

# Holomua

Retirees & Active Members

October/November/December 2014



Employees' Retirement System  
of the State of Hawaii



## New Risk-based Asset Allocation Framework Provides for Pension Fund Stability

On October 1, 2014, the ERS Board of Trustees approved a new Investment Policy, Guidelines, and Procedures Manual ("Manual") that places risk management at the center of asset allocation.

Since the financial markets and economic crisis of 2008, the ERS, like many of its public pension fund peers, has had to reconsider its plan structure, operations, investment management, and other aspects of its mission critical functions. The ERS secured various pension reforms through legislation in fiscal years 2010, 2011, 2012, and 2013. It built out the Investment Office in fiscal year 2014, and hired five new investment professionals. In fiscal year 2015, with the recommendation and lead from its general consultant, Pension Consulting Alliance ("PCA"), the ERS is expected to continue with its post-crisis enhancement efforts by beginning to implement significant restructuring of its Manual. These policies are expected to support a more robust and dynamic management of ERS' investment portfolio of assets.

Since fiscal year 2013, PCA and the ERS staff have made the Manual more accessible and transparent in terms of design, updating, and availability. A current Manual can be in the link at our website: <http://ers.ehawaii.gov/Investments/Program>. Starting in August 2012, PCA and staff developed a new design for the Manual, which was implemented in October of that year. Concurrently, a new process of updating the Manual made for more timely changes in individual sections of the Manual along with a control page to document all policy changes by the date of the Board's approval. Finally, the Manual was made available online along with other ERS investment information, and the web page updates also allowed for easy access by fund managers, auditors, pension plan members, and the general public to understand what governing policy is current.

The current Manual redesign focuses more on the practical governance and implementation of investment procedures related to PCA's effort to move from an asset class framework toward risk/functional class framework. The changes are intended to support a risk-based asset allocation structure and oversight model for managing investments. This new framework should aid decision-makers in developing a clearer understanding about the major macroeconomic risks facing the plan's investments. Such risk transparency is often much less apparent under the traditional asset allocation framework. It is expected that the Manual will continue to evolve over time.

There are six major changes in the revised document compared to the old Manual:

1. Consolidation of redundancies
2. Creation of "program" sections defined by a strategic role or sub-class role in the portfolio; the "programs" reflect major risk classes and exposures of the portfolio
3. Manager-specific guidelines are specified within each "program" section
4. Increased focus on risk management and risk budgeting
5. Delegation of specific investment decisions to staff within clear policy guidelines
6. Format changes for consistency and flow

The restructured Investment Policy, Guidelines, and Procedures Manual is expected to result in increased efficiencies and improved risk-adjusted performance over the long-term through increased diversification and additional investment opportunities.



### ERS Board of Trustees:

Piilaloa E. Lee Loy  
*Chair*

Vincent E. Barfield  
*Vice Chair*

Patrick Frane  
Emmit Kane

Colbert M. Matsumoto  
Jackie Ferguson-Miyamoto  
Jerry E. Rauckhorst  
Kalbert K. Young

*Executive Director*  
Wesley K. Machida

*Deputy Executive Director*  
Kanoë Margol

*Chief Investment Officer*  
Vijoy (Paul) Chattergy



### Inside this issue:

Check out New Updates to the ERS Website

Year-end Tax Information

2015 Pension Payment Schedule and Notices

2015 Spring Filing Session Schedule



## Wes' Corner

As some of you may be aware, I am leaving my position as the Executive Director of the ERS to become the Director of Finance for the State of Hawaii Department of Budget and Finance effective on December 27, 2014. Although it was an extremely difficult decision for me and my family, I take comfort in knowing that our Board of Trustees and ERS staff will continue to do their best for you, the ERS members. While I leave the ERS as Executive Director, as the State's Director of Finance, I am fortunate to return as an ERS Trustee.

I am also pleased to inform you that the ERS Board of Trustees has appointed Ms. Kanoe Margol as the Interim Executive Director and Mr. Karl Kaneshiro as the Interim Deputy Executive Director, both effective on December 29, 2014. These appointments will continue until the ERS Board of Trustees completes their search for a permanent Executive Director for the ERS. Previous to these appointments, Ms. Margol was the ERS Deputy Executive Director and Mr. Kaneshiro was the ERS Benefits Manager.

In the June 30, 2014 report of the Fund's valuation by our actuaries, Gabriel Roeder Smith & Company, I am proud to note that although our unfunded liability remains at \$8.5 billion our full funding period has reduced from 28 to 26 years. The reduction in funding period means that more than \$1 billion will be saved over that time period. This is a direct result of positive investment returns during fiscal year 2014 and the effects of the 2011 pension reforms which became effective on July 1, 2012. Other positive notes: Since June 30, 2013, the ERS fund has increased from \$12.7 billion to \$14 billion and our total membership has increased from 115,250 last year to 118,398 this year. The ERS membership consists of 67,206 active members, 43,087 retirees and beneficiaries and 8,105 inactive, vested members.

I have been privileged to serve as the Executive Director of your retirement system these past 4 years, and to have served as Deputy Executive Director for the prior 10 years. I know that the ERS Staff is committed to serving the ERS membership with the highest standard of service and that they are dedicated to their membership ohana. In addition, the ERS Board has proven that they are willing to make difficult and necessary decisions to keep the System solvent and to ensure that present and future members will be able to retire with confidence in their promised benefits.

Thank you to the ERS Board of Trustees for giving me the opportunity to serve you, to past ERS Administrators for their leadership and guidance, to the ERS staff for their hard work and dedicated efforts, to Legislators for their assistance and support in establishing laws that improved the ERS, to employee organizations for their cooperation and tireless efforts in helping our members, to employers for their understanding and diligence in getting us information to accurately calculate member pension benefits; and, finally, to our members, retirees, and beneficiaries – it has been a pleasure for me to work for you and I pledge to continue our goal of a sustainable and viable retirement system. Thank you for your support through the years and may the new year bring you and your family good health and happiness.

Aloha,

Wes

## Ua 'Ike Anei Oukou? (Did you know?)

You can only file for retirement no earlier than 150 days and no later than 30 days before your retirement date.

## ERS Board Bids Aloha to Kalbert K. Young

Kalbert K. Young became an ex-officio member of the Board of Trustees of the ERS on December 10, 2010 when he was appointed by Governor Abercrombie to be his Director of Finance. During his tenure, the ERS's assets grew from \$8.9 billion to \$14.1 billion with positive investment returns for 4 years, and its membership increased from 110,927 to 118,466. With his support, the ERS was able to introduce and pass into law legislation to deal with the System's growing pension and unfunded liabilities including the 2011 moratorium on benefit enhancements until the ERS becomes 100% funded, the 2011 pension benefit reforms which lowered benefits for new employees after July 2012 and increased employer contributions from 2012 through 2016, and the 2012 change in the definition of retirement benefit "compensation" to exclude overtime and certain differentials. All of these measures will help to stabilize the System for current and future retirees and beneficiaries.

As the Director of Finance, Mr. Young led the Administration's efforts to restore the State's fiscal health following the recession of 2008 and was instrumental in bringing about a \$1 billion turnaround of State finances in a span of three years.

The ERS Staff and Board of Trustees will miss Mr. Young's clear, sound judgment and deep respect for the ERS membership.

Mr. Young's term ended on December 26, 2014.



*BOT: Emmit Kane, Patrick Frane, Jackie Ferguson-Miyamoto, Kalbert Young, Pili'alo'ha Lee Loy, Colbert Matsumoto, Jerry Rauckhorst, Vincent Barfield*

## Check out New Updates to the ERS Website

### Online Information Update

If you are not retired, and are interested in the most current information on your ERS retirement account, you may login to your account through the Online Information link on our website. Formerly known as "Self Service," Online Information for active members will verify your retirement plan, your years and months of service credit and, if applicable, your accumulated contributions. The online information has been updated with data as of August 2014. Included with this update is the addition of your membership date with the ERS. Your membership date is the date you became enrolled as a member with the ERS and started earning retirement service credits; it also determines the formula and requirements under which your retirement benefits will be computed. (See Benefits Calculator below.)

Please visit our Online Information module to review your information; should any corrections be necessary, use the link to the Correction Form ERS-243 to report any discrepancies.

### Benefits Calculator

If your membership with the ERS began after June 30, 2012, your retirement benefits are based on a new benefit structure – new service and age requirements, new benefit multipliers, new member contribution rates and average final compensation. In addition, though the various retirement options remain the same, they are computed on different option factor tables from those who began prior to July 1, 2012.

To be able to compute more accurate retirement estimates for those members who began after June 30, 2012, as well as for members who began prior to July 1, 2012, the ERS Benefits Calculator has been modified to include a new required field for your membership date. If you are uncertain about when you were enrolled as a member of the ERS, you may access the Online Information module to verify your membership date.

For more information on membership plan features and benefits visit our website at <http://ers.ehawaii.gov> and select the "Active/New Hire" item from the "Members" tab.



## Year-end Tax Information

If you received benefits from the ERS during 2014, your 2014 Form 1099-R will be mailed to your home address by February 2, 2015 (January 31st falls on a Saturday). Reprint/duplicate Form 1099-R requests will only be processed after February 8, 2015 to allow time for mail delivery. To submit an address change, please complete the Mailing Address Change form on our website at <http://ers.ehawaii.gov> (Resources/All Forms/General/ERS-211 Address Change).

The ERS is a “government defined benefit pension plan,” therefore all benefits paid by ERS are classified as “pension” benefits and reported to you on the Internal Revenue Service (IRS) Form 1099-R. For terminated members, this benefit includes refunds of contributions; and for retirees, this benefit includes option refund payments and disability benefits. (Certain retirees receiving service-connected disability benefits will receive an Annual Non-reportable Benefit Notice.) If you have a professional tax advisor, accountant, and/or tax preparer, we suggest that you make this information available for their review.

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) became age 59 1/2 during 2014, or
- (3) received benefits as a retiree and as a beneficiary.

For more information you may want to review:

- the Retiree FAQ section of the ERS website <http://ers.ehawaii.gov> (Retirees/Retirees FAQs) or
- information on the IRS website (<http://www.irs.gov>) such as IRS Publication 575, Pension and Annuity Income, the instructions for IRS Form 1040 U.S. Individual Income Tax Return

## 2015 Pension Payment Schedule and Notices

15th	End of Month
Jan 15	Jan 30
Feb 13	Feb 27
Mar 13	Mar 31
Apr 15	Apr 30
May 15	May 29
Jun 15	Jun 30
Jul 15	Jul 31
Aug 14	Aug 31
Sep 15	Sep 30
Oct 15	Oct 30
Nov 13	Nov 30
Dec 15	Dec 31

### Federal Income Tax Withholding:

Payments from ERS are subject to federal income tax withholding unless you elect to not have taxes withheld. You may change your withholding election by submitting a form prior to a payroll processing date.

**Direct Deposit:** Please keep your original account open during the transition of bank accounts. Closing your old account too early may delay your receipt of a pension payment as un-deposited pension payments would be returned to the ERS for reissue.

**Payment Date:** Pension payments are paid on the 15th or the end of the month. If these dates fall on a weekend or a holiday, the payment date would be on the last business day prior to the weekend or holiday.

Change	Form to use	Remarks
Bank account and/or financial institution	ERS-210, <i>Direct Deposit Agreement</i>	Confirm that pension payment is deposited to new account before closing old account.
Federal income tax withholding	IRS Form W-4P, <i>Withholding Certificate for Pension or Annuity Payments</i>	Refer to tax withholding tables for approximate FWT to be withheld.
Mailing Address	ERS-211, <i>Address Change</i>	Important for 1099-R forms, annual July statements and Holomua newsletter.

## How is the IRS Form Organized?

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.

Your 2014 IRS Form 1099-R will include the following information:

Form 1099-R		CORRECTED (if checked)		OMB No: 1545-0119		2014	
1 Gross Distribution		2a Taxable Amount		Distributions From Pensions, Annuities, Retirement or Profit-sharing Plans, IRAs, Insurance Contracts, etc.			
22774.22		20254.11					
2b Taxable Amount not determined		Total distribution					
PAYER'S name, street address, city, state and ZIP code							
EMPLOYEES' RETIREMENT SYSTEM OF THE STATE OF HAWAII 201 MERCHANT ST SUITE 1400 HONOLULU, HI 96813-2980							
PAYER'S federal identification number				RECIPIENT'S identification number			
99-6011493				XXX-XX-1234			
3 Capital gain (included in box 2a)		4 Federal income tax withheld		5 Employee contributions / Designated Roth contributions or insurance premiums			
0.00		652.11		2520.11			
6 Net unrealized appreciation in employer's securities		7 Distribution code(s)		IRA/ SEP/ SIMPLE		8 Other	
		2					
8a Your percentage of total distribution				8b Total employee contributions			
%							
RECIPIENT'S name, street address (including apt. no), city, state and ZIP code							
PENSIONER NAME ADDRESS							
Account number (see instructions)		10 Amount allocable to IRR within 5 years		11 1st year of desig. Roth contrib.			
2014204211							
12 State tax withheld		13 State Payer's state no		14 State distribution			
15 Local tax withheld		16 Name of locality		17 Local distribution			
Copy 2 File this copy with your state, city or local income tax return, when required.						Department of the Treasury Internal Revenue Service	

**Box 1 – Gross distribution:** Total benefit payment(s) ERS paid to you in calendar year 2014 per IRS Distribution Code (in Box 7).

**Box 2a – Taxable amount:** The taxable portion of your benefit payment(s) on this 1099-R.

**Box 4 – Federal income tax withheld:** The amount of federal income tax ERS withheld from your benefit payment(s), if any, during calendar year 2014.

**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.

Note: Box 5 is only applicable to certain retirees of the Contributory or Hybrid Plan who made contributions on an "after-tax" basis to the ERS.

**Account Number:** A unique number for each ERS 1099-R Form that helps identify duplicate forms if you request a reprint.

**Box 7 – Distribution code(s):** Denotes the type of payment you received. The IRS uses this code to determine the proper tax treatment of your benefit payments.

The IRS Distribution codes used for payments made by the ERS include:  
 1—Early distribution, no known exception (in most cases, under age 59.5). (Note certain distributions may be subject to an additional 10% tax.)  
 2—Early distribution, exception applies (under age 59.5).  
 3—Disability.  
 4—Death.  
 7—Normal distribution.  
 G—Direct rollover of a distribution to a qualified plan, a section 403(b) plan, a governmental section 457(b) plan, or an IRA.

## For Active Members

# 2015 Brown Bag Sessions - Tips & Tools to Help You Plan Your Retirement

As the new year begins, we continue to provide Brown Bag informational sessions for our Oahu membership to be held during the lunch hour. During these sessions, members are given information to help them understand and plan for retirement. In addition, members have the opportunity to ask questions they may have regarding their retirement plan.

For neighbor island members, the 2015 Informational Workshop schedule for Hawaii, Maui, and Kauai will be posted to our website in late January.

Below are our next scheduled sessions for the 1st quarter of 2015:



Date	Retirement Plan	Time	Location
Jan 29	Hybrid	12:15 pm to 12:45 pm	City Financial Tower- ERS 201 Merchant Street Suite 1400
Feb 12	Noncontributory		
Feb 26	Contributory		
Mar 5	Hybrid		



To register, please call our office at 586-1735 at least one week prior to the scheduled workshop. Each session is limited to thirty-five members. On the day of the session, please report to the ERS offices on the 14th floor of the City Financial Tower (address below) and staff will accompany you to the conference room. Feel free to bring your lunch, too. Limited parking is available in our building.

6

## 2015 Spring Filing Session Schedule

We have scheduled dates and times for our upcoming ERS counseling appointments for Oahu members who are retiring from April 1st through August 1st 2015. Neighbor Island members may contact our island representatives for an appointment. At the appointments, we will help you complete your retirement application, copy and return your proof documents, and provide counseling on your ERS pension benefits. Together, we will review your ERS Estimate Letter which is based on your retirement date, your service and salary history and your proposed beneficiary. We will thoroughly explain the retirement options available and answer any questions you may have about beneficiary benefits, refunds of contributions (if applicable) and taxability of payments. Recently, we have had a number of members walking into our office without an appointment to file their retirement application. Members were unprepared to submit their documents and, as we did not have their ERS Estimate Letters prepared, we were not able to fully counsel members on their benefits. In many cases, members had to return to complete the application process. For this reason, we request that you schedule your appointment early so that we will have the time to review your records and have the Estimate Letter prepared for your appointment. We encourage our members to bring their spouses and/or significant others as well as their financial advisors to their appointment, if desired.

The upcoming session dates are listed below; appointment times are 8 a.m., 9:15 a.m., 10:30 a.m., 1 p.m., and 2:15 p.m. at the Oahu ERS office:

**February 4, 6, 11, 13, 18, 20, 25, 27**

**March 4, 6, 16, 17, 18, 19, 20, 25, 27**

**April 1, 8, 10, 15, 17, 22, 24, 29**

**May 1, 6, 8, 13, 15, 26, 27, 28, 29**

**June 1, 24, 26**

**July 2**

Don't wait - contact our office at (808) 586-1735 early to schedule your appointment. Popular appointment dates and times become more limited as the filing session approaches. You may also visit our website for more information on the appointment schedule at <http://ers.ehawaii.gov> under "Event Calendar".

# News from the Hawaii Employer-Union Health Benefits Trust Fund (EUTF)

## Important Notice to All State and County Retirees Enrolled in EUTF's Health Plans

Below are some important EUTF rule changes/clarifications that you should be aware of:

- Retirees who are 65+ and not enrolled in Medicare Part B may be enrolled in EUTF's dental, vision and life plans, but not enrolled in medical and prescription drug.
- Retirees who want to make changes, such as enrolling in plans; cancelling plans; adding or deleting a spouse, domestic/civil union partner, or eligible dependents must have a qualifying event in order to make the change. Retirees must notify EUTF using an EC-2/EC-2H Enrollment Form within 30 days of event, except in the case of newborns in which retirees have 60 days to notify EUTF.
  - Examples of qualifying events that allow additions of dependents include: marriage or entering into a domestic/civil union partnership, or newly eligible student
  - Examples of qualifying events that allow deletion of dependents include: divorce or the dependent acquiring coverage from another non-EUTF plan
  - Retirees who submit their enrollment forms to EUTF after 30 days of the event (or 60 days in the case of newborns) must wait until the next open enrollment period to make changes.
- Retirees who do not report events which lead to dependents becoming ineligible for coverage, such as divorce and death, within 30 days of the event, will be responsible for paying any claims incurred after the date the dependent became ineligible.
- Voluntary cancellations are no longer allowed.
- Employees planning to retire have 60 days from the date of their retirement to submit an EC-2 to EUTF. Retirees who submit an EC-2 after 60 days must wait until the next open enrollment period to enroll in any EUTF health plan.
- A Surviving spouse, partner, and/or dependents of a deceased retiree who was NOT enrolled in EUTF plans must complete an EC-2 Enrollment Form and submit it to EUTF within 60 days of the retiree's death. If the EC-2 Enrollment Form is received by EUTF greater than 60 days from the retiree's death, the spouse/partner/dependents must wait until the next open enrollment period to enroll in any EUTF health plan.
- Retirees who fail to provide EUTF proof of enrollment in Medicare Part B within 60 days of eligibility, will be terminated from the medical and prescription drug plans retroactive to the date of eligibility for Medicare Part B. (This includes all dependents enrolled in the medical and prescription drug plans if the retiree is the subscriber.)
- Medicare Part B reimbursements start the latter of the effective date of Medicare Part B or the date EUTF receives proof of enrollment.
- Retirees whose coverages were cancelled due to failure to provide EUTF proof of enrollment in Medicare Part B may reenroll upon submitting proof to EUTF. The effective date of coverage shall be the latter of the effective date of their Medicare Part B coverage or the date EUTF receives proof of enrollment.
- If a retiree's plans are retroactively cancelled due to failure to enroll in Medicare Part B and they incur claims after the cancellation date, the retiree will be responsible to pay all incurred claims.
- Retirees who pay an income-adjusted Medicare Part B premium have only 2 years to provide EUTF proof to be reimbursed the higher amount.

EUTF's complete Administrative Rules covering the above information can be found at our website at: [eutf.hawaii.gov](http://eutf.hawaii.gov). If you have questions, please call EUTF at 808-586-7390 or toll free at 1-800-295-0089.

---

*Important: The EUTF is a separate organization from the ERS. If you have any questions about information in this article, please DO NOT contact the 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](mailto:eutf@hawaii.gov). You can also visit our website for more information at [www.eutf.hawaii.gov](http://www.eutf.hawaii.gov).*



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



PRESORTED  
STANDARD  
U.S. POSTAGE  
**PAID**  
HONOLULU, HI  
PERMIT NO. 643

201 Merchant Street, Ste. 1400 • Hon, HI 96813-2980



Scan the QR code with your smartphone  
to directly access the ERS website.



# Holomua

Retirees &  
Active Members

October/November/December 2014



## 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 and Lanai,

Phone (Toll free to Maui):

1-800-468-4644, ext. 48181

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

201 Merchant Street, Ste. 1400  
Hon, HI 96813-2980

<http://ers.ehawaii.gov>

## Ask ERS

Answers to some frequently asked questions:

**Q:** After reviewing my federal tax withholding from my pension payments this year, I want to make some changes – how would I initiate a change and how soon would it take effect?

**A:** To make changes, file an IRS Form W-4P Tax Withholding Form. This form is available in our office, by mail or on our website at <http://ers.ehawaii.gov> (Retiree/Pension-Forms). Please allow 4 – 6 weeks for the change to be effective.

**Q:** I am a teacher considering retirement at the end of this school year. Some teachers previously retired on June 1st, allowing them to receive their summer salaries and start their retirement pension from 6/1. Should I schedule my effective date of retirement as 6/1/2015?

**A:** The DOE calendar changes from year to year depending on semesters, holidays and breaks. The 2014-2015 calendar indicates that the last teaching day falls on Wednesday, 6/3/2015. If you intend to complete the school year by working on 6/3, you will not be able to retire until 7/1/2015. Your pension will start from 7/1 and you will still receive your summer salaries. Please schedule for a filing session to review your retirement date options. (Note: Multitrack and UH calendars may differ-- refer to your specific calendar.)

**Q:** Does the ERS accept Durable Power of Attorney (POA) documents for individuals to act as Agents to file retirement applications or to change pensioner bank account assignments?

**A:** Yes. However, the POA is subject to the Uniform Power of Attorney Act (Act 22, SLH 2014) and must have specific language granting the authority to the Agent to execute the action. We will need sufficient time to review the document prior to validating an application or effecting a change.