



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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Chief Investment
Officer

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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.

On-line, Networking and Surfing

You may have noticed that our Holomua newsletter always includes our mailing address, phone numbers and our website address. Although we are aware that many of our members would prefer to request and receive information by correspondence or by phone, the ERS is currently updating our website to provide more current and relevant information for our retirees. This internet access may require a computer, smart phone, tablet or other internet capable devices, but as more of our membership becomes familiar and comfortable with technology, we hope to provide you with better service by keeping you informed about your benefits through our website.

Currently, you may download copies of Federal Tax Withholding forms to change your tax withholding, Address Change forms to update your mailing address and Direct Deposit Agreement forms to change your direct deposit institution and account. We also have links to State and County sites that you may access on line. Future website plans are to include limited on-line access to your pension data, current legislative updates and additional informational links that, as a retiree, you may find helpful and informative.

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.

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'alo'ha 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.

Will your family receive death benefits? Maybe . . . or maybe not

“My uncle has just passed away and the family wants to know what needs to be done and whether my aunt will receive any of his pension. Let me know.”

Here is an all too common inquiry that the ERS receives since an average of 90 retirees pass away every month.

We have noticed there is a misunderstanding about all survivors whether it's a spouse or family expecting to receive pension when a retiree passes away. Unfortunately, this is not always true. It depends on the option the retiree selected. To avoid confusion about death benefits, this may be a good time to talk to your family about the option you selected and whether death benefits are available to them. Also, only the designated beneficiary will be provided this information regardless if other family members are helping and want to know.

Here is some information that you can pass on to your family now so they know what to do when the time comes:

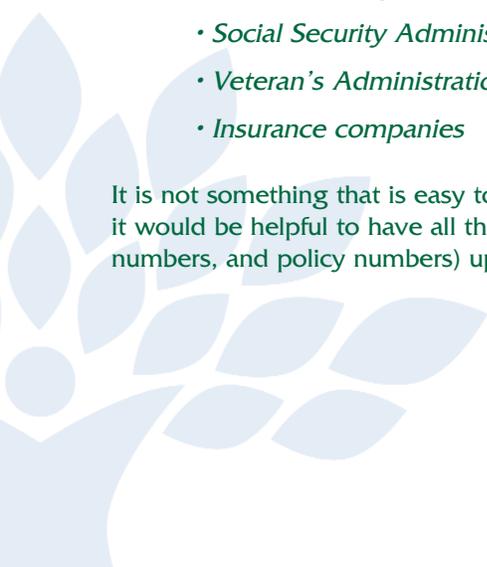
Steps

- 1 Notification of Death** - *Notify the ERS of the death by telephone at (808) 586-1735 or mail. Please be prepared to provide the following:*
 - *Name and Social Security number of the deceased*
 - *Date of death*
 - *Name, address, and phone number of surviving spouse, next of kin, or contact person.*
- 2 Information to Beneficiary** – *ERS will send the beneficiary a letter explaining the death benefits available as well as the required forms to complete.*
- 3 File Claim** - *The beneficiary must file the claim after receiving the letter that will include the death claim form, tax forms, direct deposit form, and death certificate. Any payment to estates will require other forms. The beneficiary has three years to file for death benefits.*
- 4 Payment** - *Death payments, if any, are generally processed within 4-6 weeks after the death claim and all required forms have been received.*

You may also want to inform your family that some of the other agencies and organizations that should be contacted include, and not limited to, the following:

- *Hawaii Employer Union Trust Fund (EUTF) at (808) 586-7390 - Surviving spouse and dependent children may be entitled for family health coverage and life insurance benefits*
- *Employee Organizations – Possible life insurance benefits*
- *Banking Institutions or Credit Unions*
- *Deferred Compensation Plans and/or Tax Shelter Annuities*
- *Social Security Administration at 1-800-772-1213 – Survivor benefits*
- *Veteran's Administration at 1-800-827-1000*
- *Insurance companies*

It is not something that is easy to think about, but you just never know when the time will come. So as an ERS retiree, it would be helpful to have all the pertinent information for the organizations/ institutions (i.e.: names, addresses, account numbers, and policy numbers) updated now to make it easier for your family and/or beneficiaries.



Hawai'i Employer – Union Health Benefits Trust Fund (EUTF). News from the EUTF – about Medicare for our retirees. The EUTF is a separate organization from 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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Retirees

September 2011

Ask ERS

Answers to some frequently asked questions:

- Q:** I am going to change financial institutions. When do I close my old bank account?
- A:** You may close your old bank account after your pension payment has been deposited into your new account. If you close your account too early and a payment is transmitted to your old account, the funds will be returned to the ERS and payment will be reissued. This will delay your ability to access the funds.
- Q:** My spouse just passed away in September 2011. Do I need to return the September pension payment?
- A:** No. The family of the retiree is entitled to keep the pension in the month of death (September 2011). All other pension payments after that month must be returned to the ERS. The retiree death should be reported to our office at (808) 586-1735.
- Q:** Can a retiree's bank account be changed with the Power of Attorney (POA)?
- A:** Yes. The ERS will make a copy of the original POA for our records. This copy will be attached to the direct deposit form that should reflect the retiree's name and social security number, not the attorney-in-fact's.

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