1. WHAT ARE THE BENEFITS OF THIS PLAN?

If you enroll in this Plan, your income will be taxed after your health benefits contributions are deducted, so your take-home pay should be greater than if you do not enroll.

2. WHO IS ELIGIBLE FOR THIS PLAN?

You are eligible for this Plan if you are an employee of the State of Hawaii and enrolled in any health benefits plan offered through the Hawaii Employer-Union Health Benefits Trust Fund (EUTF) and your payroll deductions are processed through the Department of Accounting & General Services.

3. HOW DOES THE PLAN WORK?

If you enroll in this Plan:

♦ You authorize the State to reduce your gross salary (before federal, state and social security taxes are calculated) by the total amount of your health benefits plan contributions.

♦ The result is that your take-home pay is likely to increase since you will pay less Federal income, State income and FICA taxes.

Let’s look at an example to show how this plan would increase the take home pay of an employee: Employee Leilani earns a gross pay of $1000 per semi-monthly pay period. She is married, claims two exemptions, and enrolled in two-party health plans requiring a total employee contribution of $255 per semi-monthly pay period:

Hypothetical Example for Employee Leilani

<table>
<thead>
<tr>
<th>IF NOT ENROLLED IN PCP</th>
<th>IF ENROLLED IN PCP</th>
</tr>
</thead>
<tbody>
<tr>
<td>GROSS PAY $1000</td>
<td>$1000</td>
</tr>
<tr>
<td>PCP Reduction $(0)</td>
<td>$255</td>
</tr>
<tr>
<td>Gross Taxable Pay</td>
<td>$1000 $745</td>
</tr>
<tr>
<td>Withholding</td>
<td>$33 $8</td>
</tr>
<tr>
<td>Federal Tax</td>
<td>$38 $23</td>
</tr>
<tr>
<td>State Tax</td>
<td>$77 $57</td>
</tr>
<tr>
<td>Deductions:</td>
<td></td>
</tr>
<tr>
<td>Health Insurance (med/dental)</td>
<td>$200 $0</td>
</tr>
<tr>
<td>Drug</td>
<td>$37 $0</td>
</tr>
<tr>
<td>Vision Care</td>
<td>$3 $0</td>
</tr>
<tr>
<td>Dental</td>
<td>$15 $0</td>
</tr>
<tr>
<td>Other</td>
<td>$100 $100</td>
</tr>
<tr>
<td>Take-Home Pay</td>
<td>$497 $557</td>
</tr>
</tbody>
</table>

Savings Per Paycheck $ 60.00
Savings Per Month $ 120.00
Savings Per Year $1440.00

(NOTE: All figures rounded to the nearest dollar. The chart is being provided for illustrative purposes only and DOES NOT reflect the actual employee contribution amount for the 2013 plan year. Withholding based on 2013 Federal & 2012 State Income Tax Withholding Tables.)

In this example, take-home pay will be $60 more per pay period, or $1440 more per year if enrolled in the PCP.

Please note that the above example was based on an employee who is married. If you cover your domestic partner under your health plan, there may be other tax liabilities in connection with your domestic partner’s coverage, such that the tax savings benefit of enrolling in the PCP may be minimal. Therefore, you may want to consult with a tax advisor prior to enrolling in the Plan.

4. HOW AND WHEN CAN I ENROLL IN THIS PLAN?

You can enroll in this Plan by filing a PCP election form during a designated Open Enrollment period immediately preceding the plan year. The plan year will normally run from July 1 to June 30 each year.

Current Employees. If you are a current employee and do not enroll before the plan year begins, should you change your mind later and wish to enroll, you will have to wait until the following plan year. The only exception to this rule occurs in the case where you are permitted under the Rules to change from an election of no health benefits plan coverage to an election for such coverage.

For example, if you previously did not take medical coverage through the State because you were covered under your spouse’s medical plan, and your spouse dies or loses his/her job, you would be entitled to pick up medical coverage through the State, and you would also be entitled to enroll in the PCP. You must, however, file the appropriate PCP forms with your Personnel Officer within 90 days of the event giving rise to your entitlement to enroll.

New Employees. If you are a new employee, you may enroll in this Plan when you become eligible to enroll in any of the eligible health benefits plans. Normally, this is within 90 days of the date you were hired.

If you do not enroll during this 90-day eligibility period, you will not be able to enroll in the Plan until the following plan year, unless you are permitted under the Rules to enroll.

5. HOW CAN I CHANGE MY PCP ELECTION?

Your PCP election will be automatically renewed each Plan Year. If you wish to change your election, you can only do so during a designated Open Enrollment period. The only exception is if a change in your status has occurred for which the Rules permit a PCP election change, such as:

♦ Your marriage, divorce or marriage annulment.
♦ Birth or adoption of a child or addition of a foster child.
♦ Death of your spouse or dependent.
♦ Employment or loss of employment by you, your spouse, or dependent.
♦ Start or return from an unpaid leave of absence.
Loss of eligibility by you or your spouse under a health benefits plan.

Your last dependent child becoming ineligible for coverage under your health benefits plan.

In order to make a change, it must also be consistent with your change in status, and you must file the appropriate PCP change forms with your Personnel Officer within 90 days of the date of your qualified change in status. Approved changes will take effect after your forms are received, usually the following pay period, if administratively possible.

If, during the plan year, premium rates increase and there is a change in the employee contributions, the Plan Administrator will make the appropriate adjustments.

6. HOW CAN MY PCP BE CANCELLED?

Generally, you cannot cancel your PCP election during a plan year unless you transfer to a non-eligible employment classification, you marry and obtain coverage under your spouse’s plan, or your spouse gets a new job, and you receive health benefits plan coverage through the new employer’s plan. You must submit the required cancellation forms within 90 days of your qualified change in status. Approved cancellations shall become effective as soon as administratively possible, on a prospective (not retroactive) basis, after your forms are received (e.g., next pay period following receipt of your forms).

There may be other situations in which cancellations can be allowed. However, you must write to the PCP Plan Administrator for prior approval.

Otherwise, you must wait until the next designated Open Enrollment period to cancel your PCP election.

Your PCP election will be cancelled if you should involuntarily lose eligibility for the health benefits plan you selected, as provided in the Rules.

7. CAN I LOSE MONEY UNDER THE PCP?

Usually you will not lose money by making a PCP election. However, if you should change/cancel your health benefits plan coverage but your PCP change/cancellation is not allowable, your PCP election will continue and your premium payments will be forfeited. To ensure that your forfeitures are stopped at the end of the plan year (June 30th), you must file the required PCP change/cancellation forms during the next Open Enrollment period.

Reminder: Mid-plan year changes and cancellations that are allowable take effect on a prospective basis after you file the required forms. So the longer you take to file, the more money (premium payments) you are likely to lose. To avoid this, file promptly.

8. IF MY DOMESTIC PARTNER IS COVERED UNDER MY HEALTH PLAN, CAN I ENROLL IN THE PCP?

If you cover your domestic partner under your health plan AND your domestic partner meets the definition of a "qualified dependent" under Section 152 of the Internal Revenue Code (IRC), and qualifies as your dependent for federal income tax purposes, you may deduct the entire premium contribution on a pre-tax basis. Otherwise, the contribution amount for your domestic partner shall be done on an after-tax basis. You must submit the PCP Domestic Partnership Acknowledgement Form, which can be obtained from your departmental personnel office or the HRD website at http://hrd.hawaii.gov.

For PCP enrollment changes, see Q&A #6.

9. WILL MY SOCIAL SECURITY BENEFITS BE AFFECTED IF I ENROLL IN THIS PLAN?

If you participate in the PCP, your Social Security benefits may be slightly reduced because your Social Security benefits and taxes will be calculated on your reduced salary amount.

10. WILL MY RETIREMENT PENSION BE AFFECTED IF I ENROLL IN THIS PLAN?

No, your retirement pension will be based on your monthly gross pay and will not be affected by your participation in the PCP.

11. WILL MY DEFERRED COMPENSATION PLAN CONTRIBUTIONS BE AFFECTED IF I ENROLL IN THE PCP?

Participating in the PCP may affect your deferred compensation plan contributions if your contributions are based on a percentage of your pay rather than a fixed dollar amount.

12. WHAT HAPPENS IF I GO ON LEAVE WITHOUT PAY?

While you are on a leave without pay (LWOP), out-of-pocket employee contributions that you pay to continue your health benefits plan coverage cannot be applied for PCP purposes. This is because these payments are made outside of the State’s payroll system and do not qualify for the tax savings available under the Plan.

When you return from a LWOP, your PCP election will be automatically continued if you continued your health benefits plan coverage during your leave by making the required out-of-pocket contributions.

If your health benefits coverage was cancelled because you did not make the required out-of-pocket contributions while you were on a LWOP, your PCP election will likewise be cancelled as of the same effective date.

However, you will be permitted to re-enroll in the PCP when you return to work, provided you have filed the appropriate PCP forms with your Personnel Officer within 90 days of your return.

13. WHAT APPEAL RIGHTS DO I HAVE?

If your PCP change or cancellation request is denied, you may file an appeal by writing to the PCP Plan Administrator within 31 days after receiving notice of the denial. Your letter must set forth all of your reasons for appealing the denial. (See address under Q&A #14 below.)

The Plan Administrator shall act upon your appeal within 60 days after either receipt of your request or receipt of any additional materials reasonably requested from you, whichever occurs later.

You shall be provided a written notice of the final decision on your appeal within 120 days of the date your appeal was filed.

The decision of the Plan Administrator shall be final and conclusive upon all persons.

14. WHERE CAN I GET MORE INFORMATION?

If you still have questions, you should contact your departmental personnel office. Written requests may be sent to:

Director of Human Resources Development
PCP Administrator
235 S. Beretania St., 14th Floor
Honolulu, Hawaii 96813

This brochure can be made available to individuals who have special needs or who need auxiliary aids for effective communication (i.e., large print or audiotape), as required by the Americans with Disabilities Act of 1990, by contacting the HRD Employee Assistance Office at 587-1050.