



University of Hawai'i

Vacation Pay Deferral Program Information Sheet

General Information regarding the Vacation Pay Deferral Program for University employees:

The Vacation Pay Deferral Program is comprised of two (2) sub-programs:

- **Post Separation Vacation Pay Deferral Program**
- **Early Vacation Payout Program**

These are voluntary programs that provide University employees the ability to shelter their compensation that he or she receives for unused vacation leave credits to the State's 457 Deferred Compensation Plan and/or the University's 403(b) Tax Deferred Annuity Program due to separation from service (i.e. resignation, retirement, termination, etc.). Deferring pay for unused vacation leave credits (usually a sizeable amount) can provide tax-savings on such pay in addition to significantly increasing an employee's retirement savings. You may want to contact your financial advisor to determine if participating in the Vacation Pay Deferral Program is right for you.

Post-Separation Vacation Pay Deferral to the State's 457 Deferred Compensation Plan (Island Savings Plan) and/or University's 403(b) Tax Deferred Annuity Program – Payout and deferral of unused vacation pay received after separation from service

The Internal Revenue Service recently issued regulations that once again allow deferral of pay received *after* separation from service. Among other requirements, deferral of such pay must occur within 2-1/2 months from the date of separation or by the end of the calendar year in which an employee's separation from service occurs, whichever is later. Based on these new regulations, University employees are now able to defer pay for unused vacation received after separation from service (i.e. resignation, retirement, termination).

Pay that you receive after separation from service may be deferred to your State's 457 Deferred Compensation Plan (Island Savings Plan) and/or University's 403(b) Tax Deferred Annuity Program if the following requirements are met:

- 1) Your deferral request is made while you are still employed with the University (no later than fourteen (14) days prior to your last date of employment (COB date)) and prior to the beginning of the month in which you expect to receive payment for your unused vacation leave credits; and
- 2) Deferral takes place within 2-1/2 months (approximately 75 calendar days) from the date of separation from service (COB date) or by the end of the calendar year in which your separation from service takes place, whichever is later; and
- 3) The deferral is within the applicable annual contribution limits, as established by the Internal Revenue Service. (To receive assistance in determining your contribution limit for the State's 457 Deferred Compensation Plan, please call an Island Savings Plan representative from the ING - Honolulu Office at 1-888-712-5642 and pressing '2' when prompted. For assistance on the University's 403(b) Tax Deferred Annuity Program, please call the Office of Human Resources at 956-8643.)

Any portion of your unused vacation pay that is not deferred will be paid to you in the usual manner for post-separation pay. All State and Federal taxes shall apply.

If you meet the above requirements and are interested in deferring pay for unused vacation leave credits, a set of instructions, schedule of deadlines and forms may be obtained from:

- ▶ Office of Human Resource website:
<http://www.hawaii.edu/ohr/>

EARLY VACATION PAYOUT – Payout and deferral of unused vacation pay prior to separation from service (Restricted to retiring employees).

Until recently, Internal Revenue Service regulations issued in 2003 prevented the deferral of pay received after separation from service (i.e. resignation, retirement, termination, etc.). This precluded University employees from deferring the lump sum vacation pay, which was customarily paid out after separation. In response, the State developed the Early Vacation Payout Program to enable the payout and deferral of pay received for unused vacation leave credits prior to the employee's separation from service (the State's Early Vacation Payout Program is restricted to employees planning to retire).

Though deferrals after separation are once again allowed, the University has agreed to continue the Early Vacation Payout Program in anticipation that the program may provide some employees deferral flexibility and the ability to further maximize deferred compensation plan contribution limits.

To participate in the Early Vacation Payout Program you must:

- 1) be retiring and have a planned retirement date;
- 2) have a vacation balance of at least 80 hours or any other applicable amount that is the equivalence of 10 vacation days; and
- 3) submit to all involved parties the necessary Early Vacation Payout forms by the stated deadlines (see University of Hawai'i Early Vacation Payout Schedule) and your personnel office is able to process an Early Vacation Payout for you.

Any portion of your unused vacation pay not deferred under the Early Vacation Payout Program will be paid to you in the usual manner after separation.

If you meet the above requirements and are interested in participating in the Early Vacation Payout Program, a set of instructions, schedule of deadlines and forms may be obtained from:

- ▶ Office of Human Resources website:
<http://www.hawaii.edu/ohr/>

Note: Upon participating in the Early Vacation Payout Program, you may also be eligible to participate in the Post-Separation Vacation Pay Deferral Program. Please call ING – Honolulu office or the Office of Human Resources for additional information or assistance in deferring unused vacation pay to the State's 457 Deferred Compensation Plan or the University's 403(b) Tax Deferred Annuity Programs, respectively.