



MEMORANDUM

August 8, 2007

TO: President  
Chancellors  
Vice Presidents

VIA: Sam Callejo *Sam Callejo*  
Vice President for Administration

FROM: Brenna Hashimoto *Brenna Hashimoto*  
System Director of Human Resources

SUBJECT: Vacation Pay Deferral Program

The Internal Revenue Service recently issued regulations that once again allow the deferral of vacation pay received after separation from service. The University will be offering a Vacation Pay Deferral Program that is comprised of two (2) sub-programs: Early Vacation Payout Program and Post-Separation Vacation Pay Deferral Program. Deferring pay for unused vacation leave credits may provide tax-savings in addition to increasing an employee's retirement savings.

The Early Vacation Payout Program allows retiring employees to shelter their vacation payout before separation from employment. Employees retiring near the end of the calendar year may choose to participate in both the Early Vacation Payout Program and the Post-Separation Vacation Pay Deferral Program, as it may further maximize their deferral contribution limits. While the Early Vacation Payout Program is available only to retiring employees, the Post-Separation Vacation Pay Deferral Program is available to employees separating due to retirement, termination, or resignation. Employees have the option to defer the vacation payment into the State's 457 Deferred Compensation Plan and/or the University's 403(b) Tax Deferred Annuity Program.

Early Vacation Payout Program (Restricted to retiring employees).

To participate in the Early Vacation Payout Program, the employee must:

- 1) Be retiring and have a planned retirement date;
- 2) Have a vacation leave balance of at least 80 hours or any equivalent of 10 vacation days; and

- 3) Submit all necessary Early Vacation Payout forms by the stated deadlines (see University of Hawai'i Early Vacation Payout Deferral Schedule) thereby allowing the employee's personnel office to process an Early Vacation Payout.

Any portion of the unused vacation pay that is not deferred will be paid to the employee in the usual manner after separation. All State and Federal taxes shall apply.

#### Post-Separation Vacation Pay Deferral Program

The vacation payout may be deferred if the following requirements are met:

- 1) The deferral request is made while the employee is still employed with the University (no later than fourteen (14) days prior to the last day of employment (COB date)) and prior to the beginning of the month in which the employee expects to receive payment for the unused vacation leave credits;
- 2) Deferral takes place within 2-1/2 months (approximately 75 calendar days) from the date of separation from service (COB date); and
- 3) The deferral is within the applicable annual contribution limits for the 457 Plan or 403(b) Program, as established by the Internal Revenue Service.

Any portion of the unused vacation pay that is not deferred will be paid to the employee in the usual manner after separation. All State and Federal taxes shall apply.

Instructions and forms for the Early Vacation Payout and Post-Separation Vacation Pay Deferral programs may be reviewed at the OHR website:

[www.hawaii.edu/ohr](http://www.hawaii.edu/ohr)

Questions regarding this program should be directed to Clifford Shinchi or Dean Isono at 956-8643 or e-mail [shinchi@hawaii.edu](mailto:shinchi@hawaii.edu) or [isonod@hawaii.edu](mailto:isonod@hawaii.edu) .

c: Personnel Representatives