

Holomua



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



How does the City of Detroit's Pension Systems Compare to Hawaii's Employees' Retirement System?

Recent news of the City of Detroit's financial situation has raised, and continues to raise, questions about whether the Employees' Retirement System of the State of Hawaii could be in a similar situation.

It is unfortunate to hear about the recent events in Detroit regarding the filing of Chapter 9 bankruptcy. Although the outcome of the claim and filing is uncertain, just know that the Employees' Retirement System of the State of Hawaii's (ERS) situation is vastly different than the City of Detroit for the following reasons as reported in the news:

- The City of Detroit's pension systems reported in 2011 that its **retirees represented about 61%, as opposed to 39% of active members** who receive services from their pension system. ERS has about **41,000 retirees or 38% and about 67,000 active members or 62%** of individuals who receive services from the ERS. Active members help pay into the pension system, so Detroit's pension systems received significantly declining employee contributions.
- The City of Detroit has not been paying their employer contributions for a few years. **In 2013, \$103 million of required employer contributions were not paid to the pension system.** ERS employers have made, and continue to make, their statutorily required employer contributions. In fiscal year 2013, more than \$550 million was received from employers.
- The **City of Detroit in 2005 borrowed \$1.4 billion to fund its pension systems**, whereas the ERS's employers have not borrowed monies to fund the ERS.
- It was reported that the **City of Detroit's pension systems lost hundreds of millions of dollars from hedge fund and certain real estate investments.** The ERS did not and does not invest in hedge funds.
- According to one news media, "Detroit officials have also made a habit of convincing unions to accept pension sweeteners – shorter terms of employment required, more generous multipliers, or a "13th check," essentially an annual bonus – rather than pay increases. But that has raised pensions costs and had the unintended effect of shrinking the city's work force to the point where employee contributions can't keep pace with the needs of current pension recipients." **ERS, on the other hand, has addressed escalating pension costs through legislation** that enacts pension reforms for new members to significantly lower pension costs while providing reasonable pension benefits.

Actuaries have reported that the financial well-being of pension systems is determined by the systems' funded ratio (monies in the fund to meet total pension obligations) and ability of the employers to pay their required contributions. In the City of Detroit's situation, it appears that they are no longer able to meet their required contributions and even had to incur more obligations to pay these contributions in the past. Overall, ERS is in a better situation and Hawaii's employer have not incurred more obligations to pay required contributions.

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This year of 2013 has gone by quickly, yet there is so much more to accomplish before the end of the calendar year. Most importantly, we want to build on our 12 percent investment return for the 2013 fiscal year by doing the same or better for the 2014 fiscal year. To help us do that, our Investment Office recently hired two Investment Specialists to help our Chief Investment Officer monitor our investment activities and reduce investment costs. And we are reviewing our laws and best practice policies to determine possible legislative proposals for the 2014 legislative session.

Among the things we have already accomplished is that the ERS website has been updated to include more information to employers, members, and retirees. Many of you use the website for different reasons. In fact, there were 249,967 viewings of our website from January 1, 2013 through the end of July 2013. The benefits calculator was the most viewed/used page on our website. In terms of usage, it was followed by: members-retirement planning, members-active/new hires, resources-all publications, members-leaving employment, resources-all forms, resources-contact us, retirees-pension information, and investments.

For our members, the on-line service information on our website is scheduled to be updated in November 2013. For our retirees and beneficiaries, we hope that all of you received your post retirement increases in July 2013.

Although there were over 14,000 members eligible to retire this past fiscal year, a little over 1,900 members retired in the fiscal year 2013 bringing the total retirees and beneficiaries to over 41,000. The past five years have reported annual retirements near or exceeding 2,000.

We hope that the remainder of 2013 will be a positive one for you and your family.

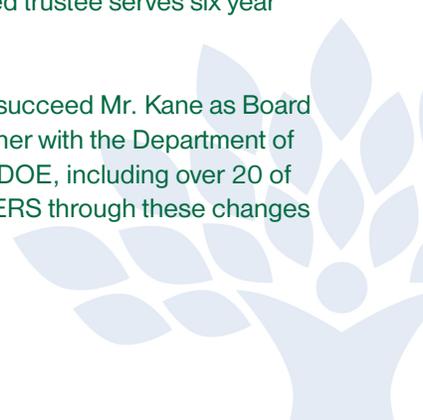
Aloha,
Wes Machida

ERS Board of Trustees Transitions

On August 1, 2013, elected member trustee and Employees' Retirement System (ERS) Board Chair, Mr. Emmit Kane retired from the Honolulu Fire Department after over 26 years of dedicated service. During his tenure, Mr. Kane served as a Deputy and Assistant Fire Chief with the HFD and also served on the Executive Board of the Hawaii Fire Fighters Association. The ERS wishes to commend and congratulate Mr. Kane for his outstanding leadership and service to the ERS and the people of Hawaii.

In addition to Mr. Kane's retirement, there will be two open seats on the Board of Trustees for terms ending January 1, 2014. One seat is for a general employee and the other is for a retirant. The period of nominations for both seats expired on August 29, 2013. Of the eight board members, four are elected (two general employees, a teacher and retiree) and three are citizens of the State appointed by the Governor, and the State Director of Finance is an ex-officio member by statute. Each elected and appointed trustee serves six year terms.

The ERS Board, at its August 12, 2013 meeting, elected Ms. Pili'alo'ha Lee Loy to succeed Mr. Kane as Board Chair. Ms. Lee Loy has been an ERS trustee since January 2, 1992 and is a teacher with the Department of Education at Aliamanu Elementary School. With over 40 years of service with the DOE, including over 20 of those years as an ERS trustee, Ms. Lee Loy will capably guide the Board and the ERS through these changes and transitions.



Report from Vijoy Chattergy, Chief Investment Officer

Aloha Kakou. Over the last couple of Holomua articles, I introduced the imprecise but useful notions of investment return driven by information and investment risk driven by variability. With this in mind, we can state that in a very practical sense, the role of the ERS Investment Office is to maximize the certainty of returns and to minimize the uncertainty of risks. Therefore, it is valuable to focus more attention on the twin concepts of risk and return, and develop an intuitive feel for their importance in the work of investment management.

First off, describing the risk and return concepts as twins is not quite right. Higher returns are good. Higher risks are bad. The relationship is not identical but somewhat inverted. Better to say that risk is the evil twin of return. That builds some degree of intuition, but the more accurate relationship is of a duality, whereby one is inseparable from the other. The relevant analogy might come from Taoist eastern philosophy in the form of the yin and yang (阴阳). Alternatively, we can borrow from the world of science, where there is the space/time continuum and also the wave/particle duality. These concepts may be too mystical or complicated for our purpose, but the point is that duality is not something unexpected or unknown.

Any investment can be characterized as exhibiting a return expectation or a risk probability. For example, stocks as an asset class have historically returned an average of 8% over the long term. Also, the historical implied volatility (i.e., risk) of the S&P 500 stock index has been 15%. However, the better way to evaluate an investment opportunity is to combine the risk and return characteristics into a comprehensive metric.

An illustration may be helpful. Assume investors A and B achieved identical target returns of 3% over the last 12 months. Investor A achieved this return through a bank CD with a one-year term and a 3% fixed rate. Investor A then spent the next 52 weekends enjoying the beach with family. Investor B achieved this return by playing Blackjack in the casino over 52 weekends. The returns were identical, so should we be indifferent as to which strategy to prefer? No. Investor A earned 3% with very minimal risk. Investor B earned 3% with greater uncertainty of the outcome. The strategy of Investor A is superior when understood by accounting for both return and risk. There are more formal measures that quantify risk-return investing, which we can return to in a future Holomua.

What would motivate an investor to engage in a more risky strategy? Generally speaking, investors will expect to earn higher returns for accepting higher risks. In our illustration, Investor B might have expected a 20% or 50% return to spend long weekends under the artificial lights of the casino. While the 3% return would be completely expected and, therefore, satisfying to Investor A, Investor B might be extremely disappointed.

Coming back to the ERS investment portfolio, there is an explicit return objective for the fund of 7.75%. There is also an implicit fiduciary responsibility to achieve that target return with as little risk as necessary. The role of the Chief Investment Officer is to work with the consultants to measure, evaluate, and recommend investments to the Board of Trustees that achieve the expected return objective while minimizing risk over the long term. The role is simple to state, relatively easy to understand and accept, but difficult to execute.

The risk-return duality of investment management requires investors to be disciplined and focused to be successful. Complicating matters further, the relationship between return and risk is dynamic. Return expectations and risk concerns may change depending on the market environment, as characterized by inflation, interest rates, and growth factors. Assessing these factors is ultimately what governs the risk-return opportunities and successful investment management.



Hawaii Elder Law Program celebrates nearly 20 years of helping Akamai Kupuna

Because many of our retirees are living longer, we thought it would be helpful to let them, and their families, know about a program specifically for kupuna. It's the Hawaii Elder Law Program, under the University of Hawaii at Manoa's William S. Richardson School of Law, and it's celebrating nearly twenty years of service to the university and the community.

The goal of the Elder Law Program (UHELP) is to enhance, protect and preserve the autonomy and independence of older persons through education, training and direct legal services. Through a variety of services, UHELP encourages Akamai Kupuna to "prepare for the worst and expect the best!" The program places particular emphasis on assisting socially and economically needy older persons and their caregivers.

Their services include:

1. Advance Healthcare Directives-healthcare instructions (similar to the old "living will") and healthcare powers of attorney
2. Simple wills-restricted to certain estate values
3. General durable powers of attorney
4. Planning for incapacity and death
5. Counseling on end-of-life decision making
6. Information about public benefits
7. Counseling on legal issues relating to elder abuse, caregiving and guardianship/conservatorship
8. General legal information and referrals

Some types of cases they do **not** handle are:

1. Criminal Law (including traffic violations)
2. Commercial or Income Producing Matters
3. Personal Injury Matters

With an emphasis on education, UHELP has published several handbooks, including:

Deciding "What's Next?" – 2011: A Legal Handbook for Hawaii's Older Persons, Families, and Other Caregivers, will guide you in a simplified way through several areas of legal concerns facing caregivers and the persons they care for.

Elder Law Hawaii Handbook: Describes the essential information needed by individuals and their families or partners who face some of the most serious issues of the later years – declining health and the need for long-term care; appropriate legal and financial planning; and dealing with death, bereavement, and grief.

These publications provide, in straightforward language, basic legal, financial and health-care information for seniors and their families. More information is available at the Elder Law Program website at: <http://www.hawaii.edu/uhelp/>. The Elder Law Program is located on the UH Richardson School of Law campus at 2515 Dole Street, Room 201, and can be reached by phone at (808) 956-6544.



News from the EUTF

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

Aloha! The Retiree Open Enrollment period will be held from October 4, 2013 through October 31, 2013. Open Enrollment is the time you can make changes to your EUTF health plans. Below is the schedule of open enrollment sessions. Around the end of September, you will be receiving in the mail the annual Reference Guide that gives you detailed information on the health plans and other important information.

2013 Open Enrollment Schedule for Retirees			
Date	Location	Room	Time*
October 7	Molokai	Mitchell Pauole Community Center	9:00-10:30 am 11:00 am -12:30 pm
October 8	Honolulu	HGEA Meeting Hall - 1st Floor	9:00-10:30 am 11:00 am -12:30 pm
October 9	Kauai	War Memorial Gym	9:00-10:30 am 11:00 am -12:30 pm
October 10	Maui	Wailuku Community Center - Velma "McWayne" Santos Center	9:00-10:30 am 11:00 am -12:30 pm
October 11	Kapolei	UH West Oahu-E132 Laboratory	9:00-10:30 am 11:00 am -12:30 pm
October 14	Kona	Old Kona Airport	9:00-10:30 am 11:00 am -12:30 pm
October 15	Windward	Windward Community College	9:00-10:30 am 11:00 am -12:30 pm
October 16	Hilo	Aunty Sally Kaleohano's Luau Hale	9:00-10:30 am 11:00 am -12:30 pm
October 17	Pearl City	Leeward Community College - Tech Room	9:00-10:30 am 11:00 am -12:30 pm

*Informational session presentation to start promptly at designated start time.

Other important information:

- Q1.** I am a former Bargaining Unit 05 retiree enrolled in the HSTA VB retiree plans. If I change to a EUTF retiree plan this open enrollment, can I change back to the HSTA VB retiree plans next open enrollment?
- A1.** No. Once you leave the HSTA VB plans, you may not return to them later.
- Q2.** I am a Bargaining Unit 05 retiree who is enrolled in the EUTF retiree plans. I will be turning 65 in a few months. When I turn 65 will I be allowed to switch to the HSTA VB plans?
- A2.** No. When you voluntarily leave the HSTA VB retiree plans or are enrolled in the EUTF retiree plans upon retirement, you may not switch to the HSTA VB plans later.
- Q3.** The federal Affordable Care Act says that health plans are required to allow dependents up to age 26 to be covered under their parent's plan. Can I enroll my 24 year old child in my plans during open enrollment?
- A3.** No. The Affordable Care Act does not apply to retiree plans. As such, you may not enroll your 24 year old adult dependent. You may, however, enroll your child between the ages 19-23 if he/she is a full-time student and you provide the EUTF with a letter from your child's college or university stating he/she is a full-time student.

Please 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.



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

Holomua

Retirees

July/August/September 2013

Ask ERS

Answers to some frequently asked questions:

Q: Before I'm "no longer in the picture," how can I help my beneficiaries now for claiming my retirement death benefits?

A: It would be helpful for you to inform your designated beneficiary about the ERS and the retirement option you selected when you retired, as we will be writing to your designated beneficiary regarding death benefits payable, if any. As noted in our previous newsletter, you should keep your ERS documents and contact information with your important papers for easy access by your survivors. Also, be sure to keep us informed of your current address.

Q: Is the designated beneficiary the only person who may report a death to the ERS?

A: No. Any person may report the death of a retiree or beneficiary to the ERS as the pension payments will need to be stopped immediately. Any late report of death may result in an overpayment of pension which will have to be recovered. We will ask for some basic information on the deceased, but the informant need not wait for the death certificate to report a death to the ERS.

Q: How long does it take to change the bank assignment for my direct deposit to another bank or financial institution?

A: A change in bank assignment received early in the month will normally be effective by the end of the following month. We encourage you to submit your assignment change no later than the 15th of the month prior to the month you want your checks to be deposited to your new account. It is also necessary to keep your current account open until your retirement checks are credited to your new account. If your old account is closed before the change takes effect, your pension check will be returned to the ERS and will need to be reissued to you within 4-6 weeks.

How to Contact Us

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

Oahu Office, Phone: (808) 586-1735

Kauai Office, Phone: (808) 274-3010

Hawaii Office, Phone: (808) 974-4077

Maui Office, Phone: (808) 984-8181

Molokai & Lanai, toll free to Oahu:
1-800-468-4644

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