

Holomua



Employees' Retirement System
of the State of Hawaii
Working to fulfill your retirement dreams...



Active Members

September 2011

How do recent global market events affect my ERS benefits?

As a large public retirement system, the ERS is a significant participant in the global investment markets. As retirees and beneficiaries of the ERS, you may have questions about the impact of these investment markets on the ERS. These frequently asked questions and answers below may help you better understand the impact of recent market movements on the ERS investments.

- Q:** The stock market reacted strongly to the announcement of the U.S. sovereign debt downgrade and the debt problems in Europe. How does this impact my retirement benefits?
- A:** Your retirement benefits will remain unchanged despite the market reaction. The ERS manages a fully diversified investment portfolio that includes public equities, fixed income, real estate, private equity, timber and, in the near future, global inflation-linked bonds and covered calls. For this reason, the ERS portfolio will generally experience less volatility than the U.S. stock market.
- Q:** The investment markets seem risky. Can I change the investment asset allocation within my ERS account?
- A:** The ERS is a defined benefit plan that pays benefits according to established benefit guidelines. ERS members do not have individual investment portfolios with the ERS. Rather, the entire ERS portfolio is managed as one portfolio with investment asset allocations evaluated by ERS investment staff and its consultants, and approved by the Board of Trustees.
- Q:** Are my retirement benefits in jeopardy because of the recent decline in the equity markets?
- A:** Your retirement benefits are intact. ERS retirement benefits are earned primarily by a formula based on service credits and final salaries. These benefits will continue to be paid to you or your beneficiaries regardless of the behavior of investment markets.
- Q:** What changes should I make to my personal investment portfolio? Should I allocate it to the asset classes in the same percentage as the ERS portfolio?
- A:** Each member's personal investment portfolio, including 457 deferred compensation plans, has unique return and risk characteristics depending on one's perception of the market, personal circumstances, and financial objectives. These factors are different from the factors considered by the ERS in structuring the plan's asset class weightings. Investors should position their investment portfolios based on factors to include (but not limited to) their expected return requirements, risk tolerance, and liquidity needs. Unfortunately, the ERS cannot advise you on the optimal asset allocation plan for your personal investments.

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Q: What was the value of the ERS portfolio on June 30, 2011 and what was the annual return?

A: The portfolio market value was \$11.6 billion and the annual return over the one-year fiscal period was 20.7%.

Q: Gold prices have skyrocketed in recent months yet the ERS does not invest in gold. Why not?

A: On the one hand, gold can be used as a hedge against downward trending investment markets if timed correctly. Some investors even use gold for appreciation purposes, which may work over shorter periods of time. On the other hand, the value of gold has not appreciated as much as a diversified portfolio of stocks over long time periods (e.g., 20 years). Since the ERS is a long-term strategic investor and does not attempt to time the markets, gold is not an appropriate investment for either hedging or appreciation purposes within the ERS portfolio.

Wes' Corner



I wish everyone the best as we are almost midway through the 2012 fiscal year. I am happy to report on a few activities that are being planned for rollout later this fiscal year. We will be implementing a secured site for you to obtain information on your credited years of service, contributions, and interest earned (for those in the Contributory and Hybrid Plans) as of a particular point in time. More information will be coming your way as we get closer to the implementation date.

Our plans are also to include an Employees' Retirement System (ERS) Facebook or Twitter account, so that you can get current information from us on proposed legislation affecting the ERS. I am sure that there will be many important proposals affecting the ERS, similar to those introduced during the 2010 legislative session. We want to provide you with timely proposals that may impact you.

Along with improving customer service, our focus continues to be on improving our funded status to ensure the long-term viability of the ERS. As reported by our Chief Investment Officer Rod June, although we had a double-digit return last fiscal year, we shouldn't be overly excited or optimistic about a similar outcome for the 2012 fiscal year. In fact, most of you probably know that the investment markets were extremely volatile in the first two months of this fiscal year. Even with the good year that we experienced, our funded status is not anticipated to improve because of the carryover losses from the 2008 and 2009 fiscal years that will continue for another year or two. We will continue to take and report on the necessary prudent steps that will ensure that monies will be there to pay your promised benefits.

Aloha,
Wesley Machida, Administrator

Report from Rod June, Chief Investment Officer

THE MARKETS AND THE ERS INVESTMENT PORTFOLIO

For the fiscal year that ended on June 30, 2011, the ERS investment portfolio grew by 20.7%. It was the second straight year of positive double-digit performance following declines in 2008 and 2009. Looking back to the past twelve fiscal year periods since 2000, the ERS portfolio had eight positive years, with six of those positive years having double-digit returns. The portfolio's average growth was 5.4% over the period, and the portfolio was valued as low as \$7.8 billion in 2003 and as high as \$11.6 billion this year.

How can we make sense of this performance? Importantly, we need to have a long-run perspective. While we report quarterly returns and internally monitor daily performance, overreacting to a few quarters or even a couple of years of disappointing returns is not in the best interests of our fund beneficiaries, who will rely on their benefits to be around decades from now. In the recent past, the collapse of the technology and housing bubbles loom large in our memories of 2001 and 2008. However, since the early 1970s, financial crises have been on the rise, and overreacting to any single event would have meant missing the long-term bull market trend.

Additionally, performance is a reflection of strategic planning to gain diversified market exposures over time. In other words, the ERS holds a mix of stocks, bonds, and other assets (e.g., real estate) designed to benefit from unpredictable market trends exhibiting greater degrees of volatility. As such, we cannot become overly excited about a 20.7% return in 2011, or overly pessimistic about a -17.5% return in 2008. We need to stick to a well-designed plan, and work very hard to execute that plan; the ERS has done just that.

So performance - positive or negative - must be interpreted within a context. The very recent years of strong portfolio returns were complementary (and beneficial) to excessively pessimistic markets of 2008. The summer of 2011 has also provided unforeseeable short-term market stress. Near-term performance results will eventually reflect this negativity, but in the larger context, these market fluctuations will neither have a lasting adverse impact on the growth of the investment portfolio nor hinder the ability of the ERS to execute a forward-looking strategy in the long run.

Who you gonna call? ERS Myth busters

The ERS has three retirement plans – Contributory, Noncontributory, and Hybrid— which contributes to some misunderstandings among our membership. We hope this clarifies some of the myths.

Myths	Myth busters
1) As a Hybrid Plan member, you must work 5 years in the Hybrid Plan to be vested.	No. Your Hybrid Plan total service may include both Hybrid and Noncontributory service. You could work 3 years in the Hybrid plan and have 2 years on the Noncontributory plan for a total service of 5 years.
2) If you file your application for a specific date and subsequently change your retirement date, it counts as 2 applications.	No. The life of the application is 150 days from the end of the date you file your application and you can make changes to your retirement date during to the 150-day period. You are allowed to file 3 retirement applications and must retire on the 3rd application.
3) As a Noncontributory Plan member, I do not get a pension since retirement contributions are not deducted from my salary.	You will receive a pension at 1.25% for each year of service provided you are vested with 10 years of Noncontributory service.
4) I'm a Noncontributory Plan member with the understanding that Option C – the 10 Year Guarantee stops after 10 years.	No. If you selected Option C, a pension is paid to you for your lifetime. Should you pass way before 10 years of retirement, your beneficiary will receive a monthly pension plus an annual post retirement increase for the remainder of the 10 year period.
5) I will get paid for unused sick leave similar to the vacation payout after my retirement.	No. There is no payout for unused sick leave. However, if you retire with a minimum balance of 60 unused sick leave days and leave in “good standing,” you will receive 3 months of additional service credit (20 days = 1 month). Service credit provided by unused sick leave cannot be used to meet eligibility requirements
6) Upon retirement, the ERS pays your vacation payment.	No. Your department processes your vacation payment.
7) Do we receive service credit for professional improvement leaves without pay?	Yes. If you are a Hybrid or Contributory member, you must purchase this service. The Noncontributory member will receive credit for this service at no cost.
8) Since I am vested with the ERS and eligible for retirement, I should be able to receive my medical coverage at no cost.	Not necessarily true as the medical premium coverage requirements are determined by the EUTF; not by the ERS.

If you would like further explanation, please call our offices at the phone numbers listed on the last page.

Mahalo to trustee Alton T. Kuiuoka

We would like to take this opportunity to thank trustee Alton T. Kuiuoka for his more than six years of service on the ERS board. During his tenure—from April 2005 until August 2011—the ERS’ assets grew from \$9.2 billion to \$11.6 billion, with positive investment returns for seven years. ERS membership increased from 101,312 to 112,287 and the number of pensioners grew from 31,344 to 39,180, with the average pension increasing from \$1,663 to \$1,906. During Mr. Kuiuoka’s years of service the Hybrid Plan was implemented and more than 27,000 members switched to receive a better pension benefit; the “Pop Up” feature to the joint and survivor retirement option was implemented to allow retirees to get a higher pension; and the funding methodology changed to allow for a more consistent and steady stream of employer contributions to better fund the ERS. While serving as an ERS trustee, Mr. Kuiuoka also served as Vice Chairman and Director of Bank of Hawaii. We offer our sincere mahalo and appreciation to Mr. Kuiuoka for his years of service.



Darwin Hamamoto

Former ERS trustee, receives his commendation at our July 2011 Board meeting with the help of Trustee Pili Aloha Lee Loy. Mr. Hamamoto served as a trustee from January 3, 1994 until his retirement from the City and County of Honolulu on December 31, 2009.

Important information about Hybrid refunds

The ERS has received many rush requests for refunds from Hybrid members who terminate, or anticipate termination, from employment with the State or Counties. However, when members are made aware of the consequences of their applying for a refund, they often reconsider.

Contributions and interest. Your retirement contributions are deducted from your salary on a pre-tax basis. Upon receiving a refund of your Hybrid contributions, the total amount (including interest) will be taxable for Federal tax purposes and the ERS is required to withhold a minimum of 20% for non-rollover payments.

Vested vs. non-vested. A vested member of the ERS is one who is eligible for a future retirement benefit. After vesting, you may be active or terminated and still be eligible for a benefit as long as your contributions remain in the ERS. Under ERS statutes, if you neither receive a refund, nor return to service after termination, you will either receive a retirement benefit upon eligibility or a refund at age 62 (whichever is applicable).

Refunds and forfeiture. If you are a vested member, your refund will consist of your total contributions, interest, and an additional amount based on a percentage of your refund. Although this “bonus” may initially seem beneficial, by refunding your contributions, you will forfeit all of your service credit and all future retirement benefits based on those refunded years of service. The same forfeiture holds true for non-vested members; however, non-vested member refunds will consist of only the total contributions and interest in their account (without the additional percentage).

Refund process. Please review the following ideal timeline of refund processing:

1 to 2 weeks after termination

- Member receives a personnel action form from the employer indicating the close of business (COB) date
- Member requests refund information from the ERS

3 to 4 weeks after termination

- ERS provides member with retirement account balance and information on vested/non-vested status
- Member submits a refund application with confirmation of refund election ERS confirms member's termination and COB date with employer notification and confirms most recent contributions received

10 to 12 weeks after the last regular pay is received

- Refund processed
- Should late contributions (based on pay after termination) be received, a “Refund after Refund” including accrued interest will be processed to the member

January of the year following disbursement

- ERS provides member with tax form 1099-R
- Please keep the ERS informed of any changes in contact information

A refund election need not be made immediately after termination from employment. As each member's status at termination is different, and since there are many variables to consider, it's best to have the ERS provide you with individual assistance so you can make a decision based on your personal situation.

Vincent Barfield joins ERS Board of Trustees

We are pleased to welcome Mr. Vincent E. Barfield, Senior Executive Vice President of Bank of Hawaii, as a new ERS trustee. Mr. Barfield was appointed by Governor Neil Abercrombie and took the oath of office on August 11, 2011. At the ERS board's August 16 meeting, he was elected to the Audit and Investment committees. In his position at Bank of Hawaii, Mr. Barfield oversees the bank's Wealth and Management Investment Services. He holds a Bachelor of Arts degree and a Masters degree in Business Administration from the University of Hawaii at Manoa and is currently enrolled in the Executive Program of the Stanford Graduate School of Business. Mr. Barfield served in the U.S. Navy Reserve, retiring with 20 years of service. He currently serves as a board member of the East West Center Foundation and USS Missouri Memorial Association and as a member of the Military Affairs Council and Navy League. He is chairman-elect of the Association of Military Banks of America.

New for Contributory Plan members – online access to account balances and years of service

Before the end of the 2011 calendar year, the ERS is planning to make available to Contributory Plan members their account balance (employee contributions and interest) and years of service information via their computers. Contributory Plan members will receive their log-in information and instructions by mail sometime in November or December of 2011 that will enable them to access their information online. This information will be updated periodically. For now, this self-service will be limited to the account balance and years of service information only. Hybrid and Noncontributory Plan members will be notified at a yet to be determined date about when they will be able to use this self-service program. We want to ensure that the proper security measures and support are in place before the program is rolled out to all members. We ask for your patience and understanding as we roll out this important program.

Hawai'i Employer – Union Health Benefits Trust Fund (EUTF). News from the EUTF – about Medicare for our retirees which is being shared to the active membership for when you retire. The EUTF is a separate organization from the ERS, however, we have been asked to help inform members and beneficiaries by including their information in our newsletter. If you have any questions about the EUTF or Medicare, please contact EUTF directly or visit their website at “www.eutf.hawaii.gov.”

Aloha,

Most state and county retirees are covered by Medicare and, as such, the EUTF would like to provide you information that we feel will be informative and helpful.

Q1. What is Medicare?

A1. Medicare is a federal benefits program for people 65 or older and certain people under 65 with certain disabilities, including end-stage renal disease. Medicare has 4 different parts: Medicare Part A (hospital insurance), Part B (medical insurance), Part C (the Medicare Advantage plan), and Part D (prescription drug coverage).

Part A is hospital insurance that helps cover inpatient care in hospitals, skilled nursing facilities, hospice, and home health care. Most people don't pay for Part A premium because they paid Medicare taxes while working.

Part B helps cover medically-necessary services like doctors' services, outpatient care, home health services. If you have Part B, you pay a Part B premium each month.

Part C is a Medicare Advantage Plan that is another Medicare health plan choice. These plans are offered by private companies approved by Medicare.

Part D is drug coverage run by an insurance company or other private companies approved by Medicare. If you enroll in a non-EUTF Part D plan, you may pay a monthly premium.

For additional information on Medicare, contact the Medicare Office at 1-800-MEDICARE.

Q2. If I am a state or county retiree (or a spouse or domestic partner) and am eligible for Medicare Part B, am I required to enroll in Part B to keep my State retiree health plans?

A2. Yes.

Q3. What will happen if my spouse, domestic partner, or I fail to enroll in Medicare Part B when eligible?

A3. EUTF Administrative Rule 5.04 States “when the retiree fails to enroll in Medicare Part B, the enrollment for the retiree and family will be cancelled from all benefit plans offered or sponsored by the EUTF.” If the spouse fails to enroll, then only the spouse will be cancelled from all benefit plans offered by the EUTF. If your spouse wants to continue coverage under your retiree plan, your spouse is required to enroll in Medicare Part B even though she is still working. Enrollment in Medicare Part B is required to be eligible for coverage under the EUTF retiree plans.

Q4. Does the State/EUTF reimburse me for my Medicare Part B premium?

A4. Yes, the State/EUTF will reimburse you and your spouse (or your domestic partner) for your Medicare Part B premiums. The EUTF must receive the following documents from you to begin the Part B reimbursement: 1) a copy of your Medicare card, 2) a completed Direct Deposit Agreement Form along with a voided check, and 3) a copy of the letter you receive from the Social Security Administration informing you what your monthly Medicare Part B premium will cost.

Q5. How often will I get my Medicare Part B premium reimbursement?

A5. The Part B reimbursement is deposited into your financial institution quarterly – at the end of each calendar quarter or the first or second day of the following month. For example, for the quarter January, February, and March, your reimbursement should be deposited into your financial institution on March 31, April 1 or April 2.

Q5. Can my spouse or domestic partner's quarterly reimbursement be deposited into a checking or savings account that's different than my checking or savings account on file?

A5. No.

Q6. If I turn 65 and forget to give EUTF a copy of my Medicare card for several months after my 65th birthday, will the Part B reimbursement be retroactive to my 65th birthday?

A6. No. The EUTF will begin your Medicare Part B reimbursement starting from the date EUTF receives a copy of your Medicare Card – reimbursements are not retroactive. For example, if you turn 65 in June 2011 and your Medicare Part B is effective starting June 2011, but you do not give EUTF a copy of your Medicare card until November 2011, your reimbursement will start from November 2011, not retroactive to June 2011.

Q7. I currently pay \$115.40 per month for my Medicare Part B and get reimbursed \$346.20 each quarter from EUTF. If the Part B premium is increased on January 1, 2012, will EUTF increase my reimbursement?

A7. Yes. However, you MUST give EUTF a copy of the letter you get from the Social Security Administration informing you of the new increased Part B monthly premium.

Q8. How does the Medicare medical benefit affect my EUTF retiree medical benefit?

A8. Claims are submitted to both your EUTF retiree plan and Medicare. Medicare pays their benefit first. Then your EUTF plan calculates the total benefits payable, subtracts the Medicare payment, and pays the balance.



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Active Members

September 2011

Ask ERS

Answers to some frequently asked questions:

Q: In the event of a “financial hardship” situation, is it possible to borrow from my retirement account where mandatory salary deductions are made for retirement?

A: No. The law does not allow any borrowing of your retirement contributions. You may withdraw your retirement contributions and interest if you terminate your employment or retire by selecting a refund option.

Q: I am considering retiring within the next six months. How do I sign up for your pre-retirement informational sessions?

A: For Oahu, the pre-retirement information sessions are coordinated with your department, not the ERS. The ERS staff is scheduled by your department to conduct the briefings. For the neighbor islands, our island representatives conduct pre-retirement sessions annually. You may visit our website for each island's schedule and registration form.

Q: Does the ERS also provide information on the deferred compensation plans (Island Savings, ING, etc)?

A: No. The ERS only administers the pension plan. You must call the deferred compensation plans directly.

How to Contact Us

Monday-Friday 7:45 a.m. - 4:30 p.m.
(except State holidays)

Oahu Office, Phone: (808) 586-1735

Kauai Office, Phone: (808) 274-3010

Hawaii Office, Phone: (808) 974-4077

Maui Office, Phone: (808) 984-8181

Molokai & Lanai, toll free to Oahu:
1-800-468-4644, ext 61735

Continental U.S. toll free to Oahu:
1-888-659-0708