



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

## **ELECTIVE 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**

### **Contributory Retirement Information**

November 2020

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*This information is available in an alternate format. Please call 586-1735 for information*

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## 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 Elective 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.

“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 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 earnings excluding any lump sum vacation pay, or your five highest years of earnings including lump sum vacation pay, whichever is greater.

“Bifurcation”:

- 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><b>Pre-AFC Service</b> 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><b>Post-AFC Service</b> 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

<p>1.25% x years of service x AFC</p> <p>2% x years of service x AFC</p> <p>2 ½% x years of service x AFC</p> <p>3 ½% x years of service x AFC</p>	<p>2% x years of service x AFC (General)</p> <p>2 ½% x years of service x AFC (Police &amp; Fire)</p> <p>1 ¼% x years of service x AFC (General)</p> <p>3 ½% x years of service x AFC (Elected)</p> <p>3 ½% x years of service x AFC (Legislative)</p> <p>3 ½% x years of service x AFC (Judge)</p>
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#### November 4, 1998

<p>1.25% x years of service x AFC</p> <p>2% x years of service x AFC</p> <p>2 ½% x years of service x AFC</p> <p>3 ½% x years of service x AFC</p>	<p>2% x years of service x AFC (General)</p> <p>1 ¼% x years of service x AFC (General)</p> <p>2 ½% x years of service x AFC (Police &amp; Fire)</p> <p>3 ½% x years of service x AFC (Elected)</p> <p>3 ½% x years of service x AFC (Legislative)</p> <p>3 ½% x years of service x AFC (Judge)</p>
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## Retirement Planning

In planning for retirement, the first step is for you to decide on a retirement date. To help with your decision, visit our website at <http://ers.ehawaii.gov>. The Employees' Retirement System (ERS) website has information to guide you on the retirement process.

- (1) Website Information Tools to assist in planning for your retirement.
  - a. Member Information – Provides your retirement plan, membership date, and total creditable service.
  - b. Benefit Calculator – Use the Benefit Calculator to get estimated pension projections of a specific retirement date. Calculate as many different retirement date scenarios as you wish, nothing is saved on the website.
  
- (2) Contact the ERS – Once you have decided on a retirement date, you may file your application no earlier than 150 days and not less than 30 days before your retirement date. All retirement dates must be the first of the month except for December when retirement may be on the 1st or 31st. Contact the ERS on Oahu or any of our Neighbor Island offices for assistance in filing your application.
  
- (3) Application Process – Staff will assist you on filing your application, provide dates for cancellation or changes, calculate your estimate pension options, and provide a phone counseling session.
  - a. 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.
  - b. 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 1<sup>st</sup> of the month except December, which can be the 1<sup>st</sup> or the 31<sup>st</sup>. Your COB date and retirement date cannot be the same.
  - c. Retirement applications must be notarized or signed in the presence of an ERS representative.
  - d. ERS must provide written notification of a member's retirement date, option selection, and beneficiary designation to the member's spouse/reciprocal beneficiary.
  
- (4) Proof of Birth Documents – The ERS requires to verify your birth date and your beneficiaries birth date should you select a joint survivor option. Besides a copy of your birth certificate or a copy of your "Real ID" credentials (e.g., Driver's Licenses with "Gold Star" emblems or State Identification certificates), the ERS can accept copies of any two (2) of the below listed documents in lieu of a birth certificate or a "Real ID":

- Hawaii Driver's License	- Military Record
- Hawaii State Identification Card	- Hospital Treatment Records
- Birth Registration Card	- Life Insurance Policy
- Passport (U.S. or Foreign)	- School Record (with age)
- Passport Card	- Child's Birth Certificate (with member's age)
- Marriage Certificate	- Census Record
- Naturalization Record	- Voter Registration Record
- Original Baptismal Certificate/Religious Record (Recorded after age 5)	
  
- (5) Account number for electronic deposit of pension payments
  
- (6) Valid Driver's License or State ID for signature validations

## Service Retirement Eligibility Requirements

Membership date after June 30, 2012		Membership date prior to July 1, 2012	
Normal Retirement	Any age w/10 yos	Normal Retirement	Age 55 w/5 yos (mixed service)
Early Retirement (Age Penalty)	Any age w/10 yos (mixed service)	Early Retirement (Age Penalty)	Any age w/10 yos (mixed service)
Multiplier	3%	Multiplier	3.5%
Vesting	10 yos	Vesting	5 yos
Average Final Compensation (AFC)	Average of 5 highest years of base pay	Average Final Compensation (AFC)	Average of 3 highest years of gross pay

yos = Years of Service

### Pension Calculation

As a defined benefit plan, your pension is based on your:

1. Years and months of ERS membership service
2. AFC
3. Benefit percentage

Pension Calculation Formula:

Years of Credited Service x AFC x Benefit Percentage + Annuity\*

\*Elective Official contributions/Service Annuity Factor for age

For each year of service as an elective official, 3 ½% or 3% of the member's AFC 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 and is subject to federal taxes and is not eligible for rollover to an IRA or retirement account.

### Pension Benefit Formula Examples

Example A:

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

#### Computation

10 years x 3 ½% x \$72,000	\$25,200
Plus annual annuity	
\$56,000 / 17.5637 (service annuity factor for age 45)	<u>+ 3,188</u>
Annual Maximum Allowance	\$28,388 (or \$2365 per month)

Example B:

- 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	+ 20,160
	<u>\$ 23,160</u>
Plus annual annuity	+ 1,878
\$30,000 / 15.9721 (service annuity factor for age 55)	\$ 25,038
Less annual maximum allowance (75% x \$32,000)-----	<u>24,000</u> (or \$2,000 per month)
Excess Benefit	\$ 1,038
	<u>x15.9721</u>
Excess Contributions	\$ 16,583

Summary:

- Annual Maximum Allowance payable = 75% of highest AFC or (75% x \$32,000=\$24,000).
- Excess contribution to be refunded = \$16,583.
- Balance of the member's contributions (refund options) = \$18,417 (\$35,000 - \$16,583).
- 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.

## 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.** Entities such as Trust Accounts, Care Home Facilities, and Business Accounts cannot be used for ERS purposes.

### **Payment**

Your first pension payment will be direct deposited to your designated financial institution account on the last business day of the month of your retirement provided all application documents and department confirmations are received. You will receive a monthly pension, which will be paid on the last business day of every month.

### **Final Pension Adjustment**

Your pension is adjusted within 6 months following the month of retirement (7 months for December 31<sup>st</sup> retirements). The adjustment will include any eligible unused sick leave reported by your department. Your pension will be adjusted to an exact amount retroactive to your retirement date.

Effective January 1, 2004, ERS is required to pay interest per annum on pensions not finalized within 6 months after the retirement date. For retirement dates of 12/31, ERS is required to pay interest per annum on pensions not finalized within 7 months after the retirement date.

### **Federal Income Tax Withholding Change**

Changes to your Federal Income Tax Withholdings **must be requested in writing.** The Tax Withholding Form (Form W-4P) is available at our offices or website.

### **Mailing Address Change**

Mailing address changes may be reported in writing or requested via telephone to ensure correct mailing of any correspondence, tax forms, and other information. The Mailing Address Change Form (ERS-211) is available at our offices or website.

### **Financial Institution Change**

Financial institution changes for the direct deposit of your pension payment **must be requested in writing.** The Direct Deposit Agreement Form (ERS-210) is available at our offices or website.

## **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.

*Note: ERS can accept monies from 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% or 3% benefit.

If a member is eligible to acquire military service, the lump sum payment amount is based on an actuarial determination, which would take into consideration your age, investment yield rate, retirement age, and other actuarial assumptions.

Detailed information can be found in the Military Service Credit brochure. Claims can be submitted by using the Request to Acquire Previous Military Service Credit Form (Form 1551). These are available at our offices or website.

### **Previously Refunded Contributory Service**

Previously refunded State or Country service earned while in the Contributory plan can be purchased. You will receive 1.75% or 2% per year for any general employee service and 3% or 3½% per year for any Judge, elected official or legislative officer service.

The cost to purchase this service will be based on an actuarial determination, which would take into consideration your age, investment yield rate, retirement age, and other actuarial assumptions. Claims can be submitted by using the Member Information Form (ERS-243), which is available at our ERS offices or website

### **Forfeited Noncontributory Service**

Previous non-vested service earned while in the Noncontributory plan, 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. Claims can be submitted by using the Member Information Form (ERS-243), which is available at our ERS offices or website

## Unused Sick Leave

An employee who retires in good standing and has a minimum of sixty 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.

For example:

If you have 1,480 hours of unused sick leave credit at retirement.

$$\frac{1,480 \text{ hours}}{8 \text{ hours}} = 185 \text{ days}$$

$$\frac{185 \text{ days}}{20 \text{ days}} = 9.25 \text{ months}$$

- Round off to 9 months of additional service credit.
- If total months is 0.50 or more, round up to 1 month of additional service credit.

Elective Official service can exceed the 75% maximum benefit limitation of the AFC using additional unused sick leave credits. Sick leave credit for a member with mixed service will be calculated on a split formula if all the sick leave could not have been earned while employed as an Elective Official in the Contributory plan.

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

Note: Your vacation payout will be handled by your department.

## Example of a Pension Calculation

RETIREMENT DATE	MEMBER'S AGE: 55	
BIRTH DATE		
MEMBERSHIP DATE	Prior to July 1, 2012	
BENEFICIARY BIRTH DATE	AGE: 57	
EARNED SERVICE (Elected)	16 YRS	0 MOS
EARNED SERVICE (General)	5 YRS	0 MOS
ACQUIRED SERVICE (Elected)	2 YRS	0 MOS
<b>TOTAL MEMBERSHIP SERVICE</b>	<b>23 YRS</b>	<b>0 MOS</b>
*AFC = \$3,000.00/month		
Total Contributions \$35,000.00		
Excess to be Refunded \$18,538.00		

Maximum Allowance payable:

Years of Credited Service x Average Final Compensation (AFC) x Benefit Percentage

Elected: 18 x \$3,000 x 3.5% = \$1,890

General: 5 x \$3,000 x 2% = \$300  
\$2,190

RETIREMENT OPTION	RETIREE'S MONTHLY PENSION	BENEFICIARY'S CONTINUING PENSION	POP UP TO RETIREE	INSURANCE RESERVE	REFUND AMOUNT	REFUND %
Maximum Allowance	\$2,190.00	---	---	---	---	---
One	\$1,960.00	---	---	\$320,610.00	---	---
Two (100% Survivor)	\$1,818.00	\$1,818.00	\$2,190.00	---	---	---
Three (50% Survivor)	\$1,904.00	\$952.00	\$2,190.00	---	---	---
Four (5 & Max)	\$1,979.00	---	---	---	\$3,500.00	Pre 1987
Four (5 & Max)	\$1,950.00	---	---	---	\$8,231.00	50%
Four (5 & Max)	\$1,925.00	---	---	---	\$12,346.00	75%
Four (5 & 1)	\$1,939.00	---	---	\$317,175.00	\$3,500.00	Pre 1987
Four (5 & 1)	\$1,910.00	---	---	\$312,432.00	\$8,231.00	50%
Four (5 & 1)	\$1,885.00	---	---	\$308,342.00	\$12,346.00	75%
Four (5 & 2)	\$1,797.00	\$1,797.00	\$1,979.00	---	\$3,500.00	Pre 1987
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	---	\$8,231.00	Pre 1987
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	\$1,900.00	---	---	---	\$16,462.00	100%

## Retirement 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. It is recommended that you consider your retirement lifestyle, projected expenses, beneficiary concerns and needs to make the best decision for you. Some of the options available provide a pension for your beneficiary.

Please be advised that retirement option changes are only allowed prior to your retirement date. All pensions are subjected to a 2.5% (for membership dates prior to July 1, 2012) or 1.5% (for membership dates after June 30, 2012) on the original pension amount each year on July 1, following the calendar year of retirement.

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

<sup>1</sup> In the event a member dies after filing a retirement application but before the member’s retirement date the designated beneficiary may elect to receive the survivor benefit for the option selected by the member, or the ordinary death benefit (lump sum payment or Option Two survivor benefit).

<sup>2</sup> In the event a member dies within one year of retirement, the designated beneficiary may elect to receive the survivor benefit for the option selected by the member, or the ordinary death benefit (Option Two or Option Three depending on non-spouse beneficiary’s age).

<sup>3</sup> According to the Federal Treasury Regulations, if an ERS member designates a beneficiary who is not the member’s spouse; and the age difference between the member and non-spouse beneficiary exceeds the federal limit for the 100% Joint Survivor (Option Two). The ERS will determine if the non-spouse is eligible for Option Two, if not, Option Three will be available for the non-spouse.

# 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 (\* See *IMPORTANT NOTICE on page 13*)**

- 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 (\* See *IMPORTANT NOTICE on page 13*)**

- 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

## Choosing the Best Retirement Option for You

Every family's financial circumstances differ, so we recommend that you consider the following factors when selecting the option that is best for you.

### A. Monthly Income

- Can you live on your pension income?
- Do you have any other source of income besides your pension (e.g., Social Security, investment income or a part-time job or business)?

### B. Death Benefits

- Do you need to provide for someone after your death (e.g., spouse, dependent children, parents or siblings)? Will there be adequate income for your spouse if you die first? Will your beneficiary be protected for your lifetime regardless which option you choose?
- What is your current health status?
- If you have a serious illness, consider survivor options.
- (Contributory or Hybrid Plan members) If you are a younger member in good health, Option 1 may not be appropriate because of the likelihood that you will outlive the insurance reserve (approximately 10 to 13 years). However, if your beneficiary is older than you are or is not in good health, Option 1 provides flexibility in allowing changes in your beneficiary designation if your beneficiary predeceases you after you retire.
- For survivor options, the younger the beneficiary the lower the monthly pension.
- If your spouse has his/her own pension benefit, can he/she survive without your monthly pension if you should die first?
- Do you have sufficient life insurance if you choose an option without any death benefits? Are you still insurable considering your age and health?
- The Employees' Retirement System provides benefits if your death occurs within the first year of retirement.

### C. Refund of Contributions (Hybrid and Contributory plan members only)

- The more you withdraw, the less your monthly pension will be.
- Do you want/need a lump sum refund of your contributions?
- Do you want to take advantage of the nontaxable feature?
- Are you willing to pay the additional federal taxes if you withdraw more than your nontaxable portion? If not, consider a rollover of your refund into an IRA account or qualified employer plan.
- Will you be in a higher tax bracket with the additional taxable contributions added to your current salary (in the year you retire)?
- If a taxable refund option is selected, the estimated initial taxable refund payment or rollover amount is the balance in your account at the time the payment is made. The final balance of the taxable refund will be made or rolled over to your IRA account or qualified employer plan when your pension is finalized.
- Do you have long range plans for your refund? Can you manage your investments wisely (or would you rather leave your contributions in for a higher monthly pension and leave the investment risks to the ERS)?

### D. Post Retirement Increases

- You will receive an increase of 2.5% (membership dates prior to July 1, 2012) or 1.5% (membership dates after June 30, 2012) each July 1 starting with the calendar year after your retirement date.
- This increase is based on your original monthly pension and is not compounded.
- The higher your monthly pension, the higher your post retirement increase in dollars.

## 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 Year:	2042	
Member Birthdate:	3/1/1982	60 (age in 2042)
Beneficiary Birthdate:	8/5/2012	-30 (age in 2042)
	Age difference	<hr/> 30 years
	Less (member age under 70)	-10
	Adjusted age difference	<hr/> 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 Year:	2042	
Member Birthdate:	5/1/1987	55 (age in 2042)
Beneficiary Birthdate:	1/5/2012	-30 (age in 2042)
	Age difference	<hr/> 25 years
	Less (member age under 70)	-15
	Adjusted age difference	<hr/> 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).

## Disability Retirement

The ERS offers disability retirement for members who are permanently unable to perform their work duties. The ERS Medical Board certifies your disability which is approved by the Board of Trustees.

Types of Disability Retirements	Age	Service	Requirements	Maximum Allowance Payable
<b>Ordinary</b> – Unrelated to work. Permanently mentally or physically incapacitated for performance of duty	None	10 years	Employee must be on the payroll to be eligible to apply or “in-service” which includes on “leave without pay”.	Years of Credited Service x AFC x 3.5% or 3% (Minimum benefit = 30% of AFC)
<b>Service Connected</b> – Permanently mentally or physically disabled due to a work-related injury accident (which was not due to willful negligence)	None	None	Application must be filed within two years of the date of accident or within two years of the date the workers’ compensation benefits ceases.	50% of AFC, plus return of member’s contributions

If you are unable to work, please contact the ERS as you may be eligible for disability retirement.

## Ordinary Death Benefits

An "Active Death" or "Ordinary Death" is when a member dies in active service or while on an authorized leave without pay and the death is not the result of an accident occurring while in the actual performance of duty.

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%.

### 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 current. By law (88-93), the designation becomes null and void when:

1. the beneficiary predeceases the member or former employee;
2. the member or former employee is divorced from the beneficiary;
3. the member or former employee is unmarried, and subsequently marries; or
4. the member or former employee enters into or terminates a reciprocal beneficiary relationship.

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)

## Income Tax Information

You are responsible for your own tax planning and for the tax consequences of the benefits paid to you from the ERS. Because your tax circumstances may differ from those of other members and beneficiaries of the ERS and because tax laws are complex and subject to change, you should consult with a qualified tax advisor before applying for or receiving a distribution from the ERS. The following is a brief overview of federal and State of Hawaii tax rules applicable to benefits paid from the ERS as of July 1, 2020.

### **Federal Income Tax**

As a general rule, all benefits paid to you from the ERS are subject to federal income tax in the year paid to you. This is true for members, retirees, beneficiaries, and alternate payees under Hawaii domestic relations orders. If you made contributions to the ERS that were subject to federal income tax when contributed (e.g., regular employee contributions prior to 1988 or certain employee contributions used to purchase or convert service credit), you will be able to recover your after-tax cost (generally, over your expected lifetime). For more information with respect to the federal taxation of benefits paid from the ERS, please refer to IRS Publication 575, *Pension and Annuity Income*.

If you choose a distribution option that provides a benefit that is eligible to be rolled over to an IRA or an employer-sponsored, tax-qualified retirement plan, please refer to the ERS's "Special Tax Notice Regarding Rollover Options," which describes your rights to do a rollover, including a direct rollover, and the tax consequences if you do not elect a direct rollover (e.g., required 20% federal income tax withholding and possible 10% penalty tax if you receive a taxable distribution prior to age 59½).

For each year that you receive a benefit from the ERS, the ERS will issue you an IRS Form 1099-R, which will show the amount of the benefit paid to you that is subject to federal income tax in that year. It is possible that you will receive more than one Form 1099-R for a year.

If you are a foreign person (or are presumed to be a foreign person), the ERS will report your distribution on IRS Form 1042-S, and 30% withholding will apply. To claim a reduced rate under an income tax treaty, please complete IRS Form W-8BEN.

### **State of Hawaii Income Tax**

The State of Hawaii income taxation of ERS benefits is different from federal income taxation. Employee contributions to the ERS are subject to State of Hawaii income tax when contributed. As of July 1, 2020, benefits paid from the ERS (including the portion funded by the employer) are not subject to Hawaii income tax when paid from the ERS.

### **Income Taxes in Other States**

If you are a resident of or domiciled in another state, you should consult the tax authorities in that state as to the state income taxation of benefits paid from the ERS.

## Contacting the ERS

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:

<b>Oahu</b>	Employees' Retirement System City Financial Tower 201 Merchant Street, Suite 1400 Honolulu, HI 96813  Call Center: 586-1735 Fax: (808) 587-5766
<b>Hawaii</b>	Hawaii District Office 101 Aupuni Street, Suite 208 Hilo, HI 96720  (808) 974-4074, (808) 974-4076 or 974-4077 Toll-free to Oahu (808) 974-4000, Ext. 61735 Fax: (808) 974-4078
<b>Kauai</b>	Kauai District Office 3060 Eiwa Street, Room 302 Lihue, HI 96766  (808) 274-3010 or 274-3011 Toll-free to Oahu (808) 274-3141, Ext. 61735 Fax: (808) 241-3193
<b>Maui</b>	Maui District Office 54 S. High Street, Room 218 Wailuku, HI 96793  (808) 984-8181 or 984-8282 Toll-free to Oahu (808) 984-2400, Ext. 61735 Fax: (808) 984-8183
<b>Molokai/Lanai</b>	Toll-free to Oahu 1-800-468-4644, Ext. 61735
<b>US Mainland Only</b>	Toll-free to Oahu 1-888-659-0708, Ext. 61735
<b>Website</b>	<a href="http://ers.ehawaii.gov/">http://ers.ehawaii.gov/</a>
<b>Email</b>	<a href="mailto:dbf.ers.sss@hawaii.gov">dbf.ers.sss@hawaii.gov</a>