State of Hawaii Deferred Compensation Plan

ISLAND $AVINGS PLAN it's all yours

FOURTH QUARTER 2009

news

In this issue

2010 Contribution Limits

Annual maximum	**$16,500**
Total including Age 50+ Catch-Up	**$22,000**
Total including Three-Year Special Catch-Up	**$33,000**

To change your contribution level, go to **https://islandsavings.ingplans.com** > *Account Access* and log in. Click *My Account* > *Contributions* > *Change*. Or call the Plan Information Line.

If you are age 50 and over, you may be able to make additional Catch-Up contributions of $5,500 for 2010 if you contribute the maximum $16,500 for a total of $22,000. Or, if you are within three years of the normal retirement age, you may double the maximum contribution limit and contribute $33,000 to your account.

Remember, you cannot use the Age 50+ and Special Catch-Up options at the same time. If eligible for both, you are entitled to use the option that lets you defer the greater amount.

Employees' Benefits Fair Draws Crowd

Approximately 300 employees attended the Employees' Benefits Fair on November 12, 2009 at the Maui Tropical Plantation and Country Store in Wailuku. Employees met with representatives from the Island $avings Plan, the HI529 College Savings Plan, and the Employees' Retirement System to learn more about the Plan and their employment benefits.

Peter Eddy, Plan Representative, and Melody Takacs, Plan Manager, educated attendees on the Lifecycle Funds, a smart simple way of investing. The Funds are made up of a combination of the Plan's existing 11 core investment options based on a target retirement date.

Coming Soon: Self-Directed Brokerage Account Option

A new Self-Directed Brokerage Account (SDBA) option will be added to the Island $avings Plan in early 2010 that will offer an expanded list of investment choices beyond the Plan's current fund options. After careful review of several SDBA service providers proposed by ING, the Board voted at its August 6, 2009 meeting to accept the services offered by TD Ameritrade. More details will be available soon.

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

KAPENA KIM
Oahu/Honolulu

SHEILA FRIED
Maui / Big Island / Molokai / Lanai

PETER EDDY
Oahu / Kauai / Big Island

MELODY TAKACS, PLAN MANAGER
Honolulu

Fund Updates

Change in share class:
The share class for the Bernstein International Value Collective Trust has changed from Class H to Class P. This reduces the cost of investing in the international equity fund.

The Stable Value rate:
Effective January 1, 2010, the first quarter rate for the Stable Value Fund is **4.35%**.

On the watch list:
INVESCO, the co-manager of the Stable Value Fund.

Lessons learned from 2009: investing for retirement now

Our economy is still in the midst of major change. Painful as the economic events of the last two years were, they taught some lessons that apply to investing for retirement.

Save more

Until recently, Americans were spenders, not savers. Times have changed. The savings rate among consumers was 3.7 percent toward the end of 2009, up from just 0.2 percent in early 2008.[1]

One way to save more is to live below your means in the New Year. Try to save 10 – 15 percent of your income for retirement. Saving more this year may help you make up for some of the recent decline in the value of your retirement accounts.

It's important to get into the habit of saving and investing for retirement. If you stop whenever the stock market takes a dip, you risk spending the money instead of accumulating assets for retirement on a consistent basis.

Be realistic about risk

The market always moves in cycles. Whether a cycle is up or down, no one knows how extreme each cycle will be or how long it will last.

When the market went down sharply in 2008, so did the value of portfolios worldwide. In reaction, many investors took extreme measures. Some moved most or all of their retirement assets into a money market fund, stable value fund, or other cash equivalent investment. They now face another risk: if returns don't keep up with inflation, they could run out of money during retirement.

Others saw the market rebound in 2009 and tried to make up for lost ground. They invested in aggressive growth stock funds, aiming to pump up their returns but potentially risking further losses.

All investing involves some level of risk. However, diversifying your investments among a mix of stock, bond, and cash equivalent funds may help you manage risk in your retirement portfolio. You should have an asset allocation strategy that's appropriate for your age, the amount of time left before you expect to retire, and the level of risk you can tolerate.

Make a plan to keep investing

Many analysts forecast lower annual investment returns for the near future. If that happens, you may need to update your retirement planning.

Revisit your estimates for how much retirement income you will need, how much you can reasonably save, and how much your money needs to grow. Then review the investment choices available to you.

You can be more effective in investing for your retirement if you understand what to expect from different types of investments, including their potential returns and risks. Traditionally, investors have looked to stocks for long-term growth, bonds for current income, and cash for short-term protection of assets. Depending on your plan, you might decide to adjust your investment mix to take on more risk, or increase the amount you are saving for retirement, or invest for a longer period of time.

Having a plan that you monitor regularly can help you stay on track toward your retirement objectives, no matter what the market is doing.

[1] *Money magazine, December 2009, "Your Savings and Credit: The Outlook," page 78*

Test your knowledge: economic recovery

At the end of 2009, the U.S. economy showed signs of righting itself and growing again. Take this quiz to gauge what previous recessions might predict about the shape of things to come.

1 Recoveries in the stock market typically tend to begin:

a. before the economy starts to recover.

b. only after the economy is clearly out of recession.

c. about the same time as the recession ends.

2 The Great Depression was a perfect example of this shape of recession followed by recovery:

a. U

b. V

c. W

3 When the stock market is depressed, your best strategy is to:

a. shift your money from stock and bond funds into cash.

b. stick with your chosen asset allocation despite the bear market.

c. hold off on making new investments until you are certain the new bull market is here to stay.

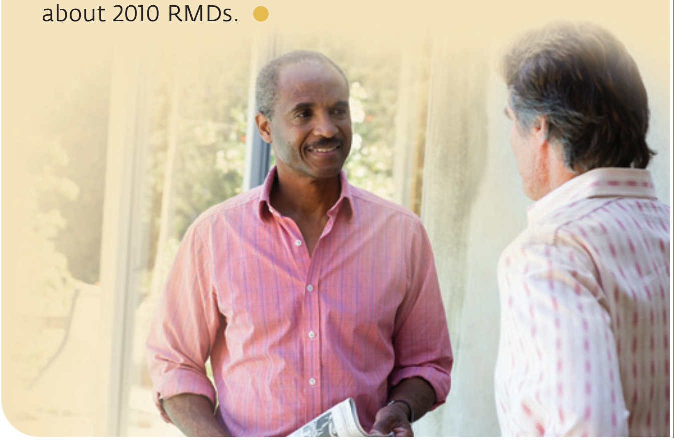
retiree corner

Required Minimum Distributions in 2010

Tax laws require you to begin annual withdrawals known as Required Minimum Distributions (RMDs) from your retirement accounts in the year you reach 70½, or in the year you retire, whichever is later.

The Worker, Retiree, and Employer Recovery Act of 2008 waived the requirement for the 2009 RMD due to the economic downturn. This meant that most participants and beneficiaries who would otherwise have been required to take minimum distributions for 2009 from retirement accounts did not have to withdraw any amount last year. Since the Act did not waive the requirement for 2010, RMDs are expected to resume this year.

Consult with your legal or tax adviser for guidance about 2010 RMDs.



Answers

1 *a.* Based on past recessions, the stock market tends to recover three to six months on average before the recession ends.[1,2] That is why the market, measured using the performance of the Standard & Poor's 500 Index, is one of the 10 leading indicators that are supposed to help identify turning points in the economy.

2 *c.* The Depression of the 1930s was not one but several events. First came a recession that lasted from August 1929 to March 1933. That was followed by a recovery that lasted until May 1937. Next came a second recession that lasted until June 1938. The second upward leg of the W was a recovery that began midway through 1938 and lasted until early in 1945.[2]

3 *b.* All recessions are certain to end some day. On the other hand, the need to save for retirement and keep your retirement savings growing faster than inflation is a lifelong constant. So maintain your long-term investment strategy through market fluctuations. Investing in the stock market when stock prices are depressed means potentially valuable assets are available at what are likely to be bargain prices.

[1] *InvesTech, March 13, 2009.*

[2] *National Bureau of Economic Research, 2009.*

Change in the Unforeseeable Emergency Withdrawal ("UEW") Process in Effect

The Plan recently streamlined its UEW process. In the past, the Board approved/denied UEW applications. Effective December 2009, ING now reviews and approves/denies UEW applications.

This change should speed up the process to obtain funds from one's account in the Plan (while still working for the State/counties) as long as the following requirements continue to be sufficiently demonstrated:

1. **Unforeseeable emergency event:** A participant must satisfactorily demonstrate that there is an illness or accident of the participant or beneficiary, the participant's or beneficiary's spouse or the participant's or beneficiary's dependent; loss of the participant's or beneficiary's property due to casualty; or other similar extraordinary and unforeseeable circumstances arising as a result of events beyond the control of the participant or the beneficiary.

   Examples of qualifying events approved in the past include: medical illness of the participant or the participant's spouse, sudden loss of the participant's or spouse's job or income, natural disaster, etc.

2. **Severe financial hardship:** The unforeseeable emergency event must have caused a "severe" financial hardship to the participant or the participant's beneficiary.

   - The financial hardship must be "severe" and this is determined on a case-by-case basis.
   - Pre-existing debt/bills or debts/bills not caused or related to the unforeseeable emergency event do not qualify for withdrawal from the Plan. Lost wages and lost income are not reimbursable (i.e., the Plan does not reimburse a participant for wages or income lost as a result of the unforeseeable emergency event).

To apply for a UEW, a participant must complete and mail an application for a UEW from the Plan to ING's office in Boston (ING's local office in Honolulu shall provide appropriate back-up support to the Boston office and shall be available for any necessary face-to-face or follow-up contact with participants). At a minimum, a participant must:

(a) provide documents substantiating the participant's household income and expenses;

(b) provide copies of all past due bills that result from the unforeseeable emergency event; and

(c) provide evidence that the participant cannot relieve the severe financial hardship through compensation from insurance or otherwise (e.g., loans), liquidation of the participant's assets (as long as the liquidation of assets does not itself cause severe financial hardship), and/or cessation of deferrals into the Plan.

Once the application is complete and supporting documentation has been provided, ING's Boston office shall determine whether the participant meets the two elements of a UEW, and approve or deny the application. If the application is denied, a participant may appeal the decision to the Board.

To obtain a UEW application, please go to the Plan's Web site at **https://islandsavings.ingplans.com** and look under *Forms* or call the Plan's Information Line at **(888) 712-5642**. Application forms should be mailed to ING's Boston office at: Island $avings Plan, P. O. Box 55184, Boston, MA 02205.

There has been a positive response to the Plan's Investment Advice feature!

13% of participants took action and utilized the Investment Advice Service offered through the Plan.

- 2,894 (10%) participants accessed the service by using the Personal Online Advisor or by speaking with an ING Advisor.
- 840 (3%) participants enrolled in the Professional Account Manager ("PAM") program.

For more information on the service, please contact the local office to speak with a licensed Plan Consultant.

ISLAND $AVINGS PLAN it's all yours

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

quarterly calendar

The New York Stock Exchange is closed:

- **Monday, February 15, 2010**
- **Friday, April 2, 2010**

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

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