



Island Savings Plan News

STATE OF HAWAII
DEFERRED COMPENSATION PLAN



ISLAND SAVINGS PLAN • QUARTERLY NEWSLETTER • JANUARY 2006

LATEST BENEFITS FAIRS – NOVEMBER 2005

Another great turnout in Windward Oahu and on Kaua'i!

Crowds of Windward Oahu and Kaua'i employees took the opportunity to learn more about the Island Savings Plan and other employment benefit plans by attending the Benefits Fairs held in their communities on November 1 and 3, 2005, respectively. Members of the Plan's Board of Trustees were on hand to meet and greet Benefits Fairs attendees. Also on hand were representatives from CitiStreet, LLC, the various investment product providers, the Employees' Retirement System, Island Flex (i.e., the Flexible Spending Accounts Plan), and the Employer-Union Health Benefits Trust Fund and their health plan carriers.

Attendees were very appreciative of the fact that the Benefits Fairs were held in their communities and that they were able to meet face-to-face with the various representatives. Based on the terrific attendance and tremendous positive feedback on the past Benefits Fairs, the Board intends to hold additional Benefits Fairs in 2006: on the Big Island, University of Hawai'i – Manoa Campus, and other locations!

SIMPLIFYING YOUR RETIREMENT INVESTING DECISIONS

The Pre-Mixed Lifecycle Funds in the Island Savings Plan are designed to take some of the guesswork out of planning for your retirement. If you are like many investors who say they procrastinate, lack confidence, or admit they "don't have enough time/financial knowledge to make prudent investment decisions,"* you may want to consider one of the Plan's Lifecycle Funds that most closely matches the date you expect to retire and start withdrawing the money. The funds are continuously monitored by professionals who determine investment mixes to stay on track with the target goal through automatic rebalancing.

Lifecycle Funds

- 2045 Fund
- 2015 Fund
- 2035 Fund
- Income Fund
- 2025 Fund

Even though the Lifecycle Funds automatically rebalance and shift their investment mix, your goals may change at some point. Through the Plan, you can always begin your own investment strategy at any time and move out of your Lifecycle Fund to "mix-your-own" investments. The good news is that you have complete access to expert assistance and personalized support from:

- 1. Plan Consultants** who are available to discuss your individual needs either by calling the Information Line at **1-888-71-ALOHA (1-888-712-5642)** and selecting menu option **#2** weekdays from 8:00 a.m. to 5:00 p.m. (HST) or by visiting the local Honolulu office, located at 1001 Bishop Street, Suite 1160, Pauahi Tower, Honolulu, Hawaii, 96813; and
- 2. Participant Services Representatives** who are knowledgeable about the Plan and are available by calling the Information Line and selecting menu option **#1** Monday through Friday, 6:00 a.m. to 5:00 p.m. (HST), and Saturday 6:00 a.m. to 12:00 p.m. (HST), excluding New York Stock Exchange holidays.

You should read all fund literature available before investing.

*MainStay Investments' Fifth Annual Survey, 2005.

INCREASED CONTRIBUTION LIMITS

You can help your Island Savings Plan account grow. The annual IRS maximum contribution limits increase in 2006 to \$15,000. In addition, you may be able to take advantage of catch-up contributions—allowing you to make up for past years when you may not have been able to save as much.

Age 50+ Catch-up contribution limit for participants age 50 or older may allow you to save \$5,000 more (up to a total maximum annual contribution limit of \$20,000). To initiate Age 50+ Catch-up contributions, log on to www.islandsavings.csplans.com or call **1-888-71-ALOHA (1-888-712-5642)** and update your payroll deduction and investment options.

3-Year Catch-up contributions are allowed for participants who are within three calendar years of the year in which they are eligible to retire with full benefits. They may double their

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Local Office

1001 Bishop Street
Pauahi Tower, Suite 1160
Honolulu, Hawaii 96813

Office Hours

8 a.m. to 5 p.m. (HST)

Public Parking

Bishop Street Parking Garage
(entrance on Alakea Street)

Information Line

888.712.5642

Plan Web site

www.islandsavings.csplans.com

State Web site

<http://state.hi.us>

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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.

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contribution amount—up to \$30,000 in 2006. For more information or to take advantage of this provision, you will need a 3-year catch-up form, which you can get by visiting the Forms section of the Plan Web site or by calling the Information Line. The form will explain the eligibility requirements, give you instructions on how to make a catch-up election, and confirm your maximum catch-up allowance and your election amount per pay period.

Given this opportunity, now may be a perfect time to increase your contributions so that you can invest your money for retirement and help your retirement savings account grow even faster.

DEFERRALS AUTOMATICALLY RESTARTED IN 2006

Participants who have reached the annual contribution limits in 2005 and whose payroll deductions stopped automatically during the year, will have their deferral elections restarted automatically with the first payroll in 2006. The deferral election amount will be the last amount on record that you elected. Therefore, you may want to check your Plan account or paystub to be sure that the deferral has started again or is the correct deferral amount that you desire. Please log on to www.islandsavings.csplans.com or call **1-888-71-ALOHA (1-888-712-5642)** to update your payroll deduction and investment options and make any adjustments necessary to reach the increased limits for 2006. The first deferral contribution for the year will start on January 5, 2006 for State employees on the payroll lag, and on January 13, 2006 for “non-lagged” State employees. County employees will have the first deferral contribution for the year on January 13, 2006.

TAKE ADVANTAGE OF THE SAVER'S TAX CREDIT

One of the biggest benefits of contributing to the Island Savings Plan is tax savings. Your pre-tax contributions reduce your taxable income dollar-for-dollar. And, you might be eligible for even more tax savings through a special tax credit.

A tax credit reduces the amount of tax you owe and is taken when you file your annual income tax return. If you qualify, you can claim a Saver's Tax Credit each year through 2006. The actual amount of your credit is based on your tax-filing status and your adjusted gross income (AGI).

For more information on this tax credit, visit

the Internal Revenue Service's Web site at www.irs.gov and click on *Individuals, Publication 17*, and then look for “Other Credits” in the index. You should also consult a tax or financial advisor about tax credits.

GETTING TO KNOW YOUR BOARD OF TRUSTEES

Sandra Yahiro

Sandra Yahiro was appointed as a Board trustee for the Plan in 2004 and is currently the Deputy Director of the Department of Taxation. Trustee Yahiro comes to the Board with more than 25 years of knowledge and experience in the area of administering deferred compensation and retirement plans, including 457, 403(b), and 401(a) plans under the Internal Revenue Code. Trustee Yahiro previously served as the Administrative Services Manager at the Department of Attorney General; the Departmental Personnel Officer at the Department of Taxation; and the Personnel Program Officer and Personnel Management Specialist with the Department of Human Resources Development. Her first term will expire on June 30, 2006.

NEW PAYROLL POLICY

At its October 4, 2005 meeting, the Plan's Board of Trustees unanimously adopted a new policy regarding the late submission of State and county payroll files to CitiStreet. In the event a payroll file is received after the close of the market on or after a specified pay date, CitiStreet will reprocess the payroll as soon as administratively feasible to reduce market risk, using the correct market prices for that specified pay date. If the reprocessing results in a loss to the Plan, the Plan will temporarily fund the amount of the loss to correct the individual participant account postings and the agency responsible for the late submission of the files will reimburse the Plan. If the reprocessing results in a gain to the Plan, the difference shall be deposited into the Plan for the benefit of the entire Plan. The Board has asked all payroll jurisdictions that are currently transmitting payroll files to CitiStreet to comply with the new policy.

QUARTERLY CALENDAR

The New York Stock Exchange will be closed on Monday, February 20, 2006 and Friday April 14, 2006.

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