

Holomua



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



2014 Legislative Update

The second half of the 27th Legislature concluded on May 1, 2014.

Of the two Administrative proposals introduced this session, House Bill 2264, Relating to the Investment Authority of the Employees' Retirement System, was successfully passed by the Legislature and approved by Governor Abercrombie on April 23, 2014. This measure allows the Employees' Retirement System (ERS) to retain or dispose of real estate acquired by the ERS by foreclosure, in the enforcement of security, or in satisfaction of debts in the same manner as the System's other investments in interest in real property. It repeals the limitation on the holding period for these types of real estate transactions and gives the ERS Board the authority to prudently manage the ERS' investment portfolio. Designated as Act 35, this proposal was approved without amendments.

The other Administrative ERS proposal to change the formula for crediting unused sick leave toward retirement benefits for new employees hired after June 30, 2014 (H.B. 2263) crossed-over to the Senate but was not heard. In addition, the non-Administrative proposals supported by the Board: S.B. 1038 regarding the forfeiture of retirement benefits for members convicted of work-related felonies and S.B. 2916 requiring ERS-authorized employer reporting with penalties for non-compliance were deferred in conference committee.

On a congratulatory note, the Governor's appointment of Jerry Rauckhorst to the ERS Board of Trustees was unanimously confirmed by the Legislature for a term to expire on January 1, 2020. Mr. Rauckhorst was initially appointed to the Board on April 21, 2010. During his tenure, he served on the Investment Committee, Administrative and Legislative Committee, Compensation Review Committee, and Audit Committee (of which he is the Chair). As the Chief Executive Officer of Catholic Charities Hawaii, Mr. Rauckhorst brings his fiscal management skills to complement the Board's commitment to reducing the unfunded liability of the ERS and ensuring its sustainability. In addition, Mr. Rauckhorst helps guide the Audit Committee with his experience in organizational development, finance, and strategic planning. Mr. Rauckhorst's continued presence and contributions as an ERS Board Member will continue to positively impact ERS members and the State of Hawaii.

For information on these and other legislation during the 2014 session, please refer to the State Capitol website at www.capitol.hawaii.gov.

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As we reach the mid-point of 2014 and the end of the fiscal year, we are pleased to report that the ERS fund continues to be strong and healthy. The investment returns during this past fiscal year have been beneficial for the System and have helped reduce our unfunded liability. We hope that this trend continues into the next fiscal year.

Related to the System's investments, Act 35/2014, which was passed by the legislature and approved by the governor during the just completed legislative session, will provide our Board with the authority to make more prudent and timely decisions regarding the ERS' real estate portfolio. Although there were some disappointments with proposals that did not pass this year, the ERS Board and staff appreciate the support we received from the membership, employers, employee organizations and the legislature. We will continue to introduce proposals that will promote greater sustainability and stability for our active members, retirees and beneficiaries.

As noted in this *Holomua*, we will be publishing a combined Active and Retiree newsletter in future editions. This will help with some of our expenses, and provide all our members with information that they may find applicable to friends and family on either side of the retirement application. Active members may benefit from retiree information as they look forward to retirement and retirees may be reminded of what their active member friends may need to know as they plan for retirement.

During the remainder of this year, we will continue to expand our membership information and education program. Brown bag sessions, employee organization gatherings, ERS website enhancements and possible 'Olelo programs are all on our agenda as we look toward the rest of 2014.

Take care and Aloha,

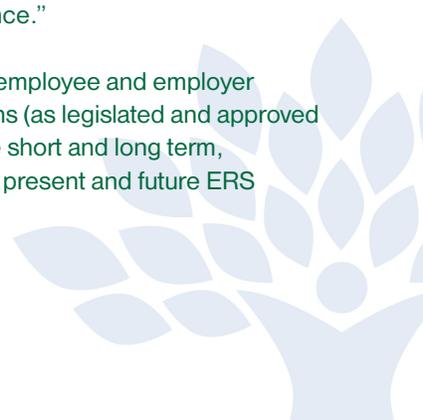
Wes Machida

ERS fund value reaches \$13.7 billion

At its May 13, 2014 board meeting, the investment consulting firm of the Employees' Retirement System (ERS), Pension Consulting Alliance, Inc., reported a 1.5 percent investment gain during the January – March period. Though a seemingly small increase, it resulted in an aggregate ERS fund value of \$13.7 billion at the end of the third quarter of the fiscal year – the highest the fund has ever reached. Over the last year, the ERS portfolio has increased by \$1.4 billion.

This positive news was tempered by the knowledge that the fund is still far short of its pension obligations. The ERS' unfunded liability (the monies needed to pay all present and future benefits) remains at \$8.49 billion and the fund, as of June 30, 2013, was just 60 percent funded. "For the year we are up double digits, and at that rate it could double the 7.75 percent target for the fiscal year (ending June 30)," ERS Executive Director Wes Machida stated to Dave Segal of the *Honolulu Star-Advertiser* on May 14, 2014. "If that's the case, we'll be in a good situation to improve our funded ratio, which was reported at 60 percent last fiscal year." ERS Chief Investment Officer, Vijoy Paul Chattergy, noted that the markets went down in January and recovered a bit in February and March. "The improvement was modest given that people were coming to terms with Fed tapering (reducing its bond repurchasing program). Where the portfolio was really held back in the quarter was in our international equity area as well as real estate. U.S. equities continued to contribute a positive performance."

ERS' investment portfolio is just one of the three sources of funding for the System – employee and employer contributions make up the other two. In the long term, increases in these contributions (as legislated and approved in 2011 as Act 163) will help to draw down the unfunded liability of the System. In the short and long term, however, the success of the investment portfolio will help to keep the fund solvent for present and future ERS members.



Holomua 'Ekahi

“Holomua” means “to move forward, improvement, progress” and “ekahi” means “one.”

In the future, the active and retiree *Holomua* newsletters will be combined into one issue. In this one newsletter you will see articles and information relevant to both retirees and active members, as we hope to address issues of interest to all.

One reason for consolidating newsletters is, of course, to save on publishing costs. In addition, we have had inquiries from members in the past about information appearing in the “other” newsletter that was not included in theirs. Our goal is to provide all of our members with interesting and important information that they would find relevant to themselves, their family and friends.

The largest age brackets of active ERS members fall between the ages of 45 and 60. In October 2013, we sent out information on our new retirement option factor tables for 2014, and sent individual letters to over 14,000 members who were eligible for retirement. There is a very fine line between the ages and interests of a large number of our active and retired population.

We look forward to your feedback as we continue to move forward as one. Please refer to the “Email: ERS” link on the home page of our website at <http://ers.hawaii.gov>.

Annual post-retirement increase due in July 2014

All qualified retirees (with retirement dates prior to 2014) and beneficiaries will receive their annual post retirement increase in July. You may recall that the 2-½% increase is not compounded and is calculated on your base pension amount. Semi-monthly payees will receive the increase on July 15, 2014 and monthly payees will receive the increase on July 31, 2014.

This year, a number of retirees chose to retire on January 1, 2014 rather than December 31, 2013 due to the implementation of new option factors. These retirees will receive their annual post-retirement increase in July 2015.

Please keep the ERS payment statement you receive as statements are only issued when there is a change in the pension amount. These statements show the gross payment amount, deductions being withheld, and the net payment amount. Please confirm the net payment amount with the deposit recorded on the statement you receive from your financial institution before contacting ERS about any pension amount discrepancies.

Holomua Newsletter — EUTF Articles

As a service to our membership, the ERS includes “News from the Hawaii Employer-Union Health Benefits Trust Fund (EUTF)” articles in our Holomua to provide our active members and retirees with information on their health plan coverage and to assist the EUTF with keeping our members informed. We are NOT, however, one entity – we are two separate, and distinct agencies.

The ERS and the EUTF are both divisions under the Department of Budget and Finance and we service almost the same population. However, each division has distinct responsibilities to their membership, and is only able to provide information on services specific to their division. We are administered by two separate Boards of Trustees, have separate administrative and support staff, and are governed by separate rules and statutes.

For the ERS, our responsibility and function is to provide retirement, disability, survivor, and pension benefits for our State and County members, retirees and beneficiaries. The EUTF's responsibility is to provide health insurance coverage (i.e., medical, dental, drug, vision, etc.) and other benefit plans for State and County employees, retirees and beneficiaries.

At the ERS, we have received many calls regarding medical coverage and Medicare reimbursement payments which are the responsibility of the EUTF. Your cooperation is needed by directing your questions to the appropriate division to receive the accurate information you are seeking. The ERS and EUTF work cooperatively, especially at the point of retirement, to help with the transition from employment to retirement; but we need your *kokua* in contacting the appropriate division for your specific questions and needs. The EUTF can be reached directly at (808) 586-7390, toll-free at 1 (800) 295-0089 or by email at eutf@hawaii.gov. Information and forms are also available on the EUTF website at <http://www.eutf.hawaii.gov>

Report from Vijoy Chattergy, Chief Investment Officer

Aloha Kakou.

We welcomed three new Investment Officers in March, and want to use this quarter's article to introduce the new team. The three join with myself and two Investment Specialists, Andrew Chen and Ian Wetzel, who came on Board last October. Aaron Au joins as the Illiquid Markets Investment Officer (ILO) with responsibility for such investments such as private equity, real estate, and timber. Anthony Goo joins as the Liquid Markets Investment Officer (LIO) with oversight for assets such as equities, fixed income, and covered calls. Howard Hodel joins as the Risk Investment Officer (RIO) charged with assessing, monitoring, and improving risk management for the total portfolio. All three bring a wealth of experience in financial services and Hawaii business.

Prior to joining the ERS, Mr. Au worked at Central Pacific Bank for over 6 years as a Senior Trust Investments Officer and at First Hawaiian Bank in the Wealth Management Group. Mr. Au spent the majority of his career with the Kamehameha Schools Endowment where he held various management positions including Director of the Financial Assets Division. He was responsible for management and oversight of over \$3.5 billion in marketable securities, private equity, venture capital, inflation hedging assets, and hedge-funds and fund-of-hedge funds. Mr. Au earned a Bachelor of Business Administration degree in management from the University of Hawaii at Manoa and an M.B.A. in finance from Chaminade University.

Mr. Goo joins the ERS most immediately from the Bank of Hawaii, where he held various management positions including senior vice president in charge of fiduciary asset management and institutional services departments. Mr. Goo's industry experience includes serving as chief investment officer of Bishop Street Capital Management, senior vice president and manager of the Trust Portfolio Management Department of First Hawaiian Bank, and portfolio manager for the Asset & Liability Department of First Interstate Bank. A graduate of the University of Hawaii, Mr. Goo has a bachelor's degree in business administration and majored in accounting.

Prior to joining the ERS, Mr. Hodel provided financial, investment and energy consulting services to institutional clients in Hawaii and in other parts of the U.S. Previously, Mr. Hodel headed Bank of Hawaii's Asset Management Group, where he reorganized the unit from top to bottom. Mr. Hodel was also with Bank of America (BofA) in Los Angeles and Chicago, where he established and headed the analytics and market risk unit for the bank's fiduciary businesses. At BofA, Mr. Hodel previously worked in the Treasury Department as a market risk manager, planning manager, and mergers and acquisitions manager. Mr. Hodel began his career at British Petroleum (Amoco and Sohio), where he held various financial, economic, and planning positions. Mr. Hodel received an A.B. from Dartmouth College, as well as an M.B.A. in statistics and international business management from the Catholic University of Leuven, Belgium while on fellowship from the University of Chicago, Booth School of Business, where he earned an M.B.A. in finance and accounting. He also earned a CFA Charter designation in 2006.

Aaron, Tony, and Howard bring a depth and expertise to the ERS Investment Office that we have never had. I am excited to work with them as they make lasting contributions to the efficiency and effectiveness of our investment strategy and program. Wesley Machida, Executive Director, expressed that "with the hiring of the investment officers, the ERS is positioned to continue on a path toward best practices in fulfilling our fiduciary responsibilities to manage the investment assets prudently and with a higher standard of care that should ensure the sustainability of the pension plan."

News from the EUTF

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

Some helpful reminders for retirees:

- If you became eligible for Medicare Part B premium reimbursement **on or after July 1, 2006**, you are **required** to receive your Medicare reimbursement via direct deposit to a financial institution of your choice (your bank account must be located in the United States). Visit the EUTF website at www.eutf.hawaii.gov to print a Direct Deposit Agreement (DDA) Form or call the EUTF at 586-7390 or toll-free at 1-800-295-0089 to have a DDA form mailed to you.
- If you became eligible for Medicare Part B premium reimbursement **before July 1, 2006**, and you are currently receiving your Medicare Part B reimbursement via check, we recommend switching to direct deposit. It is quicker and safer. Visit the EUTF website at www.eutf.hawaii.gov to print a Direct Deposit Agreement (DDA) Form or call the EUTF at 586-7390 or toll-free at 1-800-295-0089 to have a DDA form mailed to you.
- Every January the Medicare Part B premium reimbursement is reset to the standard amount, which is \$104.90 for 2014. If you pay a higher income-related Medicare Part B premium, EUTF will reimburse you the additional premium. However, you must submit to the EUTF a copy of the letter from the Social Security Administration (SSA) showing your income-related premium (EUTF does not reimburse for penalties). EUTF reimburses you quarterly for the cost of your Medicare Part B plan.
- If you are retired and turning 65 years old or your dependent is turning 65 years old, or you will be retiring soon and are already 65 years or older, you and your Medicare eligible dependent **must** enroll in Medicare Part B to be enrolled in the EUTF and HSTA VB retiree medical and/or prescription drug plans. To enroll in Medicare Part B contact the Social Security Administration toll-free at 1-800-772-1213.
- Retiree plan benefits are not identical to Active Employee plan benefits. For example, as an active employee you have a \$2,000 per plan year maximum and a \$1,000 lifetime maximum for orthodontic benefits in your dental plan. As a retiree, you have a \$1,000 per plan year maximum and no orthodontic benefits in your dental plan. Also, as an active employee you are covered for preventative screenings, such as colonoscopies and physical exams; however, EUTF non-Medicare retirees are not covered for preventative colonoscopy screenings and physical exams (EUTF Medicare retirees have their preventative colonoscopy screenings and physical exams covered under Medicare). Colonoscopy procedures are covered for both EUTF non-Medicare and Medicare retirees when there is a positive diagnosis only. In addition, chiropractic coverage is not included with EUTF Retiree medical plans (HSTA VB retiree plans include chiropractic coverage). And, provisions of the Patient Protection Affordable Care Act (aka ACA or Obama Care) do not apply to retiree plans. i.e., medical and prescription coverage for children through age 26.
- 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.



Employees' Retirement System
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Scan the QR code with your smartphone
to directly access the ERS website.

Holomua

Retirees
April/May/June 2014

Ask ERS

Answers to some frequently asked questions:

Q: Is the "Login to Self Service" on the website for retirees? I was not able to log in.

A: No. Currently, the "Self Service" on the website is only for active members as it displays their retirement plan, membership service credit, and retirement account information. This information is updated as the employee continues to work. As a retiree, your membership information is already complete and was used to determine your retirement pension.

Q: Would I be able to return to work in a temporary position (89 day hire) if I retired this year?

A: Yes, however, there must be a six (6) consecutive calendar month break in State or County employment prior to the first day of this non-membership employment. Any violation of this law requires pension reimbursement with interest as well as employer penalty fees for administrative expenses.

Q: What is the impact of my post-retirement increase in July to federal tax withholding on my pension?

A: Your gross pension amount will increase as well as your reportable income for federal tax purposes. If you wish to change your tax withholding, complete the Form W-4P (Withholding Certificate for Pension or Annuity Payment) which is located on our website or you may contact the ERS to have the form mailed to you.

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

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1-800-468-4644

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