State of Hawaii Deferred Compensation Plan

FIRST QUARTER 2010

news

In this issue

Plan news – pages 1 & 4

Assessing where you stand

What's the difference between a tax-free and a tax-deferred account?

Test your knowledge of risk

Retiree corner

New Index Funds Added to the Plan's Investment Options

Four new index funds became available April 1, 2010 to expand the investing opportunities for Island $avings Plan participants.

Index funds offer a low-cost, efficient way to invest in different asset classes. They keep management fees and other expenses to a minimum because there's no active management.

The new funds are passively managed by BlackRock, one of world's largest index fund managers. These are commingled investment funds and are privately offered. Fund details about each fund's objective and expenses are published quarterly in fund fact sheets available on the Plan Web site. You should carefully read and review all investment information prior to making any investment decisions.

Fund	Objective	Fees & Expenses
BlackRock US Bond Index Fund	Seeks to match the performance of the Barclay's Capital Aggregate Bond by investing in the US investment-grade bond market, including US Treasury and federal agency bonds, corporate bonds, residential and commercial mortgage-backed securities, and asset-backed securities.	Capped at 5 basis points (.05%)
BlackRock US Large Cap Index Fund	Seeks to match the performance of the S&P 500® Index comprised of leading US companies in leading industries.	Capped at 2 basis points (.02%)
BlackRock US Small/Mid Cap Index Fund	Seeks to match the performance of the Dow Jones US Completion Total Stock Market Index by investing in the stocks of small and medium US companies.	Capped at 5 basis points (.05%)
BlackRock Non-US Equity Index Fund	Seeks to match the performance of the MSCI ACWI ex-US Index comprised of foreign stocks representing companies in 22 developed markets and 22 emerging markets.	Capped at 11 basis points (.11%)

Employees' Benefits Fairs Coming to Oahu in May

Attend your choice of two fairs to get information about the Island $avings Plan, your investment options, the Investment Advice Service, and other employment benefits.

Monday, May 17, 2010

Location: Koolau Golf Course
Glass Ballroom
45-550 Kionaole Road
Kaneohe, HI 96744

Time: 9:00 a.m. - 3:30 p.m.

Wednesday, May 19, 2010

Location: Hawaii Okinawa Center
Legacy Ballroom
94-587 Ukee Street
Waipahu, HI 96797

Time: 9:00 a.m. – 3:30 p.m.

Fund Updates

- **The Stable Value rate:** Effective April 1, 2010, the second quarter rate for the Stable Value Fund is **4.49%**.
- The Board of Trustees voted at its March 9, 2010 meeting to remove INVESCO from the Watch List.

Fund Basics

The Island $avings Plan investment options include actively-managed funds and passively-managed index funds because both types have advantages for participants. Here are some basic concepts to help you understand these funds.

A fund's performance is usually compared with its market benchmark or index. An index is a grouping of stocks or bonds selected to represent the market. The best known index is the Dow Jones Industrial Average that follows 30 of the largest U.S. companies. An index is not managed and cannot be invested in directly.

Index fund

Attempts to invest in exactly the same securities and in the same proportions as the holdings of the index, aiming to deliver the same return as the index it represents. Past performance does not guarantee future results.

Its holdings mirror the holdings in the index it follows so it closely tracks the index.

Keeps management fees, transaction costs, and other expenses to a minimum since there is no active management.

Actively-managed fund

Is run by a fund manager who uses market analysis, experience, and judgment to select the fund's securities, make changes in response to market trends, and seek out new investment opportunities.

Aims to outperform the market as measured by a certain index. Offers the potential for higher returns with additional risk. Past performance does not guarantee future results.

Charges fees for active fund management.

Assessing where you stand

The recession and market swings have caused many investors to question their investment strategies. You may want to review the possible benefits of rebalancing your retirement account investments with your financial adviser — and avoid trying to time the market.

When the market is volatile, it could be tempting to cash out of stocks and jump back into the market later when times are better. The trouble is, even seasoned investors prove time and again that no one can reliably predict when stock prices will rise.

A recent study by market research firm DALBAR, Inc., found that fund investors' returns dramatically lag the broad market, primarily because they choose the wrong times to jump into and out of stocks. For the 20-year period ending December 31, 2008, investors earned an average annual return of just 1.9 percent, compared with 8.4 percent for the S&P 500 Index.[1] With this in mind, you may consider "staying the course" instead of attempting to time the market.

Stocks' poor performance over the last decade means your Plan account's equity allocation is probably smaller than it was originally. If you have too little invested in stocks, you may not benefit fully from any rebound that could occur, potentially making your portfolio more conservative than you intended and reducing its long-term returns.

One possible solution to consider: Compare your account's original target asset allocation with its current allocation. If there's a difference, you may need to rebalance. Rebalancing could help restore your portfolio's allocations to your original investment strategy. Reviewing your strategy with your financial adviser can help you determine if any changes are necessary.

Take advantage of your Plan's options for rebalancing by phone or online to help you maintain your asset allocation on an ongoing basis.

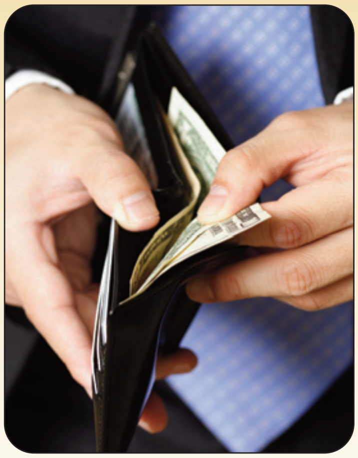
Although you may use rebalancing and asset allocation as part of your investment strategy to help manage risk, neither assures nor guarantees better performance and can't prevent loss in declining markets.

Remember: Regardless of market conditions, a solid investment strategy helps you structure, and hopefully maintain, an account that can manage market swings.

[1] DALBAR, Inc., *"2009 Quantitative Analysis of Investor Behavior."* The Standard and Poor's 500 Index follows 500 of the largest U.S. companies. An index is not managed and cannot be invested in directly.

What's the difference between a tax-free and a tax-deferred account?

Tax-free and tax-deferred accounts offer ways to save for retirement, although each has different advantages.



You fund a tax-free account with after-tax dollars. In the future, you pay no taxes on what you withdraw from the account as long as certain qualifications are met. Take a Roth IRA, for example. Your Roth contributions don't reduce your taxable income, but your withdrawals are tax-free if you hold the account for at least five years and you are over age 59½. There's no deadline for taking withdrawals from a Roth IRA. If you wish, you never have to take any withdrawals and can leave the entire account to your heirs.

A tax-deferred 457 Plan account gives you an immediate tax break because your taxable income is lowered by the full amount of your contributions. In addition, the investments in the account are allowed to compound untaxed until distributed. When you take a withdrawal or receive a distribution from the account, you pay taxes on the amount. Keep in mind that you may be in a lower tax bracket after you retire. You can't postpone withdrawals from a tax-deferred account indefinitely. Tax laws require you to take annual withdrawals known as Required Minimum Distributions in the year you reach age 70½, or in the year you retire, whichever is later.

Talk with a tax attorney and a financial professional before making investment decisions.

Test your knowledge of risk

True or false:

1. The right investment strategy can eliminate risk altogether.

2. Investing in stock mutual funds in retirement is too risky.

3. Dollar-cost averaging is a form of diversification.

Answers:

1. False. You can't invest without taking on some form of risk, whether it is market risk (the chance a drop in the overall market will negatively affect your funds), inflation risk (the chance that your savings won't keep up with the rising cost of living), interest rate risk (the chance that changing interest rates depress the value of your investments) or credit risk (the chance that a bond-issuer defaults). However, you can attempt to manage risk in your account.

2. False. Stock mutual funds do carry risk, but there are other risks if you don't invest in these options such as outliving your nest egg. Long-term savers and retirees who invest too conservatively may need to reconsider their "defensive" investment strategy. Historically, stocks have tended to bring greater returns than bonds and cash funds,[1] which may help investors reach their retirement goals. Also, there is the potential of risk reduction when you invest your money in a mutual fund that invests in hundreds or thousands of different stocks. That's automatic diversification.

3. False. Dollar-cost averaging is an investment technique that can help manage risk. By making set contributions into an investment account on a regular basis (by automatically having money taken out of your paycheck and invested), you buy more shares when prices are low and fewer shares when prices are high. As a result, you may ride out any price fluctuations that come your way. Systematic investing also may help reduce the stress of deciding how much money to invest and where to invest it. Of course, systematic investing does not ensure a profit or guarantee against loss in declining markets. Diversification is a different investment technique that involves investing in different types of investments to help reduce risk, but it also cannot protect against losses in down markets.

[1] Ibbotson Associates' *Stocks, Bonds, Bills and Inflation 2007 Yearbook: Market Result for 1926–2007.* Past performance is no guarantee of future results.

retiree corner

Financial planning after you retire

During your working career, you may have done all or most of your own financial planning. As a retiree, you might benefit from getting some professional advice.

Retirement financial planning may not be something that you have done before — and you are likely to live in retirement for a long time. An adviser who specializes in issues affecting retirees could help you anticipate and plan for different scenarios, such as:

- Choosing different types of investments to help your money outlast you
- Withdrawal strategies to help make your retirement assets last longer
- Managing or reducing taxes on your retirement income
- Financing health care in the later years of your retirement
- Estate planning to accomplish what you hope for your heirs

In evaluating advisers, you may want to ask about their:

- Years of experience
- Expertise in financial planning for retirees
- Credentials and specialized training

Check with your Plan to learn about resources available to retirees. Ask your attorney or tax adviser to recommend names of retirement financial planners. Or you could try the ***Locate an Advisor*** feature on the Certified Retirement Financial Advisors, Inc., education program Web site at **http://www.crfa.us**.

LOCAL OFFICE
1003 Bishop Street
Pauahi Tower, Suite 1160
Honolulu, Hawaii 96813

OFFICE HOURS
8:00 a.m. to 5:00 p.m. (HST)

FREE PARKING
Validate your parking ticket at the Local Office

Bishop Square Parking Garage (entrance on Alakea Street)

INFORMATION LINE
1-888-71-ALOHA (1-888-712-5642)

PLAN WEB SITE
https://islandsavings.ingplans.com

STATE WEB SITE
http://hawaii.gov/hrd

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Information Sessions

Come to an employee information session at a location near you to learn more about the Island $avings Plan. The schedule is available on the Plan Web site.

ISLAND $AVINGS PLAN
it's all yours

New Self-Directed Brokerage Account Option Available

Effective April 1, 2010, the Island $avings Plan offers a Self-Directed Brokerage Account (SDBA) option through TD AMERITRADE.

This program is for participants who are experienced investors, able to take a very active role in managing their Plan account investments, and willing to pay additional fees for access to a much wider array of investment choices. The SDBA is offered through TD AMERITRADE.

With the SDBA, you may choose to invest in open-end mutual funds, fixed income securities, ETFs, and publicly traded stocks. You must have a $2,000 balance or more in your core investment options to open your account. You pay an additional Plan administrative maintenance fee of $4.17 per month, as well as applicable charges by TD AMERITRADE such as transaction fees and any investment management-related fees and expenses for the investments you select.

Complete details about the SDBA, including the ***Frequently Asked Questions*** and the ***Commissions and Service Fees*** schedule, are on the Plan Web site at **https://islandsavings.ingplans.com**.

To open an SDBA, visit the Plan Web site at **https://islandsavings.ingplans.com** under the Plan Investment Section to download the TD AMERITRADE account application and commissions and service fees schedule. Complete and return the application to TD AMERITRADE. Once the account is opened, TD AMERITRADE will send you a Welcome Kit that includes your brokerage account number and explains their brokerage account services, procedures, commissions, and fees. You will then be able to transfer assets into the SDBA.

Frequent trading and attempting to time the market is discouraged. Before you can transfer money from the Stable Value Fund into the SDBA, you must first transfer the money into another core fund and keep it there for 90 days. Once the 90-day period is over, you may transfer the money into the SDBA. Some funds may enforce trading restrictions and/or redemption fees in the SDBA. You should always read the fund's prospectus carefully before investing.

The Plan's Investment Advice Service, provided through ING, cannot advise concerning the suitability of a security or investment strategy, nor can they provide financial, legal, or tax advice. You should consider an investment's objectives, risks, charges, and expenses and read all investment information carefully before making a decision.

Daylight Saving Time Reminder

Daylight Saving Time (DST) began Sunday, March 14, 2010. Plan Participants have until 10:00 a.m. HST to complete online and telephone transactions that will go into effect the same business day. Transactions completed after 10:00 a.m. HST will be effective the next business day.

quarterly calendar

The New York Stock Exchange is closed:

- **Monday, May 31, 2010**
- **Monday, July 5, 2010**

Transactions made on these days will be processed the following business day.

(888) 71-ALOHA Plan Information Line
https://islandsavings.ingplans.com Plan Web site

This newsletter is not intended to provide legal, tax, or investment advice. For such advice, participants should contact their legal, tax, or investment advisers.

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