ISLAND $AVINGS PLAN
it's all yours

State of Hawaii Deferred Compensation Plan

SECOND QUARTER
2010

news

In this issue

Plan news – pages 1 & 4

Save more as early as you can

A retirement saving incentive

Managing change

Retiree corner

Hundreds Turn Out for Employees' Benefits Fairs

The May 2010 Employees' Benefits Fairs drew hundreds of employees who took the opportunity to learn more about the Island $avings Plan and other employee benefits.

On May 17, 2010, approximately 150 employees attended the Fair at the Koolau Golf Course in Kaneohe. On May 19, more than 380 employees came to the Fair at the Hawaii Okinawan Center in Waipahu. In addition to receiving information about the Plan and other employment benefits, employees met with representatives of the Plan's various investment funds and spoke face-to-face with members of the Plan's Board of Trustees. Surveys received from attendees indicated that the Fairs have been very informative, beneficial, and well represented by both the Plan's investment fund managers and the State's benefit plan providers. Thank you all for your feedback and continued support of the Fairs!

Koolau Golf Course Ballroom
May 17, 2010

Attendees at the benefits fairs met with Plan Consultants, investment providers, benefit plan representatives, and members of the State of Hawaii Deferred Compensation Board of Trustees (Board Members pictured below on the right: Scott Kami and Wesley Machida).

Hawaii Okinawan Center
May 19, 2010

Plan's Board of Trustees Changed by New Law

Effective April 29, 2010, the Hawaii State Legislature overrode the Governor's veto on S.B. No. 2394, H.D. 1, and passed Act 65 (2010) that changed the composition of the Plan's Board of Trustees.

Prior to April 29, 2010, the Board consisted of seven trustees who were appointed by the Governor, of which at least three must be employee representatives, and two may represent the public sector. Act 65 (2010) makes the director of human resources development one of two ex officio members and deletes the requirement for the director to serve as the chairperson, and amends the composition of the five remaining members by requiring **all** members of the Board to be public employee representatives who shall be appointed by the Governor and confirmed by advice and consent of the Senate. As a result, the Plan will no longer have access to trustees who have current private sector experience in finance, securities, accounting, etc.

During the Legislative session, supporters of the bill felt that the employees should have more control over the Plan and the supporters wanted to amend the Board's composition to ensure that only employees made decisions affecting the Plan. The Board testified against the measure because they felt it was important for the Plan to retain its ability to have private sector experts on the Board. The Board also assured legislators that there has never been any interference or influence by any of the employers and the trustees have only acted in the best interests of the employees. Despite these repeated assurances, the measure subsequently passed without the Governor's approval.

Due to its immediate effective date, Trustees Ryan Ushijima and Kenneth Taira, who represented the public sector, no longer met the requirements to remain on the Board. The Board appreciates and thanks them for their contributions and services offered to grow, improve, and sustain the Plan on behalf of the participants, and will miss their expertise and knowledge. The Board will be recommending names of qualified candidates to the Governor for the vacancies created by the new law.

Fund Update

Effective July 1, 2010, the third quarter rate for the Stable Value Fund is **4.56%**.

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

Save more as early as you can

One of the best and simplest ways to save for your retirement is to take full advantage of your voluntary retirement savings plan at work. The earlier and the more you contribute, the better.

You gain the advantage of compound growth right away. When you invest, you earn interest on your money. And then that interest earns interest. That's called compound interest, and it's how your account grows. The sooner you start, the more you could accumulate for the future. And the more your money compounds over time, the less you may have to put away yourself to end up with enough for retirement.

In addition, the money in your Plan account accumulates tax deferred. That means you don't pay taxes until amounts from your Plan account are distributed to you at a later date, generally at retirement or separation from service. Tax deferral keeps more of your money working over time toward your retirement objective.

If you contribute only a minimal amount or put your Plan contributions on hold, you lose out on the maximum benefit of compound growth. It's important to review your contribution level regularly to check your progress toward saving enough for retirement. Waiting for 10 or 20 years would force you to contribute much larger amounts to the Plan later on to try to make up the difference — and even then, you might not catch up.

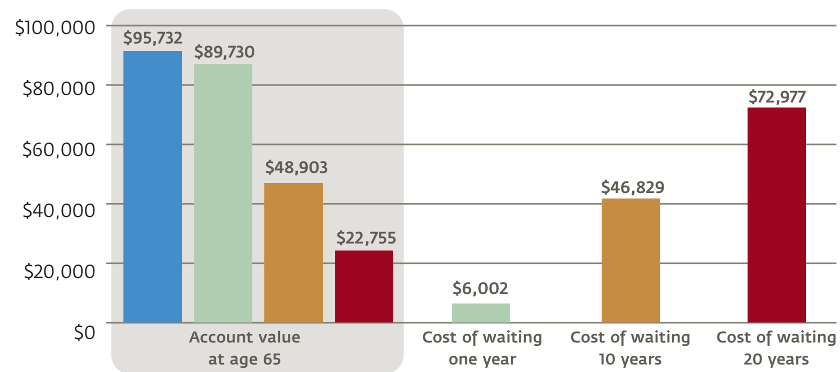
Compounding can do a lot for even a modest investment such as $25 per pay period. But if you want to accumulate enough to retire, consider contributing as much as you can afford.

Investing sooner puts time on your side in other ways, too. With a longer time horizon, you may be able to invest more of your contributions to include some investment options that involve more risk in return for potentially higher long-term gains.

Take an active role in your Plan account as soon as possible. You don't want to reach the end of your career and think, "I wish I had started saving more for retirement sooner."
What are you waiting for?

The cost of waiting

If you save at age 25, you accumulate $6,002 more in account value than if you wait until age 26. Even one year makes a difference, and if you delay 10 or 20 years, you give up thousands of dollars more for retirement.



Starting at age 25
Starting at age 26
Starting at age 35
Starting at age 45

This hypothetical example assumes $25 contributions made twice a month at the beginning of each pay period. The annual interest rate of 6% is compounded twice a month. No withdrawals are made before the participants retire at age 65. This information is for illustrative purposes only to show how the number of years invested in the Plan could affect participant account values and is not intended as a guarantee of past or future performance of any security. The actual rate of return may be more or less than shown and depends on different factors, including a participant's choice of investment options. Net returns would be lower if there are any Plan or investment option fees, expenses, or charges which have not been considered in this illustration.

A retirement saving incentive

Generally, the lower your income, the harder it may be to save for retirement. The Saver's Credit is available to help motivate more people to try.

If you contribute to your Plan account or an Individual Retirement Account (IRA) and qualify, you could trim your tax bill by taking a Saver's Credit plus the federal tax deduction for the full amount of your contributions.

Under Internal Revenue Service rules, the credit is available for tax year 2010 to taxpayers who contribute to a 457(b), 403(b), 401(k) plan, or an IRA by December 31, 2010, and have a modified adjusted gross income that meets these limits:

- Up to $55,500 for married couples filing their federal income tax return jointly
- Up to $41,625 for heads of household
- Up to $27,750 for singles or married individuals filing separately

The credit is a percentage of the contribution you make, ranging from a low of 10% to a high of 50%. The highest applies to people with the least income. The maximum is $1,000, or if filing jointly, $2,000.

Each year you contribute to your Plan and qualify for the credit, you will file Form 8880 with your tax return. To learn more, go to **www.irs.gov/pub/irs-pdf/p4703.pdf**.

Managing change

Major events such as a birth or a death in the family, marriage, divorce, job loss, or a new career may have important ramifications for your financial plans.

Beneficiary designations

In the event of your death, assets in your retirement plans, insurance policies, and other accounts would be distributed to the people listed as beneficiaries for those plans or policies, even if your will, trust documents, or other estate paperwork name a different beneficiary. At least once a year, review the beneficiary designations on file with your Plan, insurance policies, and other accounts and make any necessary updates.

Your estate plan

You may need to revise your will if a birth, divorce, death, or another change affects your personal situation. For example, you may wish to add a grandchild's name or remove a former spouse's name. Contact your attorney to update your will.

Your emergency fund

Certain situations call for boosting your emergency reserves, including the possibility of a layoff. Experts say you should have enough cash in your emergency fund to cover a minimum of three to six months of expenses. Keep the money in an easily accessible bank account or money market fund.

Retirement accounts

After leaving a job, you have a number of options such as continuing to leave your account balance in your employer's retirement plan if allowed by the plan's rules. Before you leave employment, contact your Plan to learn about your choices for your Plan account assets.

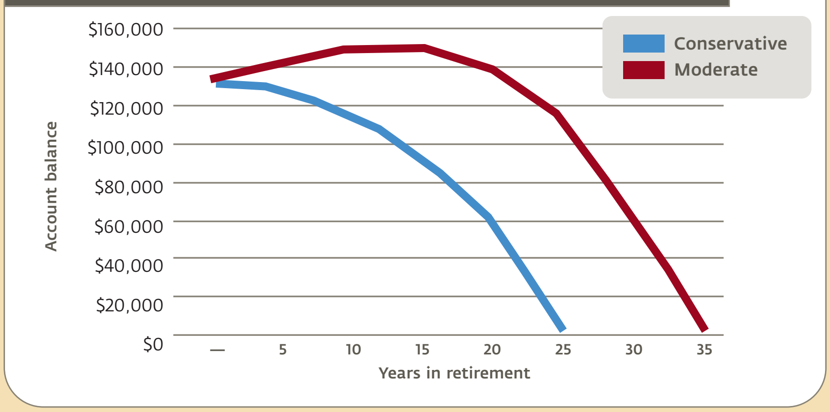
Conservative doesn't always mean safe

For your savings to last over a retirement of 25 years or longer, you will have to balance two competing goals: protecting your savings against market downturns and guarding against the long-term impact of inflation.

One way to achieve a balance is holding a mix of funds that invest in stocks, bonds, and cash. In general, it may be wise to hold money you'll need in the next several years in funds that hold bonds and cash equivalent investments so that a market decline won't threaten your ability to meet expenses. Bonds have lost ground during only seven calendar years since 1926. Cash didn't post a negative return during any calendar year in that time span.[1]

Stock funds are much more likely than bond or cash equivalent funds to provide the growth you need to support increased withdrawals in retirement. Stocks outpaced inflation during all 64 rolling 20-year periods between 1926 and 2008, while bonds trailed inflation 16 times and cash lagged inflation 20 times.[1]

A moderate portfolio with stock funds could last years longer



This chart illustrates how a moderate portfolio that includes stocks can help a nest egg last longer than a conservative portfolio of fixed income and cash equivalent investments only. Both investors withdraw 4% at the end of the first year and increase the withdrawal amount by 4% each year. As you can see, the moderate investor's savings, generating 6% annual returns, last 34 years, nine years longer than the conservative investor's savings, with 4% annual returns. This hypothetical example includes assumptions and is for illustrative purposes only. It doesn't reflect any specific investment and is not intended as a guarantee of past or future performance of any security. Systematic investing does not assure a profit and does not protect against loss in declining markets.

Your Plan's menu of investments includes options that make it easy to invest in stocks and bonds. You should carefully read and review all investment information, including investment objectives, strategies, performance, and expenses, prior to making investment decisions. You may want to consider consulting with an investment adviser about how various asset allocations might affect your long-term retirement finances.

Investment returns and principal value will fluctuate. It is possible to lose money by investing. Fixed income securities are subject to interest rate risk, and the net asset value of an investment may fall as interest rates rise.

[1] *Ibbotson SBBI 2009 Classic Yearbook*. Stocks represented by the S&P 500, bonds by the Ibbotson Intermediate-Term Government Bond Index and cash by 30-day Treasury Bills. Indexes are not available for purchase.

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

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Oahu/Honolulu

SHEILA FRIED
Maui / Big Island / Molokai / Lanai

PETER EDDY
Oahu / Kauai / Big Island

ALBERT LEE
Honolulu

MELODY TAKACS, PLAN MANAGER
Honolulu

ISLAND SAVINGS PLAN
it's all yours

New Lifecycle 2055 Fund Expands Plan's Lifecycle Funds Lineup

The New Fund Announcement

The Lifecycle 2055 Fund will be added on July 22, 2010, to the "Pre-Mixed" investment options offered through the Plan.

Designed for participants planning to retire in the year 2050 or later, the 2055 Fund primarily seeks appreciation in value with a minor investment in bonds for income. The fund invests primarily in four major asset classes: bonds, U.S. large cap stocks, U.S. small/mid cap stocks, and international (non-U.S.) stocks.

What is a Lifecycle Fund?

Lifecycle Funds are made up of a combination of the Plan's existing core investment options based on a target retirement date (i.e., a date when you plan to withdraw the money for retirement purposes). Lifecycle Funds offer you a more streamlined way to invest. You simply select the Fund closest to the year you expect to retire.

If the year you plan to retire falls between two Funds, selecting the Fund with the earlier date may provide you with a more conservative strategy, while choosing a Fund with the later date may offer a little more aggressive approach. Funds with dates furthest in the future tend to have a higher allocation of stock funds, resulting in the potential for higher returns while taking on a higher potential for risk. You can choose the Fund with an underlying portfolio that best fits your risk tolerance, time horizon, and investment goals, and targets your anticipated retirement date.

Like the other Lifecycle Funds, the 2055 Fund provides the broad diversification of core investment options in different asset classes. On an annual basis, the Fund's target allocation becomes more conservative. Closer to the target year 2055, the Fund will have a higher allocation of bond and cash funds and a smaller allocation of stock funds, becoming lower in risk with the potential for lower returns, to match the Income Fund. This is important because typically, the closer you are to retiring, the less risk you may want to take. Once the Fund reaches the target date year, your assets are transferred to the Income Fund whose focus is preserving wealth.

Lifecycle Funds make investing easier, but you should be realistic in your expectations. Like other investments, there is risk and the potential to lose value. They are subject to the risks of their underlying mix of investments. An investment in a Lifecycle Fund does not guarantee that you will receive a particular result, including on or after the target year. Although the Funds seek to meet different investment objectives, meeting these objectives is not guaranteed. Asset allocation, diversification, and rebalancing are investment strategies that aim to manage risk, but do not ensure a profit or protect against loss in declining markets. With the assistance of the Plan's consultant, Mercer Investment Consulting, rebalancing of the allocations within the Lifecycle Funds is reviewed annually to manage risks and maximize returns.

For the 2055 Fund and other Lifecycle Fund fact sheets, go to **https://islandsavings.ingplans.com** and click on *Plan Investments*, then *Fund Information* or call the Plan's Information Line at **(888) 712-5642**.

You should carefully read and review all investment information prior to making any investment decisions.

quarterly calendar

The New York Stock Exchange is closed:

- **Monday, September 6, 2010**

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

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

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

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