

NEW LOOK!

The Island Savings Plan newsletter has a new design—delivering the same great news and updates as always, but with a fresh new look and feel to match all other newly designed Plan communications!

WHAT DO I NEED TO KNOW ABOUT FEES BEING DEDUCTED FROM MY ACCOUNT?

You may have read a May 7, 2006, article in the Honolulu Advertiser, entitled “401(k) Costs Quietly Eroding Nest Eggs,” that questioned retirement plan fees. The article pointed out that individual investors participating in retirement plans have a right to question the types of fees that they are assessed. Unlike some other retirement plans, all fees in the Island Savings Plan are **fully disclosed** to participants—you never have to worry about hidden or undisclosed fees eroding your account.

For the fees associated with the Island Savings Plan, participants were made aware of the Board of Trustees’ successful efforts to reduce the fees paid to CitiStreet, the Plan’s Third Party Administrator (“TPA”), and the former Prudential Stable Value Fund (now known as the Hawaii Stable Value Fund) through articles that appeared in the September 2003 Quarterly Newsletter. This specific newsletter and subsequent issues can be found on the Plan’s website under “**Plan Information/Publications.**” It is important to understand that the Board’s continuous oversight and determination to reduce fees directly impacts your investment results in a positive way.

Currently, there are two types of fees that are deducted from participants’ accounts in the Island Savings Plan: TPA fees and investment product management fees.

1. **TPA fees** cover the operational aspects of the Plan, like maintaining transaction records, mailing quarterly and annual statements, distributing investment education and Plan communications, running both the Information Line and Web site, etc. Participants in the Plan have always been charged TPA fees. These TPA fees are assessed on the last business

day of the month, reported on your quarterly statement, and paid to CitiStreet.

The Plan’s annualized (yearly) TPA fee is 23.1 basis points, which is .231% of your account balance. As an example,* if a participant’s account balance at the end of the month is \$35,000.00, the monthly TPA fee deduction is roughly calculated as follows:

$$.00231 \div 12 = .0001925$$

$$.0001925 \times \$35,000.00 = \$6.74$$

in monthly TPA fees deducted from the participant’s account

2. Each investment product or fund charges a **management fee** (also called an “expense ratio”), which covers costs incurred by the investment product managers in overseeing the investment product. This fee is reflected in the investment product’s daily share price (this is also referred to as the investment product’s “net asset value”). In other words, this fee is calculated into and deducted from the investment product’s net asset value by the investment fund manager, then passed to CitiStreet to post gains or losses to individual participant accounts in that investment product. For example,* if you invest in a fund that has an investment product management fee of 0.50 percent (or 50 basis points) and the fund returns 15 percent for the year, your actual return would be 14.5 percent, after deducting the investment product management fee.

For your information, the Island Savings Plan has some of the lowest retirement plan fees. Because of the Plan’s size (\$1.3 billion as of March 31, 2006), you pay less for your investment products and services. All of the fees are fully disclosed and there are no commissions or commission-driven representatives. And, the Plan’s Board of Trustees oversees and constantly evaluates both the Plan’s TPA and investment products to make sure you are provided with the best possible fees and options.

* Examples are hypothetical, for demonstration purposes only, and not indicative of any investment. Your monthly fee amount will vary, depending on your Plan account value.



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Unlike the Island Savings Plan, there are retirement plans and investment products that charge participants additional fees. Some of these retirement plans and investment products do not disclose the fact that these fees are charged or the specific amount of these fees, make it difficult for participants to find out how much these fees are, or tell participants that no fees are charged. (In that situation, the fees may be deducted from the investment product's rate of return or the retirement plan may allow the TPA to sell participants other types of products and services that charge a fee—under either scenario, participants are being charged a fee or fees.)

Always check the investment product fees disclosed in the fund's prospectus—be aware of the fees you are paying—and remember to factor those in when projecting future investment growth needed to meet your retirement savings goals. To find out more, please see the "Investment Information" section of the Plan's Web site for each investment product's fees, or you may call the Plan's Information Line at **1-888-71-ALOHA (1-888-712-5642)**.

SIMPLIFYING RETIREMENT INVESTMENT DECISIONS

Plan participants who are uncomfortable selecting investment products for their contributions can choose to leave the decision-making and the burden of selecting investment products to the investment professionals by selecting a single "Pre-Mixed" investment option. These Pre-Mixed options, called Lifecycle Funds, are each made up of a combination of the Plan's eleven (11) core "Mix-Your-Own" investment options, according to a predetermined asset allocation strategy that is based on a target retirement date.

Each of the five Lifecycle funds is a broadly diversified portfolio offering a ready-mixed, low-cost approach to investing through a single investment. If you want to take the guesswork out of your retirement planning, simply log on to your Plan account or call the Information Line and choose the Lifecycle Fund that most closely matches the year you expect to withdraw the money for retirement purposes, for example: Income Fund (for those who are ready to retire or within a few years of retiring), 2015 Fund, 2025 Fund, 2035 Fund, or 2045 Fund.

WHEN YOU MAKE A CHANGE

Thinking of a different career or a lifestyle adjustment? Perhaps you are moving on to another position or the next phase of your life: retirement. Either way, there's paperwork to complete in order to make a smooth transition.

Moving from State to County Government Employment—Participants who are moving between the State and neighbor island county departments must reenroll with the new employing agency and notify CitiStreet to properly update the participant's employment status (so that the employee is not deemed to be terminated or separated from service) to ensure continuous payroll deductions to your Island Savings Plan account. In addition, log on to the Plan's Web site and in the Forms section, locate a new "Participant Enrollment Agreement." Fill it out and return it to the address listed on page two so that your deferrals will continue uninterrupted. Participants who are transferring or moving within the State (including to/from agencies outside of the Executive Branch such as the Judicial or Legislative Branches, HHSC, or OHA) are not affected, and their deferrals to the Island Savings Plan will continue.

Leave Service—Participants who are leaving employment with the Department of Education, University of Hawaii, HHSC, Judiciary, House of Representatives, or the Office of the Auditor are reminded to contact CitiStreet upon termination. Within three business days of contacting CitiStreet, CitiStreet will file a termination update form and verify your separation date with your former personnel office. Once your status is updated as "terminated," you may then call Customer Service at **1-888-71-ALOHA (1-888-712-5642)** for information and help processing a withdrawal or distribution. For all other employing agencies, participants do not need to inform CitiStreet, since the termination information is being provided by these agencies.

This newsletter is intended for Island Savings Plan participants and should not be construed as investment advice. For investment advice, consult a financial, legal, or tax professional. © 2006 CitiStreet, LLC. All rights reserved. SKU#HI2Q06

QUARTERLY CALENDAR

The New York Stock Exchange is closed on **Labor Day, Monday, September 4, 2006**. Transactions made on this day will be processed the following business day.



LOCAL OFFICE SUPPORT—IN PERSON!

Call on a specialist to help you make the most of your retirement savings. Plan Consultants are ready to assist you! **MELODY I. TAKACS** has been promoted to Plan Manager and **VINCE A. SCHURTZ** has joined the Island Savings Plan team as a Plan Consultant. Vince will primarily service Kauai and Oahu, and he will service the Big Island as needed. Please stop by the Honolulu office at 1001 Bishop Street, Pauahi Tower, Suite 1160, or call to schedule an appointment or to have a Plan Consultant visit your agency for onsite seminars and one-on-one appointments.