General Information regarding the Vacation Pay Deferral Program for State – Executive Branch employees:

The State’s 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 State employees the ability to defer, to the employee’s deferred compensation plan, pay or compensation that he or she receives for unused vacation leave credits 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 Deferred Compensation Plan (Island $avings Plan) – Payout and Deferral of Unused Vacation Pay Received after Separation from Service

The Internal Revenue Service 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 effective date of separation from service 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, State 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 deferred compensation plan (Island $avings Plan) if the following requirements are met:

1) Your deferral request is made while you are still employed with the State (no later than fourteen (14) days prior to your last date of employment (COB date) prior to separation, unless waived by your Department Personnel and Payroll Office) 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 your effective date of separation from service or by the end of the calendar year in which your separation from service takes place, whichever is later; and

3) Your deferral is within the applicable annual contribution limits, as established by the Internal Revenue Service. (To receive assistance in determining your contribution limits, you may speak with an Island $avings Plan representative from the Prudential Retirement - Honolulu Office by calling 1-888-712-5642 and pressing ‘2’ when prompted.)

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

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

- Your Department Personnel Office;
EARLY VACATION PAYOUT – Payout and deferral of unused vacation 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 State employees from being able to defer his or her usually large sum of pay for unused vacation, 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 State has decided to continue the Early Vacation Payout Program in anticipation that the program may provide some employees deferral flexibility and the possible added ability to further maximize deferred compensation plan contribution limits.

You may voluntarily elect to receive an early partial payout of you accumulated vacation leave credits, provided that:

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

2) You must be retiring and have a planned retirement date.

3) You have a vacation balance of at least 80 hours or any other applicable amount that is the equivalence of 10 vacation days.

4) You must comply with the process and established time frames, submit to all involved parties the necessary Early Vacation Payout forms by the stated deadlines (see the Early Vacation Payout Schedule,) and your department is able to process an Early Vacation Payout for you.

5) Your deferral of the early partial payout is deferred into the Island $avings Plan only once. The deferral shall not be refunded back and is final regardless of your decision not to retire or a change in your effective date of retirement.

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 are able to 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:

► Your Department Personnel Office;

► Island $avings Plan Representatives at the Prudential Retirement – Honolulu Office
  Ph: 1-888-71A-LOHA (1-888-712-5642), press ‘2’ when prompted;

Note: Upon participating in the Early Vacation Payout Program, you may be eligible to participate in the Post-Separation Vacation Pay Deferral Program, as well, for the purpose of deferring your final payout of accumulated vacation leave (the balance of accumulated vacation leave that was held in reserve during processing of your Early Vacation Payout and any vacation leave you may have accumulated from that time through your last date of employment). Speak to an Island $avings Plan representative at the Prudential Retirement – Honolulu Office to obtain more information and help you determine if you are eligible.