

Holomua



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



Employees' Retirement System Fund Bounces Back

The ERS investment portfolio gained 4.7 percent in the first quarter of fiscal year 2013. This positive return for the period July 1, 2012 to September 30, 2012 resulted in the ERS fund's assets totaling \$11.7 billion. This total brings the ERS back to where it was prior to the 2008 housing and fiscal crisis.

As presented in the November 14, 2012 Star-Advertiser, the table below indicates the ERS pension fund fluctuations during the last 10 years:

TRACKING THE MONEY

The State Employees' Retirement System pension fund rose in the first quarter of fiscal 2013.

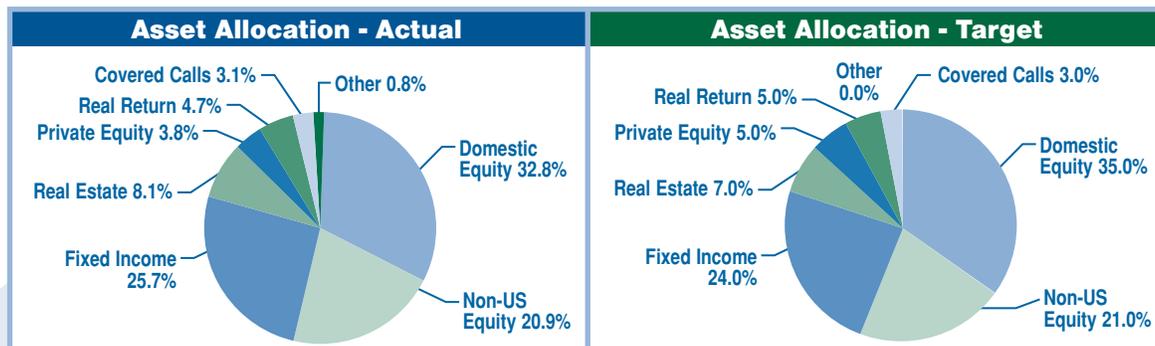
FISCAL YEAR*	GAIN/LOSS	TOTAL ASSETS	FISCAL YEAR*	GAIN/LOSS	TOTAL ASSETS
2013 1Q**	+4.7%	\$11.7B	2007	+17.7%	\$11.5B
2012	-0.5%	\$11.3B	2006	+11.1%	\$9.9B
2011	+20.7%	\$11.6B	2005	+11.3%	\$9.2B
2010	+11.7%	\$9.8B	2004	+15.8%	\$8.6B
2009	-18.7%	\$8.8B	2003	+3.0%	\$7.7B
2008	-3.4%	\$10.8B	2002	-5.5%	\$7.9B

*Fiscal year is from July 1 to June 30 **Quarter ended Sept. 30, 2012 B = billions

Climbing back from the lows of 2009 and 2010 has been slow and arduous, and predicting future gains or losses of the fund is extremely difficult. ERS invests in both domestic and global equities. When both investments do well, the ERS fund does well. International equities rose 7.5 percent during this last quarter and US equities did almost as well at 6.4 percent. In addition, total fixed income (which includes both domestic and international holdings) increased by 3.3 percent. The remaining investment asset classes serve to diversify sources or return and the portfolio risk profile. When investment returns are more volatile, these asset classes help stabilize potential drawdowns.

The chart below indicates the current asset allocation of the ERS fund:

Asset Allocation as of June 30, 2012 State of Hawaii Employees' Retirement System



Although the last quarter's report is encouraging, success for the ERS is defined as achieving a consistent long-term return that is required in conjunction with actuarial defined contributions to fund the plan over the long term. Regardless of the gains indicated above, the ERS is still 40.6% unfunded and the ERS' unfunded liability of \$8.2 billion as of June 30, 2011, will continue to increase for the near future. ERS investment guidelines emphasize fiduciary responsibility regarding the portfolio and its purpose, rather than the performance of the plan.

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Wes' Corner

The end of 2012 is here and the start of 2013 is upon us. We are happy to report that the Board of Trustees appointed Vijoy Chattergy as our Chief Investment Officer. We are confident that he will do a good job for us, and I am looking forward to working with him to improve our funded status.



We are also glad to report that the online reporting, via the ERS website, of years of service and account balances for the Hybrid Plan members will be available at the end of January 2013. Also available for online access, will be the years of service for the Noncontributory Plan members. Finally, for Contributory Plan members, service credit totals and account balances will be updated and available January 31, 2013.

Although the ERS Unfunded Liability will likely increase when the 2012 Actuarial Valuation Report is completed, it is estimated that the increase will not be significant. Furthermore, we are hoping that the positive returns during the first half of the fiscal year 2013 will carry through to the entire fiscal year and help us to reduce the unfunded liability. As of October 2012, we were at or near \$11.8 billion, which is close to the highest asset value in the history of the ERS.

Our Actuary reported that there are 14,207 members eligible to retire as of the end of the fiscal year June 30, 2012. This represents approximately 22 percent of the total ERS members working in State or county positions. We will need the \$11.8 billion of ERS assets and more to grow in order to meet the pension payments as many of our members retire.

We wish you good health and happiness throughout the new year.

Take care and Aloha,
Wes Machida

Board of Trustees appoints Vijoy Paul Chattergy Chief Investment Officer

The Employees' Retirement System is pleased to announce that our Interim Chief Investment Officer, Vijoy Paul Chattergy, has been appointed as the Chief Investment Officer of the ERS effective November 1, 2012.

The CIO's primary role is to assist and advise the ERS Board with structuring the System's investment portfolio. The CIO provides leadership and direction to the ERS Investment Office and its staff in the productive and prudent investment of all trust funds. The CIO must advise the Board on performance benchmarks, risk characteristics and performance attribution analysis for the fund, asset classes and individual investment managers. In addition, the CIO implements long and short-term asset allocation strategic plans, develops programs to efficiently implement asset allocation decisions, including securities trading and cash management and develops and implements investment education and training programs for Board members and ERS staff.

As noted in our previous Holomua announcing his interim appointment, Mr. Chattergy brings to the CIO position more than sixteen years of investment experience, including extensive experience as an ERS investment specialist monitoring the ERS portfolio, all asset classes, and individual fund managers, with particular attention to performance and risk management. Mr. Chattergy – who grew up in Niu Valley and is a Punahou School graduate – served as an assistant project manager with the East-West Center and previously lived in Asia where he was a senior level analyst with SPARX International Limited, based in Hong Kong and Tokyo. Mr. Chattergy's financial industry career began at the Federal Reserve Bank of New York on the foreign exchange desk and he subsequently worked with Andrew Kalotay Associates and with the Bond Market Association. Mr. Chattergy holds an MBA from Cornell University and an MSc from the London School of Economics. He graduated Phi Beta Kappa and Cum Laude from the College of the Holy Cross.

The Board, staff and members look forward to a productive and secure future under Mr. Chattergy's professional and experienced tenure with the ERS.

Report from Vijoy Chattergy, Chief Investment Officer

Aloha Kakou. I'd like to start by expressing my sincere appreciation to the ERS Trustees and staff for the privilege and support of serving as the fourth Chief Investment Officer (CIO) in the history of the ERS. It is a significant time for the Investment Office because we face the dual challenges of providing continuity and stability for the investment program, while also undergoing relatively rapid change in staffing, procedures, and strategy. These internal developments will go on with a backdrop of macroeconomic uncertainties that are somewhat unprecedented, unpredictable, and consequential.

Facing these challenges, the Investment Office is focused on the importance of asset allocation, manager selection, performance measurement, and risk management. These tasks are critical for ensuring the success of the investment portfolio and the health of the ERS pension plan. I will address how we approach these tasks in future articles, but for now, let me share a few fundamental thoughts regarding decision-making, learning, and long-term thinking, which are keys to the effectiveness of a CIO.

Decision-making is both an art and a science.

Decision-making is both an art and a science. As CIO, I am asked to make numerous decisions during the day. Some are required because of the position. Some have material impact on portfolio performance. Effective, smart decision-making does not depend on making all the important decisions. In the future, as the office grows, important investment decisions will be made by competent professionals with specialized skills or superior information, even as oversight and accountability remains with the CIO.

Ongoing learning is expected in the investment management profession, given the evolving nature of markets and circumstances. We cannot rest on the knowledge of what worked in the past. The corollary to this is that we must develop the capacity to "unlearn" previous truths and experiences. Distinguishing what knowledge should be let go while not taking up with the latest passing trends is essential. An example of important unlearning of past wisdom is the demise of the traditional asset allocation of 60% stocks and 40% bonds. We have since learned the importance of alternative assets.

Long-term thinking is appropriate for a pension fund CIO. As I indicated in the previous Holomua article, being an investor is similar to being a parent who nurtures a child to adulthood, not knowing exactly how things will turn out. This extended perspective is not natural to the investment profession that obsesses over quarterly earnings. At the ERS, we report investment performance quarterly and annually. Meanwhile, we invest into perpetuity. Balancing the relative performance measures with the absolute return requirements are opposing objectives. While periodic evaluations help to clarify investment opportunities, it is the long-term health of the investment portfolio that always takes precedence.

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Finally, I am humbled by the opportunity to be your CIO. It is a serious responsibility that affects current and future generations of Hawaii's public servants and their beneficiaries. I look forward to two-way communication with members and for your continued support and understanding through the up and down financial markets we are most certain to face in the years ahead.



Your 2012 ERS tax information update

If you received benefits from the ERS during 2012, your 2012 Internal Revenue Service (IRS) Form 1099-R will be mailed to your home address by January 31, 2013. Reprint/duplicate Form 1099-R requests will be mailed from February 11, 2013 to allow time for mail delivery. If you have a professional tax advisor, accountant, and/or tax preparer, we suggest that you make this information available for their review.

Your 2012 IRS Form 1099-R will include the following information:

Commonly used information to prepare tax return	Other useful information reported
<p>Box 1- Gross distribution: Total benefit payment(s) ERS paid to you in calendar year 2012 per IRS Distribution Code (in Box 7)</p> <p>Box 2a – Taxable amount: The taxable portion of your benefit payment(s) on this 1099-R.</p> <p>Box 4 – Federal income tax withheld: The amount of federal income tax ERS withheld from your benefit payment(s), if any, during calendar year 2012.</p> <p>Box 7 – Distribution code(s): Denotes the type of payment you received. IRS uses this code to determine the proper tax treatment of your benefit payments.</p>	<p>Box 5 – Employee contributions / Designated Roth contributions or insurance premiums: The portion of your gross benefit payment(s) not subject to taxes and the difference between Box 1 and Box 2a. This is the amount of after-tax contributions that the IRS allows you to recover tax free for the year.</p> <p>Account Number: A unique number for each ERS 1099-R that helps identify duplicate forms if you request a reprint.</p>

The 1099-R is a four-part form with instructions on the back of the form. Copy B is to be used in preparing your federal return. Retain Copy C for your records and keep it in a safe place for future financial purposes. You may disregard Copy 2, since all benefits received from the ERS are exempt from State of Hawaii income tax. If you are living out-of-state, you should consult a qualified tax preparer regarding the tax laws in your area.

Because the ERS is a “government defined benefit pension plan,” all benefits paid by ERS and reported to you on Form 1099-R are classified as “pension” benefits. For terminated members, this includes refund of contributions and for retirees, this includes option refund payments and disability benefits.

In most cases, you will receive only one Form 1099-R. However, you may receive several different 1099-R forms if you:

- (1) took a refund option with a rollover to another retirement account
- (2) turned age 59½ during 2012, or
- (3) received benefits as a retiree and a beneficiary

Some helpful tips and information for retirees:

- If you're currently receiving Medicare Part B premium reimbursement by check, please contact our Finance Department at 586-7390 or toll-free at 1-800-295-0089, and we can arrange to have it deposited directly to your bank account just like Social Security.
- If you are retired and turning 65 years old or your dependent is turning 65 years old, you and your dependent must enroll in Medicare Part B to be enrolled in the EUTF and HSTA VB retiree medical and/or prescription drug plans.
- Once enrolled in Medicare Part B you are eligible to be reimbursed for your Medicare Part B premium. Please provide EUTF with the following:
 1. *A copy of your Medicare Part B card;*
 2. *A completed Direct Deposit Authorization Form (found on the EUTF website at www.eutf.hawaii.gov). The reimbursement effective date is the start date of your Part B coverage or the date EUTF receives a copy of your Part B card, whichever is later.*
 3. *A copy of the letter from the Social Security Administration (SSA) indicating the amount of your Part B premium, if you pay a higher than standard income-related Medicare Part B premium.*
 - *If you are receiving a Medicare Part B premium reimbursement that includes an income-related adjustment, EUTF re-sets your Medicare Part B premium to the standard amount every January 1st. Therefore, you must provide EUTF with a copy of the letter from the SSA indicating the amount of the income-related Medicare Part B premium each year.*
- You are not required to enroll in Medicare Part B if you are only enrolled in the retiree dental, vision, and/or life insurance plans. However, please keep in mind that Medicare Part B enrollment is required if you wish to enroll in the retiree medical and/or prescription drug coverage at a later date.
- EUTF reimburses you quarterly for the cost of your Medicare Part B plan (not including penalties).
- You may notice Medicare Part B premium reimbursement checks for December 31, 2012 have a new look. They now are mailed directly from Bank of Hawaii.
- For more information on Medicare and your enrollment responsibility. Please refer to the EUTF Retiree Reference Guide.
- Be sure EUTF has your current address and phone number.

Important: *The EUTF is a separate organization from the ERS. If you have any questions about information in this article, please **DO NOT** contact ERS. Please contact the EUTF directly at 586-7390 or toll-free at 1-800-295-0089, or email the EUTF at eutf@hawaii.gov. You can also visit our website for more information @ www.eutf.hawaii.gov.*



Employees' Retirement System
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Working to fulfill your retirement dreams...



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Scan the QR code with your smartphone
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Holomua

Retirees

October/November/December 2012

Ask ERS

Answers to some frequently asked questions about your Form 1099-R:

Q: When will ERS mail my Form 1099-R for 2012?

A: ERS will mail 1099-Rs by January 31, 2013. Reprints will be mailed from February 11, 2013.

Q: I moved in September 2012 and notified the Post Office. Why does ERS still have my old address?

A: ERS uses current addresses on file for all mail (such as 1099-R, pension statements and newsletters). The Post Office does not automatically notify ERS of your address change. It is very important to notify ERS when you change your mailing address to avoid unnecessary delays and to receive our mail in a timely manner.

Q: How do I change my federal income tax withholding?

A: You may change your withholding amount at any time by completing a Form W-4P (Withholding Certificate for Pension or Annuity Payments) and sending it to our office. This form is available on our website (under Retirees>Pension Forms), from the IRS, or by calling any of our offices.

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

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