

Questions & Answers About

Your Employees Retirement System

Contributory Plan

for Elected & Legislative Officers

Governor, Lieutenant Governor, Mayors, Legislators,
Council Members, County Prosecuting Attorneys,
Office of Hawaiian Affairs (OHA) Trustees, Chief Clerk,
Assistant Chief Clerk, Sergeant at Arms and
Assistant Sergeant at Arms

***THIS HANDOUT IS FOR
NEW HIRES FROM
JULY 1, 2011 – JUNE 30, 2012***



**Employees' Retirement System
of the State of Hawaii**

1. What is the Employees' Retirement System?

The Employees' Retirement System of Hawaii (ERS) was established in 1925 to provide retirement allowances and other benefits to Hawaii State and County government employees. The ERS is directed by a Board of Trustees with certain administrative areas controlled by the State of Hawaii Department of Budget and Finance.

The ERS:

- *administers a retirement and survivor benefits program for State and County government employees;*
- *collects retirement contributions from State and County government employers, and Contributory and Hybrid Plan members;*
- *provides pre-retirement counseling services;*
- *conducts disability hearings and appeals;*
- *reviews claims for retirement, disability and death benefits, and certifies these benefits for payments;*
- *processes pension checks to retirees and beneficiaries;*
- *accounts for and safeguards assets in the ERS investment portfolio; and*
- *invests funds to help finance this program.*

2. Am I required to be a member of the ERS?

With the exception of certain elected officers for whom ERS membership may be optional, Hawaii law requires all full-time, part-time (50% FTE or more), permanent or temporary (more than 3 months) employees of the State or County to become members of the ERS as a condition of their employment.

*If you are elected to public office your current status with the ERS will determine whether you can make a **one-time** irrevocable election to be excluded from ERS membership or, if you are a retiree when you are elected, you may be able to have your retirement allowance continue while you serve as an elected officer. Your election to be excluded from ERS membership or to have your retirement allowance continue must be made within 30 days of taking office otherwise; you will be enrolled as an active ERS member. If you wish to be excluded from ERS membership or have your retirement allowance continue while serving as an elected officer, please check with your personnel office or the ERS to find out whether you are able to make an election. Once you decline membership or elect to continue your retirement allowance, you will not be eligible for ERS membership for any service as an elected officer, and you will not be able to acquire this service if you become an ERS member after you leave elective office.*

3. How much must I contribute to the ERS?

With the Contributory Plan, you must contribute 7.8% of your monthly gross salary.

4. How much does my employer contribute to the ERS?

Your employer currently contributes 15% of your compensation. Employer contributions are not credited to your account and are not refundable to you. Employer contributions along with ERS' investment earnings are used to pay retirement benefits to retirees and beneficiaries.

5. What happens to my contributions?

Your contributions are credited to your ERS account and will earn 2% interest compounded annually. Contributions are tax deferred for federal income tax purposes and may be withdrawn when you retire or leave government service.

6. What is service credit and how do I earn it?

*Service credit is the length of time you work for the State or County government while a member of the ERS and it determines not only the **amount** of your retirement benefits, but also **when** you will be eligible for retirement. Service is credited on a monthly basis. If you are employed for 15 or more calendar days in any month (14 calendar days in February), you will receive one month of service credit.*

If you have 60 or more days of unused sick leave when you retire and leave government service in good standing, you will receive an additional month of service credit for every 20 days of unused sick leave. Any balance of 10 or more days will provide an additional month of service credit.

Service credit provided by unused sick leave is used to increase the amount of your retirement benefit but cannot be used to meet eligibility requirements for retirement.

7. Can I lose service credit?

YES. You will lose service credit if you leave government service and withdraw your contributions. If you have less than 5 years of credited service when you leave and you do not return to work by December 31, of the fourth calendar year following the year you leave your job, your service will be forfeited and your contributions (including interest) refunded.

8. Can I acquire additional service credit towards my retirement?

YES. You can acquire credit for specific types of service. Generally, this is for previous service rendered as an employee of the State or County that you are currently not credited with, or any leave of absence without pay for professional improvement.

Maternity leaves prior to July 1, 1973, and active military service may also be credited, subject to certain provisions and limitations.

As a member who qualifies for the 3-1/2% retirement benefit formula, you will be subject to a 75% benefit ceiling when you retire. Any service you acquire will increase your credited service and will be applied towards the 75% benefit ceiling.

You must file a claim with the ERS. After ERS certifies the service, you will be provided the cost (if any) and payment options to acquire the service.

9. What are the eligibility requirements for a service retirement?

Regular Retirement (no reduction for age)

- At least 10 years of credited service in this category, prior to age 55; or
- 5 or more years of credited service at age 55

Early Retirement (any service NOT in this category will be reduced for age)

- 10 years of mixed credited service, prior to age 55
- Benefits are reduced by:
 - 5% below age 55 and above age 49 and 11 months; plus
 - 4% below age 50 and above age 44 and 11 months; plus
 - 3% below age 45 and above age 39 and 11 months; plus
 - 2% below age 40

Vested Retirement (terminate prior to age 55)

- Age 55 with 5 or more years of credited service

Please note that unused sick leave cannot be used to meet the minimum eligibility requirements, but can be used to exceed the 75% limitation on benefits.

10. How is my benefit calculated?

For each year of service as an elected or legislative officer, you will receive a benefit based on 3-1/2% of your average final compensation (AFC) plus an annuity on the contributions you made while serving in this capacity. Your benefit (including the annuity) cannot exceed 75% of your AFC. If the maximum benefit limitation is exceeded, you will be refunded the annuity value of the excess contributions you made while an officer in this capacity. Your lifetime benefit will be based on the following formula:

$$3\text{-}1/2\% \times \text{years of service} \times \text{AFC}$$

Example:

- Age = 50
- Credited service = 10 years (all elected)
- Monthly AFC = \$3,000
- Contributions & interest = \$30,000
- $3\text{-}1/2\% \times 10 \text{ years} = 35\% \times \$3,000 = \$1,050$
- Monthly annuity = $\$30,000 / 14.4548 / 12 = \172
- Monthly maximum allowance = $\$1,050 + \$172 = \$1,222$

The 2% formula will be applied to any general employee service in the Hybrid or Contributory Plans and the 1-1/4% formula will be used for any service in the Noncontributory Plan. The actual amount of your lifetime pension will depend upon your AFC, your credited service, your contributions to the ERS and the retirement option you select when you retire.

11. How is my AFC determined?

AFC (average final compensation) is the average of your three highest years of earnings excluding any lump sum vacation pay if you began employment on January 1, 1971, or thereafter. If your employment began before January 1, 1971, your AFC will be the average of your three highest years, or your five highest years of earnings including lump sum vacation pay, whichever is greater.

From July 1, 1997, Act 374/1997 modified the calculation of retirement benefits for members who have service as an elected or legislative officer. Separate AFCs will be calculated for pre- and post-Act service, as well as by category of service (elected officer, legislative officer, judge and general employee). If your entire public service career was either as an elected

officer or a legislative officer, you will not be affected by this law since a "single" category AFC calculation will be used.

Federal law limits the amount of annual earnings that may be used for computing AFC. This limit is subject to change. For 2009, the limit is \$245,000.

12. How does part-time service affect my retirement?

Whether you work on a full-time (100% FTE) or part-time basis (minimum 50% FTE), for each month you work, one month of service will be credited towards meeting the minimum eligibility requirements to retire (see question #9).

However, for benefit calculation purposes, your part-time service as well as your part-time base salary will be converted to the full-time equivalent of the position you occupy. For example, 12 months of 50% part-time service with a base salary of \$1,250 per month will be converted to 6 months of full-time service at \$2,500 per month and likewise, 12 months of 75% part-time service with a base salary of \$1,875 per month will be equal to 9 months of full-time service at \$2,500 per month.

13. What if I become disabled?

If you become disabled, you can apply for ordinary or job-related (service-connected) disability retirement.

To qualify for ordinary disability retirement:

- *You must be employed, or on approved leave of absence without pay at the time your application is filed;*
- *You must have at least 10 years of credited service excluding sick leave credit; and*
- *The ERS Medical Board must find that you are permanently disabled.*

To qualify for job-related (service-connected) disability retirement:

- *Your employer must file an accident report with the Department of Labor and Industrial Relations and provide the ERS with a copy;*
- *An application for job-related (service-connected) disability retirement must be filed within two years of your accident or the date workers' compensation benefits stop; and*
- *The ERS Medical Board must find that you are permanently disabled for your job due to an accident while you were working that was not due to your willful negligence.*

14. What kind of benefits am I entitled to if I become disabled?

If you are determined to be permanently disabled and you have at least 10 years of credited service, you are entitled to an ordinary disability pension for life. Your benefit will be calculated using the service retirement formula, 3-1/2% of your AFC multiplied by your years of service plus an annuity for your service in this category. There is a minimum benefit of 30% of your AFC.

Regardless of credited service, if you are permanently disabled as a result of a job-related (service-connected) accident, you are entitled to a 100% refund of your contributions (including interest) and a pension of 50% of your AFC for life. Accidents prior to July 7, 1998, have a different benefit formula.

15. Are there any death benefits if I die while I'm employed?

If your death is not job related (service-connected), your beneficiary may receive a payment of your contributions and interest plus, if you have at least one year of credited service, a percentage of your salary for the year immediately preceding your death. The percentage depends on your length of service. In lieu of this lump sum payment, your beneficiary may elect a lifetime pension if you have at least 10 years of credited service and you die while you are still employed. The lifetime pension will be available only if you designate ONE beneficiary.

If your death is due to a job-related (service-connected) accident, your beneficiary will receive a payment of your contributions (including interest), and your spouse or reciprocal beneficiary will receive a monthly benefit equal to one-half of your AFC until remarriage or re-entry into a new reciprocal beneficiary relationship.

*Payment of any death benefit to a beneficiary is governed by the Designation of Beneficiary form. You were asked to complete a Designation of Beneficiary form when you became a member of the Contributory Plan. A change in your marital status or the death of your beneficiary may cancel your beneficiary designation. **It is therefore very important that you file a new Designation of Beneficiary form if there is a change in your marital status or if your beneficiary dies.** Failure to file a new Designation of Beneficiary form may result in death benefits being paid to your estate instead of to your intended beneficiary. Payment of death benefits to your estate may result in legal fees and other costs of probate.*

16. Am I entitled to any benefits if I am no longer employed?

YES. You are entitled to benefits if you are credited with 5 or more years of service when you leave government service, and you do not withdraw your contributions. You are vested and can apply for retirement benefits, see question #9 to determine when you qualify.

NO. You are not entitled to benefits if you have less than 5 years of credited service when you leave government service and you do not return to work, or if you request and receive a refund of your contributions after you leave your job.

17. Am I entitled to any other benefits after I retire?

You will receive a post retirement allowance, which is an automatic annual increase of 2.5% of your basic pension beginning July 1 of the calendar year following your retirement and on each July 1 thereafter. This allowance is designed to help offset the rising cost of living and has no ceiling.

As an ERS retiree, you may also be eligible for health benefit coverage. Since ERS does not administer this program, you will need to contact your Health Plan Administrator for eligibility and enrollment information.

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