

Deferral of Lump Sum Payment of Temporary Salary Reduction for UH Faculty Members Retiring after December 31, 2010

Faculty members interested in deferring some of their lump sum temporary salary reduction payment may accomplish this by utilizing the University of Hawai'i 403(b) Tax Deferred Annuity program. This program allows participants to defer taxes on income up to \$22,000 (for employees age 50 or higher) in 2011. The maximum contribution amount for the temporary reduction will be less if the participant currently makes contributions to their 403(b) plan.

Deferral of the lump sum payment into the 457 Island Savings Plan is not allowed. Unfortunately, restrictions within the payroll system preclude deductions being taken for the 457 Island Saving Plan.

The deferral process is as follows:

- About four to six weeks before the planned retirement date, faculty members must discuss their intent to defer their lump sum payment with their Campus/College/Department Human Resources Representative to coordinate the:
 - Date of payment, and
 - Amount of payment
- To avoid an excess contribution, it is important for the faculty members to calculate the maximum amount they can contribute from their lump sum payment.
 - The calculation involves deducting the current and projected contributions for the calendar year, including the projected contribution from their final pay check, from the annual contribution limit (\$22,000 for 2011). For example, a 9-month faculty member retiring on June 1st who contributes \$900/month, would project his/her maximum lump sum contribution to be:

$$\$22,000 - \$4,950 \text{ (total of Jan – June 5th contributions)} = \$17,050$$

This faculty member can defer up to \$17,050 of the lump sum payment.

- Faculty members may utilize the University of Hawai'i 403(b) Maximum Contribution Calculation spreadsheet to determine what, if any, additional funds may be contributed. If assistance is needed to determine the year-to-date contribution amount, faculty members may contact National Benefit Services (NBS) at (800)-274-0503 ext 240 or email uh403b@nbsbenefits.com.
- Complete a Salary Reduction Agreement (SRA)
 - A form-fillable SRA is available at www.nbsbenefits.com/uh403b, go to the Form tab at the top of the webpage.
 - Use the payment date provided by the HR Representative as the Effective Date.
 - Timely submission of the SRA is critical. Be sure to submit the SRA prior to the pertinent deadline.
 - Utilize the "Post-Separation Vacation or Lump Sum Pay Deferral" option and indicate the amount to defer.
 - Submit the completed SRA to National Benefit Services via Fax to (800) 597-8206 or by mail to National Benefit Services, LLC, 8523 S. Redwood Road, West Jordan, Utah 84088.

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Questions & Answers

1. When will the lump sum payment be made?

Retiring faculty members can expect their lump sum to be paid on the 20th of the month following their retirement date, or soon thereafter. To ensure proper handling of salary, pro rata and any other payments, the lump sum payout will be processed in a separate pay period from the faculty member's final pay check.

2. How do I defer my lump sum payment?

Discuss your intent to defer with your HR Representative. Complete a UH Salary Reduction Agreement (SRA) and choose the "Post-Separation Vacation or Lump Sum Pay Deferral" option. Submit the completed SRA to National Benefit Services, LLC (NBS), the University's third-party administrator, anytime before, but not later than the submission deadline for the payment date identified by your HR Representative.

3. How do I determine how much I can defer?

The IRS annually identifies a voluntary deferral limit for your 403(b) contributions. The 2011 maximum deferral limit for employees age 50 or higher is \$22,000. To determine the maximum amount that may be deferred, one must subtract their anticipated contributions for the current tax year from the maximum limit. For example, if a faculty member anticipates contributing \$7,500 by their final pay check, they can defer up to \$14,500 of their lump sum payment ($\$22,000 - \$7,500 = \$14,500$).

4. How can I ensure that I am maximizing the deferral of my lump sum payment, my salary and/or vacation pay?

Faculty members are eligible to defer their lump sum payment and salary, up to their maximum deferral limit, through the 403(b) tax deferred annuity program. All employees that qualify, the same criteria for eligibility in the State Employees' Retirement System plan applies, are also eligible to utilize the Island Savings Plan, a 457 deferred compensation program. For 2011, each program has a maximum contribution limit of up to \$22,000 for employees age 50 or higher. Utilizing both programs to their legal limit would allow faculty members to defer up to \$44,000 this year in salary, lump sum payment and vacation pay, if applicable. Participants may defer salary and/or vacation payments, if applicable, to the 457 Island Savings Plan so they may defer their lump sum payment to the 403(b) tax deferred annuity program.

Information regarding the Island Savings Plan is available at www.islandsavings.ingplans.com or by calling 888-712-5642.