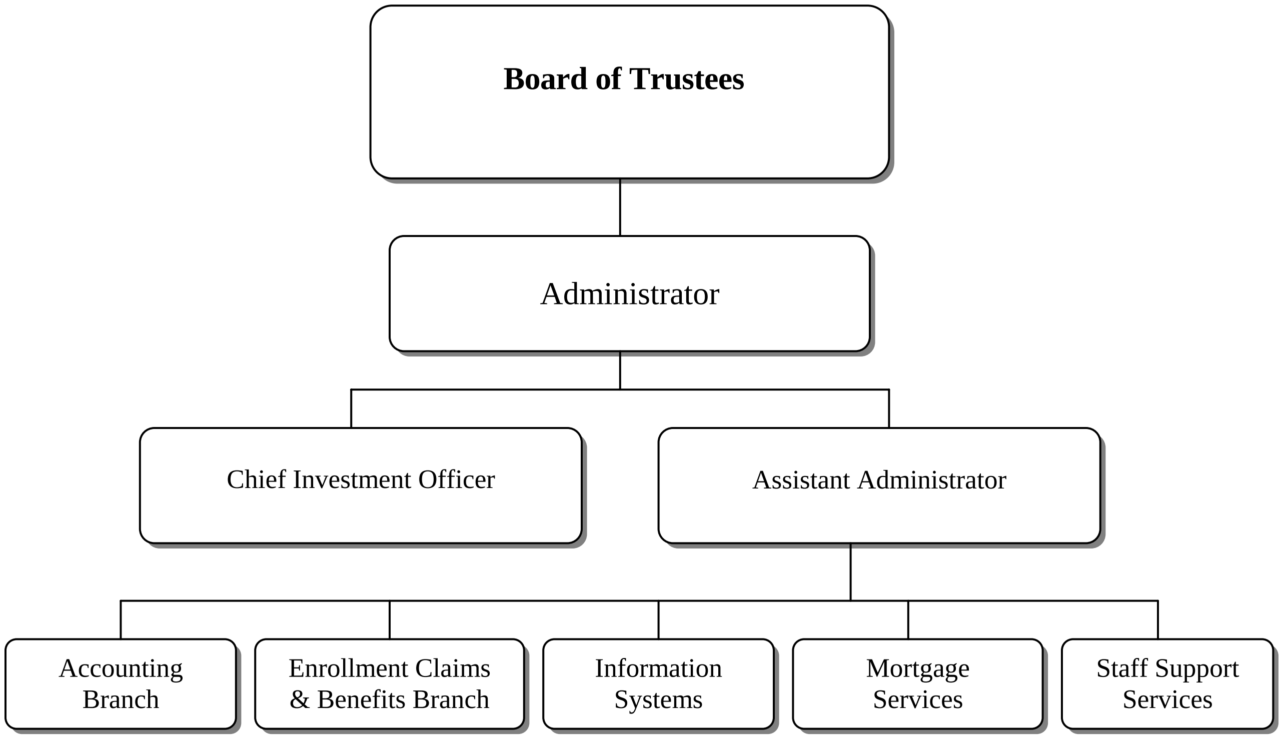
Board of Trustees

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.

	Date Current Term Began	**Date Term Ends**
Elected:		
Mr. Emmit A. Kane	January 29, 2010	January 1, 2012
Ms. Jackie Ferguson-Miyamoto, Chair	January 2, 2008	January 1, 2014
Mr. Wayne J. Yamasaki	January 2, 2008	January 1, 2014
Ms. Pilialoha E. Lee Loy	January 2, 2010	January 1, 2016
Appointed:		
Mr. Alton T. Kuioka	March 31, 2005	January 1, 2011
Mr. Colbert M. Matsumoto, Chair	January 2, 2007	January 1, 2013
Mr. Jerry E. Rauckhorst	January 2, 2010	January 1, 2015
Ex-Officio:		
Ms. Georgina K. Kawamura	December 2, 2002	December 1, 2010

Organizational Structure



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

Actuary
Gabriel, Roeder, Smith and Company

Auditors
State of Hawaii, Office of the Auditor
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, 2010, 7,035 active employees were enrolled in the Contributory Plan, or slightly more than 10.7% 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, 2010, the Hybrid Plan had 37,587 members or about 57.0% 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, 2010, there were 21,268 active employees in the Noncontributory Plan, which represents over 32.3% 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://ers.ehawaii.gov/.

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

Summary of Retirement Benefit Plan Provisions (continued)

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 2010

The following Acts were passed by the 2010 Legislature and approved by the Governor:

Act 94 Relating to the Payment of Employees' Retirement System Benefits

- Provides for pension payments by direct deposit to financial institutions effective April 1, 2010.
- Provides for the payment on a monthly basis instead of a semi-monthly basis with a transition period from January 2011 to June 2011.
- Exempts those retirees and beneficiaries who retired or became a beneficiary prior to January 1, 2003, is at least 80 years of age by January 1, 2011, and receives $800 or less of pension benefits each month.
- Streamlines the processing of ERS pension payments and adds approximately $900,000 annually to ERS' bottom line.

Act 179 Relating to the Reemployment of Retiree Benefits

- In order to retain ERS' federal tax-exempt status, restrictions and penalties to be imposed upon retirees and employers if the retirees are reemployed in violation of chapter 88, HRS and the Internal Revenue Code of 1986, as amended. ERS retirees are required to:
- Be retired for 6 months before re-employment in a State or county temporary, part-time, casual, or other position that is excluded from ERS membership.
- Be retired for 12 months before re-employment in a labor shortage, difficult-to-fill, or teacher shortage area positions.
- Requires reimbursement of retirement allowances and administrative expenses, payment of employee and employer contributions, 8 per cent annual interest for retirees reemployed in violation of the conditions for reemployment and suspension of retirement benefits.
- Effective January 1, 2011.

Act 197 Relating to Definition of Sewer Worker

- Amends the definition of "sewer worker" for ERS purposes to include sewer maintenance working supervisors, wastewater collection system inspection supervisors, wastewater collection system district supervisors, and wastewater collection system field services supervisors.
- Enables these Noncontributory Plan supervisors to take early retirement without reduction for age with at least 25 years of credited service at any age; provided the last 5 years or more prior to retirement is credited in that capacity.
- Effective July 1, 2011.

Employees' Retirement System

of the State of Hawaii

Submitted by

THE AUDITOR
STATE OF HAWAII

FINANCIAL SECTION

This page intentionally left blank.

Independent Auditors' Report

KPMG LLP
PO Box 4150
Honolulu, HI 96812-4150

The Auditor
State of Hawaii:

We have audited the accompanying combining statement 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, 2010, and the related statement of changes in plan net assets – all trust funds for the year 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 audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. 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 Employees' Retirement System of the State of Hawaii (ERS) as of June 30, 2010, and its changes in plan net assets for the year then ended, in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our report dated April 8, 2013, 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.

Independent Auditors' Report (continued)

The Auditor
State of Hawaii

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 25 through 31 and Required Supplementary Information on pages 60 through 61 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was 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 year ended June 30, 2010 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The information contained in the Introductory, Investment, Actuarial, and Statistical sections is presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

KPMG LLP

April 8, 2013

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 year ended June 30, 2010. 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 the following components:

- The combining statements of plan net assets provide a snapshot of the financial position of the ERS at June 30, 2010. 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, 2009 to June 30, 2010 (FY 2010). The financial statements measure the changes in the resources available to pay pension benefits to members, retirees, and beneficiaries for fiscal year 2010.
- 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.

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.

Financial Highlights

- As of June 30, 2010, plan net assets were $9.8 billion, or an increase of about $1.0 billion during the fiscal year then ended. This represents an increase of approximately 11.4% from the $8.8 billion in plan net assets available as of June 30, 2009. The increase of plan net assets in FY 2010 reflects the improved market conditions following two years of negative investment returns due to instability in the global markets and loss of investor confidence worldwide that started in 2008.
- During FY 2010, the ERS earned a positive return of 12.0% on pension plan assets after a 17.5% loss on investments during FY 2009. All asset classes earned positive returns for FY 2010 as the overall market conditions improved, with the equity markets outperforming other asset classes. During FY 2009, most asset classes experienced negative returns due to worldwide economic troubles; although, the fixed income continued to have positive returns.
- No significant legislation was enacted during the 2010 legislative session that impacted the benefit provisions of the Pension Trust. The employer contribution requirements increased effective July 1, 2008, in order to improve the funding status of the pension trust. A historical summary of legislation impacting the ERS actuarial valuations is located in the "Summary of Plan Changes" in the Actuarial Section.
- The funded ratio decreased to 61.4% as of June 30, 2010 from 64.6% as of June 30, 2009 with the continued recognition of investment losses experienced during the two previous years. The corresponding unfunded actuarial accrued liability (UAAL) of the ERS increased to $7.1 billion as of June 30, 2010 from $6.2 billion on June 30, 2009. Like most pension funds across the country, the ERS was significantly impacted by the severe downturn in the investment markets during FY 2009.
- Total member and employer contributions increased by $151.3 million, or 20.0% during FY 2010. The contributions increase during FY 2010 is primarily attributed to one-time Hybrid Plan Upgrade Payments received from Hybrid Plan members that elected to "upgrade" their retirement benefits to hybrid service from noncontributory service. Normal employer and member contributions declined in FY 2010 due to a decrease in covered payroll resulting from fewer members and pay reductions for certain employee groups.
- Total pension plan benefit payouts increased by $71.6 million, or 8.6%, to $905.3 million in FY 2010 compared to $833.7 million during FY 2009. Pension benefits continues to increase due to 3.9% more retirees and beneficiaries (38,441 in 2010 and 36,999 in 2009), an increase in the average pension benefit for new retirees, and the annual 2.5% post retirement increase.

- Administrative expenses decreased by $0.6 million in FY 2010 to $12.4 million compared to $13.0 million in FY 2009. Administrative expenses for all years were within the ERS' budgeted amounts. In FY 2010, the ERS experienced a decrease in payroll related and computer system maintenance costs, that was offset by increased costs to obtain resources for a one-time project. The payroll related costs in FY2010 resulted from ERS employees being placed on furlough and certain staff vacancies not being filled. Computer system maintenance decreased in FY 2010 after experiencing a spike in FY 2009 for out-of-warranty maintenance costs of implementing a new computer system. These savings were offset by costs related to the one-time Hybrid Plan Upgrade Payments communications program. In addition, a consultant was hired to assist the 24,000+ ERS members make an informed decision about whether they should make the permissive service credit purchase as discussed in Pension Plan Changes below.

Analysis of Plan Net Assets for Pension Trust

Summary of Plan Net Assets
June 30, 2010 and 2009
(Dollars in millions)

	2010	2009	FY 2010 % change
Assets:			
Cash and short-term investments	$ 525.4	$ 413.5	27.1 %
Receivables	521.9	443.3	17.7
Investments	9,521.0	8,922.1	6.7
Invested securities lending collateral	722.4	758.8	(4.8)
Capital assets	10.0	11.6	(13.8)
Total assets	11,300.7	10,549.3	7.1
Liabilities			
Securities lending liability	722.4	758.8	(4.8)
Investment accounts and other payables	754.1	975.2	(22.7)
Total liabilities	1,476.5	1,734.0	(14.9)
Plan net assets	$ 9,824.2	$ 8,815.3	11.4

Summary of Changes in Plan Net Assets
June 30, 2010 and 2009
(Dollars in millions)

	2010	2009	FY 2010 % change
Additions:			
Contributions	$ 907.7	$ 756.4	20.0 %
Net investments income (loss)	1,026.5	(1,937.3)	153.0
Total additions	1,934.2	(1,180.9)	263.8
Deductions:			
Retirement benefit payments	905.3	833.7	8.6
Refund of contributions	7.6	3.9	94.9
Administrative expenses	12.4	13.0	(4.6)
Total deductions	925.3	850.6	8.8
Increase (decrease) in plan net assets	$ 1,008.9	$ (2,031.5)	149.7

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.

During FY 2010, the ERS investment portfolio earned a 12.0% return on assets with positive returns in all asset classes from general improvements in global markets and continued recovery of the domestic economy. This compares with a 17.5% loss on investment assets in FY 2009 as a result of double-digit negative returns in the real estate and equity markets.

The domestic equity, domestic fixed income, and international equity exceed the 8% portfolio benchmark for FY 2010 with returns of 15.3%, 13.6%, and 11.3%, respectively. These were followed by alternative investments, international fixed income, and real estate with earnings of 7.5%, 4.0%, and 1.0% respectively. Total net investment gains during FY 2010 were $1,026.5 million after negative returns of $1,937.3 million investment loss in FY 2009.

The asset distribution of the ERS' investment securities for the pension trust, excluding pending trade settlements and securities lending collateral, at June 30, 2010 and 2009 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 10 percent of the investments. Fluctuations will occur based on the trading activity and timing of the settlements. The allocation to equity securities, including alternative investments, increased during FY 2010, due to positive investment returns, portfolio rebalancing, and changes in investment managers. The decrease for

Asset Class
June 30, 2010 and 2009
(Dollars in millions)

	2010	%	2009	%
Short term investments and cash	$ 525.4	5.2 %	$ 413.5	4.5 %
Equity securities	5,350.6	53.3	4,541.7	48.6
Fixed income	2,699.6	26.9	3,000.9	32.1
Real estate	974.3	9.7	950.0	10.2
Alternative investments	496.4	4.9	429.5	4.6
Total assets	10,046.3	100.0	9,335.6	100.0
Less loans on real estate and alternative investments	263.8		257.9	
	$ 9,782.5		$ 9,077.7	

fixed income securities in FY 2010 resulted from cash requirements to pay pension benefits, that was offset by the positive investment earnings for the class. The slight increase in real estate assets for FY 2010 reflects the modest investment return and increased allocation to the asset class.

Investment expenses consist primarily of investment management fees paid to external investment advisor firms that oversee the ERS' investment portfolio. The increase in investment expenses for management fees in FY 2010 relative to FY 2009 reflects an increase in overall asset values during the FY 2010. The FY 2009 investment management fees includes the elimination of accrued incentive fees for certain real estate managers in since certain asset values fell below the threshold return which incentive fees are earned from. 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 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.

Contributions

Contributions from employers and employees totaled $907.7 million and $756.4 million during FY 2010 and FY 2009, respectively. During FY 2010, total contributions increased by $151.3 million, or 20.0%, with member contributions increased by $182.3 million, or 102.5%, while employer contributions decreased by $31.0 million, or -5.4%. Total one-time payments of permissive service credit purchases, including hybrid upgrade payments, amounted to about $189.2 million, while normal member contributions from payroll decreased about $6.9 million, or -3.9%, to $170.9 million. The decrease in member contributions from payroll (excludes one-time payments) and decrease in employer contributions is due to a decrease in covered payroll from fewer active members during the year and furloughs of certain employee groups. Please refer to the Financial Section in the ERS 2010 and 2009 CAFR for more information.

Pension Plan Benefits and Expenses

Pension benefit payments are the primary expense of the ERS with payments totaling $905.3 during FY 2010 and $833.7 million during FY 2009. Pension benefits continued to increase with 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.

Administrative expenses decreased $0.6 million in FY 2010 due to lower payroll related costs (salaries and fringe benefits) from furloughs and staff vacancies, and computer maintenance costs. These decreases were offset by an increase in special project consulting fees related to the one-time Hybrid Plan Upgrade Payments communications program.

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 "contributory" Hybrid Plan that became 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.

During FY 2010, following resolution of certain tax issues the ERS started the Hybrid Plan Upgrade Program (covered by 2005 legislation) that provided about 24,000+ qualified Hybrid Plan members a one-time opportunity to increase their future monthly ERS retirement pension by upgrading all or a portion of the Noncontributory service to Hybrid service. The member's upgrade cost was based on their age, occupation, service, and base salary as of December 31, 2008. The election period was from September 1, 2009 to April 3, 2010, and ERS was required to receive all payments by September 30, 2010.

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. This moratorium on benefit enhancements until the ERS is fully funded was made permanent effective April 28, 2011.

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. Member and employer contributions are based on the member's pension plan (contributory, noncontributory, or hybrid), pay and job classification. The ERS' investment rate of return actuarial assumption is set by state law at 8.0% per annum. Material differences in the actual amounts compared to the actuarial assumptions for a given year may have a significant impact on the ERS' funded status. Changes in significant assumptions between valuation periods, such as the actuarial investment return, may also have a significant impact on the funded status of a pension plan.

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 expressed as a percentage and referred to as the funded ratio or funded status. The UAAL is that portion of the actuarial accrued liability (including the present value of benefits presently being paid to retired members) that exceeds the value of current actuarial assets expressed as an amount.

The funded ratio decreased to 61.4% as of June 30, 2010 from 64.6% as of June 30, 2009. The ERS' UAAL was $7.1 and $6.2 billion as of June 30, 2010 and 2009, respectively. The decline in FY 2010 and FY 2009 is primarily the result of investment losses in the fiscal years ended June 30, 2009 and 2008 since ERS uses a four-year smoothing of investment market gains and losses to reduce volatility of the required contribution rates. Based on the actuarial valuation as of June 30, 2010, ERS' unfunded status increased significantly because of the continued recognition of the investment market losses.

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. The employee and employer contribution rates have been set by state law and are intended to provide for the normal cost plus the level percentage of payroll required to amortize the UAAL over a period not in excess of 30 years. Under the standards established by the Governmental Accounting Standards Board Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans* (GASB No. 25) that the ERS implemented in 1997, the amortization period used to determine the Annual Required Contribution rates should not exceed 30 years.

The aggregate funding period of the UAAL, including the value of future employer and employee contributions, for the ERS as of June 30, 2010 and 2009 was 41.3 years and 28.2 years, respectively.

Initiatives to Improve Funding (subsequent to June 30, 2010)

Hawaii Revised Statutes §88-122(e)(1) state that the employer contribution rates are subject to adjustment when the funding period is in excess of 30 years. As a result of the June 30, 2010 valuation, the 2011 State Legislature made significant changes to employer contribution rates per Act 163/2011 (SLH). The employer contribution rate of 19.70% for Police and Fire employees will gradually increase to 25.00% and the 15.00% rate for All Other Employees will gradually increase to 17.00%. This legislation also reduced the actuarial investment return assumption from 8.00% to 7.75%, and made changes to the benefits and member contribution rates for new members hired after June 30, 2012. Changes affecting new members are discussed in more details in the notes to the financial statements.

While lowering the ERS' investment return assumption significantly increased the UAAL, there was a partially offsetting liability experience gain from lower than expected salary increase resulting in a net increase of the UAAL to $8.2 billion as of June 30, 2011. Based on the future increased contribution rates the aggregate funding period as of June 30, 2011 decreased to 25.0 years as determined in the June 30, 2011 actuarial valuation (available on the ERS website at http://ers.ehawaii.gov/).

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.

Financial Statements

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

June 30, 2010

	Pension Trust: Employees' Retirement System	Agency: Social Security Contribution	Total
Assets			
Cash and short-term investments (notes C(2) and F)			
Cash	$ 32,159,104	$ -	$ 32,159,104
Short-term investments	493,231,761	-	493,231,761
	525,390,865	-	525,390,865
Receivables			
Accounts receivable and others	8,962,646	-	8,962,646
Investment sales proceeds	419,310,775	-	419,310,775
Accrued investment income	36,934,377	-	36,934,377
Employer appropriations	52,198,687	-	52,198,687
Member contributions	4,480,870	-	4,480,870
	521,887,355	-	521,887,355
Investments, at fair value (notes C(2) and F)			
Equity securities	5,350,603,332	-	5,350,603,332
Fixed income securities	2,699,629,677	-	2,699,629,677
Real estate investments	974,304,500	-	974,304,500
Alternative investments	496,438,668	-	496,438,668
	9,520,976,177	-	9,520,976,177
Other			
Invested securities lending collateral (note F)	722,388,201	-	722,388,201
Equipment, at cost, net of depreciation	10,041,575	-	10,041,575
	732,429,776	-	732,429,776
Total assets	11,300,684,173	-	11,300,684,173
Liabilities			
Disbursements in excess of cash balances (note F)	7,779,388	-	7,779,388
Accounts and other payables	45,701,112	-	45,701,112
Payable for securities purchased	436,860,788	-	436,860,788
Securities lending collateral (note F)	722,388,201		722,388,201
Notes payable (note C(2))	263,786,865	-	263,786,865
Total liabilities	1,476,516,354	-	1,476,516,354
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 60)	$ 9,824,167,819	$ -	$ 9,824,167,819

See accompanying notes to financial statements

Financial Statements (continued)

Statement of Changes in Plan Net Assets – All Trust Funds

Year ended June 30, 2010

Additions		
Contributions (notes A(4) and E)		
Employer contributions	$	547,669,675
Member contributions		360,047,068
Total contributions		907,716,743
Investment income (note F)		
From investing activities		
Net appreciation in fair value of investments		777,422,767
Interest on fixed income securities		128,853,068
Dividends on equity securities		81,356,030
Income on real estate investments		3,741,235
Interest on short-term investments		107,976,159
Alternative investment income		18,142,427
Miscellaneous		3,757,107
		1,121,248,793
Less investment expenses		97,373,545
Net investment income from investing activities		1,023,875,248
From securities lending activities		
Securities lending income		2,539,147
Securities lending expenses		
Borrower rebates		(502,727)
Management fees		455,912
Total securities lending activities expense		(46,815)
Net investment income from securities lending activities		2,585,962
Total net investment income		1,026,461,210
Total additions		1,934,177,953
Deductions		
Benefit payments (note A(3))		905,315,348
Refunds of member contributions		7,573,619
Administrative expenses		12,406,339
Total deductions		925,295,306
Net increase in net assets		1,008,882,647
Net assets held in trust for pension benefits (note D)		
Beginning of year		8,815,285,172
End of year	$	9,824,167,819

See accompanying notes to financial statements.

June 30, 2010

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, 2010 are as follows:

Employers:	
State	1
County	4
Total employers	5
Pensioners and beneficiaries currently receiving benefits:	
Pensioners currently receiving benefits:	
Police and firefighters	3,043
All other employees	32,720
Total pensioners	35,763
Beneficiaries currently receiving benefits:	
Police and firefighters	198
All other employees	2,480
Total beneficiaries	2,678
Total pensioners and beneficiaries	38,441
Terminated vested members entitled to benefits but not yet receiving benefits:	
Police and firefighters	241
All other employees	6,654
Total terminated vested members	6,895
Current employees:	
Vested:	
Police and firefighters	3,971
All other employees	38,271
Nonvested:	
Police and firefighters	969
All other employees	22,679
Total current employees	65,890
Total membership	111,226

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%. Per legislation passed in 2011, the current 19.70% for Police and Fire employees will gradually increase to 25.00% and the current 15.00% for All Other Employees will gradually increase to 17.00%. 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.

Note A – Description of the ERS (continued)

3. Plan Descriptions and Funding Policy (continued)

The three plans provide a monthly retirement allowance equal to the benefit multiplier % (generally 1.25% or 2%) multiplied by the average final compensation (AFC) multiplied by years of credited service. The benefit multiplier decreased by 0.25% for new hybrid and contributory plan members hired after June 30, 2012. 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. For new members hired after June 30, 2012, the AFC is based on the five highest paid years of service excluding the payment of salary in lieu of vacation.

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.). For new members hired after June 30, 2012 the post-retirement annuity increase was decreased to 1.5% per year.

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, members 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.

New general employees in the contributory plan hired after June 30, 2012 are required to contribute 9.8% of their salary and are fully vested for benefits upon receiving 10 years of credited service. These members may retire with full benefits at age 60 and 10 years of credited service, or may retire at age 55 with 25 years of credited service with reduced benefits. The benefit multiplier is 1.75% for employees covered by Social Security.

Note A – Description of the ERS (continued)

3. Plan Descriptions and Funding Policy (continued)

Contributory Plan (continued)

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 5 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.

New police officers, firefighters and certain other members that are not covered by Social Security first hired after June 30, 2012 contribute 14.2% of their salary and receive a retirement benefit using the benefit multiplier of 2.25% for qualified service, up to a maximum of 80% of AFC. These members may retire at age 60 with 10 years of credited service or at age 55 with 25 years of credited service with reduced benefits, 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%. Members in the hybrid plan are covered by Social Security.

New general employees in the Hybrid Plan hired after June 30, 2012 are required to contribute 8% of their salary and are fully vested for benefits upon receiving 10 years of credited service. Employees may retire with full benefits at age 65 and 10 years of credited service or at age 60 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 1.75%. Members in the hybrid plan are covered by Social Security.

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 10 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, 2010
Actuarial value of assets (a)	$11,345,618,006
Actuarial Accrued Liability (AAL)	
Entry Age (b)	$18,483,668,591
Unfunded AAL (UAAL) (b-a)	$7,138,050,585
Percent Funded (a/b)	61.4%
Annual covered payroll (c)	$3,895,661,820
UAAL Percentage of Covered Payroll ((b-a)/c)	183%

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, 2010 actuarial valuation follows:

Valuation date	June 30, 2010
Actuarial cost method	Entry Age Normal
Amortization method	Level percent, open
Remaining amortization period as of June 30, 2010	30 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.

Per legislation passed in 2011, the actuarial investment rate of return assumption was reduced from 8.00% to 7.75%.

Note A – Description of the ERS (continued)

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, hybrid 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.

The required pension contributions by all participating employers (in thousands) for the years ended June 30, 2010, 2009, and 2008, were $536,237, $526,538, and $510,727, respectively, which represented 13.8%, 13.1%, and 13.5% of covered payroll. Actual contributions (in thousands) by all employers for the years ended June 30, 2010, 2009, and 2008, were $547,670, $578,672, and $488,770, respectively, which represented 102.1%, 109.9%, and 95.7%, 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. The Employer-Union Health Benefits Trust Fund (EUTF) was established on July 1, 2003 to design, provide, and administer medical, prescription, drug, dental, vision, chiropractic, dual-coverage medical and prescription, and group life benefits.

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.

The net assets of the EUTF are not included in the ERS plan net assets. The EUTF issues a financial report that includes financial statements and required supplementary information.

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.

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.

Note C – Summary of Accounting Policies (continued)

2. Cash and Investments:

Cash includes amounts in demand deposits and invested funds held by ERS investment managers.

Investments are governed 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.

Investments are reported at fair value. Unrealized gains and losses are included as investment income in the Statement of Changes in Plan Net Assets. The net assets of the Pension Trust Fund and Contribution Fund (the Retirement Funds) are valued on a monthly basis using the following sources:

Publicly Traded Securities (Corporate stock, investment derivatives, and Fixed Income): Fair values are based on published market prices, quotations from national security exchanges, and security pricing services as of each month end closing of the New York Stock Exchange.

Fixed Income Securities (including investment derivatives not publicly traded): Fair values are based on equivalent values of comparable securities with a similar yield and risk.

Pooled Equity and Fixed Income Funds (not publicly traded): Fair value are based on the ERS' pro-rata ownership percentage of the fund reported by the fund manager based on the fair value of the underlying assets that is determined by published market prices, or quotations from national security exchanges. The pooled funds' annual financial statements are audited by independent auditors.

Limited Partnerships: The fair value of investments that are organized as limited partnerships and have no readily ascertainable fair value (such as private equity, real estate, and tangible assets) are valued based on their respective net asset value (NAV), and are generally audited annually. The most significant element of NAV is the fair value of the investment holdings. These holdings are valued by the general partners using valuation assumptions based on both market and property specific inputs which are not observable and involve a certain degree of expert judgment. Because of the inherent uncertainties in estimating fair values, it is at least reasonably possible that the estimates will change in the near-term.

Note C – Summary of Accounting Policies (continued)

2. Cash and Investments (continued):

Private Equity Limited Partnerships: The fair value of individual capital account balances is based on the valuations reported by private equity partnerships using the following methodologies to value the underlying portfolio companies:

- Valuations of publicly traded portfolio companies are based on active exchanges using quoted market prices as of the close of trading for each month-end.
- When a portfolio company investment does not have a readily available market price, but has a return that is determined by reference to an asset for which a market price is readily available, valuations are based on the closing market price of the reference asset on the valuation date, adjusted for factors that affect the fair value of the investment held.
- When the portfolio company investments are private holdings and are not traded on active security exchanges, valuation methodologies used consist primarily of income and market approaches. The income approach involves a discounted cash flow analysis based on portfolio companies' projections. The market approach involves valuing a company at a multiple of a specified financial measure (generally EBITDA) based on multiples at which comparable company's trade.

Real Estate and Alternative Investments Limited Partnerships and Limited Liability Companies - Consolidated: The ERS has a controlling interest in certain real estate and alternative investment partnerships and limited liability companies. These investment companies provide quarterly valuations based on the most recent capital account balance to ERS management. Individual properties are valued internally by the company at least annually in accordance with standard industry practice, and are adjusted as frequently as quarterly if material market or operational changes have occurred. Properties are generally valued every one to three years by external third party appraiser(s), depending upon the investment company. Structured finance investments receive quarterly value adjustments by the investment companies, generally applying the assumption that all such positions will be held to maturity. Alternative investments are valued using their respective NAV, and are generally audited annually. The most significant element of NAV is the fair value of the investment holdings. These holdings are valued by the general partners in conjunction with management, investment advisors, and valuation specialists. The valuation techniques vary based on investment type and involve a certain degree of expert judgment. The fair value for these investments could differ significantly if a ready market for these assets existed. Annual audits of most partnerships and limited liability companies include a review of compliance with the investment company's valuation policies. Real estate and alternative investments consists of the value of real property within the limited liability companies and limited partnerships.

Notes Payable: 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.

Revenue Recognition: Interest and dividend income is recognized when earned. Capital gains and losses are recognized on a trade-date basis. Purchases and sales of investments are also recorded on a trade-date basis.

Note C – Summary of Accounting Policies (continued)

2. Cash and Investments (continued):

Securities Lending: The Retirement Funds record collateral received under securities lending agreements where the Retirement Funds have the ability to spend, pledge, or sell the collateral without borrower default. Liabilities resulting from these transactions are also reported. Additionally, costs associated with securities transactions, broker commissions paid, and lending agent management fees are reported as investment expenses in the accompanying financial statements. The Statement of Plan Net Assets does not include detailed holdings of securities lending collateral by investment classification.

Investments and Withdrawals: Investments and withdrawals are recorded when received or paid.

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.

Investments in limited partnerships and other alternative investments 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.

Note C – Summary of Accounting Policies (continued)

6. Recently Adopted Accounting Policies

Effective July 1, 2009, the ERS implemented the provisions of Governmental Acccounting Standards Board (GASB) Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, which addresses the recognition, measurement, and disclosure of information in the financial statements regarding derivative instruments entered into by state and local governments. Derivative instruments are often complex financial arrangements that governments enter into and are classified as (i) investment derivative instruments (primarily entered into for purpose of obtaining income or profit, or that the government determines are ineffective as hedges) or (ii) as hedging derivative instruments (primarily as hedges of identified financial risks associated with assets or liabilities, or expected transactions; or to lower the costs of borrowings). This Statement requires governments to report most of their derivatives at fair value on their statement of net assets for these two classifications. As the ERS reported all investments, including investment derivative instruments at fair value in prior fiscal years, the implementation of GASB Statement No. 53 does not have a significant impact on the financial statements for the fiscal year ended June 30, 2010. Disclosure details for investment derivative instruments can be found in Note F.9.

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 Funds (continued)

Net assets held in trust for pension benefits as of June 30, 2010 are as follows:

		2010
Pension Accumulation Fund	$	8,288,395,807
Annuity Savings Fund		1,522,699,554
Expense Fund		13,072,458
Total net assets held in trust for pension benefits	$	9,824,167,819

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

1. Deposits

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.

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.

At June 30, 2010, the carrying amount of deposits totaled approximately $24,379,716 and the corresponding bank balance was $32,316,670, all of which was exposed to custodial credit risk. The following shows the aggregate book and bank balances of all cash accounts.

		June 30, 2010
Carrying Amounts of Deposit - Book		
Cash	$	32,159,104
Disbursements in excess of cash balances		(7,779,388)
Total book balances	$	24,379,716
Depository Accounts		
Total bank balances	$	32,316,670

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, 2010. Please refer to Note C-2 above for a discussion of fair value on investments.

Notes to Financial Statements (continued)

Note F – Deposits and Investment Risk Disclosures (continued)

2. Investments (continued)

Investments at fair value		**June 30, 2010**
Cash and Short Term Instruments	$	515,139,725
Debt Securities		
Asset Backed Securities		94,829,501
Collateralized Mortgage Obligations		96,683,392
Commercial Mortgage Backed Securities		77,124,455
Corporate		1,006,516,007
Government		579,436,540
Government Agencies		217,544,329
Guaranteed Corporate		63,323,201
Index Linked Government Bonds		2,031,766
Other Asset Backed Securities		5,087,324
Residential Mortgage Backed Securities		449,378,516
State or Local Governments		85,848,042
Pooled and Others		21,026,080
Derivatives		
Forwards		10,251,140
Options		(2,134,482)
Rights/Warrants		7,964
Swaps		2,935,006
Equities		5,350,595,368
Real Estate		974,304,500
Alternative Investments		496,438,668
Total investments	$	10,046,367,042
Short Term Instruments for securities lending collateral pool	$	722,388,201

Note F – Deposits and Investment Risk Disclosures (continued)

3. Credit Risk Debt Securities

The ERS' utilizes two fixed income mandates: (i) a "Diversified Manager" whose benchmark is 85% Lehman Universal/15% Lehman Multiverse ex-USD Hedged Index and (ii) an "International Mandate" whose benchmark is Lehman Multiverse ex-USD Hedged Index. The ERS expects its debt securities investment managers to maintain diversified portfolios within the mandate assigned by the Board using the following guidelines:

- Securities with a quality rating of below BBB are considered below investment grade.
- Invest in money market instruments; commercial paper (rated A1/P1); certificates of deposits and bankers acceptance; U.S. Treasury bonds, notes and bills; U.S. government and agency securities; municipal bonds; 144A private placements; bank loans; non-leveraged structured notes; convertible bonds; mortgages, collateralized mortgage obligations (CMO) and asset backed securities (backed by pools of mortgages guaranteed by the U.S. government or its agencies or corporate issues rated at least AAA); investment grade corporate debt issues, emerging markets debt, preferred stock and common stock; sovereign debt instruments (issued by agencies of, or guaranteed by foreign governments; and certain foreign securities (corporate debt issues, asset backed securities, CMOs, 144A private placements, convertibles and supranational issues). The minimum issuance size is $150 million.

- Summary of Concentration Limits for debt securities are:
  - Specific Issue or Issuer of 5% (excludes supranationals, U.S. Treasuries, U.S. agencies, and sovereign debt and equivalently rated agencies of Organisation for Economic Co-operation and Development (OECD) governments)
  - All fixed income manager portfolios are limited to (i) 15% in below investment grade securities with no more than 2% below a B rating; (ii) 10% in private placements; (iii) 5% in convertible securities; (iv) 10% in preferred stocks and common stocks (common stock holdings not to exceed 180 days); and (v) 10% in non-U.S. Agency CMOs.
  - Diversified managers are limited to (i) 10% in emerging markets (local currency and debt); (ii) 30% of Non-U.S. Dollar denominated securities (excludes money market securities and money market futures); (iii) a 15% net foreign currency exposure (as measured by net amount of currency's outstanding long and short positions versus the U.S. Dollar); and (iv) a 30% gross foreign currency exposure (as measured by absoulute value of all country-level currency long and short currency positions versus the U.S. Dollar)
  - International managers are limited to (i) 20% in emerging markets (local currency and debt); and (ii) 25% of U.S. Dollar denominated securities (excludes money market securities and money market futures).

Note F – Deposits and Investment Risk Disclosures (continued)

3. Credit Risk Debt Securities (continued)

A table of the ERS' fixed income securities as of June 30, 2010 is below. Securities below investment grade of BBB and non-rated issues amounted to $254,396,425 or 8.8% of total fixed income investments. All short-term investments, not held in a pooled investment, are rated A1/P1or better.

Credit Ratings - Moodys as of June 30, 2010

Ratings	Cash and Cash Equivalents	Asset Backed Securities	Corporate Bonds	Guaranteed Fixed Income	Municipal/ Provincial Bonds	Non-Government Backed C.M.O.s	Pooled & others	Total	Percentage to total
AAA	$ -	$ 107,566,437	$ 40,109,563	$ 63,323,201	$ 29,001,473	$ 69,096,694	$ -	$ 309,097,368	10.7%
AA	-	10,421,373	114,643,528	-	38,718,275	6,058,401	-	169,841,577	5.9%
A	-	40,164,895	380,653,005	-	13,682,425	1,261,942	-	435,762,267	15.1%
BBB	-	1,005,001	292,699,713	-	4,445,869	1,113,956	-	299,264,539	10.4%
BB	-	800,603	103,814,246	-	-	1,713,085	-	106,327,934	3.7%
B	-	720,000	65,962,272	-	-	2,786,341	971,500	70,440,113	2.5%
CCC	-	4,269,978	20,000	-	-	12,358,335	-	16,648,313	0.6%
CC	-	31,561	-	-	-	2,294,638	-	2,326,199	0.1%
C	-	-	234,187	-	-	-	-	234,187	0.0%
D	-	-	39,013	-	-	-	-	39,013	0.0%
NR	29,985,606	-	8,340,480	-	-	-	20,054,580	58,380,666	2.0%
	$29,985,606	$164,979,848	$1,006,516,007	$63,323,201	$85,848,042	$96,683,392	$21,026,080	$1,468,362,176	51.0%
						US Government backed		1,408,326,726	49.0%
						Total		2,876,688,902	100.0%
						Derivatives		800,524	
						Cash and cash equivalents		(29,985,606)	
						Short-term investments		(147,874,143)	
						Total fixed income		$ 2,699,629,677	

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.

Custodial Credit Risk Summary

Exposed to Custodial Credit Risk	$ 31,574,754
Not subject to Custodial Credit Risk	3,359,008,603
Not exposed - registered	5,955,705,977
Not exposed - securities on loan	700,077,708
Total Investments	$ 10,046,367,042

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 the manager shall not hold more than the benchmark weight plus 2 percentage points.)

At June 30, 2010, 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.

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.

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, 2010, 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:

		Market Value June 30, 2010	Effective Duration (years)
Cash and Short Term Instruments			
Bills and Notes	$	177,859,749	0.2
Debt Securities			
Asset Backed Securities		94,829,501	1.3
Collateralized Mortgage Obligations		96,683,392	1.0
Commercial Mortgage Backed Securities		77,124,455	5.4
Corporate		1,006,516,007	5.1
Government		579,436,540	7.5
Government Agencies		217,544,329	4.4
Guaranteed Corporate		63,323,201	0.9
Index Linked Government Bonds		2,031,766	9.4
Other Asset Backed Securities		5,087,324	6.7
Residential Mortgage Backed Securities		449,378,516	1.9
State or Local Governments		85,848,042	5.4
Pooled and Others		21,026,080	n/a
Total	$	2,876,688,902	

Note F – Deposits and Investment Risk Disclosures (continued)

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. 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 in Note G.

The following table summarizes the ERS' exposure to foreign currency risk in U.S. dollars as of June 30, 2010. (Securities denominated in U.S. dollars are not presented.)

	Cash and Short Term Instruments	Debt Securities	Derivatives	Equities	Alternative	Real Estate	Grand Total
Australian dollar	$ -	$ 86,817,642	$ 15,878	$ 41,924,430	$ -	$ -	$ 128,757,950
Bulgarian new lev	-	-	-	183,521	-	-	183,521
Brazilian real	-	794,608	596,257	14,030,953	-	-	15,421,818
Canadian dollar	5,995,998	18,578,400	-	16,700,110	-	-	41,274,508
Swiss franc	-	-	-	112,890,527	-	-	112,890,527
Czech koruna	-	-	-	2,690,153	-	-	2,690,153
Danish krone	-	23,691	-	5,021,909	-	-	5,045,600
Egyptian pound	-	-	-	1,346,308	-	-	1,346,308
Euro	-	214,574,870	90,256	323,591,074	-	-	538,256,200
British pound sterling	-	51,562,758	-	225,278,979	-	-	276,841,737
Hong Kong dollar	-	-	-	80,489,959	-	-	80,489,959
Hungarian forint	-	-	-	1,444,385	-	-	1,444,385
Indonesian rupiah	-	-	-	5,700,663	-	-	5,700,663
New Israeli shekel	-	-	-	151,001	-	-	151,001
Japanese yen	-	64,856,758	-	212,094,979	-	-	276,951,737
South Korean won	-	-	-	29,556,857	-	-	29,556,857
Moroccan dirham	-	-	-	183,140	-	-	183,140
Mexican peso	-	-	285,615	4,339,614	-	-	4,625,229
Malaysian ringgit	-	-	-	11,139,868	-	-	11,139,868
Norwegian krone	-	20,157,241	-	16,404,738	-	-	36,561,979
New Zealand dollar	-	54,718,149	-	-	-	-	54,718,149
Philippine peso	-	-	-	516,397	-	-	516,397
Polish zloty	-	34,878,400	-	5,425,189	-	-	40,303,589
Swedish krona	-	-	-	8,346,369	-	-	8,346,369
Singapore dollar	-	-	-	15,075,728	-	-	15,075,728
Thai baht	-	-	-	9,885,168	-	-	9,885,168
Turkish lira	-	-	-	5,588,914	-	-	5,588,914
New Taiwan dollar	-	-	-	25,424,379	-	-	25,424,379
South African rand	-	21,726,833	-	4,853,633	-	-	26,580,466
Various Countries	308,846,371	-	10,251,140	238,956,857	-	-	558,054,368
Total	$ 314,842,369	$ 568,689,350	$ 11,239,146	$ 1,419,235,802	$ -	$ -	$ 2,314,006,667

Note F – Deposits and Investment Risk Disclosures (continued)

8. Securities Lending

The ERS participated in a securities lending program administered by its bank custodian, The Northern Trust Company. 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. At June 30, 2010 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. In addition, the bank custodian 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. Northern Trust invests the cash collateral related to the ERS' loaned securities in a separate account, according to the ERS investment policies and procedures as discussed above in Note C2. 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, 2010 was 80 days.

The following represents the balances relating to the securities lending transactions as of June 30, 2010.

Market value of Loaned Securities by Type of Collateral Received

	Fair value of underlying securities			Collateral Received		
	Cash	**Non-Cash**	**Total**	**Cash**	**Non-Cash**	**Total**
Fixed income, US	$ 245,475,192	$ -	$ 245,475,192	$ 252,086,086	$ -	$ 252,086,086
Fixed income, global	1,745,937	-	1,745,937	1,847,890	-	1,847,890
Equities, US	345,199,647	111,072	345,310,719	355,243,563	114,342	355,357,905
Equities, global	107,255,740	290,120	107,545,860	113,210,662	306,015	113,516,677
Total	$ 699,676,516	$ 401,192	$ 700,077,708	$ 722,388,201	$ 420,357	$ 722,808,558

Note F – Deposits and Investment Risk Disclosures (continued)

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 the counterparty to meet the terms of the contract, changes in the market value of the underlying collateral, changes in the interest rate environment and fluctuation in foreign currency rates. 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.

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. ERS investment managers seek to control this risk through counterparty credit evaluations and approvals, counterparty credit limits, posting collateral and exposure monitoring procedures. 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. Foreign exchange contracts are valued at the price at which the transaction could be settled by offset in the forwards markets.

The following tables summarize the ERS' investments in derivative securities and contracts held at June 30, 2010 and their associated risks. The various risks associated with these investments are included in the tables expressed in terms of market values, summarized by the type of contract as follows: credit, equity, foreign exchange, interest, and other. Due to the level of risk associated with certain derivative investment securities, it is reasonably possible that changes in the values of investment securities will occur in the near term, and such changes could affect the amounts reported in the financial statements. ERS could be exposed to risk if the counterparties to the contracts are unable to meet the terms of the contracts. ERS investment managers seek to control this risk through counterparty credit evaluations and approvals, counterparty credit limits, posting collaterals and exposure monitoring procedures.

Note F – Deposits and Investment Risk Disclosures (continued)

9. Derivative Financial Instruments

The notional amount is the nominal or the underlying face amount that is used to calculate payments made on that instrument or contract. Changes in the market value of all derivative contracts are recorded as net appreciation (depreciation) in fair value of investments in the Statement of Changes in Plan Net Assets.

Summary of Derivative Risk types:

	Fair Value
Credit Contracts	
Swaps	$ (1,060,448)
Equity Contracts	
Rights/Warrants	7,964
Foreign Exchange Contracts	
Forwards	10,251,140
Options	(153,832)
Interest Rate Contracts	
Futures	-
Options	(46,111)
Swaps	3,967,006
Other Contracts	
Swaptions	(1,934,539)
Swaps	28,448
Total Derivatives	$ 11,059,628

Note F – Deposits and Investment Risk Disclosures (continued)

9. Derivative Financial Instruments (continued)

The following table summarizes the ERS' investments in derivative securities and contracts held at June 30, 2010:

Asset categories			Notional Values	Market Value	(Change in Fair Value)
Forwards	Currency Purchases		$ -	$ 751,269,718	$ -
	Currency Sales		-	(741,018,578)	-
	Total Forwards		-	10,251,140	10,249,654
Futures	Interest Rate Contracts	Longs	472,343,272	-	-
		Shorts	(149,262,094)	-	-
			323,081,178	-	-
Options	Caps and Floors		-	(74,242)	(14,607)
	Options		-	(153,832)	(69,934)
	Options on Futures	Short	-	(149,844)	159,840
		Long	-	177,975	97,436
	Swaption		-	(1,934,539)	(94,685)
			-	(2,134,482)	78,050
Rights/Warrants			-	7,964	7,052
Swaps	Credit Default Swaps		-	(1,060,448)	1,765,226
	Interest Rate Swaps		-	3,967,006	(472,264)
	Total Return Swaps		-	28,448	65,963
	Swaps Total		-	2,935,006	1,358,925
Grand Total			$ 323,081,178	$ 11,059,628	$ 11,693,681

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.

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, 2010, the net notional value of futures contracts was $323,081,178.

Note F – Deposits and Investment Risk Disclosures (continued)

9. Derivative Financial Instruments (continued)

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.

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, 2010 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.

On June 30, 2010 the ERS' investments in swaps were as follows:

		Fair Value
Credit Default Swaps		
Buy Protection	$	(45,558)
Sell Protection		(1,014,890)
Interest Rate Swaps		
Pay Floating		(34,519,482)
Receive Fixed		39,675,143
Pay Fixed		(1,322,823)
Receive Floating		134,168
Total Return Swaps		28,448
Total Swaps	$	2,935,006

Note F – Deposits and Investment Risk Disclosures (continued)

9. Derivative Financial Instruments (continued)

On June 30, 2010 credit ratings of the counterparty for ERS' investments in derivatives were as follows:

Derivatives Counterparty Credit Ratings - Moody's

	Exchge Trades	A1	A2	A3	Aa1	Aa3	Baa1	N/A	Grand Total
Futures & options (no counterparty avail)	$ 28,131	$ -	$ -	$ -	$ -	$ -	$ -	$ 7,964	$ 36,095
BANC OF AMERICA FUTURES	-	-	-	-	-	-	158,692	-	158,692
BANK OF AMERICA N.A.	-	-	(24,359)	-	-	-	-	-	(24,359)
BARCLAYS CAP SECS LONDON	-	-	-	-	-	218,944	-	-	218,944
BARCLAYS CAPITAL SECURITIES LTD	-	-	-	-	-	(938,556)	-	-	(938,556)
BNP PARIBAS SA PARIS	-	-	-	-	-	66,332	-	-	66,332
CITIBANK N.A. NEW YORK	-	(382,973)	-	-	-	-	-	-	(382,973)
CREDIT SUISSE FIRST BOSTON	-	-	-	-	(575,795)	-	-	-	(575,795)
CREDIT SUISSE INTERNATIONAL, LONDON	-	-	-	-	(77,127)	-	-	-	(77,127)
DEUTSCHE BANK GOVT SEC SEC INC.	-	-	-	-	-	(342,266)	-	-	(342,266)
DEUTSCHE BANK LONDON	-	-	-	-	-	93,076	-	-	93,076
DEUTSCHE BANK SECURITIES CORP	-	-	-	-	-	87,923	-	-	87,923
GOLDMAN SACHS & COMPANY	-	(286,379)	-	-	-	-	-	-	(286,379)
GOLDMAN SACHS BANK USA	-	(259,078)	-	-	-	-	-	-	(259,078)
GOLDMAN SACHS NEW YORK	-	21,068	-	-	-	-	-	-	21,068
GREENWICH CAPITAL MARKETS INC	-	-	-	117,231	-	-	-	-	117,231
HSBC BANK USA NY	-	-	-	-	-	149,339	-	-	149,339
J.P. MORGAN CLEARING CORP	-	-	-	-	-	(136,866)	-	-	(136,866)
JP MORGAN CHASE BANK/HSBCSI	-	-	-	-	-	(206,223)	-	-	(206,223)
MERRILL LYNCH CAPITAL SERVICES INC	-	-	-	-	-	-	8,527	-	8,527
MERRILL LYNCH INTERNATIONAL	-	-	-	-	-	-	3,815	-	3,815
MORGAN STANLEY CAPITAL GRP INC NEW YOR	-	-	(55,736)	-	-	-	-	-	(55,736)
MORGAN STANLEY CAPITAL SERVICES NEW YORK	-	-	652,428	-	-	-	-	-	652,428
VARIOUS FOREIGN CURRENCY FORWARDS	-	-	-	-	-	-	-	10,105,936	10,105,936
ROYAL BANK OF CANADA, MONTREAL	-	-	-	-	117,865	-	-	-	117,865
ROYAL BANK OF SCOTLANDN FIN MKTS FIXED	-	-	-	2,483,227	-	-	-	-	2,483,227
UBS AG	-	-	-	-	-	47,306	-	-	47,306
UBS LONDON - DSA 'ALGOS' (US)	-	-	-	-	-	-	-	8,610	8,610
UBS SECURITIES	-	-	-	-	-	(31,428)	-	-	(31,428)
	$ 28,131	**$ (907,363)**	**$ 572,333**	**$ 2,600,458**	**$ (535,057)**	**$ (992,419)**	**$ 171,035**	**$ 10,122,510**	**$ 11,059,628**

Note F – Deposits and Investment Risk Disclosures (continued)

9. Derivative Financial Instruments (continued)

On June 30, 2010 the time duration for ERS' investments in derivatives were as follows:

		Fair Values	Average Years to Maturity
Forwards	$	10,251,140	0.20
Futures		-	0.32
Caps and Floors		(74,242)	0.97
Options		(153,832)	0.01
Options on Futures		28,131	0.02
Swaption		(1,934,539)	0.03
Rights/Warrants		7,964	7.99
Credit Default Swaps		(1,060,448)	28.42
Interest Rate Swaps		3,967,006	9.74
Total Return Swaps		28,448	0.26
Total	$	11,059,628	

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 did not exceed the coverage provided by commercial insurance policies during the year ended June 30, 2010. Losses not covered by insurance are generally paid from legislative appropriations.

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.

The ERS has future financial commitments of up to $360,000,000 as of June 30, 2010, consisting of $82,000,000 in real estate investments, and $278,000,000 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. 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.

June 30, 2010

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:							
2010		$ 11,345,618	$ 18,483,669	$ 7,138,051	61.4%	$ 3,895,662	183.2%
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%

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,:			
2010	$ 536,237	$ 547,670	102.1%
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%

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

June 30, 2010

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, 2010
Actuarial cost method	Entry Age Normal
Amortization method	Level percent, open
Remaining amortization period as of June 30, 2010*	30 years
Asset valuation method	4-year smoothed market
Actuarial assumptions:	
Investment rate of return (set by statute)**	8.0%
Projected salary increases **	4.0% to 17.75%
**Includes inflation at 3.0%	
Cost-of-living adjustments (COLAs) ***	2.5% (not compounded)

* Remaining amortization period for Annual Required Contribution is 30 years. The current statutory contribution rates have a remaining amortization period of 41 years.

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

Schedule 1

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

Years ended June 30, 2010

	2010			
	Pension Accumulation Fund	**Annuity Savings Fund**	**Expense Fund**	**Total**
Additions				
Appropriations and contributions:				
Employers	$ 547,669,675	$ -	$ -	$ 547,669,675
Members	-	360,047,068	-	360,047,068
Net investment gain	1,026,461,210	-	-	1,026,461,210
Total additions	1,574,130,885	360,047,068	-	1,934,177,953
Deductions				
Benefit payments	905,315,348	-	-	905,315,348
Refunds of member contributions	-	7,573,619	-	7,573,619
Administrative expenses	-	-	12,406,339	12,406,339
Total deductions	905,315,348	7,573,619	12,406,339	925,295,306
Other changes in net assets held in trust for pension benefits:				
Transfer due to retirement of members	155,880,113	(155,880,113)	-	-
Transfer of interest allocation	(55,344,988)	55,344,988	-	-
Transfer to pay administrative expenses	(11,317,896)	-	11,317,896	-
Return of unrequired funds due to savings in administrative expenses	-	-	-	-
	89,217,229	(100,535,125)	11,317,896	-
Net increase (decrease)	758,032,766	251,938,324	(1,088,443)	1,008,882,647
Net assets held in trust for pension benefits:				
Beginning of year	7,530,363,041	1,270,761,230	14,160,901	8,815,285,172
End of year	$ 8,288,395,807	$ 1,522,699,554	$ 13,072,458	$ 9,824,167,819

See accompanying independent auditors' report.

Schedule 2

Social Security Contribution Fund

Statement of Changes in Assets and Liabilities

Year ended June 30, 2010

	2010			
	Beginning Balance	**Additions**	**Deductions**	**Ending Balance**
Assets				
Cash	$ -	$ -	$ -	$ -
Total assets	$ -	$ -	$ -	$ -
Liabilities				
Due to employers	$ -	$ 198,231,903	$ 198,231,903	$ -
Total liabilities	$ -	$ 198,231,903	$ 198,231,903	$ -

See accompanying independent auditors' report.

Schedule 3

Schedule of Administrative Expenses

Year ended June 30, 2010

		2010
Personnel services		
Salaries and wages	$	4,113,803
Fringe benefits		1,436,047
Net change in unused vacation credits		49,251
Total personnel services		5,599,101
Professional services		
Actuarial		93,000
Auditing and tax consulting		37,503
Disability hearing expenses		134,605
Legal services		284,625
Medical		405,618
Other services		1,894,515
Total professional services		2,849,866
Communication		
Postage		116,757
Printing and binding		67,504
Telephone		68,279
Travel		16,006
Total communication		268,546
Rentals		
Rental of equipment		70,549
Rental of premises		19,237
Total rentals		89,786
Other		
Armored car service		12,807
Computer and office automation systems		40,169
Repairs and maintenance		1,309,992
Stationery and office supplies		50,634
Miscellaneous		51,202
Total other		1,464,804
Depreciation		2,134,236
	$	12,406,339

See accompanying independent auditors' report.

Schedule 4

Schedule of Investment Expenses

Year ended June 30, 2010

	2010
Real estate and alternative investment expenses	
Operating expenses	$ 51,285,262
Mortgage interest	14,332,890
Total real estate and alternative investment expenses	65,618,152
Investment expenses	
Investment manager/advisor fees	$ 31,246,317
Bank custodian fees	150,000
Other investment expenses	359,076
Total investment expenses	31,755,393
Securities lending expenses	
Borrower rebates	(502,727)
Management fees	455,912
Total securities lending expenses	(46,815)
	$ 97,326,730

See accompanying independent auditors' report.

This page intentionally left blank.

Employees' Retirement System

of the State of Hawaii

INVESTMENT SECTION

Letter from Chief Investment Officer

NEIL ABERCROMBIE
GOVERNOR

STATE OF HAWAII
EMPLOYEES' RETIREMENT SYSTEM

April 8, 2013

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, 2010.

- ERS Plan total net assets were valued at $9.824 billion as of June 30, 2010. The ERS was ranked as one of the 60 largest public retirement plan sponsors in the United States.

- The ERS investment portfolio outperformed its one year, three year, and five year Policy benchmark by 1.65%, 0.10%, and 0.26%, respectively, ending the year up 12.0%. Despite continued investment market volatility, the portfolio achieved above median public pension plan rankings for the three and five year periods.

PAST AND THE CURRENT MARKETS

Despite concerns over US mortgage debt, the global investment markets were kinder to investors. In particular, the quarter ending September 30, 2009 brought a generous 11.2% return followed by two more quarters of increasing returns of 3.7% and 3.3%, respectively. However, the quarter ending June 30, 2010 experienced a -6.02%, nearly wiping out the gains of the previous two quarters. The economy reflected some signs of expansion with quarterly GDP (gross domestic product) improving from the depths of the recession. The dollar appreciated against the Euro and the Sterling but depreciated against the Japanese Yen. Unemployment figures were weak from July 1, 2009 to the end of the calendar year, but the first half of 2010 showed strong employment with a gain of approximately 700,000 jobs, ending with unemployment at 9.4%.

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://ers.ehawaii.gov/

Letter from Chief Investment Officer (continued)

Diversification was essential to protecting the investment portfolio from event-driven and systemic moves in the market. The shining asset class performer was found in U.S. domestic equities earning 15.3% while international equities returned 11.3% during the year. The global bond portfolio performed exceptionally well where it produced equity-like returns of 12.3%. Real estate outperformed its benchmark by over 11% despite posting an absolute return of 0.4%.

OPTIMISM WITH CAUTION

The U.S. and European governments provided a series of economic packages and reforms that were anticipated to restore financial stability and investor confidence. Financial capital was in short supply (but desperately needed) to strengthen financial institution balance sheets that were essential to restoring credit availability to the consumer and commercial markets.

Europe was a region of focus. Market analysts have directed investor attention to the enormous government and consumer debt problems found in Portugal, Ireland, Italy, Greece, and Spain. These nations may have far reaching global consequences if the EU leadership is unable to address their fiscal problems on a material scale.

CONTINUED STABILITY

The asset class target weightings approved by the Board of Trustees in January 2010 serves as the anchor of reliability and stability within the portfolio despite the ever-changing tides and fast moving currents of the global economy. The ERS will continue to conduct competitive searches for the most qualified investment firms to manage global inflation-linked securities to help protect the portfolio against inflation and covered calls strategies to help protect the portfolio value against volatility. Collectively, these unique strategies continue to demonstrate the ERS's attention and sensitivity to the changes in market conditions while continuing to be disciplined through a long-term asset allocation plan.

The Investment Office staff continues to evaluate appropriate investment strategies that will help the ERS meet its performance objectives. To this end, the Investment Office staff reaffirms its responsibility to investment management 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

April 8, 2013

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 Employees' Retirement System of the State of Hawaii for periods ended June 30, 2010, as requested by the Government Financial Officers' Association (GFOA).

Hawaii ERS-Total Fund Performance

The total net assets of the Retirement System were $9.8 billion as of June 30, 2010, an increase of roughly $1.0 billion for the fiscal year. The portfolio generated strong absolute returns while producing mixed relative performance results across the major asset classes. The increase in assets was primarily due to strong performance within the Equity asset classes as well as the Fixed Income asset classes. The investment return for the total fund expressed as a time-weighted total rate of return, was +12.0% for the 2010 fiscal year, compared to the benchmark's return of +10.3%. For the three-year period ending June 30, 2010 the total fund returned minus (3.8%) per annum versus the benchmark's minus (3.9%) and the Northern Trust Public Funds Greater than $1 Billion database median of minus (4.0%). For the trailing five-year period ending June 30, 2010 the total fund returned +3.2% per annum versus the benchmark's +2.9% while the Northern Trust Public Funds Greater than $1 Billion database median returned +3.0% per annum.

Asset Class Performance

Domestic Equity returned +15.3% for the fiscal year, versus the Domestic Equity Blended Index's +15.7% and the Northern Trust Domestic Equity Database median of +16.5%. Domestic Fixed-Income posted +13.6% for the fiscal year versus the Domestic Fixed Income Blended Index return of +10.0% and the Northern Trust Fixed-Income Database median return of +13.8%. International equity returned +11.3% for the 2010 fiscal year versus the International Equity Blended Index return of +8.4%, whereas International Fixed-Income returned +4.0% versus the International Fixed-Income Blended Index return of +6.6%. Real Estate returned +1.0% for the year ending June 30, 2010 versus the NCREIF Total Index return of minus (1.5%). Private Equity investments returned +7.5% for the fiscal year.

Letter from Investment Consultant (continued)

Market Conditions

The market backdrop for most of fiscal year 2010 was characterized by a near complete reversal in investors' attitude towards risk assets compared to fiscal year 2009. While fiscal year 2009 was dominated by de-risking and de-leveraging, fiscal year 2010 was marked by a reversal in which riskier assets outperformed safer assets with high-yield fixed income outperforming investment-grade fixed income, small cap equities outperforming large cap equities and emerging markets outperforming developed markets. All equity classes produced positive returns, both domestically and internationally. Fixed income classes produced positive results with credit sensitive securities outperforming.

During the fiscal year 2010, equities within the U.S. advanced by +15.7% while non-U.S. equities advanced by +10.9%. Developed international equity markets rose along with U.S. markets driven by improving prospects for the global economy on the back of massive monetary and fiscal stimulus. 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 and continued through fiscal year 2009 reversed course in fiscal year 2010. Value stocks, as a group, outperformed growth stocks while to a large degree lower quality companies outperformed high quality companies. Emerging markets equities continued to shine in international equities, handily 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 as well as a growing concern regarding the fiscal soundness of many developed countries, notably in Europe.

During the fiscal year, bond markets produced returns that surpassed expectations with investors being rewarded for taking increased credit risk. Investment-grade bonds, as measured by the Barclays Capital Aggregate Bond Index, returned +9.5%. Government bonds return of +6.5% lagged credit as investors became less averse. Mortgage-backed bonds increased by +7.5%, investment-grade corporate bonds rose by +14.7%, and high-yield corporate bonds returned +26.8%.

Fiscal year 2010 proved to mark the end of the recession and the continued recovery built on government stimulus. For fiscal year 2010 the market for risk assets around the world rebounded as market participants concluded 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 PCA's 2010 capital market projections for 10 years, the target allocation is expected to achieve an average annualized return of 7.9% (4.9% 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 -6.3% and 22.0% 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 during fiscal year 2010. At that time, the Board adopted a new long-term strategic allocation policy, which includes two major structural shifts. The first shift is moving assets from US Domestic Equity to International Equity and the second is adding two new strategic classes, Covered Calls and Real Return. These structural changes will be implemented in fiscal year 2011.

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 indexes 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 Northern Trust 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.

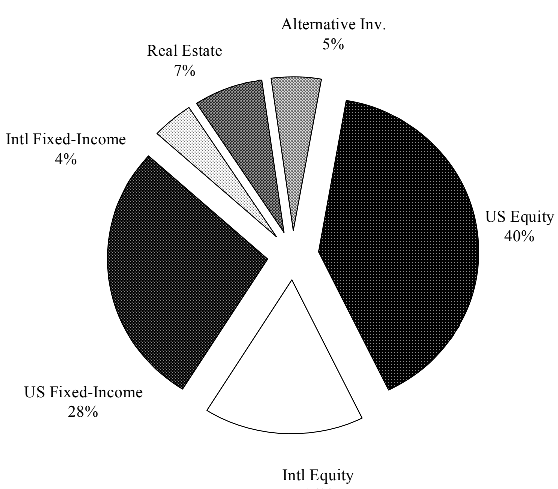
Investment Practices

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. As a result of the most recent full asset/liability study additional revisions to the IPS will take place during fiscal year 2011.

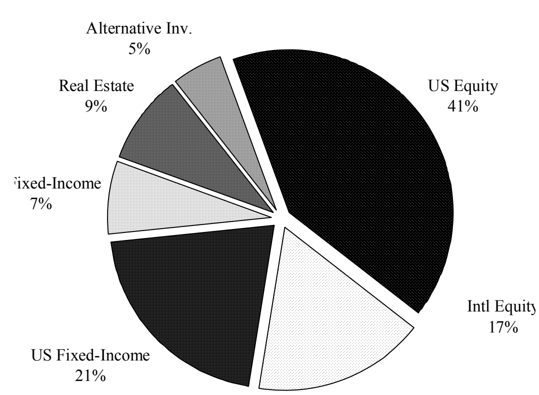
All rates of return are calculated using methodologies that are generally accepted by the Global Investment Performance Standards (GIPS). All Domestic Equity manager returns are daily, time-weighted rates of return based on custodial data. International Equity, Domestic Fixed-Income, and International 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, 2010:

Actual Asset Allocation



Target Asset Allocation



Report on Investment Activity by Investment Consultant (continued)

Investment Results as of June 30, 2010:

	Year Ended June 30,					Three Years Ended	Five Years Ended
	2010	2009	2008	2007	2006	6/2010	6/2010
Domestic Equity	**15.33%**	**(27.34%)**	**(11.39%)**	**20.03%**	**9.39%**	**(9.45%)**	**(0.51%)**
Domestic Equity Blended Index[1]	15.72%	(25.83%)	(12.84%)	19.99	9.68%	(9.22%)	(0.31%)
NT Total Domestic Equity*	16.46%	(26.16%)	(12.32%)	19.75%	10.53%	(8.96%)	(0.05%)
Domestic Fixed-Income	**13.63%**	**5.80%**	**6.31%**	**6.40%**	**(0.13%)**	**8.53%**	**6.31%**
Blended Fixed Income Blended Index[2]	9.99%	5.35%	7.12%	6.12%	(0.81%)	7.47%	5.50%
NT Domestic Fixed*	13.78%	4.69%	6.41%	6.28%	(0.01%)	7.95%	6.11%
International Equity	**11.28%**	**(31.45%)**	**(7.93%)**	**29.81%**	**26.52%**	**(11.11%)**	**2.90%**
International Equity Blended Index[3]	8.41%	(30.76%)	(8.33%)	29.67%	28.05%	(11.72%)	2.70%
NT Non-U.S. Equity*	11.62%	(29.96%)	(8.29%)	29.28%	27.17%	(10.60%)	3.33%
International Fixed-Income	**4.01%**	**9.82%**	**14.58%**	**2.00%**	**0.96%**	**9.38%**	**6.15%**
International Fixed Blended Index[4]	6.62%	7.60%	18.72%	2.20%	(0.02%)	10.85%	6.84%
NT Non-U.S. Fixed*	18.50%	2.28%	2.65%	7.10%	1.43%	8.15%	6.51%
Real Estate ^	**0.99%**	**(26.74%)**	**7.64%**	**17.69%**	**27.08%**	**(7.31%)**	**3.56%**
NCREIF Total Property Index	(1.48%)	(19.55%)	17.25%	18.67%	18.02%	(4.70%)	3.79%
NT Real Estate Funds*	(10.22%)	(27.81%)	5.79%	15.48%	17.88%	(12.09%)	(0.16%)
Alternative Investments	**7.54%**	**(11.19%)**	**11.43%**	**22.46%**	**24.56%**	**2.10%**	**10.18%**
Total Fund	**11.96%**	**(17.54%)**	**(3.51%)**	**17.81%**	**11.50%**	**(3.78%)**	**3.19%**
Composite Benchmark[5]	10.31%	(16.94%)	(3.07%)	17.08%	11.10%	(3.38%)	2.93%
NT Public Funds > $1 Billion*	13.78%	(18.37%)	(4.41%)	17.50%	10.18%	(4.03%)	2.99%

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

^ *Real Estate performance is presented through the current period.*

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
- Atatlanta
- Bank of Hawaii
- Barrow, Hanley, Mewhinney & Strauss
- CM Bidwell & Associates
- CS McKee Investment Managers
- Goldman Sachs Asset Management
- Jennison Associates
- Mellon Capital Management Corporation
- Systematic Investment Management
- T. Rowe Price

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

INTERNATIONAL EQUITIES
- Acadian Asset Management
- Artio Global (Julius Baer) Investment Management
- JP Morgan Chase
- 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

PRIVATE EQUITY
- Abbott Capital Management, LLC
- Hancock Timber Resource Group
- GK Macquarie Newport
- MetWest (TALF Fund)

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, 2010 (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	43,500,000	United States Treas Notes	3.625%	1/1/2041	AAA	$ 45,960,447
2	42,600,000	United States Treas Notes	2.500%	6/25/2034	AAA	44,114,302
3	41,680,000	United States Treas Notes	3.125%	6/1/2047	AAA	43,591,403
4	38,600,000	Gnma Ii Jumbos	5.000%	4/1/2019	Agency	41,024,698
5	32,520,000	United States Treas Notes	3.500%	2/25/2035	AAA	34,034,131
6	23,170,000	United States Treas Notes	4.375%	5/7/2012	AAA	25,012,733
7	21,500,000	FNMA 30 Year Pass-Throughs	5.500%	1/25/2037	Agency	23,005,000
8	20,700,000	FNMA Single Family Mortgage	4.500%	1/25/2015	Agency	21,375,979
9	18,600,000	United States Treas Bonds	4.625%	2/23/2011	AAA	20,907,553
10	18,200,000	Federal Home Ln Mtg Corp	0.372%	1/16/2018	Agency	18,213,723
International Fixed Income						
1	23,885,000	Council of Europe Development Bank	5.625%	12/14/2015	AAA	20,080,352
2	23,070,000	Landwirtschaftliche Rentenbank	6.000%	5/30/2013	AAA	19,813,734
3	23,109,000	Queensland Treasury Corp	6.000%	6/14/2011	AA+	19,763,493
4	27,500,000	Ontario Prov Cda Nzd	6.250%	6/16/2015	AA-	19,697,992
5	15,412,000	Kreditanstalt Fur Wiederaufbau	3.375%	1/16/2012	AAA	19,607,412
6	1,700,000,000	Dexia Municipal Agency	1.800%	5/9/2017	AAA	19,247,712
7	25,560,000	European Investment Bank	6.500%	9/10/2014	AAA	18,440,659
8	13,619,000	Federal Republic of Germany	3.250%	7/4/2015	AAA	18,049,763
9	1,528,000,000	Deutsche Bahn Finance B.V.	1.650%	12/1/2014	AA	17,807,356
10	13,682,000	Republic Of Korea	3.625%	11/2/2015	A	17,064,935
Domestic Equities						
1	224,050	Apple Inc (Common)				56,355,297
2	1,390,982	JP Morgan Chase Cap XXII (Common)				50,923,851
3	3,028,282	Bank of America (Common)				43,516,412
4	476,300	Occidental Petroleum Corp (Common)				36,746,545
5	1,712,581	Cisco Systems (Common)				36,495,101
6	1,447,721	Microsoft (Common)				33,312,060
7	2,094,500	General Electric Co (Common)				30,202,690
8	243,700	International Business Machines (Common)				30,092,076
9	478,590	Johnson & Johnson (Common)				28,265,525
10	62,252	Google (Class A)				27,699,027
International Equities						
1	469,410	Axiata Group Berhad				20,267,991
2	2,044,252	Lloyds Banking Group				14,993,846
3	651,642	Sodexho				13,977,683
4	271,080	AXA				13,188,828
5	1,239,294	REXAM				12,720,435
6	90,256	Adecco SA				12,397,950
7	301,190	Swatch Group				11,445,738
8	397,507	Shimamura Co				11,275,563
9	245,835	Technip				11,212,007
10	281,233	Bank Zachodni				10,834,056

Investment Schedules (continued)

Investments Summary

(Dollar values expressed in thousands)

		Fair Value as of June 30, 2010	Percentage	
Equity securities				
Common stock	$	3,735,639	39.24%	$
Pooled and others		1,614,964	16.96%	
		5,350,603	56.20%	
Fixed income securities				
Mortgage-backed securities		692,939	7.28%	
Corporate		1,069,839	11.24%	
Government		820,196	8.61%	
Asset backed securities		94,830	1.00%	
Pooled and others		21,826	0.23%	
		2,699,630	28.36%	
Others				
Real estate equities		974,305	10.23%	
Alternative investments		496,438	5.21%	
		1,470,743	15.44%	
Total, investments at fair value	$	9,520,976	100.00%	$

Schedule of Investment Fees

by Asset Class Allocation

(Dollar values expressed in thousands)

		Fair value as of June 30, 2010		Total FY 2010 Investment Fees	Basis Points
Equities					
U.S. equities	$	3,938,906	$	9,775	25 bp
International equities		1,544,077		7,295	47
		5,482,983		17,070	31
Fixed Income					
Diversified fixed income		2,682,444		4,958	18
Non U.S. fixed income		405,777		908	22
		3,088,221		5,866	19
Other Asset Allocations					
Real estate		709,365		5,115	72
Private equity		496,588		2,521	51
		1,205,953		7,636	63
Other Investment Services					
Custodian fees				150	n/a
Investment consultant fees				674	n/a
Total	$	9,777,157	$	31,396	32

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, 2010 the ERS recaptured $1,106,898 in commissions.

The following is a list of brokers who received $40,000 or more in commissions during Fiscal Year 2010. 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
Lynch Jones & Ryan	19,792,690	$ 583,480,662	$ 756,809	$ 0.038
Credit Suisse First Boston	132,284,121	888,563,961	358,267	0.003
Merrill Lynch Pierce Fenner & Smith	35,274,761	238,086,382	277,081	0.008
Broadcourt Capital	8,330,325	150,602,076	252,011	0.030
Goldman Sachs	18,182,795	237,258,963	235,597	0.013
Citigroup Global Markets	17,237,748	157,512,161	225,481	0.013
Deutsche Bank Alex Brown	14,018,113	128,780,278	168,921	0.012
Stifiel Nicoulaus & Co	4,791,743	160,169,449	164,807	0.034
Morgan Stanley	18,080,833	127,154,567	160,778	0.009
UBS Warburg	45,611,213	120,125,232	148,199	0.003
J P Morgan Chase Bank	11,177,271	84,655,464	142,559	0.013
Jefferies & Co	7,948,533	221,649,146	140,684	0.018
Liquid Net	9,332,559	273,020,961	136,220	0.015
Barclays	5,072,339	124,930,039	123,459	0.024
Sanford C Bernsten Co	5,274,692	99,728,951	102,260	0.019
Series	2,428,722	107,094,271	96,957	0.040
Macquarie Securities	13,214,859	60,294,732	94,739	0.007
Knight Securities	4,627,895	66,387,010	87,120	0.019
Rochdale Securities	2,022,975	73,738,909	74,597	0.037
Bear Stearns & Co	4,286,799	77,689,779	69,527	0.016
CSLA Securities	2,575,707	32,654,461	59,114	0.023
Nomura Securities	5,728,203	41,767,224	52,748	0.009
PGR Securities	1,596,400	16,046,659	52,201	0.033
Pershing DLJ	5,529,572	41,937,864	50,963	0.009
Royal Bank of Canada RBC) Dominiion	1,636,313	36,292,295	48,416	0.030
Credit Lyonnais Securities	13,821,513	23,010,454	48,222	0.003
Raymond James & Associates	1,589,790	55,509,220	45,978	0.029
Societe Generale	8,507,445	35,517,044	44,900	0.005
Others (includes 191 firms)	77,787,849	844,706,501	980,576	0.013
Commissioned equity trades	497,763,778	$ 5,108,364,715	$ 5,199,191	
Less commissions recaptured			(1,106,898)	
Trades at net commission	497,763,778	$ 5,108,364,715	$ 4,092,293	$ 0.008

Employees' Retirement System

of the State of Hawaii

ACTUARIAL SECTION

Letter from the Actuary

GRS Gabriel Roeder Smith & Company
Consultants & Actuaries
5605 N. MacArthur Blvd.
Suite 870
Irving, TX 75038-2631
469.524.0000 phone
469.524.0003 fax
www.gabrielroeder.com

December 20, 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, 2010

We certify that the information contained in the 2010 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, 2010.

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
December 20, 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, 2010, ERS's underfunded status has increased significantly because of continued recognition of these market investment losses. However, the System had a partially offsetting liability experience gain which was caused primarily by lower than expected salary increases. The UAAL is now $7.138 billion.

The Legislature last 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 current Employee contribution levels, the remaining amortization period is 41.3 years. Because this period is greater than 30 years, the financing objectives of ERS are currently not being realized. Hawaii Revised Statutes §88-122(e)(1) state that the employer contribution rates are subject to adjustment when the funding period is in excess of 30 years. Therefore, the Board will need to consider requesting an increase in the employer contribution rates to bring the funding period down to 30 years.

In addition, only half of the investment losses from fiscal year 2009 have been recognized in this valuation. As the remainder of the losses are recognized in future valuations it is likely that the current funding period will extend further and contribution increases may be required. The Board may want to consider the impact of these future losses when requesting a contribution rate increase. Otherwise it is likely that the Board will need to go back to the Legislature in the near future for another increase as the losses are fully recognized.

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 of the System.

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.

Gabriel Roeder Smith & Company

Letter from the Actuary (continued)

Board of Trustees
December 20, 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, 2010, 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 Actuariesand 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

Lewis Ward

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

Gabriel Roeder Smith & Company

Executive Summary

The following summarizes the key results of the June 30, 2010 actuarial valuation of the Employees' Retirement System of the State of Hawaii (ERS).

Item	2010	2009
Membership		
• Number of		
- Active members	65,890	67,912
- Retirees and beneficiaries	38,441	36,999
- Inactive, vested	6,895	6,016
- Total	111,226	110,927
• Covered payroll for active members	$3,713.6 million	$3,838.0 million
• Actual benefit payments and refunds	$914.1 million	$842.6 million
Assets		
• Actuarial value	$11,345.6 million	$11,400.1 million
• Market value	$9,821.6 million	$8,818.0 million
• Return on actuarial value	(0.4%)	0.9%
• Return on market value	11.5%	(18.0%)
• Employer contributions during fiscal year	$547,612,717	$578,635,281
• External cash flow %	(0.2%)	(1.0%)
Actuarial Information		
• Total normal cost % (employee + employer)	12.60%	12.55%
• Unfunded actuarial accrued liability (UAAL)	$7,138.1 million	$6,236.3 million
• Funded ratio (based on actuarial assets)	61.4%	64.6%
• Funded ratio (based on market assets)	53.1%	50.0%
• Funding period (years)	41.3	28.2
• Employer contribution rate % of projected payroll * For FY 2011 & Beyond	15.49%	15.47%
• GASB ARC for FY 2011 % of projected payroll		
Police and Fire Employees	22.33%	19.91%
All Other Employees	16.23%	14.62%
Composite – All Employees	16.90%	15.17%

* 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, 2010	All Other Employees June 30, 2010	All Employees June 30, 2010
1. Gross normal cost as a percentage of pay	18.80%	11.84%	12.60%
2. Present value of future benefits			
a. Active employees	$ 2,288,177,307	$ 9,611,014,281	$ 11,899,191,588
b. Inactive members	26,915,476	335,010,487	361,925,963
c. Pensioners and beneficiaries	1,477,586,248	7,781,839,650	9,259,425,898
d. Total	$ 3,792,679,031	$ 17,727,864,418	$ 21,520,543,449
3. Present value of future employee and employer contributions			
a. Present value of future normal costs	$ 658,321,179	$ 2,378,553,679	$ 3,036,874,858
b. Present value of future employee contributions	427,872,784	1,007,607,111	1,435,479,895
c. Present value of future employer normal cost (Item 3a - Item 3b)	$ 230,448,395	$ 1,370,946,568	$ 1,601,394,963
4. Actuarial accrued liability (Item 2d - Item 3a)	$ 3,134,357,852	$ 15,349,310,739	$ 18,483,668,591
5. Actuarial value of assets			
a. Annuity Savings Fund	$ 723,977,600	$ 829,405,400	$ 1,553,383,000
b. Pension Accumulation Fund	1,335,873,070	8,456,361,937	9,792,235,006
c. Total	$ 2,059,850,670	$ 9,285,767,337	$ 11,345,618,006
6. Unfunded actuarial accrued liability	$ 1,074,507,182	$ 6,063,543,402	$ 7,138,050,585
7. Adequacy of contribution rates			
a. Statutory Contribution Rate for Fiscal Year 2011	19.70%	15.00%	15.49%
B. Funding period in years as of June 30, 2010	47.2	40.0	41.3
8. GASB Annual Required Contribution	22.33%	16.23%	16.90%

The actuarial valuation as of June 30, 2010 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 Actuariesand 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 2010 Actuarial Valuation

Exhibit 1
Development of Employer Cost

		Police and Firefighters June 30, 2010		All Other Employees June 30, 2010		All Employees June 30, 2010
1. Payroll (adjusted for one year's pay increase)	$	409,981,764	$	3,485,680,056	$	3,895,661,820
2. Gross normal oost (Exhibit 3)		18.80%		11.84%		12.60%
3. Employer normal cost rate (Exhibit 3)		6.60%		5.79%		5.90%
4. Present value future benefits (Exhibit 2)	$	3,792,679,031	$	17,727,864,418	$	21,520,543,449
5. Present value future employer contributions	$	230,448,395	$	1,370,946,568	$	1,601,394,963
6. Present value future employee contributions	$	427,872,784	$	1,007,607,111	$	1,435,479,895
7. Actuarial accrued liability (Item 4 - Item 5 - Item 6)	$	3,134,357,852	$	15,349,310,739	$	18,483,668,591
8. Actuarial value of assets	$	2,059,850,670	$	9,285,767,336	$	11,345,618,006
9. Unfunded actuarial accrued liability (UAAL)						
(Item 7 - Item 8)	$	1,074,507,182	$	6,063,543,403	$	7,138,050,585
10. Funding period						
a. Statutory Contribution Rate Beginning July 1, 2010		19.70%		15.00%		15.49%
b. Less Employer normal cost		-6.60%		-5.79%		-5.90%
c. Employer Amortization payment (level %) (Item 10a + Item 10b)		13.10%		9.21%		9.59%
d. Funding Period in years		47.2		40.0		41.3

		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

Gabriel Roeder Smith & Company

Summary of 2010 Actuarial Valuation (continued)

Exhibit 2
Actuarial Present Value of Future Benefits

	Police and Firefighters June 30, 2010	All Other Employees June 30, 2010	All Employees June 30, 2010
1. Active members			
a. Service retirement benefits	$ 2,172,339,539	$ 8,704,119,614	$ 10,876,459,153
b. Termination benefits	74,687,019	702,394,185	777,081,204
c. Survivor benefits	31,229,521	123,661,071	154,890,592
d. Disability retirement benefits	9,921,228	80,839,411	90,760,639
e. Total	$ 2,288,177,307	$ 9,611,014,281	$ 11,899,191,588
2. Retired members			
a. Service retirement	$ 1,389,258,142	$ 7,321,907,514	$ 8,711,165,656
b. Disability retirement	26,828,669	135,756,765	162,585,434
c. Beneficiaries	61,499,437	324,175,371	385,674,808
d. Total	$ 1,477,586,248	$ 7,781,839,650	$ 9,259,425,898
3. Inactive members			
a. Vested terminations	$ 24,076,211	$ 318,021,167	$ 342,097,378
b. Nonvested terminations	2,839,265	16,989,320	19,828,585
c. Total	$ 26,915,476	$ 335,010,487	$ 361,925,963
4. Total actuarial present value of future benefits	$ 3,792,679,031	$ 17,727,864,418	$ 21,520,543,449

	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

Gabriel Roeder Smith & Company

Summary of 2010 Actuarial Valuation (continued)

Exhibit 3
Analysis of Normal Cost

	Police and Firefighters June 30, 2010	All Other Employees June 30, 2010	All Employees June 30, 2010
1. Normal cost as a percent of pay			
a. Service retirement benefits	16.06%	8.41%	9.25%
b. Deferred termination benefits	0.70%	1.19%	1.14%
c. Refunds	1.45%	1.84%	1.79%
d. Disability retirement benefits	0.16%	0.18%	0.18%
e. Survivor benefits	0.43%	0.22%	0.24%
f. Total	18.80%	11.84%	12.60%
2. Employee contribution rate	12.20%	6.05%	6.70%
3. Effective employer normal cost rate (Item 1f – Item 2)	6.60%	5.79%	5.90%

	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%

Gabriel Roeder Smith & Company

Summary of 2010 Actuarial Valuation (continued)

Exhibit 4
Development of Actuarial Value of Assets

			Year Ending June 30, 2010
1.	Market value of assets at beginning of year	$	8,817,953,015
2.	Net new investments		
	a. Contributions	$	907,659,785
	b. Benefits paid		(906,386,191)
	c. Refunds		(7,762,735)
	d. Subtotal		(6,489,141)
3.	Market value of assets at end of year	$	9,821,632,832
4.	Net earnings (Item 3 - Item 1 - Item 2d)	$	1,010,168,958
5.	Assumed investment return rate		8%
6.	Expected return	$	705,176,675
7.	Excess / (shortfall) return (Item 4 – Item 6)	$	304,992,283
8.	Deferred amount as of June 30, 2010:		

Period End	Excess Return	Percent Deferred	Deferred Amount
June 30, 2010 (Item 7 above)	$ 304,992,286	75%	$ 228,744,215
June 30, 2009 (From 2009 report)	(2,813,942,883)	50%	(1,406,971,442)
June 30, 2008 (From 2008 report)	(1,383,031,789)	25%	(345,757,947)
June 30, 2007 (From 2007 report)	879,236,790	0%	-
			$ (1,523,985,174)

9.	Actuarial value of assets as of June 30, 2010 (Item 3 - Item 8)	$	11,345,618,006
10.	Ratio of actuarial value to market value		115.5%

Summary of 2010 Actuarial Valuation (continued)

Exhibit 5
Total Experience Gain or Loss

Item	Police and Firefighters June 30, 2010	All Other Employees June 30, 2010	All Employees June 30, 2010
A. Calculation of total actuarial gain or loss			
1. Unfunded actuarial accured liability (UAAL), as of June 30, 2009	$ 900,441,300	$ 5,335,874,142	$ 6,236,315,442
2. Normal cost for the year (employer and employee)	$ 76,246,547	$ 525,232,464	601,479,011
3. Less: Contributions and assessments for the year	$ (114,500,873)	$ (793,158,912)	$ (907,659,785)
4. Interest at 8%			
a. On UAAL	$ 72,035,304	$ 426,869,931	$ 498,905,235
b. On normal cost	3,049,862	21,009,299	24,059,161
c. On contributions	(4,580,035)	(31,726,356)	(36,306,391)
d. Total	$ 70,505,131	$ 416,152,874	$ 486,658,005
5. Expected UAAL as of June 30, 2010 (Sum of Items 1– 4)	$ 932,692,105	$ 5,484,100,568	$ 6,416,792,673
6. Actual UAAL as of June 30, 2010	$ 1,074,507,182	$ 6,063,543,403	$ 7,138,050,585
7. Total gain (loss) for the year (Item 5 – Item 6)	$ (141,815,077)	$ (579,442,835)	$ (721,257,912)
B. Source of gains and losses			
8. Asset gain (loss) for the year (Exhibit 6)	$ (176,037,358)	$ (783,722,150)	$ (959,759,508)
9. Salary gain (loss) for the year	20,748,181	133,430,499	154,178,680
10 Other liability gain (loss) for the year	$ 13,474,100	$ 70,848,816	$ 84,322,916
11 Change in benefit provisions	-	-	-
12 Total gain (loss) for the year	$ (141,815,077)	$ (579,442,835)	$ (721,257,912)

Summary of 2010 Actuarial Valuation (continued)

Exhibit 6
Investment Experience Gain or Loss

Item	June 30, 2010	June 30, 2009
1. Actuarial assets, beginning of year	$ 11,400,116,874	$ 11,380,961,003
2. Total contributions during year	$ 907,659,785	$ 763,155,820
3. Benefits and refunds paid	$ (914,148,929)	$ (842,613,689)
4. Assumed net investment income at 8%		
a. Beginning of year assets	$ 912,009,350	$ 910,476,880
b. Contributions	$ 36,306,391	$ 30,526,233
c. Benefits and refunds paid	$ (36,565,957)	$ (33,704,548)
d. Total	$ 911,749,784	$ 907,298,565
5. Expected actuarial assets, end of year (Sum of Items 1 through 4)	$ 12,305,377,514	$ 12,208,801,699
6. Actual actuarial assets, end of year	$ 11,345,618,006	$ 11,400,116,874
7. Asset gain (loss) for year (Item 6 – Item 5)	$ (959,759,508)	$ (808,684,825)
8. Asset gain (loss) as a percent of actuarial value of assets, end of year (Item 7 / Item 6)	(8.46%)	(7.09%)

Exhibit 7
Analysis of Changes in Valuation Results

	UUAL ($ Millions)		Funding Period		GASB ARC	
	Amount	Change	Amount	Change	Amount	Change
1. 2009 Valuation	$6,236	$ -	28.2 years		15.17%	
2. 2010 Expected valuation results using expected contributions, closed amortization period	6,317	80	27.0 years	-1.2 years	15.13%	-0.04%
3. 2010 expected valuation results using actual contributions	6,417	100	27.9 years	0.9 years	15.27%	0.14%
4. 2010 valuation results using expected assets, expected payroll, expected liabilities, and actual salaries	6,263	(154)	26.6 years	-1.3 years	15.05%	-0.22%
5. 2010 valuation results using expected assets, expected payroll, and actual liabilities	6,178	(84)	26.0 years	-0.6 years	14.94%	-0.11%
6. 2010 valuation results using actual liabilities, actual assets, and expected payroll	7,138	960	34.8 years	8.8 years	16.34%	1.41%
7. 2010 valuation results using actual liabilities, actual assets, and actual payroll	7,138	-	41.3 years	6.5 years	17.09%	0.74%
8. 2010 valuation results, resetting to 30 year amortization	7,138	-	41.3 years	0.0 years	16.90%	-0.19%

Gabriel Roeder Smith & Company

Summary of 2010 Actuarial Valuation (continued)

Exhibit 8
Highlights of Last Five Annual Actuarial Valuations
2006 through 2010

Item	Valuation Date: June 30				
	2006	2007	2008	2009	2010
Number of active members	64,069	65,251	66,589	67,912	65,890
Number of inactive members	5,164	5,554	5,847	6,016	6,895
Number of pensioners	32,199	33,117	33,893	34,429	35,763
Number of beneficiaries	2,105	2,207	2,367	2,570	2,678
Average monthly contributory plan pension amount	$ 1,792	$ 1,869	$ 1,941	$ 2,019	$ 2,118
Average monthly noncontributory plan pension amount	$ 1,335	$ 1,359	$ 1,388	$ 1,421	$ 1,457
Average monthly hybrid plan pension amount	n/a	1,453	$ 1,603	$ 1,602	$ 1,857
Average monthly beneficiary amount	$ 989	$ 1,025	$ 1,062	$ 1,109	$ 1,151
Total actuarial value of assets ($millions)	$ 9,529	$ 10,590	$ 11,381	$ 11,400	$ 11,346
Unfunded actuarial accrued liabilities ($millions)	$ 5,132.0	$ 5,106.8	$ 5,168.1	$ 6,236.3	$ 7,138.1
Funding Period (in years) [1]	35.2	25.5	22.6	28.2	41.3

Item (Dollar amounts in millions[2])	Fiscal Year				
	2005-2006	2006-2007	2007-2008	2008-200	2009-2010
Employers appropriations[2]	$ 423.4	$ 454.5	$ 488.8	$ 578.6	$ 547.6

(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 increased 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. Participant Data

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. Dates of Adoption of Assumptions and Methods

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
2001 to 2010

- Retirement System Membership **
    - 2010 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 2001-2002 to 2010-2011 **

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
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
2010	65,890	6,895	38,441	111,226

** Schedule compiled by ERS Staff from actuary reports.

Ten-Year Actuarial Schedules (continued)

2010 Membership Data*
March 31, 2010

	Police and Firefighters		All Other Employees		All Employees	
	June 30, 2010	June 30, 2009	June 30, 2010	June 30, 2009	June 30, 2010	June 30, 2009
1. Active members						
a. Number	4,940	4,955	60,950	62,957	65,890	67,912
b. Total payroll	$ 388,533,540	$ 383,990,376	$3,325,059,166	$3,454,010,026	$3,713,592,706	$3,838,000,402
c. Average salary	$ 78,651	$ 77,496	$ 54,554	$ 54,863	$ 56,360	$ 56,514
d. Average age	41.3	41.0	47.6	47.2	47.1	46.8
e. Average service	13.7	13.6	13.2	12.8	13.2	12.9
2. Inactive members						
a. Number	241	242	6,654	5,774	6,895	6,016
b. Total annual deferred benefits	$ 3,786,481	$ 3,783,554	$ 50,376,724	$ 41,172,623	$ 54,163,205	$ 44,956,177
c. Average annual deferred benefit	$ 15,712	$ 15,635	$ 7,571	$ 7,131	$ 7,855	$ 7,473
3. Service retirees						
a. Number	2,880	2,794	31,386	30,149	34,266	32,943
b. Total annual benefits	$ 118,115,680	$ 109,398,947	$ 694,141,608	$ 644,026,292	$ 812,257,288	$ 753,425,239
c. Average annual benefit	$ 40,012	$ 39,155	$ 22,116	$ 21,361	$ 23,704	$ 22,871
4. Disabled retirees						
a. Number	163	168	1,334	1,318	1,497	1,486
b. Total annual benefits	$ 2,731,501	$ 2,693,142	$ 13,735,530	$ 12,925,859	$ 16,470,031	$ 15,619,001
c. Average annual benefit	$ 16,776	$ 16,031	$ 10,296	$ 9,807	$ 11,002	$ 10,511
5. Beneficiaries						
a. Number	198	190	2,480	2,380	2,678	2,570
b. Total annual benefits	$ 5,424,211	$ 5,018,325	$ 31,569,183	$ 29,182,882	$ 36,993,394	$ 34,201,207
c. Average annual benefit	$ 27,395	$ 26,412	$ 12,730	$ 12,262	$ 13,814	$ 13,308

* Prepared by Gabriel, Roeder, Smith & Company

Historical Summary of Active Member Data*
2001 to 2010

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
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
2010	65,890	-3.0%	3,713.6	-3.2%	56,360	-0.3%	47.1	13.2

* Prepared by Gabriel, Roeder, Smith & Company

Ten-Year Actuarial Schedules (continued)

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

2001 to 2010

March 31,	Number of Pensioners	Average Annual Pension (1)	Ratio of Active Members per Pensioner
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
2010	35,763	$23,173	1.8

** 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**

2001 to 2010

As of Mar 31,	Added	Average Added to Rolls	Removed	Average Removed from Rolls	Total	Average Pension	% Chg
Retirants [1]							
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%
2010	2,316	$25,153	982	$16,362	35,763	$23,173	3.74%
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%
2010	214	$14,803	106	$9,713	2,678	$13,814	3.80%

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)

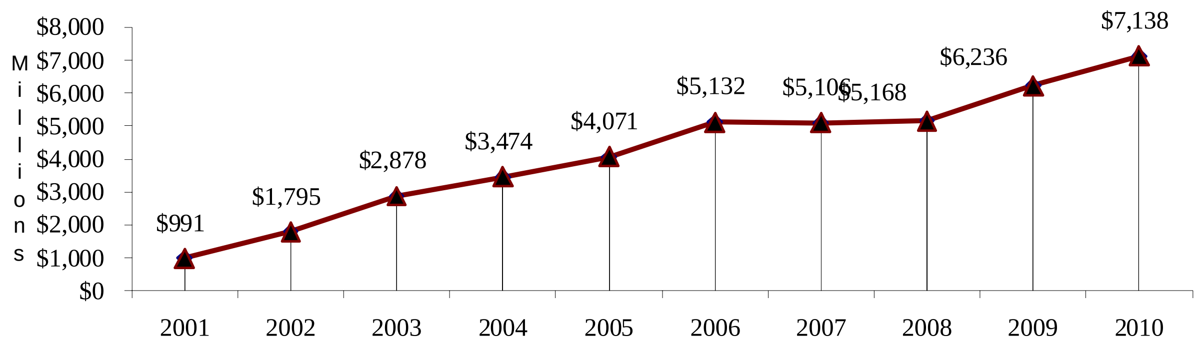
Solvency Test**
2001 to 2010

	Actuarial Accrued Liabilities (AAL)				Cumulative Portion of Actuarial Accrued Liabilities Covered by Assets		
June 30,	Active Member Contributions	Retirees, Beneficiaries, and Inactive Vested Members	Active and Inactive Members Employer Financed Portion	Actuarial Value of Assets	Column (1)	Column (2)	Column (3)
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
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%
2010	1,265.0	9,259.4	7,959.2	11,345.6	100%	100%	10.3%

(Amounts in $millions)

** Schedule compiled by ERS Staff from actuary reports

Unfunded Actuarial Accrued Liability FY 2001-2010



Ten-Year Actuarial Schedules (continued)

Employer Contribution Rates as a Percentage of Payroll **

2001 to 2010

Actuarial Valuation as of June 30,	Police and Firefighters			All Other Employees			All Active Employees		
	Normal Cost Rate	Amorti-zation Percent	Total Employer Rate	Normal Cost Rate	Amorti-zation Percent	Total Employer Rate	Normal Cost Rate	Amorti-zation Percent	Total Employer Rate
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%
2010	6.70%	13.10%	19.70%	5.79%	9.21%	15.0%	5.90%	9.59%	15.49%

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)

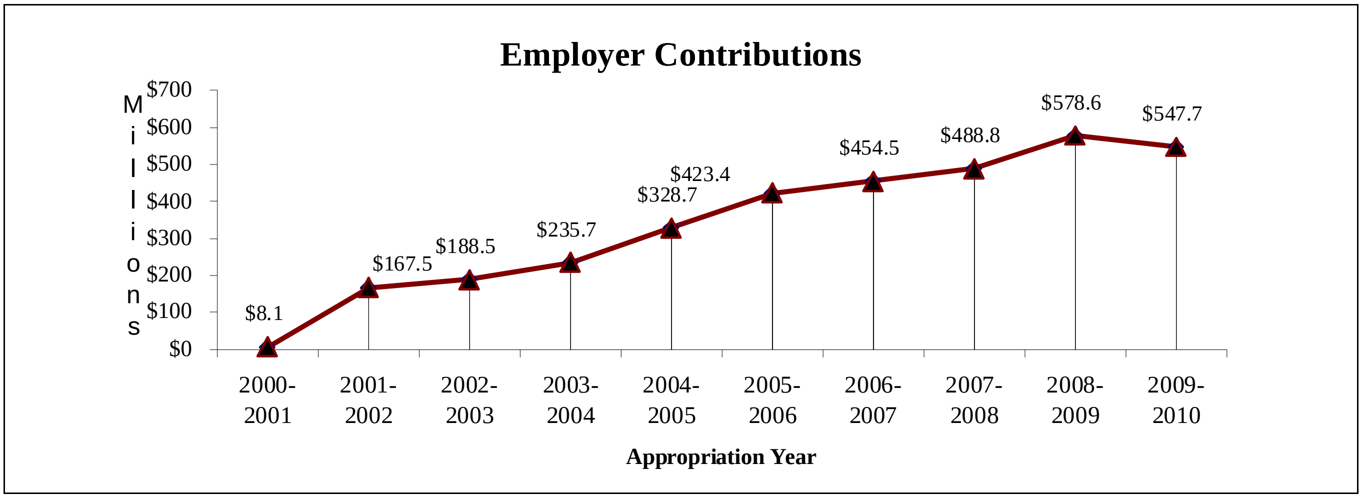
	Investment Yield Rate					
Fiscal Year	Assumed for Actuarial Valuation	Actuarial Investment Return	Appropriation Year	Total Calculated Contribution (1)	Investment Earnings Adjustment	Employer Appropriations
2000-2001	8.0%	8.91%	2002-2003	$188.5	-	$188.5
2001-2002	8.0%	2.62%	2003-2004	235.7	-	235.7
2002-2003	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
2009-2010	8.0%	(0.42)%	2011-2012	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 15.00% 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, 2010 was 61.4%.**

This page intentionally left blank.

Employees' Retirement System

of the State of Hawaii

STATISTICAL SECTION

Summary

Plan Membership

Membership in the ERS increased by 299 to 111,226 for FY 2010, or slightly less than 0.3 percent for the year. Active members decreased by 2,022, retired members and beneficiaries increased by 1,442, and terminated-vested members increased by 879. Membership data for the last ten years ended June 30, 2010 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, 2010. 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, 2010.

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,:	2001	2002	2003	2004	2005
Additions					
Employer Contributions	$ 8,131,900	$ 167,458,900	$ 190,586,276	$ 235,685,796	$ 328,716,718
Member contributions	54,489,895	55,451,216	57,214,521	55,116,452	57,054,621
Investment income (net of expense)	(679,605,059)	(503,995,093)	146,140,751	1,236,414,927	931,710,183
Total additions to plan net assets	(616,983,264)	(281,084,977)	393,941,548	1,527,217,175	1,317,481,522
Deductions					
Benefits	544,906,809	565,559,305	602,805,080	636,214,617	676,316,347
Refunds	3,892,377	3,244,334	2,605,602	2,328,796	3,442,466
Administrative expenses	4,893,712	5,754,832	6,780,824	10,468,508	7,259,906
Other	-	-	2,800	-	-
Total deductions from plan net assets	553,692,898	574,558,471	612,194,306	649,011,921	687,018,719
Change in plan net assets	$ (1,170,676,162)	$ (855,643,448)	$ (218,252,758)	$ 878,205,254	$ 630,462,803
Plan net assets, beginning of year	9,931,772,251	8,761,096,089	7,905,452,641	7,687,199,883	8,565,405,137
Plan net assets, end of year	$ 8,761,096,089	$ 7,905,452,641	$ 7,687,199,883	$ 8,565,405,137	$ 9,195,867,940

Fiscal Year Ended June 30,:	2006	2007	2008	2009	2010
Additions					
Employer Contributions	$ 423,445,597	$ 454,494,286	$ 488,770,028	$ 578,672,058	$ 547,669,675
Member contributions	56,257,953	144,658,185	163,375,639	177,781,610	360,047,068
Investment income (net of expense)	988,347,837	1,704,957,268	(461,063,080)	(1,937,317,469)	1,026,461,210
Total additions to plan net assets	1,468,051,387	2,304,109,739	191,082,587	(1,180,863,801)	1,934,177,953
Deductions					
Benefits	720,542,990	761,004,748	792,312,830	833,691,245	905,315,348
Refunds	2,487,279	3,497,590	3,668,857	3,937,464	7,573,619
Administrative expenses	8,477,837	9,601,756	10,728,801	13,011,283	12,406,339
Other	-	-	-	-	
Total deductions from plan net assets	731,508,106	774,104,094	806,710,488	850,639,992	925,295,306
Change in plan net assets	$ 736,543,281	$ 1,530,005,645	$ (615,627,901)	$ (2,031,503,793)	$ 1,008,882,647
Plan net assets, beginning of year	9,195,867,940	9,932,411,221	11,462,416,866	10,846,788,965	8,815,285,172
Plan net assets, end of year	$ 9,932,411,221	$ 11,462,416,866	$10,846,788,965	$ 8,815,285,172	$ 9,824,167,819

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

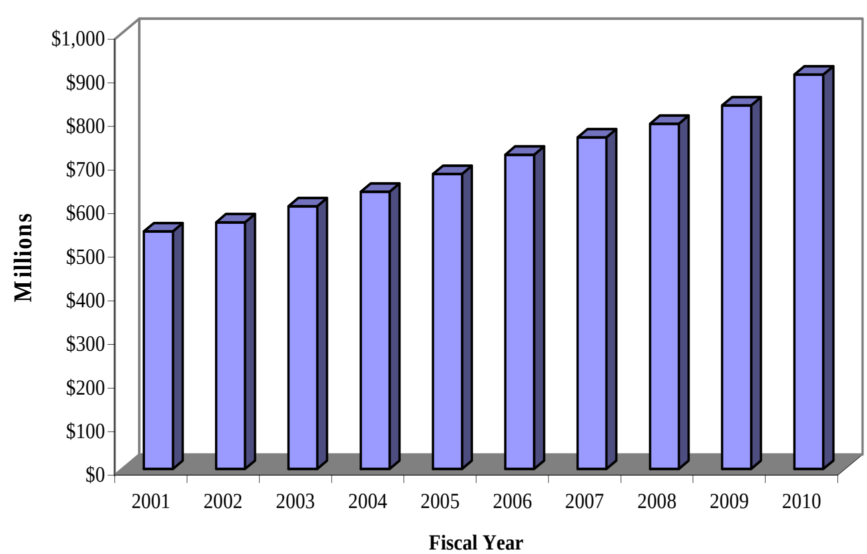
Last Ten Fiscal Years

Fiscal Year Ended June 30,:	2001	2002	2003	2004	2005
Recurring benefit payments					
Service	$ 491,957,932	$ 518,579,831	$ 557,439,020	$ 594,915,118	$ 632,088,342
Disability	8,950,018	9,336,267	10,047,637	10,502,367	11,780,739
Death	2,369,546	2,465,179	1,749,855	3,147,690	2,793,149
subtotal	503,277,496	530,381,277	569,236,512	608,565,175	646,662,230
Refund Option payments (one-time)	41,629,313	35,178,028	33,568,568	27,649,442	29,654,117
Total benefit payments	$ 544,906,809	$ 565,559,305	$ 602,805,080	$ 636,214,617	$ 676,316,347

Fiscal Year Ended June 30,:	2006	2007	2008	2009 **	2010
Recurring benefit payments					
Service	$ 673,165,361	$ 712,580,450	$ 748,158,330	$ 754,432,615	$ 807,662,216
Disability	12,666,891	13,432,834	13,707,170	15,619,011	16,470,042
Death	3,875,024	2,794,068	2,293,557	34,201,206	36,993,685
subtotal	689,707,276	728,807,352	764,159,057	804,252,832	861,125,943
Refund Option payments (one-time)	30,835,714	32,197,396	28,153,773	29,438,413	44,189,405
Total benefit payments	$ 720,542,990	$ 761,004,748	$ 792,312,830	$ 833,691,245	$ 905,315,348

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

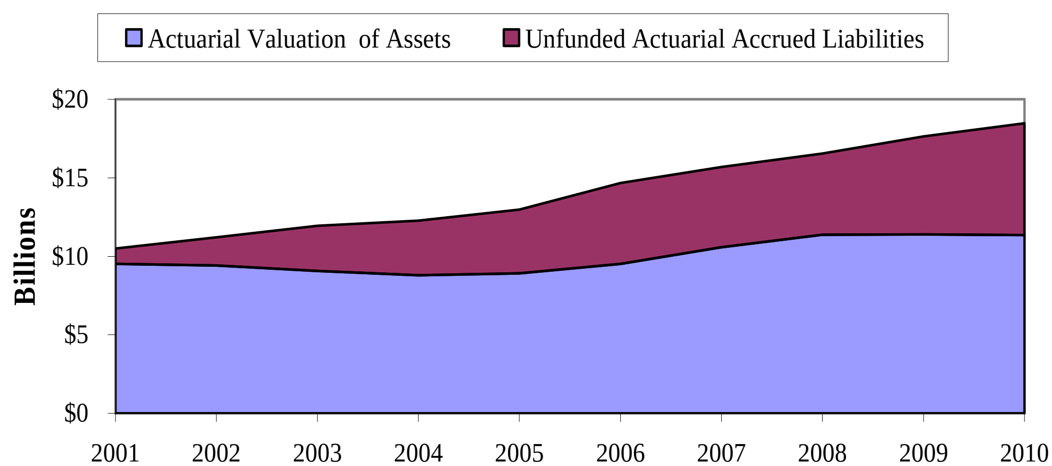
Benefit Payments



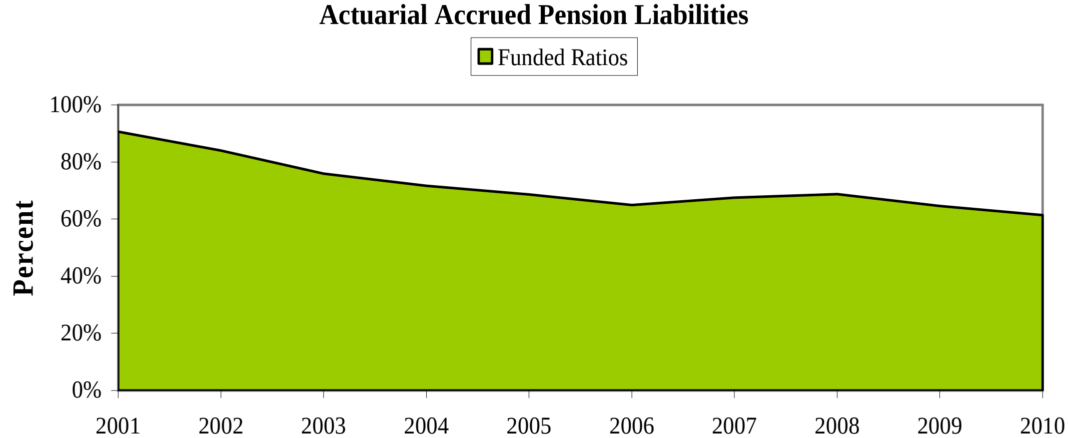
Actuarial Valuation of Assets vs. Actuarial Pension Liabilities

	Dollars in Billions			
Fiscal Year	Actuarial Valuation of Assets	Unfunded Actuarial Liabilities	Actuarial Accrued Liabilities	Funded Ratios
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%
2010	11,345	7,138	18,483	61.4%

Actuarial Accrued Liabilities



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

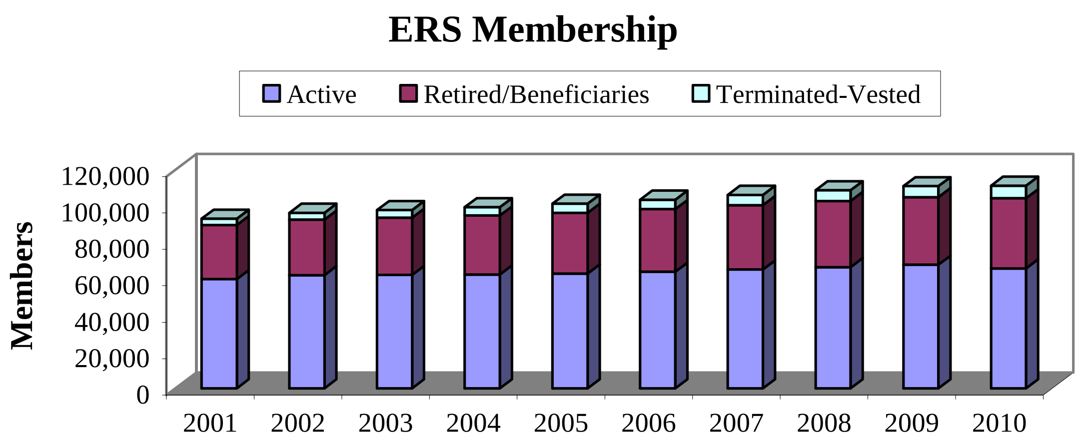


Participating Employers and Membership in ERS

Last Ten Fiscal Years

ERS Membership

As of March 31,:	Active	Retired/Beneficiaries	Terminated-Vested	Totals
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
2010	65,890	38,441	6,895	111,226



Participating Employers and Active Members

As of March 31,:	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
State of Hawaii	46,185	48,242	48,445	48,704	49,203	49,973	50,756	51,719	52,704	50,789
City & County of Honlulu	8,236	8,323	8,223	8,158	8,101	8,167	8,363	8,512	8,640	8,519
- Board of Water Supply	616	589	568	554	568	560	556	526	554	526
Hawaii County	2,043	2,056	2,028	2,081	2,097	2,223	2,315	2,459	2,527	2,501
Kauai County	1,000	1,042	1,034	1,051	1,067	1,088	1,109	1,125	1,160	1,129
Maui County	1,912	1,956	1,994	2,025	2,037	2,055	2,152	2,248	2,327	2,426
Total	59,992	62,208	62,292	62,573	63,073	64,066	65,251	66,589	67,912	65,890

Benefit Payments by Retirement Type and Option

As of March 31, 2010

Retired Contributory Members

Monthly Benefit	Number of Recipients	Type of Retirement *					Retirement Option						
		1	2	3	4	5	Max	Opt. 1	Opt. 2	Opt. 3	Opt. 4	Opt. 5	Other
$ 1 - 400	1,805	1,475	33	18	1	278	382	408	204	76	277	458	-
401 - 800	2,794	2,307	129	51	12	295	319	223	164	62	937	1,084	5
801 - 1,200	2,788	2,362	65	95	13	253	303	174	158	63	1,117	969	4
1,201 - 1,600	2,687	2,413	30	73	9	162	239	128	125	53	1,179	959	4
1,601 - 2,000	2,627	2,431	15	46	7	128	202	112	137	47	1,127	996	6
2,001 - 2,400	2,581	2,467	4	21	5	84	173	65	88	32	1,071	1,147	5
2,401 - 2,800	2,524	2,412	4	15	5	88	201	69	96	49	1,066	1,038	5
2,801 - 3,200	2,113	2,051	1	6	3	52	205	59	82	42	1,123	599	3
3,201 - 3,600	1,588	1,530	-	7	1	50	166	45	72	42	924	339	-
3,601 - 4,000	1,048	1,024	-	4	-	20	163	38	60	37	583	167	-
4,001	2,212	2,152	-	1	4	55	328	69	158	117	1,264	276	-
	24,767	22,624	281	337	60	1,465	2,681	1,390	1,344	620	10,668	8,032	32

Retired Hybrid Members

Monthly Benefit	Number of Recipients	Type of Retirement *					Retirement Option						
		1	2	3	4	5	Max	Opt. 1	Opt. 2	Opt. 3	Opt. 4	Opt. 5	Other
$ 1 - 400	129	115	-	-	11	3	58	13	30	21	3	4	-
401 - 800	320	259	30	1	22	8	126	33	82	40	21	17	1
801 - 1,200	265	220	28	4	5	8	105	11	67	37	26	19	-
1,201 - 1,600	224	189	17	4	4	10	76	8	69	28	26	17	-
1,601 - 2,000	177	167	7	1	1	1	70	10	42	24	23	8	-
2,001 - 2,400	202	196	1	-	3	2	66	14	45	38	30	9	-
2,401 - 2,800	164	159	3	-	2	-	60	9	43	36	12	4	-
2,801 - 3,200	121	121	-	-	-	-	47	14	16	19	12	13	-
3,201 - 3,600	67	66	-	-	1	-	29	5	15	6	8	4	-
3,601 - 4,000	58	58	-	-	-	-	18	6	8	16	7	3	-
4,001	105	104	1	-	-	-	39	5	19	23	17	2	-
	1,832	1,654	87	10	49	32	694	128	436	288	185	100	1

Retired Noncontributory Members

Monthly Benefit	Number of Recipients	Type of Retirement *					Retirement Option				
		1	2	3	4	5	Max	Opt. A	Opt. B	Opt. C	Other
$ 1 - 400	1,669	1,102	134	62	129	242	660	298	497	86	128
401 - 800	2,809	2,152	286	45	72	254	1,418	471	715	139	66
801 - 1,200	1,774	1,465	134	21	19	135	908	330	433	88	15
1,201 - 1,600	1,202	1,056	58	3	5	80	596	230	306	67	3
1,601 - 2,000	983	914	21	2	2	44	492	180	232	79	-
2,001 - 2,400	1,248	1,202	11	-	4	31	760	218	161	108	1
2,401 - 2,800	1,027	1,001	5	-	2	19	700	161	100	66	-
2,801 - 3,200	527	515	-	-	1	11	341	93	71	22	-
3,201 - 3,600	273	262	-	-	1	10	156	65	38	14	-
3,601 - 4,000	151	146	-	-	1	4	99	30	19	3	-
4,001	176	171	-	-	1	4	108	37	24	7	-
	11,839	9,986	649	133	237	834	6,238	2,113	2,596	679	213

* 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

As of March 31,		0-9	10-14	15-19	20-24	25-29	30-34	35+	All
		Years of Credited Service							
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
2010	Average Monthly Benefit	$336	$563	$948	$1,356	$2,289	$2,750	$3,097	$1,975
	Number of Active Retirants	1,143	4,062	3,719	4,373	7,775	8,926	4,268	34,266

Retirees and Beneficiaries

(Recurring Benefit Payments)

Tabulated by Fiscal Year that Payments Started as of March 31, 2010

Valuation Year	Number	Total Annual Benefits	Monthly Average Benefit	Valuation Year	Number	Total Annual Benefits	Monthly Average Benefit
1944	1	$ 376	$ 31	1983	550	$ 9,336,635	$ 1,415
1955	1	4,465	372	1984	598	10,204,858	1,422
1957	2	15,466	644	1985	679	12,295,050	1,509
1958	3	24,746	687	1986	761	14,729,307	1,613
1959	3	16,869	469	1987	1,164	23,763,767	1,701
1960	3	23,377	649	1988	673	11,439,590	1,416
1961	6	27,132	377	1989	841	15,715,447	1,557
1962	3	18,736	520	1990	906	18,839,813	1,733
1963	2	20,965	874	1991	1,025	21,952,020	1,785
1964	7	41,444	493	1992	967	22,301,745	1,922
1965	5	43,541	726	1993	976	24,422,154	2,085
1966	14	94,379	562	1994	1,042	25,423,276	2,033
1967	9	85,965	796	1995	1,950	57,133,646	2,442
1968	11	102,910	780	1996	1,891	52,826,643	2,328
1969	21	177,570	705	1997	779	16,087,980	1,721
1970	29	293,629	844	1998	785	16,115,805	1,711
1971	23	176,638	640	1999	1,116	25,092,815	1,874
1972	63	729,902	965	2000	1,372	32,554,053	1,977
1973	83	976,832	981	2001	1,575	36,845,409	1,949
1974	66	756,242	955	2002	1,317	31,321,059	1,982
1975	107	1,357,744	1,057	2003	1,711	44,459,644	2,165
1976	140	1,967,928	1,171	2004	1,681	40,440,853	2,005
1977	207	3,024,508	1,218	2005	1,773	43,057,985	2,024
1978	229	3,408,087	1,240	2006	1,748	40,790,864	1,945
1979	270	3,975,704	1,227	2007	1,873	42,838,119	1,906
1980	329	5,070,919	1,284	2008	1,878	41,207,848	1,829
1981	440	6,464,777	1,224	2009	1,756	37,161,108	1,764
1982	482	7,541,395	1,304	2010	2,495	60,920,975	2,035
				Total	38,441	$ 865,720,714	$ 1,877

Total Benefits Payable

(Recurring Benefit Payments)

Tabulated by Attained Ages of Benefit Recipients as of March 31, 2010

Attained Ages	Service Retirement No.	Service Retirement Annual Benefits	Disability Retirement No.	Disability Retirement Annual Benefits	Survivors and Beneficiaries No.	Survivors and Beneficiaries Annual Benefits	Total No.	Total Annual Benefits
Under 20	-	-	-	-	65	$ 195,259	65	$ 195,259
20-24	-	-	-	-	13	149,733	13	$ 149,733
25-29	-	-	-	-	26	227,727	26	$ 227,727
30-34	-	-	-	-	32	302,363	32	$ 302,363
35-39	1	$ 14,010	9	$ 103,987	65	755,275	75	$ 873,272
40-44	3	27,507	22	194,900	78	813,803	103	$ 1,036,210
45-49	82	3,451,192	87	912,850	108	1,345,793	277	$ 5,709,835
50-54	416	15,680,004	180	1,890,999	162	1,843,709	758	$ 19,414,712
55-59	2,536	76,714,452	329	3,895,974	234	3,206,714	3,099	$ 83,817,140
60-64	6,770	189,203,215	333	3,716,073	332	5,152,427	7,435	$ 198,071,715
65-69	7,042	172,828,426	208	2,311,579	358	5,928,151	7,608	$ 181,068,156
70-74	5,679	134,756,295	107	1,101,734	305	4,581,189	6,091	$ 140,439,218
75-79	5,083	108,339,533	95	1,024,888	358	5,527,717	5,536	$ 114,892,138
80-84	3,737	68,446,457	64	718,336	302	4,461,264	4,103	$ 73,626,057
85-89	2,068	31,618,088	46	434,601	167	1,690,602	2,281	$ 33,743,291
90-94	687	9,202,913	14	134,661	59	683,286	760	$ 10,020,860
95-99	137	1,712,235	3	29,460	12	112,996	152	$ 1,854,691
100 & over	25	262,960	-	-	2	15,377	27	$ 278,337
Total	34,266	$ 812,257,287	1,497	$ 16,470,042	2,678	$ 36,993,385	38,441	$ 865,720,714