DAVID Y. IGE
GOVERNOR

CRAIG K. HIRAI
DIRECTOR

ROBERT YU
DEPUTY DIRECTOR

DEPT. COMM. NO. 241

EMPLOYEES' RETIREMENT SYSTEM
HAWAI'I EMPLOYER-UNION HEALTH BENEFITS TRUST FUND
OFFICE OF THE PUBLIC DEFENDER

STATE OF HAWAI'I
DEPARTMENT OF BUDGET AND FINANCE
P.O. BOX 150
HONOLULU, HAWAI'I 96810-0150

ADMINISTRATIVE AND RESEARCH OFFICE
BUDGET, PROGRAM PLANNING AND
MANAGEMENT DIVISION
FINANCIAL ADMINISTRATION DIVISION
OFFICE OF FEDERAL AWARDS MANAGEMENT (OFAM)

December 27, 2019

The Honorable Ronald D. Kouchi,
President and Members of the Senate
Thirtieth State Legislature
State Capitol, Room 409
Honolulu, Hawaii 96813

The Honorable Scott K. Saiki, Speaker
and Members of the House of
Representatives
Thirtieth State Legislature
State Capitol, Room 431
Honolulu, Hawaii 96813

Dear President Kouchi, Speaker Saiki, and Members of the Legislature:

For your information and consideration, I am transmitting a copy of the Hawaii Employer-Union Health Benefits Trust Fund's Annual Report for fiscal year ending June 30, 2019, pursuant to section 87A-25, Hawaii Revised Statutes (HRS). In accordance with Section 93-16, Hawaii Revised Statutes, I am also informing you that the report may be viewed electronically at http://budget.hawaii.gov/budget/reports-to-the-legislature/hawaii-employer-union-health-benefits-trust-fund/.

Sincerely,

CRAIG K. HIRAI
Director of Finance

Enclosure

ANNUAL REPORT

FOR THE PERIOD JULY 1, 2018 THROUGH JUNE 30, 2019

Hawaii Employer-Union Health Benefits Trust Fund
State of Hawaii

December 2019

THE HAWAII EMPLOYER-UNION HEALTH BENEFITS TRUST FUND
ANNUAL REPORT
Fiscal Year ended June 30, 2019

This report presents an overview of the organization and activities of the Hawaii Employer-Union Health Benefits Trust Fund (EUTF) for the fiscal year ended June 30, 2019. The EUTF manages and administers health and life insurance plans for eligible state and county employees and retirees and their eligible dependents. The statutory objective of the EUTF is to provide quality health plans that are affordable to employers and employees.

The EUTF was established under Chapter 87A of the Hawaii Revised Statutes and is administratively attached to the Department of Budget and Finance. The office is located in City Financial Tower, 201 Merchant Street, Suite 1700, Honolulu, Hawaii.

The EUTF operates according to administrative rules originally adopted in February 2003 and most recently revised in 2019. The administrative rules were formulated to carry out the requirements of Chapter 87A.

TRUST FUND ORGANIZATION

Board of Trustees

The EUTF is administered by a board of trustees (Board) which is responsible for determining the benefit plans offered, negotiating and entering into contracts with insurance carriers and plan administrators, establishing eligibility criteria and management policies for the EUTF, managing the investments and overseeing all EUTF activities.

There are ten trustees, five representing the public employers and five representing employee-beneficiaries that includes a retiree representative. The trustees and their affiliations as of June 30, 2019 are shown below:

Employer Trustees

- Roderick Becker, Administrator, Financial Administration Division, Dept. of Budget & Finance
- Damien Elefante, Deputy Director, Dept. of Taxation
- Audrey Hidano, Deputy Comptroller, Dept. of Accounting and General Services
- Laurel Johnston, Retired Director, Dept. of Budget & Finance
- Ryker Wada, Director, Dept. of Human Resources Development

Employee-Beneficiary Trustees

- Linda Currivan Musto, Retiree
- Christian Fern, University of Hawaii Professional Assembly (UHPA)
- Gordon Murakami, Hawaii State Teachers Association (HSTA)
- Celeste Nip, Hawaii Fire Fighters Association (HFFA)
- Clifford Uwaine, United Public Workers (UPW)

Board officers for the period July 1, 2018 – June 30, 2019 were Roderick Becker - Chairperson; Audrey Hidano - Vice-Chairperson; and Christian Fern - Secretary-Treasurer.

The Board has regularly scheduled monthly meetings. Board agendas and minutes are posted on the EUTF website at eutf.hawaii.gov.

Administrator and Staff

The EUTF is managed by an Administrator who is hired by and reports to the Board. The Administrator is assisted by an Assistant Administrator, an Investment Office, a Benefits Office, a Financial Management Officer, an Information Systems Chief, and a Member Services Branch Manager. The EUTF has a total of 59 positions (including management staff and the Administrator). The Investment Office is responsible for all investment-related activities of the EUTF and the Benefits Office is responsible for the benefit plan design, cost control through disease management and wellness programs, and auditing of enrollment and claims.

The EUTF has three branches: the Financial Services Branch, Information Systems Branch, and Member Services Branch.

- The Financial Management Officer is supported by seven accountants and five account clerks, who reconcile employee accounts, collect employer/employee contributions for health benefits, process all vendor payments, prepare monthly financial statements and coordinate the annual financial audit.
- The Information Systems Chief manages support for internal information technology (IT) services, manages 1st level support for the benefits administration system, fulfills HIPAA security responsibilities, coordinates additional support services provided by the Department of Accounting and General Services Office of Enterprise Technology Services and Vitech Systems Group, Inc, and is supported by seven IT staff.
- The Member Services Branch Manager oversees the Member Services Branch and is supported by 26 employees assigned to customer service, enrollment, and training duties. Responsibilities include in-person visits, answering phone calls and e-mails from members, and processing of all active employee and retiree enrollment submissions.

Advisors, Consultants and Major Contracts

The Board contracts professional consultants and advisors on certain specific issues of importance to the EUTF:

- Benefits Plan Consultant: The Board has contracted with the Segal Company (Segal) to provide benefit plan consulting services. Segal is a major national benefits consulting firm and provides access to their wide range of services from their Glendale, California office.

- Benefits Administration System (BAS): Vitech Systems Group, Inc. provides the BAS software which handles all enrollment and transmission, member records and premium calculation and tracking. Vitech Systems Group, Inc. provides on-going support of the BAS including programming periodic plan and eligibility rule changes.

- Investment Consultant: Meketa Investment Group (Meketa) provides investment consulting services related to general, private equity and private real estate matters in developing and updating the EUTF's investment policy guidelines including a long-term strategic asset allocation, selecting and terminating investment managers/funds and reporting on the performance of EUTF's long term investments. In addition, Meketa assists in the asset allocation and selection, monitoring and termination of investment managers/funds for the EUTF's short-term funds.

- Global Custody Services: Northern Trust Company provides global custody and securities lending services for EUTF's investments.

- Actuary: Gabriel Roeder Smith & Company conducts annual actuarial valuations of the other post-employment benefit obligation for retiree health benefits.

- Auditor: The auditing firm, KKDLY LLC, procured by the State of Hawaii Office of the Auditor, began the fiscal year ending June 30, 2019 audit in July 2019.

HEALTH AND LIFE INSURANCE BENEFIT PLANS

The EUTF provides health and life insurance benefits through contracts with the following organizations:

Medical and Chiropractic

- Hawaii Medical Service Association (HMSA)
  1. PPO Plans – 90/10 and 80/20 plans for EUTF and HSTA VB* active employees
  2. PPO Plan – 75/25 plan for EUTF active employees
  3. HMO Plan for EUTF active employees
  4. PPO Plans – 90/10 plans for EUTF and HSTA VB* retirees

Medical, Chiropractic and Prescription Drug

- Kaiser Permanente (Kaiser)
  1. Comprehensive HMO Plans for EUTF and HSTA VB* active employees
  2. Standard HMO Plan for EUTF active employees
  3. Comprehensive HMO Plans for EUTF and HSTA VB* non-Medicare retirees
  4. Senior Advantage Medicare Plans for EUTF and HSTA VB* Medicare retirees

Prescription Drug

- CVS Caremark
  1. Prescription drug coverage for HMSA PPO and HMO Plans for EUTF and HSTA VB* active employees and non-Medicare retirees
  2. SilverScript (CVS provider of Medicare Part D prescription drug plans) prescription drug coverage through an Employer Group Waiver Plan (EGWP) for EUTF and HSTA VB* Medicare retirees

Dental

- Hawaii Dental Service (HDS)
  1. EUTF and HSTA VB* active employees and retirees
  2. Supplemental plan for HSTA VB* active employees

Vision

- Vision Service Plan (VSP) – EUTF and HSTA VB* active employees and retirees

Life Insurance

- ♦ USAble Life – EUTF and HSTA VB* active employees (terminated June 30, 2019) and retirees (terminated December 31, 2018).
- ♦ Securian Financial – EUTF and HSTA VB* active employees (beginning July 1, 2019) and retirees (beginning January 1, 2019).

Supplemental Medical and Prescription Drug

- ♦ HMA (Hawaii-Mainland Administrators) – EUTF active employees

The federal Affordable Care Act (ACA) became effective for the active employee medical and prescription drug plans on July 1, 2011.

*HSTA VB refers to the plans developed in response to Judge Karl Sakamoto's December 7, 2010 ruling. HSTA VB plans cover only those who were previously covered by the HSTA VEBA plans effective December 31, 2010.

INSURED AND SELF-INSURED PLANS

The following plans are fully insured:

- HMSA medical and chiropractic**
- Kaiser medical, chiropractic and prescription drug
- HDS dental**
- VSP vision**
- USAble Life, life insurance
- Securian Financial life insurance

** Fully insured with one-way risk sharing - premium refund in those years in which premiums exceeds incurred claims and expenses.

The following plans are self insured:

- CVS Caremark prescription drug for active employees and non-Medicare retirees
- SilverScript EGWP prescription drug for Medicare retirees
- HMA supplemental medical and prescription drug

ACTIVITIES IN FISCAL YEAR 2019

EUTF conducted open enrollment in October 2018 for retirees, with an effective date of January 1, 2019 and in April 2019 for active employees, with an effective date of July 1, 2019.

For active employee plans, starting July 1, 2019, the following are the significant plan changes:

<u>HMSA Medical Plans</u>

1. *Advanced Care Planning.* For HSTA VB plans, added coverage at 100% for in-network providers and standard plan benefits for out-of-network providers. For EUTF PPO and HMO plans, improved coverage to 100% for in-network providers (not subject to the 75/25 deductible) and standard plan benefits for out-of-network providers.

2. *Diabetes Prevention Program.* For HSTA VB members, added coverage at 100% for in-network providers limited to once per lifetime. This program was previously added to the EUTF PPO and HMO plans effective July 1, 2018.
3. *Heart Disease Program.* For HSTA VB plans, added coverage of a program for reversing heart disease at $20 per session from in-network providers limited to once per lifetime. This program was previously added to the EUTF PPO and HMO plans effective July 1, 2016.
4. *Supportive Care.* For HSTA VB plans, added coverage at 100% from in-network providers limited to 90 calendar days in a 12-month period. This benefit was previously added to the EUTF PPO and HMO plans effective July 1, 2017.

Kaiser Medical and Prescription Drug Plans (EUTF and HSTA VB Plans)

1. *Diabetes Prevention Program.* Added a facility-based and digital-based Diabetes Prevention Program at no cost to the member.

CVS Prescription Drug Plans (EUTF Plans Only)

1. *Specialty Annual Maximum Out-of-Pocket.* Increased from $2,000 to $2,500.
2. *Specialty Coinsurance.* Changed from 20% up to $250 per prescription to:
   - Specialty generic: 10% up to $200 per prescription
   - Specialty preferred brand: 20% up to $300 per prescription
   - Specialty non-preferred brand: 30% up to $400 per prescription

HDS Dental Plans (EUTF and HSTA VB Plans)

1. Added additional cleanings and/or fluorides to prevent oral disease and tooth decay that accompanies certain medical conditions or diseases such as cancer, Sjogren's Syndrome, stroke, heart attack, congestive heart failure, kidney failure, and organ transplants.

VSP Vision Plans (EUTF and HSTA VB Plans)

1. *Standard Progressive Lenses (no-line multi-focal lenses).* Improved in-network coverage at 100%.
2. *Network.* Wal-Mart & Sam's Club have been added to the VSP Network
3. *Frame Allowance.* The $120 every other year frame benefit (in lieu of the contact lens allowance) is now available at all VSP Providers (including Costco, Wal-Mart & Sam's Club).

Securian Financial Life Insurance Plan (EUTF and HSTA VB Plans)

1. Securian Financial (Securian) has been chosen as the new life insurance carrier.
2. The life insurance benefit provided decreased from $41,116 to $38,505 for active employees under age 65.
3. The accelerated death benefit increased from up to 75% to 100%.

For retiree plans, starting January 1, 2019, the following are the significant plan changes:

HMSA Medical Plans

1. *Advanced Care Planning.* For HSTA VB retiree plans, added coverage at 100% for in-network providers and for standard plan benefits out-of-network providers. For EUTF retiree plans, improved coverage to 100% and standard plan benefits for out-of-network providers.
2. *Diabetes Prevention Program.* For EUTF and HSTA VB non-Medicare retirees, added coverage at 100% for in-network providers limited to once per

lifetime. A similar Medicare program was previously added to the EUTF and HSTA VB Medicare retiree plans effective April 1, 2018.

VSP Vision Plans (EUTF and HSTA VB Plans)

1. *Frame Allowance.* The $120 every other year frame benefit (in lieu of the contact lens allowance) is now available at all VSP Providers (including Costco, Wal-Mart & Sam's Club).

Securian Life Insurance Plan (EUTF and HSTA VB Plans)

1. Securian has been chosen as the new life insurance carrier.
2. The life insurance benefit provided decreased from $2,235 to $1,815.
3. Added an accelerated death benefit of up to 100%.

Act 145, Session Laws of Hawaii (SLH) 2017 allows EUTF employees to enter into the civil service system. In 2017, the EUTF Board determined that 42 exempt positions would be converted to civil service of which 31 have been converted as of June 30, 2019. The EUTF is providing a separate report to the Legislature regarding progress under Act 145, SLH 2017.

The other post-employment benefits trust fund (OPEB Trust) returned 4.1% net of fees during the fiscal year and has returned 7.1% annualized net of fees since inception (June 23, 2011) through June 30, 2019 which exceeded the investment target return of 7.0%. Fiscal year 2019 performance was below the median public fund performance of 5.9% primarily due under allocation to the private equity class (1.4% actual allocation at June 30, 2019 versus a 10% target). Since passage of Act 30, SLH 2016 that allowed EUTF investment into additional asset classes such as private real estate, private credit, private equity, options and futures and alternative risk premia (i.e. factors) strategies, the EUTF Board has committed $411.9 million to private equity funds or 13.4% of the OPEB Trust at June 30, 2019. Unfortunately, through June 30, 2019 only $47.5 million of the $411.9 million committed to private equity has been invested.

Ongoing Programs and General Operations

The EUTF provides Open Enrollment sessions for active employees each Spring and for retirees each Fall, Departmental Human Resources Officer informational sessions and pre-retirement sessions in the EUTF office and on the neighbor islands. EUTF also participates in pre-retirement sessions, new hire orientations and benefit fairs conducted by the various employers, as well as pre-retirement and retirement sessions conducted by the various unions. EUTF is also focusing on internet-based outreach which includes on-demand presentations and webinars.

During fiscal year 2019, the EUTF Member Services Branch Call Center successfully handled 54,019 (versus 49,049 in fiscal year 2018) customer service and 15,266 (versus 19,314 in 2018) accounting phone calls, and staff serviced 9,092 (versus 8,230 in 2018) walk-in visitors. Additionally, 115,647 (versus 112,752 in 2018) incoming documents were imaged, and 80,086 (versus 89,964 in 2018) enrollment-related outbound documents were printed in-house and mailed directly to plan participants.

Information Systems handled the following systems issues in addition to normal work flow:

- A feasibility study was conducted by Public Consulting Group (PCG) to explore the upgrade or replacement of EUTF's Benefits Administration System (BAS). The study concluded that EUTF should conduct a procurement for a new BAS due to the current use of an old software version of the BAS.

- Linea Solutions was contracted to assist EUTF in writing an RFP for a new BAS. Linea conducted functional and technical reviews of EUTF's current BAS environment and is working on a draft request for proposals.
- Implemented changes in the BAS to allow importing of the monthly death validation file from the Department of Health which allows timely recording of death dates.
- Implemented changes in the BAS to allow importing of Medicare Part D files from SilverScript which allows automating the data entry of Medicare Part D enrollment information.
- Implemented changes to the BAS to distribute workflows by member last name to the Member Services Section team members to ensure consistency in processing enrollment changes and supporting documents.

An annual audit of the EUTF, as required by Chapter 87A-25(2), was conducted for the fiscal year July 1, 2018 through June 30, 2019 by KKDLY LLC. The report is posted on EUTF's website and attached to this report.

The following pages provide enrollment data as of June 30, 2019.

Enrollment Counts - Actives (Summary)

The table below shows Active enrollments for period ending 06-30-2019

Total Number of Active = 66,912

Count by Subscribers and Dependents

Benefit Plan	Type Subscribers	Dependents	Total	Waived Plans
Medical Plans				
EUTF				
PPO-90/10 HMSA Medical and Chiro bundled with PPO Drug (CVS)	3,967	2,515	6,482	
PPO-80/20 HMSA Medical and Chiro bundled with PPO Drug (CVS)	14,669	12,926	27,595	
PPO-75/25 HMSA Medical and Chiro bundled with PPO Drug (CVS)	13,661	14,675	28,336	
HMO HMSA Medical and Chiro bundled with HMO Drug (CVS)	1,193	727	1,920	
HMO Comprehensive Kaiser Medical, Drug and Chiro	5,285	4,349	9,634	
HMO Standard Kaiser Medical, Drug and Chiro	7,687	7,052	14,739	
HMA Supplemental Medical and Drug	742	1,358	2,100	
EUTF Total	47,204	43,602	90,806	
HSTA VB				
HSTA VB PPO-90/10 Medical and Chiro (HMSA) bundled with PPO Drug (CVS), Vision (VSP)	1,201	1,265	2,466	
HSTA VB PPO-80/20 Medical and Chiro (HMSA) bundled with PPO Drug (CVS), Vision (VSP)	2,438	3,806	6,244	
HSTA VB HMO Medical, Drug and Chiro (Kaiser) bundled with Vision (VSP)	896	1,166	2,062	
HSTA VB Total	4,535	6,237	10,772	
Medical Plans Total	51,739	49,839	101,578	15,173
Drug Plans				
EUTF				
PPO-90/10 CVS Prescription Drug bundled with PPO Medical (HMSA)	3,967	2,515	6,482	
PPO-80/20 CVS Prescription Drug bundled with PPO Medical (HMSA)	14,669	12,926	27,595	
PPO-75/25 CVS Prescription Drug bundled with PPO Medical (HMSA)	13,661	14,675	28,336	
HMO CVS Prescription Drug bundled with HMO Medical (HMSA)	1,193	727	1,920	
EUTF Total	33,490	30,843	64,333	
HSTA VB				
HSTA VB PPO-90/10 Prescription Drug (CVS) bundled with HSTA VB PPO Medical (HMSA)	1,201	1,265	2,466	
HSTA VB PPO-80/20 Prescription Drug (CVS) bundled with HSTA VB PPO Medical (HMSA)	2,438	3,806	6,244	
HSTA VB Total	3,639	5,071	8,710	
Drug Plans Total	37,129	35,914	73,043	29,783
Dental Plans				
EUTF				
Dental (HDS)	50,253	46,216	96,469	
EUTF Total	50,253	46,216	96,469	
HSTA VB				
HSTA VB Dental (HDS)	4,856	6,408	11,264	
HSTA VB Supplemental Dental (HDS)	124	241	365	
HSTA VB Total	4,980	6,649	11,629	
Dental Plans Total	55,233	52,865	108,098	11,679
Vision Plans				
EUTF				
Vision (VSP)	47,776	42,455	90,231	
EUTF Total	47,776	42,455	90,231	
HSTA VB				
HSTA VB Vision (VSP) - Stand Alone	260	513	773	
HSTA VB Vision (VSP) bundled with Medical	4,535	5,610	10,145	
HSTA VB Total	4,795	6,123	10,918	
Vision Plans Total	52,571	48,578	101,149	14,341
Life Insurance Plans				
EUTF				
Life Insurance (USAble)	59,561	0	59,561	
EUTF Total	59,561	0	59,561	
HSTA VB				
HSTA VB Life Insurance (USAble)	5,945	0	5,945	
HSTA VB Total	5,945	0	5,945	
Life Insurance Plans Total	65,506	0	65,506	1,406

NOTE: The Drug Plan Total does not reflect enrollments in Medical Plans such as Kaiser Medical and HMA Supplemental Medical which includes drug, but does not have a separate Drug enrollment count. Total Drug count for these plans is 14,610

Data Taken 06-15-2019

Enrollment Counts - EUTF Actives

The table below shows EUTF Actives enrollments for period ending 06-30-2019

Count by Enrollment Coverage

Count of Subscribers	Type of Enrollment			
Benefit Plan	**Self**	**Two Party**	**Family**	**Grand Total**
Medical Plans				
PPO-90/10 HMSA Medical and Chiro bundled with PPO Drug (CVS)	2,743	562	662	3,967
PPO-80/20 HMSA Medical and Chiro bundled with PPO Drug (CVS)	8,503	2,626	3,540	14,669
PPO-75/25 HMSA Medical and Chiro bundled with PPO Drug (CVS)	7,061	2,444	4,156	13,661
HMO HMSA Medical and Chiro bundled with HMO Drug (CVS)	856	149	188	1,193
HMO Comprehensive Kaiser Medical, Drug and Chiro	3,240	911	1,134	5,285
HMO Standard Kaiser Medical, Drug and Chiro	4,380	1,376	1,931	7,687
HMA Supplemental Medical and Drug	188	159	395	742
Medical Plans Total	**26,971**	**8,227**	**12,006**	**47,204**
Drug Plans				
PPO-90/10 CVS Prescription Drug bundled with PPO Medical (HMSA)	2,743	562	662	3,967
PPO-80/20 CVS Prescription Drug bundled with PPO Medical (HMSA)	8,503	2,626	3,540	14,669
PPO-75/25 CVS Prescription Drug bundled with PPO Medical (HMSA)	7,061	2,444	4,156	13,661
HMO CVS Prescription Drug bundled with HMO Medical (HMSA)	856	149	188	1,193
Drug Plans Total	**19,163**	**5,781**	**8,546**	**33,490**
Dental Plan (HDS)	**26,349**	**11,600**	**12,304**	**50,253**
Vision Plan (VSP)	**25,853**	**10,614**	**11,309**	**47,776**
Life Insurance Plan (USAble)	**59,561**			**59,561**

Count by Subscribers and Dependents

	Type		
Benefit Plan	**Subscribers**	**Dependents**	**Total**
Medical Plans			
PPO-90/10 HMSA Medical and Chiro bundled with PPO Drug (CVS)	3,967	2,515	6,482
PPO-80/20 HMSA Medical and Chiro bundled with PPO Drug (CVS)	14,669	12,926	27,595
PPO-75/25 HMSA Medical and Chiro bundled with PPO Drug (CVS)	13,661	14,675	28,336
HMO HMSA Medical and Chiro bundled with HMO Drug (CVS)	1,193	727	1,920
HMO Comprehensive Kaiser Medical, Drug and Chiro	5,285	4,349	9,634
HMO Standard Kaiser Medical, Drug and Chiro	7,687	7,052	14,739
HMA Supplemental Medical and Drug	742	1,358	2,100
Medical Plans Total	**47,204**	**43,602**	**90,806**
Drug Plans			
PPO-90/10 CVS Prescription Drug bundled with PPO Medical (HMSA)	3,967	2,515	6,482
PPO-80/20 CVS Prescription Drug bundled with PPO Medical (HMSA)	14,669	12,926	27,595
PPO-75/25 CVS Prescription Drug bundled with PPO Medical (HMSA)	13,661	14,675	28,336
HMO CVS Prescription Drug bundled with HMO Medical (HMSA)	1,193	727	1,920
Drug Plans Total	**33,490**	**30,843**	**64,333**
Dental Plan (HDS)	**50,253**	**46,216**	**96,469**
Vision Plan (VSP)	**47,776**	**42,455**	**90,231**

Data Taken 06-15-2019

Enrollment Counts - HSTA VB Actives

The table below shows HSTA VB Actives enrollments for period ending 06-30-2019

Count by Enrollment Coverage

Count of Subscribers	Type of Enrollment			
Benefit Plan	**Self**	**Two Party**	**Family**	**Grand Total**
Medical Plans				
HSTA VB PPO-90/10 Medical and Chiro (HMSA) bundled with PPO Drug (CVS), Vision (VSP)	649	177	375	1,201
HSTA VB PPO-80/20 Medical and Chiro (HMSA) bundled with PPO Drug (CVS), Vision (VSP)	869	394	1,175	2,438
HSTA VB HMO Medical, Drug and Chiro (Kaiser) bundled with Vision (VSP)	435	126	335	896
Medical Plans Total	**1,953**	**697**	**1,885**	**4,535**
Drug Plans				
HSTA VB PPO-90/10 Prescription Drug (CVS) bundled with HSTA VB PPO Medical (HMSA)	649	177	375	1,201
HSTA VB PPO-80/20 Prescription Drug (CVS) bundled with HSTA VB PPO Medical (HMSA)	869	394	1,175	2,438
Drug Plans Total	**1,518**	**571**	**1,550**	**3,639**
Dental Plans				
HSTA VB Dental (HDS)	1,927	1,026	1,903	4,856
HSTA VB Supplemental Dental (HDS)	16	36	72	124
Dental Plans Total	**1,943**	**1,062**	**1,975**	**4,980**
Vision Plans				
HSTA VB Vision (VSP) - Stand Alone	37	72	151	260
HSTA VB Vision (VSP) bundled with Medical	1,980	877	1,678	4,535
Vision Plans Total	**2,017**	**949**	**1,829**	**4,795**
Life Insurance Plan (USAble)	**5,945**			**5,945**

Count by Subscribers and Dependents

	Type		
Benefit Plan	**Subscribers**	**Dependents**	**Total**
Medical Plans			
HSTA VB PPO-90/10 Medical and Chiro (HMSA) bundled with PPO Drug (CVS), Vision (VSP)	1,201	1,265	2,466
HSTA VB PPO-80/20 Medical and Chiro (HMSA) bundled with PPO Drug (CVS), Vision (VSP)	2,438	3,806	6,244
HSTA VB HMO Medical, Drug and Chiro (Kaiser) bundled with Vision (VSP)	896	1,166	2,062
Medical Plans Total	**4,535**	**6,237**	**10,772**
Drug Plans			
HSTA VB PPO-90/10 Prescription Drug (CVS) bundled with HSTA VB PPO Medical (HMSA)	1,201	1,265	2,466
HSTA VB PPO-80/20 Prescription Drug (CVS) bundled with HSTA VB PPO Medical (HMSA)	2,438	3,806	6,244
Drug Plans Total	**3,639**	**5,071**	**8,710**
Dental Plans			
HSTA VB Dental (HDS)	4,856	6,408	11,264
HSTA VB Supplemental Dental (HDS)	124	241	365
Dental Plans Total	**4,980**	**6,649**	**11,629**
Vision Plans			
HSTA VB Vision (VSP) - Stand Alone	260	513	773
HSTA VB Vision (VSP) bundled with Medical	4,535	5,610	10,145
Vision Plans Total	**4,795**	**6,123**	**10,918**

Data Taken 06-15-2019

Enrollment Counts - EUTF Actives

The table below shows EUTF Actives enrollments for period ending 06-30-2019

Count by Bargaining Unit

Count of Subscribers

Benefit Plan	BU 00	BU 01	BU 02	BU 03	BU 04	BU 05	BU 06	BU 07	BU 08	BU 09	BU 10	BU 11	BU 12	BU 13	BU 14	Grand Total
Medical Plans																
PPO-90/10 HMSA Medical and Chiro bundled with PPO Drug (CVS)	145	499	35	723	39	456	117	406	212	89	163	75	255	718	35	3,967
PPO-80/20 HMSA Medical and Chiro bundled with PPO Drug (CVS)	321	2,271	250	3,446	207	1,101	359	963	712	311	651	273	1,181	2,417	206	14,669
PPO-75/25 HMSA Medical and Chiro bundled with PPO Drug (CVS)	367	1,904	130	2,981	167	1,907	201	548	896	231	570	814	339	2,436	170	13,661
HMO HMSA Medical and Chiro bundled with HMO Drug (CVS)	28	183	16	242	11	149	19	79	57	24	54	14	116	186	15	1,193
HMO Comprehensive Kaiser Medical, Drug and Chiro	101	862	99	1,219	81	481	110	449	195	125	279	129	351	735	69	5,285
HMO Standard Kaiser Medical, Drug and Chiro	181	927	57	1,530	61	1,454	77	413	643	166	287	296	224	1,265	106	7,687
HMA Supplemental Medical and Drug	23	63	11	212	21	86	12	18	27	12	14	39	32	163	9	742
Medical Plans Total	1,166	6,709	598	10,353	587	5,634	895	2,876	2,742	958	2,018	1,640	2,493	7,920	610	47,204
Drug Plans																
PPO-90/10 CVS Prescription Drug bundled with PPO Medical (HMSA)	145	499	35	723	39	456	117	406	212	89	163	75	255	718	35	3,967
PPO-80/20 CVS Prescription Drug bundled with PPO Medical (HMSA)	321	2,271	250	3,446	207	1,101	359	963	712	311	651	273	1,181	2,417	206	14,669
PPO-75/25 CVS Prescription Drug bundled with PPO Medical (HMSA)	367	1,904	130	2,981	167	1,907	201	548	896	231	570	814	339	2,436	170	13,661
HMO CVS Prescription Drug bundled with HMO Medical (HMSA)	28	183	16	242	11	149	19	79	57	24	54	14	116	186	15	1,193
Drug Plans Total	861	4,857	431	7,392	424	3,613	696	1,996	1,877	655	1,433	1,176	1,891	5,757	426	33,490
Dental Plan (HDS)	1,262	7,166	647	11,486	660	5,802	945	2,970	2,787	1,003	2,122	1,732	2,593	8,436	642	50,253
Vision Plan (VSP)	1,186	6,888	622	10,926	621	5,382	905	2,768	2,628	952	2,038	1,648	2,516	8,084	612	47,776
Life Insurance Plan (USAble)	1,542	8,432	735	13,741	751	6,746	1,157	3,453	3,788	1,164	2,518	1,932	2,840	9,955	757	59,561

Enrollment Counts - HSTA VB Actives

The table below shows HSTA VB Actives enrollments for period ending 06-30-2019

Count by Bargaining Unit

Count of Subscribers

Benefit Plan	BU 05
Medical Plans	
HSTA VB PPO-90/10 Medical and Chiro (HMSA) bundled with PPO Drug (CVS), Vision (VSP)	1,201
HSTA VB PPO-80/20 Medical and Chiro (HMSA) bundled with PPO Drug (CVS), Vision (VSP)	2,437
HSTA VB HMO Medical, Drug and Chiro (Kaiser) bundled with Vision (VSP)	896
Medical Plans Total	4,534
Drug Plans	
HSTA VB PPO-90/10 Prescription Drug (CVS) bundled with HSTA VB PPO Medical (HMSA)	1,201
HSTA VB PPO-80/20 Prescription Drug (CVS) bundled with HSTA VB PPO Medical (HMSA)	2,437
Drug Plans Total	3,638
Dental Plans	
HSTA VB Dental (HDS)	4,855
HSTA VB Supplemental Dental (HDS)	124
Dental Plans Total	4,979
Vision Plans	
HSTA VB Vision (VSP) - Stand Alone	260
HSTA VB Vision (VSP) bundled with Medical	4,534
Vision Plans Total	4,794
Life Insurance Plan (USAble)	5,944

Data Taken 06-15-2019

Enrollment Counts - Retirees (Summary)

The table below shows Retiree enrollments for period ending 06-30-2019

Total Number of Retiree = 49,605

Count by Subscribers and Dependents

Benefit Plan	Type Subscribers	Dependents	Total	Waived Plans
Medical Plans				
EUTF				
PPO-90/10 Medical (HMSA) - Retiree				
Retiree (Medicare)	31,269	12,341	43,610	
Retiree (Non-Medicare)	5,499	4,436	9,935	
PPO-90/10 Medical (HMSA) - Retiree Total	**36,768**	**16,777**	**53,545**	
HMO Medical (Kaiser), Drug (Kaiser) - Retiree				
Retiree (Medicare)	6,535	2,316	8,851	
Retiree (Non-Medicare)	1,062	752	1,814	
HMO Medical (Kaiser), Drug (Kaiser) - Retiree Total	**7,597**	**3,068**	**10,665**	
Out-of-State Plan				
Retiree (Medicare)	162	64	226	
Retiree (Non-Medicare)	9	4	13	
Out-of-State Plan Total	**171**	**68**	**239**	
EUTF Total	**44,536**	**19,913**	**64,449**	
HSTA VB				
HSTA VB PPO-90/10 Medical and Chiro (HMSA) bundled with PPO Drug (SilverScript or CVS), Vision (VSP) - Retiree				
Retiree (Medicare)	2,065	1,031	3,096	
Retiree (Non-Medicare)	38	17	55	
HSTA VB PPO-90/10 Medical and Chiro (HMSA) bundled with PPO Drug (SilverScript or CVS), Vision (VSP) - Retiree Total	**2,103**	**1,048**	**3,151**	
HSTA VB PPO-80/10 Medical and Chiro (HMSA) bundled with Vision (VSP) - Retiree				
Retiree (Medicare)	11	4	15	
HSTA VB PPO-80/10 Medical and Chiro (HMSA) bundled with Vision (VSP) - Retiree Total	**11**	**4**	**15**	
HSTA VB HMO Medical, Drug and Chiro (Kaiser) bundled with Vision (VSP) - Retiree				
Retiree (Medicare)	227	93	320	
Retiree (Non-Medicare)	7	2	9	
HSTA VB HMO Medical, Drug and Chiro (Kaiser) bundled with Vision (VSP) - Retiree Total	**234**	**95**	**329**	
HSTA VB Out-of-State Plan				
Retiree (Medicare)	3	3	6	
HSTA VB Out-of-State Plan Total	**3**	**3**	**6**	
HSTA VB Total	**2,351**	**1,150**	**3,501**	
Medical Plans Total	**46,887**	**21,063**	**67,950**	**2,718**
Drug Plans				
EUTF				
PPO Drug (SilverScript) - Medicare	30,308	11,767	42,075	
PPO Prescription Drug (CVS) - Non-Medicare	5,796	4,597	10,393	
EUTF Total	**36,104**	**16,364**	**52,468**	
HSTA VB				
HSTA VB PPO-90/10 Prescription Drug (CVS) bundled with HSTA VB PPO Medical (HMSA) - Non-Medicare	46	21	67	
HSTA VB PPO-90/10 Prescription Drug (SilverScript) bundled with HSTA VB Medical (HMSA) - Medicare	2,060	1,027	3,087	
HSTA VB Total	**2,106**	**1,048**	**3,154**	
Drug Plans Total	**38,210**	**17,412**	**55,622**	**11,395 ***
Dental Plans				
EUTF				
Dental (HDS)	45,003	20,325	65,328	
EUTF Total	**45,003**	**20,325**	**65,328**	
HSTA VB				
HSTA VB Dental (HDS) - Retiree	2,344	1,154	3,498	
HSTA VB Total	**2,344**	**1,154**	**3,498**	
Dental Plans Total	**47,347**	**21,479**	**68,826**	**2,258**
Vision Plans				
EUTF				
Vision (VSP)	45,163	20,584	65,747	
EUTF Total	**45,163**	**20,584**	**65,747**	
HSTA VB				
HSTA VB Vision (VSP) bundled with Medical - Retiree	2,351	1,150	3,501	
HSTA VB Total	**2,351**	**1,150**	**3,501**	
Vision Plans Total	**47,514**	**21,734**	**69,248**	**2,091**
Life Insurance Plans				
EUTF				
EUTF Securian Life Insurance - Retiree	41,787	0	41,787	
EUTF Total	**41,787**	**0**	**41,787**	
HSTA VB				
HSTA VB Securian Life Insurance - Retiree	2,373	0	2,373	
HSTA VB Total	**2,373**	**0**	**2,373**	
Life Insurance Plans Total	**44,160**	**0**	**44,160**	**189 ****

**NOTE* *The Drug Plan Total does not reflect enrollments in Medical Plans such as Kaiser Medical and Out-of-State Medical which includes drug, but does not have a separate Drug enrollment count. Total Drug count for these plans is 8,005*

***NOTE* *The Waived Life Insurance Total does not include Survivors who are not eligible for Life Insurance. Total count of Survivors not eligible is 5,256*

Data Taken 06-15-2019

Enrollment Counts - EUTF Retirees

The table below shows EUTF Retirees enrollments for period ending 06-30-2019

Count by Enrollment Coverage

Count of Subscribers	Type of Enrollment			
Benefit Plan	**Self**	**Two Party**	**Family**	**Grand Total**
Medical Plans				
PPO-90/10 Medical (HMSA) - Retiree				
Retiree (Medicare)	19,449	11,392	428	31,269
Retiree (Non-Medicare)	2,245	2,462	792	5,499
PPO-90/10 Medical (HMSA) - Retiree Total	21,694	13,854	1,220	36,768
HMO Medical (Kaiser), Drug (Kaiser) - Retiree				
Retiree (Medicare)	4,322	2,126	87	6,535
Retiree (Non-Medicare)	484	457	121	1,062
HMO Medical (Kaiser), Drug (Kaiser) - Retiree Total	4,806	2,583	208	7,597
Out-of-State Plan				
Retiree (Medicare)	103	55	4	162
Retiree (Non-Medicare)	5	4		9
Out-of-State Plan Total	108	59	4	171
Medical Plans Total	26,608	16,496	1,432	44,536
Drug Plans				
PPO Drug (SilverScript) - Medicare	19,030	10,875	403	30,308
PPO Prescription Drug (CVS) - Non-Medicare	2,401	2,587	808	5,796
Drug Plans Total	21,431	13,462	1,211	36,104
Dental Plan (HDS)	26,616	16,982	1,405	45,003
Vision Plan (VSP)	26,594	17,109	1,460	45,163
Life Insurance Plan (Securian)	41,787			41,787

Count by Subscribers and Dependents

	Type		
Benefit Plan	**Subscribers**	**Dependents**	**Total**
Medical Plans			
PPO-90/10 Medical (HMSA) - Retiree			
Retiree (Medicare)	31,269	12,341	43,610
Retiree (Non-Medicare)	5,499	4,436	9,935
PPO-90/10 Medical (HMSA) - Retiree Total	36,768	16,777	53,545
HMO Medical (Kaiser), Drug (Kaiser) - Retiree			
Retiree (Medicare)	6,535	2,316	8,851
Retiree (Non-Medicare)	1,062	752	1,814
HMO Medical (Kaiser), Drug (Kaiser) - Retiree Total	7,597	3,068	10,665
Out-of-State Plan			
Retiree (Medicare)	162	64	226
Retiree (Non-Medicare)	9	4	13
Out-of-State Plan Total	171	68	239
Medical Plans Total	44,536	19,913	64,449
Drug Plans			
PPO Drug (SilverScript) - Medicare	30,308	11,767	42,075
PPO Prescription Drug (CVS) - Non-Medicare	5,796	4,597	10,393
Drug Plans Total	36,104	16,364	52,468
Dental Plan (HDS)	45,003	20,325	65,328
Vision Plan (VSP)	45,163	20,584	65,747

Data Taken 06-15-2019

Enrollment Counts - HSTA VB Retirees

The table below shows HSTA VB Retirees enrollments for period ending 06-30-201

Count by Enrollment Coverage

Count of Subscribers	Type of Enrollment			
Benefit Plan	**Self**	**Two Party**	**Family**	**Grand Total**
Medical Plans				
HSTA VB PPO-90/10 Medical and Chiro (HMSA) bundled with PPO Drug (SilverScript or CVS), Vision (VSP) - Retiree				
Retiree (Medicare)	1,067	971	27	2,065
Retiree (Non-Medicare)	21	17		38
HSTA VB PPO-90/10 Medical and Chiro (HMSA) bundled with PPO Drug (SilverScript or CVS), Vision (VSP) - Retiree Total	1,088	988	27	2,103
HSTA VB PPO-90/10 Medical and Chiro (HMSA) bundled with Vision (VSP) - Retiree				
Retiree (Medicare)	7	4		11
HSTA VB PPO-90/10 Medical and Chiro (HMSA) bundled with Vision (VSP) - Retiree Total	7	4		11
HSTA VB HMO Medical, Drug and Chiro (Kaiser) bundled with Vision (VSP) - Retiree				
Retiree (Medicare)	136	89	2	227
Retiree (Non-Medicare)	5	2		7
HSTA VB HMO Medical, Drug and Chiro (Kaiser) bundled with Vision (VSP) - Retiree Total	141	91	2	234
HSTA VB Out-of-State Plan				
Retiree (Medicare)		3		3
HSTA VB Out-of-State Plan Total		3		3
Medical Plans Total	1,236	1,086	29	2,351
Drug Plans				
HSTA VB PPO-90/10 Prescription Drug (SilverScript) bundled with HSTA VB Medical (HMSA) - Medicare	1,066	967	27	2,060
HSTA VB PPO-90/10 Prescription Drug (CVS) bundled with HSTA VB PPO Medical (HMSA) - Non-Medicare	25	21		46
Drug Plans Total	1,091	988	27	2,106
Dental Plan (HDS)	1,222	1,096	26	2,344
Vision Plan (VSP)	1,236	1,086	29	2,351
Life Insurance Plan (Securian)	2,373			2,373

Data Taken 06-15-2019

Enrollment Counts - HSTA VB Retirees (continued)

The table below shows HSTA VB Retirees enrollments for period ending 06-30-2019

Count by Subscribers and Dependents

Benefit Plan	Type Subscribers	Dependents	Total
Medical Plans			
HSTA VB PPO-90/10 Medical and Chiro (HMSA) bundled with PPO Drug (SilverScript or CVS), Vision (VSP) - Retiree			
Retiree (Medicare)	2,065	1,031	3,096
Retiree (Non-Medicare)	38	17	55
HSTA VB PPO-90/10 Medical and Chiro (HMSA) bundled with PPO Drug (SilverScript or CVS), Vision (VSP) - Retiree Total	2,103	1,048	3,151
HSTA VB PPO-90/10 Medical and Chiro (HMSA) bundled with Vision (VSP) - Retiree			
Retiree (Medicare)	11	4	15
HSTA VB PPO-90/10 Medical and Chiro (HMSA) bundled with Vision (VSP) - Retiree Total	11	4	15
HSTA VB HMO Medical, Drug and Chiro (Kaiser) bundled with Vision (VSP) - Retiree			
Retiree (Medicare)	227	93	320
Retiree (Non-Medicare)	7	2	9
HSTA VB HMO Medical, Drug and Chiro (Kaiser) bundled with Vision (VSP) - Retiree Total	234	95	329
HSTA VB Out-of-State Plan			
Retiree (Medicare)	3	3	6
HSTA VB Out-of-State Plan Total	3	3	6
Medical Plans Total	2,351	1,150	3,501
Drug Plans			
HSTA VB PPO-90/10 Prescription Drug (SilverScript) bundled with HSTA VB Medical (HMSA) - Medicare	2,060	1,027	3,087
HSTA VB PPO-90/10 Prescription Drug (CVS) bundled with HSTA VB PPO Medical (HMSA) - Non-Medicare	46	21	67
Drug Plans Total	2,106	1,048	3,154
Dental Plan (HDS)	2,344	1,154	3,498
Vision Plan (VSP)	2,351	1,150	3,501

Data Taken 06-15-2019

Enrollment Counts - All Subscribers

The table below shows All Subscribers enrollments for period ending 06-30-2019

Count of Subscribers	Benefit Plan				
Employer	**Medical Plans**	**Drug Plans**	**Dental Plan**	**Vision Plan**	**Life Insurance**
City and County of Honolulu					
Active	7,054	5,213	7,507	7,240	8,714
Retiree (Medicare)	5,581	4,198			
Retiree (Non-Medicare)	1,658	1,376	7,289	7,338	6,231
City and County of Honolulu Total	**14,293**	**10,787**	**14,796**	**14,578**	**14,945**
Honolulu Board of Water Supply					
Active	468	359	498	478	579
Retiree (Medicare)	463	371			
Retiree (Non-Medicare)	98	92	562	567	475
Honolulu Board of Water Supply Total	**1,029**	**822**	**1,060**	**1,045**	**1,054**
County of Hawaii					
Active	2,043	1,598	2,110	2,056	2,399
Retiree (Medicare)	1,156	1,070			
Retiree (Non-Medicare)	457	441	1,601	1,620	1,470
County of Hawaii Total	**3,656**	**3,109**	**3,711**	**3,676**	**3,869**
Hawaii Dept of Water Supply					
Active	133	110	137	135	164
Retiree (Medicare)	75	69			
Retiree (Non-Medicare)	19	17	97	96	88
Hawaii Dept of Water Supply Total	**227**	**196**	**234**	**231**	**252**
County of Kauai					
Active	998	876	1,051	1,024	1,236
Retiree (Medicare)	634	608			
Retiree (Non-Medicare)	213	206	834	855	747
County of Kauai Total	**1,845**	**1,690**	**1,885**	**1,879**	**1,983**
County of Maui					
Active	2,027	1,023	2,159	2,054	2,457
Retiree (Medicare)	1,089	696			
Retiree (Non-Medicare)	437	298	1,540	1,550	1,410
County of Maui Total	**3,553**	**2,017**	**3,699**	**3,604**	**3,867**
State of Hawaii					
Active	38,297	27,504	40,997	38,893	48,992
Retiree (Medicare)	31,236	25,324			
Retiree (Non-Medicare)	3,725	3,408	35,374	35,437	33,689
State of Hawaii Total	**73,258**	**56,236**	**76,371**	**74,330**	**82,681**
Hawaii Public Charter Schools					
Active	719	446	774	691	965
Retiree (Medicare)	38	30			
Retiree (Non-Medicare)	8	6	50	51	50
Hawaii Public Charter Schools Total	**765**	**482**	**824**	**742**	**1,015**
Grand Total	**98,626**	**75,339**	**102,580**	**100,085**	**109,666**

Data Taken 06-15-2019

Hawaii Employer-Union Health Benefits Trust Fund
State of Hawaii

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

June 30, 2019

Submitted by

THE AUDITOR
STATE OF HAWAII

HAWAII EMPLOYER-UNION HEALTH BENEFITS TRUST FUND
STATE OF HAWAII

Financial Statements and Supplementary Information

June 30, 2019

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HAWAII EMPLOYER-UNION HEALTH BENEFITS TRUST FUND
STATE OF HAWAII

Financial Statements and Supplementary Information

June 30, 2019

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PART I

INTRODUCTION SECTION

November 27, 2019

The Auditor
State of Hawaii:

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

We have completed our audit of the financial statements of the Hawaii Employer-Union Health Benefits Trust Fund of the State of Hawaii (the EUTF), as of and for the year ended June 30, 2019. We transmit herewith our independent auditors' report containing our opinions on those financial statements and our report on internal control over financial reporting and on compliance and other matters based on an audit of financial statements performed in accordance with *Government Auditing Standards*.

Audit Objectives

The objectives of the audit were as follows:

1. To provide opinions on the fair presentation of the EUTF's financial statements in accordance with accounting principles generally accepted in the United States of America.

2. To consider the EUTF's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements.

3. To perform tests of the EUTF's compliance with certain provisions of laws, regulations, and contracts, noncompliance with which could have a direct and material effect on the determination of financial statement amounts.

Scope of Audit

We performed our audit of the EUTF's financial statements as of and for the year ended June 30, 2019, 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.

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As part of the audit of the EUTF's financial statements, we considered the EUTF's internal control over financial reporting to determine our auditing procedures for the purpose of expressing our opinions on the financial statements. We also performed tests of the EUTF's compliance with certain provisions of laws, regulations, and contracts, noncompliance with which could have a direct and material effect on the determination of financial statement amounts.

Organization of Report

This report has been organized into three parts as follows:

1. The Introduction Section describes briefly the objectives and scope of our audit and the organization and contents of this report.

2. The Financial Section includes management's discussion and analysis, the EUTF's financial statements and the related notes, required supplementary information, and other supplementary information as of and for the year ended June 30, 2019, and our independent auditors' report thereon.

3. The Internal Control and Compliance Section contains our independent auditors' report on the EUTF's internal control over financial reporting and on compliance and other matters based on an audit of financial statements performed in accordance with *Government Auditing Standards*.

* * * * * * *

We would like to take this opportunity to express our appreciation for the courtesy and assistance extended to us by the personnel of the EUTF during the course of our audit. Should you wish to discuss any of the matters contained herein, we will be pleased to meet with you at your convenience.

Very truly yours,

KKDLY LLC

PART II

FINANCIAL SECTION

KDLY LLC
CERTIFIED PUBLIC ACCOUNTANTS

Independent Auditors' Report

The Auditor
State of Hawaii:

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

Report on the Financial Statements

We have audited the accompanying statement of net position of the enterprise fund of the Hawaii Employer-Union Health Benefits Trust Fund of the State of Hawaii (the Trust Fund) and the statement of fiduciary net position of the Hawaii Employer-Union Health Benefits Trust Fund for Other Post-Employment Benefits (the OPEB Trust), collectively referred to as the EUTF, as of June 30, 2019, and the related statement of revenues, expenses, and changes in net position, and cash flows of the enterprise fund, as well as the statement of changes in fiduciary net position of the OPEB Trust for the year then ended, and the related notes to financial statements, which collectively comprise the EUTF's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our 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 from material misstatement.

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An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the enterprise fund of the Trust Fund, as well as the financial position of the OPEB Trust, as of June 30, 2019, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matters

Change in Reporting Entity

As discussed in Note 2 to the financial statements, the fiduciary net position of the OPEB Trust as of June 30, 2018 has been restated as a result of the requirements in Act 268, Session Laws of Hawaii 2013 (codified as Chapter 87A-42, Hawaii Revised Statutes) relating to employer annual required contributions, which took effect on July 1, 2018. Our opinions are not modified with respect to this matter.

Relationship to the State of Hawaii

As discussed in Note 1 to the financial statements, the financial statements of the EUTF are intended to present the financial position, the changes in financial position and, where applicable, cash flows of only that portion of the State of Hawaii that is attributable to the transactions of the EUTF. They do not purport to, and do not, present fairly the financial position of the State of Hawaii as of June 30, 2019, and the changes in its financial position, or, where applicable, its cash flows for the year then ended, in accordance with accounting principles generally accepted in the United States of America. Our opinions are not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the schedule of investment returns, and the ten-year loss development information identified in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our 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.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the EUTF's basic financial statements. The schedule of administrative operating expenses – enterprise fund (supplementary information) is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the 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 as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 27, 2019, on our consideration of the EUTF's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, and contracts and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the EUTF's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the EUTF's internal control over financial reporting and compliance.

KKDLY LLC

Honolulu, Hawaii
November 27, 2019

HAWAII EMPLOYER-UNION HEALTH BENEFITS TRUST FUND
STATE OF HAWAII

Management's Discussion and Analysis

June 30, 2019

This section of the Hawaii Employer-Union Health Benefits Trust Fund of the State of Hawaii (the EUTF) financial report presents the reader with an introduction and overview of the EUTF's financial performance as of and for the fiscal year ended June 30, 2019. This discussion has been prepared by management and should be read in connection with the financial statements and the notes thereto, which follow this section.

The EUTF is the state agency that provides eligible State of Hawaii (the State) and county (Honolulu, Hawaii, Maui, and Kauai) employees and retirees and their eligible dependents with health and life insurance benefits at a cost affordable to both the public employers and participants beginning July 1, 2003.

Active employee healthcare benefits, other postemployment benefits (OPEB) retiree healthcare benefits (including their respective beneficiaries), and OPEB pre-funding of retiree healthcare benefits are reported separately for accounting purposes. Accordingly, the EUTF reports the active employee healthcare benefits as risk financing in conformity with Governmental Accounting Standards Board (GASB) Statement No. 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues* (Statement No. 10), as amended, while the OPEB retiree healthcare benefits and the OPEB pre-funding of retiree healthcare benefits, which meets the requirements of a qualifying trust, are reported in conformity with GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans* (Statement No. 74).

The EUTF entered into one (1) year health benefit and prescription drug contracts with carriers and a third party administrator (TPA) with two (2) one (1) year options to extend for medical and prescription drug plans and three (3) one (1) year options to extend for dental, vision, and life insurance plans. The medical and prescription drug active employee and retiree contracts with carriers and a TPA started on July 1, 2018 and January 1, 2018, respectively. The dental, vision, and life insurance retiree contracts with carriers started on January 1, 2019.

The following plans are fully-insured with one-way risk sharing (rates are experience rated and are negotiated; surpluses [premiums exceed claims, administrative fees, and retention charged by the insurance carrier] are retained by the EUTF and the carrier is responsible for any shortfalls [claims, administrative fees, and retention charged by the insurance carrier exceed premiums], and risk is retained by the carrier): All Hawaii Medical Service Association (HMSA) medical plans; Hawaii Dental Service (HDS) dental plans; and Vision Service Plan (VSP) vision plans. For plans on the HMSA contract, surpluses are netted against shortfalls on all plans offered by HMSA (e.g., 90/10, 80/20, 75/25, and HMO). However, surpluses and shortfalls are not netted between the active employee and retiree group contracts.

The following plans are fully-insured (rates are experience rated and are negotiated, surpluses and shortfalls are retained by the carrier, and risk is retained by the carrier): Kaiser medical and prescription drug plans; USAble life insurance plans (terminated December 31, 2018 for retirees); and Securian Financial life insurance plan (effective January 1, 2019 for retirees).

The CVS Caremark and Silverscript prescription drug plans and Hawaii Mainland Administrators (HMA) supplemental medical and prescription drug plan are self-insured (rates are experience rated and set by the Board, administrative fees and actual claims are paid to the TPA, surplus and shortfalls are retained by EUTF and risk is retained by EUTF).

The Federal Affordable Care Act (ACA) became effective July 1, 2011 for the EUTF's active employee medical and prescription drug plans. The following are the changes to the EUTF's active employee plans due to ACA: 1) The plan lost its grandfather status due to the increase in the employees' share of premiums; 2) The definition of dependent child was expanded to age 26 and requirements that the child be unmarried and a full time student were dropped for medical and drug only (additional dependents were enrolled as a result); 3) All active employee plans included coverage for women's preventive services in line with the guidelines developed by the Institute of Medicine and supported by the Health Resources and Services Administration (the HRSA), including providing services without a copayment, cost share or deductible when rendered by a participating provider; 4) The imposition of ACA fees (i.e., PCORI - Patient-Centered Outcomes Research Institute, and insurer fees); and 5) Effective July 1, 2014 elimination of the EUTF and HSTA VB HMSA supplemental plans and the bundling of the HMSA medical and CVS Caremark prescription drug plans.

Act 245, Session Laws of Hawaii 2005 (partially codified as Chapter 87D, Hawaii Revised Statutes (HRS)), temporarily authorized employee organizations to establish voluntary employees' beneficiary association (VEBA) trusts to provide health benefits to state and county employees in their bargaining units outside of the EUTF. It established a three-year pilot program to allow for the analysis of the costs and benefits of a VEBA trust against those of the EUTF. Effective March 1, 2006, the Hawaii State Teachers Association (HSTA) implemented the three-year pilot program. As a result, all active HSTA employees were enrolled in the VEBA trust and subsequently cancelled from the EUTF's health benefit plans. Act 245's sunset dates were amended three times: July 1, 2009, July 1, 2010, and December 31, 2010.

In addition, Chapter 87D, HRS, which authorized the establishment of the VEBA, also included the option for HSTA retirees to make a one-time choice to either remain with the EUTF or transfer to the HSTA VEBA benefit plans. The option period was from October through November 2006. As a result, approximately 1,400 HSTA retirees transferred to the HSTA VEBA. HSTA employees that retired on or after March 1, 2006 were required to be enrolled with the HSTA VEBA.

As a result of Act 245 sunsetting on December 31, 2010, effective January 1, 2011, approximately, 12,500 HSTA VEBA active employees and 2,500 retirees were transferred back to the EUTF. In December 2010, Judge Sakamoto (Kono, et al v Abercrombie, Civil No. 10-1-1966-09 KKS) ruled that HSTA VEBA members (actives and retirees) were entitled to the same standard of coverage in benefits when they were transitioned to the EUTF on January 1, 2011. As a result, the EUTF created new plans for the HSTA VEBA members (both active and retirees) that matched their HSTA VEBA benefits. The enrollment of HSTA VEBA members into the newly created health and other benefit plans was done by the EUTF solely to comply with Judge Sakamoto's ruling and does not create any constitutional or contractual right to the benefits under these plans. The State does not agree with Judge Sakamoto's ruling. If Judge Sakamoto's ruling is overturned, stayed, or modified, the EUTF reserves the right to move HSTA VEBA members into regular EUTF plans. See further discussion in Note 9 to the financial statements.

Overview of the Financial Statements

The financial statements of the EUTF include the following statements:

- Enterprise Fund - Active Employee Healthcare Benefits
    - Statement of net position - This statement summarizes the assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position of this enterprise fund.
    - Statement of revenues, expenses, and changes in net position - This statement summarizes the financial results of the operations for the year.
    - Statement of cash flows - This statement identifies the sources and uses of cash.
- OPEB Trust - Retiree Healthcare Benefits (including pre-funding contributions prior to July 1, 2018)
    - Statement of fiduciary net position - This statement summarizes the assets, liabilities, and net position of this fiduciary fund.
    - Statement of changes in fiduciary net position - This statement summarizes the financial results of the operations for the year.

Financial Highlights

For the fiscal years ended June 30, 2019 and 2018, contributions to the EUTF were as follows:

	2019	2018
Employer contributions	$ 1,489,459,942	$ 1,297,579,222
Employee contributions	209,787,035	223,547,869

For the fiscal years ended June 30, 2019 and 2018, the EUTF incurred the following:

	2019	2018
Carrier payments - fully-insured plans	$ 818,981,420	$ 789,386,989
Benefit claims - self-insured	317,424,446	300,841,611
Medicare Part B reimbursements	89,474,817	76,399,694
Administrative operating expenses	8,288,347	7,903,158

Financial Analysis

Enterprise Fund

A summary of the EUTF's net position for active employees is shown below as of June 30, 2019 and 2018:

	2019	2018	Change	% Change
Assets:				
Current assets	$ 167,307,145	$ 157,949,995	$ 9,357,150	5.9%
Capital assets, net	361,558	421,986	(60,428)	-14.3%
Total assets	167,668,703	158,371,981	9,296,722	5.9%
Deferred outflows of resources	2,116,589	2,166,502	(49,913)	-2.3%
Liabilities:				
Current liabilities	50,282,014	50,177,663	104,351	0.2%
Noncurrent liabilities	13,619,847	13,355,881	263,966	2.0%
Total liabilities	63,901,861	63,533,544	368,317	0.6%
Deferred inflows of resources	239,260	91,060	148,200	162.7%
Net position:				
Net investment in capital assets	361,558	421,986	(60,428)	-14.3%
Unrestricted	105,282,613	96,491,893	8,790,720	9.1%
Total net position	$ 105,644,171	$ 96,913,879	$ 8,730,292	9.0%

The enterprise fund's total assets increased by $9.3 million or 5.9% during the fiscal year ended June 30, 2019. The increase is primarily attributable to an increase in cash and cash equivalents and investments of $7.2 million due to the receipt of surpluses generated from the fully-insured with one-way risk sharing plans from previous fiscal years, an increase of $5.5 million in premiums receivable from employers due to increases in premium rates, and an increase in rebates and other receivables from insurance companies of $10.4 million due to higher prescription drug rebates. This was offset by a decrease in experience refunds due from insurance carriers of $13.8 million due to a closer matching of premiums collected and benefit claims paid for the fully-insured with one-way risk sharing plans for fiscal year 2019.

The enterprise fund's noncurrent liabilities increased by $264,000 or 2.0% due primarily to the increases in the net pension liability of $190,000 and net other postemployment benefits liability of $75,000.

The total net position increased by $8.7 million or 9.0% for the fiscal year ended June 30, 2019. This is attributable to $5.4 million in operating income for the year ended June 30, 2019 and $3.3 million in investment income.

A summary of changes in net position for the years ended June 30, 2019 and 2018, for active employees follows:

	2019	2018	Change	% Change
Revenues:				
Operating revenues	$ 100,508,881	$ 112,605,406	$ (12,096,525)	-10.7%
Nonoperating revenues	3,305,928	979,921	2,326,007	237.4%
Total revenues	103,814,809	113,585,327	(9,770,518)	-8.6%
Operating expenses	95,084,517	88,937,368	6,147,149	6.9%
Change in net position	8,730,292	24,647,959	(15,917,667)	-64.6%
Net position at beginning of year	96,913,879	72,265,920	24,647,959	34.1%
Net position at end of year	$ 105,644,171	$ 96,913,879	$ 8,730,292	9.0%

The enterprise fund's total revenues decreased by $9.8 million, or 8.6%, for the fiscal year ended June 30, 2019. The decrease resulted from a $18.8 million decrease in experience refunds, net due to a closer matching of premiums collected and claims paid on fully-insured with one-way risk sharing plans offset by a $4.4 million increase in premium revenues for self-insured plans primarily due to an increase in prescription drug premiums, a $2.4 million increase from performance penalties received from carriers, and a $2.3 million increase in investment income.

The enterprise fund's operating expenses increased by $6.1 million, or 6.9%, for the fiscal year ended June 30, 2019. Benefits claims expense for self-insured plans increased by $5.7 million due to an increase in utilization and administrative operating expenses increased by $385,000 due primarily to additional pension and OPEB expenses.

Agency Fund

Prior to July 1, 2018, the EUTF reported assets and liabilities in an agency fund resulting from the collection of contributions from employers and retirees, and payments of postemployment health benefits for retirees and their beneficiaries. The agency fund did not meet the criteria of a trust or equivalent arrangement, thus assets and liabilities for the postemployment health benefits were reported as an agency fund.

Effective July 1, 2018, Act 268, Session Laws of Hawaii 2013 (codified as Chapter 87A-42, HRS), requires that employer contributions equal to the amount of the annual required contribution as determined by an actuary be placed into the OPEB Trust. The annual required contribution is defined as the employer's required contribution that is sufficient to cover (1) the normal cost, which is the cost of other post-employment benefits attributable to the current year of service, and (2) an amortization payment, which is a catch-up payment for past service costs to fund the unfunded actuarial accrued liability over the next 30 years. As a result, the EUTF will no longer be receiving employer contributions for retirees and their beneficiaries in an agency capacity. Prior to this legislation, employer contributions for retirees (other than pre-funding contributions) consisted of monthly contributions to the EUTF agency fund for monthly payments of "pay-as-you-go" premiums and claim expenses. The agency fund accounted for the retirees' and employers' premium contributions, premium payments to carriers, reserves, cash, investments, and other related amounts. Effective July 1, 2018, all accounts and transactions related to postemployment health benefits for retirees are reported in the OPEB Trust.

A summary of the agency fund's assets and liabilities as of June 30, 2018 is shown below:

Assets:	
Cash and cash equivalents	$ 6,393,750
Investments	163,302,756
Receivables, net	72,531,655
Deposits	8,165,204
Total assets	$ 250,393,365
Liabilities:	
Premiums payable	$ 24,424,186
Benefit claims payable	16,707,921
Amounts held on behalf of employers for benefits	208,944,397
Other	316,861
Total liabilities	$ 250,393,365

HAWAII EMPLOYER-UNION HEALTH BENEFITS TRUST FUND
STATE OF HAWAII

Management's Discussion and Analysis

June 30, 2019

OPEB Trust

As described in the *Agency Fund* section, effective July 1, 2018, the EUTF reports all OPEB assets, liabilities, net position, and operations for retirees and their beneficiaries in the OPEB Trust.

The following table summarizes the OPEB Trust's fiduciary net position as of June 30, 2019 as compared to the summarized fiduciary net position amounts previously reported in the agency fund and the OPEB Trust as of June 30, 2018:

	2019 OPEB Trust	2018 Agency Fund and OPEB Trust	Change	% Change
Assets:				
Cash and cash equivalents	$ 263,805,816	$ 202,110,273	$ 61,695,543	30.5%
Investments	3,033,026,203	2,339,485,983	693,540,220	29.6%
Invested securities lending collateral	25,872,169	14,468,169	11,404,000	78.8%
Receivables:				
Rebates and other receivables from insurance companies	41,558,884	25,970,204	15,588,680	60.0%
Experience refunds due from insurance companies	789,858	13,974,475	(13,184,617)	-94.3%
Premiums receivable from State of Hawaii and counties	-	32,367,370	(32,367,370)	-100.0%
Other receivables	70,758	219,606	(148,848)	-67.8%
Deposits	8,165,204	8,165,204	-	0.0%
Total assets	3,373,288,892	2,636,761,284	736,527,608	27.9%
Liabilities:				
Premiums payable	24,907,386	24,424,186	483,200	2.0%
Benefit claims payable	18,065,109	16,707,921	1,357,188	8.1%
Securities lending collateral	25,872,169	14,468,169	11,404,000	78.8%
Other payables	2,164,551	1,735,046	429,505	24.8%
Amounts held on behalf of employers for benefits	-	208,944,397	(208,944,397)	-100.0%
Total liabilities	71,009,215	266,279,719	(195,270,504)	-73.3%
Net position restricted for postemployment benefits other than pensions	$ 3,302,279,677	$ 2,370,481,565	$ 931,798,112	39.3%

Cash and cash equivalents and investments increased by $755.2 million or 29.7% during the fiscal year ended June 30, 2019 primarily due to the increase in fiduciary net position of $722.9 million.

Rebates and other receivables from insurance companies increased by $15.6 million or 60.0% during the fiscal year ended June 30, 2019 primarily due to higher prescription drug rebates.

Experience refunds due from insurance companies decreased by $13.2 million or 94.3% during the fiscal year ended June 30, 2019 primarily due to a closer matching of premiums collected and benefit claims paid for the fully-insured with one-way risk sharing plans for fiscal year 2019.

Premiums receivable from State of Hawaii and counties decreased by $32.4 million or 100.0% during the fiscal year ended June 30, 2019 primarily due to Act 268, which requires payment of 100.0% of the annual required contributions beginning July 1, 2018, versus payment of "pay-as-you-go premiums" and a separate prefunding payment.

A summary of the changes in the OPEB Trust's fiduciary net position for the years ended June 30, 2019 and 2018 follows:

	2019	2018	Change	% Change
Additions:				
Employer contributions	$ 1,077,341,812	$ 444,072,913	$ 633,268,899	142.6%
Investment earnings, net	131,734,223	148,734,803	(17,000,580)	-11.4%
Other addittions	25,513,880	-	25,513,880	100.0%
Total additions	1,234,589,915	592,807,716	641,782,199	108.3%
Deductions:				
Benefit claims expense and carrier payments, net of retiree contributions	510,821,080	-	510,821,080	100.0%
Other expenses	915,120	-	915,120	100.0%
Total deductions	511,736,200	-	511,736,200	100.0%
Change in fiduciary net position	722,853,715	592,807,716	130,045,999	21.9%
Net position restricted for postemployment benefits other than pensions:				
Beginning of year	2,579,425,962	1,777,673,849	801,752,113	45.1%
End of year	$ 3,302,279,677	$ 2,370,481,565	$ 931,798,112	39.3%

The EUTF has accounted for the effects of Act 268 as a change in reporting entity. Accordingly, the fiduciary net position of the agency fund and the OPEB Trust as of June 30, 2018 have been restated in order to reflect the new reporting entity. Specifically, the change in reporting entity had the effect of increasing beginning net position restricted for postemployment benefits other than pensions in the statement of fiduciary net position – OPEB Trust by $208,944,397 as follows:

Net position restricted for postemployment benefits other than pensions - beginning of year, as previously reported	$ 2,370,481,565
Adjustment for change in reporting entity	208,944,397
Net position restricted for postemployment benefits other than pensions - beginning of year, as restated	$ 2,579,425,962

Employer contributions increased $633.3 million or 142.6% for the fiscal year ended June 30, 2019 primarily due to employer required premium contributions for retirees of $455.6 million accounted for in the agency fund in the previous year, and increased employer contributions required by Act 268 effective July 1, 2018.

Benefit claims expense and carrier payments increased by $510.8 million for the fiscal year ended June 30, 2019. In the previous year, retiree benefit claims expense and carrier payments amounting to $481.2 million were accounted for in the agency fund.

Capital Assets

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

The aggregate net capital assets was $362,000 as of June 30, 2019. Depreciation expense totaled $84,000 for the year ended June 30, 2019. There were no significant additions or disposals of capital assets during fiscal year 2019.

Economic Factors Affecting Next Fiscal Year

Factors Affecting Fiscal Year 2020

Active employee and retiree medical, prescription drug, dental, vision, and life insurance contracts were implemented effective July 1, 2018 through June 30, 2019 and January 1, 2019 through December 31, 2019, respectively.

Request for Information

This financial report is designed to provide the Board of Trustees, the State Auditor, and our membership, with a general overview of the EUTF's finances and to account for the money it receives. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to:

Hawaii Employer-Union Health Benefits Trust Fund
P.O. Box 2121
Honolulu, Hawaii 96805-2121

HAWAII EMPLOYER-UNION HEALTH BENEFITS TRUST FUND
STATE OF HAWAII

Statement of Net Position – Enterprise Fund

June 30, 2019

Assets:	
Current assets:	
Cash and cash equivalents	$ 28,960,550
Investments	61,278,434
Receivables:	
Premiums receivable from State of Hawaii and counties	39,185,062
Rebates and other receivables from insurance companies	27,845,302
Experience refunds due from insurance companies	4,708,610
Prepaid expenses	307,913
Deposits	5,021,274
Total current assets	167,307,145
Capital assets, net	361,558
Total assets	167,668,703
Deferred Outflows of Resources:	
Related to pension	1,332,924
Related to other postemployment benefits	783,665
Total deferred outflows of resources	2,116,589
Liabilities:	
Current liabilities:	
Premiums payable	43,628,439
Benefit claims payable	4,499,088
Due to employees, net	1,027,610
Vouchers and contracts payable	348,261
Accrued wages and employee benefits payable	394,039
Due to State of Hawaii and counties	274,165
Compensated absences, current portion	110,412
Total current liabilities	50,282,014
Noncurrent liabilities:	
Net other postemployment benefits liability	7,489,378
Net pension liability	5,885,981
Compensated absences, less current portion	244,488
Total liabilities	63,901,861
Deferred Inflows of Resources:	
Related to other postemployment benefits	148,742
Related to pension	90,518
Total deferred inflows of resources	239,260
Net Position:	
Net investment in capital assets	361,558
Unrestricted	105,282,613
Total net position	$ 105,644,171

See accompanying notes to financial statements.

HAWAII EMPLOYER-UNION HEALTH BENEFITS TRUST FUND
STATE OF HAWAII

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

Year Ended June 30, 2019

Operating revenues:	
Premium revenues - self-insured	$ 90,426,775
Experience refunds, net	6,466,514
Other revenues, net	3,615,592
Total operating revenues	100,508,881
Operating expenses:	
Benefits claims expense - self-insured	86,301,511
Administrative operating expenses	8,288,347
ACA fees	249,034
Change in incurred but not reported (IBNR) claims	161,300
Depreciation	84,325
Total operating expenses	95,084,517
Operating income	5,424,364
Nonoperating revenues:	
Investment income	3,305,928
Change in net position	8,730,292
Net position at beginning of year	96,913,879
Net position at end of year	$ 105,644,171

See accompanying notes to financial statements.

HAWAII EMPLOYER-UNION HEALTH BENEFITS TRUST FUND
STATE OF HAWAII

Statement of Cash Flows – Enterprise Fund

Year Ended June 30, 2019

Cash flows from operating activities:	
Cash paid to vendors	$ (3,190,271)
Cash paid to employees	(4,738,432)
Cash received from State of Hawaii, counties and individuals for premiums and benefits payments	625,820,906
Cash paid for premiums and benefit payments	(613,999,848)
Net cash provided by operating activities	3,892,355
Cash flows used in capital and related financing activities:	
Purchase of office furniture and equipment	(23,897)
Cash flows from investing activities:	
Purchase of investments	(5,470,006)
Investment income received	3,305,928
Net cash used in investing activities	(2,164,078)
Net increase in cash and cash equivalents	1,704,380
Cash and cash equivalents at beginning of year	27,256,170
Cash and cash equivalents at end of year	$ 28,960,550

See accompanying notes to financial statements. (Continued)

HAWAII EMPLOYER-UNION HEALTH BENEFITS TRUST FUND
STATE OF HAWAII

Statement of Cash Flows – Enterprise Fund (Continued)

Year Ended June 30, 2019

Reconciliation of operating income to net cash provided by operating activities:	
Operating income	$ 5,424,364
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	84,325
Increase in premiums receivable from State of Hawaii and counties	(5,531,104)
Decrease in experience refunds due from insurance companies	13,827,902
Increase in rebates and other receivables from insurance companies	(10,426,407)
Decrease in prepaid expenses	10,119
Increase in deposits	(63,274)
Decrease in deferred outflows of resources	49,913
Increase in premiums payable	1,011,765
Decrease in benefit claims payable	(609,908)
Decrease in amounts due to employees, net	(314,284)
Decrease in vouchers and contracts payable	(125,436)
Increase in accrued wages and employee benefits payable	11,864
Increase in amounts due to State of Hawaii and counties	129,332
Decrease in compensated absences	(860)
Increase in net other postemployment benefits liability	75,491
Increase in net pension liability	190,353
Increase in deferred inflows of resources	148,200
Total adjustments	(1,532,009)
Net cash provided by operating activities	$ 3,892,355

See accompanying notes to financial statements.

HAWAII EMPLOYER-UNION HEALTH BENEFITS TRUST FUND
STATE OF HAWAII

Hawaii Employer-Union Health Benefits Trust Fund
for Other Post-Employment Benefits

Statement of Fiduciary Net Position – OPEB Trust

June 30, 2019

Assets:	
Cash and cash equivalents	$ 263,805,816
Investments	3,033,026,203
Total cash and cash equivalents and investments	3,296,832,019
Invested securities lending collateral	25,872,169
Receivables:	
Rebates and other receivables from insurance companies	41,558,884
Experience refunds due from insurance companies	789,858
Other receivables	70,758
Total receivables	42,419,500
Deposits	8,165,204
Total assets	3,373,288,892
Liabilities:	
Premiums payable	24,907,386
Benefit claims payable	18,065,109
Securities lending collateral	25,872,169
Investment fees payable	1,819,550
Other payables	345,001
Total liabilities	71,009,215
Net position restricted for postemployment benefits other than pensions	$ 3,302,279,677

See accompanying notes to financial statements.

HAWAII EMPLOYER-UNION HEALTH BENEFITS TRUST FUND
STATE OF HAWAII

Hawaii Employer-Union Health Benefits Trust Fund
for Other Post-Employment Benefits

Statement of Changes in Fiduciary Net Position – OPEB Trust

Year Ended June 30, 2019

Additions:	
Employer contributions	$ 1,077,341,812
Investment income:	
From investing activities:	
Net appreciation in the fair value of investments	67,657,757
Interest and dividends	70,145,926
	137,803,683
Less: investment expenses	6,545,270
Net investment income from investing activities	131,258,413
From securities lending activities:	
Securities lending income	631,150
Securities lending expenses	155,340
Net investment income from securities lending activities	475,810
Total net investment income	131,734,223
Experience refunds due from insurance companies	3,838,534
Other revenues, net	21,675,346
Total additions	1,234,589,915
Deductions:	
Benefits claims expense and carrier payments, net of retiree contributions	510,821,080
Other expenses	915,120
Total deductions	511,736,200
Change in fiduciary net position	722,853,715
Net position restricted for postemployment benefits other than pensions:	
Beginning of year	2,579,425,962
End of year	$ 3,302,279,677

See accompanying notes to financial statements.

(1) Financial Reporting Entity

Chapter 87A, Hawaii Revised Statutes (HRS) established the Hawaii Employer-Union Health Benefits Trust Fund (the Trust Fund). The Trust Fund was established to design, provide, and administer health and other benefit plans for State of Hawaii (the State) and the county (Honolulu, Hawaii, Maui, and Kauai) employees, retirees and their eligible dependents beginning July 1, 2003. Chapter 87, HRS that established the Hawaii Public Employees Health Fund (the Health Fund) was repealed and the net assets of the Health Fund were transferred to the Trust Fund.

Act 245, Session Laws of Hawaii (SLH) 2005, established a voluntary employees' beneficiary association (the VEBA) trust pilot program for the administration of the healthcare benefits for active employees and retirees, which the Hawaii State Teachers Association (the HSTA) implemented in March 2006. The program sunset date was December 31, 2010, and the VEBA trust was terminated. Effective January 1, 2011, all HSTA employees and retirees receiving benefits under the VEBA trust were enrolled in the benefit programs administered through the Trust Fund. Approximately 12,500 HSTA active employees and 2,500 retirees were transferred to the Trust Fund.

The Trust Fund is administered by a Board of Trustees (the Board) composed of ten trustees appointed by the Governor of the State. The Board is responsible for determining the nature and scope of benefit plans offered by the Trust Fund, negotiating and entering into contracts with insurance carriers, establishing eligibility and management policies for the Trust Fund, and overseeing all Trust Fund activities. The Board relies on professional services provided by a salaried Administrator, the State Department of the Attorney General, a benefits consultant, and an investment consultant.

Chapter 87A, HRS was amended on July 9, 2012 to allow the Board to establish a separate trust fund for the purpose of receiving employer contributions that will pre-fund other post-employment benefits (OPEB) for retirees and their beneficiaries. Pursuant to this amendment, the Board executed an irrevocable declaration of trust establishing the Hawaii Employer-Union Health Benefits Trust Fund for Other Post-Employment Benefits (the OPEB Trust) effective June 30, 2013. The OPEB Trust is governed by the Board of the Trust Fund. Its assets are held for the exclusive purpose of providing other post-employment benefits and are legally protected from creditors. The OPEB Trust financial statements are included as part of the basic financial statements of the Trust Fund (collectively referred to as the EUTF).

Act 268, SLH 2013 (Act 268), further amended Chapter 87A, HRS (codified as Chapter 87A-42). Effective July 1, 2018, annual employer contributions for retirees and their beneficiaries are equal to the amount of the annual required contribution as determined by an actuary and placed into the OPEB Trust. The annual required contribution is defined as the employer's contribution that is sufficient to cover (1) the normal cost, which is the cost of other post-employment benefits attributable to the current year of service, and (2) an amortization payment, which is a catch-up payment for past service costs to fund the unfunded actuarial accrued liability over the next 30 years. Accordingly, all employer contributions for retirees and their beneficiaries are required to be placed in the OPEB Trust effective July 1, 2018.

The EUTF, an agent multiple-employer defined benefit OPEB plan, is administratively attached to the State Department of Budget and Finance. The EUTF's financial statements reflect only its portion of the fund type categories. The State Comptroller maintains the central accounts for all State funds and publishes annual financial statements for the State, which includes the EUTF's financial activities.

The EUTF currently provides medical, prescription drug, chiropractic, dental, vision, supplemental medical and prescription drug, and group life insurance benefits. The medical plans include a statewide preferred provider organization (PPO) benefit plan and a federally-qualified health maintenance organization (HMO) plan.

The employers' share of benefit plan contributions for collectively bargained employees are negotiated by the State and counties with the exclusive representative of each employee bargaining unit. Employer contributions for retirees are prescribed by the HRS. Any remaining premium balance is paid by employees through payroll deductions or premium conversion plan reductions and paid by retirees directly, if applicable.

The State's and counties' contributions also include the employees' share made through payroll deductions, contributions for retired employees, and Medicare Part B reimbursements made by the Trust Fund to eligible retired employees and their spouses for Medicare Part B insurance premiums.

The EUTF provided insurance coverage to the following individuals as of June 30, 2019:

Active employees	66,288
Retirees	49,407
Dependents	82,496
Total	198,191

As of June 30, 2019, there were 10,277 inactives not yet receiving benefits.

(2) Summary of Significant Accounting Policies

The financial statements of the EUTF have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP). The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The EUTF's significant accounting policies are described below.

Financial Statement Presentation, Measurement Focus, and Basis of Accounting

Financial Statement Presentation

The reporting of active and postemployment (including their respective beneficiaries) healthcare benefits provided through the same plan should separate the two benefits for accounting purposes between active and postemployment healthcare benefits. Accordingly, the EUTF reports the postemployment healthcare benefits in conformity with GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans* (Statement No. 74), and the active employee healthcare benefits as risk financing in conformity with GASB Statement No. 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues* (Statement No. 10), as amended.

Proprietary Fund (Enterprise Fund)

The accounting for the active employee healthcare benefits is reported as an enterprise fund. An enterprise fund is used to account for the acquisition, operation, and maintenance of government facilities and services that are entirely or predominantly supported by user charges. The enterprise fund operations are reported using the economic resources measurement focus and the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of the timing of cash flows.

The enterprise fund distinguishes operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services or goods in connection with the enterprise fund's ongoing operations. Revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses. The principal operating revenues and operating expenses are premium revenues and benefit claims expenses, respectively, for self-insured plans. Investment income is reported as nonoperating revenues.

Fiduciary Fund (Agency Fund)

Prior to July 1, 2018, the EUTF reported assets and liabilities in an agency fund resulting from the collection of contributions from employers and retirees, and payments of postemployment health benefits for retirees and their beneficiaries. The agency fund did not meet the criteria of a trust or equivalent arrangement, thus assets and liabilities for the postemployment health benefits were reported as an agency fund. Agency funds do not have a measurement focus and report only assets and liabilities.

As a result of Act 268 (see Note 1) requiring all employer contributions for retirees and their beneficiaries to be placed in the OPEB Trust effective July 1, 2018, the EUTF no longer receives employer contributions for retirees and their beneficiaries in an agency capacity. Prior to this legislation, employer contributions for retirees and their beneficiaries (other than pre-funding contributions) consisted of monthly contributions to the agency fund for monthly payments of "pay-as-you-go" premiums and claim expenses. The agency fund accounted for the retirees' and employers' premium contributions, premium payments to carriers, reserves, cash, investments, and other related amounts. Effective July 1, 2018, all accounts and transactions related to postemployment health benefits for retirees and their beneficiaries are reported in the OPEB Trust.

OPEB Trust

Prior to July 1, 2018, the EUTF accounted for the pre-funding contributions made by the State and counties in the OPEB Trust, which met the criteria of a trust or equivalent arrangement. Accordingly, the assets, liabilities, and net position, as well as the changes in net position, of the OPEB Trust were reported as a fiduciary fund using the accrual basis of accounting similar to the enterprise fund. The assets, liabilities, and operations for the pre-funding contributions were reported in the statements of fiduciary net position and changes in fiduciary net position.

Effective July 1, 2018, the EUTF accounts for the OPEB assets, liabilities, net position, and operations related to postemployment health benefits for retirees and their beneficiaries in the OPEB Trust, including all employer OPEB contributions for retirees and their beneficiaries.

Change in Reporting Entity

The EUTF has accounted for the effects of Act 268 as a change in reporting entity. Accordingly, the fiduciary net position of the agency fund and the OPEB Trust as of June 30, 2018 have been restated in order to reflect the new reporting entity as described above.

Specifically, the change in reporting entity had the effect of increasing beginning net position restricted for postemployment benefits other than pensions in the accompanying statement of fiduciary net position – OPEB Trust by $208,944,397 as follows:

Net position restricted for postemployment benefits other than pensions - beginning of year, as previously reported	$ 2,370,481,565
Adjustment for change in reporting entity	208,944,397
Net position restricted for postemployment benefits other than pensions - beginning of year, as restated	$ 2,579,425,962

Cash Equivalents

All highly liquid investments with an original maturity of three months or less when purchased are considered to be cash equivalents.

Investments

Investments are reported at fair value. Purchases and sales of securities are recorded on a trade-date basis. Interest income is recorded on the accrual basis. Dividend income is recorded on the ex-dividend date.

Unrealized gains and losses are recorded in the accompanying financial statements based on the difference between the fair value of assets at the beginning of the year, or at the time of purchase for assets purchased during the year, and the last day of the year.

Securities Lending

The EUTF receives cash and noncash collateral under securities lending agreements. The EUTF does not have the ability to pledge or sell collateral securities absent of borrower default, thus only cash received as collateral is reported on the financial statements. Cash collateral received under securities lending agreements are invested in a money market fund and are reported at fair value. Liabilities resulting from these transactions are also recorded. Additionally, costs associated with securities transactions, broker commissions paid, and lending agent management fees are reported as investment expenses from securities lending activities in the accompanying financial statements.

Receivables

Receivables consist primarily of amounts due from employers for health benefits premium contributions and experience refunds, rebates and other receivables from insurance companies, as well as amounts due from individuals for overpayment of Medicare Part B reimbursements. An allowance for employer receivables is not considered necessary based on past collection experience. The Medicare Part B reimbursement receivables from individuals are reported as net receivables and were based on management's estimate of amounts considered collectible.

Capital Assets and Depreciation

The EUTF's capital assets consist of office furniture and equipment, and computer equipment and software with estimated useful lives greater than one year and with an acquisition cost greater than $5,000. Purchased capital assets are valued at cost. Donated capital assets are recorded at their fair value at the date of donation. Depreciation expense is determined using the straight-line method over the assets' estimated useful life of seven years.

Deferred Outflows of Resources and Deferred Inflows of Resources

Deferred outflows (inflows) of resources represent a consumption of (benefit to) net position that applies to a future period. The deferred outflow of resources related to pension and OPEB resulted from changes in assumptions, the net difference between projected and actual earnings on pension plan investments, differences between expected and actual experience, and changes in proportion and differences between contributions and proportionate share of contributions, which will be amortized over five years, and the EUTF's contributions to the pension and OPEB plans subsequent to the measurement date of the actuarial valuations for the pension and OPEB plans, which will be recognized as a reduction of the net pension liability and net OPEB liability in the subsequent fiscal year. The deferred inflow of resources related to pension and OPEB resulted from differences between expected and actual experience, changes in proportion and differences between contributions and proportionate share of contributions, and the net difference between projected and actual earnings on OPEB plan investments, which will be amortized over five years.

The EUTF's deferred outflows/inflows of resources related to pension and OPEB are detailed in Note 8.

Compensated Absences

All employees earn vacation at the rate of one and three-quarters working days for each month of service. Vacation days may be accumulated to a maximum of 90 days. Employees are entitled to receive cash payment for accumulated vacation upon termination. The accompanying enterprise fund financial statements present the cost of accumulated unpaid vacation as a liability.

A reconciliation of changes in compensated absences liabilities for accumulated vacation is as follows for the year ended June 30, 2019:

Balance at beginning of year	$ 355,760
Additions	225,246
Reductions	(226,106)
Balance at end of year	354,900
Less curent portion	(110,412)
Noncurrent portion	$ 244,488

All employees earn sick leave credits at the rate of one and three-quarters working days for each month of service. Sick leave credits may be accumulated without limit. Sick leave can be taken only in the event of illness and is not convertible to pay upon termination of employment. Accordingly, no liability for unpaid sick leave credits is reported in the accompanying enterprise fund financial statements. However, an EUTF employee who retires or leaves government service in good standing with sixty days or more of unused sick leave is entitled to additional service credit in the Employees' Retirement System of the State of Hawaii (the ERS) at the rate of one additional month of service for each 20 days of unused sick leave. Accumulated sick leave as of June 30, 2019 amounted to approximately $850,000.

Risk Management

The EUTF is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors or omissions; natural disasters; and workers' compensation. A liability for a claim is established if information indicates that it is probable that a liability has been incurred as of the date of the financial statements and the amount of the loss is reasonably estimatable.

The estimated reserve for losses and loss adjustment costs includes the accumulation of estimates for losses and claims reported prior to fiscal year-end, nonincremental estimates (based on projections of historical developments) of claims incurred but not reported, and nonincremental estimates of costs for investigating and adjusting all incurred and unadjusted claims. Amounts reported are subject to the impact of future changes in economic and social conditions. The EUTF believes that, given the inherent variability in any such estimates, the reserves are within a reasonable and acceptable range of adequacy. Reserves are continually monitored and reviewed and, as settlements are made and reserves adjusted, the differences are reported in current operations.

Benefits Claims Expense and Carrier Payments

The benefits claims expense for self-insured prescription drug plans and the supplemental medical and drug plan includes the ultimate net cost of all reported claims incurred through the end of the fiscal year for healthcare benefits. The benefits claims expense also includes an additional estimate for unreported claims that have been incurred as of fiscal year-end.

Management has made certain assumptions based on currently available information and industry statistics in determining the benefits claims expense. Accordingly, the ultimate costs may vary significantly from the estimated amounts reported in the financial statements. Management believes that, given the inherent variability in benefits claims expense, such aggregate liabilities are within a reasonable range of adequacy. Such estimates are based on estimated claims cost reported prior to fiscal year-end, and estimates (based on actuarial projections of historical loss development) of claims cost incurred but not reported. Reserves are continually reviewed and adjusted as experience develops or new information becomes known. Rebates receivable are recorded in the period that the claim is paid and is netted against the cost of the claim.

Management recorded its best estimate for the obligation of unpaid claims of $4,499,088 for active employees and $18,065,109 for retirees as of June 30, 2019, based on the EUTF's benefits consultant's estimate for the liability for unpaid claims. These amounts include administrative fees payable to the third party administrator for services provided and for benefit claims incurred as of June 30, 2019.

Benefit claims expense for active employees are reported in the enterprise fund. In accordance with Statement No. 10, only benefit claims expense (and related premium revenue) for self-insured plans, where the risk of loss for these self-insured plans are retained by the EUTF, are reported in the accompanying statement of revenues, expenses, and changes in net position – Enterprise Fund. Premiums paid to carriers for fully-insured plans (and related required premiums from employers) for active employees are included as components of premiums receivable from State of Hawaii and counties in the statement of net position – Enterprise Fund.

For retirees, benefit claims expense for self-insured plans and premiums paid to carriers for fully-insured plans (and related contributions from employers) are reported in the accompanying statement of changes in the fiduciary net position – OPEB Trust in accordance with Statement No. 74. Retiree contributions reduce reported benefit claims expense and carrier payments.

Carrier Payment Methodology

Premiums paid to the carriers are calculated on a monthly basis by multiplying the total number of active employees and retirees enrolled in the various plans on the last day of the month by the premium rates set forth in the contract agreements, whereas employer and employee billings are calculated on a semi-monthly basis. As a result, the EUTF recognizes a gain or loss between the total premiums actually collected from the employers and employees and the total premiums actually paid to the carriers. For the year ended June 30, 2019, the EUTF recognized gains (losses) of $239,891 and ($305,861), related to active employees and retirees, respectively.

Chapter 87A, HRS states that employer contributions are irrevocable. In addition, Chapter 87A, HRS does not require the EUTF to return insurance carrier refunds, rate credits and other earnings, as authorized by the Board, to identifiable employees who participated in ascertainable years that created the refund or credit. Accordingly, the EUTF recognizes the gains as increases in experience refunds and the related receivable as experience refunds due from insurance companies.

Premium Revenues - Self-insured

Premium revenues - self-insured are recognized over the coverage period.

Experience Refunds

For fully-insured with risk sharing health benefit contracts, the EUTF recognizes estimated experience refunds. Management has made certain assumptions based on currently available information in determining the estimated experience refunds. Accordingly, the ultimate gains may vary significantly from the estimated amounts reported in the accompanying financial statements.

Pension

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pension, and pension expense, information about the fiduciary net position of the EUTF's participation in the ERS and additions to/deductions from the ERS's fiduciary net position have been determined on the same basis as they are reported by the ERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with benefit terms. The ERS' investments are reported at fair value.

Other Postemployment Benefits

For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the EUTF's participation in the OPEB plan and additions to/deductions from the OPEB plan's fiduciary net position have been determined on the same basis as they are reported by the EUTF. For this purpose, benefit payments are recognized when due and payable in accordance with the benefit terms. The EUTF's investments are reported at their fair value.

Use of Estimates

In preparing financial statements in conformity with GAAP, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Recently Issued Accounting Pronouncements

GASB Statement No. 84

The GASB issued Statement No. 84, *Fiduciary Activities*. The objective of this statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. The requirements of this statement are effective for reporting periods beginning after December 15, 2018. The EUTF is currently evaluating the impact that this statement will have on its financial statements.

GASB Statement No. 87

The GASB issued Statement No. 87, *Leases*. The objective of this statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This statement requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the provisions of the contract. The requirements of this statement are effective for reporting periods beginning after December 15, 2019. The EUTF is currently evaluating the impact that this statement will have on its financial statements.

(3) Cash and Cash Equivalents and Investments

As of June 30, 2019, the EUTF's cash and cash equivalents and investments are reported in the financial statements as follows:

	Enterprise Fund	OPEB Trust	Total
Cash and cash equivalents	$ 28,960,550	$ 263,805,816	$ 292,766,366
Investments	61,278,434	3,033,026,203	3,094,304,637
Total	$ 90,238,984	$ 3,296,832,019	$ 3,387,071,003
Invested securities lending collateral	$ -	$ 25,872,169	$ 25,872,169

Cash and Cash Equivalents

The EUTF maintains bank accounts and a money market account at a major financial institution located in Hawaii and a cash management account with a broker-dealer. As of June 30, 2019, the carrying amount of these accounts was $292,766,366 and the related bank and money market balances was $293,396,173.

Investments

EUTF Investment Pool

The EUTF's investment pool, at fair value, consists of the following investments as of June 30, 2019:

Equity securities:	
Commingled funds - domestic	$ 696,991,680
Commingled funds - international	613,718,921
Common stocks - domestic	389,874,310
Common stocks - international	15,050,187
Exchange traded funds - domestic	30,708,845
Exchange traded funds - international	23,016,481
Fixed income securities:	
Commingled funds - domestic inflation	240,800,766
Commingled funds - domestic core	90,367,878
Mutual fund - domestic	129,965,789
U.S. treasury and government agency bonds	246,087,643
Real estate	313,904,999
Alternative investments	304,115,500
Derivatives - equity options	(298,362)
Total investments	$ 3,094,304,637

Invested Securities Lending Collateral

Cash received under the EUTF's securities lending program is invested in a money market fund and reported at fair value as of June 30, 2019 as follows:

Money market fund	$ 25,872,169

<u>*Commingled Funds*</u>

Domestic equity - Northern Trust Russell 3000 Index Fund - Lending - primary objective is to approximate the risk and return characteristics of the Russell 3000 Index. This index is commonly used to represent the broad U.S. equity market.

International equity - Northern Trust Common All Country World Index (ACWI) EX-US Fund - Lending - primary objective is to provide investment results that approximate the overall performance of the MSCI All Country World EX-US Index.

Alternative risk premia - Lombard Odier - primary objective is to target a 10% long-term volatility level seeking to harvest value, carry, and momentum risk premia/factors across a diverse set of assets (equities, commodities, currencies, and fixed income) using instruments such as futures, currency forwards, and swaps.

Domestic inflation-linked fixed income - BlackRock U.S. Inflation-Linked Bond Fund B - primary objective is to maximize real return by investing in inflation-linked fixed income securities issued by the U.S. government.

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

Mutual Fund

Fixed income - domestic - Vanguard Short-Term Corporate Bond Index Fund - seeks to track the performance of a market-weighted corporate bond index with a short-term dollar-weighted average maturity. This index includes U.S. dollar-denominated, investment-grade, fixed-rate, taxable securities issued by industrial, utility, and financial companies, with maturities between one and five years.

Money Market Funds

Money market funds seek to maximize current income to the extent consistent with the preservation of capital and maintenance of liquidity by investing exclusively in high quality money market investments.

Investments Authorized

The Board is responsible for safekeeping these monies and has appointed an Investment Committee responsible for investing EUTF assets in compliance with applicable HRS and with the foremost intention of preserving capital and providing sufficient investment appreciation to meet the current and future OPEB benefit payments. The Investment Committee's duties include determining the investment policies for the EUTF and periodically affirming their appropriateness in light of changes in the EUTF expected cash flows, market conditions, actuarial variables, or other pertinent developments. Money is invested in accordance with the EUTF's Statement of Investment Policy and Guidelines (the Investment Policy).

Section 87A-24(2) of the HRS empowers the Board to invest monies "in the same manner specified in section 88-119." Permissible investments under section 88-119 "Investments" are as follows:

(1) Real estate loans and mortgages. Obligations (as defined in section 431:6-101) of any of the following classes:

(a) Obligations secured by mortgages of nonprofit corporations desiring to build multi-rental units (ten units or more) subject to control of the government for occupancy by families displaced as a result of government action;

(b) Obligations secured by mortgages insured by the Federal Housing Administration;

(c) Obligations for the repayment of home loans made under the Servicemen's Readjustment Act of 1944 or under Title II of the National Housing Act;

(d) Other obligations secured by first mortgages on unencumbered improved real estate owned in fee simple; provided that the amount of the obligation at the time investment is made therein shall not exceed eighty percent of the value of the real estate and improvements mortgaged to secure it, and except that the amount of the obligation at the time investment is made therein may exceed eighty percent but no more than ninety percent of the value of the real estate and improvements mortgaged to secure it; provided further that the obligation is insured or guaranteed against default or loss under a mortgage insurance policy issued by a casualty insurance company licensed to do business in the State. The coverage provided by the insurer shall be sufficient to reduce the EUTF's exposure to not more than eighty percent of the value of the real estate and improvements mortgaged to secure it. The insurance coverage shall remain in force until the principal amount of the obligation is reduced to eighty percent of the market value of the real estate and improvements mortgaged to secure it, at which time the coverage shall be subject to cancellation solely at the option of the Board. Real estate shall not be deemed to be encumbered within the meaning of this subparagraph by reason of the existence of any of the restrictions, charges, or claims described in section 431:6-308;

(e) Other obligations secured by first mortgages of leasehold interests in improved real estate; provided that:

(i) Each leasehold interest at the time shall have a current term extending at least two years beyond the stated maturity of the obligation it secures; and

(ii) The amount of the obligation at the time investment is made therein shall not exceed eighty percent of the value of the respective leasehold interest and improvements, and except that the amount of the obligation at the time investment is made therein may exceed eighty percent but no more than ninety percent of the value of the leasehold interest and improvements mortgaged to secure it; provided further that the obligation is insured or guaranteed against default or loss under a mortgage insurance policy issued by a casualty insurance company licensed to do business in the State. The coverage provided by the insurer shall be sufficient to reduce the EUTF's exposure to not more than eighty percent of the value of the leasehold interest and improvements mortgaged to secure it. The insurance coverage shall remain in force until the principal amount of the obligation is reduced to eighty percent of the market value of the leasehold interest and improvements mortgaged to secure it, at which time the coverage shall be subject to cancellation solely at the option of the Board;

(f) Obligations for the repayment of home loans guaranteed by the Department of Hawaiian Home Lands pursuant to section 214(b) of the Hawaiian Homes Commission Act, 1920; and

(g) Obligations secured by second mortgages on improved real estate for which the mortgagor procures a second mortgage on the improved real estate for the purpose of acquiring the leaseholder's fee simple interest in the improved real estate; provided that any prior mortgage shall not contain provisions that might jeopardize the security position of the EUTF or the borrower's ability to repay the mortgage loan.

The Board may retain the real estate, including leasehold interests therein, as it may acquire by foreclosure of mortgages or in enforcement of security, or as may be conveyed to it in satisfaction of debts previously contracted; provided that all the real estate, other than leasehold interests, shall be sold within five years after acquiring the same, subject to extension by the governor for additional periods not exceeding five years each, and that all the leasehold interests shall be sold within one year after acquiring the same, subject to extension by the governor for additional periods not exceeding one year each;

(2) Government obligations, etc. Obligations of any of the following classes:

(a) Obligations issued or guaranteed as to principal and interest by the United States or by any state thereof or by any municipal or political subdivision or school district of any of the foregoing; provided that principal of and interest on the obligations are payable in currency of the United States; or sovereign debt instruments issued by agencies of, or guaranteed by foreign governments;

(b) Revenue bonds, whether or not permitted by any other provision hereof, of the State or any municipal or political subdivision thereof, including the Board of Water Supply of the City and County of Honolulu, and street or improvement district bonds of any district or project in the State; and

(c) Obligations issued or guaranteed by any federal home loan bank, including consolidated federal home loan bank obligations, the Home Owner's Loan Corporation, the Federal National Mortgage Association, or the Small Business Administration;

(3) Corporate obligations. Below investment grade or nonrated debt instruments, foreign or domestic, in accordance with investment guidelines adopted by the Board;

(4) Preferred and common stocks. Shares of preferred or common stock of any corporation created or existing under the laws of the United States or of any state or district thereof or of any country;

(5) Obligations eligible by law for purchase in the open market by Federal Reserve banks;

(6) Obligations issued or guaranteed by the International Bank for Reconstruction and Development, the Inter-American Development Bank, the Asian Development Bank, or the African Development Bank;

(7) Obligations secured by collateral consisting of any of the securities or stock listed above and worth at the time the investment is made at least fifteen percent more than the amount of the respective obligations;

(8) Insurance company obligations. Contracts and agreements supplemental thereto providing for participation in one or more accounts of a life insurance company authorized to do business in Hawaii, including its separate accounts, and whether the investments allocated thereto are comprised of stocks or other securities or of real or personal property or interests therein;

(9) Interests in real property. Interests in improved or productive real property in which, in the informed opinion of the Board, it is prudent to invest funds of the EUTF. For purposes of this paragraph, "real property" includes any property treated as real property either by local law or for federal income tax purposes. Investments in improved or productive real property may be made directly or through pooled funds, including common or collective trust funds of banks and trust companies, group or unit trusts, limited partnerships, limited liability companies, investment trusts, title-holding corporations recognized under section 501(c) of the Internal Revenue Code of 1986, as amended, similar entities that would protect the EUTF's interest, and other pooled funds invested on behalf of the EUTF by investment managers retained by the EUTF;

(10) Other securities and futures contracts. Securities and futures contracts in which in the informed opinion of the Board, it is prudent to invest funds of the EUTF, including currency, interest rate, bond, and stock index futures contracts and options on the contracts to hedge against anticipated changes in currencies, interest rates, and bond and stock prices that might otherwise have an adverse effect upon the value of the EUTF's securities portfolios; covered put and call options on securities; and stock; whether or not the securities, stock, futures contracts, or options on futures are expressly authorized by or qualify under the foregoing paragraphs, and notwithstanding any limitation of any of the foregoing paragraphs (including paragraph (4)); and

(11) Private placements. Investments in institutional blind pool limited partnerships, limited liability companies, or direct investments that make private debt and equity investments in privately held companies, including but not limited to investments in Hawaii high technology businesses or venture capital investments that, in the informed opinion of the Board, are appropriate to invest funds of the EUTF. In evaluating venture capital investments, the Board shall consider, among other things, the impact an investment may have on job creation in Hawaii and on the state economy. The Board shall report annually to the legislature on any Hawaii venture capital investments it has made; provided that if the Board determines it is not prudent to invest in any Hawaii venture capital investments the Board shall report the rationale for the decision. The Board, by January 1, 2008, shall develop criteria to determine the amount of funds that may be prudently invested in Hawaii private placement investments.

Strategic Allocation

Strategic allocation refers to the strategic deployment of assets among the major classes of investments permitted under the HRS. It is the primary determinant of success in meeting long-term investment objectives. The EUTF's strategic allocation is established by the Board with input from the Investment Committee and the investment consultant and is a function of the Board's expectations of current and future liquidity and income needs, eligible investment types under the HRS, expectations of strategic class investment performance likely to be achieved over the long-term, and risk tolerance.

The Board/Investment Committee implements its strategic allocation policy through the use of full discretion investment managers who invest the assets of the portfolios assigned to them, subject to specific investment guidelines provided by the Board or provided by the fund's governing documents.

In April 2018, the EUTF Board approved an updated strategy allocation which included an evolving policy plan designed to efficiently transition the EUTF to the new long term strategic allocation over time.

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As of June 30, 2019, the evolving policy plan for the OPEB Trust is as follows:

Asset Classification	Current Policy	Stage 1	Stage 2	Stage 3	Stage 4	New Long-term Strategic Allocation Policy
Expected Completion Date	—	10/1/18	4/1/19	8/1/19	4/1/20	7/1/22
Private equity/non-core RE	0%	1%	2%	3%	4%	10%
U.S. microcap equity	9%	9%	9%	9%	9%	7%
U.S. equity	20%	19%	18%	16%	16%	15%
Non-U.S. equity	20%	19%	18%	17%	17%	17%
U.S. REITs	9%	7%	5%	3%	2%	0%
Global options	7%	7%	7%	7%	7%	7%
Core real estate	7%	8%	9%	10%	10%	10%
Private credit	0%	0%	3%	6%	6%	6%
Core fixed income	3%	3%	3%	3%	3%	3%
TIPs	11%	8%	7%	6%	6%	5%
Long treasuries	7%	7%	7%	7%	6%	6%
Alternative risk premia	0%	5%	5%	5%	5%	5%
Systematic trend following	7%	7%	7%	8%	9%	9%
	100%	100%	100%	100%	100%	100%

The evolving policy plan for the EUTF's short-term liquidity/operating asset pool as of June 30, 2019 is as follows:

Strategic Classification	Current Policy	Stage 1	Target
Expected Completion Date	---	10/1/18	4/1/19
Short-term investment:			
Cash and cash equivalents and short-duration fixed income	100.00%	100.00%	100.00%
Long-term investment:			
U.S. equities	50.00%	35.00%	25.00%
International equities	50.00%	35.00%	25.00%
Long treasuries	0.00%	12.00%	18.75%
Alternative risk premia	0.00%	8.00%	13.75%
Systematic trend following	0.00%	10.00%	17.50%
	100.00%	100.00%	100.00%

Asset Class Ranges

The Board/Investment Committee will utilize the following asset class ranges/bounds in managing the long-term investment portfolio. These ranges apply to the prevailing evolving policy allocation that is in effect. Considering the inherit characteristics of private markets classes, such classes do not have ranges but will be managed in-line with approved pacing models/schedules.

Asset Classification	Range
Private equity/non-core RE	---
U.S. microcap equity	±2%
U.S. equity	±3%
Non-U.S. equity	±3%
U.S. REITs	±2%
Global options	±2%
Core real estate	---
Private credit	---
Core fixed income	±2%
TIPs	±2%
Long treasuries	±2%
Alternative risk premia	±2%
Systematic trend following	±2%

These ranges apply to the prevailing evolving policy allocation of the Excess Funds portfolio.

Asset Classification	Range
U.S. equity	±4%
Non-U.S. equity	±4%
Long treasuries	±3%
Alternative risk premia	±2%
Systematic trend following	±2%

Rebalancing

The Board/Investment Committee has a policy of rebalancing the portfolio when actual strategic allocations fall outside of the strategic class ranges. Subject to market conditions, portfolio rebalancing will be executed by staff on a systematic basis when strategic allocations fall outside of the strategic class ranges. In order to minimize transaction costs and operational risks, EUTF cash flows, such as contributions received or benefits paid, will be the primary mechanism used to achieve rebalancing objectives when strategic allocations are not at the targets but are not outside the strategic class ranges. Staff will have the authority to rebalance towards strategic allocation targets without cash flows and when actual allocations are not outside of the strategic class ranges if the intent is to reduce overall portfolio risk. These customary rebalancing procedures notwithstanding, during periods of extreme market conditions, illiquid markets, or other extenuating circumstances in which rebalancing may be difficult or costly, the Board/Investment Committee may, at its discretion, elect to suspend rebalancing until a time it believes is prudent.

Rate of Return

For the year ended June 30, 2019, the annual money-weighted rate of return on investments, net of investment expenses, for the OPEB Trust was 4.69%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Fair Value Hierarchy

The EUTF's investments are measured at fair value. The EUTF categorizes its fair value measurement within the fair value hierarchy established by GAAP. Fair value is a market-based measurement of the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. A fair value measurement assumes that a transaction to sell an asset or transfer a liability takes place in either the principal market or most advantageous market.

The fair value hierarchy categorizes the inputs to valuation techniques used to measure fair value of the assets into three levels. Level 1 inputs are unadjusted quoted prices in active markets for identical assets; Level 2 are quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-derived valuations in which all significant inputs are observable; and Level 3 inputs are valuations derived from valuation techniques in which significant inputs are unobservable.

The asset's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques maximize the use of relevant observable inputs and minimize the use of unobservable inputs. The categorization of investments within the hierarchy is based upon the pricing transparency of the instrument and should not be perceived as the particular investment's risk.

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The following is a summary of the EUTF's fair value measurements as of June 30, 2019:

		Fair Value Measurements Using	
	Total	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)
Investments by fair value level:			
Equity securities:			
Common stocks - domestic	$ 389,874,310	$ 389,874,310	$ -
Common stocks - international	15,050,187	15,050,187	-
Exchange traded funds - domestic	30,708,845	30,708,845	-
Exchange traded funds - international	23,016,481	23,016,481	-
Fixed income securities:			
Mutual fund - domestic	129,965,789	129,965,789	-
U.S. treasury and government agency bonds	246,087,643	-	246,087,643
Derivative securities	(298,362)	-	(298,362)
Total investments measured by fair value levels	834,404,893	$ 588,615,612	$ 245,789,281
Investments measured at net asset value (NAV):			
Commingled funds:			
Domestic equity	696,991,680		
International equity	613,718,921		
Domestic inflation - linked fixed income	240,800,766		
Domestic core fixed income	90,367,878		
Real estate	313,904,999		
Alternative investments	304,115,500		
Total investments measured at NAV	2,259,899,744		
Total investments measured at fair value	$ 3,094,304,637		
Invested securities lending collateral - measured at NAV - money market fund	$ 25,872,169		

Investments in common stocks, exchange traded funds, and a mutual fund are valued at the daily closing price as reported by the fund. The mutual fund held by the EUTF is an open-end mutual fund that is registered with the SEC. The fund is required to publish its daily net asset value (NAV) and to transact at that price.

The fair value of futures is determined using the market approach based upon quoted market prices. For exchange-traded securities, such as futures and options, closing prices from the securities exchanges are used.

Investments in commingled funds are valued at NAV. Investments in a money market fund are valued at the NAV of the custodian bank liquid asset portfolio. In addition, real estate and alternative investments held in limited partnerships and limited liability companies (as described in the *Derivatives* section) are measured at their respective NAV and are generally audited annually. The NAV is based on the fair value of the underlying assets held by the fund less its liabilities.

There have been no changes in the methodologies used at June 30, 2019. The preceding measurements described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. The market volatility of equity-based investments is expected to substantially impact the value of such investments at any given time. It is likely that the value of the EUTF's investments has fluctuated since June 30, 2019.

Investments Measured at NAV	Fair Value June 30, 2019	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Commingled funds:				
Domestic equity	$ 696,991,680	$ -	Daily/ Monthly	Same as trade date/ Trade date - 2
International equity	613,718,921	-	Daily	Trade date - 1
Domestic inflation - linked fixed income	240,800,766	-	Daily	Trade date - 2
Domestic core fixed income	90,367,878	-	Daily	Trade date - 2
Real estate	313,904,999	-	Quarterly	Trade date - 30
Alternative investments	304,115,500	387,018,046	Monthly/ Quarterly/ Annually	Various up to trade date - 90
Total investments measured at NAV	$ 2,259,899,744	$ 387,018,046		
Invested securities lending collateral - money market mutual fund - measured at NAV	$ 25,872,169			Same as trade date

Interest Rate Risk

Interest rate risk is the risk that changes in the interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The EUTF has not adopted a formal policy that limits investment maturities as a means of managing its exposure to fair value changes arising from changing interest rates. External investment managers are given full discretion within their operational guidelines and are expected to maintain a diversified portfolio between and within sectors, quality, and maturity.

Duration is a measure of a debt investment's exposure to fair value changes arising from changes in interest rates. It uses the present value of cash flows, weighted for those cash flows as a percentage of the investment's full price. The table below shows fixed income investment securities by investment type, amount, and the effective weighted duration for the EUTF's total portfolio as of June 30, 2019:

Debt Security Type	Fair Value	Effective Weighted Duration (years)	Percent of Debt Securities
Fixed income securities:			
Commingled funds - domestic inflation	$ 240,800,766	7.51	34.05%
Commingled funds - domestic core	90,367,878	5.29	12.78%
Mutual fund - domestic	129,965,789	2.60	18.38%
U.S. treasury bonds	244,089,259	17.29	34.51%
U.S. government agency bonds	1,998,384	10.64	0.28%
Total	$ 707,222,076		100.00%

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligation to the holder of the investment. Information regarding the EUTF's credit risk on derivative investments is discussed below in the derivative disclosures, while policies related to credit risk for the securities lending program is discussed below in the securities lending disclosures.

Credit risk is measured by the assignment of a rating by a nationally recognized statistical rating organization, Standard and Poor's. At June 30, 2019, the EUTF investments include two fixed income oriented commingled funds and one fixed income oriented mutual fund: the BlackRock U.S. Debt Index Fund B, with ratings ranging from AAA to BBB, the BlackRock U.S. Inflation-Linked Bond Fund with ratings ranging from AAA to NR, and the Vanguard Short-Term Corporate Bond Index Fund B with ratings ranging from Aaa to Baa. The EUTF's direct holdings in U.S. treasury and government agency bonds have a AAA rating.

Custodial Credit Risk

Custodial credit risk is the risk that, in the event of the failure of the counterparty, the EUTF will not be able to recover the value of its investments residing at its custodian bank or collateral securities that are lent by the custodian bank to outside party(ies). The EUTF's investments are held at a custodian bank. The EUTF's custodians are Northern Trust Corporation (Northern Trust) and Bank of Hawaii (BOH). Northern Trust and BOH are "Qualified Custodians" as defined within Rule 206(4)-2 of the Investment Advisers Act of 1940 for which funds or securities are held separate from bank assets. The EUTF did not have custodial credit risk related to its equity and fixed income securities, including commingled funds, common stocks, exchange traded funds, U.S. treasury and government agency bonds, a mutual fund, and securities lending activities.

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the EUTF will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The EUTF's Investment Policy or the HRS do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits. At times and as of June 30, 2019, the EUTF had deposits in excess of Federal Deposit Insurance Corporation (FDIC) and SIPC limits.

Concentration of Credit Risk

The EUTF provides guidelines regarding portfolio diversification by placing limits on the amount it may invest in any one issuer, types of investment instruments, and position limits per issue of an investment instrument.

Other than U.S. government securities, which are not subjected to the GASB Statement No. 40 disclosure requirements, the EUTF does not have investments in any single issuer that represent 5 percent or more of fiduciary net position or total investments.

Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely impact the fair value of an investment. The EUTF's asset allocation and investment policy allows for active and passive investments in international securities. The foreign currency risk exposure to the EUTF arises from the international equity investment holdings, including commingled funds, common stocks, and exchange traded funds.

The following table summarizes the EUTF's exposure to foreign currency risk in U.S. dollars as of June 30, 2019:

Currencies	Cash and Cash Equivalents	Derivatives	Total
Australian dollar	$ 13,923	$ (13,867)	$ 56
British pound sterling	246,051	38,361,928	38,607,979
Canadian dollar	340,234	35,990,786	36,331,020
Euro	5,503,794	44,343,051	49,846,845
Hong Kong dollar	31,883	(20,134)	11,749
Japanese yen	32,076	26,712,892	26,744,968
Swiss franc	25,542	(2,513)	23,029
	$ 6,193,503	$ 145,372,143	$ 151,565,646

Securities Lending

The EUTF participates in a securities lending program administered by its custodian bank, Northern Trust. Under this program, which is permissible by State statutes and the EUTF's Investment Policy, certain equity securities are lent to participating broker-dealers and banks (borrowers). In return, the EUTF receives cash, securities, and/or letters of credit as collateral at 102% to 105% of the principal plus accrued interest for reinvestment. The collateral is marked to market daily. If the market value of the collateral falls below the minimum collateral requirements, additional collateral is provided. Accordingly, management believes that the EUTF had no credit risk exposure to borrowers because the amounts the EUTF owed the borrowers equaled or exceeded the amounts the borrowers owed the EUTF. The contract with the EUTF requires the custodian bank to indemnify the EUTF. In the situation when a borrower goes into default, the custodian bank will liquidate the collateral to purchase replacement securities. Any shortfall between the replacement securities cost and the collateral value is covered by the custodian bank. All securities loans can be terminated on demand within a period specified in each agreement by either the EUTF or the borrowers.

Cash collateral is invested in a separate account by the custodian bank using approved lender's investment guidelines. As such, maturities of the investments made with cash collateral generally do not match the maturities of the securities loans. The EUTF does not impose any restrictions on the amount of loans the bank custodian makes on behalf of the EUTF. The securities lending program in which the EUTF participates only allows pledging or selling securities in the case of borrower default.

At June 30, 2019, the total securities lent for collateral amounted to $127,638,526. At June 30, 2019, the total cash and noncash collateral received amounted to $25,872,169 and $104,384,916, respectively.

Each of the four commingled funds held in the EUTF investment pool participates in securities lending.

Derivatives

The EUTF holds investments in options and futures. The EUTF enters into various derivative investment contracts to hedge, minimize transaction costs, and to implement value added strategies to enhance returns as authorized by the EUTF's Investment Policy.

Generally, derivatives are subject both to market risk and counterparty risk. The derivatives utilized by the EUTF typically have no greater risk than their physical counterparts, and in many cases are offset by exposures elsewhere in the portfolio. Counterparty risk, the risk that the "other party" to a contract will default, is managed by utilization of exchange-traded futures and options where practicable (in which case the futures exchange is the counterparty and guarantees performance) and by careful screening of counterparties where use of exchange-traded products is impractical or uneconomical. The EUTF investment managers seek to control this risk through counterparty credit evaluations and approvals, counterparty credit limits, posting collateral, and exposure monitoring procedures. The EUTF anticipates that counterparties will be able to satisfy their obligations under the contracts.

Futures represent commitments to purchase (asset) or sell (liability) securities at a future date and at a specified price. Futures contracts are traded on organized exchanges thereby minimizing the EUTF's credit risk. The net change in the futures contract value is settled daily in cash with the exchanges. Net gains or losses arising from the daily settlements are included in the net appreciation in fair value of investments in the accompanying statement of changes in fiduciary net position – OPEB Trust. The notional amount is the nominal or the underlying face amount that is used to calculate payments made on that instrument or contract. At June 30, 2019, the net notional value of futures contracts was $190,070,233.

Options represent or give the buyers the right, but not the obligation, to buy or sell an asset at a preset price over a specified period. The option's price is usually a small percentage of the underlying asset's value. As a writer of financial options, the EUTF receives a premium at the outset of the agreement and bears the risk of an unfavorable change in the price of the financial instrument underlying the option. As a purchaser of financial options, the EUTF pays a premium at the outset of the agreement and the counterparty bears the risk of an unfavorable instrument underlying the option.

The following table summarizes the EUTF's investments in derivative securities and contracts held at June 30, 2019 with the related maturity information:

Derivatives (by type)	Notional Value	Market Value	Maturity (range from)
Futures:			
Commodity futures long	$ 18,187,105	$ -	.2 to .5 year
Commodity futures short	(42,583,518)	-	.1 to .4 year
Fixed income futures long	168,314,894	-	.2 year
Equity futures long	70,895,972	-	.2 year
Equity futures short	(6,117,134)	-	.2 year
Foreign exchange contracts long	23,371,871	-	.2 year
Foreign exchange contracts short	(41,998,957)	-	.2 year
Futures total	190,070,233	-	
Options:			
Equity options written	-	(1,512,462)	under .1 year
Grand total	$ 190,070,233	$ (1,512,462)	

In addition, the EUTF holds investments in 12 limited partnerships and two limited liability companies. The three largest limited partnerships consist of investments in: 1) Adaptive Trend Fund, LP managed by AlphaSimplex, 2) ASB Allegiance Real Estate Fund, LP managed by ASB Allegiance, and 3) Kepos Alternative Risk Premia Fund, LP managed by Kepos. AlphaSimplex uses a systematic trend following strategy that captures price trends by trading across four major futures market segments (equities, commodities, currencies, and fixed income) in more than 70 markets. ASB Allegiance invests in core real estate properties and uses a strategy concentrating investments in the most attractive major metropolitan urban submarkets with strong economies, excellent mass-transit access and high barriers to entry. Kepos utilizes a risk-balanced approach across the risk premia that gains exposure to within the portfolio. Kepos incorporates a single stock oriented portfolio that harvests similar risk premia across developed public equities. The fund targets a 10% long-term volatility level. The limited liability companies consist of 1) the Prime Property Fund, LLC managed by Morgan Stanley and 2) the Pimco Private Income Fund managed by Pacific Investment Management Company. Morgan Stanley invests in core real estate properties and uses a strategy investing in existing, high quality, well-leased properties in major metropolitan markets and submarkets across the United States and diversified across sectors. Pacific Investment Management Company implements an opportunistic income-oriented strategy with the flexibility to invest across residential mortgage, commercial real estate, corporate credit, and specialty lending.

(4) Capital Assets

The enterprise fund's capital asset activity for the year ended June 30, 2019 was as follows:

	Balance at July 1, 2018	Additions	Disposals	Balance at June 30, 2019
Office furniture and equipment	$ 965,335	$ 17,535	$ -	$ 982,870
Computer equipment and software	9,593,534	6,362	-	9,599,896
Less accumulated depreciation	(10,136,883)	(84,325)	-	(10,221,208)
Capital assets, net	$ 421,986	$ (60,428)	$ -	$ 361,558

(5) Health and Life Insurance Benefit Contracts

The EUTF's primary purpose is to provide active employees, retirees, and dependent-beneficiaries with health benefit plans and group life insurance. To effectuate this purpose, the EUTF enters in multi-year health benefit and life insurance contracts with carriers and administrators. The active employee and retiree contracts are on a fiscal year and calendar year, respectively.

The health benefit and life insurance contracts utilize three different financial arrangements:

Self-insured

Rates are experience rated and are set by the Board acting on the advice of the benefits consultant. Due to the size of the pool, there is no stop loss insurance associated with these plans. The EUTF pays administrative fees to the third-party administrator (the TPA) and pays actual claims. If claims are less than the premium collections from the employers, employees, and retirees (the surplus), the surplus funds are retained by the EUTF. However, if claims are greater than the premium collections (the shortfall), the EUTF is responsible for the shortfall.

Fully-insured

Rates are experience rated and are negotiated. Surpluses are retained by the insurance carrier and the insurance carrier is responsible for any shortfalls. Risk is retained by the insurance carrier.

Fully-insured with One-Way Risk Sharing

Rates are experience rated and are negotiated. Surpluses (premiums in excess of claims and administrative fees and retention charged by the insurance carrier) are retained by the EUTF, while the insurance carrier is responsible for any shortfalls.

The following is a summary of the insurance carriers and TPA and the funding arrangements for the medical, prescription drug, dental, vision, and life insurance:

Medical and Chiropractic

Hawaii Medical Service Association (HMSA) - *Fully-insured with one-way risk sharing*

- PPO plans - EUTF active employees 90/10, 80/20, and 75/25, and HSTA VB active employees 90/10 and 80/20 (including chiropractic services beginning July 1, 2018)
- HMO plan - EUTF active employees (including chiropractic services beginning July 1, 2018)
- Retiree PPO plans - EUTF and HSTA VB (including chiropractic services beginning January 1, 2018) retirees 90/10

Medical, Chiropractic, and Prescription Drug

Kaiser Permanente (Kaiser) - *Fully-insured*

- Comprehensive HMO plans - EUTF and HSTA VB active employees (including chiropractic services beginning July 1, 2018)
- Standard HMO plan - EUTF active employees (including chiropractic services beginning July 1, 2018)
- Retiree Comprehensive HMO plans - EUTF and HSTA VB (including chiropractic services beginning January 1, 2018) retirees (non-Medicare and Senior Advantage Medicare)

Prescription Drug

CVS Caremark - *Self-insured*

- Prescription drug coverage for HMSA PPO and HMO plans - EUTF and HSTA VB active employees and non-Medicare retirees

Silverscript - *Self-insured*

- Prescription drug coverage through an employer group waiver plan for non-Kaiser retirees - EUTF and HSTA VB Medicare retirees

Dental

Hawaii Dental Service (HDS) - *Fully-insured with one-way risk sharing*

- EUTF and HSTA VB active employees
- Supplemental plan for HSTA VB active employees
- EUTF and HSTA VB retirees

Vision

Vision Service Plan (VSP) - *Fully-insured with one-way risk sharing*
- EUTF and HSTA VB active employees and retirees

Life Insurance

USAble Life - *Fully-insured*
- Term life insurance - EUTF and HSTA VB active employees (terminated June 30, 2019)
- Term life insurance - EUTF and HSTA VB retirees (terminated December 31, 2018)

Securian Financial - *Fully-insured*
- Term life insurance - EUTF and HSTA VB active employees (effective July 1, 2019)
- Term life insurance - EUTF and HSTA VB retirees (effective January 1, 2019)

Supplemental Medical and Prescription Drug

Hawaii-Mainland Administrators (HMA) - *Self-insured*
- EUTF active employees

All Contracts

The following is a summary of the experience refunds due from insurance companies, rebates and other receivables from insurance companies, and premiums payable balances by insurance company at June 30, 2019:

	Active Employees	Retirees
Experience refunds due from insurance companies:		
HDS	$ 811,855	$ 269,772
HMSA	3,896,755	150,435
VSP	-	369,651
	$ 4,708,610	$ 789,858
Rebates and other receivables from insurance companies:		
Rebates receivable from CVS	$ 16,448,295	$ 5,618,293
Rebates and coverage gap discount receivable from Silverscript	-	25,154,091
Other receivables from CVS	8,720,674	-
Other receivables from HMSA	2,413,231	4,445,454
Other receivables from Kaiser	-	5,162,028
Other receivables from other carriers	263,102	1,179,018
	$ 27,845,302	$ 41,558,884

	Active Employees	Retirees
Premiums payable:		
HDS	$ 3,036,740	$ 2,520,278
HDS - HSTA VB	383,918	164,711
HMSA	24,073,637	15,217,582
HMSA - HSTA VB	3,209,161	612,539
Kaiser Hawaii	11,184,003	5,729,432
Kaiser Hawaii - HSTA VB	977,544	164,163
Minnesota Life	-	181,832
USAble	245,824	(78)
USAble - HSTA VB	24,551	-
VSP	443,189	300,730
VSP - HSTA VB	49,872	16,197
	$ 43,628,439	$ 24,907,386

(6) Benefit Claims Expense

The EUTF is self-insured for the prescription drug plans. Under the self-insured arrangement, the TPA provides the EUTF with provider networks, claims processing, cost containment, and other services. Instead of premiums, the EUTF pays administrative fees to the TPA for the services rendered and reimburses the TPA for claims paid.

Activity in the liability for unpaid benefit claims expense related to the self-insured prescription drug plans is as follows for the year ended June 30, 2019:

	Active Employees	Retirees	Total
Balance at July 1, 2018	$ 5,108,996	$ 16,707,921	$ 21,816,917
Claims and changes in estimates	111,227,135	201,217,675	312,444,810
Contractor processing administrative fees	933,928	4,045,708	4,979,636
Paid (including rebates) during the year	(112,770,971)	(203,906,195)	(316,677,166)
Balance at June 30, 2019	$ 4,499,088	$ 18,065,109	$ 22,564,197

Below is a summary of benefit claims payable by TPA at June 30, 2019:

	Active Employees	Retirees	Total
Benefit claims - CVS	$ 4,129,881	$ 3,201,111	$ 7,330,992
Benefit claims - HMA	32,284	348	32,632
Benefit claims - Silverscript	-	14,172,397	14,172,397
IBNR for self-insured plans	259,700	350,000	609,700
Admin fee - CVS	70,545	11,100	81,645
Admin fee - HMA	6,678	-	6,678
Admin fee - Silverscript	-	330,153	330,153
	$ 4,499,088	$ 18,065,109	$ 22,564,197

According to the terms of contracts with TPA's, the EUTF was required to make a deposit to cover estimated claims costs for the self-insured prescription drug plans. The deposits held by the TPAs for the self-insured prescription drug plans as of June 30, 2019 are as follows:

	Active Employees	Retirees	Total
CVS - drug contract	$ 4,958,000	$ 1,742,000	$ 6,700,000
Silverscript - drug contract	-	6,423,204	6,423,204
HMA - drug contract	63,274	-	63,274
	$ 5,021,274	$ 8,165,204	$ 13,186,478

(7) Summary of Required Premium Contributions and OPEB Trust Annual Required Contributions

The employer and employee required premium contributions for active employees and OPEB Trust annual required contributions for retirees for the year ended June 30, 2019, are as follows:

	Active Employees	Retirees	Total
Employer contributions:			
State of Hawaii	$ 306,554,740	$ 787,110,000	$ 1,093,664,740
City & County of Honolulu	57,992,997	178,141,000	236,133,997
County of Hawaii	17,292,154	39,770,000	57,062,154
County of Maui	17,545,784	37,446,930	54,992,714
County of Kauai, including Department of Water Supply	8,114,117	24,938,882	33,052,999
Board of Water Supply - Honolulu	3,614,118	7,945,000	11,559,118
County of Hawaii - Department of Water Supply	1,004,220	1,990,000	2,994,220
	412,118,130	1,077,341,812	1,489,459,942
Active employee and retiree contributions	204,930,690	4,856,345	209,787,035
	$ 617,048,820	$ 1,082,198,157	$ 1,699,246,977

The required premium contributions for active employees include both contributions for self-insured and fully-insured plans. The self-insured contributions amounting to $90,426,775 are reported as operating revenues in the accompanying statement of revenues, expenses, and changes in net position of the enterprise fund. The contributions related to the fully-insured plans are included as a component of the premiums receivable from State of Hawaii and counties in the accompanying statement of net position of the enterprise fund. Contributions related to the fully-insured plans for the year ended June 30, 2019 reported in the enterprise fund amounted to $526,622,045.

OPEB Trust annual required contributions for retirees are reported as additions in the accompanying statement of changes in fiduciary net position – OPEB Trust and amounted to $1,077,341,812 for the year ended June 30, 2019. Retiree contributions reduce benefit claims expense and carrier payments in the accompanying statement of changes in fiduciary net position – OPEB Trust and amounted to $4,856,345 for the year ended June 30, 2019.

For the year ended June 30, 2019, the OPEB Trust annual required contribution rate for the State of Hawaii, which includes the EUTF, was 24.1% of covered-employee payroll.

(8) Retirement Benefits

Pension Plan

Plan Description

Generally, all full-time employees of the State and counties, which includes the EUTF, are required to be members of the ERS, a cost-sharing multiple-employer defined benefit pension plan that administers the State's pension benefits program. Benefits, eligibility, and contribution requirements are governed by Chapter 88, HRS and can be amended through legislation.

Benefits Provided

The ERS Pension Trust is comprised of three pension classes for membership purposes and considered to be a single plan for accounting purposes since all assets of the ERS may legally be used to pay the benefits of any of the ERS members or beneficiaries. The ERS provides retirement, disability, and death benefits with three membership classes known as the noncontributory, contributory, and hybrid retirement classes. The three classes provide a monthly retirement allowance equal to the benefit multiplier (generally 1.25% to 2.25%) multiplied by the average final compensation multiplied by years of credited service. Average final compensation for members hired prior to July 1, 2012 is an average of the highest salaries during any three years of credited service, excluding any salary paid in lieu of vacation for members hired January 1, 1971 or later and the average of the highest salaries during any five years of credited service including any salary paid in lieu of vacation for members hired prior to January 1, 1971. For members hired after June 30, 2012, average final compensation is an average of the highest salaries during any five years of credited service excluding any salary paid in lieu of vacation.

Each retiree's original retirement allowance is increased on each July 1 beginning the calendar year after retirement. Retirees first hired as members prior to July 1, 2012 receive a 2.5% increase each year of their original retirement allowance without a ceiling. Retirees first hired as members after June 30, 2012 receive a 1.5% increase each year of their original retirement allowance without a ceiling. The annual increase is not compounded.

The following summarizes the provisions relevant to the largest employee groups of the respective membership class. Retirement benefits for certain groups, such as police officers, firefighters, some investigators, sewer workers, judges, and elected officials, vary from general employees.

Noncontributory Class

Retirement Benefits

General employees' retirement benefits are determined as 1.25% of average final compensation multiplied by the years of credited service. Employees with ten years of credited service are eligible to retire at age 62. Employees with 30 years of credited service are eligible to retire at age 55.

Disability Benefits

Members are eligible for service-related disability benefits regardless of length of service and receive a lifetime pension of 35% of their average final compensation. Ten years of credited service is required for ordinary disability. Ordinary disability benefits are determined in the same manner as retirement benefits but are payable immediately, without an actuarial reduction, and at a minimum of 12.5% of average final compensation.

Death Benefits

For service-connected deaths, the surviving spouse/reciprocal beneficiary receives a monthly benefit of 30% of the average final compensation until remarriage or re-entry into a new reciprocal beneficiary relationship. Additional benefits are payable to surviving dependent children up to age 18. If there is no surviving spouse/reciprocal beneficiary or surviving dependent children, no benefit is payable.

Ordinary death benefits are available to employees who were active at the time of death with at least ten years of credited service. The surviving spouse/reciprocal beneficiary (until remarriage/reentry into a new reciprocal beneficiary relationship) and surviving dependent children (up to age 18) receive a benefit equal to a percentage of member's accrued maximum allowance unreduced for age or, if the member was eligible for retirement at the time of death, the surviving spouse/reciprocal beneficiary receives 100% joint and survivor lifetime pension and the surviving dependent children receive a percentage of the member's accrued maximum allowance unreduced for age.

Contributory Class for Members Hired Prior to July 1, 2012

Retirement Benefits

General employees' retirement benefits are determined as 2% of average final compensation multiplied by the years of credited service. General employees with five years of credited service are eligible to retire at age 55.

Police officers and firefighters' retirement benefits are determined using the benefit multiplier of 2.5% for qualified service, up to a maximum of 80% of average final compensation. Police officers and firefighters with five years of credited service are eligible to retire at age 55. Police officers and firefighters with 25 years of credited service are eligible to retire at any age, provided the last five years is service credited in these occupations.

Disability Benefits

Members are eligible for service-related disability benefits regardless of length of service and receive a one-time payment of the member's contributions and accrued interest plus a lifetime pension of 50% of their average final compensation. Ten years of credited service is required for ordinary disability. Ordinary disability benefits are determined as 1.75% of average final compensation multiplied by the years of credited service but are payable immediately, without an actuarial reduction, and at a minimum of 30% of average final compensation.

Death Benefits

For service-connected deaths, the surviving spouse/reciprocal beneficiary receives a lump sum payment of the member's contributions and accrued interest plus a monthly benefit of 50% of the average final compensation until remarriage or re-entry into a new reciprocal beneficiary relationship. If there is no surviving spouse/reciprocal beneficiary, surviving dependent children (up to age 18) or dependent parents are eligible for the monthly benefit. If there is no surviving spouse/reciprocal beneficiary or surviving dependent children/parents, the ordinary death benefit is payable to the designated beneficiary.

Ordinary death benefits are available to employees who were active at time of death with at least one year of service. Ordinary death benefits consist of a lump sum payment of the member's contributions and accrued interest plus a percentage of the salary earned in the 12 months preceding death, or 50% joint and survivor lifetime pension if the member was not eligible for retirement at the time of death but was credited with at least ten years of service and designated one beneficiary, or 100% joint and survivor lifetime pension if the member was eligible for retirement at the time of death and designated one beneficiary.

Contributory Class for Members Hired After June 30, 2012

Retirement Benefits

General employees' retirement benefits are determined as 1.75% of average final compensation multiplied by the years of credited service. General employees with ten years of credited service are eligible to retire at age 60.

Police officers and firefighters' retirement benefits are determined using the benefit multiplier of 2.25% for qualified service, up to a maximum of 80% of average final compensation. Police officers and firefighters with ten years of credited service are eligible to retire at age 60. Police officers and firefighters with 25 years of credited service are eligible to retire at age 55, provided the last five years is service credited in these occupations.

Disability and Death Benefits

Members are eligible for service-related disability benefits regardless of length of service and receive a lifetime pension of 50% of their average final compensation plus refund of contributions and accrued interest. Ten years of credited service is required for ordinary disability. For police officers and firefighters, ordinary disability benefits are 1.75% of average final compensation for each year of service and are payable immediately, without an actuarial reduction, at a minimum of 30% of average final compensation.

Death benefits for contributory members hired after June 30, 2012 are generally the same as those for contributory members hired June 30, 2012 and prior.

Hybrid Class for Members Hired Prior to July 1, 2012

Retirement Benefits

General employees' retirement benefits are determined as 2% of average final compensation multiplied by the years of credited service. General employees with five years of credited service are eligible to retire at age 62. General employees with 30 years of credited service are eligible to retire at age 55.

Disability Benefits

Members are eligible for service-related disability benefits regardless of length of service and receive a lifetime pension of 35% of their average final compensation plus refund of their contributions and accrued interest. Ten years of credited service is required for ordinary disability. Ordinary disability benefits are determined in the same manner as retirement benefits but are payable immediately, without an actuarial reduction, and at a minimum of 25% of average final compensation.

Death Benefits

For service-connected deaths, the designated surviving spouse/reciprocal beneficiary receives a lump sum payment of the member's contributions and accrued interest plus a monthly benefit of 50% of the average final compensation until remarriage or re-entry into a new reciprocal beneficiary relationship. If there is no surviving spouse/reciprocal beneficiary, surviving dependent children (up to age 18) or dependent parents are eligible for the monthly benefit. If there is no spouse/reciprocal beneficiary or surviving dependent children/parents, the ordinary death benefit is payable to the designated beneficiary.

Ordinary death benefits are available to employees who were active at time of death with at least five years of service. Ordinary death benefits consist of a lump sum payment of the member's contributions and accrued interest plus a percentage multiplied by 150%, or 50% joint and survivor lifetime pension if the member was not eligible for retirement at the time of death but was credited with at least ten years of service and designated one beneficiary, or 100% joint and survivor lifetime pension if the member was eligible for retirement at the time of death and designated one beneficiary.

Hybrid Class for Members Hired After June 30, 2012

Retirement Benefits

General employees' retirement benefits are determined as 1.75% of average final compensation multiplied by the years of credited service. General employees with ten years of credited service are eligible to retire at age 65. Employees with 30 years of credited service are eligible to retire at age 60. Sewer workers, water safety officers, and emergency medical technicians may retire with 25 years of credited service at age 55.

Disability and Death Benefits

Provisions for disability and death benefits generally remain the same except for ordinary death benefits. Ordinary death benefits are available to employees who were active at time of death with at least ten years of service. Ordinary death benefits consist of a lump sum payment of the member's contributions and accrued interest, or 50% joint and survivor lifetime pension if the member was not eligible for retirement at the time of death but was credited with at least ten years of service and designated one beneficiary, or 100% joint and survivor lifetime pension if the member was eligible for retirement at the time of death and designated one beneficiary.

Contributions

Contributions are governed by Chapter 88, HRS and may be amended through legislation. The employer rate is set by statute based on the recommendations of the ERS actuary resulting from an experience study conducted every five years. Since July 1, 2005, the employer contribution rate is a fixed percentage of compensation, including the normal cost plus amounts required to pay for the unfunded actuarial accrued liabilities. The contribution rates for fiscal year 2019 was 31.0% for police officers and firefighters, and 19.0% for all other employees. Contributions to the pension plan from the EUTF was $547,490 for the fiscal year ended June 30, 2019.

Per Act 17 (SLH 2017), employer contributions from the State and counties are expected to increase over four years beginning July 1, 2017. The rate for police officers and firefighters increased to 31% on July 1, 2018, and increases to 36.0% on July 1, 2019 and 41.0% on July 1, 2020. The rate for all other employees increased to 19% on July 1, 2018, and increases to 22.0% on July 1, 2019 and 24.0% on July 1, 2020.

The employer is required to make all contributions for noncontributory members. Contributory members hired prior to July 1, 2012 are required to contribute 7.8% of their salary, except for police officers and firefighters who are required to contribute 12.2% of their salary. Contributory members hired after June 30, 2012, are required to contribute 9.8% of their salary, except for police officers and firefighters who are required to contribute 14.2% of their salary. Hybrid members hired prior to July 1, 2012 are required to contribute 6.0% of their salary. Hybrid members hired after June 30, 2012 are required to contribute 8.0% of their salary.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pension

Measurement of the actuarial valuation of the pension liability, pension expense, and deferred outflows of resources and deferred inflows of resources related to pension is made for the State as a whole and is not separately computed for the individual state departments and agencies such as the EUTF. The State allocates the pension liability, pension expense, and deferred outflows of resources and deferred inflows of resources related to pension to the various departments and agencies based upon a systematic methodology. Additional disclosures and required supplementary information stipulated by GASB Statement Nos. 68 and 71 pertaining to the State's net pension liability, pension expense, and deferred outflows of resources and deferred inflows of resources related to pension can be found in the State's Comprehensive Annual Financial Report (CAFR).

At June 30, 2019, the EUTF reported a net pension liability of $5,885,981 for its proportionate share of the State's net pension liability. The net pension liability was measured as of June 30, 2018, and the total pension liability used to calculate the net pension liability was determined by actuarial valuations as of that date.

At June 30, 2019, the EUTF's proportionate share of the State's net pension liability was .08%.

There were no changes between the measurement date, June 30, 2018, and the reporting date, June 30, 2019, that are expected to have a significant effect on the EUTF's proportionate share of the State's net pension liability.

For the year ended June 30, 2019, the EUTF recognized pension expense of $1,037,019. At June 30, 2019, the EUTF reported deferred outflows of resources and deferred inflows of resources related to pension from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Contributions subsequent to the measurement date	$ 547,490	$ -
Changes in assumptions	632,897	-
Net difference between projected and actual earnings on pension plan investments	22,464	-
Differences between expected and actual experience	112,068	(32,135)
Changes in proportion and differences between contributions and proportionate share of contributions	18,005	(58,383)
	$ 1,332,924	$ (90,518)

The $547,490 reported as deferred outflows of resources related to pension at June 30, 2019 resulting from the EUTF's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension at June 30, 2019 will be recognized in pension expense as follows:

Year Ending June 30:	
2020	$ 328,055
2021	274,152
2022	100,730
2023	(8,718)
2024	697
	$ 694,916

Actuarial Assumptions

The total pension liability in the June 30, 2018 actuarial valuation was determined using the following actuarial assumptions adopted by the Board of Trustees of the ERS, on December 12, 2016, based on the 2015 experience study for the five-year period from July 1, 2010 through June 30, 2015:

Inflation	2.50%
Payroll growth rate	3.50%
Investment rate of return	7.00% per year, compounded annually including inflation

There were no changes to ad hoc postemployment benefits including cost of living allowances.

Post-retirement mortality rates are based on the 2016 Public Retirees of Hawaii mortality table, with adjustments based on generational projections of the BB projection table for 2016 and full generational projections in future years. Pre-retirement mortality rates are based on multiples of the RP-2014 mortality table based on the occupation of the member.

The long-term expected rate of return on pension plan investments was determined using a "top down approach" of the Client-Constrained Simulation-based Optimization Model (a statistical technique known as "re-sampling with a replacement" that directly keys in on specific plan-level risk factors as stipulated by the ERS Board of Trustees) in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future nominal rates of return (real returns and inflation) by the target asset allocation percentage.

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

Strategic Allocation (Risk-based Classes)	Target Allocation	Long-term Expected Real Rate of Return
Broad growth	63.00%	7.10%
Principal protection	7.00%	2.50%
Real return	10.00%	4.10%
Crisis risk offset	20.00%	4.60%
	100.00%	

Discount Rate

The discount rate used to measure the net pension liability was 7.00%, consistent with the rate used at the prior measurement date. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that contributions from the State, which includes the EUTF, will be made at statutorily required rates, actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the EUTF's Proportionate Share of the State's Net Pension Liability to Changes in the Discount Rate

The following presents the EUTF's proportionate share of the State's net pension liability calculated using the discount rate of 7.00%, as well as what the EUTF's proportionate share of the State's net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.00%) or one percentage point higher (8.00%) than the current rate:

	1% Decrease (6.00%)	Discount Rate (7.00%)	1% Increase (8.00%)
EUTF's proportionate share of the State's net pension liability	$ 7,656,222	$ 5,885,981	$ 4,426,689

Pension Plan Fiduciary Net Position

The pension plan's fiduciary net position is determined on the same basis used by the pension plan. The ERS' financial statements are prepared using the accrual basis of accounting under which expenses are recorded when the liability is incurred, and revenues are recorded in the accounting period in which they are earned and become measurable. Employer and member contributions are recognized in the period in which the contributions are due. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan. Investment purchases and sales are recorded as of their trade date. Administrative expenses are financed exclusively with investment income.

There were no significant changes after the report measurement date. Detailed information about the pension plan's fiduciary net position is available in the separately issued ERS financial report. ERS's complete financial statements are available at http://www.ers.ehawaii.gov.

Payables to Pension Plan

The State's employer contributions payable to the ERS was paid by June 30, 2019. Excess payments will be applied to amounts due in fiscal year 2020.

Postemployment Health Care and Life Insurance Benefits

Plan Description

The EUTF provides a single delivery system of health benefits for state and county workers, retirees, and their dependents.

For employees hired before July 1, 1996, the State pays the entire base monthly contribution for employees retiring with ten years or more of credited service, and 50% of the base monthly contribution for employees retiring with fewer than ten years of credited service. A retiree can elect a family plan to cover dependents.

For employees hired after June 30, 1996, but before July 1, 2001, and who retire with less than ten years of service, the State makes no contributions. For those retiring with at least ten years but fewer than 15 years of service, the State pays 50% of the base monthly contribution. For employees retiring with at least 15 years but fewer than 25 years of service, the State pays 75% of the base monthly contribution. For employees retiring with at least 25 years of service, the State pays 100% of the base monthly contribution. Retirees in this category can elect a family plan to cover dependents.

For employees hired on or after July 1, 2001, and who retire with less than ten years of service, the State makes no contributions. For those retiring with at least ten years but fewer than 15 years of service, the State pays 50% of the base monthly contribution. For those retiring with at least 15 years but fewer than 25 years of service, the State pays 75% of the base monthly contribution. For employees retiring with at least 25 years of service, the State pays 100% of the base monthly contribution. Only single plan coverage is provided for retirees in this category. Retirees can elect family coverage but must pay the difference.

Members Covered by Benefit Terms

At July 1, 2018, the State's plan members covered by benefit terms consisted of the following:

Inactive plan members or beneficiaries currently receiving benefits	36,340
Inactive plan members entitled to but not yet receiving benefits	7,588
Active plan members	50,519
Total plan members	94,447

Contributions

Contributions are governed by Chapter 87A, HRS and may be amended through legislation. Contributions to the OPEB plan from the EUTF was $699,350 for the fiscal year ended June 30, 2019. The EUTF is required to make all contributions for their members.

OPEB Liabilities, OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

Measurement of the actuarial valuation of the OPEB liability, OPEB expense, and deferred outflows of resources and deferred inflows of resources related to OPEB is made for the State as a whole and is not separately computed for the individual state departments and agencies such as the EUTF. The State allocates the OPEB liability, OPEB expense, and deferred outflows of resources and deferred inflows of resources related to OPEB to the various departments and agencies based upon a systematic methodology. Additional disclosures and required supplementary information stipulated by GASB Statement No. 75 pertaining to the State's net OPEB liability, OPEB expense, and deferred outflows of resources and deferred inflows of resources related to OPEB can be found in the State's CAFR.

At June 30, 2019, the EUTF reported a net OPEB liability of $7,489,378 for its proportionate share of the State's net OPEB liability. The net OPEB liability was measured as of July 1, 2018, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date.

At June 30, 2019, the EUTF's proportionate share of the State's net OPEB liability was .08%.

There were no changes between the measurement date, July 1, 2018, and the reporting date, June 30, 2019, that are expected to have a significant effect on the EUTF's proportionate share of the State's net OPEB liability.

For the year ended June 30, 2019, the EUTF recognized OPEB expense of $673,779. At June 30, 2019, the EUTF reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Contributions subsequent to the measurement date	$ 699,350	$ -
Change in assumptions	84,315	-
Differences between expected and actual experience	-	(139,310)
Net difference between projected and actual earnings on OPEB plan investments	-	(9,432)
	$ 783,665	$ (148,742)

The $699,350 reported as deferred outflows of resources related to OPEB at June 30, 2019 resulting from the EUTF's contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ending June 30, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB at June 30, 2019 will be recognized in OPEB expense as follows:

Year Ending June 30:	
2020	$ (14,211)
2021	(14,211)
2022	(14,211)
2023	(11,099)
2024	(10,695)
	$ (64,427)

Actuarial Assumptions

The total OPEB liability in the July 1, 2018 actuarial valuation was determined using the following actuarial assumptions adopted by the Board of Trustees of the EUTF on January 8, 2018, based on the experience study covering the five year period ended June 30, 2015:

Inflation	2.50%
Salary increases	3.50% to 7.00%, including inflation
Investment rate of return	7%, net of investment expenses, including inflation
Healthcare cost trend rates:	
PPO*	Initial rate of 10.00%; declining to a rate of 4.86% after 13 years
HMO*	Initial rate of 10.00%; declining to a rate of 4.86% after 13 years
Part B & Base Monthly Contribution (BMC)	Initial rates of 4.00% and 5.00%; declining to a rate of 4.70% after 12 years
Dental	Initial rate of 5.00% for first three years, followed by 4.00%
Vision	Initial rate of 0.00% for first three years, followed by 2.50%
Life insurance	0.00%

* Blended rates for medical and prescription drug.

Mortality rates are based on system-specific mortality tables utilizing scale BB to project generational mortality improvement.

The long-term expected rate of return on OPEB plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of OPEB plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

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

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Non-U.S. equity	17.00%	6.50%
U.S. equity	15.00%	5.05%
Private equity	10.00%	8.65%
Core real estate	10.00%	4.10%
Trend following	9.00%	3.00%
U.S. microcap	7.00%	7.00%
Global options	7.00%	4.50%
Private credit	6.00%	5.25%
Long treasuries	6.00%	1.90%
Alternative risk premia	5.00%	2.45%
TIPS	5.00%	0.75%
Core bonds	3.00%	1.30%
	100.00%	

Single Discount Rate

The discount rate used to measure the net OPEB liability was 7.00%, based on the expected rate of return on OPEB plan investments of 7.00% and the municipal bond rate of 3.62% (based on the daily rate closest to but not later than the measurement date of the Fidelity "20-year Municipal GO AA Index"). Beginning with the fiscal year 2019 contribution, the State's funding policy is to pay the recommended actuarially determined contribution, which is based on layered, closed amortization periods. Based on those assumptions, the OPEB plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive plan members. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

OPEB Plan Fiduciary Net Position

The OPEB plan's fiduciary net position has been determined on the same basis used by the OPEB plan. The EUTF's financial statements are prepared using the accrual basis of accounting under which revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of the timing of the cash flows. Employer contributions are recognized in the period in which the contributions are due. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan. Investment purchases and sales are recorded on a trade-date basis. Administrative expenses are financed exclusively with investment income.

There were no significant changes after the report measurement date.

Changes in the EUTF's Proportionate Share of the State's Net OPEB Liability

The following table represents a schedule of changes in the EUTF's proportionate share of the State's net OPEB liability. The ending balances are as of the measurement date, July 1, 2018.

	Total OPEB Liability	Plan Fiduciary Net Position	Net OPEB Liability
Beginning balance	$ 8,023,698	$ 609,811	$ 7,413,887
Service cost	182,364	-	182,364
Interest on the total OPEB liability	564,642	-	564,642
Difference between expected and actual experience	(166,962)	-	(166,962)
Change of assumptions	101,051	-	101,051
Employer contributions	-	543,221	(543,221)
Net investment income	-	62,588	(62,588)
Benefit payments	(274,932)	(274,932)	-
Administrative expense	-	(205)	205
Net changes	406,163	330,672	75,491
Ending balance	$ 8,429,861	$ 940,483	$ 7,489,378

Sensitivity of the EUTF's Proportionate Share of the State's Net OPEB Liability to Changes in the Discount Rate and Healthcare Cost Trend Rates

The following table presents the EUTF's proportionate share of the State's net OPEB liability calculated using the discount rate of 7.00%, as well as what the EUTF's net OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (6.00%) or one percentage point higher (8.00%) than the current discount rate:

	1% Decrease (6.00%)	Discount Rate (7.00%)	1% Increase (8.00%)
EUTF's proportionate share of the State's net OPEB liability	$ 8,854,240	$ 7,489,378	$ 6,416,929

The following table represents the EUTF's proportionate share of the State's net OPEB liability calculated using the assumed healthcare cost trend rate, as well as what the EUTF's net OPEB liability would be if it were calculated using the trend rate that is one percentage point lower or one percentage point higher than the current healthcare cost trend rate:

	1% Decrease	Healthcare Cost Trend Rate	1% Increase
EUTF's proportionate share of the State's net OPEB liability	$ 6,358,480	$ 7,489,378	$ 8,957,032

Payables to the OPEB Plan

The State's employer contributions payable to the EUTF was paid by June 30, 2019.

Deferred Compensation

The State offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, which is available to all State employees (excluding part-time, temporary, and casual/seasonal), permits employees to defer a portion of their compensation until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency.

All plan assets are held in a trust fund to protect them from claims of general creditors. The State has no responsibility for loss due to the investment or failure of investment of funds and assets in the plan, but does have the duty of due care that would be required of an ordinary prudent investor. Accordingly, the assets and liabilities of the State's deferred compensation plan are not reported in the State's nor the EUTF's financial statements.

(9) Commitments and Contingencies

Litigation

Dannenberg, et al. v. State of Hawaii, Hawaii Supreme Court, No. SCAP-15-0000084

On June 30, 2006, several State and County retirees filed a Complaint in the State of Hawaii Circuit Court of the First Circuit (the Circuit Court) against the EUTF, the Board, and the State of Hawaii (collectively, the Defendants), as well as various county governments that participate in the EUTF's health benefits plans. The plaintiffs allege various claims based on an argument that the EUTF is constitutionally, statutorily, and contractually required to provide health benefit plans that provide retirees and their dependents with benefits that are substantially equal to those provided to active employees and their dependents. The plaintiffs seek declaratory and injunctive relief, damages, and attorneys' fees and costs.

On December 10, 2012, the plaintiffs filed a motion for partial summary judgment seeking judgment in their favor on the liability issues in the lawsuit, i.e., that the plaintiffs be granted their requested declaratory and injunctive relief, and that the Defendants be found liable for monetary damages in an amount to be determined later. On July 25, 2013, the Defendants filed their motion for partial summary judgment seeking judgment in its favor on all of the plaintiffs' claims that are based on the allegations that: (1) the Defendants violated the constitutional, contractual, and statutory rights of the plaintiffs by not providing healthcare benefits for retirees and their dependents that were equivalent to those provided to active employees and their dependents; (2) the Defendants violated the constitutional and contractual rights of the plaintiffs by not providing healthcare benefits to retirees and their dependents that are equivalent to those provided to other employee-beneficiaries and dependent-beneficiaries, regardless of age; and; (3) the Defendants were negligent in providing health benefits to retirees and their dependents. Both motions were heard by the Circuit Court on October 30, 2013. On October 16, 2014, the Circuit Court ruled that the plaintiff's accrued health benefits have not been reduced, diminished, or impaired as the health benefits that retirees receive under the EUTF are the same or substantially the same as the health benefits retirees received under the Hawaii Public Employees Health Fund. The plaintiffs filed a motion for reconsideration of the order or alternatively for an interlocutory appeal.

The Circuit Court denied the motion. Plaintiffs subsequently stipulated to dismiss their claims premised on the contribution cap, which readied the case for final judgment. Plaintiffs appealed to the Intermediate Court of Appeals. On Defendant's request, the Hawaii Supreme Court accepted the case on transfer. Briefing of the appeal and cross-appeal was completed in October 2015. In May 2016, the case was argued before the Hawaii Supreme Court. In October 2016, the Hawaii Supreme Court issued an opinion affirming the Circuit Court's decision in the Defendant's favor to a large extent, but also ruling that the Defendant's were not entitled to judgment as a matter of law, and remanded the case to the trial court. The trial court proceedings recommenced in August 2017. The case was assigned to the Honorable Jeffrey Crabtree for trial, but no trial date has been set at this time.

Plaintiffs filed their Third Amended Complaint on December 28, 2017. Since that time, the parties have conducted discovery and have filed several motions, including motions related to the purported class of plaintiffs. The State's motion to decertify the class was granted. On December 3, 2018, the plaintiffs filed motions to recertify the class and to certify a damages subclass. On February 6, 2019, the court granted the plaintiffs' motion to recertify and an order granting the plaintiffs' motion for recertification was filed on June 21, 2019. The parties are continuing efforts to conduct and complete discovery in preparation for trial.

No trial date has been set. The Defendants intend to vigorously defend against the plaintiffs' claims in this lawsuit. The outcome of this lawsuit cannot be determined and no amount has been recorded in the financial statements as of or for the year ended June 30, 2019. Management believes that an unfavorable outcome, if any, will not have a material adverse effect on the EUTF's financial position.

Kono, et al. v. Abercrombie, Civil No. 10-1-1966-09 KKS

On September 14, 2010, the trustees of the Hawaii State Teachers Association Voluntary Employees' Beneficiary Association Trust (the VEBA Trust) and certain individuals who allegedly participated in health and other benefit plans provided by the VEBA Trust health plans filed a complaint in the Circuit Court against the State alleging: (1) the State diminished and impaired accrued health benefits for the active and retired teachers participating in the VEBA Trust health plans in violation of Article XVI, Section 2 of the Hawaii Constitution, by enacting Act 106, SLH 2010 ("Act 106") and transferring the VEBA members to the EUTF and/or reassigning the administration of the VEBA Trust health benefit plans from the VEBA Trust to the EUTF; and (2) the State had taken $3.96 million in surplus funds from the VEBA Trust and this similarly diminished or impaired the VEBA Trust members' accrued health benefits in violation of Article XVI, Section 2.

The State filed a motion for judgment on the pleadings seeking dismissal of the lawsuit. The plaintiffs filed a motion for preliminary injunction seeking to prevent the transfer of VEBA Trust participants to the EUTF health plans under Act 106. On December 7, 2010, both motions were heard by the Circuit Court. The Circuit Court gave an oral ruling that denied both motions but held that VEBA Trust participants had a right to maintain the standard of coverage benefits they had enjoyed under the VEBA Trust health plans when they were transferred to the EUTF on January 1, 2011. The Circuit Court also indicated that to the extent that the VEBA Trust surplus that was paid to the State was an accrued benefit of the VEBA Trust members who had paid into that surplus, the appropriate remedy was that such amounts should be set aside to ensure that former VEBA Trust participants can maintain their standard of coverage benefits.

On March 15, 2011, pursuant to its oral ruling, the Circuit Court issued an order denying the State's motion for judgment on the pleadings, and an order denying plaintiff's motion for preliminary injunction, and a final judgment.

The State filed an appeal of the Circuit Court's orders and the final judgment. The Hawaii Intermediate Court of Appeals (the ICA) dismissed the appeal because the form of final judgment did not comply with court requirements. On October 6, 2011, the Circuit Court issued an amended final judgment. On October 14, 2011, the State filed an appeal of the amended final judgment, the final judgment, and certain other orders entered by the Circuit Court. On November 4, 2011, the plaintiffs filed a cross-appeal. On April 24, 2013, the ICA issued a memorandum opinion vacating the Circuit Court's entry of the final and amended final judgments and certain related orders. The ICA said that entry of these judgments was improper as no dispositive motion was pending at the time the Circuit Court terminated the litigation. The ICA remanded the case back to the Circuit Court for further proceedings consistent with the ICA's opinion.

No trial date has yet been set. The State intends to vigorously defend against the plaintiffs' claims in this lawsuit. The outcome of this lawsuit cannot be determined and no amount has been recorded in the financial statements as of or for the year ended June 30, 2019. Management believes that an unfavorable outcome, if any, will not have a material adverse effect on the EUTF's financial position.

(10) Risk Management

The EUTF is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors and omissions; natural disasters; and workers' compensation. In accordance with HRS 87A-25, the EUTF has obtained fiduciary liability insurance with an annual aggregate for losses of $10 million.

The State purchases policies that provide coverage for all state entities, including the EUTF. The State generally retains the first $1,000,000 per occurrence of property losses such as fires, and 3% of a property's replacement cost value for catastrophic losses such as hurricanes, earthquakes, and floods, the first $4,000,000 with respect to general liability claims, and the first $500,000 of losses due to crime and cyber liability. Losses in excess of those retention amounts are insured with commercial insurance carriers. The limit per occurrence for property losses is $200,000,000, except for terrorism, which is $100,000,000 per occurrence. The annual aggregate limit for general liability losses is $9,000,000 per occurrence, $50,000,000 for cyber liability losses, and for crime losses, the limit per occurrence is $10,000,000 with no aggregate limit.

The EUTF is covered under the State's self-insurance program for workers' compensation. During fiscal year 2019, the EUTF paid $35,796 in workers' compensation premiums to the State's General Fund.

Settled claims have not exceeded the coverage provided by commercial insurance companies in any of the past ten fiscal years.

(11) Lease Commitment

The EUTF's office is located in the City Financial Tower. The State Department of Accounting and General Services (Lessee) leases the EUTF's office from the ERS (Lessor). The lease was amended on July 20, 2015 increasing the total rental area to 13,601 square feet and extending the term for seven years starting 60 days after completion of the improvements to the suites which was February 1, 2016. Rent on this lease is paid by the EUTF.

At June 30, 2019, the future minimum rental commitment under the noncancelable operating lease through 2023 is as follows:

Year Ending June 30:	
2020	$ 465,000
2021	471,000
2022	476,000
2023	361,000
	$ 1,773,000

Minimum rent payments are recognized on a straight-line basis over the term of the lease. The rent expense for the year ended June 30, 2019 was $463,658.

(12) OPEB Trust by Employer

The fair value of the OPEB Trust by employer as of June 30, 2019, are as follows:

	Long-term Investment Portfolio	Short-term Liquidity/ Operating Asset Pool	Net Position Restricted for Postemployment Benefits Other than Pensions
State of Hawaii	$ 1,807,078,716	$ 155,080,779	$ 1,962,159,495
City & County of Honolulu	585,535,487	34,153,652	619,689,139
County of Hawaii	179,395,731	7,988,774	187,384,505
County of Maui	267,986,773	8,019,980	276,006,753
County of Kauai	133,891,527	3,802,146	137,693,673
County of Kauai - Department of Water Supply	9,947,489	253,804	10,201,293
Board of Water Supply - Honolulu	85,405,687	2,216,782	87,622,469
County of Hawaii - Department of Water Supply	19,043,005	488,282	19,531,287
Honolulu Authority for Rapid Transportation	1,887,087	103,976	1,991,063
	$ 3,090,171,502	$ 212,108,175	$ 3,302,279,677

(13) Subsequent Events

The EUTF has evaluated subsequent events through November 27, 2019, the date at which the financial statements were available to be issued, and determined that there are no other items to disclose.

REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)

HAWAII EMPLOYER-UNION HEALTH BENEFITS TRUST FUND
STATE OF HAWAII

Required Supplementary Information (Unaudited)

Schedule of Investment Returns
June 30, 2016 through 2019

	2019	2018	2017	2016
Annual money-weighted rate of return, net of investment expense	4.69%	7.34%	9.28%	2.95%

Schedule is intended to show information for ten years. Additional years will be built prospectively as data becomes available.

See accompanying independent auditors' report.

HAWAII EMPLOYER-UNION HEALTH BENEFITS TRUST FUND
STATE OF HAWAII

Required Supplementary Information (Unaudited)

Ten-Year Loss Development Information

June 30, 2010 through 2019

Self-Insured Healthcare Plans for Active Employees

The EUTF began providing and administering fully-insured health and other benefit plans beginning July 1, 2003. The EUTF also began providing self-insured plans effective July 1, 2007 through December 31, 2011 for medical plans and continues to offer self-insured prescription drug plans for active employees. Therefore, the loss development table on page 81 shows data for ten successive policy years starting from the fiscal year ended June 30, 2010, for active employee self-insured plans.

The table on the following page illustrates how the EUTF's earned revenue (net of reinsurance) and investment income compare to related costs of loss (net of loss assumed by reinsurers) and other expenses assumed by the EUTF related to the self-insured activities as of the end of each of the past ten years.

The rows of the table are defined as follows:

(1) This line shows the total of each fiscal year's gross earned contribution revenue and investment revenue, contribution revenue ceded to reinsurers, and net earned contribution revenue and reported investment revenue.

(2) This line shows each fiscal year's other operating costs of the EUTF including overhead and claims expense not allocable to individual claims.

(3) This line shows the EUTF's gross incurred claims and allocated claim adjustment expenses, claims assumed by reinsurers, and net incurred claims and allocated adjustment expenses (both paid and accrued) as originally reported at the end of the first year in which the event that triggered coverage under the contract occurred (called policy year).

(4) This section of ten rows shows the cumulative net amounts paid as of the end of successive years for each policy year.

(5) This line shows the latest re-estimated amount of claims assumed by reinsurers as of the end of the current year for each policy year.

(6) This section of ten rows shows how each policy year's net incurred claims increased or decreased as of the end of successive years. This annual re-estimation results from new information received on known claims, reevaluation of existing information on known claims, and emergence of new claims not previously known.

(7) This line compares the latest re-estimated net incurred claims amount to the amount originally established (line 3) and shows whether this latest estimate of net claims cost is greater or less than originally thought.

HAWAII EMPLOYER-UNION HEALTH BENEFITS TRUST FUND
STATE OF HAWAII

Required Supplementary Information (Unaudited)

Ten-Year Loss Development Information

June 30, 2010 through 2019

As data for individual policy years mature, the correlation between original estimates and re-estimated amounts commonly is used to evaluate the accuracy of net incurred claims currently recognized in less mature policy years. The columns of the tables show data for successive policy years.

HAWAII EMPLOYER-UNION HEALTH BENEFITS TRUST FUND
STATE OF HAWAII

Required Supplementary Information (Unaudited)

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

June 30, 2010 through 2019

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
1. Required contribution and investment revenue:										
Earned	$ 256,755,699	$ 246,004,463	$ 153,831,438	$ 51,774,778	$ 58,365,379	$ 73,318,620	$ 84,751,959	$ 92,776,406	$ 87,451,628	$ 94,610,513
Ceded	-	-	-	-	-	-	-	-	-	-
Net earned	$ 256,755,699	$ 246,004,463	$ 153,831,438	$ 51,774,778	$ 58,365,379	$ 73,318,620	$ 84,751,959	$ 92,776,406	$ 87,451,628	$ 94,610,513
2. Unallocated expenses	$ 3,464,359	$ 3,828,417	$ 2,142,126	$ 1,241,104	$ 1,101,332	$ 1,324,632	$ 1,545,900	$ 1,744,179	$ 1,565,548	$ 1,547,580
3. Estimated claims and expenses, end of policy year:										
Incurred	$ 244,971,987	$ 241,048,648	$ 150,488,917	$ 46,818,770	$ 69,066,849	$ 78,889,868	$ 88,570,757	$ 89,608,294	$ 80,584,753	$ 86,462,811
Ceded	-	-	-	-	-	-	-	-	-	-
Net incurred	$ 244,971,987	$ 241,048,648	$ 150,488,917	$ 46,818,770	$ 69,066,849	$ 78,889,868	$ 88,570,757	$ 89,608,294	$ 80,584,753	$ 86,462,811
4. Net paid (cumulative) as of:										
End of policy year	$ 251,299,883	$ 237,215,369	$ 185,234,570	$ 52,654,087	$ 69,825,153	$ 82,307,251	$ 92,379,275	$ 89,832,650	$ 84,612,745	$ 94,822,793
One year later	239,959,499	234,225,771	144,371,143	51,976,970	69,080,249	78,879,468	88,543,157	89,630,594	80,577,653	
Two years later	239,959,499	234,225,771	144,371,143	51,976,970	69,080,249	78,879,468	88,543,157	89,630,594		
Three years later	239,959,499	234,225,771	144,371,143	51,976,970	69,080,249	78,879,468	88,543,157			
Four years later	239,959,499	234,225,771	144,371,143	51,976,970	69,080,249	78,879,468				
Five years later	239,959,499	234,225,771	144,371,143	51,976,970	69,080,249					
Six years later	239,959,499	234,225,771	144,371,143	51,976,970						
Seven years later	239,959,499	234,225,771	144,371,143							
Eight years later	239,959,499	234,225,771								
Nine years later	239,959,499									
5. Reestimated ceded claims and expenses	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
6. Reestimated net incurred claims and expenses:										
End of policy year	$ 244,971,987	$ 241,048,648	$ 150,488,917	$ 46,818,770	$ 69,066,849	$ 78,889,868	$ 88,570,757	$ 89,608,294	$ 80,584,753	$ 86,462,811
One year later	239,959,499	234,225,771	144,371,143	51,976,970	69,080,249	78,879,468	88,543,157	89,630,594	80,577,653	
Two years later	239,959,499	234,225,771	144,371,143	51,976,970	69,080,249	78,879,468	88,543,157	89,630,594		
Three years later	239,959,499	234,225,771	144,371,143	51,976,970	69,080,249	78,879,468	88,543,157			
Four years later	239,959,499	234,225,771	144,371,143	51,976,970	69,080,249	78,879,468				
Five years later	239,959,499	234,225,771	144,371,143	51,976,970	69,080,249					
Six years later	239,959,499	234,225,771	144,371,143	51,976,970						
Seven years later	239,959,499	234,225,771	144,371,143							
Eight years later	239,959,499	234,225,771								
Nine years later	239,959,499									
7. Increase (decrease) in estimated net incurred claims and expenses from end of policy year	$ (5,012,488)	$ (6,822,877)	$ (6,117,774)	$ 5,158,200	$ 13,400	$ (10,400)	$ (27,600)	$ 22,300	$ (7,100)	$ -

See accompanying independent auditors' report.

OTHER SUPPLEMENTARY INFORMATION

HAWAII EMPLOYER-UNION HEALTH BENEFITS TRUST FUND
STATE OF HAWAII

Schedule of Administrative Operating Expenses – Enterprise Fund

Year Ended June 30, 2019

Administrative operating expenses:	
Personnel services	$ 5,213,393
Contracted services	1,964,485
Occupancy	463,658
Postage	137,557
Printing and binding	126,226
Repairs and maintenance	66,603
Insurance	65,459
Telephone	43,429
Rental of equipment	31,244
Transportation	28,788
Supplies	13,060
Other	134,445
Total administrative operating expenses	$ 8,288,347

See accompanying independent auditors' report.

PART III

INTERNAL CONTROL AND COMPLIANCE SECTION

KKDLY LLC
CERTIFIED PUBLIC ACCOUNTANTS

Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*

The Auditor
State of Hawaii:

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the Hawaii Employer-Union Health Benefits Trust Fund of the State of Hawaii and the Hawaii Employer-Union Health Benefits Trust Fund for Other Post-Employment Benefits (collectively referred to as the EUTF) as of and for the year ended June 30, 2019, and the related notes to financial statements, and have issued our report thereon dated November 27, 2019.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the EUTF's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the EUTF's internal control. Accordingly, we do not express an opinion on the effectiveness of the EUTF's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the EUTF's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards.*

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

KKDLY LLC

Honolulu, Hawaii
November 27, 2019