



Employees' Retirement System
of the State of Hawaii

Noncontributory Retirement Information

November 2020

The pension benefits earned while in the Noncontributory plan are designed as a "supplement" to your whole retirement income. To complete your retirement, the pension received should be added to other sources of income such as an IRA (Individual Retirement Account), Deferred Compensation, Social Security, and personal savings.

The ERS does not use, affiliate with, or endorse any financial consultant or third-party to contact ERS members regarding their ERS retirement benefits, or to distribute or otherwise use this material and the information herein. ERS members should contact the ERS directly to address questions regarding their ERS retirement benefits, or obtain current and accurate materials and information regarding their ERS retirement benefits. If you are an ERS member who has been contacted, or provided with this material or the information herein, by any financial consultant or third-party purporting to represent, be affiliated with, or endorsed by the ERS, please notify ERS immediately.

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This material provides information on pre-retirement activities 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.

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

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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 1st of the month except December, which can be the 1st or the 31st. 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

Retirement	Age	Years of Service	Age Reduction
Regular	62	10	No
	55	30	No
Special Categories: Emergency Medical Technicians, Sewer Workers, and Water Safety Officers with the last 5 years in that occupation	None	25	No
Early	55	20	6% age reduction for each year between age 55-62
Deferred (Vested and left State or County service prior to age 62)	65	10	No
	55	30	No
	55	At least 20 years but less than 30 years	6% age reduction for each year between age 55-62

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

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:

$$\text{Years of Credited Service} \times \text{AFC} \times \text{Benefit Percentage} = \text{Maximum Allowance}$$

Example:

Age 65 with 25 years of service and a monthly AFC of \$4,500

25 years of credited service x \$4,500 x 1.25% = \$1,406.25/month

Maximum monthly allowance = \$1,406.25

*The Average Final Compensation (AFC) is the average of either the three highest (HI-3) or five highest (HI-5) paid years of credited service. The HI-3 or HI-5 is the highest twelve (12) consecutive months throughout your work history and not necessarily by fiscal or calendar years

High 3 (HI-3)	<ul style="list-style-type: none"> - Membership dates from January 1, 1971 to June 30, 2012 - Salary includes overtime and bonuses
High 5 (HI-5)	<ul style="list-style-type: none"> - Membership dates prior to January 1, 1971 - Salary includes overtime, bonuses, and any lump sum vacation payout

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 31st 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.

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 benefit.

Military service is acquired at no cost.

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.

Previous State or County Service

Previous non-vested service while in the Contributory and/or 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 benefit. Claims can be submitted by using the Member Information Form (ERS-243), which is available at our 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. The unused sick leave credits cannot be used to fulfill eligibility requirements for retirement.

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.

Upon retirement, please notify your department that the audited unused sick 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			
BIRTH DATE		MEMBER'S AGE: 62	
MEMBERSHIP DATE			
BENEFICIARY BIRTH DATE		AGE: 57	
EARNED SERVICE	30 YRS	0 MOS	
ACQUIRED SERVICE	2 YRS	MOS	
TOTAL MEMBERSHIP SERVICE		32 YRS	0 MOS
*AFC = \$4,000.00/month			

Maximum Allowance payable:

$$\text{Years of Credited Service} \times \text{Average Final Compensation (AFC)} \times \text{Benefit Percentage}$$

$$32 \times \$4,000 \times 1.25\% = \$1,600$$

RETIREMENT OPTION	<u>MONTHLY PENSION</u>		POP UP TO RETIREE
	RETIREE	BENEFICIARY	
Maximum Allowance	\$1,600	None	-----
Option A (50% Survivor)	\$1,456	\$728	\$1,600
Option B (100% Survivor)	\$1,336	\$1,336	\$1,600
Option C (Ten-Year Guarantee)	\$1,560	\$1,560	-----

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.

NONCONTRIBUTORY RETIREMENT OPTIONS			
OPTIONS	RETIREE – PENSION FEATURES	BENEFICIARY PENSION	RETIREE POP UP PENSION
MAXIMUM ALLOWANCE¹	Highest Pension Allowance	None	None
OPTION A² (50% JOINT Survivor)	Reduced Pension Amount (depending on ages of both pensioner and beneficiary). Suited for beneficiary who may or may not totally depend on retiree’s pension	Continuation of 50% of monthly pension plus any cumulative post retirement increases.	Yes. Reverts or “pops-up” to the Maximum Allowance upon death of beneficiary. Another beneficiary cannot be designated. Converts to the Maximum Allowance upon death of beneficiary.
OPTION B³ (100% Joint Survivor)		Continuation of 100% of monthly pension plus any cumulative post retirement increases.	
OPTION C (Ten-Year Guarantee)	Reduced Pension Amount. Short term financial coverage for beneficiary during the first 10 years of retirement.	Limited continuation of the same monthly pension plus any cumulative post retirement increases for the balance of the remaining 10-year period after retirement.	None

¹ 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 (Option B survivor benefit).

² 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 B or Option A depending on non-spouse beneficiary’s age).

³ 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.

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	<u>-30 (age in 2042)</u>
	Age difference	30 years
	Less (member age under 70)	<u>-10</u>
	Adjusted age difference	20 years

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

#2

Retirement Year:	2042	
Member Birthdate:	5/1/1987	55 (age in 2042)
Beneficiary Birthdate:	1/5/2012	<u>-30 (age in 2042)</u>
	Age difference	25 years
	Less (member age under 70)	<u>-15</u>
	Adjusted age difference	10 years

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

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
Ordinary – 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”.
Service Connected – 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.

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. To be eligible for an ‘Active Death’ benefit, a Noncontributory member must have at least 10 years of service credit. Ordinary death benefits are not payable if death occurs while the member is a terminated vested member.

Eligible for Benefits	Benefit Payable
Spouse or Reciprocal Beneficiary	Monthly benefit based on 50% of accrued Maximum Benefit or Option B (100% survivor benefit) if the member was eligible to retire.
Children	Monthly benefit based on 10% of accrued Maximum Benefit; maximum of 20% if two or more children. If there is no surviving spouse or reciprocal beneficiary, benefits are based on 20% of accrued Maximum benefit per child, maximum of 40% if there are 2 or more children.
No Spouse or Reciprocal Beneficiary/No children	No death benefits payable (unless a disability application was filed by the member prior to death designating a beneficiary and selecting an option).

Maximum Benefit Formula:

$1.25\% \times \text{Years of Service} \times \text{Average Final Compensation (AFC)}$

Example of Benefit Payable:

Member: Age 45

Service: 15 Years

AFC: \$2,000 / month

$1.25\% \times 15 \times \$2,000 = \$375$ Maximum Benefit (unreduced for age)

Maximum Benefit \$375 per month

Spouse/Reciprocal Beneficiary 50% of \$375 = \$187.50 per month

Surviving Child 10% of \$375 = \$37.50 per month

If there is no spouse/reciprocal beneficiary, an only child receives the maximum benefit of $20\% \times \$375$ (or, \$75) per month. If there is more than one surviving child, the maximum benefit of $40\% \times \$375$ (or, \$150) per month is divided equally between all of the children.

The ordinary death benefit is payable to the surviving spouse or reciprocal beneficiary until remarriage or entry into a new reciprocal beneficiary relationship. Dependent children are eligible until their 18th birthday. If the member was eligible for service retirement, the surviving spouse or reciprocal beneficiary would receive a lifetime pension under Option B (100% survivor benefit).

Under Hawaii statutes and the rules of the Hawaii Employer-Union Health Benefits Trust Fund (EUTF), some surviving spouses, civil union partners, domestic partners, and unmarried children may be eligible for health coverage. The EUTF statutes and rules are subject to change. For current information on health coverage for surviving spouses, civil union partners, domestic partners, and unmarried children, please contact the EUTF at 586-5390.

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:

Oahu	Employees' Retirement System City Financial Tower 201 Merchant Street, Suite 1400 Honolulu, HI 96813 Call Center: (808) 586-1735 Fax: (808) 587-5766
Hawaii	Hawaii District Office 101 Aupuni Street, Suite 208 Hilo, HI 96720 (808) 974-4074, (808) 974-4076 or (808) 974-4077 Toll-free to Oahu (808) 974-4000, Ext. 61735 Fax: (808) 974-4078
Kauai	Kauai District Office 3060 Eiwa Street, Room 302 Lihue, HI 96766 (808) 274-3010 or (808) 274-3011 Toll-free to Oahu (808) 274-3141, Ext. 61735 Fax: (808) 241-3193
Maui	Maui District Office 54 S. High Street, Room 218 Wailuku, HI 96793 (808) 984-8181 or (808) 984-8282 Toll-free to Oahu (808) 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://ers.ehawaii.gov/
Email	dbf.ers.sss@hawaii.gov