



STATE OF HAWAII EMPLOYEES' RETIREMENT SYSTEM

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April 2009

MILITARY SERVICE CREDIT

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MILITARY SERVICE CREDIT PROVISIONS

Based upon the provisions of section §88-132.5, Hawaii Revised Statutes (HRS), 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 as follows:

- A member with 8 years of credited service with the Employees' Retirement System (ERS) can acquire up to 2 years of military service if hired before June 18, 1996. (ACT 385/1989, ACT 141/1990 and ACT 136/97)
- A member with 10 years of credited service with the ERS can acquire up to 2 years of military service if hired after June 17, 1996. (ACT 241/1996)
- A member with 20 years of credited service with the ERS can acquire up to 3 years of military service.
- A member with 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. Reservists and members in the National Guard are able to acquire military service for training during the times of war or declared national emergencies. Wartime service and the periods involved, as recognized by the Veteran's Administration and consequently by the ERS are as follows:

World War I	April 6, 1917 to July 1, 1921
World War II	December 7, 1941 to December 31, 1946
Korean Conflict	June 27, 1950 to January 31, 1955
Vietnam War	August 5, 1964 to May 7, 1975
Persian Gulf War	August 2, 1990 through date to be prescribed by Presidential proclamation or law.
<i>Future dates</i>	<i>The period beginning on the date of any future declaration of war by the Congress and ending on a date prescribed by Presidential proclamation or concurrent resolution of the Congress.</i>

A member's active 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 benefit (please see special rules that apply to Hybrid Plan members).

Any retiree who returns to service, is reenrolled as a member of the ERS, and has at least 3 years of credited service during the reemployment period, can acquire military service credit as specified above. The retiree's total credited service determines the amount of military service that can be acquired.

ACQUISITION OF SERVICE - CONTRIBUTORY PLAN

Acquisition of membership service credit for military service by the Contributory member is based upon the provisions of Section §88-59, HRS, which allows a member to acquire service via lump sum payment or additional payroll deducted monthly contributions. If the additional payroll deduction method is selected, the member has a choice of either doubling the normal monthly contribution to the ERS or increasing the normal monthly contribution by one-half. Doubling the contribution to the ERS will enable the member to acquire one additional month of service for each month of doubled contributions. Increasing the monthly contribution by one-half will enable the member to acquire one additional month of service after two months of one and one-half contributions.

Unlike the lump sum method of payment, the cost for acquiring service via additional payroll-deducted monthly contributions is not fixed. Only the period during which the additional deductions occur is fixed. Consequently, the total cost will depend upon any salary changes during the period of additional deductions.

The lump sum payment amount is based on the number of months being acquired multiplied by the product of 7.8% or 12.2%, whichever contribution rate is applicable (7.8% for general employees; 12.2% for Police Officers, Firefighters, Investigators, Adult Corrections Officers, and Water Safety Officers), of the member's current monthly salary.

If the military service occurred prior to July 1, 1961, the contribution rate will be 6% instead of 7.8% or 10.4% instead of 12.2%. In the event military service spans years prior to and after July 1, 1961, the appropriate percentage would be applied to each period.

Example:

Military Service-4 years (January 1961 to December 1964)

	<u>January 1961- June 1961</u>	<u>July 1961 - December 1964</u>
Current Monthly Salary	\$ 4,000	\$ 4,000
Contribution Rate	<u>x 6 %</u>	<u>x 7.8 %</u>
	\$ 240	\$ 312
	<u>x 6 (months)</u>	<u>x 42 (months)</u>
Military Service Cost	\$1,440	\$13,104
		\$ 1,440
		<u>13,104</u>
Total Lump Sum Cost to Acquire 4 Years of Military Service		<u>\$ 14,544</u>

ACQUISITION OF SERVICE - NONCONTRIBUTORY PLAN

Noncontributory members acquire military service based on the provisions of Section §88-272, HRS. Effective June 1, 1990, Act 141/90 amended this section to allow service rendered prior to System membership to be credited at no cost because of the lower benefit level of the Noncontributory Plan.

ACQUISITION OF SERVICE – HYBRID PLAN

Acquisition of membership service credit for military service by the Hybrid Plan member is based upon the provisions of Section §88-324, HRS, which allows for the acquisition of service based on when the member is eligible to acquire the military service.

If the member was eligible to acquire the military service when enrolled in the Noncontributory Plan, then the military service will be credited as Noncontributory service at no cost.

If the member was eligible to acquire the military service when enrolled in the Contributory Plan, then each month of military service must be purchased based on the contribution rate of 7.8% of the member's current monthly salary, unless the service occurred prior to July 1, 1961, in which case, the contribution rate would be 6%.

If the member becomes eligible to acquire military service after joining the Hybrid Plan, then each month of military service must be purchased based on the contribution rate of 6% of the member's current monthly salary or 9.75% of the member's current monthly salary for water safety officers, emergency

medical technicians, and wastewater collection employees in designated categories.

A member can acquire service via lump sum payment or additional payroll deducted monthly contributions. If the payroll deduction method is selected, the member has a choice of either doubling the normal monthly contribution to the ERS or increasing the normal monthly contribution by one-half. Doubling the contributions to the ERS will enable the member to acquire an additional month of service for each month of doubled contributions. Increasing the monthly contribution by one-half will enable the member to acquire one additional month of service after two months of one and one-half contributions.

Unlike the lump sum method of payment, the cost for acquiring service via additional payroll-deducted monthly contributions is not fixed. Only the period during which the additional deductions occur is fixed. Consequently, the total cost will depend upon any salary changes during the period of additional deductions.

**** Contributory and Hybrid Plan members:** *The ERS is able to accept monies from deferred compensation or tax sheltered annuity plans to purchase allowable service credits. Please be advised that each tax-sheltered institution needs sufficient time to transfer funds to the ERS. All purchases must be completed **prior** to the member's retirement date. See "Tax Impact" section.*

IMPACT ON RETIREMENT BENEFITS

The formula used to determine retirement benefits involves a percentage of the member's credited service times the member's average final compensation or average salary. Consequently, acquiring military service will generally increase a member's benefit at retirement. (Exceptions: Those employees eligible for the 2.5% benefit have an 80% ceiling imposed on their benefit-see questions #4 and #5, Questions and Answers section; Judges and Elected Officials have a 75% maximum imposed on their benefit-see questions #13 and #14, Questions and Answers section.)

Members of the Contributory & Hybrid Plans can increase their Maximum Allowance by up to 8% (2% x 4 years military service). However, Contributory Plan members who are covered by a higher benefit formula at retirement (i.e., 2.5% for Police Officers, Firefighters, Investigators, Adult Corrections Officers, Water Safety Officers; 3.5% for Judges and Elected Officials) and who have not attained the ceiling imposed on their benefit by law, can increase their Maximum Allowance by a maximum of 10% (2.5% x 4 years military service) and 14% (3.5% x 4 years military service), respectively. Noncontributory Plan members can increase their Maximum Allowance by a maximum of 5% (1.25% x 4 years).

The actual increase for all plans, however, is determined by the member's total years of service including any military service, average salary, and the option selected at retirement. See examples.

Member: 55 years of age
 30 years of service
 4 years military service
 Average monthly salary \$4,000

CONTRIBUTORY PLAN

Formula: $2\% \times \text{Credited Service} \times \text{Average Salary} = \text{Maximum Allowance}$

Maximum Allowance (without military service)
 $2\% \times 30 \text{ years} = 60\% \times \$4,000 = \$2,400 \text{ per month}$

Maximum Allowance (with military service)
 $2\% \times 34 \text{ years} = 68\% \times \$4,000 = \$2,720 \text{ per month}$

NONCONTRIBUTORY PLAN

Formula: $1.25\% \times \text{Credited Service} \times \text{Average Salary} = \text{Maximum Allowance}$

Maximum Allowance (without military service)

$1.25\% \times 30 \text{ years} = 37.5\% \times \$4,000 = \$1,500 \text{ per month}$

Maximum Allowance (with military service)

$1.25\% \times 34 \text{ years} = 42.5\% \times \$4,000 = \$1,700 \text{ per month}$

HYBRID PLAN

17 years of Noncontributory Plan service and 13 years of Hybrid Plan service (Total 30 years)

Formula: Hybrid Service ($2\% \times \text{credited service} \times \text{average monthly salary} = \text{maximum allowance}$) +
Noncontributory Service ($1.25\% \times \text{credited service} \times \text{average monthly salary} = \text{maximum allowance}$)

Maximum Allowance (without military service)

Noncontributory Plan: $1.25\% \times 17 \text{ years} = 21.25\% \times \$4,000 = \$ 850$

Hybrid Plan: $2\% \times 13 \text{ years} = 26\% \times \$4,000 = \underline{\$1,040}$
 $\$1,890 \text{ per month}$

Maximum Allowance (with military service)

Noncontributory Plan: $1.25\% \times (17 \text{ years} + 2 \text{ years military}^) = 23.75\% \times \$4,000 = \$ 950$

Hybrid Plan: $2\% \times (13 \text{ years} + 2 \text{ years military}^{}) = 30\% \times \$4,000 = \underline{\$1,200}$
 $\$2,150 \text{ per month}$

* With 17 years of Noncontributory service, eligible to acquire 2 years military service at no cost (17 + 2 = 19 years).

** With 20 years of service (after 1 year in the Hybrid Plan), eligible to purchase the 3rd year of military service (19 + 1 = 20 years).

With 25 years of service, eligible to purchase the 4th year of military service.

TAX IMPACT

Purchases made via the lump sum method with deferred compensation or tax sheltered annuity funds will be treated as pretax contributions for federal income tax purposes.

Purchases made via the lump sum method with personal funds will be treated as post tax contributions for federal income tax purposes.

Purchases made via additional payroll retirement deductions will be on a pretax basis for federal income tax purposes.

For members who terminate employment and receive a refund of their contributions, all pretax contributions will be subject to federal income taxes.

All retirement benefits from the ERS are not subject to State of Hawaii income tax.

FILING A CLAIM

A Request to Acquire Previous Military Service Credit, Form 1551, must be completed and submitted to the ERS with a copy of the Armed Forces of the United States Report of Transfer or Discharge, Form DD214. Form 1551 is available at any of our offices, on our website or can be mailed upon request (see page 6 for contact information). Upon certification of the military service, the member will be apprised of the procedure involved in acquiring this service.

In the event the member is unable to locate the Form DD214, assistance in obtaining a duplicate or an appropriate separation document is available from the counselors at the Office of Veterans Services, Department of Defense. They also provide assistance with legal name changes, military discharge appeals, VA Rating Board appeals, applications for VA benefits, information on Military Reserves, State Bonus Programs, as well as governmental notary service.

The following is a list of the Offices of Veterans Services phone numbers:

Oahu 433-0420	Maui, Molokai, Lanai 873-3145
Hawaii 933-0315	Kauai 241-3346

QUESTIONS AND ANSWERS

1. A member has 9 years and 6 months of credited service, 6 months of unused sick leave and 2 years of military service prior to Retirement System membership. Is this member eligible to acquire military service?

No. If the member was hired after June 17, 1996, the member must have at least 10 years of credited service excluding unused sick leave to acquire military service.

Yes. If the member was hired prior to June 18, 1996 and credited with at least 8 years of service excluding unused sick leave credit.

2. A Firefighter or Police Officer with 23 years of credited service has 2 years of military service to acquire. If an election is made to acquire with a lump sum payment, what contribution rate would be used to determine the cost of the acquisition?

The member's current contribution rate of 12.2% must be applied on the member's current salary as specified in Section §88-59, HRS. However, in the event military service occurred prior to July 1961, the rate would be 10.4% instead of 12.2%.

3. The same Firefighter or Police Officer after acquiring the 2 years of military service is now credited with 25 years of service, is age 50, and wants to retire. Is this member eligible to retire, and how would the retirement benefit be calculated?

Yes. Although not 55 years of age, this member is credited with 25 years of service and is eligible to retire. Section §88-74(1), HRS, allows a member under 55 years of age to retire without an age reduction penalty if the member has 25 years of credited service as a Firefighter or Police Officer of which the last 5 or more years prior to retirement is in that capacity. In this case, this member has 25 years of Firefighter or Police Officer service to qualify for an unreduced benefit since military service for the Contributory member is considered service in the member's occupation at the time it is credited and it provides a corresponding retirement benefit. Therefore, the retirement benefit would be based on 25 years at 2.5%.

4. A Police Officer with 32 years of credited service has now reached the 80% ceiling (2.5% X 32 years = 80%) and has 4 years of military service that can be acquired. Should this member acquire any part of this military service?

No. The acquisition of military service generally increases a member's credited service, the percentage of average final compensation, and ultimately, the retirement benefit. However, Section §88-74(1), HRS, imposes an 80% ceiling (excluding unused sick leave credits) on the retirement benefit of those members eligible for the 2.5% formula. Therefore, since this member has already attained the 80% ceiling, there would be no advantage or increase in retirement benefit as a result of military service acquisition.

5. How does the acquisition of military service affect the 80% ceiling?

The ceiling is attained sooner if military service is acquired as the member's total credited service is applied toward the 80%. Example: Firefighter with 30 years of credited service and 2 years of military service to acquire:

MILITARY SERVICE ACQUIRED

30 years of credited service	=	75%	(2.5 % x 30 years)
2 years military service	=	<u>5%</u>	(2.5 % x 2 years)
		80%	

MILITARY SERVICE NOT ACQUIRED

30 years of credited service	=	75%	(2.5 % x 30 years)
Employment for 2 years more	=	<u>5%</u>	(2.5 % x 2 years)
		80%	

If military service is not acquired, the member would have to work 2 more years to attain the 80% ceiling.

6. How will the military service be credited if a Contributory Plan member has general (2%), Police Officer/Firefighter (2.5%) and Elected Official (3.5%) service?

The military service would be considered service in the member's occupation at the time of purchase. For example, if the member purchased service as an Elected Official, the military service would be credited at 3.5%. However, if the military service was purchased as a general employee, the service would be credited at 2%.

7. Can a retiree acquire military service?

No. Only a member can acquire military service. Section §88-21, HRS, defines a retiree as a "member who has retired and becomes a beneficiary of the System," therefore; membership status with the ERS is forfeited at retirement.

8. If a retiree returns to service and becomes a member of the ERS again, is acquisition of military service allowed?

Any retiree who returns to service, is reenrolled as a member of the ERS, and has at least 3 years of credited service during the reemployment period, would be eligible to acquire military service credit. The retiree's total credited service will determine the amount of military service that can be acquired.

9. Is acquisition of military service a "one shot deal?"

No. Depending on the date of hire, a member with 8 or 10 years of credited service and 3 years of military service would currently be eligible to acquire 2 years of military service. When the same member is credited with 20 years of service including the 2 years of military service previously credited, the remaining year of military service may be acquired.

10. Is there a deadline to acquire military service?

As long as one remains a member of the ERS and does not retire, acquisition of military service is permitted.

11. Will the acquisition of military service increase a member's AFC (average final compensation) at retirement?

No. Section §88-81, HRS, specifies that average final compensation is the average pay or salary upon which member has made the required contributions upon during the highest paid 3 years of credited service or during the highest paid 5 years of credited service if ERS membership occurred before January 1, 1971. Consequently, the acquisition of military service would increase the membership service the member is credited with but not the member's AFC.

12. Can a member acquire military service for the initial basic training period or the 2-week annual training period (summer camp) with the Reserves or National Guard?

No. Reserve and National Guard service is not considered active military service unless it occurred during time of war or declared national or State emergency. However, if a member served 4 years of active duty in the armed forces and then transferred to the Reserves or National Guard, the member may acquire the 4 years of active duty service if all other criteria have been met.

13. Section §88-74(3) (B), HRS, specifies that retirement allowances for judges and elected officials cannot exceed 75% of their average salary. As their retirement allowance for each year of credited service as a judge or elected official is comprised of 3.5% of their average salary plus an annuity provided by their contributions, should these members who have already attained the 75% ceiling acquire military service?

Although there would be no increase in their retirement benefit, there may be certain tax advantages. Please contact the ERS for further information.

14. If the same judge or elected official had not attained the 75% maximum, what effect would the acquisition of military service have on the retirement benefit?

It would increase the years of credited service and provide a 3.5% benefit for each year of acquired military service. This would be included in the determination of the 75% maximum; therefore, the 75% would be attained sooner.

Should you have further questions or need assistance, please see contact information below:

ERS WEBSITE ADDRESS, OFFICE LOCATIONS AND PHONE NUMBERS

WEBSITE: <http://www4.hawaii.gov/ers>

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

Oahu Employees' Retirement System
City Financial Tower
201 Merchant Street, Suite 1400
Honolulu, HI 96813

Benefits Branch: 586-1735
Fax: (808) 587-5766

Hawaii

Hawaii District Office
101 Aupuni Street, Suite 208
Hilo, HI 96720

(808) 974-4076 or 974-4077
Toll-free to Oahu @ 974-4000 Ext. 61735
Fax: (808) 974-4078

Kauai

Kauai District Office
3060 Eiwa Street, Room 302
Lihue, HI 96766

(808) 274-3010 or 274-3011
Toll-free to Oahu @ 274-3141, Ext. 61735
Fax: (808) 241-3193

Maui

Maui District Office
54 S. High Street, Room 218
Wailuku, HI 96793

(808) 984-8181 or 984-8282
Toll-free to Oahu @ 984-2400, Ext. 61735
Fax: (808) 984-8183

Molokai/Lanai

Toll-free to Oahu @1-800-468-4644, Ext. 61735

US Mainland Only

Toll-free to Oahu @1-888-659-0708, Ext. 61735