



STATE OF HAWAII
EMPLOYEES' RETIREMENT SYSTEM

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**CONTRIBUTORY PLAN
INFORMATION FOR PROSPECTIVE RETIREES**

SUPREME, INTERMEDIATE APPEALS, CIRCUIT, DISTRICT & DISTRICT FAMILY COURT JUDGES

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This handout offers general information on pre-retirement issues to help you prepare for your retirement. It is only a summary and does not constitute a legal document or contract and is subject to change. Nothing contained herein shall be construed to amend, modify, override, or nullify a state statute, rule, policy, procedure or document used in the retirement process. You are encouraged to attend a Pre-Retirement Session coordinated by your Personnel Office or to schedule a counseling appointment at the nearest ERS office when you are ready to file an application to retire.

EMPLOYEES' RETIREMENT SYSTEM CHECKLIST

Early Planning		
<ul style="list-style-type: none"> • Members who do not have serious intentions of immediate retirement may use the retirement calculator available on the ERS website which can be found at http://www.ers.ehawaii.gov (select Benefits Calculator from the left menu bar). The calculator will provide a reasonably accurate estimate of retirement benefits under all options. 		
15 months or more before retirement		
<ul style="list-style-type: none"> • Attend a pre-retirement session • Contact your Department Personnel Office for Schedule • An ERS representative will discuss the retirement application process, option selections, and answer any questions 		
6 to 7 months before retirement		
<ul style="list-style-type: none"> • Contact the ERS office nearest you • Request a Retirement Packet (or download it from the ERS website) and schedule a counseling appointment with a Retirement Claims Examiner (RCE) • Bring your retirement packet and your spouse (recommended) to your appointment. During the appointment, a Retirement Claims Examiner will help you complete your retirement application (and any other required forms); answer any questions or concerns regarding your retirement estimate; and enable you to select the best option for you and your family. 		
Not more than 150 days and not less than 30 days before retirement		
<p><i>NOTE:</i> Retirement date must be the first day of the month except for December, when retirement can be on the first or the last day of the month</p> <p>-----</p> <ul style="list-style-type: none"> • File your Retirement Application • Notarized Applications may be hand-delivered or mailed to the ERS • Required personal documents: <table style="width: 100%; margin-left: 40px;"> <tr> <td style="width: 50%; vertical-align: top;"> <ol style="list-style-type: none"> 1) Proof of birth date for you and your beneficiary (for survivor options). (<i>Original documents only. Photocopies not accepted</i>) *NOTE: <i>Substitutions listed below</i> 2) A bank deposit slip, voided check or account number <i>for electronic deposit of pension payments</i> </td> <td style="width: 50%; vertical-align: top;"> <ol style="list-style-type: none"> 3) Driver's license or State ID <i>for signature validations</i> </td> </tr> </table> 	<ol style="list-style-type: none"> 1) Proof of birth date for you and your beneficiary (for survivor options). (<i>Original documents only. Photocopies not accepted</i>) *NOTE: <i>Substitutions listed below</i> 2) A bank deposit slip, voided check or account number <i>for electronic deposit of pension payments</i> 	<ol style="list-style-type: none"> 3) Driver's license or State ID <i>for signature validations</i>
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***Substitute any two of the following original documents (that show your birth date or age), in place of a certified birth certificate:**

- | | |
|---|--|
| <ul style="list-style-type: none"> ▪ Valid Hawaii Driver's License ▪ Hawaii State Identification Card ▪ Passport (U.S. or foreign) ▪ Marriage Certificate ▪ Naturalization Record ▪ Voter Registration Record ▪ Original Baptismal Certificate/Religious record recorded after age 5 | <ul style="list-style-type: none"> ▪ Military Record ▪ Hospital Treatment Records ▪ Life Insurance Policy ▪ School Record (with age) ▪ Child's birth certificate (with member's age) ▪ Census Record |
|---|--|

FILING YOUR APPLICATION FOR RETIREMENT

A member can file only three service retirement applications. The first two service retirement applications may be cancelled prior to their effective date; however, retirement is mandatory on the third application.

You must also notify your department to determine your 'close of business' (COB) date as well as your retirement date. Your last day on the payroll is your COB date. Your retirement date must be the 1st of the month except December, which can be the 1st or the 31st. Your COB date and retirement date cannot be the same.

Retirement applications must be notarized. Notary services are provided at all ERS locations at no charge.

ERS must provide written notification of a member's retirement date, option selection, and beneficiary designation to the member's spouse/reciprocal beneficiary.

PENSION PAYMENT INFORMATION

Make plans to cover expenses for your first month of retirement. Your first pension payment will be retroactive to your retirement date. Your pension amount is based on the option you selected according to the latest estimate provided to you by the ERS. **You must sign up for the direct deposit of your pension to an account at a financial institution.**

Payment

Your first pension payment is issued approximately **4 weeks** after your retirement date pending verification of your 'close of business' date (last day on the payroll) with your personnel office. You will receive a monthly pension, which will be paid at the end of every month.

Final Pension Adjustment

Your estimated pension will be finalized following the receipt and review of your payroll/personnel records, your department's audited report of any unused sick leave credits, and the amount of your vacation pay. Your pension will be adjusted to an exact amount retroactive to your retirement date.

Effective January 1, 2004, ERS is required to pay 4.5% interest per annum on pensions not finalized within 6 months after the retirement date.

Taxation of Benefits

Pension benefits are subject to **Federal income taxes**, but are not subject to Hawaii State income taxes. If you will be living outside of Hawaii, contact your state and local tax authorities for information on the tax treatment of your pension within that state.

Mailing Address Change

Mailing address changes must be reported in writing to ensure correct mailing of any correspondence, tax forms, and other information. Change forms are available at all ERS offices or on the ERS website.

Financial Institution Change

Financial institution changes (for the direct deposit of your pension payment) must also be requested in writing. Change forms are available at all ERS offices or on the ERS website.

DEFINITIONS

“Judge”: a justice of the Supreme Court, a judge of the intermediate appellate court, a judge of the circuit court, a judge of the district court, or a district family court judge of this State.

“Mixed Service”: includes a combination of Judge service and other service.

“Accumulated Contributions”:

- The sum of all the amounts paid by, or deducted from compensation of a member and credited to the member’s individual account in the annuity savings fund together with regular interest.
- 7.8% or 9.8% (based on membership date) of actual gross earnings (compensation) is deducted each month.

“Average Final Compensation” (AFC):

- If your membership date is after June 30, 2012:
AFC is the average of your five highest years of base pay earnings excluding any lump sum vacation pay.
- If your membership date is prior to July 1, 2012:
AFC is the average of your three highest years of gross earnings excluding any lump sum vacation pay.
- If your membership date is prior to January 1, 1971:
AFC is the average of your three highest years of gross earnings excluding any lump sum vacation pay, or your five highest years of gross earnings including lump sum vacation pay, whichever is greater.

Federal law limits the amount of annual earnings that may be used for computing AFC. This limit is subject to change. For 2015, the limit is \$265,000.

RETIREMENT ELIGIBILITY REQUIREMENTS

Became a Judge after June 30, 2012		Became a Judge prior to July 1, 2012	
Normal Retirement	Age 60 w/10 yos	Normal Retirement	Age 55 w/5 yos
Early Retirement (Age Penalty)	Age 55 w/25 yos	Early Retirement (Age Penalty)	Any age w/25 yos
Vesting	10 yos	Vesting	5 yos

yos = Years of service

Note: Unused sick leave cannot be used to meet any service credit eligibility requirements, but can be used to exceed the 75% limitation on benefits

Per Diem Judge

Per diem worker: A person employed and compensated on an hourly or daily basis.

- Act 339/89 (effective 7/1/89) enabled all Judges including per diem Judges to become members of the Contributory Plan and receive the 3% or 3.5% benefit.
- Per diem service is converted to full-time equivalence if the Judge worked twenty (20) days per month or 100% FTE (Full-Time Equivalence) with a minimum of ten (10) days or 50% FTE in each month for three (3) consecutive months.
- The conversion is prorated on the days worked in a month divided by twenty using a normal day as eight (8) hours.

ADDITIONAL SERVICE CREDIT

Members may apply for additional service credit in the following categories prior to retirement. You must file a claim with the ERS before you retire.

You may use your deferred compensation plans or tax-sheltered annuity plans to purchase allowable service credits. Please be advised that each tax-sheltered institution will need sufficient time to transfer funds to the ERS. All purchases must be completed prior to your retirement date.

MILITARY SERVICE

Any member who rendered honorable active military service in the armed forces of the United States can acquire up to 4 years of membership service for the military service effective July 1, 1989: Any member with:

- 10 years of credited service with the ERS can acquire up to 2 years of military service.
- 20 years of credited service with the ERS can acquire up to 3 years of military service.
- 25 years of credited service with the ERS can acquire up to 4 years of military service.

Military service in the reserve or National Guard is *not* considered active military service unless the service occurred in time of war or declared national or state emergency.

A member's military service is considered service in the member's occupation and percentage of full-time equivalence (FTE) at the time the service is credited and provides a corresponding retirement pension. Therefore, military service purchased while a judge, elected official or legislative officer, will give that member a 3% or 3.5% benefit.

The lump-sum payment amount is based on the number of months being acquired multiplied by 9.8% or 7.8% of the member's current monthly salary. If the military service occurred prior to July 1, 1961, the contribution rate will be 8% or 6% instead of 9.8% or 7.8%.

Detailed information in the Military Service Credit booklet is available upon request.

PREVIOUSLY REFUNDED CONTRIBUTORY SERVICE

Previously refunded State or County service can be purchased. You will receive 1.75% or 2% per year for any general employee service and 3% or 3.5% per year for any Judge, elected official or legislative officer service.

The cost to purchase this service will be based at 7.8% or 9.8% OR 8% or 6% (if service is prior to July 1, 1961) of your current monthly salary for each month purchased.

FORFEITED NONCONTRIBUTORY SERVICE

Previous non-vested service as a Noncontributory Plan member, which was forfeited after termination, will be acquired on a monthly basis at no cost. Service in this capacity is credited at 1.25% in calculating your retirement pension.

UNUSED SICK LEAVE

An employee who retires in good standing with a minimum of 60 or more days of unused sick leave shall be entitled to additional service credit.

Sixty days of unused sick leave would increase the employee's years of service by 3 months; each additional 20 days would provide 1 more month of service credit as would any balance of 10 or more days. Any remaining balance of less than 10 days would provide no further service credit.

Examples:

- (1) 70 days of unused sick leave meets the requirement of 60 days minimum

<u>70 days</u>		
20 days (1 month)	=	3 months (60 days)
Balance of 10 days	=	<u>1 month</u>
Total	=	4 months

- (2) 85 days of unused sick leave meets the requirement of 60 days minimum

<u>85 days</u>		
20 days (1 month)	=	4 months (80 days)
Balance of 5 days	=	<u>0</u>
Total	=	4 months

If sick leave is reported in hours, determine the number of unused days by dividing the total hours by 8 hours, and then calculate additional service credit as shown in the above examples.

Your maximum benefit can exceed the 75% limitation of the AFC using additional unused sick leave credits. For mixed service, sick leave credit will be based on a first-in, first-out calculation.

Upon retirement, please notify your department that the audited unused sick leave and vacation leave form are needed to finalize your pension.

PENSION BENEFIT COMPUTATION

If you first became a judge after June 30, 2012, then for each year of service as a judge, you will receive a benefit based on 3% of your average final compensation (AFC).

If you first became a judge prior to July 1, 2012, then for each year of service as a judge, you will receive a benefit based on 3.5% of your average final compensation (AFC).

In addition, you will receive 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 your excess contributions. The refund will be applicable only to contributions derived from service in this capacity. Your benefit will consist of a pension for life based on the following formula:

3% or 3.5% x years of service x AFC

If your membership date is after June 30, 2012 a 1.75% formula will be applied to any general employee service in the Hybrid or Contributory Plans. If your membership date is before July 1, 2012 a 2% formula will be applied to any general employee service in the Hybrid or Contributory Plans. A 1.25% formula will be used for any service in the Noncontributory Plan. Service as a District Court (including Family Court) judge prior to July 1, 1989 is considered general employee service and is not eligible for the 3.5% benefit.

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.

The following hypothetical examples will help illustrate the Maximum Allowance calculation process using the current Service Annuity Values:

EXAMPLE 1: (Only Judge Service - No Excess Contributions)

- Member's Age: 60
- Years of Service: 10 years (Judge only)
- AFC: \$135,000 (Annual)
- Contributions & Interest: \$100,000 (Judge only)
- Service Annuity Value: 12.6144 at age 60

Formula:

Group Percentage x Years of Credited Service x AFC

3%	x	10 years	x	\$135,000	=	\$40,500
Plus		Judge Annual Annuity (\$100,000/12.6144)				+ \$ 7,927
		Actual Annual Pension (Maximum)			=	\$48,427

SUMMARY:

- Actual Annual pension (\$48,427) is less than the 75% AFC limitation (\$135,000 x .75 = \$101,250).
- Therefore, member's Maximum (benefit) allowance payable is the Actual Annual Pension = \$48,427/yr. or \$4,035/mo.
- There are no excess contributions to be refunded.
- Member's contributions/interest (Refund Plans) is \$100,000.00.

EXAMPLE 2: (Mixed Service - Excess Contributions)

- Member's Age: 60
- Years of Service: 31 years (15 years as a Judge)
(+16 as General Employee)
- AFC: \$135,000 (Annual)
- Contributions & Interest \$250,000 (\$130,000 as Judge + \$120,000 as GE)
- Service Annuity Value: 12.6144 at age 60

Formula:

Group Percentage x Years of Credited Service x AFC

3%	x	15 years (Judge)	=	.45	
1.75%	x	16 years (GE)	=	.28	
		31 years		.73	x \$135,000 = \$ 98,550

<u>Plus</u>	Judge Annual Annuity (\$130,000/12.6144)	<u>+ \$ 10,305</u>
	Actual Annual Pension	= \$108,855
<u>Less</u>	Maximum Pension (75% x \$135,000)	<u>- \$101,250</u>
	Excess Benefit	= \$ 7,605
	Excess Contributions/Interest (\$7,605 x 12.6144)	= \$ 95,932

SUMMARY:

- Actual Annual pension (\$108,855) is more than the 75% AFC limitation (\$101,250).
- Therefore, member's Maximum (benefit) allowance payable is limited to the 75% AFC limitation = \$101,250/year or \$8,437/month.
- Excess contribution to be refunded is \$95,932. Excess contributions will be refunded separately to member which cannot be rolled over and subject to Federal taxes.
- Balance of the member's contributions/interest (Refund Plans) is \$154,068 (\$250,000 total minus \$95,932 excess).
- If the excess contributions/interest were more than the Judge's contributions/interest, the refundable amount to the member would have been restricted to only the Judges contributions/interest and the balance of the general employee contributions/interest would have been the only contributions/interest refundable under the Refund Plans.

RETIREMENT PLAN OPTIONS

One of the most important decisions you will make as you plan to retire is to select your retirement option. Option choices are designed to meet a range of retirement needs and goals. Pension payments continue for the retiree's lifetime for all options. However, **a beneficiary will continue to receive a lifetime pension** in the event of the retiree's death **only under Options 2, 3, Four (Five & 2), and Four (Five & 3)**. It is recommended that you consider your retirement lifestyle, projected expenses, beneficiary concerns and needs to make the best decision for you.

OPTION COMPARISON SUMMARY					
OPTION	Lifetime Pension to Retiree	Lifetime Pension to Beneficiary	"Pop Up" Feature	Refund of Contributions	Refund Amount
Maximum Allowance	Yes	No	No	No	None
Option One	Yes	No	No	No	None
Option Two	Yes	Yes (100%)	Yes	No	None
Option Three	Yes	Yes (50%)	Yes	No	None
Option Four (Five & Max)	Yes	No	No	Yes	Pre-1987, 50% or 75%
Option Four (Five & 1)	Yes	No	No	Yes	Pre-1987, 50% or 75%
Option Four (Five & 2)	Yes	Yes (100%)	Yes	Yes	Pre-1987, 50% or 75%
Option Four (Five & 3)	Yes	Yes (50%)	Yes	Yes	Pre-1987, 50% or 75%
Option Five	Yes	No	No	Yes	100%

Notes:

- Changes in retirement option selections are permissible prior to the effective date of retirement; however, the law prohibits any changes thereafter.
- In the event a member dies after filing a retirement application but before the member's retirement date, or if death occurs within one year of retirement, the designated beneficiary may elect to receive the option selected by the member, or the ordinary death benefit (lump sum payment) or Option Two (survivor benefit)*.
- For Options 2* and 3 or combinations with Options 4 (Five & 2)* or 4 (Five & 3), should your beneficiary predecease the retiree, the retiree's pension will be converted to the corresponding Maximum Allowance ("**pop up**" feature), instead of remaining at the reduced amount and another beneficiary cannot be named.
- Pensions are increased by 1.5% (for membership dates after June 30, 2012) or 2.5% (for membership dates prior to July 1, 2012) on the original amount each year on July 1, following the calendar year of retirement.

*See **IMPORTANT NOTICE** on page 11

ESTIMATE SAMPLE

Your estimated service retirement benefits are based on the following:

RETIREMENT DATE Mo/Day/Yr	EARNED SERVICE	15 YRS 0 MOS (Judge)
BIRTH DATE Mo/Day/Yr (Age: 60)		14 YRS 0 MOS (General)
MEMBERSHIP DATE Mo/Day/Yr	ACQUIRED SERVICE	2 YRS 0 MOS (General)
	<u>UNUSED SICK LEAVE**</u>	<u>YRS MOS</u>

BENEFICIARY	TOTAL MEMBERSHIP SERVICE 31 YRS 0 MO (Mixed)
BIRTH DATE Mo/Day/Yr (Age: 62)	

<u>RETIREMENT OPTION</u>	<u>MONTHLY PENSION</u>		<u>POP UP TO</u>	<u>INSURANCE</u>	<u>REFUND</u>	
	<u>RETIREE</u>	<u>BENEFICIARY</u>	<u>RETIREE</u>	<u>RES</u>	<u>AMOUNT</u>	<u>%</u>
Maximum Allowance	\$8,437	NONE	---	---	---	---
One	\$8,158	NONE	---	\$1,278,612	---	---
Two (100% Survivor)	\$7,448	\$7,448	\$8,437	---	---	---
Three (50% Survivor)	\$7,913	\$3,956	\$8,437	---	---	---
Four (5 & Maximum)	\$8,437	NONE	---	---	\$0	Pre '87
Four (5 & Maximum)	\$7,927	NONE	---	---	\$77,034	50%
Four (5 & Maximum)	\$7,673	NONE	---	---	\$115,551	75%
Four (5 & 1)	\$8,158	NONE	---	\$1,278,612	\$0	Pre '87
Four (5 & 1)	\$7,658	NONE	---	\$1,200,202	\$77,034	50%
Four (5 & 1)	\$7,412	NONE	---	\$1,161,658	\$115,551	75%
Four (5 & 2)	\$7,448	\$7,448	\$8,437	---	\$0	Pre '87
Four (5 & 2)	\$6,992	\$6,992	\$7,927	---	\$77,034	50%
Four (5 & 2)	\$6,767	\$6,767	\$7,673	---	\$115,551	75%
Four (5 & 3)	\$7,913	\$3,956	\$8,437	---	\$0	Pre '87
Four (5 & 3)	\$7,428	\$3,714	\$7,927	---	\$77,034	50%
Four (5 & 3)	\$7,189	\$3,594	\$7,673	---	\$115,551	75%
Five	\$7,366	NONE	---	---	\$154,068	100%

AFC = \$135,000 / yr

TOTAL CONTRIBUTIONS = \$250,000

(EXCESS TO BE REFUNDED= \$95,932)

** Unused sick leave credit is not included in the estimate computations.

Explanation of some terminology:

Earned Service is credited service from membership date to retirement date.

Acquired or Purchased Service is additional service credited to member.

Total Membership Service is all service rendered by a member.

SUMMARY OF OPTIONS

OPTIONS WITH NO REFUND

The following options offer a higher monthly pension because member's contributions are not refunded.

Maximum Allowance - Highest lifetime monthly pension with no refund

- No lifetime survivor benefit
- Trust, Estate, or multiple beneficiaries possible with changes allowed after retirement
- In the event of the retiree's death, beneficiary will be paid the difference between the retiree's unrefunded contributions at retirement and the retirement pension paid prior to death

Option One - Reduced lifetime monthly pension with no refund (short-term insurance)

- Short-term (not lifetime) insurance (coverage depletes after approximately ten years)
- Large benefit if death occurs shortly after retirement
- Trust, Estate, or multiple beneficiaries possible with changes allowed after retirement
- In the event of the retiree's death, beneficiary will be paid the difference between the initial insurance reserve and the retirement pension paid prior to death

Option Two* - Reduced lifetime monthly pension for retiree with no refund and 100% continuing benefit for beneficiary in the event of retiree's death

- Beneficiary cannot be changed after retirement
- If the beneficiary predeceases the retiree, the retiree's pension "pops up" to the Maximum Allowance

Option Three - Reduced lifetime monthly pension for retiree with no refund and 50% continuing benefit for beneficiary in the event of retiree's death

- Beneficiary cannot be changed after retirement
- If the beneficiary predeceases the retiree, the retiree pension "pops up" to the Maximum Allowance

REFUND OPTIONS

Members with at least 10 years of credited service qualify for any one of the following refunds:

- Nontaxable pre-1987 contributions
- 50% refund of contributions
- 75% refund of contributions
- 100% refund of contributions (Option Five only)

Option Four (5 & Maximum) - Highest lifetime monthly pension with partial refund

- No lifetime survivor benefit (see Maximum Allowance)

Option Four (5 & 1) - Reduced lifetime monthly pension with partial refund

- Short term insurance reserve (see Option One)

Option Four (5 & 2)* - Reduced lifetime monthly pension for retiree with partial refund and 100% continuing benefit for beneficiary in the event of retiree's death

- Beneficiary cannot be changed after retirement
- If the beneficiary predeceases the retiree, the retiree's pension "pops up" to the corresponding Option Four (5 & Maximum) based on the amount of the retiree's refund

Option Four (5 & 3) - Reduced lifetime monthly pension for retiree with partial refund and 50% continuing benefit for beneficiary in the event of retiree's death

- Beneficiary cannot be changed after retirement
- If the beneficiary predeceases the retiree, the retiree's pension "pops up" to the corresponding Option Four (5 & Maximum) based on the amount of the retiree's refund

Option Five - Lowest lifetime monthly pension for retiree with maximum refund of contributions

- No lifetime survivor benefit
- 100% refund of contributions (and interest) with possible tax consequences
- Multiple beneficiaries with changes allowed after retirement

*See **IMPORTANT NOTICE** on next page

IMPORTANT NOTICE

RULE AFFECTING 100% JOINT & SURVIVOR RETIREMENT OPTIONS WITH NON-SPOUSE BENEFICIARY

The ERS was required by federal law to adopt a rule (Hawaii Administrative Rule § 6-28-8) that affects the retirement allowance options that are available if an ERS member designates a beneficiary who is not the member's spouse. If the age difference between the member and the non-spouse beneficiary exceeds the federal limit for 100% joint and survivor annuities, the member may not select Option 2 or Option 4 (5&2) under the Contributory and Hybrid plans or Option B under the Noncontributory plan.

The age difference for the purpose of the federal limit is determined first by calculating the number of years by which the age of the member in the calendar year of retirement is greater than the age of the beneficiary in that calendar year. Then, if the member is younger than age 70, the age difference is reduced by the number of years the member is below age 70 in the calendar year of retirement. If the adjusted age difference is more than ten years, the member may not select a retirement allowance option that provides a non-spouse beneficiary with lifetime benefits upon the member's death at 100% of the amount that the member was receiving.

Examples:

#1

Retirement date:	12/31/2012	
Member birthdate:	3/1/1952	60 (age in 2014)
Beneficiary birthdate:	8/5/1982	- 30 (age in 2014)
	Age difference	30 years
	Less (member age under 70)	- 10
	Adjusted age difference	20 years

Since the adjusted age difference is more than 10 years: Member may not elect to receive retirement benefits under any of the 100% survivor options (Contributory and Hybrid Plan Options 2 or 4 (5&2), or Noncontributory Plan Option B).

#2

Retirement date:	12/31/2012	
Member birthdate:	5/1/1957	55 (age in 2014)
Beneficiary birthdate:	1/5/1982	- 30 (age in 2014)
	Age difference	25 years
	Less (member age under 70)	- 15
	Adjusted age difference	10 years

Since the adjusted age difference does not exceed 10 years: Member may elect to receive retirement benefits under the 100% survivor option(s) for the plan to which Member belongs (Options 2 or 4 (5&2), if Member is in the Contributory or Hybrid Plan, Option B, if Member is in the Noncontributory Plan)

TAXATION ON BENEFITS

OVERVIEW

Federal income tax:

Retirement benefits are taxable. On rare occasions a retiree may also have a nontaxable portion (from purchases with after-tax monies or contributions made on workers' compensation income). Depending on which retirement option is selected, members must recover their after tax contributions to the ERS over their expected lifetime. The taxable and nontaxable amounts are reported to you and the Internal Revenue Service (IRS) on Form 1099-R issued by ERS each January.

Hawaii income tax:

Since State income tax was based on gross salary which included contributions to the ERS, retirement pension paid are non-taxable.

Other states income tax:

Since tax treatment of retirement benefits varies in different areas, please contact the state and local tax authorities for taxation requirements if you will be living outside of Hawaii.

FREQUENTLY ASKED TAX QUESTIONS

1. *If I do not select Option Four or Five, why am I being taxed on my "own" money that was already taxed when I was working?*

Contributions that were deducted from your pay while you were working were made on a pre-tax basis and your monthly pension is fully taxable. If you had any non-taxable contributions they will be paid out on a prorated basis over your expected lifetime.

2. *a) What happens if I should die before I recover my own contributions?*

If you selected Option Two, Three, or Four (Five & Two, Five & Three), your beneficiary will continue to recover any after-tax contributions at the same rate until the total after-tax contributions are recovered.

If there are any remaining after-tax contributions to be recovered, the "last-to-die" (either the pensioner or the continuing beneficiary) is allowed to take a deduction on their final income tax return. This deduction is treated as a net operating loss deduction from a trade or business under IRC § 172. Please see the instructions for Form 1040, Schedule A, Miscellaneous Deductions for more information.

- (b) Are my death benefits taxable to my beneficiaries or estate?*

Yes. However, in certain cases, part of the death benefits may be nontaxable if there are unrecovered after-tax contributions.

3. *Can I rollover my Option Four or Five refund payment into an Individual Retirement Account (IRA)?*

Yes, your refund payment can be rolled over into an IRA or another qualified plan. Refund payments to terminating employees who forfeit retirement benefits and death benefits paid to beneficiaries can also be rolled over.

Members should seek the advice of a financial consultant or call the applicable qualified plans or administrator of the IRAs, to determine if the plan they are interested in is qualified.

4. *Can I rollover my Option Four or Five refund payment to my tax deferred compensation or tax sheltered annuity (TSA or TDAs) plans?*

Yes, you can rollover your refund payment to your tax deferred compensation or tax sheltered annuity plans. However, since subsequent distributions of the ERS rollover is not subject to State of Hawaii income taxes, except for earnings on the rollover, it is recommended that you maintain a separate account or you will need to determine what portion of the subsequent distribution is not taxable for State of Hawaii income taxes.

5. *After I retire, how will I know the taxable amount that I need to pay the IRS?*

You will receive Form 1099R by January 31 of each year with information necessary to file your federal income tax return.

6. *The ERS withheld 20% from the taxable portion of my Option Four or Five refund for federal income taxes and I also had withholding from my monthly pension payments based on the withholding tables. However, I still had to pay a large tax bill when I filed my income tax return for last year. Why did I have such a large balance owed for last year's tax return?*

The amount that you owe for federal income taxes in any given year is based on your total income from all sources (such as wages and salaries, dividends and interest, income from self-employment, and your pension benefits). If you chose not to rollover the taxable portion of your Option Four or Five refund payment and you retired or separated from service prior to the year you reached age 55 (age 50 for public safety employees), you may also be subject to an additional 10% tax on the taxable portion not rolled over. If you received a lump-sum payment for any unused vacation credits, in addition to the refund option payment from ERS, you may also have been subject to higher tax rates than you normally pay.

The ERS calculates federal income tax withholding based on the pensioner's instructions for monthly pension payments. Pensioners have the option not to have federal income taxes withheld from their monthly pension payments. The ERS is required however to withhold 20% of the taxable amount of any refund option payments not rolled over. We recommend that you review your tax situation to determine the appropriate amount to be withheld each year and consult with your financial advisor, CPA, or tax preparer, if needed.

ERS Office Locations, Phone Numbers and Website Address

The Employees' Retirement System (ERS) headquarters is located on the corner of Merchant and Alakea Streets on the 14th floor of the City Financial Tower in downtown Honolulu. Validated parking is available in the building. City Financial Tower parking entrance is on Richards Street.

Office hours are from 7:45 a.m. to 4:30 p.m. Monday through Friday (except holidays).

OFFICES:

Oahu	Employees' Retirement System City Financial Tower 201 Merchant Street, Suite 1400 Honolulu, HI 96813 Benefits Branch: (808) 586-1735 Fax: (808) 587-5766
Hawaii	Hawaii District Office 101 Aupuni Street, Suite 208 Hilo, HI 96720 (808) 974-4076 or (808) 974-4077 Toll-free to Oahu @ (808) 974-4000 Ext. 61735
Kauai	Kauai District Office 3060 Eiwa Street, Room 302 Lihue, HI 96766 (808) 274-3010 or (808) 274-3011 Toll-free to Oahu @ (808) 274-3141, Ext. 61735
Maui	Maui District Office 54 High Street, Room 218 Wailuku, HI 96793 (808) 984-8181 or (808) 984-8282 Toll-free to Oahu @ (808) 984-2400, Ext. 61735
Molokai/Lanai	Toll-free to Oahu @ 1-800-468-4644, Ext. 61735
US Mainland Only	Toll-free to Oahu @ 1-888-659-0708
Website	http://ers.ehawaii.gov/