



STATE OF HAWAII EMPLOYEES' RETIREMENT SYSTEM

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INFORMATION FOR PROSPECTIVE RETIREES

CONTRIBUTORY PLAN

**ELECTED AND LEGISLATIVE OFFICERS: GOVERNOR, LIEUTENANT GOVERNOR, MAYORS,
LEGISLATORS, COUNCIL MEMBERS, PROSECUTING ATTORNEYS FOR EACH COUNTY, OFFICE
OF HAWAIIAN AFFAIRS (OHA) TRUSTEES, CHIEF CLERK, ASSISTANT CHIEF CLERK, SERGEANT
AT ARMS AND ASSISTANT SERGEANT OF ARMS**

MAY 2007

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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 session at the nearest ERS office when you are ready to file an application to retire.

RETIREMENT ELIGIBILITY REQUIREMENTS

DEFINITIONS

“Elective officer” or “elective official”: any person elected to a public office or appointed to fill a vacancy of an elective office, except as a delegate to a constitutional convention or member of the board of education, in accordance with an election duly held in the State or counties under chapter 11, provided that the person receives compensation, pay, or salary for such office.

“Legislative officer”: means a chief clerk, an assistant chief clerk, a sergeant at arms, or an assistant sergeant at arms of either house of the legislature.

“Mixed Service”: includes a combination of Elected Official 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% of actual gross earnings (compensation) is deducted each month.

“Average Final Compensation” (AFC):

- Included in the AFC are actual gross earnings, including overtime temporary assignment and differential pay.
- Members of the Retirement System:

ON or AFTER January 1, 1971

AFC is your average salary earned during your 3 highest-paid years, excluding any lump-sum vacation payment. (High - 3)

PRIOR to January 1, 1971

AFC is your average salary earned during your 5 highest paid years, including any lump-sum vacation payment. (High - 5)

Final AFC will be based on the higher of the High-3 or High-5 method.

- Bifurcation of salary by category of service from July 1, 1997 or November 4, 1998.

Bifurcation of AFC (Act 374) Effective July 1, 1997

July 1, 1997	November 4, 1998
<p><u>Pre-AFC Service</u></p> <p>For members of the ERS who accrued benefits as elective officers or legislative officers before July 1, 1997. The member’s benefits accrued up to June 30, 1997, shall not be diminished or impaired.</p>	<p><u>Post-AFC Service</u></p> <p>For elective officers or legislative officers, who are in office and members of the ERS on July 1, 1997. The member’s benefit accrued up to November 3, 1998, shall not be diminished or impaired.</p>

Pre-AFC Service

Post-AFC Service

-----July 1, 1997-----

1.25% X years of service

2% X years of service *X AFC*
2 ½% X years of service
3 ½% X years of service

2% X years of service X AFC (General)
2 ½% X Years of service X AFC (Police & Fire)
1 ¼% X years of service X AFC (General)
3 ½% X years of service X AFC (Elected)
3 ½% X years of service X AFC (Legislative)
3 ½% X years of service X AFC (Judge)

-----November 4, 1998-----

1.25% X years of service

2% X years of service *X AFC*
2 ½% X years of service
3 ½% X years of service

2% X years of service X AFC (General)
1 ¼% X years of service X AFC (General)
2 ½% X years of service X AFC (Police & Fire)
3 ½% X years of service X AFC (Elected)
3 ½% X years of service X AFC (Legislative)
3 ½% X years of service X AFC (Judge)

Note: If all service is rendered as an elected or legislative officer, no bifurcation of AFC is required.

SERVICE RETIREMENT

Full Retirement

- Age 55 or older with 5 years of (mixed) credited service.

Early Retirement

- Before Age 55 with 10 years of (mixed) credited service (age reduction will be applied to any general service as a contributory or noncontributory member).

Vested/Deferred Retirement

- Termination of membership prior to age 55 with at least 5 years of credited service.
- Eligible for pension at age 55.

RETIREMENT ELIGIBILITY REQUIREMENTS

DISABILITY RETIREMENT

A person appointed by the Family Court as guardian or has Durable Power of Attorney of an incapacitated employee may file a retirement application on behalf of a disabled employee.

Ordinary Disability Retirement

- 10 or more years of service.
- No age requirement.
- Unable to work due to illness or injury (unrelated to work).
- Employee must be on the payroll (including “leave without pay”) to be eligible to file.
- ERS Medical Board certifies permanent incapacity for the further performance of duty.
- Maximum Allowance payable: Use same calculation method that is used for regular retirement. (Minimum benefit = 30% of AFC)

Service-Connected Disability Retirement

- No minimum service.
- No age requirement.
- Permanently disabled due to an accident on the job which was not due to willful negligence or the cumulative effect of performing hazardous duties.
- Application must be filed within two years of the date of accident or within two years from the date workers' compensation benefits stop, whichever is later.
- ERS Medical Board certifies permanently incapacity for the further performance of duty.
- Maximum Allowance payable: 50% x Average Final Compensation, plus return of all contributions including interest.

Note: Unused sick leave cannot be used to meet any service credit eligibility requirements.

"PAPER RETIREMENT" PROVISIONS (ACT 90)

Retirement benefits under Act 90/71- Sections 88-61(c) and 88-73(e)

Any Elective Officer, after attaining an allowance of 75% of the average final compensation (AFC), may elect to retire "on paper" and continue their service. Elective Officer's may also elect not to retire "on paper" and continue membership in the ERS.

"Paper Retirement" - Discontinued Membership:

1. May be filed after the 75% AFC limitation is attained.
2. Act 151/98 deleted the "six month" time limit to elect Act 90.
3. Effective date of retirement is the day election to retire is made and the 30- to 150-day filing requirement does not apply.
4. Election to retire shall be irrevocable.
5. Any excess contributions on account due to the 75% AFC limitation will be refunded.
6. No retirement contributions will be deducted from future salary.
(Example: $\$8,910 \times 7.8\% = \694.98 per month)
7. AFC will be based on salaries earned up to the date of the election to retire is made even if the salary at the point of actual retirement is much higher.
8. Designated beneficiary will be protected under the retirement option selected.
9. No pension payment until employment actually terminates. Upon leaving active service, the member shall receive the retirement allowance and post retirement allowances, effective on the 1st of the month except for December 1st or 31st.
10. Monthly retirement allowance will commence upon termination of service. Benefits are not retroactive.
11. Post retirement shall accrue from the retirement date until actual termination. Thus, if termination is 10 years after election to retire is made, the initial post retirement shall be 25% ($2\frac{1}{2}\%$ per year x 10 years) of the retirement allowance.

No "Paper Retirement" - Continued Membership:

1. Contributions to the ERS will continue and federal income taxes will be deferred on all retirement contributions.
2. Benefit calculation will be based on the AFC for the highest three or five years of service.
3. Excess contributions will be refunded upon retirement.

EMPLOYEES' RETIREMENT SYSTEM CHECKLIST

15 months or more before Retirement

- Attend a pre-retirement session
- Contact your own Department of Personnel Office for Schedule
- An ERS representative will discuss the retirement application process, option selections, and answer any questions

6 months

- Contact the ERS office
- Request a Retirement Estimate (ERS generated estimates cannot be provided earlier than 6 months in advance of your retirement date)
- Information needed:
 - Name
 - Social Security number
 - Address
 - Birth date
 - Retirement date (definite or tentative)
 - Monthly gross salary
 - Beneficiary name and birth date
 - Any previous service, military, or maternity leaves to be acquired or purchased
- Request a Retirement Packet
- The packet will include retirement forms and instructions for completing them
- Contact the ERS office nearest you
- Schedule an appointment
- Bring your retirement packet and your spouse (recommended). During the appointment, a Retirement Claims Examiner will help you complete your retirement application; answer any questions or concerns regarding your retirement estimate; and enable you to select the best option for you and your family. Hawaii Employer-Union Trust Fund (EUTF) enrollment form, Spousal/Reciprocal Beneficiary Notification form and tax withholding form will also be completed at this time.

Not more than 150 days and not less than 30 days before retirement

NOTE: 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 (Exception: "Paper Retirement")

- File your Retirement Application
- Notarized Applications may be hand-delivered or mailed to the ERS
- Required personal documents:

1) Proof of birth date for you and your Beneficiary (for survivor options). (Original documents only. <i>Photocopies not accepted</i>) *NOTE: Substitutions listed below	3) Medicare card, if applicable, for you and your spouse required by law for <i>integration with EUTF coverage and for Medicare premium reimbursement.</i>
2) A bank deposit slip, voided check or account number for electronic deposit of pension checks	4) Driver's license or State ID <i>for signature validations</i>

Substitute any two of the following original documents with birth date or age in place of a certified birth certificate:

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

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 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 CHECK INFORMATION

Make plans to cover expenses for your first four to eight weeks of retirement. Your first pension check will be retroactive to your retirement date and is mailed to your mailing address 4 to 8 weeks after you retire. Your pension amount is based on the option you selected according to the latest estimate provided to you by the ERS. **You are required to have your monthly pension check direct deposited to an account at a financial institution of your choice.**

Payment

Your first pension check is issued approximately **4 to 8 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 the month.

Final Pension Adjustment

Your estimated pension will be finalized following the receipt and review of your payroll/personnel records, 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 4-1/2% interest per annum on any retroactive pension amount that may be paid to you if your pension is not finalized within 6 months after the retirement date.

Taxation of Benefits

Pension allowances are subject to federal taxes only.

Mailing Address Change

Mailing address changes must be reported in writing to ensure correct mailing of any correspondence, tax form, and other information.

Financial Institution Change

Financial institution changes must also be requested in writing. Change forms are available at all ERS offices or on the ERS website. Please be advised that two pension checks will be mailed to your mailing address before any changes to the financial institution becomes effective.

PENSION BENEFIT COMPUTATION

For each year of service as an elected official, 3 ½% of the member's average final compensation plus an annuity on the contributions made by the member while serving in this capacity.

The maximum benefit is 75% of the member's average final salary. If the maximum limitation is exceeded, the member is refunded the annuity value of the excess contributions. However, the refund is applicable only to contributions derived from service in this capacity.

The following hypothetical examples will help illustrate the Maximum Allowance:

Example 1:

- Age 45
- 10 years of service as a legislator
- \$72,000 average annual compensation (AFC)
- \$56,000 member contributions plus interest

Computation

10 years x 3 ½% x \$72,000	\$25,200
Plus annual annuity	
\$56,000 / 15.1016 (age 45)	<u>+ 3,708</u>
Annual Maximum Allowance	\$28,908 (or \$2,409 per month)

Example 2:

- Age 55
- 5 years of service as a Contributory general employee (\$30,000 AFC)
- 18 years of service in the legislature (\$32,000 AFC)
- \$35,000 total contributions plus interest (\$5,000 = general + \$30,000 = legislator)

Computation

5 years x 2% x \$30,000	\$ 3,000
18 years x 3 ½% x \$32,000	<u>+ 20,160</u>
	\$ 23,160
Plus annual annuity	<u>+ 2,200</u>
\$30,000 / 13.6314 (age 55)	\$ 25,360
Less annual maximum allowance (75% x \$32,000)	<u>- 24,000</u> (or \$2,000 per month)
Excess Benefit	\$ 1,360
	<u>x13.6314</u>
Excess Contributions	\$ 18,538

Summary

- Annual Maximum Allowance payable = 75% of highest AFC or (75% x \$32,000=\$24,000).
- Excess contribution to be refunded = \$18,538.
- Balance of the member's contributions (refund plans) = \$16,462 (\$35,000 - \$18,538).
- If the excess was more than \$30,000, the refundable amount would be restricted to that amount and the balance of the member's contributions would then be \$5,000.

ESTIMATE SAMPLE

Your estimated service retirement benefits are based on the following:

RETIREMENT DATE	Mo/Day/Yr	EARNED SERVICE	16 YRS 0 MOS (Elected)
			5 YRS 0 MOS (General)
BIRTH DATE	Mo/Day/Yr (Age: 55)	ACQUIRED SERVICE	2 YRS 0 MOS (Elected)
MEMBERSHIP DATE	Mo/Day/Yr	<u>UNUSED SICK LEAVE**</u>	YRS MOS
BENEFICIARY		TOTAL MEMBERSHIP SERVICE	23 YRS 0 MO (Mixed)
BIRTH DATE Mo/Day/Yr (Age: 57)		TOTAL COMPUTED SERVICE	23 YRS 0 MO (" ")

<u>RETIREMENT OPTION</u>	<u>MONTHLY PENSION RETIREE</u>	<u>BENEFICIARY</u>	<u>POP UP TO RETIREE</u>	<u>INSURANCE RES</u>	<u>REFUND AMOUNT</u>	<u>%</u>
Maximum Allowance	\$2,000.00	NONE	---	---	---	---
One	\$1,960.00	NONE	---	\$320,610.00	---	---
Two (100% Survivor)	\$1,818.00	\$1,818.00	\$2,000.00	---	---	---
Three (50% Survivor)	\$1,904.00	\$952.00	\$2,000.00	---	---	---
Four (5 & Maximum)	\$1,979.00	NONE	---	---	\$ 3,500.00	Pre '87
Four (5 & Maximum)	\$1,950.00	NONE	---	---	\$ 8,231.00	50%
Four (5 & Maximum)	\$1,925.00	NONE	---	---	\$12,346.00	75%
Four (5 & 1)	\$1,939.00	NONE	---	\$317,175.00	\$ 3,500.00	Pre '87
Four (5 & 1)	\$1,910.00	NONE	---	\$312,432.00	\$ 8,231.00	50%
Four (5 & 1)	\$1,885.00	NONE	---	\$308,342.00	\$12,346.00	75%
Four (5 & 2)	\$1,797.00	\$1,797.00	\$1,979.00	---	\$ 3,500.00	Pre '87
Four (5 & 2)	\$1,768.00	\$1,768.00	\$1,950.00	---	\$ 8,231.00	50%
Four (5 & 2)	\$1,743.00	\$1,743.00	\$1,925.00	---	\$12,346.00	75%
Four (5 & 3)	\$1,883.00	\$941.00	\$1,979.00	---	\$ 3,500.00	Pre '87
Four (5 & 3)	\$1,854.00	\$927.00	\$1,950.00	---	\$ 8,231.00	50%
Four (5 & 3)	\$1,829.00	\$914.00	\$1,925.00	---	\$12,346.00	75%
Five	\$1900.00	NONE	---	---	\$16,462.00	100%

AFC = \$32,000.00

TOTAL CONTRIBUTIONS = \$35,000.00

(EXCESS TO BE REFUNDED= \$18,538.00)

** 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.

Computed Service is earned service converted to full time (100%) equivalence for benefit computation purposes.

***IMPORTANT NOTICE:** Rule changes affecting 100% joint & survivor retirement options with non-spouse beneficiary.

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 2.5% on the original amount each year on July 1, following the calendar year of retirement. (Post retirement increases)

***IMPORTANT NOTICE:** Rule changes affecting 100% joint & survivor retirement options with non-spouse beneficiary

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

***IMPORTANT NOTICE:** Rule changes affecting 100% joint & survivor retirement options with non-spouse beneficiary.

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:

- 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 136/97)
- 10 years of credited service with the ERS can acquire up to 2 years of military service if hired after June 17, 1996.
- 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 3½% benefit.

The lump-sum payment amount is based on the number of months being acquired multiplied by 7.8% 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%.

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

PREVIOUSLY REFUNDED CONTRIBUTORY SERVICE

Previously refunded State or Country service can be purchased. You will receive 2% per year for any general employee service and 3½% per year for any Judge, elected official or legislative officer service.

The cost to purchase this service will be based at 7.8% 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.

ADDITIONAL SERVICE CREDIT

MATERNITY LEAVES

Members who were required to take mandatory maternity leave prior to July 1, 1973 are allowed to acquire or purchase a maximum of 4 years of membership service credit with a limit of 12 months per pregnancy.

- Contributory: Service
- The cost to purchase this service will be based at 7.8% or 6% (if service is prior to July 1, 1961) of your current monthly salary for each month purchased.
 - You will receive 2% per year for any general employee service and 3½% per year for any Judge, elected official or legislative officer service.
- 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.

PROFESSIONAL IMPROVEMENTS

Members who are on approved leave of absence, with or without pay, while engaged in “professional Improvement” are allowed to acquire or purchase a maximum of 2 years of membership service per period.

Professional improvement include leaves of absence for educational and sabbatical purposes.

- Contributory: Service
- The cost to purchase this service will be based at 7.8% or 6% (if service is prior to July 1, 1961) of your current monthly salary for each month purchased.
 - You will receive 2% per year for any general employee service and 3½% per year for any Judge, elected official or legislative officer service.
- 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.

Judge service can exceed the 75% Maximum benefit limitation of the AFC using additional unused sick leave credits. For mixed service, sick leave credit will be based on 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.

ORDINARY DEATH BENEFIT

The lump sum ordinary death benefit consists of (1) the return of the member's accumulated contributions (includes interest) and (2) an amount equal to 50% of the salary earned by the member during the year immediately preceding death. If the member has more than 10 years of credited service, an additional 5% for each year is payable up to a maximum of 100%. Ordinary death benefits are payable even if death occurred while on authorized leave without pay.

EXAMPLE: IN SERVICE AT TIME OF DEATH

SERVICE: 27 years 0 months

BENEFIT PAYABLE (Lump Sum Ordinary Death)

SALARY EARNED IN YEAR PRECEDING DEATH (100% based on 20 or more years of service)	\$106,921.00
RETURN OF CONTRIBUTIONS (including accrued interest)	+ <u>\$220,000.00</u>
TOTAL	\$326,921.00

In lieu of the lump sum ordinary death benefit, the beneficiary may elect an Option Two benefit if the member was eligible for regular or early retirement. If the member had 10 or more years of credited service but was ineligible for regular or early retirement, the beneficiary may elect an Option Three benefit. Payments will start on the first of the month following the date of death.

Options Two or Three are only available if one beneficiary was designated. If the member designated multiple beneficiaries or a trust, only the lump sum ordinary death benefit will be payable. If Options Two or Three are selected, the surviving spouse and dependent children may be eligible for health benefits under the Hawaii Employer-Union Trust Fund (EUTF). Please contact the EUTF office directly at 586-7390 for more information.

It is very important that the member's beneficiary designation on the Employees' Retirement System's Form 1A (Designation of Beneficiary) be in order. By law (88-93), the designation becomes null and void whenever the members' marital status changes or the designated beneficiary dies. If the beneficiary designation is not updated when either of these situations occurs, an exception [88-84(b)] under Act 67/93 enables the surviving spouse, reciprocal beneficiary*, or dependent children to receive benefits. The surviving spouse or reciprocal beneficiary can elect Option Two if the member was eligible for regular or early retirement, Option Three if the member had 10 or more years of credited service but was ineligible for regular or early retirement, or a lump sum ordinary death benefit. If there is no surviving spouse or reciprocal beneficiary, dependent children under age 18 can receive the lump sum ordinary death benefit without going through probate otherwise, member's estate will receive the benefits.

* "Reciprocal beneficiary": legal partnership between 2 individuals over 18 years old who are prohibited from marriage. (Section 572C)

POST-RETIREMENT INCREASES

As a retirant, you are eligible for a post retirement increase of 2½% of your basic retirement pension on July 1st of the next calendar year after your effective date of retirement.

For example: If your retirement is effective anytime this year . . . you will be eligible for this increase on July 1st, next year.

Example: \$1,000 Retirement Allowance

- If retirement is effective December 31st, this year
- July 1st of next year, you will receive an increase of 2½% or \$25 per month
- Each succeeding July 1st, you will receive another 2½% or \$25 per month
- The 2½% increase is not compounded, and is based on your basic retirement pension.

This is a cumulative increase, with no ceiling.

Exception: “Paper Retirement” - Post-retirement allowance shall accrue from the date of the election until actual termination.

TAXATION ON BENEFITS

OVERVIEW

Federal income tax:

Retirement benefits generally consist of a taxable portion and a nontaxable portion. 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 calculated by ERS each year and 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.

TEN PERCENT ADDITIONAL TAX RULES (Refund and refund options only)

If you terminate or retire and take an Option 4 or 5 refund, before age 55, an additional 10% federal income tax is assessed on the taxable portion of your Option Four/Five refund payments that is not rolled over to another qualified retirement account (such as an IRA). This 10% additional tax only applies to the taxable portion of any Option Four/Five refund payment and not the total refund payment.

The 10% additional tax, however, is not imposed on:

1. Monthly pensions.
2. Payments made to members who separate from service after age 55 and elect to withdraw their contributions.
3. Payments for disability retirement.
4. Death benefit payments to a beneficiary or member's estate.

TAX HIGHLIGHTS

1. As an active employee, deferment of federal income tax on retirement contributions.

<u>EXAMPLE</u>	
Gross Monthly Salary	\$2,000
Less Retirement Contributions (7.8%)	- 156
Subject to Federal Income Tax	\$1,844

- Purchases of service by payroll deduction are on a “pre-tax” basis and federal income taxes will be deferred until refunded.
- Contributions are subject to federal income tax upon retirement or upon termination of employment if a refund is received.

2. Computation of State income tax based on gross salary.
 - No deferment since retirement pension is not subject to State income tax.
3. All employee contributions made prior to January 1, 1987 that are included in the Option Four/Five refund payment are recovered tax-free in the year of payment. Contributions made by payroll deduction in 1987 and additional lump sum purchases of service made after December 31, 1986 made with after-tax contributions will be recovered tax-free over the retiree's estimated lifetime.

The following simplified example illustrates the tax treatment on an Option Five refund payment up to 1988.

	<u>TOTAL EMPLOYEE CONTRIBUTIONS</u> (excluding interest)	<u>TOTAL OPTION FIVE REFUND</u> (including interest)	<u>NON TAXABLE PORTION</u>	<u>TAXABLE PORTION</u>
Up to 1986	\$18,000	\$30,000	\$18,000	\$12,000
1987	2,000*	3,000	---	3,000
1988	3,000	4,000	---	4,000
Purchase of Service (1988 & on)	<u>1,000*</u>	<u>1,000</u>	---	<u>1,000</u>
	\$24,000	\$38,000	\$18,000	\$20,000

(*These amounts will be recovered tax-free on a prorated basis and will be reflected on future federal income tax returns. There is no "double taxation" of after-tax contributions to the Retirement System.)

Tax-free rollover of the taxable portion of the Option Four or Five refund payment into an IRA or another qualified plan is allowed.

If the taxable portion of the Option 4 or 5 refund is not directly rolled over at retirement by the ERS to an IRA or qualified plan, at least 20% of the taxable portion must be withheld for Federal income tax purposes. The 20% is a mandatory Federal income tax withholding. It is not a penalty or an additional tax. The actual amount of your federal income tax liability due on your retirement benefits is calculated when you file your federal income tax return.

Examples of the effect of the tax law on the Option Five refund payment follow:

Option Five Refund	\$38,000
Nontaxable Amount	<u>-18,000</u>
Taxable Amount	\$20,000

FULL ROLLOVER

Taxable (Check sent directly to financial institution):	\$20,000
Nontaxable Amount (Check to retirant):	\$18,000

PARTIAL ROLLOVER

Any taxable portion not rolled over is subject to the 20% mandatory income tax withholding.

Taxable Amount	\$20,000
Rollover Amount	<u>-5,000</u>
Net Taxable	\$15,000
	<u>- 3,000</u> (20% x \$15,000 taxable)
	\$12,000
Nontaxable Amount	<u>+18,000</u>
Check to retirant:	\$30,000

NO ROLLOVER

Option Five Refund:	\$38,000
Less Federal Withholding Tax	<u>- 4,000</u> (20% x \$20,000 taxable)
Check to retirant	\$34,000

If the retirant elects a partial rollover or no rollover at retirement, all or a portion of the taxable amount, received directly by the retirant, may still be rolled over into an IRA or qualified plan. The rollover must be done within 60 days after the payment is made by ERS to the retirant. Since the 20% would already have been withheld, recovery of the withholding would occur when personal income tax returns are filed.

The following illustrates the amount of income tax that may be payable if no rollover occurs. This example assumes an income tax rate of 35%. Remember that in this example that, 20% was already withheld. Therefore, only the difference would be due.

Income Tax at 35% (Maximum tax bracket) of \$20,000:	\$7,000
Retirement <u>Under</u> age 55: 10% Additional Tax on Taxable Portion	<u>+2,000</u>
TOTAL TAX	<u>\$9,000</u>

The actual amount of income tax that is payable will depend upon the retirant's age and tax bracket.

4. RECOVERY OF AFTER TAX CONTRIBUTIONS (refer to IRS Publication 575 Pension and Annuity Income for additional information)

The Employees' Retirement System uses the Simplified Method to determine the taxable and nontaxable portions of pension payments. This method enables retirants to recover their after-tax contributions over their estimated lifetime and is based upon their age at retirement. (Age determines the number of payments and portion of the monthly pension that is nontaxable.)

The following table illustrates this method of recovery:

SINGLE LIFE	
AGE	NUMBER OF PAYMENTS
55 and under	360
56-60	310
61-65	260
66-70	210
71 and over	160

If your annuity start date is after 12/31/97 and is payable over the lives of more than one individual (continuing benefit), the total number of expected payments is based on the combined ages of the annuitants at the annuity starting date.

MULTIPLE LIFE	
COMBINED AGES	NUMBER OF PAYMENTS
110 and under	410
111-120	360
121-130	310
131-140	260
141 or older	210

FORMULA:

$$\frac{\text{After Tax Contributions}}{\text{Number of Payments}} \times \text{Months Retired in Calendar Year} = \text{Annual Nontaxable Portion}$$

EXAMPLES:

Illustrations calculating the nontaxable portion of a 55 year old retirant's pension payments using the above formula and the After-Tax Contribution amounts from page 13* follow:

1. Option 5

Refund: \$38,000 (\$18,000 nontaxable)

Pension:	$\frac{\$2,000 + \$1,000}{360 \text{ payments}}$	X	12 Months	=	\$100 annual nontaxable portion
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Based on this example, if the retirant receives an annual pension of \$9,000, \$100 is nontaxable and the balance of \$8,900 is subject to federal income tax until the full after-tax contributions of \$3,000 are recovered. At that point, the entire annual pension of \$9,000 is taxable.

2. Maximum Allowance; Options One, Two and Three

Refund: None

Pension:	$\frac{\$18,000 + \$2,000 + \$1,000}{360 \text{ payments}}$	X	12 months	=	\$700 annual nontaxable portion
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In this example, the after-tax contributions to be recovered as part of the monthly pension payments totals \$21,000 (including nontaxable pre-1987 contributions of \$18,000) since there is no refund of contributions taken. If the retirant receives an annual pension of \$12,000 and elected the Maximum Allowance or Option One, the recovery of after-tax contributions will be over 360 months. Therefore, \$700 is nontaxable and the balance of \$11,300 is subject to federal income tax until the full after-tax contributions of \$21,000 are recovered. At that point, the entire annual pension of \$12,000 is taxable.

If the retirant selected a continuing beneficiary option (Options Two or Three), then the recovery period is based on the combined ages of the retirant and the beneficiary. Using the above example of a retirant age 55 and a continuing beneficiary age 54, with a combined ages of 109, then contributions will be recovered over a period of 410 monthly payments, resulting in \$615 nontaxable each year and \$11,385 being subject to federal income taxes.

** If the annuity is based on a continuing benefit [Options 2,3,4(2) or 4(3)], and started after 12/31/97, the number of payments would be based on the combined ages of the annuitants.*

FREQUENTLY ASKED TAX QUESTIONS

1. Are my retirement pensions subject to State of Hawaii taxes?

No, all pensions paid by ERS are nontaxable for State of Hawaii income tax purposes. In the event that a member moves to a different state, the ERS strongly recommends that the member confer with his or her accountant or tax consultant to determine the state and local tax treatment of any distribution.

2. 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?

You are not being taxed on your own money. Under current law, you may only recover your after-tax contributions over your expected lifetime, or the expected lifetime of you and your beneficiary if a continuing beneficiary option is selected. Using tables prescribed by the Internal Revenue Service, a portion of your monthly pension is nontaxable as a recovery of your after-tax contributions. The remaining portion is considered taxable. Once your after-tax contributions are fully recovered, your entire monthly pension is taxable for federal income tax purposes.

3. 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 your 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.

4. Can I rollover the taxable portion of my Option Four or Five refund payment into an Individual Retirement Account (IRA)?

Yes, the taxable portion can be rolled over into an IRA or another qualified plan. Refund payments to terminating employees who forfeit retirement pensions and death pensions paid to spouses 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.

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

Yes, you can rollover the taxable portion of 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 as you will need to determine what portion of the subsequent distribution is not taxable for State of Hawaii income taxes.

6. **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.

7. **The ERS withheld 20% from the taxable portion of my Option Four or Five refund for federal income taxes and I 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 payments). 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, 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 AND PHONE NUMBERS AND WEBSITE ADDRESS

The Employees' Retirement System (ERS) office 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. Enter the City Financial Tower parking entrance 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: 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
Website	http://www4.hawaii.gov/ers