State of Hawaii Deferred Compensation Plan

ISLAND $AVINGS PLAN
It's all yours

FOURTH QUARTER
2008

news

In this issue

A big day on the Big Island

At the Hilo Benefits Fair

Close to 400 participants took time out to learn more about the advantages of participating in the Island $avings Plan, as well as other employee benefit plans, by attending the Employees' Benefits Fair held at the Hilo Hawaiian Hotel on November 20, 2008. Attendees participated in workshops covering the new Investment Advice service, an overview of the Plan and the benefits of Asset Allocation.

Island $avings Plan Representatives greet fair attendees.

Remember, you don't need to wait until there's a Fair close to you.

If you have questions about the Plan, consider attending an Island $avings Plan educational workshop. To find a schedule, log on to **https://islandsavings.ingplans.com**, or call the Information Line **1-888-71-ALOHA (1-888-712-5642)**.

New Plan Contribution Limits for 2009

The Internal Revenue Service (IRS) recently announced a cost-of-living adjustment for tax year 2009, increasing the annual contribution limit you can make to your Island Savings Plan account to $16,500.

Maximize the limits and catch-up if you can

To take advantage of the limit increase, you can increase your contribution amount online at **https://islandsavings.ingplans.com** or by calling **888-712-5642**. If you are age 50 and over, you may be able to make additional Age 50-Plus Catch-Up contributions of up to $5,500 if you contribute the maximum $16,500. That means in 2009, you could contribute a total of $22,000 to your Plan. If you are eligible for the 3-Year Catch-Up, you may be able to defer up to $33,000. (You cannot use the Age 50-Plus and 3-Year Catch-Ups at the same time.)

Investment Advice News

More than 775 Plan participants enrolled in the Professional Account Manager (PAM) program during the special promotional period that ran September through mid December 2008.

PAM participants should consult with an ING advisor before initiating any self-directed trans-action, as this may result in cancellation from the program. Under the program, Plan participants receive ongoing investment management of their accounts for a fee. For more details, call the Plan Information Line.

Rollovers from Employees' Retirement System (ERS)

The Plan is now accepting rollovers from the ERS. Participants who are retiring and have selected refund options with ERS are able to rollover their ERS monies into the Plan. To find out more information on the rollover process, contact a Plan consultant at the ING local office at **1-888-71-ALOHA**, and press option 2.

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

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

PUBLIC PARKING
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://state.hi.us

KAPENA KIM
Oahu

SHEILA FRIED
Maui / Big Island / Molokai / Lanai

JEANNE KANAI
Honolulu

PETER EDDY
Oahu / Kauai / Big Island

MELODY TAKACS, PLAN MANAGER
Honolulu

Fund Updates

Effective January 1, 2009, the first quarter rate for the Stable Value Fund is 3.68%.

On the watch list:

- **INVESCO, the co-manager of the Stable Value Fund, remains on the watch list.**

The Board is initiating a search to replace the Wells Fargo Large Company Growth Fund in January, 2009. The fund continues to underperform its benchmark over long-term time periods.

The Board is also initiating a search to add to the number of passively managed or index investment options offered in the Plan. Passively managed or index funds seek to replicate the performance of major market indices (i.e., S&P 500 Index, Barclay Capital Aggregate Index, etc.). Currently, the Plan utilizes a U.S. Large Cap Equity Index Fund called the Vanguard Institutional S&P 500 Index Fund. Additional index options that will be added include U.S. small/mid cap equity index, non-U.S. equity index and bond index funds.

A New Year reality check for your retirement goals

In the New Year, all of us are adjusting to life after the 2008 global financial turmoil.

The financial markets are volatile, but recent drops and rebounds have shaken the confidence of many investors. Some are acting on their impulse to take money out of the market and run. But short-term decisions driven by emotions could wreck long-term retirement goals. Rather than reacting to the news of the day, calmly review your personal situation and consider your retirement savings goals.

Where do you stand now?

Few portfolios were untouched by the market downturn. No one, not even investment professionals, can predict what will happen to stocks, interest rates, or the economy.

Instead of looking back with regret or trying to guess the future, focus on what you're investing for: retirement.

Be realistic about how much time you have left until retirement. If you rely on contributions to your account at your current contribution rate, are you likely to reach your goal? Or should you consider boosting contributions to your retirement savings a little, to keep on track?

Be honest with yourself: how risky are your investments, really? Keep in mind that it's difficult — and risky — for investors to avoid risk altogether, because an investment that's unlikely to lose value is also unlikely to gain value.

To help manage your risk, consider allocating your money among different asset classes (stock, bond, and short-term funds) according to the mix of growth, income, safety, and risk that suits your time horizon. Once you have an asset allocation, keep track of your investments.

You'll want to evaluate investment performance over years, rather than recent days or months. If you are losing sleep over market volatility, you may want to consider speaking with a financial advisor about your situation.

Remember this: Saving and investing takes planning, discipline, and patience. It's important to maintain a long-term perspective, even if you're retired. Most retirees don't liquidate all of their investments at one time, because they don't spend their retirement savings all at once. They withdraw money slowly to meet expenses over time.

Have a plan and stick with it.

If you haven't made a personal plan for saving and investing for retirement, it may be wise to create one. Check with your Plan about workshops or other educational resources available to help you manage your account. Take advantage of the Plan's investment choices, information, and services.

Once you have a plan, keep saving as much as you can throughout the markets' ups and downs. Focusing on the future, maintaining a long-term strategy, riding out short-term volatility, and waiting for better days to return are usually the wisest things to do. With a disciplined, calm approach to saving, investing, and withdrawing, you can potentially build a portfolio to sustain you through decades of retirement.

*To learn more about investment risk, see **A falling market isn't the only risk** in this issue.*

Time-tested lessons about investing for retirement

Given the continuing upheaval and uncertainty of the financial markets, it's important to remember what works over the long haul — and what doesn't:

Strike a balance between investing for growth potential and minimizing risk. Don't let panic push you into a risk category that's too high — or too low — for you.

Diversify your investments across different asset classes (stocks, bonds, and cash) and different investment types (large-cap, small/mid-cap, international, and domestic funds). Investing only in one asset category is usually very risky.

Make the most of dollar cost averaging. By investing fixed amounts of money at regular intervals, your money buys fewer shares when prices are high, and more shares when prices are low.

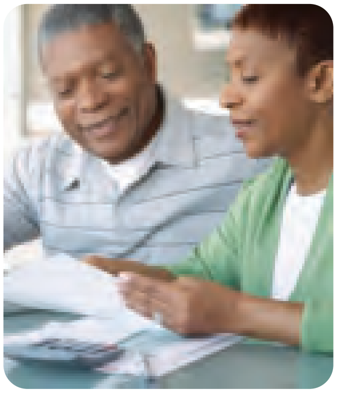
Maintain a long-term perspective. Retirement investing is for the long term, not for quick profits.

No one can say how long it will take for the markets to recover, but in the past, bear markets have set the stage for the next bull market. Over the long term, the key has been to remain invested and be in a position to take advantage when the next recovery comes and the markets bounce back.

When is it ok to invest in a single fund?

Some retirement plans offer one-step investment solutions, including Target Retirement Date, Lifestyle, and Asset Allocation Funds. With these options, when you choose to invest in one fund, you're not betting on just one investment — because each fund is comprised of a broad mix of investments in different asset classes. Such funds offer a simple and disciplined way to get diversification within a single investment.

Budget, but don't skimp on the basics



Given how much the economy has changed, many are spending less. Some items in a budget are easy to cut, like new clothing and dining out.

But putting off certain expenses can actually end up costing a lot more down the road. So don't short-change yourself in these areas.

Safety measures.
Keep up with maintenance of your home and car. Make repairs as soon as possible. The risk of an accident or injury is not worth saving a few dollars now.

Your health.
Be proactive to maintain your wellness with regular check-ups. Don't postpone physicals, eye exams, or dental care. Neglecting health issues could lead to more serious problems.

Required Minimum Distribution rules suspended in 2009

President Bush recently signed legislation that eliminates required minimum distributions (RMD) from retirement accounts for 2009.

The intent of the legislation is to provide relief to participants in RMD status who would otherwise be forced to take distributions from account balances that declined as a result of the current economy.

Under the existing rules, retired participants age 70½ or older must begin taking an annual minimum distribution from their qualified plan accounts. The amount of the RMD is calculated based on existing account balances as of December 31st of the prior year.

Please note this legislation is in effect for 2009 only. The original RMD rules for all other years, including 2008, remain unchanged. For more information, call your Plan Information Line or speak with your financial or tax advisor.

A falling market isn't the only risk

When you think about the risks you take when you invest, what probably comes to mind first is market risk: the risk of losing your money because of a drop in the market. You can try to defend against market risk by diversifying your assets among stock, bond, and money market funds to increase your chances of having at least some winning investments each year. But there are other, possibly less obvious risks:

Inflation risk

Whatever return your money earns will likely be eroded over time by inflation. Granted, consumer price inflation has averaged less than 2.5% over the past 10 years.[1] Yet even 2.5% inflation, year after year, will eat into your retirement nest egg: If that inflation rate persisted, 25 years from now you would need $185,000 to buy what $100,000 buys today.

Defense against inflation risk:
Invest at least some of your nest egg in stock funds, whose long-term return has the potential to outrun inflation.

Business risk

This is the risk that a company you invest in will go under, or at least see the value of its stock plunge, reducing the value of your investment.

Defense against business risk:
You are already helping to protect yourself from business risk by investing in mutual funds or commingled funds, whose assets are diversified among dozens of companies.

Tax risk

How much you really make on your investments is greatly affected by how much you have to pay in taxes.

Defense against tax risk:
Make maximum use of your tax-deferred retirement savings plan. Your money is allowed to build over time, with no taxes due until you begin withdrawing it at retirement, when your income tax rate may be lower.

Risk of outliving your money

The scariest risk of all is not having enough money to last through your retirement years.

Defense against outliving your money:
Contribute the maximum each year to your retirement savings plans, or as much as you are able.

Put yourself in a position to potentially earn decent returns over time by investing in a mix of stock and bond funds. You'd minimize the risk of losing money by putting it all in money market or stable value funds, but because the returns on these types of investments are so modest, you may side-step market risk and significantly increase the risk that your retirement will last longer than your money does.

[1] *Source: U.S. Department of Labor, Bureau of Labor Statistics*

Budgeting your money: taking control

Tomorrow. That's when a lot of people say they're going to get serious and really save for retirement. Yet, they think they don't have the money to spare in the short term to get started now. But it may be that all they really need is motivation — and few motivators are as effective as the power of compounding.

There can be a snowball effect when you put your money in an investment and then automatically reinvest the earnings over time. Compound interest can have a dramatic impact on building your nest egg. Here are some budget-conscious activities you can put into action now in order to start saving more for your retirement today.

Get out of debt.

Two key components to reining in your credit card debt are to reduce your interest rates and pay more than the minimum-payment amount. If you have a $5,000 credit card balance at an annual percentage rate (APR) of 13% — roughly the APR a standard credit card carries nowadays, according to Bankrate.com — and make only the minimum payment each month (typically the greater of 2.5% of the balance or $10), it will take you 19 years to pay off that debt, and you'll have paid a total of $3,645 in interest — money that's just thrown away. Pay off your debt more quickly to free up cash to put toward your retirement.

Cut down your phone bill.

Re-evaluate your local, long-distance and international calling plans. Shop around for the plan that gives you greater savings for the places you call most often. The same goes for cell phone plans — make sure you have the least expensive one available that fits your needs.

Pay your bills online.

Many credit card and utility companies offer free electronic payment options. Make instant payments online or have the money automatically deducted from your bank account each month. You'll avoid incurring hefty penalties on late payments — and late fees on credit cards typically range from $15 to $35, depending on the size of your balance.

Save a little every day.

Food is expensive, especially when you're buying lunch five times a week. How about bringing lunch from home every now and then? Start with once or twice a week and build up to three to four days a week. Or buy one fewer latte each week. Dry cleaning is expensive, too, especially if it costs you more than $25 a week. Try doing some of that laundry at home. Movie and music lovers: Cut back on the number of DVDs and CDs you buy every month. A few bucks here and there each week add up.

ISLAND SAVINGS PLAN
it's all yours

quarterly calendar

The New York Stock Exchange is closed on the following days:

- **Monday, January 19, 2009**
- **Monday, February 16, 2009**

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