

Holomua

Retirees & Active Members

Spring 2015



Employees' Retirement System
of the State of Hawaii



ERS Board of Trustees:

Pilialoa E. Lee Loy
Chair

Vincent E. Barfield
Vice Chair

Jackie Ferguson-Miyamoto
Patrick Frane
Emmit Kane
Wesley K. Machida
Colbert M. Matsumoto
Jerry E. Rauckhorst

*Interim Executive
Director*

Kanoe Margol

*Interim Deputy
Executive Director*

Karl Kaneshiro

*Chief Investment
Officer*

Vijoy (Paul) Chattergy



Inside this issue:

Introducing the ERS
Interim Executive
Director and Interim
Deputy Executive
Director

Providing Retirement
Benefits for Almost
a Century

Brown Bag Sessions

New Federal Income
Tax Withholding Tables
– January 1, 2015

2015 Proposed Legislation

The 2015 Hawaii State Legislature opened on January 21, 2015 and will run through May 7, 2015. As part of the Governor's administrative package for this session, there are five proposals related to the Employees' Retirement System (ERS). Summaries are noted below.

H.B. 917 and S.B. 1086: Relating to the Employees' Retirement System

Requires the ERS to comply with a court order decreeing a forfeiture of all or a portion of any retirement benefit otherwise payable to a member, former member, or retirant of the system convicted of a felony if the court finds the felony is related to their employment. This proposal does not impair or diminish the accrued retirement benefits of members of the ERS protected by the Hawaii State Constitution. Effective upon approval.

H.B. 918 and S.B. 1087: Relating to the Employees' Retirement System

Extends the deadline by which former State or County employees who are not eligible for retirement benefits from the ERS are required to take a refund of their accumulated contributions. Members would be allowed to take a refund at age 62 or delay this mandatory refund to 4 calendar years after the date of termination (whichever is later), thus, providing the member with the opportunity to become re-employed and to earn retirement eligibility.

It also amends the discrepancy between Hybrid service requirements for (1) a refund of retirement contributions after terminating service, and (2) a Hybrid member's vested death benefits. Applicable to members after June 30, 2015. Effective upon approval.

H.B. 919 and S.B. 1088: Relating to Retirement Credit for Unused Sick Leave

Seeks to improve the long-term funded status of the ERS by changing the formula used to credit unused sick leave toward retirement benefits for employees who become members of the ERS after June 30, 2015. New members will need to accrue a minimum of 120 days of unused sick leave at retirement to be able to convert every 40 days of unused sick leave to a month of retirement service credit. This bill will direct more of the future employer contributions toward the ERS' unfunded liability. Effective July 1, 2015.

H.B. 920 and S.B. 1089: Relating to the Employees' Retirement System

Requires that an employee receiving workers' compensation benefits have retirement contributions deducted from those benefits. In contrast to other types of leaves, the employee earns full service credit for this period and Contributory and Hybrid employees have the option, but are not required, to deduct ERS contributions from these wages. This bill will require that contributions are made contemporaneously with the payment of compensation.

In addition, this proposal will establish deadlines: (1) for members who join the ERS after June 30, 2016 to claim for previous service and for military service credit; and (2) for starting payments to acquire previous service, military service and unpaid leave. Also, after June 30, 2020, provides for an actuarially neutral cost for the acquisition of service. Effective July 1, 2016.

H.B. 921 and S.B. 1090: Relating to the Employees' Retirement System

Seeks to strengthen the authority of the ERS to obtain payroll and personnel transactions from the State and Counties by requiring the employers to report the information electronically. Transactions (including adjustments) must be reported completely, timely and accurately in order for the ERS to provide prompt payment of full retirement benefits for their members. If not compliant, this proposal requires employers to pay their employer contributions at the beginning of the following fiscal year (rather than on a monthly basis). Effective July 1, 2016.

See Legislation (Continued on page 3)



A Message from Kanoe Margol

The beginning of 2015 finds the ERS in a state of transition.

In December, our Executive Director, Wes Machida, was appointed Director of Finance by Governor David Ige. I have enjoyed working with Wes as his Deputy, and will miss his leadership and guidance. While the ERS Board of Trustees goes through the process of recruitment and selection of a new Executive Director, they have appointed me Interim Executive Director of the ERS. Karl Kaneshiro, the Retirement Benefits Manager, has been appointed as Interim Deputy Executive Director.

Our priority during this transition will be to continue providing the highest customer service to you, our members. As administrators of the ERS, we will work with our Board to ensure the sustainability and viability of the pension fund. During this 2015 legislative session, we will be working to support the Board's initiatives related to our future funding and operational efficiencies. In addition, we will be working closely with our Chief Investment Officer, Vijoy Paul Chattergy and his investment team, to support their management of our portfolio assets, their efforts to explore potentially more optimal portfolio construction and allocation methods, while ensuring that our investment portfolio achieves the long-term strategic objectives of the pension fund.

We are very grateful for the support of the Board, but moreover, to the capable staff of professionals at the ERS who continue to serve our members with the highest competence and dedication.

Aloha,
Kanoe



Report from Vijoy Chattergy, Chief Investment Officer

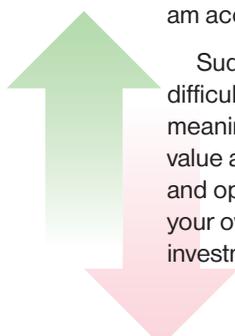
Aloha Kakou,

In a previous column, I shared the best advice I received from my boss when I was working as a financial analyst for a Japanese asset management firm in Asia. To do outstanding work, he said, "don't think like an analyst, think like a portfolio manager." An analyst researches and interprets data regarding securities, companies, economies and financial markets to be reported to their managers to help with decision-making and direction. A portfolio manager is responsible for investing the fund's assets, overseeing investment strategy and, for a public pension fund like the ERS, must protect the security and longevity of the fund's assets. I believe that for some, this message might be interpreted as "think what your boss wants you to say or do." But it does not have this meaning in a properly functioning investment group.

In a demanding work environment, the boss only has so much time to hear your ideas. As a financial analyst, you might have five really great ideas to discuss but only time to communicate two of them well. Therefore, you are most likely to present your two best ideas.

However, if you think like a portfolio manager, you might understand that your boss is looking for a solution that could be provided by your third or fourth best ideas. This is not to say that you should forget your "best" two ideas, but that to have a more meaningful and insightful conversation, consider what challenges the portfolio manager is facing and help to solve them.

This advice applies to everyone on our staff, including me, the chief investment officer. My immediate boss is the ERS Interim Executive Director, Kanoe Margol. Additionally, I report to the eight members of Board of Trustees. Ultimately, I am accountable to the members and beneficiaries of the ERS.



Suddenly, "think like a portfolio manager" is more complicated. How can I think beyond myself to help address the difficult issues facing the ERS? I start by remembering that by minding my *kuleana* – the investment portfolio – I contribute meaningfully to the larger effort. I help the Executive Director by producing a portfolio that is very likely to increase in value at a rate that helps to make the pension plan sustainable. I help the Trustees by screening investment opportunities and options, so they can make good decisions. Finally, I can help you, our members and beneficiaries, focus on doing your own work well, knowing that your retirement aspirations remain safeguarded as best as can be expected by a team of investment professionals focused on investing optimally. Complicated, yes, but definitely rewarding.

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

Eligible retirement dates are the 1st of each month with the exception of December when you can select December 1st or December 31st.

Introducing the ERS Interim Executive Director and Interim Deputy Executive Director

On December 27, 2014, Wes Machida, former Executive Director of the Employees' Retirement System (ERS), was appointed by Governor Ige to be the Budget Director of the Department of Budget and Finance.

The ERS Board of Trustees recently authorized the utilization of an executive search firm to assist in finding and hiring a new permanent Executive Director. The entire recruitment and hiring process is expected to take four to six months.

In the interim, Ms. Kanoe Margol, ERS' previous Deputy Executive Director, has been appointed as the Interim Executive Director, and Mr. Karl Kaneshiro, previously the Retirement Benefits Manager of the Enrollments, Claims and Benefits Section, has been appointed as the Interim Deputy Executive Director of the ERS.

Ms. Margol has been the Deputy Executive Director of the ERS since March 2011. As the Deputy Executive Director, Ms. Margol worked closely with Mr. Machida in formulating, planning, developing, implementing and evaluating the goals, objectives, programs, policies and procedures of the ERS. As Deputy, Ms. Margol was also responsible for the supervision of all ERS branches and neighbor island offices, including coordination, program planning, budgeting, reporting and management. She participated in the investment review of ERS assets, oversaw the day-to-day operations of the ERS, reviewed proposed legislation, including cost and implementation implications, and directed the implementation of internal control systems and procedures to ensure that all assets were safeguarded.

Prior to working with the ERS, Ms. Margol was the Vice President of Finance and Assistant Treasurer of the Queen's Health Systems where she oversaw Queen's investment portfolios, debt and cash management, corporate accounting and financial planning.

Mr. Kaneshiro started with the ERS in August 1984 and has been the Benefits Manager since October 1988. He was responsible for managing the ERS benefits program by administering, directing and coordinating the Branch's operations which include offices on Oahu, Hawaii, Maui and Kauai. The Benefits Branch, which consists of Retirement Claims Examiners and Benefits Support Staff, assists the ERS membership with retirement, disability and death benefits, as well as provides pre-retirement, mid-career and new employee orientation presentations.

Mr. Kaneshiro previously worked as an Unemployment Insurance Specialist with the Department of Labor and Industrial Relations and as a secondary school teacher with the Department of Education. In 2010, he retired as a Human Resource Advisor with over 25 years of service with the Hawaii Air National Guard.

As an interim team, Ms. Margol and Mr. Kaneshiro will work together with the ERS staff to ensure that the System remains secure and continues to provide efficient, professional service to its members.

2015 Proposed Legislation (Continued from cover)

Other bills supported by the ERS Board include:

H.B. 790 and S.B. 1208: Relating to the Employees' Retirement System

Confirms the authority of the ERS Board of Trustees to meet in executive session to consider confidential information related to investments, draft reports and memoranda subject to the deliberative process privilege. As the Board has a fiduciary duty to invest the funds of the ERS, if they are unable to consider confidential information relating to the system's investments in executive session, the Trustees' fiduciary oversight of the system's investments will be hampered and the system will be placed at a competitive disadvantage when it makes or sells investment assets. Effective upon approval.

H.B. 791 and S.B. 1209: Relating to the Retirement of Judges

Prior to the enactment of Act 163, SLH 2011, the age and service requirements for retirement for judges were the same as for other contributory plan members who became members of the ERS at the same time. Act 163 enacted more stringent age and service requirements for retirement for current members of the system who become judges after June 30, 2012. The proposed amendments are to restore requirement parity between judges and other contributory plan members. Effective July 1, 2012.

Results of these proposals will be covered in our Summer 2015 Holomua. For more information, visit the State Capitol website at www.capitol.hawaii.gov.

ERS by the Numbers

On February 9, 2015, the ERS Board of Trustees approved the June 30, 2014 Actuary Valuation Report prepared by Gabriel, Roeder, Smith and Co., ERS' actuarial consultants. Included with the current report of the funded status of the System, are statistical tables on which the actuarial analysis is based. The actuaries review our active, terminated and retired membership in order to review where we are now and to anticipate funding for the longevity and sustainability of the system.

How was our funded status during the 2013 to 2014 fiscal year?

ERS Assets	Actuarial (smoothed) value	\$13.6 Billion
	Market value	\$14.2 Billion
	Return on actuarial value	9.2%
	Return on market value	17.8%
Actuarial Information	Unfunded actuarial accrued liability	\$8.6 Billion
	Funded ratio (based on smoothed assets)	61.4%
	Funded ratio (based on market assets)	63.9%
	Funding period (years)	26.0
Contributions*	Employees	\$206,127,337
	Employers	\$653,127,697
	Total	\$859,255,034
ERS Payments	Refunds	\$8,475,969
	Benefit Payments	\$1,122,445,642
	Total	\$1,130,921,611

*Does not include investment return

Who are we? A few demographics of interest:

Membership	Active Members	67,206
	Retirees and Beneficiaries	43,087
	Inactive, Vested	8,105
	Total	118,298
Active Membership	Contributory	6,281
	Noncontributory	17,061
	Hybrid	43,864
	Active Members' Average Annual Income	\$57,599
Employee Categories	General Employees	31,975
	Instructional Employees	17,631
	Police/Fire Category Employees	5,006
Retirees	Ages 80 to 89	7,541
	Ages 90 to 99	1,743
	Ages 100 and above	47
	Retirees' Average Monthly Pension	\$2,099

For the System to be able to provide benefits for all of our retired and active members into the future, the actuaries must look to the ERS' past and, based on certain assumptions (retirement, mortality, turnover and disability rates, investment returns, salary increases, inflation), to anticipate our future. The complete Report is available on our website under: Resources/Financials/2014 Actuarial Valuation. Our next 5 year experience study is scheduled for June 30, 2015.

Providing Retirement Benefits for Almost a Century

On April 22, 2015, the Employees' Retirement System of the State of Hawaii will recognize the 90th anniversary of its establishment by the Territory of Hawaii. The ERS actually started operating on January 1, 1926; however, the 1925 Territorial Legislature passed its existence into law with Act 55. In part, the Act reads:

"Be it Enacted by the Legislature of the Territory of Hawaii:

...A retirement system is hereby established and placed under the management of the board of trustees hereinafter described for the purpose of providing retirement allowances for employees of the Territory of Hawaii. It shall have the powers and privileges of a corporation and shall be known as the "Employees' Retirement System of the Territory of Hawaii", and by such name all of its business shall be transacted, all of its funds invested, and all of its cash and securities and other property held. The retirement system so created shall begin operation as of the first day of January, 1926."

Approved this 22nd day of April, A.D. 1925.

W.R. Farrington,
Governor of the Territory of Hawaii

90th

For almost four generations, through changing and challenging times, the ERS has continued to adapt and thrive. The System continues to take all the steps necessary to ensure that promised benefits will be there for future generations of beneficiaries.

For Active Members

Brown Bag Sessions

We invite our new and mid-career Oahu members to sign up for a Brown Bag session to get valuable information that can help you understand and plan for your future retirement.

Second quarter Brown Bag Sessions schedule:

Dates	Retirement Plan	Time	Location
April 23	Hybrid	12:15 pm to 12:45 pm	City Financial Tower ERS 201 Merchant Street Suite 1400
May 7	Noncontributory		
May 14	Contributory		
June 18	Hybrid		

To register, please call our office at 586-1735 at least one week prior to the scheduled workshop. Each session is limited to 35 members. On the day of the session, please report to the 14th floor in our building and an ERS staff member will accompany you to the conference room. Feel free to bring your lunch, too. Limited parking is available in our building on the 3rd floor.

2015 Neighbor Island Retirement Workshops – Planning for Your Retirement

Every year active members on the neighbor islands have a full array of ERS workshops available on every island. What's scheduled in 2015 are classes to give you useful information about your plan's features (the Contributory, Hybrid or Noncontributory plan), and how your ERS benefits are determined.

There will be a class that fits your present situation—informational workshops for new and mid-career active members who want to learn the basics, as well as pre-retirement workshops for active members within two years of retirement who are ready for more detailed information.

Schedules for all neighbor islands can be found at <http://ers.ehawaii.gov> under Members/Retirement Planning. These sessions are open to active ERS members of any State or County agency; seating may be limited, however, so it's best to register early. Please fax or mail your registration form to the applicable neighbor island ERS office.

New Federal Income Tax Withholding Tables – January 1, 2015

If you received a Statement of Retirement Allowances and Deductions in January, there was a change in your net pension amount or you may be one of our new retirees who received your initial pension payment. In most cases, a net pension amount change was due to the new Internal Revenue Service (IRS) tax tables effective on January 1. If you did not receive a statement, there was no change to your pension amount.

The IRS annually adjusts various provisions due to inflation, including tax rate schedules, tax tables and cost-of-living adjustments for certain tax items. The 2015 changes to the tax tables, in most cases, reduced our pensioners' tax withholding resulting in an increase in your net pension payment. As always, please verify the amount deposited to your checking or savings account with the net amount on your statement.

If you want to make a change to your tax withholding, please submit a W-4P Withholding Certificate for Pension or Annuity Payments form to our office. Please allow four to six weeks for the change to be effective. The form is available at all of our offices and through our website at <http://ers.ehawaii.gov>. Refer to the menu item: Retirees/Pension Forms. At this same location, you will also find information on the 2015 Federal Income Tax Withholding Tables.

Important: Keep Your Information Up-to-Date

So many events happen in the course of our lives. For instance, you may move to another address, change your phone number or consolidate bank accounts. There may be more significant events such as a marriage, an addition to your family, or the loss of a loved one. Or, perhaps you may find that you need a family member to be authorized as an informational contact.

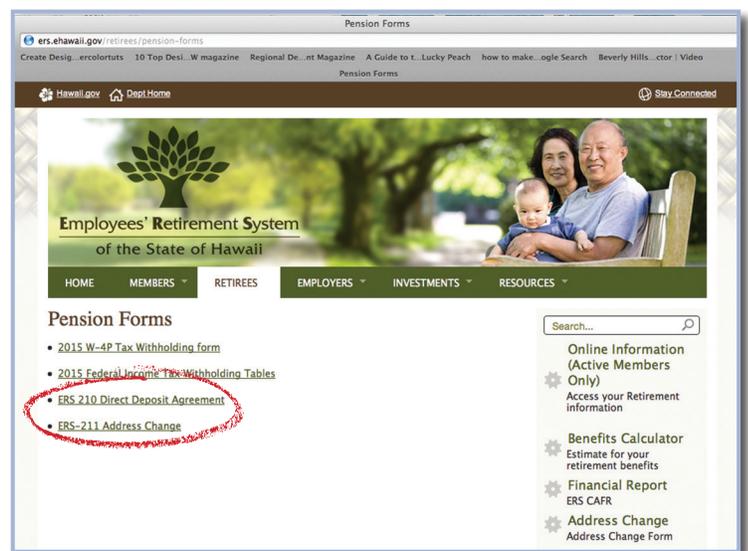
When any of these events occur, it's important to let us know. It's also important to make sure your beneficiary or family member knows about the ERS should they need to contact us.

In recent years, more retirees select options that provide benefits for their beneficiaries. Upon the death of a retiree, the ERS sends out correspondence regarding benefit information, documents required and claim forms for the beneficiary to file for the benefits payable. Incorrect or outdated addresses or phone numbers will delay the notification or processing of benefits and none of us wants that to happen.

Contact information update forms are available at each of our offices or on our website at <http://ers.ehawaii.gov> under the menu item Retirees/Pension Forms/ERS-211 Address Change.

Forms to update your direct deposit account are also available on our website under Retirees/Pension Forms /ERS 210 Direct Deposit Agreement.

In the event you need to update your beneficiary designation, please contact our office at (808) 586-1735 for ERS review of your beneficiary benefits, if any, and instructions regarding designations.



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

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

The Open Enrollment period for EUTF Active Employee Health and Life insurance plans will be from **April 1, 2015 through April 30, 2015**.

Now is the time when you can stop and think about health coverage for yourself and your family and determine which plan offered will best meet your needs. Remember open enrollment is your only opportunity to make changes without a mid-year qualifying event such as needing to enroll a new dependent due to marriage or a birth.

Here are some important dates:

- New coverage becomes effective: July 1, 2015
- Rates change effective: July 1, 2015
- Plan Period: July 1, 2015 through June 30, 2016

Visit EUTF's website at eutf.hawaii.gov to review the 2015 Reference Guide and for a schedule of Open Enrollment Informational Sessions.

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

7

Income Adjusted Medicare Part B Premiums

- If you pay a higher income-related Medicare Part B premium (more than the standard amount of \$104.90 for 2015), please submit a copy of your Social Security Administration (SSA) Verification Letter to the EUTF as soon as possible. The Medicare Part B premium reimbursement amount is reset each January to the standard amount; therefore, you must submit a copy of your SSA Verification Letter every year that you pay a higher income-related Medicare Part B premium. EUTF will only reimburse you the higher income-related Medicare Part B premium up to 2-years retroactively. Please note that the EUTF does not reimburse for any late enrollment penalties.

Medicare Part D Prescription Drug Plan - Late Enrollment Penalty (LEP)

- When you become eligible for Medicare, you must enroll in a Medicare Part D prescription drug plan if you are not already enrolled in a creditable prescription drug plan (i.e., an active employer plan, such as the EUTF's CVS Caremark or Kaiser prescription drug plans, through your employer or as a dependent). If you do not enroll in a Medicare Part D prescription plan or have other creditable prescription coverage, you may be assessed a LEP penalty by the Centers for Medicare and Medicaid (CMS). The LEP penalty will apply for your lifetime and is not reimbursable by the EUTF. You may owe a LEP if at any time after your Initial Enrollment Period (the period when you are first eligible to enroll in a Medicare Part D prescription drug plan), you have no Medicare Part D prescription drug or other creditable coverage for 63 days in a row or more.

Surviving Spouse No Longer Eligible When They Re-Marry

- The surviving spouse, civil union partner (CUP) or domestic partner (DP) of a deceased retired-employee is eligible to enroll in the benefit plans offered or sponsored by the EUTF for retirees, provided the spouse or CUP/DP does not remarry or enter into another civil union or domestic partnership.

New Retirees

- The EUTF Administrative Rules were amended effective August 18, 2014. Retirees have 60 days from the date of their retirement to enroll into EUTF retiree plans, otherwise they will have to wait to enroll during the next open enrollment period, and their plans will be effective January 1st of the following year.

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 www.eutf@hawaii.gov. You can also visit our website for more information at www.eutf.hawaii.gov.



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

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

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

Spring 2015



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: While preparing for retirement, I noticed that in order to prove my date of birth, the ERS requires that I send in my original birth certificate or baptismal certificate. Why do you require original documents?

A: We need to review the original document in order to certify that you are eligible for retirement based on your age and date of birth. After our review, the original document will be returned to you. It's best to prepare in advance if these documents need to be obtained from out-of-state. Included in the retirement application packet are several other proof documents, two of which may be submitted in the event that the original birth or baptismal document cannot be obtained or released. (Please note that acceptable driver's licenses and state identification cards must be from Hawaii.)

Q: I retired on February 1, 2010, and was recently sent a notice that my unused sick leave credit was just added to my retirement service credit to increase my retirement benefit. Why did it take ERS so long to process my sick leave adjustment?

A: We regret that it took several years for your retirement benefit to be adjusted. Unfortunately, we must wait for this information to be provided by your previous employer in order to process your adjustment. When you retired, we requested for your unused sick leave balance with follow-up reminders. Most employers are prompt, but a few are not. We make every effort to ensure that you receive your full benefit as soon as possible. All pension adjustments are retroactive to your retirement date.