ISLAND SAVINGS PLAN
it's all yours
State of Hawaii Deferred Compensation Plan
FIRST QUARTER
2011
news

In this issue

Reminder

Daylight Saving Time (DST) began Sunday, March 13, 2011. Plan Participants have until 10 a.m. HST to complete online and telephone transactions that will go into effect the same business day. Transactions completed after 10 a.m. HST will be effective the next business day.

Important Fund Updates

EuroPacific Growth Fund allocations

The Plan is pleased to announce that sometime in April 2011, the Plan will be allocating 12b-1 fees back to participants who invested in the EuroPacific Growth Fund ("Fund") from 2003 to 2010. The amount of this allocation is approximately $1.144 million.

The reason for this allocation is that the Fund was required to pay two types of fees to participants who invested in the Fund; however, only one type of fee was paid to participants during this period of time.

ING will allocate the 12b-1 fees to participants' accounts in the Stable Value Fund. For those who do not currently have an investment in the Stable Value Fund, ING will open an account and deposit the 12b-1 fees in that Fund. Participants may then transfer those funds from the Stable Value Fund to any of the other investment options in the Plan.

For more detailed information, please read the special mailing that was sent to affected participants in April 2011.

MainStay Large Cap Growth Fund's expense ratio

MainStay Large Cap Growth Fund's ceiling or cap on expenses for its Class I shares has been recently increased from 0.85% to 0.88%. However, participants who invest in this investment option should not notice any effect since the Fund's current expenses are less than the new cap amount of 0.88%.

New covered call option in the Brokerage Window

The Brokerage Window or Self-Managed Account offers a new feature: you can now invest in covered calls. If you are interested in this option or want more information on this type of option, please contact TD Ameritrade. You will need to complete and submit the TD Ameritrade Options Upgrade Form (#ACS897-1) in order to participate.

Stable Value Fund

Effective April 1, 2011, the second quarter 2011 rate is **4.33%**.

On the watch list

Century Small/Mid Cap Growth Fund, Bernstein International Value Collective Trust, and Harbor Small Cap Value Fund. At its March 31, 2011 meeting, the Board voted to place the Harbor Small Cap Value Fund on the watch list due to the Fund's long-term underperformance in comparison to the Russell 2500 Value Benchmark.

Employees' Benefits Fair Will Be In Downtown Honolulu

Put your tax refund to work by investing for retirement in the Plan. Learn more about the advantages of Plan participation at the Employees' Benefits Fair.

At least once each year, the location of the Employees' Benefits Fair is held in different areas on Oahu for the convenience of State employees at various worksites. This year, the Fair will be held in Downtown Honolulu.

Date: Friday, May 27, 2011

Time: 9 a.m. – 3 p.m.

Location: State Capitol Building
Chamber level
415 South Beretania Street
Honolulu, HI 96813

Don't miss out on your "one-stop shop" opportunity to get helpful information about your investment options, the latest features on the Plan's website, the *Island Flex* (flexible spending accounts program), the HI 529 College Savings Program, and other employment benefits.

Plan consultants and various representatives from the Plan's investment options will be on hand to speak with participants about their investment options. Also, you can gather valuable information from representatives from the State ERS, health benefit providers, and other employment benefits plans.

2011 tax cut may help you boost retirement savings

You have extra cash in every paycheck because of a Social Security tax break for this year only. Beginning in January, withholding taxes from wages were reduced by 2% for all of 2011.

You are paying 4.2% instead of the standard 6.2% into Social Security on income below $106,800.

This offers a limited time opportunity to save more for your retirement. Simply consider deferring some or all of the 2% into your voluntary retirement plan, such as your 457(b) Plan account.

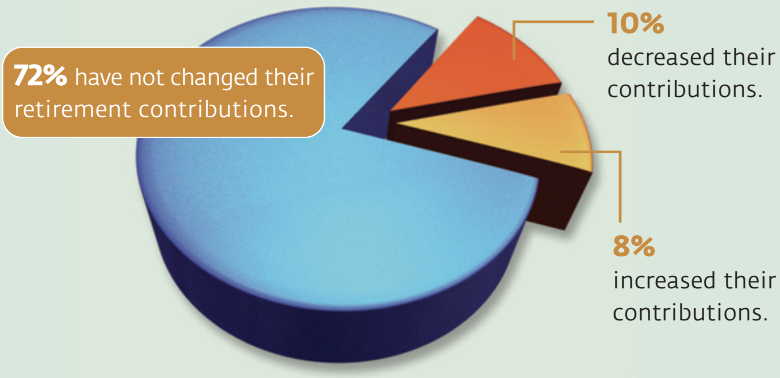
Remember, when you increase your Plan contributions, you may see little or no difference in your take home pay. That's because your contributions are tax deferred which means the amounts are not subject to current federal or state taxes. You only pay taxes on contributions and earnings in your Plan account when you begin withdrawals or distributions.

While the Social Security tax break is temporary, your decision to defer the 2% could make a long-lasting difference for your future. To increase your retirement plan contribution, go to the Plan website or call the Plan Information Line.

How do your retirement plan contributions stack up?

A recent study of state and local government employees' financial habits yielded some thought-provoking statistics.

41% of government employees expect to retire at a later age because of the financial market decline. They also expect the cost of living to increase — and yet:



Have you reviewed your contributions to your voluntary retirement plan lately? Are you sure that your current contribution rate will allow you to save enough money to retire? Take advantage of the tools and services available through your Plan for evaluating whether your current contribution rate will be enough to help you reach your retirement objectives.

*Statistics are from **Public Employees in Focus** published by the ING Retirement Research Institute in September 2010 based on a survey of 1,026 state and local government employees.*

Check your Plan account's fiscal fitness

Your Plan account needs routine check-ups for the same reason you need a physical exam: to make sure it stays healthy.

A fiscal check-up can tell you whether you're on track to meet your retirement objectives or need to make changes. Here are some basic guidelines to help you maintain your long-term financial well-being.

Quarterly Review your account statements to see how your investments are performing.

Annually Look at the amount you contribute from each paycheck into your employer's voluntary retirement plan and consider increasing it.

Review the investments in your account. If your portfolio is out of alignment with your investment strategy, you may want to rebalance to restore the target percentages you set originally. Generally, rebalancing involves selling one or more of your investments and using the proceeds to buy other investments in your portfolio. Rebalancing and asset allocation cannot assure or guarantee better investment performance or prevent loss in declining markets, but both can help manage risk as part of your investment strategy.

Regularly Take advantage of your Plan's educational opportunities, tools, and services.

retiree corner

Should I delay taking my first RMD?

While your personal finances are fresh on your mind as the tax season ends, it may be a good time to think ahead to a decision you might face in December.

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

Generally, you must take your RMDs no later than December 31 of each calendar year to avoid a 50% tax penalty. However, a special rule applies to your first RMD. You have the option of delaying your first distribution until April 1 following the year in which you reach age 70½ or retire, whichever is later.

You might prefer to wait if you expect to be in a lower tax bracket in the following year. However, keep in mind that your second distribution must be made on or by December 31 of that same year.

Receiving your first and second RMDs in the same year may increase your taxable income for the year. So before you decide when to take your first RMD, consider consulting with your financial or tax adviser about your personal situation.

Tips to prevent online fraud

You can protect your confidential information and reduce the risk of potential financial harm due to identity theft by taking these precautions.

Anti-virus software

Anti-virus software scans and deletes viruses from your computer and incoming e-mail. After you purchase anti-virus software, keep it enabled to repair damage and receive updates automatically.

E-mail

Do not reply to e-mails from unknown or suspicious sources. Delete them immediately. Do not open attachments or links contained within e-mails from unknown sources.

Hackers use appealing subject lines and false addresses to entice you to open virus-laden e-mails and attachments. In reading an e-mail subject line, if it sounds too good to be true, do not open the e-mail or attachment.

Internet

Download information only from trustworthy websites. Complete virus scans of downloads before opening them. Use spyware detection to ensure that you do not become a victim of pop-ups that could obtain your user identification and password for your accounts.

If you have high-speed Internet access, use a firewall to prevent hackers from gaining unauthorized access to your computer. A firewall may be provided through your operating system or home networking software if you have a personal router.

If your computer becomes infected, you should log off the Internet and scan your computer with updated anti-virus software.

Aloha to Sheila Fried!

Sheila retired on April 1, 2011, after servicing Plan participants, especially on Maui and the Big Island, for the past six years. Mahalo, Sheila!

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

ISLAND SAVINGS PLAN
it's all yours

Important Beneficiary Reminder

Since 2003, when ING (formerly CitiStreet) became the Plan's new TPA, participants were asked to complete a new beneficiary designation form to ensure that beneficiary designations are up-to-date.

ING still shows a number of participants who have yet to complete a new beneficiary designation form. It is important to review your beneficiary designations periodically, especially if your personal or financial situations have changed because of a marriage, divorce, birth of a child or grandchild, or a death. Otherwise, in the absence of a new, updated form, payment of benefits upon your death will be made to the last known beneficiary designation that was on record with the Plan.

Do not assume that a divorce automatically nullifies your prior designation of your ex-spouse as your primary beneficiary on your Plan account. In a recent ruling by the Third Circuit Court of the State of Hawaii, Heckman v. Jorgensen-Weber, Civil No. 10-1-0071, it was determined that there was no statutory authority or case law that invalidates the beneficiary of a spouse on a deferred compensation plan account who subsequently becomes an ex-spouse (i.e., divorce does not terminate the beneficiary designation of an ex-spouse). Under the Plan's administrative rules adopted pursuant to HRS chapter 88E, the Plan cannot pay benefits to anyone other than the beneficiary designated on the Participation Agreement. Thus, it is the participant's responsibility to change the designated beneficiary if the participant wishes to change beneficiaries. If a beneficiary has not been designated, the participant's estate becomes the beneficiary.

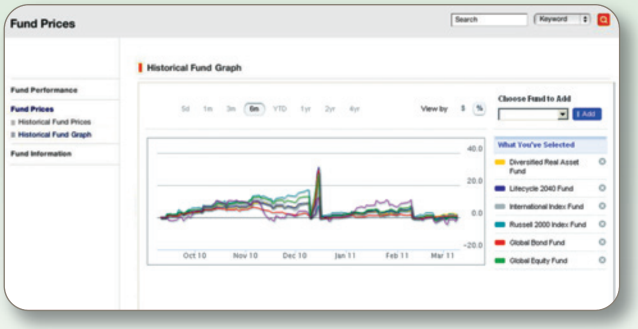
So make sure to update your beneficiary information periodically, especially when there is a change in circumstances in your life and you want someone else to receive your Plan assets upon your death.

You may change your beneficiary as often as you wish. You can go online to **https://islandsavings.ingplans.com**, login to your account, and go to *Personal Information*. Or call the Plan's Information Line at **(888) 71-ALOHA**.

Plan Website Offers New Tools

The Plan website has been upgraded with new features which became available as of March 28, 2011, to help you chart your progress toward your retirement objectives.

Some of the new features include the addition of graphs for several applications which is intended to help you view and chart the changes within your Plan account such as a Historical Fund Graph that compares historical pricing at the fund level (as shown) and an Account Value chart that compares balances and asset allocations between two points in time. A new online Investment Advisor evaluation has been added to help you determine whether you have enough to retire.



The new tools provide a picture of your account and the Plan investment options that makes planning for your retirement even easier.

For a look at the Historical Fund Graph, log on to your Account and go to **Fund Prices** under **Plan Investments**, to view the historical performance of the Plan's investment options and compare them over time. For the Account Value chart, go to **My Account** and under **Balances**, you can compare your balances and investment options for the time period of your choice by inserting two dates.

quarterly calendar

The New York Stock Exchange is closed:

- **Monday, May 30, 2011**
- **Monday, July 4, 2011**

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

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

SKU#HI1Q11