



**STATE OF HAWAII**  
EMPLOYEES' RETIREMENT SYSTEM

February 2012

ALOHA!

Subject: Retirement Application Packet (*Contributory Plan*)

Congratulations on your planned retirement! This packet has been designed to assist you in the retirement process and contains the following:

1. Service Retirement Application and Instructions for Completing Service Retirement Application – Form 18 (blue)
2. IRS Form W4-P – Withholding Certificate for Pension or Annuity (white)
3. EC&B 123 (Rev. 11/2010) – Direct Rollover Options (white)
4. ERS 182 (Rev. 2/2012) - Spousal/Civil Union Partner/Reciprocal Beneficiary Notification Form (white)
5. Important Notice – Rule Affecting 100% Joint & Survivor Retirement Options with Non-Spouse Beneficiary (white)
6. Retirement Information (white)
7. Choosing the Best Retirement Option for You (pink)
8. Special Tax Notice Regarding Retirement Plan Payments (white)

Please do the following:

1. Complete the Service Retirement Application accurately – refer to the instruction sheet (blue) and the Retirement Information sheet to help you complete the form.
2. Bring the completed Service Retirement Application and the requested documents with you to your appointment. If you are not attending a Retirement Counseling/Filing Session, please return the completed/notarized Retirement Application to your nearest ERS office.

Please note:

1. Your desired retirement date must be the 1<sup>st</sup> day of any month or the 31<sup>st</sup> day of December.
2. You can submit your Retirement Application as early as 150 days before your retirement date but not later than 30 days before your retirement date.

Should you need further assistance, please contact our office at (808) 586-1735.

Very truly yours,

Wesley K. Machida  
Administrator

Enclosures



Employees' Retirement System  
of the State of Hawaii

## Instructions For Completing Service Retirement Application – Form 18 (Contributory Plan)

An application for retirement must be received in the Employees' Retirement System (ERS) office as early as 150 days before but not less than 30 days before the retirement date. Your retirement date must be the 1<sup>st</sup> of the month except for December when retirement can be either the 1<sup>st</sup> or the 31<sup>st</sup> of the month. It cannot be the same day as your last day of work.

The following instructions will help you complete the application form. Please call the ERS Honolulu office at (808) 586-1735 if you need further assistance.

### I. PERSONAL DATA

**Name:** Last, first, and middle name.

**Social Security Number:** Your 9-digit number.

**Mailing or PO Box Address:** Address for the receipt of ERS mail. (Note: Any change in your mailing address must be reported to the ERS in writing to ensure proper delivery of notices, statements, and tax forms to you).

**Retirement Date:** Your retirement date must be the 1<sup>st</sup> day of a month or the 1<sup>st</sup> or 31<sup>st</sup> day of December. It cannot be the same day as your last day of work.

**Date of Birth:** The month, day, and year of your birth. Please provide both the original document and a photocopy of it for birth date verification. Acceptable documents include:

- Certified copy of your birth certificate; or
- Original baptismal certificate recorded before age five; or
- Written verification from Social Security if you are age 62 or over.

If one of the above is not available, submit any two of the following:

- Original baptismal certificate/religious record with birth date or age and recorded after age five
- Valid Hawaii driver's license
- Hawaii State Identification card
- Passport
- Foreign passport with birth date or age
- Marriage record with birth date or age
- Naturalization record with birth date or age
- Voter registration record
- Census record
- Military record with birth date or age
- Hospital treatment record with birth date or age
- Life insurance policy
- Elementary school record
- Child's birth certificate with age of member/parent

**Position or Job Title/Department/Division or School:** Your position or job title, the name of the Department and/or Division you are employed with, and/or the name of the school where you work.

**Employer:** Check off whether you work for the State, County (identify which County), or Board of Water Supply.

**Deposit Check To:** Name of Financial Institution where you want your monthly pension checks to be deposited. Specify whether it's a checking account (attach voided check) or savings account (attach deposit slip), and provide the account number. You will receive a monthly pension, which will be paid at the end of each month.

**Daytime/Home/Cellular Phone:** Enter the appropriate number for each.

## II. RETIREMENT OPTIONS

Carefully read the information on “Retirement Information” enclosure. Select only one retirement option.

If you select Option Four, you must specify:

- The combination you wish: Option Four (Five & Maximum), Option Four (Five & One), Option Four (Five & Two), or Option Four (5 & 3).
- Amount of refund (Choose only one).

You should select an option at the time you file your retirement application. You may change your option at any time **prior** to your retirement date. Option changes are **not allowed** once your retirement is effective.

## III. BENEFICIARY DESIGNATION

List your beneficiary’s name, social security number, relationship to you, and date of birth. If you select an option that allows designation of multiple beneficiaries, provide the Social Security number of the first beneficiary. Also, clearly indicate the proportionate share each beneficiary should receive. For example, “In equal shares or to whomever survives.”

If you select Options Two, Three, Four (Five & 2) or Four (Five & 3), you must provide verification of your beneficiary’s birth date. (Please refer to the list of acceptable documents on the front page of these instructions).

## IV. SIGNATURE

You must sign the application in the presence of a Notary or an ERS representative. Your signature may be witnessed at the ERS office or retirement filing session at no charge. However, appropriate identification is required.

**NOTE: IF YOU ARE MAILING IN YOUR APPLICATION, PLEASE BE SURE ALL NECESSARY DOCUMENTS ARE ATTACHED. IDENTIFY EACH DOCUMENT WITH YOUR NAME AND SOCIAL SECURITY NUMBER. SIGNATURE AND NOTARIZATION ARE REQUIRED.**

## OTHER

Complete and submit the following, as applicable:

### I. IRS FORM W4P – WITHHOLDING CERTIFICATE FOR PENSION OR ANNUITY

All pensioners are required to submit this for federal income tax withholding on monthly pension payments. Refer to instructions for this form.

### II. EC&B 123B – DIRECT ROLLOVER OPTIONS

Complete this form if you are receiving a payment that is eligible for rollover. For example, this form is required if the retirement option you elect has an option refund payment (such as Option 4 or Option 5).

Refer to the *Instructions for Completing Form EC&B 123B – Direct Rollover Options* and *Special Tax Notice Regarding Rollover Options and Instructions*.

### III. ERS 182 – SPOUSAL/CIVIL UNION PARTNER/RECIPROCAL BENEFICIARY NOTIFICATION

Indicate your relationship status and, if applicable, provide the name and address of your spouse, civil union partner, or reciprocal beneficiary.

EMPLOYEES' RETIREMENT SYSTEM  
OF THE STATE OF HAWAII  
201 MERCHANT STREET, SUITE 1400, HONOLULU, HAWAII 96813-2980  
Phone: (808) 586-1735 or Neighbor Island: Hawaii 974-4000, ext. 61735, Maui: 984-2400, ext. 61735, Kauai: 274-3141, ext. 61735  
Molokai/Lanai: 1-800-468-4644, ext. 61735  
**SERVICE RETIREMENT APPLICATION**  
(Contributory Plan)

To the Board of Trustees: \_\_\_\_\_ Date \_\_\_\_\_, 20\_\_\_\_

In accordance with the provisions of law governing the operation of the Employees' Retirement System (ERS) of the State of Hawaii, the undersigned, a member of ERS, hereby applies for retirement from active service.

**I. PERSONAL DATA:** (Please print or type)

Name: \_\_\_\_\_ Social Security Number: \_\_\_\_\_  
LAST FIRST MIDDLE

Mailing or PO Box Address: \_\_\_\_\_  
Street Apt. No. City State Zip code

Retirement Date: \_\_\_\_/\_\_\_\_/\_\_\_\_ Date of Birth: \_\_\_\_/\_\_\_\_/\_\_\_\_ Marital Status: [ ] Single [ ] Married  
MONTH DAY YEAR MONTH DAY YEAR

Position or Job Title/ Department/Division or School: \_\_\_\_\_

Employer: (Check one) [ ] State of Hawaii [ ] County of \_\_\_\_\_ [ ] Board of Water Supply

Deposit Check to: Financial Institution Name: \_\_\_\_\_

[ ] Checking (attach voided check) [ ] Savings

Account No. \_\_\_\_\_ Bank Routing No. (ACH) \_\_\_\_\_

Daytime Phone: \_\_\_\_\_ Home Phone: \_\_\_\_\_ Cellular Phone: \_\_\_\_\_

**II. RETIREMENT OPTIONS:** (Select one only)

I have read the information on selecting a retirement option and I select the following retirement option:

\_\_\_\_ Maximum Allowance \_\_\_\_ Option One \_\_\_\_ Option Two (100% Survivor) \_\_\_\_ Option Three (50% Survivor)

Refund options are available to members with at least 10 years of credited service.

\_\_\_\_ Option Four (Five & \_\_\_\_\_) Refunds: \_\_\_\_ Pre-1987 Nontaxable contributions \_\_\_\_ 50% \_\_\_\_ 75%

\_\_\_\_ Option Five

**III. BENEFICIARY DESIGNATION:** A beneficiary should be designated for all options, however, only one beneficiary may be designated for options Two, Three, Four (5 & 2) and Four (5 & 3). Multiple beneficiaries, a trust, or an estate may be designated for all other options

Name: \_\_\_\_\_ Social Security Number: \_\_\_\_\_

Relationship: \_\_\_\_\_ Date of Birth: \_\_\_\_/\_\_\_\_/\_\_\_\_

**IV. SIGNATURE:** This application must be signed in the presence of an ERS representative or a Notary Public.

Signed \_\_\_\_\_ Date \_\_\_\_\_ ERS Representative \_\_\_\_\_

State of Hawaii \_\_\_\_\_ )  
County of \_\_\_\_\_ ) SS.

On the \_\_\_\_ day of \_\_\_\_\_, 20\_\_\_\_ personally appeared before me the said named \_\_\_\_\_ to me known to be the person described in and who executed the foregoing instrument and who acknowledged such execution as being a free and voluntary act and deed.

Affix your  
official seal

\_\_\_\_\_  
Notary Public

My commission expires \_\_\_\_\_

Form <b>W-4P</b>  Department of the Treasury Internal Revenue Service	<b>Withholding Certificate for Pension or Annuity Payments</b>	OMB No. 1545-0074  <span style="font-size: 2em; font-weight: bold;">2014</span>
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**Purpose.** Form W-4P is for U.S. citizens, resident aliens, or their estates who are recipients of pensions, annuities (including commercial annuities), and certain other deferred compensation. Use Form W-4P to tell payers the correct amount of federal income tax to withhold from your payment(s). You also may use Form W-4P to choose (a) not to have any federal income tax withheld from the payment (except for eligible rollover distributions or payments to U.S. citizens delivered outside the United States or its possessions) or (b) to have an additional amount of tax withheld.

Your options depend on whether the payment is periodic, nonperiodic, or an eligible rollover distribution, as explained on pages 3 and 4. Your previously filed Form W-4P will remain in effect if you do not file a Form W-4P for 2014.

**What do I need to do?** Complete lines **A** through **G** of the **Personal Allowances Worksheet**. Use the additional worksheets on page 2 to further adjust your withholding allowances for itemized deductions, adjustments to income, any additional standard deduction, certain credits, or multiple pensions/more-than-one-income situations. If you do not want any federal income tax withheld (see *Purpose*, earlier), you can skip the worksheets and go directly to the Form W-4P below.

**Sign this form.** Form W-4P is not valid unless you sign it.

**Future developments.** The IRS has created a page on IRS.gov for information about Form W-4P and its instructions, at [www.irs.gov/w4p](http://www.irs.gov/w4p). Information about any future developments affecting Form W-4P (such as legislation enacted after we release it) will be posted on that page.

**Personal Allowances Worksheet (Keep for your records.)**

<b>A</b>	Enter "1" for <b>yourself</b> if no one else can claim you as a dependent . . . . .	<b>A</b>	
<b>B</b>	Enter "1" if: { • You are single and have only one pension; or • You are married, have only one pension, and your spouse has no income subject to withholding; or • Your income from a second pension or a job or your spouse's pension or wages (or the total of all) is \$1,500 or less. } . . . . .	<b>B</b>	
<b>C</b>	Enter "1" for your <b>spouse</b> . But, you may choose to enter "-0-" if you are married and have either a spouse who has income subject to withholding or more than one source of income subject to withholding. (Entering "-0-" may help you avoid having too little tax withheld.) . . . . .	<b>C</b>	
<b>D</b>	Enter number of <b>dependents</b> (other than your spouse or yourself) you will claim on your tax return . . . . .	<b>D</b>	
<b>E</b>	Enter "1" if you will file as <b>head of household</b> on your tax return . . . . .	<b>E</b>	
<b>F</b>	<b>Child Tax Credit</b> (including additional child tax credit). See Pub. 972, Child Tax Credit, for more information. • If your total income will be less than \$65,000 (\$95,000 if married), enter "2" for each eligible child; then <b>less</b> "1" if you have three to six eligible children or <b>less</b> "2" if you have seven or more eligible children. • If your total income will be between \$65,000 and \$84,000 (\$95,000 and \$119,000 if married), enter "1" for each eligible child . . . . .	<b>F</b>	
<b>G</b>	Add lines A through F and enter total here. ( <b>Note.</b> This may be different from the number of exemptions you claim on your tax return.) ►	<b>G</b>	
	For accuracy, <b>complete all worksheets that apply.</b> { • If you plan to <b>itemize</b> or <b>claim adjustments to income</b> and want to reduce your withholding, see the <b>Deductions and Adjustments Worksheet</b> on page 2. • If you are <b>single and have more than one source of income subject to withholding</b> or are <b>married and you and your spouse both have income subject to withholding</b> and your combined income from all sources exceeds \$50,000 (\$20,000 if married), see the <b>Multiple Pensions/More-Than-One-Income Worksheet</b> on page 2 to avoid having too little tax withheld. • If <b>neither</b> of the above situations applies, <b>stop here</b> and enter the number from line G on line 2 of Form W-4P below.		

*(DO NOT CUT THIS FORM) Thank you*

Form <b>W-4P</b>  Department of the Treasury Internal Revenue Service	<b>Withholding Certificate for Pension or Annuity Payments</b>  ► For Privacy Act and Paperwork Reduction Act Notice, see page 4.	OMB No. 1545-0074  <span style="font-size: 2em; font-weight: bold;">2014</span>
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Your first name and middle initial	Last name	Your social security number
Home address (number and street or rural route)		Claim or identification number (if any) of your pension or annuity contract
City or town, state, and ZIP code		

**Complete the following applicable lines.**

1	Check here if you <b>do not want any</b> federal income tax withheld from your pension or annuity. (Do not complete line 2 or 3.) ► <input type="checkbox"/>		
2	Total number of allowances and marital status you are claiming for withholding from each <b>periodic</b> pension or annuity payment. (You also may designate an additional dollar amount on line 3.) . . . . . ►		
	<b>Marital status:</b> <input type="checkbox"/> Single <input type="checkbox"/> Married <input type="checkbox"/> Married, but withhold at higher Single rate.		(Enter number of allowances.)
3	Additional amount, if any, you want withheld from each pension or annuity payment. ( <b>Note.</b> For periodic payments, you cannot enter an amount here without entering the number (including zero) of allowances on line 2.) . . . . . ►	\$	

Your signature ► Date ►

Phone Number: (    )	Cat. No. 10225T	Retirement Date:	Form <b>W-4P</b> (2014)
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**Deductions and Adjustments Worksheet**

**Note.** Use this worksheet *only* if you plan to itemize deductions or claim certain credits or adjustments to income.

- 1 Enter an estimate of your 2014 itemized deductions. These include qualifying home mortgage interest, charitable contributions, state and local taxes, medical expenses in excess of 10% (7.5% if either you or your spouse was born before January 2, 1950) of your income, and miscellaneous deductions. For 2014, you may have to reduce your itemized deductions if your income is over \$305,050 and you are married filing jointly or are a qualifying widow(er); \$279,650 if you are head of household; \$254,200 if you are single and not head of household or a qualifying widow(er); or \$152,525 if you are married filing separately. See Pub. 505 for details . . . . . **1** \$ \_\_\_\_\_
- 2 Enter: { \$12,400 if married filing jointly or qualifying widow(er)  
\$9,100 if head of household  
\$6,200 if single or married filing separately } . . . . . **2** \$ \_\_\_\_\_
- 3 **Subtract** line 2 from line 1. If zero or less, enter “-0-” . . . . . **3** \$ \_\_\_\_\_
- 4 Enter an estimate of your 2014 adjustments to income and any additional standard deduction (see Pub. 505) . . . . . **4** \$ \_\_\_\_\_
- 5 **Add** lines 3 and 4 and enter the total. (Include any credit amounts from the *Converting Credits to Withholding Allowances for 2014 Form W-4* worksheet in Pub. 505.) . . . . . **5** \$ \_\_\_\_\_
- 6 Enter an estimate of your 2014 income not subject to withholding (such as dividends or interest) . . . . . **6** \$ \_\_\_\_\_
- 7 **Subtract** line 6 from line 5. If zero or less, enter “-0-” . . . . . **7** \$ \_\_\_\_\_
- 8 **Divide** the amount on line 7 by \$3,950 and enter the result here. Drop any fraction . . . . . **8** \_\_\_\_\_
- 9 Enter the number from the **Personal Allowances Worksheet**, line G, page 1 . . . . . **9** \_\_\_\_\_
- 10 **Add** lines 8 and 9 and enter the total here. If you use the **Multiple Pensions/More-Than-One-Income Worksheet**, also enter this total on line 1 below. Otherwise, **stop here** and enter this total on Form W-4P, line 2, page 1 . . . . . **10** \_\_\_\_\_

**Multiple Pensions/More-Than-One-Income Worksheet**

**Note.** Complete *only* if the instructions under line G, page 1, direct you here. This applies if you (and your spouse if married filing jointly) have more than one source of income subject to withholding (such as more than one pension, or a pension and a job, or you have a pension and your spouse works).

- 1 Enter the number from line G, page 1 (or from line 10 above if you used the **Deductions and Adjustments Worksheet**) . . . . . **1** \_\_\_\_\_
- 2 Find the number in **Table 1** below that applies to the **LOWEST** paying pension or job and enter it here. **However**, if you are married filing jointly and the amount from the highest paying pension or job is \$65,000 or less, do not enter more than “3” . . . . . **2** \_\_\_\_\_
- 3 If line 1 is **more than or equal to** line 2, subtract line 2 from line 1. Enter the result here (if zero, enter “-0-”) and on Form W-4P, line 2, page 1. **Do not** use the rest of this worksheet . . . . . **3** \_\_\_\_\_

**Note.** If line 1 is **less than** line 2, enter “-0-” on Form W-4P, line 2, page 1. Complete lines 4 through 9 below to figure the additional withholding amount necessary to avoid a year-end tax bill.

- 4 Enter the number from line 2 of this worksheet . . . . . **4** \_\_\_\_\_
- 5 Enter the number from line 1 of this worksheet . . . . . **5** \_\_\_\_\_
- 6 **Subtract** line 5 from line 4 . . . . . **6** \_\_\_\_\_
- 7 Find the amount in **Table 2** below that applies to the **HIGHEST** paying pension or job and enter it here **7** \$ \_\_\_\_\_
- 8 **Multiply** line 7 by line 6 and enter the result here. This is the additional annual withholding needed . . . . . **8** \$ \_\_\_\_\_
- 9 **Divide** line 8 by the number of pay periods remaining in 2014. For example, divide by 12 if you are paid every month and you complete this form in December 2013. Enter the result here and on Form W-4P, line 3, page 1. This is the additional amount to be withheld from each payment . . . . . **9** \$ \_\_\_\_\_

**Table 1**

**Table 2**

Married Filing Jointly		All Others		Married Filing Jointly		All Others	
If wages from <b>LOWEST</b> paying job or pension are—	Enter on line 2 above	If wages from <b>LOWEST</b> paying job or pension are—	Enter on line 2 above	If wages from <b>HIGHEST</b> paying job or pension are—	Enter on line 7 above	If wages from <b>HIGHEST</b> paying job or pension are—	Enter on line 7 above
\$0 - \$6,000	0	\$0 - \$6,000	0	\$0 - \$74,000	\$590	\$0 - \$37,000	\$590
6,001 - 13,000	1	6,001 - 16,000	1	74,001 - 130,000	990	37,001 - 80,000	990
13,001 - 24,000	2	16,001 - 25,000	2	130,001 - 200,000	1,110	80,001 - 175,000	1,110
24,001 - 26,000	3	25,001 - 34,000	3	200,001 - 355,000	1,300	175,001 - 385,000	1,300
26,001 - 33,000	4	34,001 - 43,000	4	355,001 - 400,000	1,380	385,001 and over	1,560
33,001 - 43,000	5	43,001 - 70,000	5	400,001 and over	1,560		
43,001 - 49,000	6	70,001 - 85,000	6				
49,001 - 60,000	7	85,001 - 110,000	7				
60,001 - 75,000	8	110,001 - 125,000	8				
75,001 - 80,000	9	125,001 - 140,000	9				
80,001 - 100,000	10	140,001 and over	10				
100,001 - 115,000	11						
115,001 - 130,000	12						
130,001 - 140,000	13						
140,001 - 150,000	14						
150,001 and over	15						

## Additional Instructions

*Section references are to the Internal Revenue Code.*

**When should I complete the form?** Complete Form W-4P and give it to the payer as soon as possible. Get Pub. 505, Tax Withholding and Estimated Tax, to see how the dollar amount you are having withheld compares to your projected total federal income tax for 2014. You also may use the IRS Withholding Calculator at [www.irs.gov/individuals](http://www.irs.gov/individuals) for help in determining how many withholding allowances to claim on your Form W-4P.

**Multiple pensions/more-than-one-income.** To figure the number of allowances that you may claim, combine allowances and income subject to withholding from all sources on one worksheet. You may file a Form W-4P with each pension payer, but do not claim the same allowances more than once. Your withholding usually will be most accurate when all allowances are claimed on the Form W-4P for the highest source of income subject to withholding and zero allowances are claimed on the others.

**Other income.** If you have a large amount of income from other sources not subject to withholding (such as interest, dividends, or capital gains), consider making estimated tax payments using Form 1040-ES, Estimated Tax for Individuals. Call 1-800-TAX-FORM (1-800-829-3676) to get Form 1040-ES and Pub. 505. You also can get forms and publications at [www.irs.gov/formspubs](http://www.irs.gov/formspubs).

If you have income from wages, see Pub. 505 to find out if you should adjust your withholding on Form W-4 or Form W-4P.

**Note.** Social security and railroad retirement payments may be includible in income. See Form W-4V, Voluntary Withholding Request, for information on voluntary withholding from these payments.

### Withholding From Pensions and Annuities

Generally, federal income tax withholding applies to the taxable part of payments made from pension, profit-sharing, stock bonus, annuity, and certain deferred compensation plans; from individual retirement arrangements (IRAs); and from commercial annuities. The method and rate of withholding depend on (a) the kind of payment you receive; (b) whether the payments are delivered outside the United States or its commonwealths and possessions; and (c) whether the recipient is a nonresident alien individual, a nonresident alien beneficiary, or a foreign estate. Qualified distributions from a Roth IRA are nontaxable and, therefore, not subject to withholding. See page 4 for special withholding rules that apply to payments outside the United States and payments to foreign persons.

Because your tax situation may change from year to year, you may want to refigure your withholding each year. You can change the amount to be withheld by using lines 2 and 3 of Form W-4P.

**Choosing not to have income tax withheld.** You (or in the event of death, your beneficiary or estate) can choose not to have federal income tax withheld from your payments by using line 1 of Form W-4P. For an estate, the election to have no income tax withheld may be made by the executor or personal representative of the decedent. Enter the estate's employer identification number (EIN) in the area reserved for "Your social security number" on Form W-4P.

You may not make this choice for eligible rollover distributions. See *Eligible rollover distribution—20% withholding* on page 4.

**Caution.** There are penalties for not paying enough federal income tax during the year, either through withholding or estimated tax payments. New retirees, especially, should see Pub. 505. It explains your estimated tax requirements and describes penalties in detail. You may be able to avoid quarterly estimated tax payments by having enough tax withheld from your pension or annuity using Form W-4P.

**Periodic payments.** Withholding from periodic payments of a pension or annuity is figured in the same manner as withholding from wages. Periodic payments are made in installments at regular intervals over a period of more than 1 year. They may be paid annually, quarterly, monthly, etc.

If you want federal income tax to be withheld, you must designate the number of withholding allowances on line 2 of Form W-4P and indicate your marital status by checking the appropriate box. Under current law, you cannot designate a specific dollar amount to be withheld. However, you can designate an additional amount to be withheld on line 3.

If you do not want any federal income tax withheld from your periodic payments, check the box on line 1 of Form W-4P and submit the form to your payer. However, see *Payments to Foreign Persons and Payments Outside the United States* on page 4.

**Caution.** If you do not submit Form W-4P to your payer, the payer must withhold on periodic payments as if you are married claiming three withholding allowances. Generally, this means that tax will be withheld if your pension or annuity is at least \$1,680 a month.

If you submit a Form W-4P that does not contain your correct social security number (SSN), the payer must withhold as if you are single claiming zero withholding allowances even if you checked the box on line 1 to have no federal income tax withheld.

There are some kinds of periodic payments for which you cannot use Form W-4P because they are already defined as wages subject to federal income tax withholding. These payments include retirement pay for service in the U.S. Armed Forces and payments from certain nonqualified deferred compensation plans and deferred compensation plans described in section 457 of tax-exempt organizations. Your payer should be able to tell you whether Form W-4P applies.

For periodic payments, your Form W-4P stays in effect until you change or revoke it. Your payer must notify you each year of your right to choose not to have federal income tax withheld (if permitted) or to change your choice.

**Nonperiodic payments—10% withholding.** Your payer must withhold at a flat 10% rate from nonperiodic payments (but see *Eligible rollover distribution—20% withholding* on page 4) **unless** you choose not to have federal income tax withheld. Distributions from an IRA that are payable on demand are treated as nonperiodic payments. You can choose not to have federal income tax withheld from a nonperiodic payment (if permitted) by submitting Form W-4P (containing your correct SSN) to your payer and checking the box on line 1. Generally, your choice not to have federal income tax withheld will apply to any later payment from the same plan. You cannot use line 2 for nonperiodic payments. But you may use line 3 to specify an additional amount that you want withheld.

**Caution.** If you submit a Form W-4P that does not contain your correct SSN, the payer cannot honor your request not to have income tax withheld and must withhold 10% of the payment for federal income tax.

**Eligible rollover distribution—20% withholding.** Distributions you receive from qualified pension or annuity plans (for example, 401(k) pension plans and section 457(b) plans maintained by a governmental employer) or tax-sheltered annuities that are eligible to be rolled over tax free to an IRA or qualified plan are subject to a flat 20% federal withholding rate. The 20% withholding rate is required, and you cannot choose not to have income tax withheld from eligible rollover distributions. Do not give Form W-4P to your payer unless you want an additional amount withheld. Then, complete line 3 of Form W-4P and submit the form to your payer.

**Note.** The payer will not withhold federal income tax if the entire distribution is transferred by the plan administrator in a direct rollover to a traditional IRA or another eligible retirement plan (if allowed by the plan), such as a qualified pension plan, governmental section 457(b) plan, section 403(b) contract, or tax-sheltered annuity.

Distributions that are (a) required by law, (b) one of a specified series of equal payments, or (c) qualifying “hardship” distributions are **not** “eligible rollover distributions” and are not subject to the mandatory 20% federal income tax withholding. See Pub. 505 for details. See also *Nonperiodic payments—10% withholding* on page 3.

### Changing Your “No Withholding” Choice

**Periodic payments.** If you previously chose not to have federal income tax withheld and you now want withholding, complete another Form W-4P and submit it to your payer. If you want federal income tax withheld at the rate set by law (married with three allowances), write “Revoked” next to the checkbox on line 1 of the form. If you want tax withheld at any different rate, complete line 2 on the form.

**Nonperiodic payments.** If you previously chose not to have federal income tax withheld and you now want withholding, write “Revoked” next to the checkbox on line 1 and submit Form W-4P to your payer.

### Payments to Foreign Persons and Payments Outside the United States

Unless you are a nonresident alien, withholding (in the manner described above) is required on any periodic or nonperiodic payments that are delivered to you outside the United States or its possessions. You cannot choose not to have federal income tax withheld on line 1 of Form W-4P. See Pub. 505 for details.

In the absence of a tax treaty exemption, nonresident aliens, nonresident alien beneficiaries, and foreign estates generally are subject to a 30% federal withholding tax under section 1441 on the taxable portion of a periodic or nonperiodic pension or annuity payment that is from U.S. sources. However, most tax treaties provide that private pensions and annuities are exempt from withholding and tax. Also, payments from certain pension plans are exempt from withholding even if no tax treaty applies. See Pub. 515, *Withholding of Tax on Nonresident Aliens and Foreign Entities*, and Pub. 519, *U.S. Tax Guide for Aliens*, for details. A foreign person should submit Form W-8BEN, *Certificate of Foreign Status of Beneficial Owner for United States Tax Withholding*, to the payer before receiving any payments. The Form W-8BEN must contain the foreign person’s taxpayer identification number (TIN).

### Statement of Federal Income Tax Withheld From Your Pension or Annuity

By January 31 of next year, your payer will furnish a statement to you on Form 1099-R, *Distributions From Pensions, Annuities, Retirement or Profit-Sharing Plans, IRAs, Insurance Contracts, etc.*, showing the total amount of your pension or annuity payments and the total federal income tax withheld during the year. If you are a foreign person who has provided your payer with Form W-8BEN, your payer instead will furnish a statement to you on Form 1042-S, *Foreign Person’s U.S. Source Income Subject to Withholding*, by March 15 of next year.

### Privacy Act and Paperwork Reduction Act Notice

We ask for the information on this form to carry out the Internal Revenue laws of the United States. You are required to provide this information only if you want to (a) request federal income tax withholding from periodic pension or annuity payments based on your withholding allowances and marital status, (b) request additional federal income tax withholding from your pension or annuity, (c) choose not to have federal income tax withheld, when permitted, or (d) change or revoke a previous Form W-4P. To do any of the aforementioned, you are required by sections 3405(e) and 6109 and their regulations to provide the information requested on this form. Failure to provide this information may result in inaccurate withholding on your payment(s). Providing false or fraudulent information may subject you to penalties.

Routine uses of this information include giving it to the Department of Justice for civil and criminal litigation, and to cities, states, the District of Columbia, and U.S. commonwealths and possessions for use in administering their tax laws. We may also disclose this information to other countries under a tax treaty, to federal and state agencies to enforce federal nontax criminal laws, or to federal law enforcement and intelligence agencies to combat terrorism.

You are not required to provide the information requested on a form that is subject to the Paperwork Reduction Act unless the form displays a valid OMB control number. Books or records relating to a form or its instructions must be retained as long as their contents may become material in the administration of any Internal Revenue law. Generally, tax returns and return information are confidential, as required by section 6103.

The average time and expenses required to complete and file this form will vary depending on individual circumstances. For estimated averages, see the instructions for your income tax return.

If you have suggestions for making this form simpler, we would be happy to hear from you. See the instructions for your income tax return.

EMPLOYEES' RETIREMENT SYSTEM  
201 Merchant Street, Suite 1400  
Honolulu, Hawaii 96813-2980

**DIRECT ROLLOVER OPTIONS**  
**(For use by Contributory and Hybrid Plan Members)**

Name: \_\_\_\_\_ S. S. No.: \_\_\_\_\_ Retirement Date: \_\_\_\_\_

The following chart is provided for your use in retirement planning.

Estimated Taxable Portion of Eligible Rollover Payment		Estimated Nontaxable Portion of Eligible Rollover Payment	
1) Pre-Tax Contributions	\$ _____	1) After-Tax Contributions	\$ _____
2) Regular Interest on Pre-Tax and After-Tax Contributions	+ _____		
3) Total	= \$ _____	2) Total	= \$ _____

**SELECT ONLY ONE OF THE FOLLOWING:**

1. \_\_\_\_\_ **NO DIRECT ROLLOVER**  
I do not want to do a direct rollover of any portion of my eligible rollover payment. Please pay the entire amount to me. By federal law, at least 20% of the taxable portion that is not directly rolled over must be withheld for federal income taxes. Therefore, please withhold:  
\_\_\_\_\_ % (must be at least 20%) of the taxable portion of my eligible rollover payment.  
(Note: 20% will be withheld if no percentage is indicated above or if the percentage is less than 20%.)
2. \_\_\_\_\_ **FULL DIRECT ROLLOVER (Including After-Tax Contributions)**  
I want to do a direct rollover of the entire eligible rollover payment to the institution listed below.
3. \_\_\_\_\_ **PARTIAL DIRECT ROLLOVER**  
Please pay directly to me \$ \_\_\_\_\_ of the amount that I am eligible to roll over. I want to directly roll over to the institution listed below the remaining balance of my eligible rollover payment.  
By federal law, at least 20% of the taxable portion that is not directly rolled over must be withheld for federal income taxes. Therefore, please withhold:  
\_\_\_\_\_ % (must be at least 20%) of the taxable portion of my eligible rollover payment that is not directly rolled over.  
(Note: 20% will be withheld if no percentage is indicated above or if the percentage is less than 20%.)

**Read and Initial Regarding Making a Direct Rollover of After-Tax Contributions to a Qualified Employer Plan (QEP)**

\_\_\_\_\_ I understand and acknowledge that if I am doing a direct rollover of after-tax contributions to a qualified employer plan (which may not include a governmental section 457(b) plan), the receiving plan must separately account for the after-tax contributions rolled over. I have confirmed with the administrator of the receiving qualified employer plan that the receiving plan will separately account for the after-tax contributions.

**Qualified Employer Plan or IRA to Which Direct Rollover Will Be Made:**

<b>Institution Name</b> _____	<b>Acct No</b> _____ <b>Select Plan Type (from the following):</b> ____ Traditional IRA ____ Roth IRA ____ Qualified Employer Plan-(QEP) <b>If a QEP, is this a governmental section 457(b) plan?</b> ____ YES ____ No
<b>Address 1</b> _____	
<b>Address 2</b> _____	
<b>Address 3</b> _____	
<b>City</b> _____	
<b>State</b> _____ <b>Zip</b> _____	
<b>Phone Number</b> _____	

The rollover check will be mailed to the institution shown above. I understand that I must return this form before my retirement date in order for the ERS to complete the rollover as part of my retirement.

Signature \_\_\_\_\_ Date \_\_\_\_\_ Phone \_\_\_\_\_

## **Instructions for Completing Form EC&B-123B: Direct Rollover Options**

Complete Form EC&B-123B if you are receiving a payment from the Employees' Retirement System ("ERS") that is eligible for rollover. Generally, the only payments that are eligible for rollover are: (1) a one-time payment to you or your beneficiary that represents a refund of your own contributions, (2) a one-time payment made in connection with an ordinary death benefit for a Contributory Plan member, or (3) a lump-sum death benefit paid in connection with retirement Option 1.

Before completing this Form, please read the enclosed Special Tax Notice Regarding Rollover Options, which explains your rollover rights and limitations on such rights. This Form directs the ERS what to do with a payment that is eligible for rollover. Generally, you have three choices:

1. **NO DIRECT ROLLOVER.** Choose this option if you do not want any amount to be directly rolled over to an IRA or a qualified employer plan. The full amount that is eligible for rollover will be paid to you. The taxable portion will be taxable to you in the year distributed. Also, federal law mandates that at least 20% of the taxable amount be withheld for federal income taxes. You may also be subject to an early distribution penalty if you are under age 59½ (unless an exception applies). If you choose this option, you may still do a traditional 60-day rollover. Please see page 2 of the Special Tax Notice Regarding Rollover Options.
2. **FULL DIRECT ROLLOVER.** Choose this option if you want the full amount of the eligible rollover payment to be rolled over in a direct rollover to a qualified employer plan or IRA designated by you. No amount will be paid to you and no amount will be taxable to you until later distributed from the qualified employer plan or IRA to which the direct rollover is made.
3. **PARTIAL DIRECT ROLLOVER.** Choose this option if you want to roll over some but not all of the eligible rollover payment. The taxable portion of the payment made to you will be taxable to you in the year distributed. Also, federal law mandates that at least 20% of the taxable amount be withheld for federal income taxes. You may also be subject to an early distribution penalty if you are under age 59½ (unless an exception applies).

### Special Note for Nonspouse Beneficiaries

Effective July 1, 2010, if you are a nonspouse beneficiary and you receive an eligible rollover payment, you will be able to do a direct rollover to an inherited IRA (which may be either a traditional IRA or a Roth IRA). Please see page 5 of the Special Tax Notice Regarding Rollover Options.

**Because each person's situation may be different, you should consult with a qualified tax advisor with regard to your specific situation.**

**EMPLOYEES' RETIREMENT SYSTEM  
OF THE STATE OF HAWAII**

201 Merchant Street, Suite 1400  
Honolulu, Hawaii 96813-2980

Phone: (808) 586-1735 or 1-800-468-4644 extension 61735 (neighbor islands)

**SPOUSAL/CIVIL UNION PARTNER/RECIPROCAL BENEFICIARY  
NOTIFICATION FORM**

The Employees' Retirement System (ERS) of the State of Hawaii must furnish written notification to a member's spouse, civil union partner, or reciprocal beneficiary regarding a member's retirement.

In order to comply with this requirement, you must provide the ERS with information relating to relationship status. This form must be returned to our office prior to your retirement date; otherwise, your initial pension check may be delayed.

(Circle one)

Relationship Status: Married      Civil Union Partner      Reciprocal Beneficiary      Single

If you circled married, civil union partner, or reciprocal beneficiary, you must also provide the name and mailing address of your spouse, civil union partner, or reciprocal beneficiary.

(Please print)

NAME:

\_\_\_\_\_  
(Name of Spouse/Civil Union Partner/Reciprocal Beneficiary)

MAILING ADDRESS:

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

I understand that:

- Notification can be waived if I selected option 2 or 3 (or combination thereof) or option A or B, and designated my spouse/civil union partner/reciprocal beneficiary as the primary beneficiary.
- My option selection shall not take effect unless I furnish the proper information.
- The ERS will rely on the information I have provided and will not be liable for any false statements.

Signature: \_\_\_\_\_ SSN: \_\_\_\_\_

Print Name: \_\_\_\_\_ Retirement Date: \_\_\_\_\_

## IMPORTANT NOTICE

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

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

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

#### Examples:

#1

Retirement date:	12/31/2006	
Member birthdate:	3/1/1946	60 (age in 2006)
Beneficiary birthdate:	8/5/1976	<u>-30 (age in 2006)</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, therefore: Member may **not** elect to receive retirement benefits under any of the 100% survivor options (Contributory and Hybrid Plan Options 2 or 4 (5&2), or Noncontributory Plan Option B).

#2

Retirement date:	12/31/2006	
Member birthdate:	5/1/1951	55 (age in 2006)
Beneficiary birthdate:	1/5/1976	<u>-30 (age in 2006)</u>
Age difference		25 years
Less (member age under 70)		<u>-15</u>
Adjusted age difference		10 years

The adjusted age difference is less than 10 years, therefore: 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.)

Should you have any questions, please call our office at (808)586-1735 or mainland toll free at 1-888-659-0708.

## RETIREMENT INFORMATION (CONTRIBUTORY PLAN)

An application for retirement must be received in the Employees' Retirement System office or neighbor island liaison office not more than 150 days before and not less than 30 days before the retirement date. Retirement must begin on the 1<sup>st</sup> day of a month or on the 1<sup>st</sup> or 31<sup>st</sup> of December. A member is restricted to filing three (3) service retirement applications. Retirement is mandatory on the date specified on the third application.

A choice of retirement option should be made at the time an application for retirement is filed. The retirement option can be changed prior to the effective date of retirement. Any option selection shall be irrevocable upon the effective date of retirement.

### RETIREMENT OPTIONS

MAXIMUM ALLOWANCE	The highest lifetime pension for the retiree and in the event of death, the designated beneficiary will be paid the difference between the value of the retiree's contributions at the time of retirement and the retirement allowance paid prior to death.
OPTION ONE	A reduced lifetime pension for the retiree and in the event of death, the designated beneficiary will be paid the difference between the initial insurance reserve and the retirement allowance paid prior to death.
OPTION TWO (100% SURVIVOR)	A reduced lifetime pension for the retiree and in the event of death, the designated beneficiary will be paid the same monthly allowance plus any cumulative post retirement increases for life. Should the designated beneficiary predecease the retiree, the retiree's reduced pension converts to the Maximum Allowance. Another beneficiary cannot be named and all payments will terminate upon the death of the retiree.
OPTION THREE (50% SURVIVOR)	A reduced lifetime pension for the retiree and in the event of death, the designated beneficiary will be paid one-half of the monthly allowance plus any cumulative post retirement increases for life. Should the designated beneficiary predecease the retiree, the retiree's reduced pension converts to the Maximum Allowance. Another beneficiary cannot be named and all payments will terminate upon the death of the retiree.
OPTION FOUR (FIVE & MAXIMUM)	Withdrawal of the nontaxable pre-1987 contributions, or 50%, or 75% of the accumulated contributions, and a reduced lifetime monthly pension. As in the case of the Maximum Allowance, in the event of the retiree's death, the designated beneficiary will be paid the difference between the value of the retiree's contributions at the time of retirement and the retirement allowance paid prior to death.
OPTION FOUR (FIVE & ONE)	Withdrawal of the nontaxable pre-1987 contributions, or 50%, or 75% of the accumulated contributions, and a reduced lifetime monthly pension. As in the case of Option One, in the event, of the retiree's death, the designated beneficiary will be paid the difference between the initial reserve and the retirement allowance paid prior to death.
OPTION FOUR (FIVE & TWO) (100% SURVIVOR)	Withdrawal of the nontaxable pre-1987 contributions, or 50%, or 75% of the accumulated contributions, and a reduced lifetime monthly pension. As in the case of Option Two, in the event of the retiree's death, the designated beneficiary will be paid the same monthly allowance plus any cumulative post retirement increases for life. Should the designated beneficiary predecease the retiree, the retiree's reduced pension converts to the corresponding Option Four variation of the Maximum Allowance with the same refund amount. Another beneficiary cannot be named and all payments will terminate upon the death of the retiree.
OPTION FOUR (FIVE & THREE) (50 % SURVIVOR)	Withdrawal of the nontaxable pre-1987 contributions, or 50%, or 75% of the accumulated contributions, and a reduced lifetime monthly pension. As in the case of Option Three, in the event of the retiree's death, the designated beneficiary will be paid one-half of the monthly allowance and any cumulative post retirement increases for life. Should the designated beneficiary predecease the retiree, the retiree's reduced pension converts to the corresponding Option Four variation of the Maximum Allowance with the same refund amount. Another beneficiary cannot be named and all payments will terminate upon the death of the retiree.
OPTION FIVE	A refund of all accumulated contributions (including interest) as well as a reduced lifetime monthly pension provided by the government's contributions. In the event of death, there are no survivor benefits.

### BENEFITS PAYABLE IF DEATH OCCURS AFTER FILING RETIREMENT APPLICATION OR WITHIN THE FIRST YEAR OF RETIREMENT

Should death occur after filing an application or within the first year of retirement, the designated beneficiary may elect to receive the survivor benefit for the option selected by the member, or one of the following benefits less any payments made to the retiree.

1. **Option Two or Option Three**

The designated sole or primary beneficiary may elect to receive the allowance which would have been payable had the member retired and elected Option Two or Option Three (depending on limitations, see "Important Notice").

2. **Lump Sum Payment**

A benefit consisting of the return of the member's accumulated contributions and payment of an amount equal to 50% of the salary earned by the member during the year immediately preceding retirement or 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% of the salary earned during the year immediately preceding retirement or death.

**State of Hawaii  
Employees' Retirement System**

***Choosing the Best Retirement Option for You  
(Contributory)***

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

**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)?

**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 Options 1, 2, 3 or a combination of these options that provide survivor benefits.
- 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 Contributory Plan provides benefits if your death occurs within the first year of retirement.

**Refund of Contributions**

- 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)?

**Post Retirement Increases**

- You will receive an increase of 2.5% 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.



## STATE OF HAWAII EMPLOYEES' RETIREMENT SYSTEM

### **SPECIAL TAX NOTICE REGARDING ROLLOVER OPTIONS**

You are receiving this notice because all or a portion of a payment you are eligible to receive from the Employees' Retirement System of the State of Hawaii (the "ERS") may be rolled over to an IRA or an employer plan. This notice is intended to help you decide whether to do such a rollover.

Rules that apply to most payments that are eligible for rollover are described in the "General Information About Rollovers" section. Special rules that only apply in certain circumstances are described in the "Special Rules and Options" section.

### **GENERAL INFORMATION ABOUT ROLLOVERS**

#### **What part of my benefits may I roll over?**

Most payments from the ERS are not eligible for rollover. For example, monthly annuity payments and required minimum distributions after age 70½ (or after your death) are not eligible for rollover. You should complete IRS Form W-4P, "Withholding Certificate for Pension or Annuity Payments," to elect the federal income tax withholding that will apply to monthly annuity payments.

Generally, the only payments from the ERS that are eligible for rollover are: (1) one-time payments that represent a refund or partial refund of your own contributions (e.g., a refund or partial refund of your accumulated contributions or a distribution of your hypothetical account balance), (2) one-time payments made in connection with ordinary death benefits for Contributory Plan members, and (3) lump-sum death benefits paid to a member's beneficiary as part of retirement Option 1.

The ERS can tell you whether a payment is eligible for rollover.

#### **How can a rollover affect my taxes?**

You will be subject to federal income tax on any distribution that is eligible for rollover if you do not roll it over. If you are under age 59½ and do not do a rollover, you will also have to pay a 10% additional income tax on early distributions (unless an exception applies). However, if you do a rollover, you will not have to pay tax until you receive payments later, and the 10% additional income tax will not apply if those payments are made after you are age 59½ (or if an exception applies).

#### **Where may I roll over the payment?**

You may roll over the payment to either an IRA (an individual retirement account or individual retirement annuity) or an employer plan (a tax-qualified plan, such as a profit-sharing or 401(k) plan, a section 403(b) plan, or a governmental section 457(b) plan) that will accept the rollover. The rules of the IRA or employer

plan that holds the rollover will determine your investment options, fees, and rights to payment from the IRA or employer plan (for example, no spousal consent rules apply to IRAs, and IRAs may not provide loans). Further, the amount rolled over will become subject to the tax rules that apply to the IRA or employer plan.

### **How do I do a rollover?**

There are two ways to do a rollover. You can do either a direct rollover or a 60-day rollover.

If you do a direct rollover, the ERS will make the payment directly to your IRA or an employer plan. You should contact the IRA sponsor (usually a financial institution) or the administrator of the employer plan for information on how to do a direct rollover. Also, you must complete the enclosed Form EC&B-123B.

If you do not do a direct rollover, you may still do a rollover by making a deposit into an IRA or eligible employer plan that will accept it. You will have 60 days after you receive the payment to make the deposit. If you do not do a direct rollover, the ERS is required to withhold 20% of the payment for federal income taxes. This means that, in order to roll over the entire payment in a 60-day rollover, you must use other funds to make up for the 20% withheld. If you do not roll over the entire amount of the payment, the portion not rolled over will be taxed and will be subject to the 10% additional income tax on early distributions if you are under age 59½ (unless an exception applies).

### **If I don't do a rollover, will I have to pay the 10% additional income tax on early distributions?**

If you are under age 59½, you will have to pay the 10% additional income tax on early distributions for any payment from the ERS (including amounts withheld for income tax) that you do not roll over, unless one of the exceptions listed below applies. This tax is in addition to the regular income tax on the payment not rolled over.

The 10% additional income tax does not apply to the following payments from the ERS:

- Payments made after you separate from service if you will be at least age 55 in the year of the separation.
- Payments that start after you separate from service if paid at least annually in equal or close to equal amounts over your life or life expectancy (or the lives or joint life expectancy of you and your beneficiary) (e.g., monthly annuity payments).
- Payments made after you separate from service if you are a public safety employee and you are at least age 50 in the year of the separation. (Generally, for this purpose, a “public safety employee” is a State or County employee who provides police protection, firefighting services, or emergency medical services.)
- Payments made due to disability.
- Payments after your death.
- Corrective distributions of contributions that exceed tax law limitations.
- Payments made directly to the federal government to satisfy a federal tax levy.
- Payments up to the amount of your deductible medical expenses.

**If I do a rollover to an IRA, will the 10% additional income tax apply to early distributions from the IRA?**

If you receive a payment from an IRA when you are under age 59½, you will have to pay the 10% additional income tax on early distributions from the IRA, unless an exception applies. In general, the exceptions to the 10% additional income tax for early distributions from an IRA are the same as the exceptions listed above for early distributions from the ERS. However, there are a few differences for payments from an IRA, including:

- There is no exception for payments after separation from service that are made after age 55 (or after age 50 if you are a public safety employee).
- A special rule applies under which, as part of a divorce or separation agreement, a tax-free transfer may be made directly to an IRA of a spouse or former spouse.
- The exception for payments made at least annually in equal or close to equal amounts over a specified period applies without regard to whether you have had a separation from service.
- There is an exception for certain payments made while you are on active duty if you were a member of a reserve component called to duty after September 11, 2001, for more than 179 days.
- There are additional exceptions for (1) payments for qualified higher education expenses, (2) payments up to \$10,000 used in a qualified first-time home purchase, and (3) payments after you have received unemployment compensation for 12 consecutive weeks (or would have been eligible to receive unemployment compensation but for self-employed status).

**Will I owe State income taxes?**

As of December 31, 2009, distributions from the ERS are not subject to State of Hawaii income tax. However, the laws affecting the taxation of distributions may change. Please consult with a qualified tax advisor prior to completing your retirement election forms.

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 your pension benefits.

**SPECIAL RULES AND OPTIONS**

**If your payment includes after-tax contributions**

After-tax contributions included in a payment are not taxed. If a payment is only part of your benefit, an allocable portion of your after-tax contributions is generally included in the payment. If you have pre-1987 after-tax contributions maintained in a separate account, a special rule may apply to determine whether the after-tax contributions are included in a payment.

You may roll over to an IRA a payment that includes after-tax contributions through either a direct rollover or a 60-day rollover. You must keep track of the aggregate amount of the after-tax contributions in all of your IRAs (in order to determine your taxable income for later payments from the IRAs). You should consult with your own tax advisor regarding rollovers of after-tax amounts and distributions of after-tax amounts in connection with rollovers of pre-tax amounts.

You may roll over to an employer plan all of a payment that includes after-tax contributions, but only through a direct rollover (and only if the receiving plan separately accounts for after-tax contributions and is not a governmental section 457(b) plan). You can do a 60-day rollover to an employer plan of part of a payment that includes after-tax contributions, but only up to the amount of the payment that would be taxable if not rolled over.

### **If you miss the 60-day rollover deadline**

Generally, the 60-day rollover deadline cannot be extended. However, the IRS has limited authority to waive the deadline under certain extraordinary circumstances, such as when external events prevented you from completing the rollover by the 60-day rollover deadline. To apply for a waiver, you must submit a private letter ruling request to the IRS. Private letter ruling requests require the payment of a nonrefundable user fee. For more information, see IRS Publication 590, Individual Retirement Arrangements (IRAs).

### **If you were born on or before January 1, 1936**

If you were born on or before January 1, 1936, and receive a lump sum distribution that you do not roll over, special rules for calculating the amount of the tax on the payment might apply to you. For more information, see IRS Publication 575, Pension and Annuity Income.

### **If you roll over your payment to a Roth IRA**

You can roll over a payment from the ERS to a Roth IRA. Prior to January 1, 2010, you could make a rollover to a Roth IRA only if your modified adjusted gross income was not more than \$100,000 for the year the payment was made to you and, if you were married, you filed a joint return. These limitations do not apply to payments made to you from the ERS after 2009.

If you roll over the payment to a Roth IRA, a special rule applies under which the amount of the payment rolled over (reduced by any after-tax amounts) will be taxed. However, the 10% additional income tax on early distributions will not apply (unless you take the amount rolled over out of the Roth IRA within 5 years, counting from January 1 of the year of the rollover). For payments from the ERS during 2010 that are rolled over to a Roth IRA, the taxable amount can be spread over a 2-year period starting in 2011.

If you roll over the payment to a Roth IRA, later payments from the Roth IRA that are qualified distributions will not be taxed (including earnings after the rollover). A qualified distribution from a Roth IRA is a payment made after you are age 59½ (or after your death or disability, or as a qualified first-time homebuyer distribution of up to \$10,000) and after you have had a Roth IRA for at least 5 years. In applying this 5-year rule, you count from January 1 of the year for which your first contribution was made to a Roth IRA. Payments from the Roth IRA that are not qualified distributions will be taxed to the extent of earnings after the rollover, including the 10% additional income tax on early distributions (unless an exception applies). You do not have to take required minimum distributions from a Roth IRA during your lifetime. For more information, see IRS Publication 590, Individual Retirement Arrangements (IRAs).

You cannot roll over a payment from the ERS to a designated Roth account in an employer plan.

## **If you are not an ERS member**

Payments after death of the member. If you receive a distribution after the member's death that you do not roll over, the distribution will generally be taxed in the same manner described elsewhere in this notice. However, the 10% additional income tax on early distributions does not apply, and the special rule described under the section "If you were born on or before January 1, 1936" applies only if the member was born on or before January 1, 1936.

**If you are a surviving spouse.** If you receive a payment from the ERS as the surviving spouse of a deceased member, you have the same rollover options that the member would have had, as described elsewhere in this notice. In addition, if you choose to do a rollover to an IRA, you may treat the IRA as your own or as an inherited IRA.

An IRA you treat as your own is treated like any other IRA of yours, so that payments made to you before you are age 59½ will be subject to the 10% additional income tax on early distributions (unless an exception applies) and required minimum distributions from your IRA do not have to start until after you are age 70½.

If you treat the IRA as an inherited IRA, payments from the IRA will not be subject to the 10% additional income tax on early distributions. However, if the member had started taking required minimum distributions, you will have to receive required minimum distributions from the inherited IRA. If the member had not started taking required minimum distributions from the ERS, you will not have to start receiving required minimum distributions from the inherited IRA until the year the member would have been age 70½.

**If you are a surviving beneficiary other than a spouse.** Effective July 1, 2010, if you receive a payment from the ERS because of the member's death and you are a designated beneficiary other than a surviving spouse, you will be able to do a direct rollover to an inherited IRA. This is the only rollover option that you will have. Payments from the inherited IRA will not be subject to the 10% additional income tax on early distributions. You will have to receive required minimum distributions from the inherited IRA.

## **If you are a nonresident alien**

If you are a nonresident alien and you do not do a direct rollover to a U.S. IRA or U.S. employer plan, instead of withholding 20%, the ERS is generally required to withhold 30% of the payment for federal income taxes. If the amount withheld exceeds the amount of tax you owe (as may happen if you do a 60-day rollover), you may request an income tax refund by filing Form 1040NR and attaching your Form 1042-S. See Form W-8BEN for claiming that you are entitled to a reduced rate of withholding under an income tax treaty. For more information, see also IRS Publication 519, U.S. Tax Guide for Aliens, and IRS Publication 515, Withholding of Tax on Nonresident Aliens and Foreign Entities.

## **Other special rules**

If a payment is one in a series of payments for less than 10 years, your choice whether to make a direct rollover will apply to all later payments in the series (unless you make a different choice for later payments).

If your payments for the year are less than \$200 (not including payments from a designated Roth account in the ERS), the ERS is not required to allow you to do a direct rollover and is not required to withhold for federal income taxes. However, you may do a 60-day rollover.

You may have special rollover rights if you recently served in the U.S. Armed Forces. For more information, see IRS Publication 3, Armed Forces' Tax Guide.

### **FOR MORE INFORMATION**

The ERS encourages you to consult a professional tax advisor before taking a payment from the ERS. Also, you can find more detailed information on the federal tax treatment of payments from employer plans in: IRS Publication 575, Pension and Annuity Income; IRS Publication 590, Individual Retirement Arrangements (IRAs); and IRS Publication 571, Tax-Sheltered Annuity Plans (403(b) Plans). These publications are available from a local IRS office, on the web at [www.irs.gov](http://www.irs.gov), or by calling 1-800-TAX-FORM.