



ISLAND SAVINGS PLAN



State of Hawaii Deferred Compensation Plan

QUARTERLY NEWSLETTER JUNE 2007

INVESTMENT FUNDS AND OTHER UPDATES

The Board of Trustees, along with its consultant, Mercer Investment Consulting ("Mercer"), is currently conducting a search through an open competitive bidding process to obtain an acceptable replacement for the Fidelity Growth & Income Fund and a second international equity fund. At this time, it is anticipated that the new investment funds will be available to participants in December 2007. In addition, the Board plans to offer investment advisory services at the same time (or shortly thereafter) the new investment funds are offered. More information and updates will be provided in the upcoming months.

MERCER INVESTMENT CONSULTING RETAINED

After an extensive search, Mercer has been re-selected to provide investment consulting services to the Board of Trustees (Board). Mercer is a recognized leader in the investment consulting industry and continues to provide investment consulting services to 2010. (Mercer has been advising the Board since 2002.)

ISLAND SAVINGS PLAN WEB SITE REDESIGN

In late August 2007, the Island Savings Plan Web site will have a fresh, new look. Your Plan's Web site is one of the best ways to help you invest wisely. Changes and updates are being made to the Web site to make it easier for you to manage your Plan investments, and also access additional investment resources. A three-panel User's Guide, provided with the 2nd quarter statements and available on the Web site or through the CitiStreet Honolulu office, has been created to help guide participants through the new changes. Here are some of the design and feature enhancements:

The new **page design** uses more of the screen, making information easier to view.



- The new **Log in Page** displays secure access, important Plan notices, and a link to your Plan's Information section, without logging in, so Plan rules and details are at your fingertips whenever you need them.
- A new **Message Board** automatically opens when you enter the site and the messages will be displayed on the Home Page.
- The new **Home Page** displays Plan summary information, message links, and a new **Market Watch** tool.
- Personal Performance** is accessible directly from "My Account."
- A new **Search** tool helps you find site information by topic or keyword. And a new **Site Map** links to all navigation options within the site.
- There are various educational and planning tools for you to discover in the new **Resource Center**, including access to calculators, personalized online education through "My Learning Center" with articles, audio (MP3) files and streaming videos, quarterly news, and a new "Featured Content" section.

Visit the Island Savings Plan's Web site this August and make the connections between managing your account, learning more about your benefit, and staying informed.

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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 Square Parking Garage
(entrance on Alakea Street)

Information Line
1-888-71-ALOHA
(1-888-712-5642)

Plan Web site
<https://islandsavings.csplans.com>

State Web site
<http://state.hi.us>

Sheila Fried
Maui
Big Island
Molokai
Lanai

Jeanne Kanai
Honolulu

Peter Eddy
Oahu
Kauai
Big Island

Melody Takacs, Plan Manager
Honolulu



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NEW POST-SEPARATION VACATION PAY DEFERRAL PROGRAM

The ability to defer final vacation pay received **after** separation from employment is back! The Internal Revenue Service ("IRS") is once again allowing the deferral of vacation pay an employee receives after separation from employment, provided the payout and deferral of the vacation pay is completed within 2-½ months from the employee's last date of employment. In response to the IRS' ruling, the Board voted to make such post-separation deferrals available in the Island Savings Plan. With that, the State has implemented a Post-Separation Vacation Pay Deferral Program and each of the other State jurisdictions and neighbor island counties will soon be implementing similar programs. Previously, the only option available to employees who wanted to defer their vacation pay to their Island Savings Plan was to request a partial payout of their vacation pay **prior to** separation from employment (also known as the Early Vacation Payout Program).

If you will be retiring, resigning, or terminating employment, have some pay for your unused vacation coming to you, and want to save in taxes on that pay while at the same time giving your retirement savings a boost, participating in the Vacation Pay Deferral Program may be right for you! For more information and forms, contact your Personnel Office or speak with a Plan Consultant at the CitiStreet Honolulu Office by calling 1-888-712-5642 and pressing option 2.

LIFECYCLE FUNDS: MAKING YOUR INVESTMENT DECISIONS EASIER

For some, having to choose the "right" investment can be overwhelming, confusing, and time-consuming. Fortunately, the Lifecycle Funds in the Island Savings Plan make it easy and convenient to save for retirement.

These "Pre-Mixed" investment options are made up of a combination of the Plan's existing core investment options based on a target retirement date, or a date when you plan to withdraw money for retirement purposes. Simply choose the fund with an underlying portfolio that best fits your risk tolerance, time horizon, and investment goals, and targets your anticipated retirement date. The "Pre-Mixed" options offer you a more streamlined way to invest. Keep in mind, once you are more comfortable with investing, you can always add any of the Plan's individual investment options and build a diversified portfolio. Fund fact sheets for the Lifecycle Funds are available on the Plan Web site or may be obtained by calling a Plan Consultant at CitiStreet's Honolulu office.

If you're looking for an effective yet hands-off approach to investing, take advantage of the Lifecycle Funds. Simply call a Plan Consultant or visit the Plan Web site to reallocate your balances or to change ongoing contributions.

You should read all fund literature available before investing.



STABLE VALUE FUND RATE!

Effective July 1, 2007, the third quarter rate for the Stable Value Fund is 5.00%.

2007 BENEFITS FAIRS

More Employees' Benefits Fairs to come in 2007—on Kauai and Oahu. Watch for more information.

LOCAL OFFICE NEWS

Plan Consultant Clifford Shinchi left CitiStreet at the end of May 2007 and has accepted a position with the State. Congratulations Clifford!

MAKE YOUR MONEY WORK FOR YOU

Bargaining Unit employees statewide will be receiving pay increases effective July 1, 2007 as a result of recent contract negotiations. For many lagged employees, pay increases are projected to be paid on the July 20, 2007 pay date. Other employees are scheduled to receive their pay increases on subsequent pay dates.

Receiving a pay increase provides a great opportunity to increase your Island Savings Plan contribution amount without feeling a pinch in the pocketbook, while putting more of your money to work for you. If, for example, your salary increase raises your take-home pay \$50 per month, consider investing \$20 of that amount per month in your Plan account. Not only are you still taking home more money now than last month (\$30), you are also investing the money for your future, so that it will be there when you need it. Even a small increase can make a big difference in your future!

To increase your contributions to the Plan, call 1-888-71-ALOHA (1-888-712-5642) or visit <https://islandsavings.csplans.com>. If you'd like to see exactly how a contribution increase would affect your take-home pay, go to the Resource Center on the Plan Web site and access the online calculators.

QUARTERLY CALENDAR

The New York Stock Exchange will be closed on Monday, September 3, 2007. Transactions completed on this day will be processed the following business day.

This newsletter is intended for Island Savings Plan participants and should not be construed as investment, legal, or tax advice. For investment advice, consult a financial, legal, or tax professional.

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