State of Hawaii Deferred Compensation Plan

ISLAND SAVINGS PLAN
it's all yours

SECOND QUARTER
2011
news

In this issue

Special Guests at the Downtown State Employees' Benefits Fair

The Board of Trustees members (left) Sunshine Topping, Director of the Department of Human Resources Development, and (right) Kalbert Young, State Budget Director, were on hand to meet and talk with employees at the Fair.

(Photo courtesy of Donalyn Dela Cruz, press secretary, Office of the Governor)

The recent State Employees' Benefits Fair held at the State Capitol Chamber Level on May 27, 2011 was a huge success, drawing almost 1,000 employees.

Among the attendees were honored guests Governor Neil Abercrombie, Lieutenant Governor Brian Schatz, Cabinet members, and a number of Hawaii State legislators. These special guests and employees took the opportunity to meet with representatives from the Plan's investment fund companies and Plan consultants to educate themselves on the benefits of enrolling and investing in the Plan. Also on hand to provide information were representatives from *the Island Flex* (flexible spending accounts program), the HI 529 College Savings Program, the State's ERS, various employee health benefit providers, and other employment benefit plans.

Overall survey comments revealed that employees appreciated having the Fair in the central downtown location and found the Fair to be educational and fun. Many comments praised the educational sessions presented by ING at the Fair.

Fund Updates

- **The Stable Value:** Effective July 1, 2011, the third quarter 2011 rate is **4.24%**.
- **On the watch list:** Century Small/Mid Cap Growth Fund, Bernstein International Value Collective Trust, and Harbor Small Cap Value Fund.

Recent Changes on the Plan's Board of Trustees

With the change in administration in December 2010, new trustees began serving on the Plan's Board of Trustees. The new Directors of Human Resources Development (DHRD) and Budget and Finance (B&F), Sunshine Topping and Kalbert Young, respectively, were automatically appointed to the Board. Also, on July 1, 2011, two new members (Neal Miyahira and Dennis Vanairsdale) will be filling the vacancies of outgoing Trustees Sandra Yahiro and Michael Okumoto.

The Board is responsible for overseeing and maintaining your Plan, including any changes to the investment fund options and features such as the investment advice service and the self-directed brokerage window.

Effective July 1, 2011, your new Board of Trustees are:

- **Wayne L. Chu**, Chairperson and Auditing Division Administrator from DAGS;
- **Sunshine P.W. Topping**, employee member and Director of the DHRD;
- **Kalbert K. Young**, employee member and Director of the B&F;
- **Wesley K. Machida**, employee member and Employees' Retirement System Administrator from the ERS;
- **Scott A. Kami**, employee member and the Financial Administration Division Administrator from the B&F;
- **Neal Miyahira**, employee member and the Budget, Program Planning, and Management Division Administrator from the B&F;
- **Dennis L. Vanairsdale**, employee member and Accountancy Program faculty member from the Kapiolani Community College.

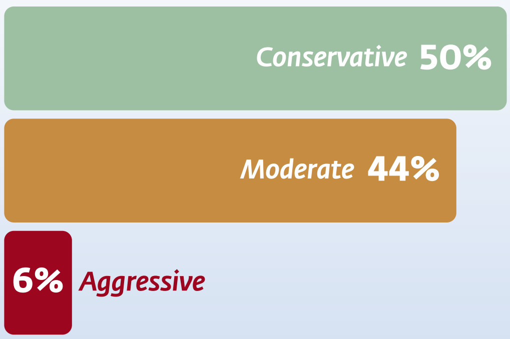
Each Board member maintains an "open door" policy for anyone interested in communicating directly with them. A directory of the Board members is available on the DHRD website at **http://hawaii.gov/hrd**.

What's your investing style?

In a recent survey, government employees were asked to describe their investing style by choosing one of three broad categories:

- **Conservative:** Want to "protect" savings and avoid any possible losses
- **Moderate:** Willing to accept a moderate level of risk to possibly have moderate investment growth
- **Aggressive:** Willing to accept a high level of risk to possibly achieve high asset growth

Which best describes your retirement investment philosophy?



*Results are from **Public Employees in Focus** published by the ING Retirement Research Institute in September 2010.*

The majority reported they are risk averse, with only six percent saying they are aggressive retirement investors.

Given the timing of the survey, these answers are not surprising. Memories of the market's record low in March 2009 were still fresh when the survey was conducted.

In the three years following the 2008-2009 global financial crisis, investment options that invested in stocks rose in value. If your investing style was aggressive or moderate, most likely you participated in the gains. If you pulled out of the market in an attempt to avoid losses, you missed out on the recovery.

Be true to your own style

While it's interesting to know how other government employees invest, you don't want to run with the pack.

Instead, you want to understand your own ability to handle risk based on your personal circumstances, including your age, income, the amount of time left for investing before you expect to retire, confidence in investing, and attitude toward short-term market volatility.

Risk is part of investing. But did you know there are different types of risk, not just the risk of an investment losing value? For example, maintaining a portfolio of only the most conservative investments could expose you to the risk of running out of retirement assets too soon.

You can be better prepared to manage risk by maintaining an investment mix in your Plan account using diversification and asset allocation. Diversification involves spreading your dollars among a variety of investments. Asset allocation is deciding how to diversify by dividing your money among different asset classes, such as stocks, bonds, or cash equivalents.

Of course, using diversification or asset allocation as part of your investment strategy does not assure or guarantee better performance and may not protect against loss in declining markets. Past performance does not guarantee future results.

To develop and pursue your retirement investing strategy, be sure to determine what type of investor you are. Go to the Plan website or call the Plan Information Line to learn more about the tools, education, and services available to help you understand and stick to your investing style.

Make your retirement savings count

After you retire, your financial needs may change. Given longer life expectancies and inflation, you'll need to make sure you don't end up outliving your retirement savings.

As a result, you may need to fine-tune your investment strategy. Keep in mind:

Don't neglect growth.
Many retirees believe retirement is a time to shift their money into conservative money market funds or certificates of deposit (CDs). While these vehicles may involve little risk to principal, the return they offer may not keep up with the rate of inflation.* Since stock returns have historically outpaced inflation by a wider margin than the returns of other securities, consider including some investment options that invest in stocks throughout retirement.**

Balance income and risk.
Along with some investment options that invest in stocks, investing in fixed-income investment options could help provide a consistent stream of income during your retirement years. The amount of risk you take on should be determined in part by your income needs. For example, if you expect to receive income from other sources during retirement, you may be able to focus your investment strategy on investment options that offer lower income potential but may also be less risky. However, if you need to generate more income, you may have to take on more risk.

A number of variables, including your risk tolerance and need for income and growth, should help guide your retirement investment decisions. You may want to consult a qualified financial professional to reassess your portfolio in light of your changing needs.

* *Investment in a money market fund is neither insured nor guaranteed by the U.S. government, and there can be no guarantee that the fund will maintain a stable $1 share price. The fund's yield will vary. Certificates of Deposit (CDs) offer a guaranteed rate of return, guarantee repayment of principal, and are generally insured by the Federal Deposit Insurance Corp. (FDIC), but do not necessarily protect against the rising cost of living.*

** *Source: Standard & Poor's. For the 75-year period ended December 31, 2006. Past performance does not guarantee future results.*

If you need to retire sooner than you thought

Forty-five percent of retirees reported they retired sooner than they had planned, according to the 2011 survey by the Employee Benefit Research Institute (EBRI).[1]

Those surveyed cited several reasons why:

- Health problems or disability: *63 percent*
- Employer downsizing or closure: *23 percent*
- Providing care for other family members: *18 percent*

Although these facts present a stark picture, there are things you can do now to prepare yourself for the unexpected. As a start, consider these steps:

First, invest as much as you can while you are still working. If you are participating in a voluntary 457(b) plan, you are allowed to contribute a maximum of $16,500 in 2011. If you are age 50 or older, you are eligible to make an additional catch-up contribution of $5,500.

Second, invest smart: maintain a portfolio with a mix of options that invest in stocks, bonds, and cash equivalents appropriate for your time horizon and keep an eye on your investment costs.

Third, be sure to maintain an emergency fund of liquid savings that you can tap into for unexpected expenses such as a car or home repair.

Fourth, determine when you will start collecting Social Security if you or your spouse are eligible (in some states, government employees do not pay into Social Security and therefore do not receive benefits at retirement). While most people qualify for Social Security benefits at age 62, waiting until you reach full retirement age entitles you to a larger benefit — a retirement credit of as much as eight percent annually, depending on the year of your birth and how long you wait. Log on to **www.ssa.gov** to review the estimated benefits you can expect at different ages before making a decision.

1 *Source: 2011 Retirement Confidence Survey, Employee Benefit Research Institute, a private, nonprofit research institute based in Washington, D.C., that focuses on health, savings, retirement, and economic security issues. Percentages do not add up to 100 percent. Survey results available at www.ebri.org.*

The Plan Is a Smart Choice for Every Stage of Your Life

The Island $avings Plan is designed to help you save for your future while you are working and supplement your income when you retire. The Plan:

Provides a low-cost program

Because of its large size, the Plan is able negotiate competitive pricing and charge lower overall fees. In addition, some of the Plan's investment options are institutional investments that help further reduce costs for participants.

Offers wide investment choices

Throughout your career and into retirement, you can select from the Plan's investment options to maintain or alter your portfolio as your personal situation or risk tolerance changes.

Supports you with valuable services

You have access to face-to-face education and personal assistance from local ING representatives. In a one-on-one setting, you can review your investment objectives, Plan account, and investment choices while you are employed and after you retire.

Makes account management easier

You can access information about the Plan, your account, and investment tools and education anytime, either online or by phone.

Gives you the ability to talk with a professional

You may find it helpful to talk with a Plan consultant to determine whether to keep your money in the Plan, roll it out to another account, or roll other assets into your Plan account.

Ready to Roll?

The process to roll retirement assets into or out of your Plan account will soon be simpler. New and easy to use forms and instructions will be posted on the Plan's website. Check the Plan's website in the coming weeks for more information.

TIPS!

Active Employees

You can roll over any pre-tax money from another qualified plan, such as a section 401(k), 403(b), IRA, or other section 457 plan, so you can enjoy the convenience of having all your retirement savings in a single, manageable account.

Retired or Separated from Service?

You can keep your money in the Plan! You have several choices regarding the money in your Plan account:

- You may consolidate your retirement savings accounts by rolling ***out*** your Plan account monies over to other qualified plans (e.g., IRA), or by rolling other qualified retirement savings plans (e.g., 403(b), IRA) ***into*** the Island $avings Plan for easier management of your retirement savings accounts.
- You may keep the entire balance in the Plan until age 70½, at which time you must do one of the following:
  - Take required minimum distribution payments.[1]
  - Take a lump sum or partial distribution.
  - Transfer your account balance to another section 457 plan or qualified plan (e.g., 403(b) or IRA) if the plan accepts rollover money from other plans.
- You may take the money out of the Plan through a variety of payout options.
- You may elect to take distributions from your section 457 plan account before age 59½ without the 10% federal tax penalty.[2]

To learn more or obtain forms, go to the Plan website at **https://islandsavings.ingplans.com** or call **(888) 71-ALOHA** (888) 712-5642.

1 *You are required by law to begin annual withdrawals from your retirement accounts in the year you reach 70½, or in the year you retire, whichever is later. If you have questions about distributions, call the Plan Information Line or speak with your financial or tax adviser.*

2 *Early withdrawals prior to age 59½ from monies rolled into the Plan from non-457 plan retirement accounts (e.g., IRA) are still subject to the 10% federal tax penalty.*

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

OFFICE HOURS
8 a.m. to 5 p.m. (HST)
Monday – Friday

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)

6 a.m. to 5 p.m. (HST)
Monday – Friday

6 a.m. to 12 p.m. (HST)
Saturday

PLAN WEBSITE
https://islandsavings.ingplans.com

STATE WEBSITE
http://hawaii.gov/hrd

KAPENA KIM
Oahu / Honolulu

PETER EDDY
Oahu / Kauai / Big Island

ALBERT LEE
Honolulu / Molokai

MELODY TAKACS, PLAN MANAGER
Honolulu / Maui / Big Island / Lanai

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1-888-71-ALOHA Plan Information Line
https://islandsavings.ingplans.com Plan website

quarterly calendar

The New York Stock Exchange is closed:

- **Monday, September 5, 2011**

Transactions made on this day will be processed the following business day.

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