SUPPLEMENTAL AGREEMENT

Early Payout Of Accumulated Vacation Leave
For Deferral To The
State Of Hawaii Deferred Compensation Plan
Bargaining Units 01 and 10

This Supplemental Agreement on the Early Payout of Accumulated Vacation Leave for Deferral to the State of Hawaii Deferred Compensation Plan is entered into on this day [ ] of [ ] , 2005 by and between the State of Hawaii, excluding employees of the Department of Education, ("EMPLOYER") and the United Public Workers, AFSCME, Local 646, AFL-CIO ("Union") on behalf of employees in Bargaining Units 01 and 10.

WHEREAS, the Internal Revenue Service ("IRS") final Treasury Regulations, effective July 11, 2003, prohibit the deferral of vacation pay to the State's Deferred Compensation Plan, also known as the Island Savings Plan ("PLAN"), under section 457 of the Internal Revenue Code, if that vacation pay is paid and received after an employee has retired or separated from State service;

WHEREAS, this IRS interpretation adversely affects State employees and PLAN participants because pursuant to Section 36 of the Unit 1 and 10 Agreements, the EMPLOYER pays an employee's accumulated vacation allowance after the employee has retired; and

WHEREAS, the EMPLOYER desires to permit that part of an employee's accumulated vacation leave pay may be paid to the employee prior to retirement in order to allow the employee to defer the accumulated vacation leave pay to the PLAN prior to retirement;

NOW, THEREFORE, the UNION and the EMPLOYER hereby agree as follows:

1. Employees may voluntarily elect to receive an early partial payout of their accumulated vacation leave credits prior to their date of retirement from service for the sole purpose of deferring such leave payment or a portion of the leave payment to the PLAN in accordance with the terms of this Supplemental Agreement.

   a. Early payouts of accumulated vacation leave credits for cash only shall not be allowed.

   b. Employees must have more than ten (10) days of accumulated vacation leave as of the month prior to submission of their request for early partial payout of accumulated vacation leave credits.
2. The EMPLOYER shall use its best efforts to meet the time frames established by the EMPLOYER to provide early partial payout of an employee's accumulated vacation leave credits for deferral to the PLAN. However, if the EMPLOYER determines that the audit of an employee's accumulated vacation leave record cannot be completed prior to the payroll deadline date established by the EMPLOYER, the employee shall only receive payment of the employee's accumulated vacation leave credits after the employee retires from service.

3. Employees who wish to defer part of their accumulated vacation leave pay to the PLAN prior to retiring shall:
   a. Comply with the process and time frames established by the EMPLOYER for an early partial payout of accumulated vacation leave credits;
   b. Complete and sign the form specified by the EMPLOYER requesting the early partial payout and deferral to the PLAN; and
   c. Acknowledge and agree to the terms specified in the form.

4. The partial payout shall be based on each employee's accumulated vacation leave balance as of the last day of the month preceding the month in which the form is submitted in accordance with time frames established by the EMPLOYER, and shall exclude at least ten (10) days of accumulated vacation leave credits to provide the employee with a reserve of vacation days in case the days are needed before the employee retires.

   If the vacation reserve is not sufficient to cover the requested time off by the employee prior to retirement from service, the employee shall be placed on leave without pay.

5. The partial payout shall be subject to the requirements of federal and State laws, including the maximum contribution limits.
   a. An employee may defer up to the maximum contribution limits to the PLAN; and
   b. Any remaining amount of the partial payout shall be paid to the employee on the same pay date that the contribution is made to the PLAN.

6. The accumulated vacation leave credits in the reserve, if any, and any additional accumulated vacation leave credits earned prior to retirement shall be paid after the employee has retired from service in accordance with the provisions of the collective bargaining agreement (CBA) and/or State law.

7. An employee's election to receive a partial payout of accumulated vacation leave credits for deferral to the PLAN shall be final. If, for whatever reason, the employee does not retire from service:
   a. The partial payout shall not be refunded to the employee; and
b. The accumulated vacation leave credits used for the partial payout shall not be restored.

8. This Supplemental Agreement shall be effective from July 1, 2005 to, and including, June 30, 2007, unless either of the parties terminates this Agreement by giving thirty (30) days notice in writing to the other party.

IN WITNESS WHEREOF, the parties hereto, by their authorized representative, have executed this Supplemental Agreement on the date specified above.

FOR THE EMPLOYER:

[Signature]
Director
Dept. of Human Resources Development

FOR THE UNION:

[Signature]
State Director
United Public Workers

Chief Negotiator
Office of Collective Bargaining

APPROVED AS TO FORM:

[Signature]
Deputy Attorney General