

Holomua

Retirees & Active Members



Employees' Retirement System
of the State of Hawaii

Photo: Taro plants in Hanalei valley on Kauai with the Na Pali mountains in the background.

2016 Legislative Results

In the summer 2016 *Holomua* issue, we updated you on the early status of ERS-related legislation during the 2016 legislative session. These are the results of the legislation as of this date.

Act 31 / SLH 2016 Payment of Employer Contributions

On April 28, 2016, Act 31, Session Laws of Hawaii (SLH) 2016 was signed into law. Effective on July 1, 2016, Act 31/SLH 2016 (formerly, SB 2841) confirmed that employers may make ERS contributions in advance and provided that subsequent monthly payments would not be required if previous advance payments were sufficient to cover the required contributions for the month.

Act 263 / SLH 2016 Domestic Relations Orders

On July 11, 2016, Governor Ige signed Act 263/SLH 2016 (HB1370, CD1) into law. Originally titled "Relating to Divorce," Act 263 would require the ERS to make direct payments to a spouse or former spouse of an ERS member or retirant pursuant to a Hawaii domestic relations order. This law will be effective on July 1, 2018. A Hawaii domestic relations order creates or recognizes the right of an alternate payee, or assigns to an alternate payee, the right to receive all or a portion of the benefits payable with respect to a member or retirant under the ERS.

Prior to the effective date of July 1, 2018, the ERS Board will establish and provide for rules, forms, fees and charges for the requirements, and processing and qualification of the orders applicable under this new law. As this will require an update to our computer system to include alternate payees, to calculate and process the ordered

benefits, administer the program and develop forms and documents to facilitate processing of the qualified domestic relations orders, we requested and were granted a delayed implementation date of July 2018 for this new law. More updates will be published in future *Holomuas* and via our ERS website when more information on Act 263 becomes available.

Act 1 / SSL 2016 (SB2077, CD2) HHSC Maui Separation

On July 11, 2016, Governor Ige vetoed SB2077, CD1, relating to severance and special retirement benefits for Hawaii Health Systems Corporation (HHSC) Maui Region and other employees facing position abolishment, reduction-in-force, or workforce restructuring as a result of Act 103/SLH 2015. After the Governor's veto, the legislature called a Second Special Session of the 2016 Legislature on July 12, 2016 and on July 20, 2016, the House and Senate voted to override the Governor's veto. SB2077, CD2 is now law. Although passed by the Legislature, the law has no funding which makes the law's implementation extremely difficult. Of a greater concern to the ERS, however, is the impact this law will have on our federal tax qualification.

The ERS is a tax-qualified retirement plan under section 401(a) of the Internal Revenue Code of 1986, as amended. Should the ERS lose its tax-exempt status, the federal tax consequences would be extremely harmful to members of the System. Contributions received from employee members would no longer have favorable pre-tax treatment; instead, employees' contributions to the ERS would be

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ERS Files Suit to Protect Plan Benefits

“Implementation of Act 1 is believed to jeopardize our tax-exempt status and place at risk the benefits we owe and pay to our 120,000 members and beneficiaries.”

The 2016 Hawaii legislature passed Senate Bill 2077, more recently known as Act 1, to provide either a severance payment or a special early retirement benefit to Maui-based State hospital employees whose State jobs were being terminated and their employment transferred to a private operator.

In commenting on the bill’s expected impact ERS highlighted the lack of funding, its negative impact on our unfunded liability, its violation of a statutory prohibition against benefit enhancements and most importantly, its negative consequences for our tax-exempt status.

Based on those concerns and others Governor Ige vetoed the bill. During a special session on July 20, 2016 the legislature overrode the Governor’s veto, immediately establishing Act 1 as law.

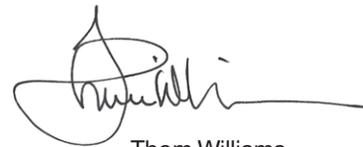
Implementation of the Act, which would allow this group of terminated employees the option of electing a cash severance payment or certain early retirement benefits, could be disastrous for our tax-exempt status. The United States Internal Revenue Code does not permit governmental defined benefit pension plans like the ERS to offer employees a choice between a “cash or deferred arrangement,” which Act 1 clearly allows. On August 9, 2016, the ERS board filed a complaint to delay implementation of the Act until it could secure a ruling from the Internal Revenue Service (IRS) on the critical tax qualification issue. The basis of the complaint stated that ERS’s loss of its tax qualification could impair the retirement benefits of

all state and county employees and retirees. Act 1, therefore, would prove to be unconstitutional in the context of State law.

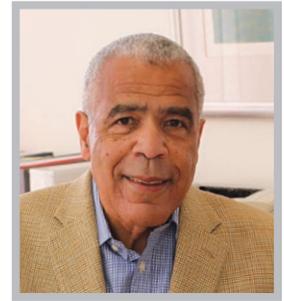
Following a hearing on August 22nd the court issued a Temporary Restraining Order (TRO) granting the system’s request. In granting this extraordinary relief the court concluded we were likely to prevail on the merits, that irreparable harm would prove likely were our request denied and that the public interest would best be served by doing so.

On August 26 we submitted an expedited ruling request to the IRS. Were we to lose our tax exemption the likely harm would place at risk our ability to pay future benefits, increase taxes for both the system and its members, as well as risk the sustainability of our plan into the future.

Risks such as those are greater than we can afford to take and represent risks our board, in the exercise of its fiduciary responsibilities, is duty bound to avoid. Following a ruling and determination from the IRS we will proceed as appropriate. It is unclear exactly how long it will take to receive such a ruling. Now and always our priority will be the protection of our benefit obligations to all of our members and their families.



Thom Williams



Please refer the “What’s New” on the ERS website at ers.hawaii.gov for details on the lawsuit and for updated information.

A special request to our members

This edition of the *Holomua* was mailed to all active, retired and vested members of our system as part of our commitment to better serve the needs of our membership. Although we regularly mail out paper copies of our newsletter to our retired and vested members, we rely on the personnel offices of our employees to send out electronic versions of our newsletters to our active membership. We realize, however, that many active employees may not have electronic access to our newsletters at work.

If you would like to receive the *Holomua* by email, please provide us with your email address through our

ERS website at: ers.hawaii.gov. Go to the “Email: ERS” link on the right margin of the home screen and indicate “Email Address” in the subject line. All email address information will be strictly confidential and solely used for official ERS news and informational updates – addresses will never be transferred to other parties.

You may also mail your email address to us directly.

Sending in your email address will allow us to provide you with more direct and timely information and at the same time, help us to reduce future printing and postage costs. We ask for your *kokua*.

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

Did you know that the longer you live, the longer you are expected to live? National statistics show that among males age 65, overall longevity rose 2.0 years from age 84.6 in 2000 to age 86.6 in 2014. For women age 65, overall longevity rose 2.4 years from age 86.4 in 2000 to age 88.8 in 2014.

Report from Vijoy Chattergy, Chief Investment Officer

Aloha Kākou.

Surf's up! That's a cry that brings a smile to islanders all year-round. It means that a swell generated deep out at sea will bring waves to be enjoyed by surfers, paddlers, and beachcombers alike. However, to enjoy these surf days requires experience, respect, and caution for the ocean, which can quickly turn a joyful occasion into something dangerous and even tragic.

Fiscal year 2016 (July 2015-June 2016) was very analogous to a surf set with distinct waves of market volatility rolling in to disrupt market calm and relatively steady investment gains. Specifically, the three major waves of market volatility were the surprise devaluation of the Chinese currency in August, the sudden steep drop in oil prices and the tandem selloff in the stock market in January, and the unexpected election of the U.K. to leave the European Union in June. During these episodes, the ERS portfolio lost 6%, 8%, and 3%, respectively.

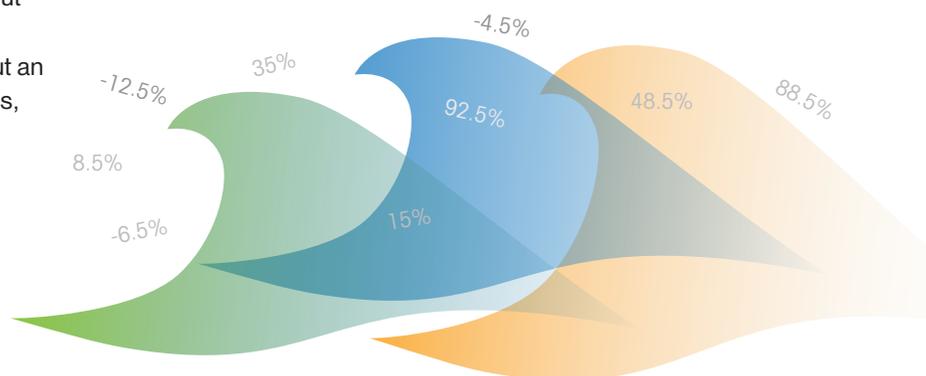
After each subsequent market drawdown, the portfolio recovered its value, but like a surfer caught in a huge set, it was not able to recover enough to catch a wave in. The portfolio was only able to maintain its position and hang onto the board. Actually, the portfolio was down slightly in FY16, which is partially attributable to a few active managers picking very poorly performing stocks and the muddying of the water by the uncertainty surrounding Federal Reserve policy communications.

But readers should not conclude that 2016 was a wipeout for the ERS. True, it did not meet the assumed rate of return. Performance was moderately negative. More peer pension plans outperformed the ERS in the period. But the ERS is not a surfer, maxing out on every set. The assumed rate is a long-term average to be achieved over decades. Performance cannot hope to be positive every year, but it was in fact resilient. The peer group comparison is superficial because nothing is really comparable about an investment group with different constraints, obligations, and governance.

The ERS is really more like the proverbial cruise liner. It does not want to sail in the shallow waters of the breakers, and barely moves to the set of waves enjoyed by the surfing crowd. Rather, the large vessel moves methodically and deliberately over vast distances on a voyage, ever mindful that a tsunami or rogue wave could spell catastrophe (read financial crisis in investment terms).

The ERS remained focused on strategic mission critical activities to lower portfolio risk with more diversification of investments, to increase transparency through risk-based portfolio construction, and control costs by negotiating lower fees with active managers adding new passive funds. Under the Board of Trustees' direction, staff is reconstructing the portfolio to better withstand the rough waters of open ocean by making allocation decisions based on functional risk characteristics that are consistent with a data-driven understanding of how financial markets actually work. The strategic goal is to be 100% funded.

A single year is not what will determine if the ERS is sustainable. A steady hand on the helm is needed, guided by a long-term vision of how to arrive at distant shores, and not to drift aimlessly through currents and whitecap crests. The journey promises to be long and arduous, but it will be an epic ride.



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entirely subject to federal tax at the time of contribution. In addition, members would not be eligible to rollover their contributions to a tax-qualified IRA. This tax requirement may not apply to members who are already retired, but will affect all active and vested members.

The ERS has requested a ruling from the IRS on the implications of Act 1 on ERS's tax-qualified status. As of this date we are still waiting for an official response.

HB2016, CD1 EUTF Premium Deductions

Also vetoed by the Governor on July 11, 2016, was HB2016, CD1 regarding EUTF Retiree Co-Payments which would have allowed medical plan premium payments to be

paid through withholding of retirement benefit amounts by the ERS. The lack of sufficient time for computer system modifications and the lack of funding for this law were the reasons cited by the Governor in his veto. However, the EUTF is offering electronic payment options via credit cards and electronic bank transfers (automated clearinghouse or ACH payments) through a third party to be available by the end of the year.

Please visit the EUTF website at eutf.hawaii.gov for more information. The ERS and EUTF are already in discussion about medical premium deductions, you may hear about the availability of this option in late 2017

Focusing on the Long Term for our Members

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The state Employees' Retirement System (ERS) investment portfolio had a 1.6 percent investment return during the April – June quarter of 2016 but missed its targeted return of 7.65 percent for the second straight fiscal year, according to Pension Consulting Alliance Inc., the ERS investment consulting firm based in Portland, Oregon.

Despite the lagging returns, Chief Investment Officer Vijoy Chattergy said he's optimistic that the portfolio's performance since the end of the fiscal year on June 30 and the restructuring of the portfolio have the pension fund heading in the right direction. "This is just a snapshot in time, and the negative return was because for the second year in a row we had a major market event a few days before the end of the fiscal year," Chattergy said.

He said the sell-off created by the Brexit vote in June caused a 3.5 percent drop in the ERS portfolio, the oil price sell-off in January sent the portfolio down 8 percent and China's surprise devaluation of its currency in August 2015 caused a 6 percent drop in the ERS portfolio.

"Things have calmed down, and we've had a really nice return from the low point. We're almost a billion dollars higher (in assets) since the end of the fiscal year. Some of that is related to market performance, and some to contributions," Chattergy said.

"The beneficiaries should focus on the long term and recognize that the investment portfolio is being restructured to be more robust, more transparent, lower-risk and more diversified," Chattergy said. "The portfolio is becoming stronger. We've already made changes to our management lineup that will save the ERS \$1.6 million in fees per year every year."



Long Term

The investment gain wasn't enough to prevent the ERS fund from finishing the 2016 fiscal year with a 0.9 percent loss. ERS fund assets decreased \$422 million to \$14 billion. The fiscal-year performance follows a 4.0 percent gain in fiscal 2015.

The portfolio's return for each of the last two fiscal years has lagged the assumed rate of investment return established by the ERS — 7.65 percent for fiscal 2016 and 7.75 percent for fiscal 2015. In addition to employer and employee contributions, investment returns are used to pay retirement, disability and survivor benefits to our 118,993 active, retired and inactive state and county employees.



For Active Members

Online Information Update Coming

Online member information for active members in the Contributory, Noncontributory, and Hybrid plans will be updated on our website in September 2016. Please be aware that retirement information and account balances may vary between members due to payroll lags and adjustments.

In order to ensure that we have the most accurate information possible, we are asking for our members' help. You can log on to the website at <http://ers.ehawaii.gov> and click on "Online Information." You'll have to create an ehawaii.gov account if you don't already have one. By taking this additional step your membership record will be linked to your eHawaii account.

If you have problems accessing your ERS member information, here are some things to keep in mind:

- Retiree information is not available
- Members who are recently employed may not yet have their payroll information validated and entered into our system
- Be sure to enter your ERS information in the proper format: mm/dd/yyyy
- ERS may not have the latest/current information

To report any discrepancies with your account information, click on the link to the Correction Form, print it out and mail it to the ERS with a copy of your "My Retirement Account" screen print. Once we have completed our research, corrections will be applied and you will be notified of any changes.

2016 Fall Filing Session Schedule

With just about two months remaining to file for retirement by the end of the year, we'd like to remind you that appointments are filling up quickly. If you have not already done so, contact our office at (808) 586-1735 to schedule your

appointment. Don't wait for the last day to file your application as this may cause a delay in receiving your estimate of benefits. For Neighbor Island members, you may contact our staff on your island directly for an appointment.

Filing Session Dates	Last Filing Dates
October 5, 7, 10, 11, 12, 14, 19, 21, 26, 28	
November 1, 2, 4, 9, 23, 25, 28, 29, 30	11/1/2016 = Last day to file for December 1
December 1	12/1/2016 = Last day to file for December 31

For Retirees

An important reminder: the ERS can make pension payments payable to individuals only

In order to protect their clients' assets, many financial advisors and attorneys advise seniors to put their finances in order by creating a trust to hold all their assets (bank accounts, real estate, stocks, etc.), thereby providing a protective "umbrella" in the event of death. As a result, we have received many requests from retirees and beneficiaries to deposit their pension payments into "trust accounts" rather than individual deposit accounts, or that pension checks be made out to the name of the Trust.

While it is possible to have pension payments deposited directly into a retiree's or beneficiary's trust account, the ERS is required by law to pay **individual members** as primary

account holders. That means pension payments cannot be made payable to the Trust itself, since a Trust is not by definition an "individual member" of the ERS. This is a simple answer to a question that can involve more complex trust situations as well as the procedural guidelines of your financial institution, which could differ from another institution's guidelines.

It's important that your funds are deposited properly and without delay. So please remember that the ERS can only make pension payments payable to you as an individual. With that in mind, please make sure to assign your pension payments accordingly.

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

NEWS AND INFORMATION FOR RETIREES

Retiree Open Enrollment

Are you looking to add or drop a dependent? Change, add or drop health benefit plans? Now is your opportunity to do that during retiree open enrollment from October 10, 2016 through October 31, 2016. Changes made during open enrollment will be effective January 1, 2017. Retirees will be mailed a Retiree Reference Guide the last week of September. If you do not receive your Reference Guide by October 10, 2016, please call EUTF at 808-586-7390 or toll free at 1-800-295-0089. The Reference Guide will provide you with information on the dates, times, and locations of the Open Enrollment Informational Session(s) on each island. In the Reference Guide, you can also find information on webinars that will be conducted for those who cannot attend an informational session in person.

Need Assistance with Retiree Premiums or Prescription Drug Copayments?

Medicare offers several "Extra Help" programs that can assist retirees by lowering their prescription drug costs. The Low Income Subsidy program (LIS program) can significantly lower your prescription drug copayments and/or assist with your monthly premiums. Eligibility for the LIS program is based on your income and asset levels.

To find out if you are eligible, contact the Social Security Administration either by phone (call Social Security at 1-800-772-1213) or online (www.socialsecurity.gov/extrahelp). You may also apply by visiting your local Social Security office in person. Eligibility is determined prior to each plan year and applicants are generally required to apply by October.

Once enrolled in the LIS program, you may be sent a letter every year notifying you that you no longer automatically qualify and have to reapply. These letters are sent jointly from the Social Security Administration and the Center for Medicare and Medicaid Services (CMS) and generally are sent out in September. You will have 30 days to respond to the letter.

Additional "Extra Help" programs include Medicaid (Med-QUEST Division) and the Medicare Savings Program. Both programs are state run by the Med-QUEST Division. Depending on your level of coverage enrollment in these programs could lower or eliminate your premiums and cost share (copayments and coinsurances). To find out if you are eligible please contact Med-QUEST at 1-877-628-5076.

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

REMINDERS FOR ACTIVE EMPLOYEES AND RETIREES

Hepatitis A Vaccination

Active Employees, Non-Medicare Retirees and Kaiser Medicare Retirees. For active employees and their dependents; retirees and their dependents without Medicare; and Kaiser retirees and dependents with Medicare, the Hepatitis A vaccination is covered under your medical plan. HMSA members will not have a copayment for the vaccination but will need a prescription from your medical provider. Kaiser members will not have a copayment for the vaccination. Copayments may be required for an associated office visit.

HMSA and UnitedHealthcare (UHC) Medicare Retirees. For HMSA and UHC retirees and their dependents with Medicare, the Hepatitis A vaccination is covered under the EUTF prescription drug plan. UHC members should provide their EUTF prescription drug plan card to the provider and will be responsible for a \$30 copayment. HMSA retirees and dependents with Medicare who also have the EUTF prescription drug plan should not have a copayment if the vaccination claim is filed properly by your provider as follows:

1. Provide both your EUTF prescription drug and HMSA medical plan identification cards.
2. Instruct the provider to first have your claim processed through the EUTF prescription drug plan as the primary coverage.
3. Instruct the provider to then file your claim through your HMSA medical plan as secondary and include the information that shows that the EUTF prescription drug plan paid as primary.

HMSA retirees and dependents with Medicare who previously received the vaccination, paid a copayment and have not already received a refund will be receiving a refund from HMSA. Please visit the EUTF website at eutf.hawaii.gov for updates.

Health Assessment Plan Benefit

If you're a member of HMSA, you and your dependents 18 and older can take the Gallup-Healthways Well-Being 5[®] survey to learn more about your health and well-being. This confidential, 30-minute survey can help you take smarter steps toward better health so you can live well for what matters most. Go to hmsa.com/well-being to take the survey. Questions? Call toll-free 1 (855) 329-5461.

If you're a member of Kaiser Permanente, you and your dependents should take a Total Health Assessment. It takes just 30 minutes to a healthy you! The total health assessment is an easy-to-use online questionnaire that gives you an in-depth look at your overall health. You will receive a summary of your results and a recommended action plan tailored to you. Go to kp.org/succeed to take the assessment. If you haven't already, you will be directed to log in or register on kp.org prior to taking the assessment. Questions? Call Kaiser's 24 hour support line toll-free at 1 (866) 433-9284.

Submission of Supporting Documents

The EUTF requires that active employees and retirees submit the required documents to support changes to their health benefit plans within sixty (60) days of the qualifying event or the close of open enrollment. For

example, if you are adding a spouse during the plan year, you must submit the marriage certificate within 60 days of the marriage date to add your spouse or if you are dropping EUTF health benefits coverage because you have obtained coverage elsewhere, you must submit evidence of your non-EUTF health coverage within 60 days of the start of your non-EUTF health benefits coverage. Failure to submit the required documents within the 60 days will result in cancellation of the submitted changes, retroactive to the effective date. The requirement to submit your Enrollment Form within thirty (30) days of the event or during the open enrollment period still applies.

Sign Up for Life Insurance Benefits

All active employees and retirees eligible for EUTF benefits are also eligible for enrollment in the EUTF Life Insurance plan regardless of whether you are enrolled in any other EUTF health benefit plan, because it is 100% employer paid. You do not need a qualifying event to sign up for the EUTF Life Insurance plan. Employees should submit an EC-1 Enrollment Form (EC-1H for HSTA VB members) to their employer and retirees should mail an EC-2 Enrollment Form directly to the EUTF, PO Box 2121, Honolulu, HI 96805-2121. You should also visit the EUTF life insurance carrier's (USable Life Insurance) website at www.usablelife.com/portal/eutf to complete a Beneficiary Designation Form.

Important: The EUTF is a separate organization from the ERS. If you have any questions about information in these articles, please contact the EUTF directly. Contact information: 586-7390, 1-800-295-0089 toll free; Email: eutf@hawaii.gov



Employees' Retirement System
of the State of Hawaii

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Special Edition Fall 2016

Holomua

Retirees & Active Members

How to Contact Us

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

ERS-Pension:

For pension related questions,
please contact ERS at:

O'ahu Office, Phone: (808) 586-1735

Kaua'i Office, Phone: (808) 274-3010

Hawai'i Office, Phone: (808) 974-4077

Maui Office, Phone: (808) 984-8181

Moloka'i and Lana'i,

Phone (Toll free to Maui):
1-800-468-4644, ext. 48181

Continental U.S. toll free to O'ahu:
1-888-659-0708

<http://ers.hawaii.gov>



EUTF-Medical Coverage:

For medical coverage and
Medicare reimbursements, please
contact EUTF at:

(808) 586-7390

toll-free at 1-800-295-0089
or email at eutf@hawaii.gov

Ask ERS

Answers to some frequently asked questions:

Q: Does my dual employment for my two part-time positions get included towards my ERS membership?

A: Yes. Your service from both positions would be credited provided that each position is at least at 50% FTE (full time equivalence) and not totaling more than 100% FTE. If your two part-time positions are 50% FTE each, you would be credited at 100% FTE for each month of service and both salaries would be included for pension calculations purposes. If both part-time positions are over 50% FTE – one position at 75% FTE and other position at 60% FTE - you must choose one position for your ERS membership. Be sure to let each department know that you are working another part-time position.

Q: I am trying to change the direct deposit for my pension checks and I don't know what the "Account Title" means on the ERS 210 Direct Deposit Agreement form.

A: The "Account Title" is the name which appears on your checking or savings account. For example, Mary Smith; Mary Smith and James Smith; Mary Smith, Esq; or Sergeant James Smith.

As a reminder, by law entities such as trusts accounts, business accounts, and nursing home facilities cannot be used by ERS to direct deposit your pension payments. Please see related article on Page 5 for more information.