EMPLOYEES' RETIREMENT SYSTEM OF THE STATE OF HAWAII

COMPREHENSIVE ANNUAL FINANCIAL REPORT

FOR THE FISCAL YEAR ENDED JUNE 30, 2011

EMPLOYEES'
RETIREMENT SYSTEM
OF THE
STATE OF HAWAII

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Prepared by the Staff of the:
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KANOE MARGOL, Assistant Administrator
RODNEY L. JUNE, Chief Investment Officer

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Employees' Retirement System

of the State of Hawaii

INTRODUCTORY SECTION

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Letter of Transmittal

NEIL ABERCROMBIE
GOVERNOR

STATE OF HAWAII
EMPLOYEES' RETIREMENT SYSTEM

December 3, 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, 2011. 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, 2011, the ERS' total membership of 111,648 was comprised of 65,310 active members, 39,689 retirees and beneficiaries, and 6,649 inactive vested members. This represents a 0.4% 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 2011

Hybrid Plan Upgrade Program (HPUP) – This program completed with the final collection of the one-time payments in September 2010. Approximately 4,349 of 24,000 eligible Hybrid members paid for a one-time election to increase their ERS pension benefits by "upgrading" their Noncontributory Plan service (1.25%) to Hybrid Plan service (2%) at a cost to members. Approximately $57 million of the one-time HPUP payments that was collected during the fiscal year ended June 30, 2011 is reflected in the Member Contributions on the Statement of Changes in Plan Net Assets in the Financial Section of this CAFR. The project team worked though December 2010 to process all payments, research and resolve issues and send a confirmation to the member.

Pension Reform and Other Legislation - Due to the results of the 2010 actuarial valuation report significant legislation was passed to address the underfunded status of the ERS. Below are highlights of the bills that were passed by the Legislature during this fiscal year:

- Act 29 – Moratorium on Benefit Enhancements' – Extends the suspension of benefit enhancements first approved in 2007 until the ERS is fully funded.

- Act 96 – Federal Tax Qualification Requirements. Is a housekeeping measure required for the ERS to maintain its tax-qualified exemption status. Provides specific language for certain death benefits provided under the HEART (Heroes Earnings Assistance and Relief Tax) Act and minimum pension distribution as described in the Internal Revenue Code for vested (entitled to pension) members who are 70-1/2 years old and who are no longer employed by the State or County.

- Act 163 – Pension Changes for New Hires. This law was proposed to reduce the future liability of the ERS. It provides for retirement benefit changes for State and County employees who become members of the ERS after 06/30/2012. The new benefit structure changes include:
  - Reduction of the benefit multipliers from 2% to 1.75%, 2.5% to 2.25% and 3.5% to 3.0%
  - Reduction of the Post Retirement increase from 2.5% to 1.5%
  - Increases the Normal Retirement age, vesting and service requirements and changes the Average Final Compensation (AFC) period from the highest 3 years to the highest 5 years
  - Increases the employee and employer contribution rates for all employee groups
  - Decreases the interest rate on member contributions from 4.5% to 2.0%
    (Effective: 07/01/2011)

  This law also reduces the investment return rate assumption from 8% to 7.75% to better reflect the actual return rate assumption.

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, 20111 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 $2,040.0 billion in FY2011. This resulted in an investment gain of slightly less than 20.8% for the year, using rate of return methodologies that are generally accepted by the Global Investment Performance Standards (GIPS).

Letter of Transmittal (continued)

FUNDING AND ACTUARIAL OVERVIEW

Although the ERS experienced very strong returns for the second year, the funded status during the year actually decreased due to investment losses carried forward from 2008-2009 being realized in the fiscal year. The funded status was also adversely affected by the lowering of the actuarial investment return assumption from 8.00% to 7.75% due to the long-term capital markets outlook. These factors were partially offset with liability experience gain that was created by lower than expected salary increases.

These combination of these factors resulted in the ERS' funded ratio decreasing to 59.4 % as of June 30, 2011. These events resulted in an increase to the unfunded actuarial accrued liability (UAAL) to $8.2_ billion as of June 30, 2011, and a corresponding aggregate funding period of 25.0 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, 2011) – The 2012 State Legislature passed Act 153/2012 to help the ERS' funded status by addressing excess pension cost increases due to non-base pay being included in the member's pension benefit. Employers are required to make additional contributions to the ERS for members that have excessive non-base pay in their final years of service.

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

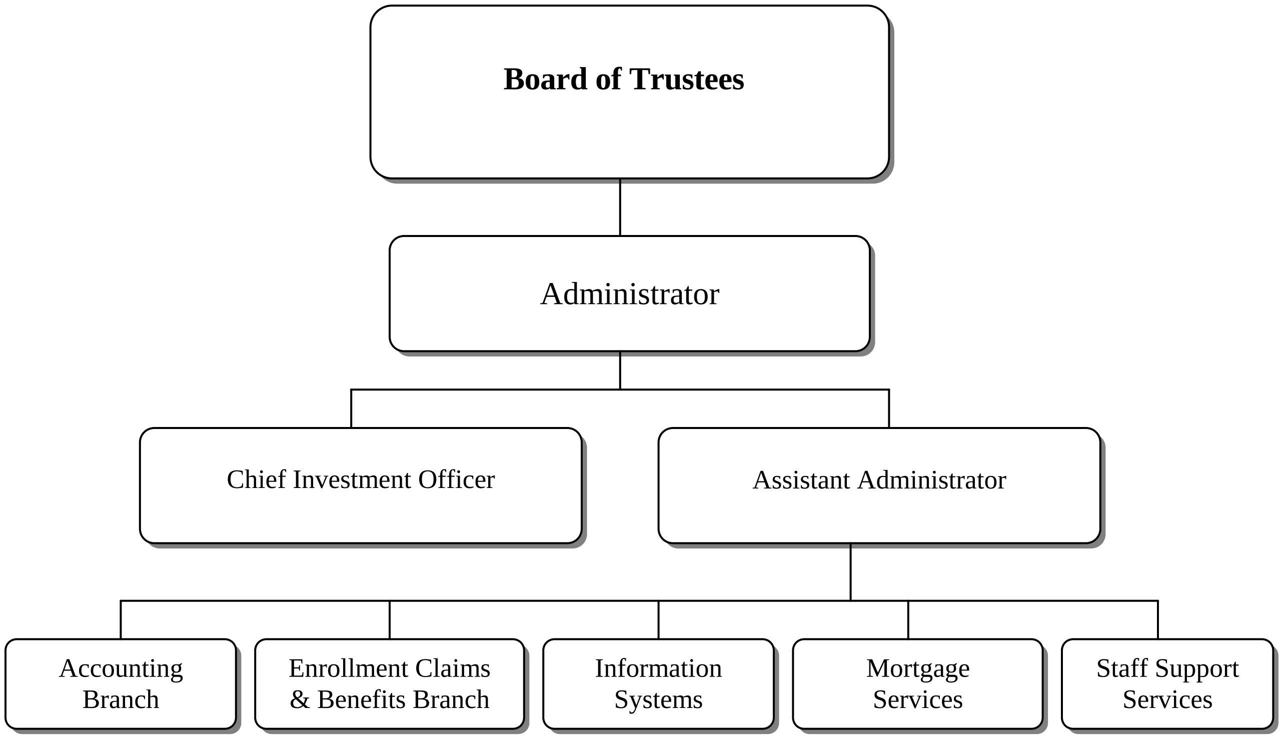
Board of Trustees

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	M	
arch 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:		
Mr. Kalbert Young..	December 2, 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, 2011, 6,752 active employees were enrolled in the Contributory Plan, or slightly more than 10.3% 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, 2011, the Hybrid Plan had 38,446 members or about 58.9% 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, 2011, there were 20,112 active employees in the Noncontributory Plan, which represents over 30.8% 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

For employees hired prior to July 1, 2012 [(a)]

	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

[(a)] Per Act 163/2012, SLH, the major changes to membership requirements, contribution amounts, and benefits structures for employees hired after June 30, 2012 are discussed on pages 17-21.

Summary of Retirement Benefit Plan Provisions (continued)

For employees hired prior to July 1, 2012 (continued) [a]

	Noncontributory Plan	**Contributory Plan**	**Hybrid Plan**
Annuity Savings Account			
Interest	Not applicable	4.5% per annum on employee contributions and accrued interest, ***or*** If hired after June 30, 2011, 2.0% per annum on employee contributions and accrued if interest	4.5% per annum on employee contributions and accrued interest, ***or*** If hired after June 30, 2011, 2.0% per annum on employee contributions and accrued if 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)

[a] Per Act 163/2012, SLH, the major changes to membership requirements, contribution amounts, and benefits structures for employees hired after June 30, 2012 are discussed on pages 17-21.

Summary of Retirement Benefit Plan Provisions (continued)

For employees hired prior to July 1, 2012 (continued) [(a)]

	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.

[(a)] Per Act 163/2012, SLH, the major changes to membership requirements, contribution amounts, and benefits structures for employees hired after June 30, 2012 are discussed on pages 17-21.

Summary of Retirement Benefit Plan Provisions (continued)

For employees hired prior to July 1, 2012 (continued) [(a)]

	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.

Post Retirement Benefit - For all types of retirements (service, disability or death)

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.).

[(a)] Per Act 163/2012, SLH, the major changes to membership requirements, contribution amounts, and benefits structures for employees hired after June 30, 2012 are discussed on pages 17-21.

Summary of Retirement Benefit Plan Provisions (continued)

For employees hired prior to July 1, 2012 (continued) [(a)]

The plan provisions summarized in the preceding pages apply to teachers and most State and County employees, hired before July 1, 2012. Special provisions applicable to other groups of employees, hired by July 1, 2012, are summarized in Item A to D 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. Hybrid Plan members in this job category are required to 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 in this job category are required to contribute 9.75% of their salary to the ERS.

[(a)] Per Act 163/2012, SLH, the major changes to membership requirements, contribution amounts, and benefits structures for employees hired after June 30, 2012 are discussed on pages 17-21.

Summary of Retirement Benefit Plan Provisions (continued)

For employees hired after June 30, 2012 [(b)]

	Noncontributory Plan	**Contributory Plan**	**Hybrid Plan**
Employee Contributions	No employee contributions	9.8% of salary	8.0% of salary
Normal Retirement			
Eligibility	Age 62 and 10 years credited service; ***or*** Age 55 and 30 years credited service	Age 60 and 10 years credited service	Age 65 and 10 years credited service; ***or*** Age 60 and 30 years credited service
Benefit	1-1/4% of average final compensation* times years of credited service	1.75% of average final compensation* times years of credited service	1.75% 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 (limited to base pay and shortage differentials) during any five years of credited service, excluding any salary paid in lieu of vacation.

	Noncontributory Plan	**Contributory Plan**	**Hybrid Plan**
Early Retirement			
Eligibility	Age 55 and 20 years credited service	Age 55 with 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 60 plus 4% per year under age 55	Maximum allowance reduced 5% per year under age 65
Deferred Vesting			
Eligibility	10 years credited service	10 years credited service and contributions left in the ERS	10 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 60, or at age 55 with 25 years of service with age reduction	Accrued maximum allowance payable as early at age 65 or at age 60 with 30 years of service, or at age 55 with 20-29 years of credited service with age reduction

[(b)] Membership requirements, contribution amounts, and benefits structures for employees hired before July 1, 2012 are discussed on pages 12-16.

Summary of Retirement Benefit Plan Provisions (continued)

For employees hired after June 30, 2012 (continued) [(b)]

	Noncontributory Plan	Contributory Plan	Hybrid Plan
Annuity Savings Account			
Interest	Not applicable	2.0% per annum on employee contributions and accrued interest	2.0% 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 10 years credited service	Not applicable	Return of member's contributions and accrued interest	Return of member's contributions and accrued interest
- Terminates with 10 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 120%; 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)	1-3/4% of AFC times years of credited service, unreduced for age (Minimum is 25% of AFC)

[(b)] Membership requirements, contribution amounts, and benefits structures for employees hired before July 1, 2012 are discussed on pages 12-16.

Summary of Retirement Benefit Plan Provisions (continued)

For employees hired after June 30, 2012 (continued) [b]

	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	Lifetime pension of 50% of AFC plus refund of member’s contributions and accrued interest	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 10 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 120%) 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 10 years of service, return of member's contributions and accrued interest.

[b] Membership requirements, contribution amounts, and benefits structures for employees hired before July 1, 2012 are discussed on pages 12-16.

Summary of Retirement Benefit Plan Provisions (continued)

For employees hired after June 30, 2012 (continued) [(b)]

	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.

Post Retirement Benefit - For all types of retirements (service, disability or death)

Each retiree's original retirement allowance is increased by 1.5% on each July 1 beginning the calendar year after retirement. This cumulative benefit is not compounded and increases each year by another 1.5% of the original retirement allowance without a ceiling (i.e., 1.5% of the original retirement allowance the first year, 3% the second year, 4.5% the third year, etc.).

[(b)] Membership requirements, contribution amounts, and benefits structures for employees hired before July 1, 2012 are discussed on pages 12-16.

Summary of Retirement Benefit Plan Provisions (continued)

For employees hired after June 30, 2012 (continued) [(b)]

The plan provisions summarized in the preceding pages apply to teachers and most State and County employees, hired after June 30, 2012. Special provisions applicable to other groups of employees, hired after June 30, 2012, are summarized in Item A to D below:

A) Police officers, firefighters, investigators of the Department of the Attorney General, narcotic enforcement investigators, and public safety investigations staff investigators contribute 14.2 % of their monthly salary to the ERS instead of 9.8%. These members may retire at age 60 with 10 years of credited service or at age 55 with 25 years of credited service and receive a retirement benefit of 2-1/4% 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 may retire at age 60 with at least 10 years of credited service, or at age 55 with at least 25 years of credited service and receive a pension of 3% of AFC for each year of such service plus an annuity from their contributions allocable to the period of such service. Similarly, elected officials and legislative officers may retire at any age with 10 years of elected, legislative or mixed service and receive a pension of 3% of AFC for each year of service plus an annuity from their contributions allocable to the period of such service. These benefits cannot exceed 75% of the AFC.

C) Contributory Plan sewer workers in specified classifications, water safety officers and emergency medical technicians may retire at age 60 with 10 years of credited service or at age 55 with 25 years of such service with the last 5 or more years in these occupations.

D) Hybrid Plan sewer workers in specified classifications, water safety officers and emergency medical technicians may retire at age 65 with 10 years of credited service or at age 55 with 25 years of such service with the last 5 or more years in these occupations. They are required to contribute 11.75% instead of 8% of their salary to the ERS.

[(b)] **M**embership requirements, contribution amounts, and benefits structures for employees hired before July 1, 2012 are discussed on pages 12-16.

Summary of Retirement Benefit Plan Provisions (continued)

Taxation of Benefits

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

Additional Benefits

Retirees, their spouses and dependent children under age 19 are eligible to receive life insurance, medical, dental, vision, and prescription drug coverage from the Employer-Union Health Benefits Trust Fund (EUTF) if they were hired before July 1, 1996, and retire with at least 10 years of continuous credited service. If they were first hired after June 30, 1996, health benefits are available on a cost-sharing basis as long as the member retires with at least 10 years of continuous service. A dependent of a retiree who is a full-time student at an accredited college, university or technical school and who is 19 through 26 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

Summary of Retirement Benefit Plan Provisions (continued)

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 http://ers.ehawaii.gov/.

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 2011

The following Acts were passed by the 2011 Legislature and approved by the Governor:

Act 29 – Moratorium on Benefit Enhancements

Extends the suspension on benefit enhancements that was first approved by the 2007 Legislature as benefit enhancements related to any pension increase would impact the System's unfunded liability. Provides for:

- Prevention of additional future pension benefit increases until the ERS is fully funded.
- No impact to existing members and current retirees on taking away benefits.
- Effective: 04/28/2011

Act 96 – Federal Tax Qualification Requirements

A housekeeping Administration bill that is required for the ERS to maintain its tax-qualified exemption status. Includes:

- Specific language required by the federal law to comply with certain death benefits provided under the HEART (Heroes Earnings Assistance and Relief Tax) Act.
- Requires minimum pension distribution as described in the Internal Revenue Code Section 401(a)(9) for vested (entitled to pension) members who are 70-1/2 years old and who are no longer employed by the State or County.
- Effective: 07/01/2011

Act 163 – Pension Changes for New Hires

This law was proposed to reduce the future liability of the ERS. It provides for retirement benefit changes for State and County employees who become members of the ERS after June 30, 2012. The new benefit structure changes for new members after June 30, 2012 (compared to the benefit structure for members prior to July 1, 2012) include:

- Reduction of the benefit multipliers from 2% to 1.75%, 2.5% to 2.25% and 3.5% to 3.0%
- Reduction of the Post Retirement increase from 2.5% to 1.5%
- Increases the Normal Retirement age, vesting and service requirements and changes the Average Final Compensation (AFC) period from the highest 3 years to the highest 5 years
- Increases the employee and employer contribution rates for all employee groups
- Decreases the interest rate on member contributions from 4.5% to 2.0%
- Effective: 07/01/2011

This law also reduces the investment return rate assumption from 8% to 7.75% to better reflect the actual return rate assumption.

Employees' Retirement System

of the State of Hawaii

Submitted by

THE AUDITOR
STATE OF HAWAII

FINANCIAL SECTION

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Independent Auditors' Report

KPMG LLP
PO Box 4150
Honolulu, HI 96812-4150

The Auditor
State of Hawaii:

We have audited the accompanying statement of plan net assets – all trust funds of the Employees' Retirement System of the State of Hawaii (the ERS) as of June 30, 2011, 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, 2011, 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 December 3, 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.

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 31 through 37 and Required Supplementary Information on pages 66 through 67 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, 2011 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

December 3, 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, 2011. 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 statement of plan net assets provides a snapshot of the financial position of the ERS at June 30, 2011. This financial statements reflects the resources available to pay benefits to members, including retirees and beneficiaries, at the end of the fiscal years reported.
- The statement of changes in plan net assets summarize the ERS' financial activities that occurred during the fiscal year from July 1, 2010 to June 30, 2011 (FY 2011). This financial statement measures the changes in the resources available to pay pension benefits to members, retirees, and beneficiaries for fiscal year 2011.
- 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, 2011, plan net assets were $11.7 billion, or an increase of about $1.8 billion during the fiscal year then ended. This represents an increase of approximately 18.6% from the $9.8 billion in plan net assets available as of June 30, 2010. The increase of plan net assets in FY 2011 reflects the continued recovery of the financial markets that started in FY 2010.
- During FY 2011, the ERS earned a positive return of 21.2% on pension plan assets. It was the second straight year of positive double-digit performance following declines in 2008 and 2009. The domestic and international equity markets had excellent returns during the year, followed by the returns in private equity, real estate and fixed income asset classes.
- Significant legislation was passed in 2011 to help improve the funding status of the pension trust. This legislation provides a pension benefit structure for all new employees hired after June 30, 2012 that will reduce the long-term cost to the ERS as well as provide an acceptable retirement package. This across the board revision affects all employee groups with changes to the employee contribution rate, retirement age, vesting period, average final compensation (AFC), pension multiplier, and post retirement increases. The legislation also included significant changes to the future employer contribution rates. The current 19.70% for Police and Fire employees will gradually increase to 25.00%, and the 15.00% for All Other Employees will gradually increase to 17.00%. 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 59.4% as of June 30, 2011 from 61.4% as of June 30, 2010 while the corresponding unfunded actuarial accrued liability (UAAL) of the ERS increased to $8.2 billion from $7.1 billion, respectively. Like most pension funds, the ERS was significantly impacted by the severe downturn in investment markets during the fiscal year ended June 30, 2009. The ERS's funded status has decreased due to the continued recognition of investment losses and from the adoption of new actuarial assumptions. Lowering the investment return assumption from 8.00% to 7.75% significantly increased the UAAL, and was partially offset by lower than expected salary increases.
- Total member and employer contributions decreased by $136.1 million, or 15.0% during FY 2011. The contributions decrease during FY 2011 is primarily attributed to the decrease in one-time Hybrid Plan Upgrade Payments being 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 2011 due to a decrease in covered payroll resulting from fewer members and pay reductions for certain employee groups.
- Total retirement benefit payments increased by $54.9 million, or 6.1%, to $960.2 million in FY 2011 compared to $905.3 million in FY 2010. Pension benefits continues to increase due to 3.2% more retirees and beneficiaries (39,689 in 2011 compared to 38,441 in 2010), an increase in the average pension benefit for new retirees, and the annual 2.5% post retirement increase.

- Administrative expenses increased by $0.9 million in FY 2011 to $13.3 million compared to $12.4 million in FY 2010. Administrative expenses for all years were within the ERS' budgeted amounts. The increase for FY 2011 was primarily due to an increase in computer system maintenance costs.

Analysis of Plan Net Assets for Pension Trust

Summary of Plan Net Assets
June 30, 2011
(Dollars in millions)

	2011	2010	FY 2011 % change
Assets:			
Cash and cash equivalents and short-term investments	$ 480.8	$ 525.4	(8.5) %
Receivables	354.8	521.9	(32.0)
Investments	11,553.0	9,521.0	21.3
Invested securities lending collateral	963.2	722.4	33.3
Capital assets	8.4	10.0	(16.0)
Total assets	13,360.2	11,300.7	18.2
Liabilities			
Securities lending liability	963.2	722.4	33.3
Investment accounts and other payables	742.6	754.1	(1.5)
Total liabilities	1,705.8	1,476.5	15.5
Plan net assets	$ 11,654.4	$ 9,824.2	18.6

Summary of Changes in Plan Net Assets
June 30, 2011
(Dollars in millions)

	2011	2010	FY 2011 % change
Additions:			
Contributions	$ 771.6	$ 907.7	(15.0) %
Net investments income	2,040.0	1,026.5	98.7
Total additions	2,811.6	1,934.2	45.4
Deductions:			
Pension benefit payments	960.2	905.3	6.1
Refund of contributions	7.9	7.6	3.9
Administrative expenses	13.3	12.4	7.3
Total deductions	981.4	925.3	6.1
Increase in plan net assets	$ 1,830.2	$ 1,008.9	81.4

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.

The ERS investment portfolio had an excellent year during FY 2011 with a 21.2% return on assets from the continued recovery in the financial markets that started with a 12.0% return in FY 2010. The domestic and international equity markets exceeded the total portfolio return followed by the private equity, real estate and fixed income asset.

The domestic equity and international equity asset classes earned an outstanding 31.8% and 30.2% for the FY 2011, respectively. These were followed by real estate, alternative investments, and fixed income with returns of 21.4%, 16.5%, and 5.3%, respectively. Total net investment gains during FY 2011 increased to $2,040.0 million from FY 2010 gains of $1,026.5 million.

The asset distribution of the ERS' investment securities for the Pension Trust, excluding pending trade settlements and securities lending collateral, at June 30, 2011 and 2010 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 ERS 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 2011, due to positive investment returns, portfolio rebalancing, and changes in investment managers. The decrease for fixed income securities in FY 2011 resulted from cash requirements to pay pension benefits and a reduction in the asset class target, that were offset by the positive investment earnings for the class. The increase in real estate assets for FY 2011 reflects the strong investment returns and increased allocation to the asset class.

Asset Class
June 30, 2011
(Dollars in millions)

	2011	%	2010	%
Short term investments and cash	$ 480.8	4.0 %	$ 525.4	5.2 %
Equity securities	7,356.8	61.1	5,350.6	53.3
Fixed income	2,503.0	20.8	2,699.6	26.9
Real estate	1,164.8	9.7	974.3	9.7
Alternative investments	528.4	4.4	496.4	4.9
Total assets	12,033.8	100.0 %	10,046.3	100.0 %
Less loans on real estate and alternative investments	302.1		263.8	
	$ 11,731.7		$ 9,782.5	

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 2011 relative to FY 2010 reflects an increase in overall asset values during FY 2011.

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 $771.6 million and $907.7 million during FY 2011 and FY 2010, respectively. During FY 2011, total contributions decreased by $136.1 million, or 15.0%, with member contributions decreased by $127.1 million, or 35.3%, and employer contributions decreased by $9.0 million, or 1.6%. Total one-time payments of permissive service credit purchases, including hybrid upgrade payments, amounted to approximately $60.2 million, while normal member contributions from payroll increased approximately $1.8 million, or 1.1%, to $172.7 million. The increase in member contributions from payroll (excludes one-time payments) is due to the continue increase in the number of Hybrid Plan members that are required to make contribution as part of their pension benefits. The 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 2011 and 2010 CAFR for more information.

Pension Plan Benefits and Expenses

Pension benefit payments are the primary expense of the ERS with payments totaling $960.2 million during FY 2011 and $905.3 during FY 2010. 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 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.

The $0.9 million increase in administrative expenses in FY 2011 resulted from higher computer maintenance costs, and payroll related costs (fringe benefits and accrued vacation) and, that was partially offset by a decrease in depreciation and professional services.

Pension Plan Changes

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/).

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. There moratorium on benefit enhancements was also extended until the pension trust is fully funded.

During FY 2011, the ERS completed the one-year 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.

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 7.75% 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 59.4% as of June 30, 2011 from 61.4% as of June 30, 2010. The ERS' UAAL was $8.2 and $7.1 billion as of June 30, 2011 and 2010, respectively. The decline in FY 2011 from FY 2010 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. The UAAL also increased with the adoption of new actuarial assumptions. While there was a significant increase in the UAAL with the lowering of the investment assumption from 8.00% to 7.75%, this was partially offset by a liability experience gain from lower than expected salary increases.

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, 2011 and 2010 was 25.0 years and 41.3 years, respectively.

Requests for Information

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

Financial Statements

Statement of Plan Net Assets – All Trust Funds

June 30, 2011

Assets		
Cash and cash equivalents and short-term investments (notes C(2) and F)		
Cash and cash equivalents	$	39,640,021
Short-term investments		441,185,956
		480,825,977
Receivables		
Accounts receivable and others		11,930,543
Investment sales proceeds		278,514,348
Accrued investment income		38,303,493
Employer contributions		21,796,097
Member contributions		4,248,209
		354,792,690
Investments, at fair value (notes C(2) and F)		
Equity securities		7,356,801,263
Fixed income securities		2,503,015,047
Real estate investments		1,164,811,014
Alternative investments		528,365,222
		11,552,992,546
Other		
Invested securities lending collateral (note F)		963,200,220
Equipment, at cost, net of depreciation		8,374,154
		971,574,374
Total assets		13,360,185,587
Liabilities		
Disbursements in excess of cash balances (note F)		7,716,253
Accounts and other payables		47,227,358
Payable for securities purchased		385,591,146
Securities lending collateral (note F)		963,200,220
Notes payable (note C(2))		302,095,046
Total liabilities		1,705,830,023
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 66)	$	11,654,355,564

See accompanying notes to financial statements

Financial Statements (continued)

Statement of Changes in Plan Net Assets – All Trust Funds

Year ended June 30, 2011

Additions	
Contributions (notes A(4) and E)	
Employer contributions	$ 538,692,849
Member contributions	232,880,063
Total contributions	771,572,912
Investment income (note F)	
From investing activities	
Net appreciation in fair value of investments	1,771,501,853
Interest on fixed income securities	113,892,560
Dividends on equity securities	102,877,466
Income on real estate investments	110,439,029
Interest on short-term investments	1,408,459
Alternative investment income	43,024,750
Miscellaneous	1,363,632
	2,144,507,749
Less investment expenses	107,609,283
Net investment income from investing activities	2,036,898,466
From securities lending activities	
Securities lending income	3,225,088
Securities lending expenses	
Borrower rebates	(496,217)
Management fees	558,216
Total securities lending activities expense	61,999
Net investment income from securities lending activities	3,163,089
Total net investment income	2,040,061,555
Total additions	2,811,634,467
Deductions	
Benefit payments (note A(3))	960,219,432
Refunds of member contributions	7,901,509
Administrative expenses	13,325,781
Total deductions	981,446,722
Net increase in net assets	1,830,187,745
Net assets held in trust for pension benefits (note D)	
Beginning of year	9,824,167,819
End of year	$ 11,654,355,564

See accompanying notes to financial statements.

June 30, 2011

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, 2011 are as follows:

Employers:	
State	1
County	4
Total employers	5
Pensioners and beneficiaries currently receiving benefits:	
Pensioners currently receiving benefits:	
Police and firefighters	3,153
All other employees	33,718
Total pensioners	36,871
Beneficiaries currently receiving benefits:	
Police and firefighters	203
All other employees	2,615
Total beneficiaries	2,818
Total pensioners and beneficiaries	39,689
Terminated vested members entitled to benefits but not yet receiving benefits:	
Police and firefighters	226
All other employees	6,423
Total terminated vested members	6,649
Current employees:	
Vested:	
Police and firefighters	4,040
All other employees	39,094
Nonvested:	
Police and firefighters	925
All other employees	21,251
Total current employees	65,310
Total membership	111,648

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 2.00%) 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, firefighters, 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%.

No changes to the plan provisions of the noncontributory plan were made for new general employees hired after June 30, 2012.

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, 2011
Actuarial value of assets (a)	$11,942,753,360
Actuarial Accrued Liability (AAL)	
Entry Age (b)	20,096,930,368
Unfunded AAL (UAAL) (b-a)	$ 8,154,177,008
Percent Funded (a/b)	59.4%
Annual covered payroll (c)	$3,915,957,304
UAAL Percentage of Covered Payroll ((b-a)/c)	208%

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, 2011 actuarial valuation is as follows:

Valuation date	June 30, 2011
Actuarial cost method	Entry Age Normal
Amortization method	Level percent, open
Remaining amortization period as of June 30, 2011*	30 years
Asset valuation method	4-year smoothed market
Actuarial assumptions	
Investment rate of return (set by statute) **	7.75%
Projected salary increases **	
Police and Fire Employees	5.00% to 19.00%
General Employees	4.00% to 8.00%
Teachers	5.00% to 8.50%
** Includes inflation at	3.00%
Cost of living adjustments (COLAs) ***	2.5%

* Remaining amortization period for Annual Required Contribution is 30 years.
*** 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, 2011, 2010, 2009, were \$582,535, \$536,237, and \$526,538, respectively, which represented 14.9%, 13.8%, and 13.1% of covered payroll. Actual contributions (in thousands) by all employers for the years ended June 30, 2011, 2010, and 2009, were \$538,693, \$547,670, and \$578,672, respectively, which represented 92.5%, 102.1%, and 109.9%, 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 87A, provide certain health care and life insurance benefits for State and county qualified employees and retirees. The Hawaii Employer-Union Health Benefits Trust Fund (EUTF) was established on July 1, 2003 to design, provide, and administer health benefits plans and a group life insurance benefits program for State and county employees and retirees.

Under Section 87A-33 of the HRS, the participating employers pay the EUTF a base monthly contribution for the health benefits plans of certain retired employees, including those who were hired before July 1, 1996 and retired after June 30, 1984, with ten or more years of credited service.

Under Section 87A-34 of the HRS, the participating employers pay the EUTF one-half of the base monthly contribution for the health benefits plans of retired employees who were hired before June 30, 1996, and retired after June 30, 1984, with fewer than ten years of credited service.

Under Sections 87A-35 and 87A-33(a)(6) of the HRS, the participating employers pay the EUTF for the health benefits plans of retired employees who were hired after June 30, 1996 but before July 1, 2001: (a) one-half of the base monthly contribution if the employee retired with between ten and fifteen years of credited service; (b) seventy-five percent of the base monthly contribution if the employee retired with between fifteen and twenty-five years of credited service; and (c) one hundred percent of the base monthly contribution if the employee retired with twenty-five or more years of credited service.

Under Section 87A-37 of the HRS, the participating employers pay the EUTF a base monthly contribution (currently \$4.16) for each retired employee enrolled in the EUTF group life insurance plan.

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. At June 30, 2011, the ERS held no amounts in the Contribution Fund as all amounts deposited into the Contribution Fund were paid directly to the IRS.

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, and 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: 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 investment companies 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 appraisers, 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 are 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.

Contributions and Withdrawals: Contributions 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 for employees hired before July 1, 2011 and 2% regular interest for employees hired after June 30, 2011.

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 Issued Accounting Policies

In June 2012, the Governmental Accounting Standards Board (GASB) issued Statement No. 67, Financial Reporting for Pension Plans – an amendment of GASB Statement No.25. Statement No. 67 establishes new standards for financial reporting and note disclosures by defined benefit pension plans administered through qualified trusts, and note disclosure requirements for defined contribution pension plans administered through qualified trusts. One of the major changes in the new standard is the rate used to discount projected benefit payments. The new standard states the long-term expected rate of return on the investments of the pension plan should be applied only to available pension plan assets that are expected to be invested using a strategy to achieve that return. If there comes a point in the projections when plan net position and contributions related to active and inactive employees is no longer projected to be greater than or equal to projected benefit payments related to those employees and administrative expenses, then from that point forward the pension plan will be required to discount the projected benefit payments using a municipal borrowing rate – a tax-exempt, high-quality 20-year general obligation bond index rate. Statement No. 67 will be effective for periods beginning after June 30, 2013. ERS has not yet determined the impact of this standard on its financial statements and disclosures.

Also, in June 2012, GASB issued Statement No. 68, Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27. Statement No. 68 establishes new standards for accounting for pensions by employers whose employees are provided with pensions through pension plans administered through trusts, or equivalent arrangements, that meet the characteristics defined in the Statements and addresses accounting and financial reporting issues of certain nonemployer entities that contribute to such plans. Statement No. 68 will be effective for periods beginning after June 30, 2014. ERS has not yet determined the impact of this standard on its financial statements and disclosures.

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.

Note D – Description of Funds (continued)

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.

Net assets held in trust for pension benefits as of June 30, 2011 are as follows:

		2011
Pension Accumulation Fund	$	9,986,419,006
Annuity Savings Fund		1,657,586,590
Expense Fund		10,349,968
Total net assets held in trust for pension benefits	$	11,654,355,564

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 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, 2011, the carrying amount of deposits totaled approximately $31,923,768 and the corresponding bank balance was $39,512,099, all of which was exposed to custodial credit risk. The following shows the aggregate book and bank balances of all cash accounts.

Carrying Amounts of Deposit - Book		
Cash	$	39,640,021
Disbursements in excess of cash balances		(7,716,253)
Total book balances	$	31,923,768
Depository Accounts		
Total bank balances	$	39,512,099

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, 2011. Please refer to Note C-2 above for a discussion of fair value on investments.

Note F – Deposits and Investment Risk Disclosures (continued)

2. Investments (continued)

Investments at fair value

Cash and Short Term Instruments	$	484,680,091
Debt Securities		
Asset Backed Securities		39,989,311
Collateralized Mortgage Obligations		103,469,456
Commercial Mortgage Backed Securities		97,435,965
Corporate		963,699,971
Government		516,634,998
Government Agencies		158,453,872
Guaranteed Corporate		17,098,099
Index Linked Government Bonds		11,697,619
Residential Mortgage Backed Securities		467,409,479
Municipal/Provincial Bonds		98,639,249
Pooled and Others		33,431,239
Derivatives		
Forwards - Cash		(3,854,114)
Forwards - Debt Securities		(504,988)
Options - Debt Securities		(3,034,225)
Rights/Warrants - Equites		104,651
Swaps - Debt Securities		(1,404,998)
Equities		7,356,696,612
Real Estate		1,164,811,014
Alternative Investments		528,365,222
Total investments	$	12,033,818,523
Short Term Instruments for securities lending collateral pool	$	963,200,220

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 Baa (based on Moody's rating scale) or equivalent 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 absolute 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, 2011 is below. Securities below investment grade of Baa and non-rated issues (by Moodys) amounted to $510,261,811 or 19.6% 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, 2011

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	$ -	$ 21,080,778	$ 59,270,173	$ 531,817,622	$ 348,189	$ 71,106,322	$ -	$ 683,623,084	26.3%
Aa	-	3,003,894	133,423,615	25,927,510	60,509,111	16,311,471	2,502,303	$ 241,677,904	9.3%
A	-	5,505,577	247,622,372	62,958,046	9,748,661	13,770,663	-	$ 339,605,319	13.0%
Baa	-	2,642,866	281,360,861	23,235,338	4,565,735	16,783,489	-	$ 328,588,289	12.6%
Ba	-	612,835	96,511,195	7,927,629	-	8,978,653	-	$ 114,030,312	4.4%
B	-	594,930	73,879,029	807,100	-	12,719,928	-	$ 88,000,987	3.4%
Caa	-	1,783,827	1,245,796	-	-	8,136,843	-	$ 11,166,466	0.4%
Ca	-	2,402,403	-	-	-	3,982,380	-	$ 6,384,783	0.2%
NR	86,157,933	2,362,201	87,485,029	16,376,531	23,467,553	43,901,079	30,928,936	$ 290,679,262	11.3%
	$ 86,157,933	$ 39,989,311	$ 980,798,070	$ 669,049,776	$ 98,639,249	$ 195,690,828	$ 33,431,239	$ 2,103,756,406	80.9%
						US Government backed		500,490,917	19.2%
						Total		$ 2,604,247,323	100.1%
						Derivatives		(4,944,211)	
						Cash and cash equivalents		(6,297,308)	
						Short-term investments		(89,990,757)	
						Total fixed income securities		$2,503,015,047	

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	$ 45,506,239
Not subject to Custodial Credit Risk	3,867,828,184
Not exposed - registered	7,169,698,642
Not exposed - securities on loan	950,785,458
Total Investments	**$ 12,033,818,523**

Note F – Deposits and Investment Risk Disclosures (continued)

5. **Concentrations of Credit Risk**

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

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

At June 30, 2011, 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, 2011, the table below shows fixed income investment securities by investment type, amount, and the effective weighted duration for the ERS' total portfolio. Interest rate risk associated with swaps and other derivative instruments are discussed in the derivatives disclosure below:

Effective duration of fixed income assets by security type

		Fair Value	Effective Weighted Duration (years)
Cash and Short Term Instruments	$	96,288,065	0.1
Debt Securities			
Asset Backed Securities		39,989,311	3.1
Collateralized Mortgage Obligations		103,469,456	0.8
Commercial Mortgage Backed Securities		97,435,965	4.6
Corporate		963,699,971	4.5
Government		516,634,998	5.7
Government Agencies		158,453,872	4.7
Guaranteed Corporate		17,098,099	0.4
Index Linked Government Bonds		11,697,619	7.6
Residential Mortgage Backed Securities		467,409,479	2.7
State or Local Governments		98,639,249	7.0
Pooled and Others		33,431,239	n/a
Total fixed income securities	$	2,604,247,323	

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, 2011. (Securities denominated in U.S. dollars are not presented.)

	Cash and Short Term Instruments	Debt Securities	Derivatives	Equities	Alternative	Real Estate	Grand Total
Argentine peso	$ 6,898	$ -	$ -	$ -	$ -	$ -	$ 6,898
Australian dollar	39,324	65,038,791	(979,634)	48,323,299	-	-	112,421,780
Brazilian real	-	916,377	603,182	9,153,921	-	-	10,673,480
British pound sterling	539,383	60,240,189	1,182,322	290,858,546	-	-	352,820,440
Bulgarian new lev	-	-	-	323,825	-	-	323,825
Canadian dollar	190,355	34,554,604	(188,868)	64,311,994	-	-	98,868,085
Czech koruna	-	-	-	312,045	-	-	312,045
Danish krone	-	21,644	745	-	-	-	22,389
Egyptian pound	55,169	-	-	933,615	-	-	988,784
Euro	1,481,735	189,078,333	(728,202)	481,041,586	-	-	670,873,452
Hong Kong dollar	869,166	-	34,599	94,671,304	-	-	95,575,069
Hungarian forint	627	-	-	-	-	-	627
Indonesian rupiah	11,762	2,770,196	-	5,285,278	-	-	8,067,236
Japanese yen	81,171,600	56,941,527	(2,993,108)	246,547,906	-	-	381,667,925
Malaysian ringgit	9,369	-	-	8,902,498	-	-	8,911,867
Mexican peso	381,586	4,936,845	313,861	3,165,926	-	-	8,798,218
Moroccan dirham	19,836	-	-	218,437	-	-	238,273
New Taiwan dollar	4,091	-	-	22,905,732	-	-	22,909,823
New Zealand dollar	19,011	59,809,761	(1,458,642)	-	-	-	58,370,130
Norwegian krone	4,861	20,943,262	-	19,448,426	-	-	40,396,549
Philippine peso	5,682	-	-	1,279,273	-	-	1,284,955
Polish zloty	211,578	50,214,446	104,982	9,739,682	-	-	60,270,688
Russian ruble (new)	-	-	3,530	-	-	-	3,530
Singapore dollar	-	-	-	15,461,706	-	-	15,461,706
South African rand	5,920	28,614,364	(454,244)	8,604,505	-	-	36,770,545
South Korean won	-	-	-	46,721,156	-	-	46,721,156
Swedish krona	-	5,554,370	(196,281)	7,082,492	-	-	12,440,581
Swiss franc	1,976	-	-	146,365,062	-	-	146,367,038
Thai baht	-	-	-	8,547,315			8,547,315
Turkish lira	-	-	-	9,269,488			9,269,488
Various Countries	-	-	-	301,688,917	-	-	301,688,917
Total	$ 85,029,929	$ 579,634,709	$ (4,755,758)	$ 1,851,163,934	$ -	$ -	$ 2,511,072,814

Note F – Deposits and Investment Risk Disclosures (continued)

8. Securities Lending

The ERS participated in a securities lending program administered by its bank custodian. 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 is marked to market daily. If the market value of the collateral fell below the minimum collateral requirements, additional collateral was provided. At June 30, 2011 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, 2011 was 112 days.

The following represents the balances relating to the securities lending transactions as of June 30, 2011.

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	$ 336,128,654	$ 4,794,604	$ 340,923,258	$ 343,234,130	$ 4,896,571	$ 348,130,701
Fixed income, global	22,143,856	-	22,143,856	23,069,784	-	23,069,784
Equities, US	468,386,372	362,141	468,748,513	477,387,994	368,523	477,756,517
Equities, global	114,620,468	4,349,363	118,969,831	119,508,312	4,513,847	124,022,159
Total	$ 941,279,350	$ 9,506,108	$ 950,785,458	$ 963,200,220	$ 9,778,941	$ 972,979,161

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 a counterparty to meet the terms of the contract, changes in the market value of the underlying collateral, changes in the interest rate environment or 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, 2011 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 as of June 30, 2011:

	Fair Value
Credit Contracts	
Swaps	$ (1,581,388)
Equity Contracts	
Rights/Warrants	104,651
Foreign Exchange Contracts	
Forwards	(3,854,114)
Interest Rate Contracts	
Forwards	(504,988)
Futures	-
Options	(2,035,267)
Swaps	132,954
Other Contracts	
Swaptions	(998,958)
Swaps	43,436
Total derivatives	$ (8,693,674)

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, 2011:

Asset categories		Notional Values	Market Value	(Change in Fair Value)
Forwards	Currency Purchases	$ -	$ (3,854,114)	$ (14,105,254)
	Interet Rate Contracts	-	(504,988)	(127,946)
	Total Forwards	-	(4,359,102)	(14,233,200)
Futures	Interest Rate Contracts	1,212,952,883	-	-
Options	Caps and Floors	-	(33,326)	60,267
	Options	-	(1,964,644)	(1,861,188)
	Options on Futures	-	(37,297)	(104,844)
	Swaption	-	(998,958)	1,656,314
		-	(3,034,225)	(249,451)
Rights/Warrants		-	104,651	103,982
Swaps	Credit Default Swaps	-	(1,581,388)	2,559,783
	Interest Rate Swaps	-	132,954	(578,919)
	Total Return Swaps	-	43,436	47,283
	Swaps Total	-	(1,404,998)	2,028,147
Grand Total		$ 1,212,952,883	$ (8,693,674)	$ (12,350,522)

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, 2011, the net notional value of futures contracts was $1,212,952,883.

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, 2011 the ERS had interest rate, credit default swaps, and total return swaps as allowed by Board policy. In the most common type of interest rate swap arrangement, one party agrees to pay fixed-interest payments on designated dates to a counterparty, who, in turn, agrees to make return interest payments that float with some reference rate. Credit default swaps are the most common global credit market derivative that allows flexibility as an active portfolio management tool based on its ability to customize the exposure to corporate credit such as credit spreads and default risks. Total return swaps combine both market risk and credit risk in a single product as the holder also receives capital gains or losses. Credit default spreads and total return swaps are also used to gain access to global markets that do not have the transparency or efficiency of the U.S. credit markets. Gains and losses from swaps are determined on market values and are included in the net appreciation in fair value of securities in the Statement of Changes in Plan Net Assets – All Trust Funds.

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

Note F – Deposits and Investment Risk Disclosures (continued)

9. Derivative Financial Instruments (continued)

On June 30, 2011 credit ratings of the counterparty for ERS' investments in derivatives were as follows:

Derivatives Counterparty Credit Ratings

	Exchge Trades	A-	A	A+	AA-	N/A	Grand Total
NO COUNTERPARTY AVAILABLE	$ (37,297)	$ -	$ -	$ -	$ -	$ (4,377,438)	$ (4,414,735)
BANC OF AMERICA FUTURES	-	-	143,786	-	-	-	143,786
BANK OF AMERICA	-	-	(15,031)	-	-	-	(15,031)
BANK OF AMERICA N.A.	-	-	(616,650)	-	-	-	(616,650)
BANK OF AMERICA GLOBAL	-	11,337	-	-	-	-	11,337
BARCLAYS BANK PLC NY	-	-	-	(975,795)	-	-	(975,795)
BARCLAYS CAP SECS LONDON	-	-	-	228,075	-	-	228,075
BARCLAYS CAPITAL SECURITIES LTD	-	-	-	150,626	-	-	150,626
BNP PARIBAS FIXED INCOME	-	-	-	-	(10,313)	-	(10,313)
BNP PARIBAS SA PARIS	-	-	-	-	15,598	-	15,598
BNP PARIBAS U.S.A - NEW YORK BRANCH	-	-	-	-	(2,011,074)	-	(2,011,074)
CITIBANK N.A. NEW YORK	-	-	(194,276)	-	-	-	(194,276)
CREDIT SUISSE FIRST BOSTON	-	-	-	(82,131)	-	-	(82,131)
CREDIT SUISSE INTERNATIONAL, LONDON	-	-	-	(1,927,882)	-	-	(1,927,882)
DEUTSCHE BANK AG NEW YORK	-	-	-	1,582	-	-	1,582
DEUTSCHE BANK GOVT SEC INC.	-	-	-	(289,893)	-	-	(289,893)
DEUTSCHE BANK LONDON	-	-	-	(117,697)	-	-	(117,697)
DEUTSCHE BANK SECURITIES CORP	-	-	-	266,076	-	-	266,076
GOLDMAN SACHS & COMPANY	-	19,778	-	-	-	-	19,778
GOLDMAN SACHS BANK USA	-	-	(38,625)	-	-	-	(38,625)
GOLDMAN SACHS NEW YORK	-	40,757	-	-	-	-	40,757
GREENWICH CAPITAL MARKETS INC	-	414,419	-	-	-	-	414,419
HSBC BANK USA NY	-	-	-	-	135,405	-	135,405
J.P. MORGAN CLEARING CORP	-	-	-	6,612	-	-	6,612
JP MORGAN CHASE BANK/HSBCSI	-	-	-	(581,325)	-	-	(581,325)
JPMORGAN CHASE BANK	-	-	-	-	-	-	-
MERRILL LYNCH CAPITAL SERVICES INC	-	31,867	-	-	-	-	31,867
MORGAN STANLEY & CO INC. NEW YORK	-	2,094,443	-	-	-	-	2,094,443
MORGAN STANLEY CAPITAL SERVICES NEW YORK	-	(620,363)	-	-	-	-	(620,363)
ROYAL BANK OF CANADA, MONTREAL	-	-	-	-	68,487	-	68,487
ROYAL BANK OF SCOTLANDN FIN MKTS FIXED	-	-	(389,986)	-	-	-	(389,986)
UBS LONDON - DSA 'ALGOS' (US)	-	-	-	-	-	14,610	14,610
UBS SECURITIES	-	-	(51,356)	-	-	-	(51,356)
	$ (37,297)	$ 1,992,238	$ (1,162,138)	$ (3,321,752)	$ (1,801,897)	$ (4,362,828)	$ (8,693,674)

Note F – Deposits and Investment Risk Disclosures (continued)

9. Derivative Financial Instruments (continued)

On June 30, 2011 the segmented time distribution for ERS' investments in derivatives was as follows:

	0-3 months	3-6 months	6-12 months	1-5 yrs	5-10 yrs	10+ yrs	Total
Forwards							
Foreign Exchange Contracts	$ (2,095,624)	$ (1,767,858)	$ (5,856)	$ 15,224	$ -	$ -	$ (3,854,114)
Interest Rate Contracts	-	(504,988)	-	-	-	-	(504,988)
	(2,095,624)	(2,272,846)	(5,856)	15,224	-	-	(4,359,102)
Options							
Caps and Floors	-	-	-	-	(33,326)	-	(33,326)
Options	(1,964,644)	-	-	-	-	-	(1,964,644)
Options on Futures	(25,472)	-	(11,825)	-	-	-	(37,297)
Swaption	(117,771)	(203,345)	(125,090)	(552,752)	-	-	(998,958)
	(2,107,887)	(203,345)	(136,915)	(552,752)	(33,326)	-	(3,034,225)
Rights/Warrants							
Equity Contracts	84,651	20,000	-	-	-	-	104,651
Swaps							
Swaps	-	(2,758)	(7,851)	1,779,316	(332,189)	(2,841,516)	(1,404,998)
Grand Total	$ (4,118,860)	$ (2,458,949)	$ (150,622)	$ 1,241,788	$ (365,515)	$ (2,841,516)	$ (8,693,674)

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, 2011. 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 $337,000,000 as of June 30, 2011, consisting of $82,000,000 in real estate investments, and $255,000,000 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, 2011

Schedule of Funding Progress
(In thousands)

Actuarial Valuation Date		Actuarial Value of Assets (1)	Actuarial Accrued Liability (AAL) (2)*	Unfunded Actuarial Accrued Liability (UAAL) (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:							
2011	**	$ 11,942,753	$ 20,096,930	$ 8,154,177	59.4%	$ 3,915,957	208.2%
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%

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

** New assumption effective on valuation date.

Schedule of Employer Contributions
(In thousands)

	Annual Required Contribution	Actual Contribution	Percentage Contributed
Fiscal year ended June 30,:			
2011	$ 582,535	$ 538,693	92.5%
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%

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

June 30, 2011

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, 2011
Actuarial cost method	Entry Age Normal
Amortization method	Level percent, open
Remaining amortization period as of June 30, 2011*	30 years
Asset valuation method	4-year smoothed market
Actuarial assumptions:	
Investment rate of return (set by statute)**	7.75%
Projected salary increases **	
Police and Fire Employees	5.0% to 19.00%
General Employees	4.0% to 8.00%
Teachers	5.0% to 8.50%
**Includes inflation at 3.0%	
Cost-of-living adjustments (COLAs) ***	2.5% (not compounded)

* Remaining amortization period for Annual Required Contribution is 30 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

Year ended June 30, 2011

	2011			
	Pension Accumulation Fund	**Annuity Savings Fund**	**Expense Fund**	**Total**
Additions				
Appropriations and contributions:				
Employers	$ 538,692,849	$ -	$ -	$ 538,692,849
Members	-	232,880,063	-	232,880,063
Net investment gain	2,040,061,555	-	-	2,040,061,555
Total additions	2,578,754,404	232,880,063	-	2,811,634,467
Deductions				
Benefit payments	960,219,432	-	-	960,219,432
Refunds of member contributions	-	7,901,509	-	7,901,509
Administrative expenses	-	-	13,325,781	13,325,781
Total deductions	960,219,432	7,901,509	13,325,781	981,446,722
Other changes in net assets held in trust for pension benefits:				
Transfer due to retirement of members	155,183,620	(155,183,620)	-	-
Transfer of interest allocation	(65,092,102)	65,092,102	-	-
Transfer to pay administrative expenses	(10,603,291)	-	10,603,291	-
Return of unrequired funds due to savings in administrative expenses	-	-	-	-
	79,488,227	(90,091,518)	10,603,291	-
Net increase (decrease)	1,698,023,199	134,887,036	(2,722,490)	1,830,187,745
Net assets held in trust for pension benefits:				
Beginning of year	8,288,395,807	1,522,699,554	13,072,458	9,824,167,819
End of year	$ 9,986,419,006	$ 1,657,586,590	$ 10,349,968	$ 11,654,355,564

See accompanying independent auditors' report.

Schedule 2

Social Security Contribution Fund

Statement of Changes in Assets and Liabilities

Year ended June 30, 2011

	2011			
	Beginning Balance	**Additions**	**Deductions**	**Ending Balance**
Assets				
Cash	$ -	$ -	$ -	$ -
Total assets	$ -	$ -	$ -	$ -
Liabilities				
Due to employers	$ -	$ 189,070,433	$ 189,070,433	$ -
Total liabilities	$ -	$ 189,070,433	$ 189,070,433	$ -

See accompanying independent auditors' report.

Supplementary Information (continued)

Schedule 3

Schedule of Administrative Expenses

Year ended June 30, 2011

		2011
Personnel services		
Salaries and wages	$	4,125,495
Fringe benefits		1,477,436
Net change in unused vacation credits		179,553
Total personnel services		5,782,484
Professional services		
Actuarial		218,210
Auditing and tax consulting		65,492
Disability hearing expenses		52,757
Legal services		244,558
Medical		405,602
Other services		1,714,915
Total professional services		2,701,534
Communication		
Postage		140,652
Printing and binding		63,466
Telephone		79,865
Travel		41,075
Total communication		325,058
Rentals		
Rental of equipment		70,101
Rental of premises		19,316
Total rentals		89,417
Other		
Armored car service		8,043
Computer and office automation systems		4,281
Repairs and maintenance		2,369,374
Stationery and office supplies		36,807
Miscellaneous		48,460
Total other		2,466,965
Depreciation		1,960,323
	$	13,325,781

See accompanying independent auditors’ report.

Supplementary Information (continued)

Schedule 4

Schedule of Investment Expenses

Year ended June 30, 2011

		2011
Real estate and alternative investment expenses		
Operating expenses	$	51,148,437
Mortgage interest		15,628,574
Total real estate and alternative investment expenses		66,777,011
Investment expenses		
Investment manager/advisor fees	$	40,246,355
Bank custodian fees		100,000
Other investment expenses		485,917
Total investment expenses		40,832,272
Securities lending expenses		
Borrower rebates		(496,217)
Management fees		558,216
Total securities lending expenses		61,999
	$	107,671,282

See accompanying independent auditors' report.

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Employees' Retirement System
of the State of Hawaii

INVESTMENT SECTION

Letter from Chief Investment Officer

NEIL ABERCROMBIE
GOVERNOR

STATE OF HAWAII
EMPLOYEES' RETIREMENT SYSTEM

December 3, 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, 2011.

- ERS Plan assets were valued at $11,571 billion as of June 30, 2011. The ERS continues to be ranked as one of the largest defined benefit plans in the United States.

- The ERS investment portfolio outperformed its three year and five year Policy benchmark by 0.13% and 0.10%, respectively; ending the year up 21.2%. The portfolio performed in-line with the median public pension plan rankings for the three year period. The portfolio outperformed with the median public pension plan rankings for the five year period by 0.2%.

MARKETS AND PORTFOLIO

The four quarters of fiscal year 2011 saw uninterrupted increasing values led by optimism for equities and bonds as earnings improved and the Federal Reserve introduced a second round of unprecedented bond purchases, commonly referred to as quantitative easing (QE2). The run-up in risky assets was only slowed slightly by the earthquake, tsunami, and nuclear accident in Japan and concern in the final quarter for the eventual end of the QE2 program. European markets remained challenged as policy makers appeared to provide incomplete solutions to the continent's growth, unemployment and growth prospects. The possibility of a Greek sovereign bond default and the break-up of the European Union became a greater concern. Concern for national budget deficits increases in the policy discussions by developed market political leaders.

All of the major asset classes in the ERS portfolio contributed positively toward performance except real return, which consists entirely of a timber asset fund manager. A global inflation linked securities fund manager was approve for the real return asset class, but funding was pending contractual

Employees' Retirement System
of the State of Hawaii

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negotiations. Performance exceeded Performance exceeded the long-term required return substantially, which will be difficult to repeat on a sustained basis. Overall, the portfolio added managers in private equity and opportunistic real estate strategies. Several rebalancing and transition trades were pending in the portfolio as the fiscal year came to a close.

QUALIFIED OPTIMISM

While markets turned in stellar returns, sudden events in Japan and drawn out disappointments in Europe, remind us that market uncertainty remains high. U.S. corporations continue to make balance sheet improvements, but growth remains tepid and unemployment is stubbornly high. While U.S. political leaders appear stymied for policy consensus, the Federal Reserve's action to conduct QE2 seems to provide some basis for market optimism. However, the increased risk of the Fed's intervention distorting market forces may provide its own set of unintended consequences. Additional short-term risk may also dominate performance in the coming quarters.

Nevertheless, improving asset values and portfolio performance should lend support to qualified optimism as the global financial recedes into history. While the financial and housing sectors hold the key to any turnaround in economic prospects, improved asset prices can encourage consumer sentiment and relative growth. Ultimately, consumers and prospects for individuals to feel secure in their jobs may be the way back to more normal markets.

PROSPECTS

The asset class target weightings approved by the Board of Trustees in January 2010 continue to be the target allocations to anchor the portfolio to long-term objectives. The ERS is in the process of adding additional strategies approved during the last asset allocation study, and is expected to conduct major asset class rebalancing trades at the end of each of the next two fiscal year-ends. The added strategies of global inflation-linked securities to help protect the portfolio against inflation and covered calls strategies that help protect the portfolio against downside equity markets while capturing reasonable returns in modest rising equity markets should be executed in the coming fiscal year. The ERS takes a long-term prudent and conservative view in the construction of the portfolio.

The Investment Office staff is strongly committed to assisting the Board of Trustees evaluate appropriate strategies that help the ERS meet its obligation to provide the timely delivery of retirement benefits for its members and their beneficiaries. To this end, the Investment Office added a full time Investment Specialist and dedicated full time secretary. The additional resources will allow the Investment Officer to continue to practice investment management with prudence, care, and integrity.

Respectfully yours,

Summarized by Vijoy Chattergy, Investment Specialist (2011-2012)
On behalf of Rod June, Chief Investment Officer (2008-2012

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

March 1, 2012

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 ending June 30, 2011, as requested by the Government Financial Officers' Association (GFOA).

Hawaii ERS-Total Fund Performance

The total assets of the Retirement System were $11.6 billion as of June 30, 2011, an increase of roughly $1.9 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. The investment return for the Total Fund, expressed as a time-weighted total rate of return, was +21.2% for the 2011 fiscal year, compared to the benchmark's return of +21.5%. For the three-year period ending June 30, 2011, the Total Fund returned +3.8% per annum versus the benchmark's return of +3.6% and the Northern Trust Public Funds Greater than $1 Billion Database peer median return of +3.8%. For the trailing five-year period ending June 30, 2011, the Total Fund returned +4.9% per annum versus the benchmark's return of +4.8% and the Northern Trust Public Funds Greater than $1 Billion Database peer median return of +4.7%.

Asset Class Performance

Domestic Equity returned +31.8% for the fiscal year versus the Domestic Equity Blended Index's return of +32.4% and the Northern Trust Domestic Equity Database peer median return of +33.2%. Diversified Fixed Income posted +5.5% for the fiscal year versus the Diversified Fixed Income Blended Index's return of +4.2% and the Northern Trust Fixed Income Database peer median return of +5.9%. International Equity returned +30.2% for the 2011 fiscal year versus the International Equity Blended Index's return of +30.1% and the Northern Trust International Equity Database peer median return of +29.8%. International Fixed Income returned +4.1% for the fiscal year versus the International Fixed Income Blended Index's return of +0.9% and the Northern Trust International Fixed Income Database peer median return of +12.7%. Real Estate returned +21.4% for the year ending June 30, 2011, versus the NCREIF Total Index return of +16.7%. Private Equity investments returned +16.5% for the fiscal year, whereas Real Return produced a minus (0.7%) return.

Letter from Investment Consultant (continued)

Market Conditions

The market backdrop for fiscal year 2011 was characterized by a continuation in investors' more accepting attitude towards risk assets. While fiscal year 2009 was dominated by de-risking and de-leveraging, fiscal year 2011 continued right where fiscal year 2010 left off, with a persevering appetite for riskier assets which resulted in high-yield fixed income outperforming investment-grade fixed income and small cap equities outperforming large cap equities. The primary exception to this trend was that emerging markets equities did not outperform developed markets equities, although they too produced strong absolute returns. All in all, all equity classes produced positive returns, both domestically and internationally, and fixed income classes produced positive results with credit sensitive securities outperforming. We note these results reversed dramatically during the third quarter of 2011, after the end of the fiscal year.

During fiscal year 2011, equities within the U.S., as measured by the Russell 3000 Index, advanced by +32.4%, while non-U.S. equities, as measured by the MSCI ACWI ex U.S. Index, advanced by +30.3%. Despite the ongoing struggles in the U.S. and Europe regarding national budget deficits, rising commodity prices, and an amalgamation of international events that included military tensions on the Korean peninsula, political conflicts in the Middle East and Africa, and a devastating earthquake in Japan, global equity markets were able to ride the coattails of monetary and fiscal stimulus and strong corporate earnings to produce significant absolute returns for fiscal year 2011. The U.S. dollar became less stable during the fiscal year, depreciating against other major currencies as monetary and fiscal stimulus continued, along with lingering inflationary pressures.

Although value stocks, as a group, outperformed growth stocks in fiscal year 2010, growth stocks surpassed value stocks across the entire cap spectrum during fiscal year 2011. Emerging markets equities relinquished their strong relative returns to developed markets equities during fiscal year 2011, driven mainly by the expansionary monetary and fiscal policies within the U.S., and the abundance of global events that negatively impacted nations throughout Asia and Africa. That being said, there was a growing concern regarding the fiscal soundness of many developed countries, including the United States and many nations throughout Europe.

During the fiscal year, bond markets produced positive absolute returns, with investors once again being rewarded for taking increased credit risk. Investment-grade bonds, as measured by the Barclays Capital Aggregate Bond Index, returned +3.9%. Government bonds' return of +2.3% lagged credit as investors continued to be less risk averse. Mortgage-backed bonds increased by +3.8%, investment-grade corporate bonds rose by +6.2%, and high-yield corporate bonds returned +15.6%.

For fiscal year 2011, the market for risk assets around the world continued on an upward trend, as healthy corporate earnings and sustained improvement in economic conditions, coupled with monetary and fiscal stimulus, continued to provide support. Volatility surged at times, driven mainly by political unrest, natural disasters, and uncertainty regarding national budget deficits. 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 by Investment Consultant

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.

Strategic Asset Allocation Policy

A formal asset allocation/liability study is conducted at least every three years to verify or amend the Plan's policy targets. The targets are designed to achieve a certain level of return, and associated level of risk, that is aligned with the Plan's goals and objectives. The targets are evaluated on the basis of assets designated to each asset class by the Board, rather than on a current invested position. The targets 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. 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 included evolving policy targets designed to efficiently transition the Plan to the new long-term strategic allocation over time. The transition is set to be completed by 7/1/2013.

Strategic Asset Allocation Policy (as of 6/30/2011)

During the 2011 fiscal year, the Plan was strategically invested in the following asset classes:

	Strategic Allocation
Domestic Equity	41%
International Equity	17%
Total Fixed-Income	28%
Real Estate	9% *
Private Equity	2.5% **
Real Return	2.5% **

* 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 Private Equity and Real Return targets were the percentage actually invested up to 5% of the Total Fund. Changes in the Private Equity and Real Return targets, if any, were offset by an equal percentage change in the Domestic Equity target.

Report on Investment Activity by Investment Consultant (continued)

Long-Term Strategic Asset Allocation Policy

As a result of the formal asset allocation/liability study conducted during fiscal year 2010, the Board adopted a new long-term strategic allocation policy. The plan will begin transitioning to the new strategic allocation policy during fiscal year 2012.

Expected Annualized Return and Risk

Based on PCA's 2011 capital market projections for 10 years, the target allocation is expected to achieve an average annualized return of 7.7% (4.9% real return with expected inflation of 2.8%). The annual nominal return over this 10-year period is expected to fall within a range of -7.0% and 22.3% two-thirds of the time.

Long-Range Asset Allocation Target

The ERS will strategically invest in the following asset classes:

	Strategic Allocation
Domestic Equity	**30%**
International Equity	**26%**
Total Fixed Income	**20%**
Real Estate	**7%***
Private Equity	**7%****
Real Return	**5%*****
Covered Calls	**5%**

* The Real Estate target will be the percentage actually invested up to 7% of the Total Fund. Changes in the Real Estate target will be offset by an equal percentage change in the Domestic Equity target.

** The Private Equity target will be the percentage actually invested up to 7% of the Total Fund. Changes in the Private Equity target will be offset by an equal percentage change in the Domestic Equity target.

*** The Real Return target will be the percentage actually invested up to 5% of the Total Fund. Changes in the Real Return target will be offset by an equal percentage change in the Domestic Equity target.

Evolving Strategic Asset Allocation Policy

	Target Policy 6/30/2011	**Target Policy 7/1/2011**	**Target Policy 7/1/2012**	**Target Policy 7/1/2013**
Domestic Equity	41%	35%	30%	30%
International Equity	17%	21%	26%	26%
Total Fixed income	28%	24%	21%	20%
Real Estate	9%	7%	7%	7%
Private Equity	2.5%	5%	6%	7%
Real Return	2.5%	5%	5%	5%
Covered Calls	---	3%	5%	5%
Total	**100%**	**100%**	**100%**	**100%**

Manager Evaluation

Individual Domestic and International Equity and Fixed Income 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.

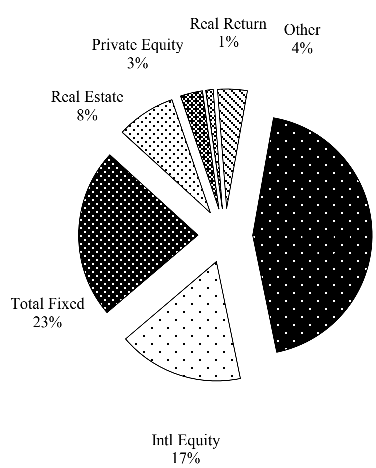
Investment Practices

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 allocation/liability study, additional revisions to the IPS will take place during fiscal year 2012.

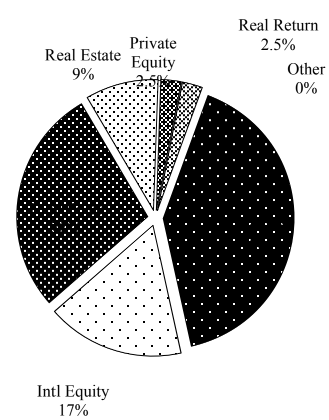
All rates of return are calculated using methodologies that are generally accepted by the Global Investment Performance Standards (GIPS). All Domestic Equity manager returns are daily, time-weighted rates of return based on custodial data. International Equity, Domestic Fixed Income, and International 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, 2011:

Actual Asset Allocation



Target Asset Allocation



Report on Investment Activity by Investment Consultant (continued)

Investment Results as of June 30, 2011:

	Year Ended June 30,					3 Years Ended	5 Years Ended
	2011	2010	2009	2008	2007	6/2011	6/2011
Domestic Equity	**31.83%**	**15.33%**	**(27.34%)**	**(11.39%)**	**20.03%**	**3.38%**	**3.28%**
Domestic Equity Blended Index[1]	32.37%	15.72%	(25.83%)	(12.84%)	19.99%	4.35%	3.51%
NT Total Domestic Equity*	33.22%	16.46%	(26.16%)	(12.32%)	19.75%	4.69%	3.83%
Diversified Fixed-Income	**5.51%**	**13.63%**	**5.80%**	**6.31%**	**6.40%**	**8.25%**	**7.49%**
Diversified Fixed Income Blended Index[2]	4.20%	9.99%	5.35%	7.12%	6.12%	6.48%	6.54%
NT Domestic Fixed*	5.90%	13.78%	4.69%	6.41%	6.28%	8.35%	7.47%
International Equity	**30.24%**	**11.28%**	**(31.45%)**	**(7.93%)**	**29.81%**	**(0.22%)**	**3.49%**
International Equity Blended Index[3]	30.07%	8.41%	(30.76%)	(8.33%)	29.67%	(0.79%)	3.02%
NT Non-U.S. Equity*	29.81%	11.62%	(29.96%)	(8.29%)	29.28%	0.40%	3.76%
International Fixed-Income	**4.12%**	**4.01%**	**9.82%**	**14.58%**	**2.00%**	**5.95%**	**6.80%**
International Fixed Blended Index[4]	0.91%	6.62%	7.60%	18.72%	2.20%	5.00%	7.03%
NT Non-U.S. Fixed*	12.70%	18.50%	2.28%	2.65%	7.10%	9.77%	8.50%
Real Estate^	**21.41%**	**0.99%**	**(26.74%)**	**7.64%**	**17.69%**	**(3.52%)**	**2.62%**
NCREIF Total Property Index	16.73%	(1.48%)	(19.55%)	17.25%	18.67%	(2.56%)	3.45%
NT Real Estate Funds*	17.06%	(10.22%)	(27.81%)	5.79%	15.48%	(7.34%)	(0.71%)
Private Equity^	**16.46%**	**7.54%**	**(11.19%)**	**11.43%**	**22.46%**	**3.61%**	**8.70%**
Real Return	**(0.73%)**	---	---	---	---	---	---
Total Fund	**21.25%**	**11.96%**	**(17.54%)**	**(3.51%)**	**17.81%**	**3.83%**	**4.94%**
Composite Benchmark[5]	21.47%	10.31%	(16.94%)	(3.07%)	17.08%	3.63%	4.78%
NT Public Funds > $1 Billion*	22.47%	13.78%	(18.37%)	(4.41%)	17.50%	3.77%	4.71%

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

^ Based on 6/30/2011 statements.

[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, 7.5% NCREIF Property Index lagged, 3.6% Alternative Investments, 21.0% BC Aggregate Index, and 7.0% CG WGBI ex US 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 US Hedged Index through 6/30/11;

41.0% Russell 3000 Index, 14.5% MSCI World ex US 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 US Hedged Index through 9/30/11;

35.0% Russell 3000 Index, 18.0% MSCI World ex US ND Index, 3.0% MSCI Emg Mkts ND Index, 7.0% NCREIF Property Index lagged, 5.0% Private Equity, 5.0% Real Return, 18.0% BC Universal Index, 6.0% BC Multiverse ex US Hedged Index, and 3.0% CBOE BXM 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
- Lone Star
- Mesa Capital
- Oaktree

INTERNATIONAL EQUITIES
- Acadian Asset Management
- JP Morgan Chase
- Mercator Asset Management
- 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)

REAL RETURN
- Gateway

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

List of Assets Directly Held (by fair value)*

as of June 30, 2011 (excludes investments in pooled vehicles and index funds)

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

	Par / Shares	Security	Coupon	Maturity	Standard & Poors	Fair Value
Domestic Fixed Income						
1	88,700,000	United States Treas Notes	75.000%	6/15/2014	Aaa	$ 88,596,044
2	54,390,000	United States Treas Notes	2.750%	12/31/2017	Aaa	55,843,246
3	40,000,000	FNMA Single Family Mortgage (Settles July)	4.500%		Agency	41,381,240
4	38,020,000	United States Treas Notes	3.500%	5/15/2020	Aaa	39,692,120
5	24,000,000	Gnma II Jumbos (Settles July)	4.500%		Agency	25,256,256
6	22,690,000	United States Treas Bonds	4.375%	5/15/2040	Aaa	22,675,932
7	20,300,000	GNMA I Single Family Mortgage (Settles July)	4.500%		Agency	21,422,834
8	18,700,000	PVTPL CMP Arkle Master Issuer PLC 2006-1A $A2	FLTG RT	2/17/2052	Aaa	18,679,006
9	13,900,000	Federal Natn Mtg Ass Gtd MTG Pool #AL0520	5.500%	7/1/2041	Agency	15,032,633
10	15,000,002	FNMA Pool #AE0949	4.000%	2/1/2041	Agency	15,021,167
International Fixed Income						
1	17,318,000	Government of Canada	2.000%	12/1/2014	Aaa	17,961,887
2	20,002,000	Province of Ontario	6.250%	6/16/2015	Aa	17,456,317
3	16,070,000	Queensland Treasury Corp	6.500%	4/16/2012	Aaa	17,430,437
4	1,280,000,000	Asian Development Bank	2.350%	6/21/2027	Aaa	17,336,107
5	11,692,000	Freitstaat Bayern	3.375%	1/21/2013	NR	17,335,068
6	11,832,000	Kreditanstalt Fur Wiederaufbau	3.375%	1/16/2012	Aaa	17,330,461
7	1,400,000,000	Dexia Muni Agency	1.800%	5/9/2017	Aaa	17,308,271
8	47,078,000	Republic of Poland	4.750%	4/25/2012	A	17,161,443
9	47,431,000	Republic of Poland	5.250%	10/17/2025	A	17,147,586
10	11,639,000	Kingdom of Spain	3.900%	10/31/2012	Aa	17,076,543
Domestic Equities						
1	179,380	Apple Inc (Common)				60,212,485
2	1,147,122	JP Morgan Chase Cap XXII (Common)				46,963,175
3	542,648	Schlumberger Ltd (Common)				46,884,787
4	889,960	UnitedHealth Group (Common)				45,904,137
5	802,810	Qualcomm (Common)				45,591,580
6	260,275	International Business Machines (Common)				44,650,176
7	1,300,570	Oracle (Common)				42,801,759
8	788,712	American Express (Common)				40,776,410
9	1,281,232	AT&T (Common)				40,243,497
10	390,720	Chevron (Common)				40,181,645
International Equities						
1	605,659	BHP Billiton				28,400,730
2	427,163	Novartis AG				26,126,953
3	451,675	Total				26,115,858
4	399,994	Nestle				24,821,480
5	1,066,987	AXA				24,241,038
6	9,080,556	Vodaphone Group				24,098,061
7	633,038	Royal Dutch Shell				22,467,993
8	129,264	Roche Holdings AG				21,600,291
9	929,877	BG Group				21,109,197
10	1,720,539	BBVA(Bilb-Viz-Arg)				20,180,696

Investment Schedules (continued)

Investments Summary

(Dollar values expressed in thousands)

		Fair Value as of June 30, 2011	Percentage	
Equity securities				
Common stock	$	4,955,044,663	42.89%	$
Pooled and others		2,401,756,600	20.79%	
		7,356,801,263	63.68%	
Fixed income securities				
Mortgage-backed securities		195,690,828	1.69%	
Corporate		980,798,070	8.49%	
Government		1,258,049,810	10.89%	
Asset backed securities		39,989,311	0.35%	
Pooled and others		28,487,028	0.25%	
		2,503,015,047	21.67%	
Others				
Real estate investments		1,164,811,013	10.08%	
Alternative investments		528,365,222	4.57%	
		1,693,176,235	14.65%	
Total, investments at fair value	$	11,552,992,545	100.00%	$

Schedule of Investment Fees

by Asset Class Allocation

(Dollar values expressed in thousands)

		Fair value as of June 30, 2011		Total FY 2011 Investment Fees	Basis Points
Equities					
U.S. equities	$	5,530,295	$	11,618	21 bp
International equities		1,993,457		8,267	41
		7,523,752		19,885	26
Fixed Income					
Diversified fixed income		2,349,328		5,354	23
Non U.S. fixed income		357,378		877	25
		2,706,706		6,231	23
Other Asset Allocations					
Real estate		529,370		10,938	207
Private equity		869,082		2,517	29
		1,398,452		13,455	96
Other Investment Services					
Custodian fees				100	n/a
Investment consultant fees				675	n/a
Total	$	11,628,910	$	40,346	35

Investment Schedules (continued)

Schedule of Broker Commissions

The Employees' Retirement System participates in a Commission Recapture Program with three brokerage firms for equity trades, which are listed in the Investment Professionals section. Domestic and international investment managers are required to direct at least 35% of all brokerage transactions to participating brokers, subject to best execution. Commissions charged per share are based on the investment manager's normal rate schedule. All commissions recaptured are used exclusively by the ERS for the benefit of its members and beneficiaries. ERS does not guarantee participating brokers any minimums, required volumes or fees. During the fiscal year ended June 30, 2011 the ERS recaptured $698,325 in commissions.

The following is a list of brokers who received $40,000 or more in commissions during Fiscal Year 2011. A complete list of all commissions is available for review upon request.

Brokerage Firms	Shares Traded	Dollar Volume of Trades	Commission Dollar Amount	Commission Per Share
Lynch, Jones and Ryan	21,709,037	$ 738,373,552	$ 661,577	$ 0.030
Credit Suisse	126,270,778	849,668,046	305,720	0.002
Series	10,571,700	592,343,920	258,077	0.024
Goldman, Sachs and Co.	19,680,674	221,624,316	215,331	0.011
Deutsche Bank	11,610,357	157,462,623	192,570	0.017
Citigroup Global Markets	12,610,726	141,214,628	170,982	0.014
Liquidnet Europe Limited	10,697,460	329,393,218	157,314	0.015
Jefferies and Company	8,265,840	222,019,420	154,413	0.019
Merrill Lynch and Co	15,250,405	144,548,281	145,818	0.010
UBS Warburg Securities	41,665,854	129,447,405	145,548	0.003
Knight Capital Americas	5,717,430	121,934,064	132,741	0.023
JPMorgan Chase Bank	8,961,606	108,670,231	131,012	0.015
Stifel Nicolaus & Co	3,641,680	149,220,382	124,375	0.034
Macquarie Securities	16,172,056	77,063,306	103,777	0.006
Morgan Stanley & Co	11,390,784	78,064,356	88,436	0.008
Barclays	4,371,606	104,739,076	86,301	0.020
Broadpoint Capital	2,531,050	34,256,681	78,033	0.031
Sanford C. Bernstein	2,534,788	90,729,299	71,642	0.028
Nomura Securities	9,164,658	51,553,754	58,510	0.006
Royal Bank of Canada RBC) Dominiion	1,624,890	38,550,275	42,578	0.026
Rochdale Securities	1,221,688	40,836,756	41,581	0.034
CLSA Singapore Pte	1,671,874	27,073,316	40,983	0.025
Others (includes 227 firms)	116,952,587	1,337,445,740	1,428,596	0.012
Commissioned equity trades	464,289,528	$ 5,786,232,645	$ 4,835,915	
Less commissions recaptured			(698,325)	
Trades at net commission	464,289,528	$ 5,786,232,645	$ 4,137,590	$ 0.009

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Employees' Retirement System

of the State of Hawaii

ACTUARIAL SECTION

Letter from the Actuary

GRS
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February 27, 2012

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, 2011

We certify that the information contained in the 2011 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, 2011.

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.

Board of Trustees
February 27, 2012
Page 2

Progress toward realization of financing objectives

The actuarial accrued liability, the unfunded actuarial accrued liability (UAAL), and the determination 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, 2011, ERS's underfunded status has increased due to continued recognition of these market investment losses. The System's UAAL also increased due to the adoption of new actuarial assumptions. The lowering of the investment return assumption from 8.00% to 7.75% significantly increased the UAAL. However, the System had a partially offsetting liability experience gain which was caused primarily by lower than expected salary increases. The UAAL is now $8.154 billion.

The 2011 Legislature made significant changes to the future employer contribution rates. The current 19.70% for Police and Fire employees will gradually increase to 25.00%, and the 15.00% for All Other Employees will gradually increase to 17.00%. The Legislature also made changes to the benefits and member contribution rates for employees hired after June 30, 2012. Because these changes result in significantly higher contributions towards the unfunded liability in the future than in the current year, we believe it is more appropriate to determine the funding period using an open group projection rather than a static mathematical formula, which assumes that all amortization payments in the future will be the same percentage of pay as in the current year.

Based on the future increases in the employer contribution rates and the changes to the benefits and member contributions of future employees, we have determined that the funding period for paying off the UAAL of the System is 25 years. Because this period is less than 30 years, the financing objectives of ERS are currently 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.

The System is still deferring $300 million in deferred investment losses. Without offsetting gains, these losses will increase the unfunded liability and possibly lengthen the funding period as they are recognized in future valuations.

Benefit provisions and Legislative changes

As discussed above, there were significant changes to the future contribution requirements and benefit provisions of future members of the System. While these changes have been reflected in the determination of the funding period as described above, they have not been reflected in the determination of the liabilities included in this valuation since this valuation does not include any members impacted by the changes. Please see our discussion of these changes in Exhibit 9. 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.

Letter from the Actuary (continued)

Board of Trustees
February 27, 2012
Page 3

Assumptions and methods

The actuarial assumptions used were adopted by the Board in December of 2010 based on the recommendations provided by an Experience Study performed by us. A change in the investment return assumption was recommended to the Board as part of the recommended changes. However, the investment return assumption is set by statute. As part of the legislative changes made to the system by the 2011 Legislature, the investment return assumption was lowered to the recommended rate of 7.75% effective with this valuation. In addition, the Board of Trustees was given the authority to set this assumption for fiscal years after 2011.

Our Experience Study report dated December 20, 2010 provides details on the changes to the actuarial assumptions. A brief summary of the significant changes are shown below.

- Decrease the assumed real return on investments (net of expenses)--the return in excess of inflation--from 5.00% to 4.75%. (Combined with the 3.00% inflation assumption, this results in a decrease to the nominal investment return rate assumption from 8.00% to 7.75%)
- Change the salary increase rates to reflect a larger productivity component for Police & Fire. Small changes also made to service-based components for all groups. The overall impact is to increase assumed salary increase rates for all employees.
- Decrease the rates of mortality for healthy retirees and beneficiaries for most employee groups. Recommend retaining current mortality tables, but modifying the percentages applied to reflect experience and allow for future mortality improvements.
- Modify the rates of mortality for disabled retirees.
- Increase the rates of mortality for active employees.
- Modify the rates of disability for active employees.
- Modify the rates of retirement for most employees. Lower rates at most ages.
- Modify the rates of termination for both males and females for each of the groups.

In addition to the assumption changes, we also recommended a modification to the asset valuation method from an individual base recognition method to an aggregate base recognition method.

The Board also made one other funding method change in conjunction with this valuation. The Board continues to use the Entry Age Normal actuarial cost method for determining the liabilities of the System. However, in prior years the Ultimate Normal Cost method was used in the determination of the normal cost and accrued liabilities of the System. The Board has decided to adopt the use of the Individual Normal Cost method to determine the normal cost and liabilities of the System effective with this valuation.

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
February 27, 2012
Page 4

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, 2011, by ERS's staff. We have not subjected this data to any auditing procedures, but have examined the data for reasonableness and consistency with the prior year's data. Asset information was supplied by ERS's staff.

Responsibility for Tables and Schedules

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

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

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

Sincerely,

Joe Newton
Lewis Ward

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

Gabriel Roeder Smith & Company

Executive Summary

The following summarizes the key results of the June 30, 2011 actuarial valuation of the Employees' Retirement System of the State of Hawaii (ERS).

Item	2011	2010
Membership		
• Number of		
- Active members	65,310	65,890
- Retirees and beneficiaries	39,689	38,441
- Inactive, vested	6,649	6,895
- Total	111,648	111,226
• Covered payroll for active members	$3,731.4 million	$3,713.6 million
• Actual benefit payments and refunds	$968.1 million	$914.1 million
Assets		
• Actuarial value	$11,942.8 million	$11,345.6 million
• Market value	$11,642.3 million	$9,821.6 million
• Return on actuarial value	7.1%	(0.4%)
• Return on market value	20.8%	11.5%
• Employer contributions during fiscal year	$538,692,849	$547,612,717
• External cash flow %	(1.9%)	(0.2%)
Actuarial Information		
• Total normal cost % (employee + employer)	11.06%	12.60%
• Unfunded actuarial accrued liability (UAAL)	$8,154.2 million	$7,138.1 million
• Funded ratio (based on actuarial assets)	59.4%	61.4%
• Funded ratio (based on market assets)	57.9%	53.1%
• Funding period (years) *	25.0	41.3
• Employer contribution rate % of projected payroll ** For FY 2012 & Beyond	15.52%	15.49%
• GASB ARC for FY 2012 % of projected payroll		
Police and Fire Employees	25.47%	22.33%
All Other Employees	17.67%	16.23%
Composite – All Employees	18.56%	15.49%

* Funding Period for 2010 based on actuarial value of assets and current employer contribution rates of 15.00% for for All Other Employees beginning July 1, 2008.All Other Employees and 19.70% for Police and Fire.

Funding Period for 2011 based on open group projection reflecting changes in benefits and future contribution rates.

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

Actuarial Certification Statement

* Effective with the June 30, 2011 valuation, the Funding Period is calculated using an open group projection which reflects the impact of both the new employer contribution rates schedule and the benefits and member contribution rates for employees hired after June 30, 2012.

	Police and Firefighters June 30, 2011	All Other Employees June 30, 2011	All Employees June 30, 2011
1. Gross normal cost as a percentage of pay	20.29%	9.87%	11.06%
2. Present value of future benefits			
a. Active employees	$ 2,578,173,870	$ 10,447,770,188	$ 13,025,944,058
b. Inactive members	26,631,323	334,620,862	361,252,185
c. Pensioners and beneficiaries	1,649,313,937	8,534,399,292	10,183,713,229
d. Total	$ 4,254,119,130	$ 19,316,790,342	$ 23,570,909,472
3. Present value of future employee and employer contributions			
a. Present value of future normal costs	$ 810,307,888	$ 2,663,671,216	$ 3,473,979,104
b. Present value of future employee contributions	488,554,929	1,121,892,868	1,610,447,797
c. Present value of future employer normal cost (Item 3a - Item 3b)	$ 321,752,959	$ 1,541,778,348	$ 1,863,531,307
4. Actuarial accrued liability (Item 2d - Item 3a)	$ 3,443,811,242	$ 16,653,119,126	$ 20,096,930,368
5. Actuarial value of assets			
a. Annuity Savings Fund	$ 750,184,689	$ 902,828,600	$ 1,653,013,289
b. Pension Accumulation Fund	1,431,084,495	8,858,655,576	10,289,740,071
c. Total	$ 2,181,269,184	$ 9,761,484,176	$ 11,942,753,360
6. Unfunded actuarial accrued liability	$ 1,262,542,058	$ 6,891,634,950	$ 8,154,177,008
7. Adequacy of contribution rates			
a. Statutory Contribution Rate for Fiscal Year 2012	19.70%	15.00%	15.52%
B. Funding period in years as of June 30, 2011 *	25.0	25.0	25.0

The actuarial valuation as of June 30, 2011 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 December 20, 2010 based on statutory requirements and on the actuary’s actuarial experience investigation report covering the five-year period July 1, 2005 – June 30, 2010. The actuarial calculations were performed by qualified actuaries in accordance with accepted actuarial procedures.

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

Gabriel Roeder Smith & Company

Actuarial Certification Statement (continued)

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

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

Summary of 2011 Actuarial Valuation

Exhibit 1
Development of Employer Cost

	Police and Firefighters June 30, 2011	All Other Employees June 30, 2011	All Employees June 30, 2011
1. Payroll (adjusted for one year's pay increase)	$ 436,196,835	$ 3,479,760,469	$ 3,915,957,304
2. Gross normal oost (Exhibit 3)	20.29%	9.87%	11.06%
3. Employer normal cost rate (Exhibit 3)	8.09%	5.78%	6.06%
4. Present value future benefits (Exhibit 2)	$ 4,254,119,130	$ 19,316,790,342	$ 23,570,909,472
5. Present value future employer contributions	$ 321,752,959	$ 1,541,778,348	$ 1,863,531,307
6. Present value future employee contributions	$ 488,554,929	$ 1,121,892,868	$ 1,610,447,797
7. Actuarial accrued liability (Item 4 - Item 5 - Item 6)	$ 3,443,811,242	$ 16,653,119,126	$ 20,096,930,368
8. Actuarial value of assets	$ 2,181,269,184	$ 9,761,484,176	$ 11,942,753,360
9. Unfunded actuarial accrued liability (UAAL)			
(Item 7 - Item 8)	$ 1,262,542,058	$ 6,891,634,950	$ 8,154,177,008
10. Funding period *	25.0	25.0	25.0

* Effective with the June 30, 2011 valuation, the Funding Period is calculated using an open group projection which reflects the impactof both the new employer contribution rates schedule and the benefits and member contribution rates for employees hired afterJune 30, 2012.

	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

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Summary of 2011 Actuarial Valuation (continued)

Exhibit 2
Actuarial Present Value of Future Benefits

	Police and Firefighters June 30, 2011	All Other Employees June 30, 2011	All Employees June 30, 2011
1. Active members			
a. Service retirement benefits	$ 2,443,174,302	$ 9,467,384,389	$ 11,910,558,691
b. Termination benefits	82,413,268	657,786,761	740,200,029
c. Survivor benefits	38,812,501	230,129,736	268,942,237
d. Disability retirement benefits	13,773,799	92,469,302	106,243,101
e. Total	$ 2,578,173,870	$ 10,447,770,188	$ 13,025,944,058
2. Retired members			
a. Service retirement	$ 1,554,457,246	$ 8,029,263,146	$ 9,583,720,392
b. Disability retirement	29,044,151	147,887,723	176,931,874
c. Beneficiaries	65,812,540	357,248,423	423,060,963
d. Total	$ 1,649,313,937	$ 8,534,399,292	$ 10,183,713,229
3. Inactive members			
a. Vested terminations	$ 23,710,215	$ 310,828,475	$ 334,538,690
b. Nonvested terminations	2,921,108	23,792,387	26,713,495
c. Total	$ 26,631,323	$ 334,620,862	$ 361,252,185
4. Total actuarial present value of future benefits	$ 4,254,119,130	$ 19,316,790,342	$ 23,570,909,472

	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

Gabriel Roeder Smith & Company

Summary of 2011 Actuarial Valuation (continued)

Exhibit 3
Analysis of Normal Cost

	Police and Firefighters June 30, 2011	All Other Employees June 30, 2011	All Employees June 30, 2011
1. Normal cost as a percent of pay			
a. Service retirement benefits	17.37%	7.42%	8.57%
b. Deferred termination benefits	0.84%	0.79%	0.79%
c. Refunds	1.35%	1.19%	1.21%
d. Disability retirement benefits	0.20%	0.17%	0.17%
e. Survivor benefits	0.53%	0.30%	0.32%
f. Total	20.29%	9.87%	11.06%
2. Employee contribution rate	12.20%	4.09%	5.00%
3. Effective employer normal cost rate (Item 1f – Item 2)	8.09%	5.78%	6.06%

	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%

Summary of 2011 Actuarial Valuation (continued)

Exhibit 4
Development of Actuarial Value of Assets

			Year Ending June 30, 2011
1.	Market value of assets at beginning of year	$	11,345,618,006
2.	Net new investments		
	a. Contributions	$	765,855,884
	b. Benefits paid		(960,219,432)
	c. Refunds		(7,901,509)
	d. Subtotal		(202,265,057)
3.	Market value of assets at end of year	$	11,642,278,077
4.	Expected Return	$	899,558,838
5.	Expected actuarial value of assets, end of year	$	12,042,911,787
6.	Excess/(shortfall) return (Item 3-Item 5)	$	(400,633,710)
7.	Excess / (shortfall) recognized (25% of Item 7)	$	(100,158,427)
8.	Actuarial value of assets as of June 30, 2011 (Item 5 + Item 7)	$	11,942,753,360
9.	Ratio of actuarial value to market value		102.6%

Summary of 2011 Actuarial Valuation (continued)

Exhibit 5
Total Experience Gain or Loss

Item	Police and Firefighters June 30, 2011	All Other Employees June 30, 2011	All Employees June 30, 2011
A. Calculation of total actuarial gain or loss			
1. Unfunded actuarial accured liability (UAAL), as of June 30, 2010	$ 1,074,507,182	$ 6,063,543,403	$ 7,138,050,585
2. Normal cost for the year (employer and employee)	$ 77,076,572	$ 387,029,675	464,106,247
3. Less: Contributions and assessments for the year	$ (117,355,282)	$ (648,500,602)	$ (765,855,884)
4. Interest at 8%			
a. On UAAL	$ 85,960,575	$ 485,083,472	$ 571,044,047
b. On normal cost	3,083,063	15,481,187	18,564,250
c. On contributions	(4,694,211)	(25,940,024)	(30,634,235)
d. Total	$ 84,349,427	$ 474,624,635	$ 558,974,062
5. Expected UAAL as of June 30, 2011 (Sum of Items 1– 4)	$ 1,118,577,899	$ 6,276,697,111	$ 7,395,275,010
6. Actual UAAL as of June 30, 2011	$ 1,262,542,058	$ 6,891,634,951	$ 8,154,177,009
7. Total gain (loss) for the year (Item 5 – Item 6)	$ (143,964,159)	$ (614,937,840)	$ (758,901,999)
B. Source of gains and losses			
8. Asset gain (loss) for the year (Exhibit 6)	$ (18,293,310)	$ (81,865,116)	$ (100,158,426)
9. Gain (loss) due to change in actuarial assumptions	(65,300,672)	(456,191,193)	(521,491,865)
10 Gain (loss) due to change in actuarial method	-	(189,419,588)	(189,419,588)
11 Other liability gain (loss)	$ (60,370,177)	$ 112,538,057	$ 52,167,880
12 Change in benefit provisions	-	-	-
13 Total gain (loss) for the year	$ (143,964,159)	$ (614,937,840)	$ (758,901,999)

Summary of 2011 Actuarial Valuation (continued)

Exhibit 6
Investment Experience Gain or Loss

Item	June 30, 2011	June 30, 2010
1. Actuarial assets, beginning of year	$ 11,345,618,006	$ 11,400,116,874
2. Total contributions during year	$ 765,855,884	$ 907,659,785
3. Benefits and refunds paid	$ (968,120,941)	$ (914,148,929)
4. Assumed net investment income at 8%		
a. Beginning of year assets	$ 907,649,440	$ 912,009,350
b. Contributions	$ 30,634,235	$ 36,306,391
c. Benefits and refunds paid	$ (38,724,838)	$ (36,565,957)
d. Total	$ 899,558,837	$ 911,749,784
5. Expected actuarial assets, end of year (Sum of Items 1 through 4)	$ 12,042,911,786	$ 12,305,377,514
6. Actual actuarial assets, end of year	$ 11,942,753,360	$ 11,345,618,006
7. Asset gain (loss) for year (Item 6 – Item 5)	$ (100,158,426)	$ (959,759,508)
8. Asset gain (loss) as a percent of actuarial value of assets, end of year (Item 7 / Item 6)	(0.84%)	(8.46%)

Summary of 2011 Actuarial Valuation (continued)

Exhibit 7
Projection Results Based on June 30, 2011 Actuarial Valuation

Valuation as of June 30,	Employer Contribution Rate for Fiscal Year Following Valuation Date	Compensation (in Millions)	Employer Contributions (in Millions)	Actuarial Accrued Liability (AAL, in Millions)	Actuarial Value of Assets (AVA, in Millions)	Unfunded Actuarial Accrued Liability (UAAL, in Millions)	Funded Ratio
2011	15.52%	$ 3,955.5	$ 614	$ 20,097	$ 11,943	$ 8,154	59.4%
2012	16.11%	4,093.4	660	20,999	12,645	8,354	60.2%
2013	16.67%	4,210.3	702	21,931	13,386	8,545	61.0%
2014	17.23%	4,338.0	747	22,867	14,163	8,704	61.9%
2015	17.79%	4,473.8	796	23,804	14,977	8,827	62.9%
2016	17.90%	4,616.9	826	24,739	15,833	8,906	64.0%
2017	17.90%	4,767.5	853	25,670	16,712	8,958	65.1%
2018	17.90%	4,926.6	882	26,596	17,612	8,985	66.2%
2019	17.90%	5,094.7	912	27,519	18,537	8,982	67.4%
2020	18.29%	5,160.9	944	28,437	19,491	8,946	68.5%
2021	18.28%	5,346.9	977	29,352	20,478	8,874	69.8%
2022	18.26%	5,543.2	1,012	30,262	21,503	8,759	71.1%
2023	18.25%	5,749.2	1,049	31,168	22,570	8,598	72.4%
2024	18.24%	5,964.6	1,088	32,069	23,684	8,385	73.9%
2025	18.23%	6,190.4	1,128	32,966	24,852	8,114	75.4%
2026	18.21%	6,426.1	1,171	33,856	26,078	7,778	77.0%
2027	18.20%	6,672.8	1,215	34,742	27,371	7,371	78.8%
2028	18.19%	6,931.0	1,261	35,625	28,741	6,885	80.7%
2029	18.19%	7,200.7	1,310	36,507	30,196	6,311	82.7%
2030	18.18%	7,482.6	1,360	37,389	31,748	5,641	84.9%
2031	18.17%	7,776.4	1,413	38,274	33,409	4,864	87.3%
2032	18.17%	8,081.6	1,468	39,162	35,192	3,970	89.9%
2033	18.16%	8,401.0	1,526	40,057	37,109	2,947	92.6%
2034	18.16%	8,734.0	1,586	40,961	39,178	1,783	95.6%
2035	18.15%	9,082.0	1,648	41,880	41,415	465	98.9%
2036	18.15%	9,445.1	1,714	42,816	43,840	(1,024)	102.4%
2037	18.14%	9,823.4	1,782	43,776	46,473	(2,698)	106.2%
2038	18.14%	10,217.6	1,854	44,764	49,338	(4,575)	110.2%
2039	18.14%	10,628.3	1,928	45,785	52,458	(6,673)	114.6%
2040	18.14%	11,056.0	2,006	46,847	55,860	(9,013)	119.2%

This projection reflects the new benefit provisions for new employees hired after June 30, 2012, per Act 163/2011 SLH. The normal cost and accrued liabilities of the June 30, 2011 actuarial valuation were not impacted by the changes of these benefit provisions based on the Individual Entry Age Normal Cost method. The changes in benefit provisions will not impact the normal cost and accrued liabilities until the June 30, 2013 valuation, which will be the first valuation with active members covered under the new benefit provisions.

Gabriel Roeder Smith & Company

Summary of 2011 Actuarial Valuation (continued)

Exhibit 8
Highlights of Last Five Annual Actuarial Valuations
2007 through 2011

Item	Valuation Date: June 30				
	2007	2008	2009	2010	2011
Number of active members	65,251	66,589	67,912	65,890	65,310
Number of inactive members	5,554	5,847	6,016	6,895	6,649
Number of pensioners	33,117	33,893	34,429	35,763	36,871
Number of beneficiaries	2,207	2,367	2,570	2,678	2,818
Average monthly contributory plan pension amount	$ 1,869	$ 1,941	$ 2,019	$ 2,118	$ 2,221
Average monthly noncontributory plan pension amount	$ 1,359	$ 1,388	$ 1,421	$ 1,457	$ 1,509
Average monthly hybrid plan pension amount	1,453	1,603	$ 1,602	$ 1,857	$ 2,055
Average monthly beneficiary amount	$ 1,025	$ 1,062	$ 1,109	$ 1,151	$ 1,188
Total actuarial value of assets ($millions)	$ 10,590	$ 11,381	$ 11,400	$ 11,346	$ 11,943
Unfunded actuarial accrued liabilities ($millions)	$ 5,106.8	$ 5,168.1	$ 6,236.3	$ 7,138.1	$ 8,154.2
Funding Period (in years) (1)	25.5	22.6	28.2	41.3	25.0

Item	Fiscal Year				
(Dollar amounts in millions(2))	2006-2007	2007-2008	2008-2009	2009-2010	2010-2011
Employers appropriations(2)	$ 454.5	$ 488.8	$ 578.6	$ 547.6	$ 534.9

(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 2008Actuarial Valuation (continued)

Exhibit 9
Discussion on Benefit Provisions

A summary of the provisions of ERS used in this valuation is presented in pages 12-16 of the *Introductory Section* of this CAFR. The Summary of Plan Changes below is a historical record of prior legislative changes starting with changes effective in 1999. There were significant changes made by the 2011 Legislature to the benefit provisions of the System for employees hired after June 30, 2012. Because the Board has chosen to use the Individual Entry Age Normal Cost method, the normal cost and accrued liabilities of this valuation were not impacted by the changes in the benefit provisions. In fact, the changes in the benefit provisions will not impact the normal cost and accrued liabilities until the June 30, 2013 valuation, which will be the first valuation with active members covered under the new benefit provisions.

However, as discussed in the our transmittal letter, we did reflect the new benefit provisions in the projection shown in Exhibit 7, which is used to establish the funding period of the System. Therefore, we believe it is important to briefly discuss the major changes in the benefit provisions for employees hired after June 30, 2012. The major changes are outlined below:

- The benefit multiplier was decreased by 0.25% for most employee groups (i.e. 1.75% for new Hybrid Plan employees and 2.25% for new Contributory Plan Police and Fire employees)
- The retirement eligibility for normal retirement was changed to age 60 with 30 years of service or age 65 with 10 years of service for new Hybrid Plan employees
- The retirement eligibility for normal retirement was changed to age 55 with 25 years of service or age 60 with 10 years of service for Police and Fire Employees
- The period for determining average final compensation was increased to 5 years
- The eligibility for a deferred vested annuity was increased to 10 years
- The post-retirement annuity increase was decreased to 1.5% per year
- The matching rate on the hybrid plan funds was decreased to 20%
- The member contribution rates were increased by 2% of pay (8.00% for Hybrid Plan employees, 14.2% for Police and Fire employees, and 9.75% for Hybrid Plan employees entitled to the age 55 with 25 years of service normal retirement eligibility)

There were no changes passed since the last valuation that had an actuarial impact on current employees.

Legislation was also enacted that impacted the employer contribution rates beginning in fiscal year 2013. The employer contribution rates for Police and Fire employees will increase according to the following schedule: 22.00% in FY2013, 23.00% in FY 2014, and 24.00% in FY 2015, and 25.00% in FY 2016 and beyond. The employer contribution rates for All Other Employees will increase according to the following schedule: 15.50% in FY2013, 16.00% in FY 2014, and 16.50% in FY 2015, and 17.00% in FY 2016 and beyond.

This valuation reflects benefits promised to members by the ERS's statutes. There are no ancillary benefits - retirement type benefits not required by the ERS's statutes but which might be deemed an ERS liability if continued beyond the availability of funding by the current funding source.

Summary of 2011 Actuarial Valuation (continued)

Exhibit 9
Discussion on Benefit Provisions (continued)

Act 179/2004 was adopted during FY2003/2004 and established the new Hybrid Plan that became effective on July 1, 2006. Current participants had the choice to elect to move to the new plan or stay in the current plan. There were 26,228 plan members who elected to so transfer. The Hybrid plan membership has since grown to more than 38,000 members. The Hybrid Plan provisions have been reflected in the results of this report.

Summary of Actuarial Methods and Assumptions
(Adopted on June 30, 2007, and December 20, 2010)

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 normal cost and actuarial accrued liability are determined using the Entry Age Actuarial Cost Method. The 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 and accrued liability are determined on an individual basis.

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.

III. Funding of Unfunded Actuarial Accrued Liability

Since the State statutes governing the System establish the employee and employer contribution rates, the actuarial valuation determines the number of years required to amortize (or fund) the UAAL. Because of the legislated increases in future employer contribution rates and the new tier of benefits for employees hired after June 30, 2012, an open group projection of liabilities and assets was used to determine the length of time until the UAAL is eliminated. The open group projection assumed that the number of active members would remain static (i.e. each active employee who leaves employment due to termination, retirement, death or disability, would be replaced by exactly one new employee.

Because of this methodology for determining the funding period, 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.

Summary of Actuarial Methods and Assumptions (continued)
(Adopted on June 30, 2007, and December 20, 2010)

IV. Actuarial Value of Assets

The actuarial value of assets is equal to the expected actuarial value of assets plus 25% of the difference between the actual market value of assets and the expected actuarial value of assets. The expected actuarial value of assets 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 actuarial value of assets, adjusted for contributions, benefits paid, and refunds.

V. Actuarial Assumptions

A. Economic Assumptions

1. Investment return: 7.75% per year, compounded annually, composed of an assumed 3.00% inflation rate and a 4.75% net real rate of return **(effective June 30, 2011)**.
2. Payroll growth rate: 3.50% per annum **(effective June 30, 2006)**.
3. Salary increase rate **(effective June 30, 2011)**: 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
1	4.00%	8.00%	4.00%	8.50%
2	3.00%	7.00%	3.25%	7.75%
3	2.00%	6.00%	2.50%	7.00%
4	1.25%	5.25%	2.00%	6.50%
5	1.00%	5.00%	1.50%	6.00%
6	0.75%	4.75%	1.00%	5.50%
7	0.50%	4.50%	1.00%	5.50%
8	0.50%	4.50%	0.75%	5.25%
9	0.50%	4.50%	0.75%	5.25%
10	0.25%	4.25%	0.75%	5.25%
11	0.25%	4.25%	0.50%	5.00%
12	0.25%	4.25%	0.50%	5.00%
13	0.25%	4.25%	0.50%	5.00%
14	0.25%	4.25%	0.50%	5.00%
15 or more	0.00%	4.00%	0.00%	4.50%

Summary of Actuarial Methods and Assumptions (continued)
(Adopted on June 30, 2007, and December 20, 2010)

	Police & Firefighters	
Years of Service	Service-related Component	Total Annual Rate of Increase Including 3.00%Inflation Component and 2.00% General Increase Rate
0	14.00%	19.00%
1	12.00%	17.00%
2 or more	0.00%	5.00%

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 **(effective June 30, 2011)**

a. Healthy males – Client Specific Table for males, 89% multiplier.
b. Healthy females - Client Specific Table for females, 89% multiplier.
c. Disabled males - 1994 US Group Annuity Mortality Static Table for males, set forward nine years.
d. Disabled females - 1994 US Group Annuity Mortality Static Table for females, set forward nine years.

Teachers

a. Healthy males – Client Specific Table for male teachers, 65% multiplier **(effective June 30, 2011)**.
b. Healthy females - Client Specific Table for female teachers, 67% multiplier **(effective June 30, 2011)**.
c. Disabled males - 1994 US Group Annuity Mortality Static Table for males, set forward five years **(effective June 30, 2011)**.
d. Disabled females - 1994 US Group Annuity Mortality Static Table for males, set forward six years **(effective June 30, 2011)**.

Summary of Actuarial Methods and Assumptions (continued)
(Adopted on June 30, 2007, and December 20, 2010)

Police and Fire

a. Healthy males – 1994 US Group Annuity Mortality Static Table for males, 85% multiplier**(effective June 30, 2006)**.

b. Healthy females - 1994 US Group Annuity Mortality Static Table for females, 85% multiplier **(effective June 30, 2006)**.

c. Disabled males - 1994 US Group Annuity Mortality Static Table for males, set forward three years **(effective June 30, 2011)**.

d. Disabled females - 1994 US Group Annuity Mortality Static Table for females, set forward three years **(effective June 30, 2011)**.

Mortality Improvement: To account for future mortality improvement, the healthy mortality rates were chosen so that the assumed mortality rates are smaller than the rates observed in the most recent experience study (dated 12-20-2010). The margin at the time of the study was at least 7% for all groups (i.e. 7% more actual male deaths than expected). No future mortality improvement after the measurement date is assumed except as described above.

2. Pre-retirement Mortality Rates **(effective June 30, 2011)**

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	Males	Females	Males	Females	Males	Females
Ordinary	64%	48%	50%	40%	15%	15%
Accidental	16%	12%	10%	5%	35%	35%

Summary of Actuarial Methods and Assumptions (continued)
(Adopted on June 30, 2007, and December 20, 2010)

3. Disability rates (**effective June 30, 2011**) – 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 to be ordinary disability or accidental disability, and vary by employee group as follows:

	General Employees		Teachers		Police and Fire
Type	Male	Female	Male	Female	Male & Female
Ordinary	135%	85%	540%	50%	70%
Accidental	30%	7%	5%	5%	35%

Summary of Actuarial Methods and Assumptions (continued)
(Adopted on June 30, 2007, and December 20, 2010)

4. Termination Rates (**effective June 30, 2011**) - Separate male and female rates, based on both age and service, developed from 2010 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:

For first 6 years of service

	Expected Terminations per 100 lives					
	General Employees		Teachers		Police and Fire	
Years of Service	Male	Female	Male	Female	Male	Female
0	15.5	18.5	33.0	28.0	12.0	11.0
1	12.5	16.5	23.0	23.0	9.0	7.5
2	10.5	12.5	15.0	16.0	4.0	4.0
3	9.0	10.0	13.0	14.0	4.0	4.0
4	7.0	8.0	11.0	12.0	4.0	4.0
5	6.0	7.0	9.0	8.0	4.0	4.0

After first 6 years of service

	Expected Terminations per 100 lives				
	General Employees		Teachers		Police and Fire
Age	Male	Female	Male	Female	Male & Female
20	7.15	8.12	6.22	7.12	2.03
25	6.50	7.83	4.98	6.72	1.91
30	5.46	5.84	4.12	6.15	2.53
35	4.40	4.04	3.95	4.99	2.53
40	3.60	3.30	3.60	3.70	2.01
45	3.02	2.65	2.88	2.88	1.18
50	2.54	2.41	2.34	2.36	0.79
55	2.52	2.41	2.34	2.36	0.24
60	2.52	2.41	2.34	2.36	0.00

Summary of Actuarial Methods and Assumptions (continued)
(Adopted on June 30, 2007, and December 20, 2010)

5. Retirement rates (**effective June 30, 2011**) - Separate male and female rates, based on age, developed from the 2010 Experience Study. Sample rates are shown below:

Contributory Plan and Hybrid Plan

Expected Retirements per 100 Lives

	General Employees		Teachers		Police and Fire
Age	Male	Female	Male	Female	Male & Female
45	2	1	0	0	13
46	2	1	0	0	13
47	2	1	0	0	13
48	2	1	0	0	13
49	2	1	0	0	13
50	2	1	1	0	18
51	2	1	1	0	15
52	2	1	1	1	15
53	2	2	2	2	15
54	3	3	3	3	15
55	16	13	20	18	20
56	14	13	15	16	20
57	14	13	15	16	20
58	14	13	15	16	20
59	14	13	15	16	20
60	14	15	14	18	30
61	15	15	14	18	30
62	25	25	14	25	30
63	20	20	14	20	30
64	20	20	14	15	30
65	25	25	20	25	100
66	25	25	15	25	100
67	20	20	15	20	100
68	20	20	15	20	100
69	20	20	15	20	100
70	20	20	15	20	100
71	20	20	15	20	100
72	20	20	15	20	100
73	20	20	15	20	100
74	20	20	15	20	100
75	100	100	100	100	100

Retirement rates for 25 & out group ages 50-54 are 10% for both males and females

Retirement rates for 25 & out group ages 50-54 are 10% for both males and females

Noncontributory Plan

Summary of Actuarial Methods and Assumptions (continued)
(Adopted on June 30, 2007, and December 20, 2010)

Expected Retirements per 100 Lives

	General Employees				Teachers			
	Unreduced Retirement		Reduced Retirement		Unreduced Retirement		Reduced Retirement	
Age	Male	Female	Male	Female	Male	Female	Male	Female
55	13	12	2	2	10	13	2	3
56	13	12	2	2	10	13	2	3
57	13	12	2	2	10	14	2	3
58	13	12	2	2	10	15	2	3
59	13	12	3	3	10	16	3	3
60	14	15	4	4	10	17	5	5
61	14	18	5	5	10	18	10	5
62	25	25			16	25	15	30
63	25	20			12	20		
64	20	20			10	18		
65	25	22			20	30		
66	25	22			15	25		
67	25	22			15	25		
68	25	22			15	25		
69	25	22			15	25		
70	20	20			15	25		
71	20	20			15	25		
72	20	20			15	25		
73	20	20			15	25		
74	20	20			15	25		
75	100	100			100	100		

Retirement rates for the 25 & out group ages 50-54 are 10% for both males and females

Summary of Actuarial Methods and Assumptions (continued)
(Adopted on June 30, 2007, and December 20, 2010)

C. *Other Assumptions*

1. Percent married (**effective June 30, 2006**): 77% of male employees and 57.6% of female employees are assumed to be married.

2. Age difference (**effective June 30, 2006**): 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 (**effective June 30, 2011**): The assumed investment return rate represents the anticipated net return after payment of all investment and administrative expenses. For purposes of determining the investment return assumption administrative expenses are assumed to be equal to 40 basis points of each year's investment return.

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. Teachers are assumed to receive the first COLA 12 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.

Summary of Actuarial Methods and Assumptions (continued)
(Adopted on June 30, 2007, and December 20, 2010)

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.

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

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

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

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

VI. <u>Participant Data</u>

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

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

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

Generally, actuarial assumptions and methods were adopted by the Board of Trustees on December 20, 2010 as recommended by Gabriel, Roeder, Smith & Company (GRS). The legislature set the investment return assumption for this valuation to the assumption recommended by GRS. ERS's Board will adopt the assumption for future valuations 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%.

Summary of Plan Changes (continued)

Act 163, effective June 23, 2011

Legislation was enacted that increased the future employer contribution rates to ERS. Employers of Police and Fire employees will contribute 22% of pay in FY 2013, 23% in FY 2014, 24% in FY 2015, and 25% in FY 2016 and beyond. Employers of All Other Employees will contribute 15.5% of pay in FY 2013, 16.0% in FY 2014, 16.5% in FY 2015, and 17.0% in FY 2016 and beyond.

Legislation was enacted that made numerous changes to the benefits and member contribution rates for employees hired after June 30, 2012. Key changes are shown below:

Benefit Provision	Police & Fire Employees	All Other Employees
Benefit Multiplier	2.25%	1.75%
Normal Retirement	Age 55 with 25 years of service, or age 60 with 10 years of service	Age 60 with 30 years of service, or age 65 with 10years of service
Post-Retirement Increase	1.5%	1.5%
Hybrid Match	N/A	120%
Average Final Compensation	Highest 5 annual salaries	Highest 5 annual salaries
Eligibility for Deferred Benefit	10 years of service	10 years of service
Member Contribution Rate	14.20%	8.00%

Similar changes were also made to the benefits of Judges, Legislative Officers, etc.

Similar changes were also made to those employees in the All Other Employees group who are eligible to retire at 25 years of service including the addition of a minimum age requirement (55).

Finally, legislation was enacted that set the investment return assumption for the June 30, 2011 valuation at 7.75% (the rate recommended in the Experience Study presented to the Board in December of 2010). In addition, the legislation granted ERS's Board the authority to set this assumption for valuations after 2011.

Ten Year Actuarial Schedules
2002 to 2011

- Retirement System Membership **
  - 2011 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 2002-2003 to 2011-2012 **

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

Retirement System Membership **
2002 to 2011

March 31,	Active Members	Inactive Vested Members	Pensioners & Beneficiaries	Total Membership
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
2011	65,310	6,649	39,689	111,648

** Schedule compiled by ERS Staff from actuary reports.

Ten-Year Actuarial Schedules (continued)

2011 Membership Data*
March 31, 2011

	Police and Firefighters		All Other Employees		All Employees	
	June 30, 2011	June 30, 2010	June 30, 2011	June 30, 2010	June 30, 2011	June 30, 2010
1. Active members						
a. Number	4,965	4,940	60,345	60,950	65,310	65,890
b. Total payroll	$ 412,812,512	$ 388,533,540	$3,318,570,914	$3,325,059,166	$3,731,383,426	$3,713,592,706
c. Average salary	$ 83,145	$ 78,651	$ 54,993	$ 54,554	$ 57,133	$ 56,360
d. Average age	41.36	41.3	47.8	47.6	47.4	47.1
e. Average service	13.8	13.7	13.4	13.2	13.4	13.2
2. Inactive members						
a. Number	226	241	6,423	6,654	6,649	6,895
b. Total annual deferred benefits	$ 3,444,867	$ 3,786,481	$ 48,140,410	$ 50,376,724	$ 51,585,277	$ 54,163,205
c. Average annual deferred benefit	$ 15,243	$ 15,712	$ 7,495	$ 7,571	$ 7,758	$ 7,855
3. Service retirees						
a. Number	2,994	2,880	32,365	31,386	35,359	34,266
b. Total annual benefits	$ 129,073,292	$ 118,115,680	$ 744,391,967	$ 694,141,608	$ 873,465,259	$ 812,257,288
c. Average annual benefit	$ 43,111	$ 40,012	$ 23,000	$ 22,116	$ 24,703	$ 23,704
4. Disabled retirees						
a. Number	159	163	1,3353	1,334	1,512	1,497
b. Total annual benefits	$ 2,792,285	$ 2,731,501	$ 14,563,692	$ 13,735,530	$ 17,355,977	$ 16,470,031
c. Average annual benefit	$ 17,562	$ 16,776	$ 10,764	$ 10,296	$ 11,479	$ 11,002
5. Beneficiaries						
a. Number	203	198	2,615	2,480	2,818	2,678
b. Total annual benefits	$ 5,746, 569	$ 5,424,211	$ 34,427,112	$ 31,569,183	$ 40,173,681	$ 36,993,394
c. Average annual benefit	$ 28,308	$ 27,395	$ 13,165	$ 12,730	$ 14,526	$ 13,814

* Prepared by Gabriel, Roeder, Smith & Company

Historical Summary of Active Member Data*
2002 to 2011

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
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
2011	65,310	-0.9%	3,731.4	0.5%	57,133	1.4%	47.4	13.4

* Prepared by Gabriel, Roeder, Smith & Company

Gabriel Roeder Smith & Company

Ten-Year Actuarial Schedules (continued)

Pensioners, Average Annual Pension and Active Member/Pensioner Comparison**
2002 to 2011

March 31,	Number of Pensioners	Average Annual Pension (1)	Ratio of Active Members per Pensioner
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
2011	36,871	$24,160	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**
2002 to 2011

As of Mar 31,	Added	Average Added to Rolls	Removed	Average Removed from Rolls	Total	Average Pension	% Chg
Retirants							
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%
2011	2,056	$27,808	948	$18,154	36,871	$24,160	4.26%
Beneficiaries							
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%
2011	212	$15,843	72	$12,107	2,818	$14,256	3.20%

** Schedule compiled by ERS staff from actuary reports.

Ten-Year Actuarial Schedules (continued)

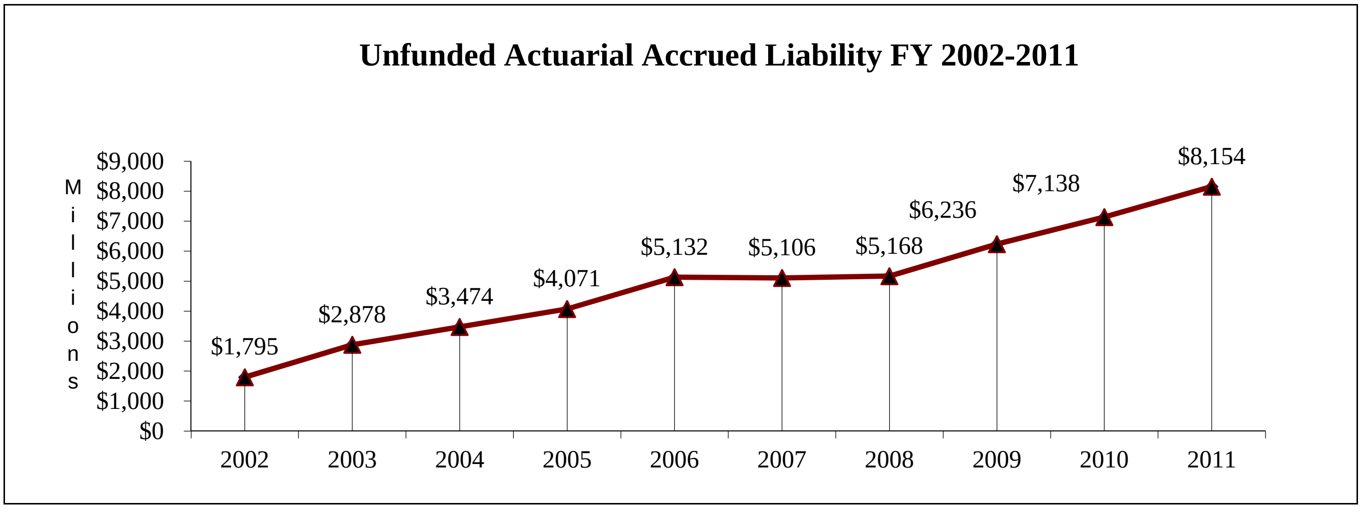
Solvency Test**

2002 to 2011

June 30,	Actuarial Accrued Liabilities (AAL): Active Member Contributions	Actuarial Accrued Liabilities (AAL): Retirees, Beneficiaries, and Inactive Vested Members	Actuarial Accrued Liabilities (AAL): Active and Inactive Members Employer Financed Portion	Actuarial Value of Assets	Cumulative Portion of Actuarial Accrued Liabilities Covered by Assets: Column (1)	Column (2)	Column (3)
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
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%
2011	1,364.2	10,183.7	8,549.0	11,942.8	100%	100%	4.6%

(Amounts in $millions)

** Schedule compiled by ERS Staff from actuary reports



Ten-Year Actuarial Schedules (continued)

Employer Contribution Rates as a Percentage of Payroll **

2002 to 2011

Actuarial Valuation as of June 30,	Police and Firefighters			All Other Employees			All Active Employees		
	Normal Cost Rate	Amortization Percent	Total Employer Rate	Normal Cost Rate	Amortization Percent	Total Employer Rate	Normal Cost Rate	Amortization Percent	Total Employer Rate
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	6.60%	13.10%	19.70%	5.79%	9.21%	15.0%	5.90%	9.59%	15.49%
2011	8.09%	11.01%	19.70%	5.78%	9.22%	15.0%	6.06%	9.46%	15.52%

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

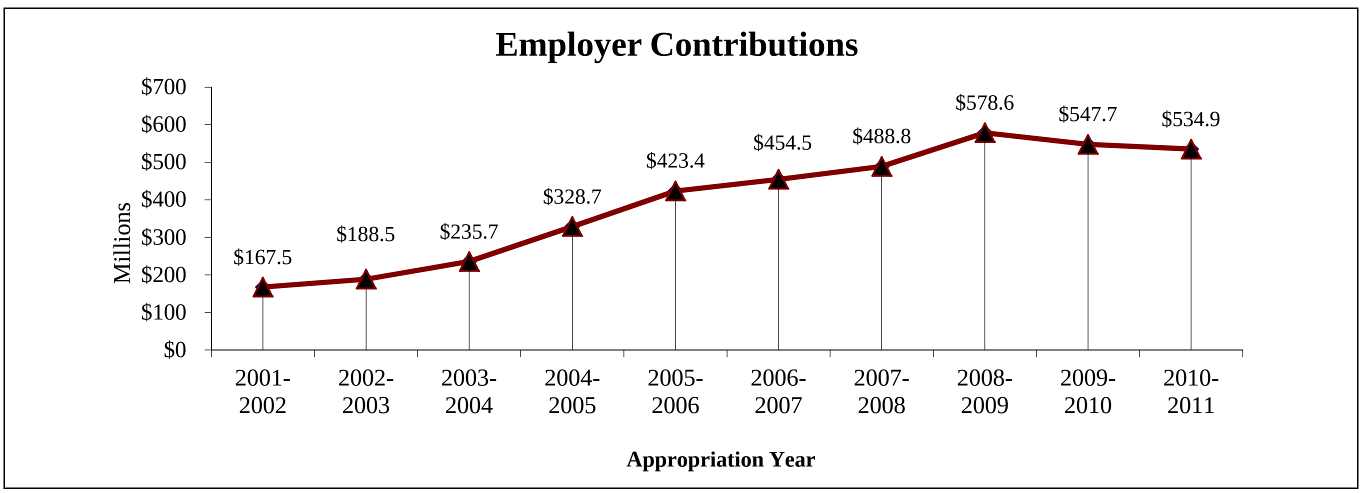
(Amounts in Millions)

	Investment Yield Rate					
Fiscal Year	Assumed for Actuarial Valuation	Actuarial Investment Return	Appropriation Year	Total Calculated Contribution	Investment Earnings Adjustment	Employer Appropriations
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
2010-2011	7.75%	7.1%	2012-2013	N/A	-	N/A

Notes: (1). 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.

(2) 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. Pursuant to Act 163,/2011 SLH, the employer rates will increase over a four-year phase in period. The employer contribution rates for Police and Fire employees will increase according to the following schedule: 22.00% in FY2013, 23.00% in FY 2014, and 24.00% in FY 2015, and 25.00% in FY 2016 and beyond. The employer contribution rates for All Other Employees will increase according to the following schedule: 15.50% in FY2013, 16.00% in FY 2014, and 16.50% in FY 2015, and 17.00% in FY 2016 and beyond.

** Schedule compiled by ERS Staff from actuary reports.



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, 2011 was 59.4%.**

Employees' Retirement System

of the State of Hawaii

STATISTICAL SECTION

Summary

Plan Membership

Membership in the ERS increased by 422 to 111,648 for FY 2011, or 0.4 percent for the year. Active members decreased by 580, retired members and beneficiaries increased by 1,248, and terminated-vested members decreased by 246. Membership data for the last ten years ended June 30, 2011 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, 2011. 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, 2011.

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,:	2002	2003	2004	2005	2006
Additions					
Employer Contributions	$ 167,458,900	$ 190,586,276	$ 235,685,796	$ 328,716,718	$ 423,445,597
Member contributions	55,451,216	57,214,521	55,116,452	57,054,621	56,257,953
Investment income (net of expense)	(503,995,093)	146,140,751	1,236,414,927	931,710,183	988,347,837
Total additions to plan net assets	(281,084,977)	393,941,548	1,527,217,175	1,317,481,522	1,468,051,387
Deductions					
Benefits	565,559,305	602,805,080	636,214,617	676,316,347	720,542,990
Refunds	3,244,334	2,605,602	2,328,796	3,442,466	2,487,279
Administrative expenses	5,754,832	6,780,824	10,468,508	7,259,906	8,477,837
Other	-	2,800	-	-	-
Total deductions from plan net assets	574,558,471	612,194,306	649,011,921	687,018,719	731,508,106
Change in plan net assets	(855,643,448)	(218,252,758)	878,205,254	630,462,803	736,543,281
Plan net assets, beginning of year	8,761,096,089	7,905,452,641	7,687,199,883	8,565,405,137	9,195,867,940
Plan net assets, end of year	$ 7,905,452,641	$ 7,687,199,883	$ 8,565,405,137	$ 9,195,867,940	$ 9,932,411,221

Fiscal Year Ended June 30,:	2007	2008	2009	2010	2011
Additions					
Employer Contributions	$ 454,494,286	$ 488,770,028	$ 578,672,058	$ 547,669,675	$ 538,692,849
Member contributions	144,658,185	163,375,639	177,781,610	360,047,068	232,880,063
Investment income (net of expense)	1,704,957,268	(461,063,080)	(1,937,317,469)	1,026,461,210	2,040,061,555
Total additions to plan net assets	2,304,109,739	191,082,587	(1,180,863,801)	1,934,177,953	2,811,634,467
Deductions					
Benefits	761,004,748	792,312,830	833,691,245	905,315,348	960,219,432
Refunds	3,497,590	3,668,857	3,937,464	7,573,619	7,901,509
Administrative expenses	9,601,756	10,728,801	13,011,283	12,406,339	13,325,781
Other	-	-	-		
Total deductions from plan net assets	774,104,094	806,710,488	850,639,992	925,295,306	981,446,722
Change in plan net assets	1,530,005,645	(615,627,901)	(2,031,503,793)	1,008,882,647	1,830,187,745
Plan net assets, beginning of year	9,932,411,221	11,462,416,866	10,846,788,965	8,815,285,172	9,824,167,819
Plan net assets, end of year	$ 11,462,416,866	$ 10,846,788,965	$ 8,815,285,172	$ 9,824,167,819	$ 11,654,355,564

Contributions

Employer Contribution Rates as a Percentage of Payroll

Fiscal Year	Police & Firefighters	All Other Employees	Composite Rate
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%
2010	19.70%	15.00%	15.47%
2011	19.70%	15.00%	15.49%

Contributions

Deductions from Plan Net Assets for Benefit Payments by Type

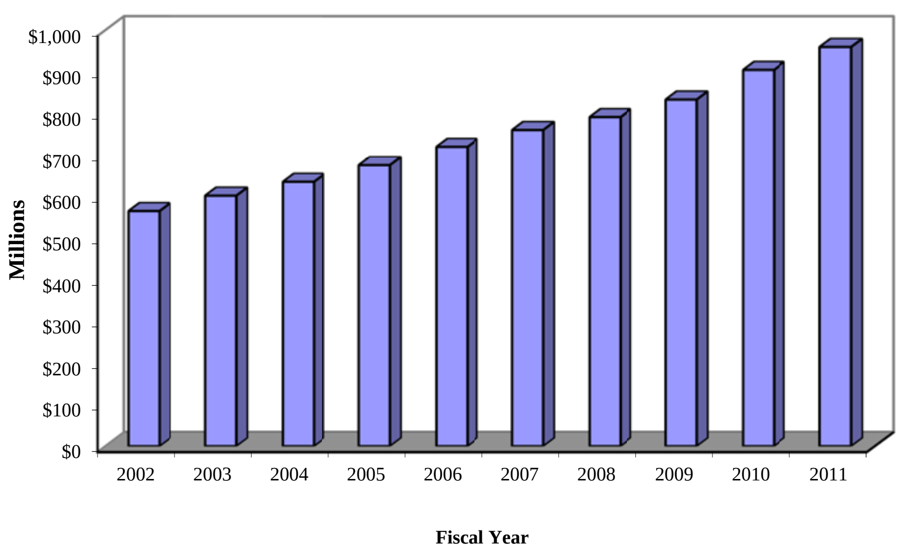
Last Ten Fiscal Years

Fiscal Year Ended June 30,:	2002	2003	2004	2005	2006
Recurring benefit payments					
Service	$ 518,579,831	$ 557,439,020	$ 594,915,118	$ 632,088,342	$ 673,165,361
Disability	9,336,267	10,047,637	10,502,367	11,780,739	12,666,891
Death	2,465,179	1,749,855	3,147,690	2,793,149	3,875,024
subtotal	530,381,277	569,236,512	608,565,175	646,662,230	689,707,276
Refund Option payments (one-time)	35,178,028	33,568,568	27,649,442	29,654,117	30,835,714
Total benefit payments	$ 565,559,305	$ 602,805,080	$ 636,214,617	$ 676,316,347	$ 720,542,990

Fiscal Year Ended June 30,:	2007	2008	2009 **	2010	2011
Recurring benefit payments					
Service	$ 712,580,450	$ 748,158,330	$ 754,432,615	$ 807,662,216	$ 859,915,959
Disability	13,432,834	13,707,170	15,619,011	16,470,042	17,355,973
Death	2,794,068	2,293,557	34,201,206	36,993,685	40,173,678
subtotal	728,807,352	764,159,057	804,252,832	861,125,943	917,445,610
Refund Option payments (one-time)	32,197,396	28,153,773	29,438,413	44,189,405	42,773,822
Total benefit payments	$ 761,004,748	$ 792,312,830	$ 833,691,245	$ 905,315,348	$ 960,219,432

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

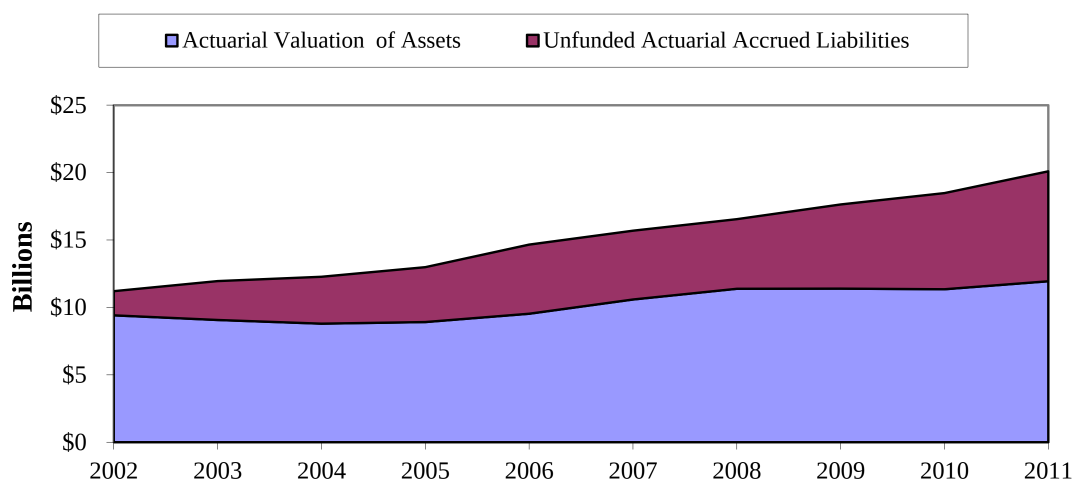
Benefit Payments



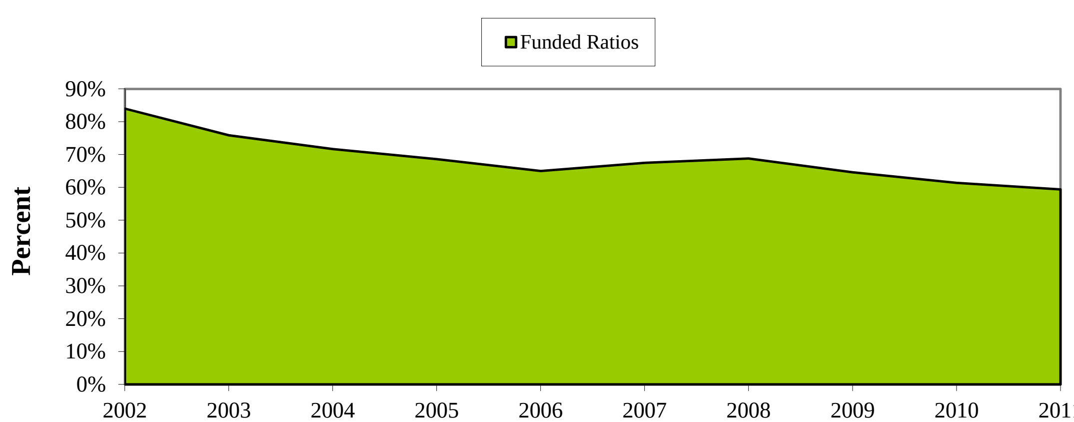
Actuarial Valuation of Assets vs. Actuarial Pension Liabilities

	Dollars in Billions			
Fiscal Year	Actuarial Valuation of Assets	Unfunded Actuarial Liabilities	Actuarial Accrued Liabilities	Funded Ratios
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%
2011	11.943	8.154	20.097	59.4%

Actuarial Accrued Liabilities



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

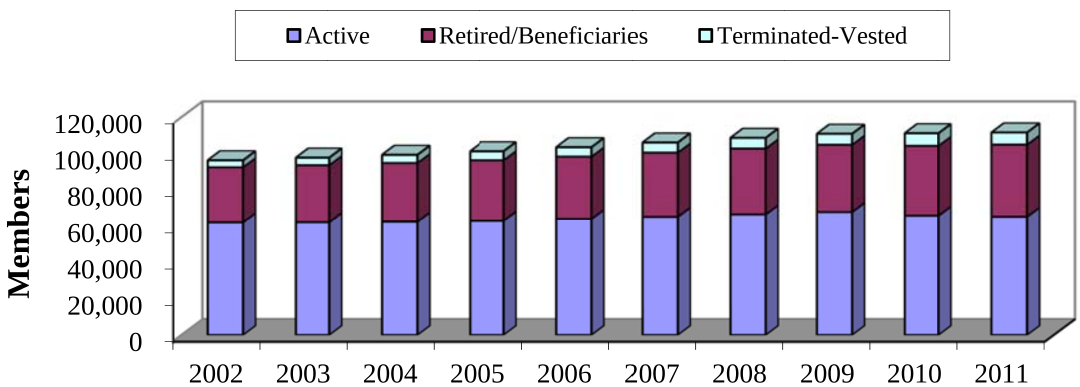


Participating Employers and Membership in ERS
Last Ten Fiscal Years

ERS Membership

As of March 31,:	Active	Retired/Beneficiaries	Terminated-Vested	Totals
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
2011	65,310	39,689	6,649	111,648

ERS Membership



Participating Employers and Active Members

As of March 31,:	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
State of Hawaii	48,242	48,445	48,704	49,203	49,973	50,756	51,719	52,704	50,789	50,268
City & County of Honlulu	8,323	8,223	8,158	8,101	8,167	8,363	8,512	8,640	8,519	8,485
- Board of Water Supply	589	568	554	568	560	556	526	554	526	516
Hawaii County	2,056	2,028	2,081	2,097	2,223	2,315	2,459	2,527	2,501	2,459
Kauai County	1,042	1,034	1,051	1,067	1,088	1,109	1,125	1,160	1,129	1,158
Maui County	1,956	1,994	2,025	2,037	2,055	2,152	2,248	2,327	2,426	2,424
Total	62,208	62,292	62,573	63,073	64,066	65,251	66,589	67,912	65,890	65,310

Benefit Payments by Retirement Type and Option

As of March 31, 2011

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	1,681	1,365	30	16	1	269	358	383	204	69	252	415	-
401 - 800	2,667	2,199	113	48	11	296	298	207	163	60	893	1,042	4
801 - 1,200	2,639	2,209	62	88	13	267	284	166	155	60	1,049	921	4
1,201 - 1,600	2,549	2,271	26	70	9	173	235	124	124	57	1,118	888	3
1,601 - 2,000	2,526	2,321	17	46	7	135	195	98	142	46	1,100	939	6
2,001 - 2,400	2,520	2,399	4	20	6	91	169	72	86	38	1,047	1,102	6
2,401 - 2,800	2,483	2,362	5	20	4	92	203	65	108	43	1,041	1,019	4
2,801 - 3,200	2,126	2,055	1	8	4	58	208	54	82	44	1,095	640	3
3,201 - 3,600	1,608	1,554	-	6	-	48	163	46	70	46	942	341	-
3,601 - 4,000	1,157	1,123	-	4	1	29	182	41	66	41	630	197	-
4,001	2,645	2,577	-	1	4	63	378	80	190	138	1,536	323	-
	24,601	22,435	258	327	60	1,521	2,673	1,336	1,390	642	10,703	7,827	30

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	149	133	-	-	11	5	73	15	31	21	5	4	-
401 - 800	420	347	35	1	28	9	171	40	110	58	17	24	-
801 - 1,200	367	302	39	6	10	10	144	20	90	52	32	29	-
1,201 - 1,600	296	254	20	6	4	12	90	20	90	43	28	25	-
1,601 - 2,000	243	227	12	1	1	2	92	8	59	37	37	10	-
2,001 - 2,400	267	259	5	-	2	1	99	17	63	45	32	11	-
2,401 - 2,800	217	213	1	-	3	-	87	12	47	38	24	9	-
2,801 - 3,200	190	186	2	-	2	-	63	14	37	44	18	14	-
3,201 - 3,600	130	130	-	-	-	-	59	15	15	24	12	5	-
3,601 - 4,000	92	91	-	-	1	-	28	8	19	25	8	4	-
4,001	244	242	1	-	1	-	90	12	43	60	30	9	-
	2,615	2,384	115	14	63	39	996	181	604	447	243	144	-

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	1,637	1,073	118	58	131	257	645	305	484	74	129
401 - 800	2,917	2,241	291	46	72	267	1,483	482	746	140	66
801 - 1,200	1,889	1,553	135	31	22	148	969	359	451	92	18
1,201 - 1,600	1,282	1,127	68	4	5	78	627	257	333	62	3
1,601 - 2,000	1,018	939	24	1	2	52	501	191	254	72	-
2,001 - 2,400	1,244	1,189	14	1	4	36	724	222	189	108	1
2,401 - 2,800	1,103	1,074	4	-	-	25	731	180	113	79	-
2,801 - 3,200	610	595	3	-	2	10	396	113	79	22	-
3,201 - 3,600	341	329	-	-	3	9	209	76	43	13	-
3,601 - 4,000	193	186	-	-	1	6	117	36	31	9	-
4,001	239	234	-	-	1	4	152	47	32	8	-
	12,473	10,540	657	141	243	892	6,554	2,268	2,755	679	217

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

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

Average Monthly Service Pensions
by Years of Credited Service

		Years of Credited Service							
	As of March 31,	0-9	10-14	15-19	20-24	25-29	30-34	35+	All
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
2011	Average Monthly Benefit	$364	$583	$984	$1,397	$2,374	$2,849	$3,261	$2,059
	Number of Active Retirants	1,221	4,106	3,843	4,526	7,920	9,176	4,567	35,359

Retirees and Beneficiaries

(Recurring Benefit Payments)
Tabulated by Fiscal Year that Payments Started as of March 31, 2011

Valuation Year	Number	Total Annual Benefits	Monthly Average Benefit	Valuation Year	Number	Total Annual Benefits	Monthly Average Benefit
1944	1	$ 377	$ 31	1984	570	$ 9,806,951	$ 1,434
1955	1	4,498	375	1985	644	11,832,580	1,531
1957	1	9,886	824	1986	728	14,343,852	1,642
1958	3	24,902	692	1987	1,110	22,992,185	1,726
1959	2	10,324	430	1988	648	11,203,796	1,441
1960	3	23,543	654	1989	811	15,499,252	1,593
1961	4	5,009	104	1990	881	18,768,040	1,775
1962	2	6,719	280	1991	1,006	21,884,173	1,813
1963	2	21,111	880	1992	943	22,121,475	1,955
1964	6	37,485	521	1993	958	24,396,337	2,122
1965	4	42,310	881	1994	1,016	25,389,655	2,082
1966	13	89,629	575	1995	1,904	56,846,253	2,488
1967	8	80,628	840	1996	1,853	52,899,104	2,379
1968	10	96,609	805	1997	754	16,058,226	1,775
1969	17	155,333	761	1998	768	16,130,509	1,750
1970	20	188,669	786	1999	1,099	25,243,020	1,914
1971	21	168,056	667	2000	1,340	32,557,152	2,025
1972	56	669,635	996	2001	1,556	37,294,786	1,997
1973	68	807,795	990	2002	1,299	31,571,638	2,025
1974	59	671,661	949	2003	1,694	45,000,386	2,214
1975	90	1,167,163	1,081	2004	1,666	41,117,317	2,057
1976	126	1,790,262	1,184	2005	1,741	43,507,196	2,082
1977	175	2,521,203	1,201	2006	1,730	41,456,534	1,997
1978	203	3,084,908	1,266	2007	1,853	43,498,813	1,956
1979	246	3,698,414	1,253	2008	1,859	42,074,562	1,886
1980	300	4,685,472	1,302	2009	1,737	39,138,190	1,878
1981	397	5,928,713	1,244	2010	2,478	66,336,896	2,231
1982	445	6,960,283	1,303	2011	2,242	60,152,671	2,236
1983	518	8,922,711	1,435				
				Total	39,689	$ 930,994,857	$ 1,955

Total Benefits Payable

(Recurring Benefit Payments)

Tabulated by Attained Ages of Benefit Recipients as of March 31, 2011

	Service Retirement		Disability Retirement		Survivors and Beneficiaries		Total	
Attained Ages	No.	Annual Benefits	No.	Annual Benefits	No.	Annual Benefits	No.	Annual Benefits
Under 20	-	-	-	-	56	$ 121,623	56	$ 121,623
20-24	-	-	-	-	14	103,843	14	$ 103,843
25-29	-	-	-	-	23	248,397	23	$ 248,397
30-34	-	-	-	-	32	299,502	32	$ 299,502
35-39	-	$ -	2	$ 9,829	55	650,203	57	$ 660,032
40-44	1	14,875	18	188,386	80	892,142	99	$ 1,095,403
45-49	62	2,622,666	71	792,964	105	1,228,811	238	$ 4,644,441
50-54	238	11,494,560	161	1,821,287	146	1,602,396	545	$ 14,918,243
55-59	1,956	65,576,888	287	3,460,915	225	3,162,313	2,468	$ 72,200,116
60-64	5,876	176,129,968	349	4,317,884	325	5,337,684	6,550	$ 185,785,536
65-69	7,894	204,499,338	253	2,721,708	384	6,158,867	8,531	$ 213,379,913
70-74	6,004	148,500,321	145	1,609,045	343	5,699,989	6,492	$ 155,809,355
75-79	5,273	120,010,877	79	862,033	321	4,840,761	5,673	$ 125,713,671
80-84	4,190	83,483,943	72	810,729	384	6,037,486	4,646	$ 90,332,158
85-89	2,597	43,611,009	53	539,189	207	2,530,653	2,857	$ 46,680,851
90-94	1,006	14,275,650	17	177,270	97	1,099,056	1,120	$ 15,551,976
95-99	222	2,768,217	5	44,734	18	143,507	245	$ 2,956,458
100 & over	40	476,894	-	-	3	16,445	43	$ 493,339
Total	35,359	$ 873,465,206	1,512	$ 17,355,973	2,818	$ 40,173,678	39,689	$ 930,994,857