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**Employees' Retirement System**  
of the State of Hawaii



# The Hybrid Plan Upgrade Program

Starting October 1, you will have the opportunity to enhance the monthly pension you receive from the Employees' Retirement System of the State of Hawaii (ERS). You will be able to “upgrade” all, some, or none of your Noncontributory service to Hybrid service. This opportunity is called the Hybrid Plan Upgrade Program, or “Upgrade Program” for short. In this newsletter, we'll briefly review how the program works, explain some of the benefits and costs of upgrading your service and how it affects your monthly pension, give you important deadlines, and highlight the resources you can use to make your decision.

## CHECK YOUR MAIL FOR MORE DETAILS

The ERS will be mailing your Hybrid Plan Upgrade Program decision packet with details about the Upgrade Program around the end of September. Our goal is to help you make an informed decision about upgrading your Noncontributory service.

If you need general and detailed information on how the Hybrid Plan works, retirement requirements, death benefits, and other details, refer to the official plan documents on the ERS Website at <http://www4.hawaii.gov/ers>.



**Aloha,**

You have a little over six months—until April 3, 2010, to make your election to upgrade some or all of your Noncontributory service. There is a lot to consider, and only you can make the decision that is right for you and your family. Please take time to learn about the program, review your options, meet with your financial advisor, and talk to family members before making your decision.

The ERS wants to help you make an informed decision on the Hybrid Plan Upgrade Program by providing you a variety of tools, information, and assistance. I encourage you to take advantage of these resources, which are listed on page 5, to help you secure a better financial future for your retirement years.

*David Shimabukuro, ERS Administrator*



# Upgrade Your Financial Future:

## What Upgrading Can Mean for You

When you retire, you will receive a monthly pension from the ERS. Your pension will be based on your years of computed service under each type of service. Here's the formula:

Noncontributory:  $1.25\% \times \text{Years of Service} \times \text{AFC}$

Hybrid (or Contributory):  $2\% \times \text{Years of Service} \times \text{AFC}$

The Upgrade Program gives you a one-time opportunity to upgrade all, some, or none of your Noncontributory service to Hybrid service. This pension formula boost, from 1.25% to 2%, can make a big difference in your monthly pension.

Let's look at one example. Before the upgrade, Carol, an ERS member, has 25 combined years of computed service:

- 22 years of Noncontributory computed service, plus
- 3 years of Hybrid computed service.

Her AFC is \$3,000. Let's assume, too, that Carol is 62 years old and intends to retire this fall. If Carol chooses *not* to upgrade any of her Noncontributory computed service, she will receive a maximum monthly pension allowance of \$1,005 per month, as shown in this chart.

### Before Carol upgrades any Noncontributory computed service...

Formula	Monthly Pension	The Math
Noncontributory 1.25%	\$825	$1.25\% \times 22^* \times \$3,000 = \$825$
Hybrid 2%	<u>\$180</u>	$2\% \times 3^* \times \$3,000 = \$180$
Total	<b>\$1,005**</b>	

\* Years of computed service    \*\* Maximum allowance

But what if Carol decides to upgrade 10 years of Noncontributory computed service to Hybrid computed service? She will now have 12 years of Noncontributory computed service and 13 years of Hybrid computed service. By upgrading those 10 years to Hybrid computed service, she has an increased maximum monthly pension allowance of \$1,230. **That's \$225 more each month than she had before, as shown in the following chart.**

### After Carol upgrades only 10 years of Noncontributory computed service...

Formula	Monthly Pension	The Math
Noncontributory 1.25%	\$450	$1.25\% \times 12^* \times \$3,000 = \$450$
Hybrid 2%	<u>\$780</u>	$2\% \times 13^* \times \$3,000 = \$780$
Total	<b>\$1,230**</b>	$\$1,230 - \$1,005 = \$225$

\* Years of computed service    \*\* Maximum allowance

### Key Pension Terms... Defined

#### FORMULA

The Hybrid Plan will pay you a monthly pension. But the formulas used to determine that payment will differ by type of service.

#### AVERAGE FINAL COMPENSATION (AFC)

In general, AFC is the monthly average of your three highest years of earnings, excluding any lump sum vacation pay.

However, if your employment began before January 1, 1971, your AFC will be the higher of the average of your:

- Three highest years of earnings, excluding any lump sum vacation pay, or
- Five highest years of earnings, including lump sum vacation pay.

Federal law limits the amount of annual earnings that may be used for computing AFC. This limit is subject to change each year. For 2009, the limit is \$245,000.

#### COMPUTED SERVICE

Computed service is the length of time you work for the State or County government while you are a member of the ERS (converted to a full-time equivalent basis). The technical name is "Full-time Equivalent Service," but the ERS is using the shorter term "computed service" in the Upgrade Program materials.

## PAYING FOR THE UPGRADE

Just like upgrading a seat on an airplane, Carol must pay for this higher pension. If she upgrades her Noncontributory service, she will pay the full value of the upgrade. Her cost is based on the number of months upgraded and her base salary, her age, and her total credited service on December 31, 2008. In this example, the cost for Carol to upgrade 10 years of Noncontributory computed service would be \$34,412. Carol can pay for her upgraded pension in one or more of the following ways:

- A lump sum payment by check, cashier's check or money order (excluding foreign accounts), and/or
- A direct transfer/rollover payment from eligible plans, such as:
  - Tax-sheltered annuities (403(b) plans)
  - Deferred compensation plans (457(b) plans)
  - Tax-qualified retirement plans (401(a), 401(k), or 403(a) plans), or
  - Individual Retirement Accounts (IRAs), **excluding** SIMPLE IRA, SARSEP IRA, Roth IRA or Coverdell Education Savings accounts.

Transfer/rollover payments from eligible plans may not include any after-tax amounts and are subject to certain requirements that will be described on the Hybrid Plan Upgrade Program Website.

We will provide more details about costs and payment options in your decision packet.

## CREATE YOUR OWN SCENARIOS

Carol's example illustrates how the Upgrade Program works. It will be easier for you to understand when you see your own information: your years of computed service, pension increase, and upgrade costs.

Your decision packet will include a personal statement that will show a few of your upgrade options. You'll be able to compute more options starting October 1 using the online calculator on the Hybrid Plan Upgrade Program Website at <https://www.ERSHybridUpgrade.com>. You can calculate your costs for any number of months of service upgrade. You'll be able to change certain assumptions, such as your retirement age and future pay changes, to see how they affect your monthly pension.



## Retiring Soon? Follow These Steps...

- Sign up for a group meeting at <https://www.ERSHybridUpgrade.com>, or, if you don't have access to an Internet-connected computer, call (toll free): 877.544.4505. Hearing or voice impaired members can call 877.544.4505 (TRS: 711); international members should call 201.872.0956.
- Review the Hybrid Plan publications on the ERS Website at <http://www4.hawaii.gov/ers>.
- File your retirement application with the ERS as early as 150 days before but not less than 30 days before your retirement. Applications are available on the ERS Website at <http://www4.hawaii.gov/ers> or by calling the ERS office at 808.586.1735.
- If you are retiring within six months, call the ERS office at 808.586.1735 to attend a retirement-filing session.

**IMPORTANT: YOU MUST MAKE YOUR ELECTION TO UPGRADE YOUR SERVICE AND YOUR PAYMENT MUST BE RECEIVED BY THE ERS *BEFORE* YOU RETIRE.**



# Answers to Your “who, what, when, where, why and how” Questions

Soon you will receive your personalized Upgrade Program packet and be able to log on to the Upgrade Program Website at <https://www.ERSHybridUpgrade.com>. These and other resources, described on page 5, feature more details about the Upgrade Program. Until then, here are some of the basics:

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## WHO IS ELIGIBLE?

To be eligible for the Upgrade Program, you must have:

- Been an actively employed ERS member on June 30, 2006
- Previously made an election to transfer to the Hybrid Plan effective July 1, 2006
- Had Noncontributory service before July 1, 2006, and
- Been an actively employed ERS member on December 31, 2008.

Retirees are not eligible for this Upgrade Program.

## WHAT SERVICE CAN I UPGRADE?

You can upgrade any or all of your Noncontributory service as of June 30, 2006.

## WHERE CAN I FIND OUT MORE ABOUT THE UPGRADE PROGRAM?

Your decision packet and the Upgrade Program Website both will have detailed information about the program. For a description of these and other resources, see Tools You Can Use on page 5.

## HOW DO I MAKE MY ELECTION?

Beginning October 1, 2009, you can make your election online through our secure Hybrid Plan Upgrade Program Website using any Internet-connected computer. Election instructions and your login information will be included in your Upgrade Program packet.

If you are unable to access an Internet-connected computer any time during the election period, you can contact the call center for assistance.

## WHEN MUST I MAKE MY ELECTION AND SUBMIT PAYMENTS?

You can make your election anytime starting from October 1, 2009. As soon as you make your election, you can submit payment (choosing from one or more of the available options described on page 3). Your last day to make your election is April 3, 2010.

The deadline for submitting your total payment is September 30, 2010.

## WHY SHOULD I UPGRADE SERVICE?

Some factors that might influence your decision are the cost of the upgrade, your available funds, your family's needs, and your tolerance for risk.

You might choose **to upgrade** your Noncontributory computed service to:

- Receive a higher guaranteed monthly pension benefit
- Transfer money you are currently investing on your own into your guaranteed ERS pension benefit
- Increase the potential payment to your beneficiary, upon your death, depending on the retirement option you select.

You might **not upgrade** your service if you:

- Want to keep your funds in stocks and bonds for their growth potential, and/or preserve cash for emergencies
- Don't think you will be retired long enough to make the cost of the upgrade worthwhile.

# Tools You Can Use

The ERS is committed to helping you make the decision that is right for you. Take advantage of these tools to learn more and make your election.

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## HYBRID PLAN UPGRADE PROGRAM DECISION PACKET

The packet will be mailed to your home and will include:

- The Hybrid Plan Upgrade Program Decision Guide, providing details about the program
- Your Personal Hybrid Plan Upgrade Program Statement. The statement uses your service and salary data to display a range of options and their costs. It also includes group meeting information.
- Frequently Asked Questions (FAQs) and other important information.

## THE UPGRADE PROGRAM WEBSITE

Through the Website (<https://www.ERSHybridUpgrade.com>), you will be able to:

- Use an interactive calculator to calculate your options
- Verify your personal data and quickly submit your election online
- Review your election and print a confirmation statement at any time
- Find electronic versions of forms and all print communications, including your personal statement
- Access an online, self-paced version of the presentation used in group meetings, and
- Sign up for one of the group meetings.

## CALL CENTER REPRESENTATIVES

Representatives will be available to help members throughout this election period. They will be able to answer questions and, if you don't have access to an Internet-connected computer, they can record your election over the phone. The call center numbers are:

Toll Free: 877.544.4505

Hearing or Voice Impaired: 877.544.4505 (TRS: 711)

International: 201.872.0956

Call center hours will be Mondays through Fridays, 7:45 a.m. to 4:30 p.m. HST and Saturdays from 7:45 a.m. to noon HST (except for State holidays\*), starting October 1, 2009.

## MEETINGS

Group meetings will be held on all islands. Meeting presenters will review the facts about the Upgrade Program, talk through examples, and demonstrate the calculator and election tools. A meeting schedule for your island location will be included in the personal statement you'll be receiving next month as part of your decision packet.

After each meeting, ERS counselors will be available to answer your questions.

*Group meeting leaders, call center representatives, and ERS counselors can help you understand your options but they cannot give financial advice.*

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## Important: Verify Your Data!

In 2008, the ERS rolled out the final phase of our new computer system. This implementation included numerous updates of work history and credited service for our 111,369 members, retirees, and beneficiaries. As sometimes happens in major systems updates, discrepancies may occur.

**Please compare the data shown on the personal statement that comes in your decision packet with your personal work history records.** The ERS uses this data to produce the upgrade options shown on the statement and in the Website's calculator you will use to explore your options. **Notify the ERS ASAP if you find a discrepancy on your personal statement.**

If you do find discrepancies on your personal statement, please complete the Correction Form found on our Website at <https://www.ERSHybridUpgrade.com>. The form provides specific information (e.g., dates, length of service with an ERS-eligible employer, etc.) that can assist the ERS with our research. Submit the form immediately to our office to ensure correction of your personal statement, if needed. If you do not have access to a computer, contact the call center starting October 1, 2009.

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\* The Upgrade Program call center will also be closed on the following dates: Friday November 27, 2009; Saturday November 28, 2009; Saturday December 26, 2009; and Saturday January 2, 2010.

# Next Steps

Review your decision packet, which will be mailed to your home in late September. Then log on to the Website starting October 1, to review your data, explore your options and make your election. Be sure to attend a group meeting on your island. If you're unable to come to a meeting, you can also watch the online version of the meeting presentation when the Website goes live on October 1. If you have unanswered questions, call the Upgrade Program's call center. Finally, be sure to note the important election dates listed in the box to the right.

*The purpose of this newsletter is to provide an overview of the ERS Hybrid Plan Upgrade Program. This newsletter is not intended to be comprehensive or to replace other information provided by the ERS about your ERS benefits. You can find additional information about your ERS benefits through the ERS Website at <http://www4.hawaii.gov/ers>. Nothing in this newsletter amends, modifies, overrides, or nullifies any State of Hawaii or ERS statutes, rules, policies, and procedures or any document used in the retirement process.*



## Important Dates in the Upgrade Program

### 2009

- Decision packets mailed . . . . . Late Sept.
- Election period begins. . . . . Oct. 1
- Website and call center open . . . . . Oct. 1
- Group meetings . . . . . Oct. – Dec.

### 2010

- Group meetings . . . . . Jan. – Mar.
- Election period ends . . . . . April 3
- Payment deadline . . . . . Sept. 30

Important  
News Inside...  
LEARN HOW YOU CAN  
UPGRADE YOUR PENSION

Employees' Retirement System  
of the State of Hawaii  
CITY FINANCIAL TOWER  
201 MERCHANT STREET, SUITE 1400  
HONOLULU, HI 96813-2980

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