INTRODUCTION

The State’s Premium Conversion Plan (PCP) provides an opportunity to most health benefits plan participants to save some tax dollars and make the most of their paychecks. It is being offered to you pursuant to Chapter 7B, HRS, and within the meaning of Section 125 of the Internal Revenue Code relating to “cafeteria plans”.

In order to retain this benefit, the State of Hawaii must administer this Plan in strict compliance with certain rules and regulations. Therefore, it is important that you read this flier thoroughly. Also, carefully weigh the Plan’s effect on your social security benefits. NOTE: You may want to consult with your tax advisor to help determine whether this Plan will benefit you.

Please keep in mind that this is only a summary of Chapter 14-51, “Premium Conversion Plan,” Hawaii Administrative Rules, and is not the complete text. In all cases where a question arises, the Rules will govern. The Rules may be examined or a copy may be obtained by contacting:

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

Or, visit the HRD website at: www.hawaii.gov/hrd/main/hr

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).

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 family health plans requiring a total employee contribution of $167 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</td>
<td>$1000</td>
</tr>
<tr>
<td>PCP Reduction</td>
<td>0</td>
</tr>
<tr>
<td>Gross Taxable Pay</td>
<td>$1000</td>
</tr>
<tr>
<td>Withholding</td>
<td></td>
</tr>
<tr>
<td>Federal Tax</td>
<td>$40</td>
</tr>
<tr>
<td>State Tax</td>
<td>$42</td>
</tr>
<tr>
<td>FICA Tax</td>
<td>$77</td>
</tr>
<tr>
<td>Deductions:</td>
<td></td>
</tr>
<tr>
<td>Health Insurance</td>
<td>$154</td>
</tr>
<tr>
<td>(medical/drug/chiro)</td>
<td></td>
</tr>
<tr>
<td>Vision Care</td>
<td>$2</td>
</tr>
<tr>
<td>Adult Dental</td>
<td>$11</td>
</tr>
<tr>
<td>Other</td>
<td>$100</td>
</tr>
<tr>
<td>Take-Home Pay</td>
<td>$574</td>
</tr>
</tbody>
</table>

Savings Per Paycheck: $42.00
Savings Per Month: $84.00
Savings Per Year: $1008.00

(NO NOTE: All figures rounded to the nearest dollar. The chart is being provided for illustrative purposes only and MAY NOT reflect the actual employee contribution amount for the 2006 plan year. Withholding based on 2006 Federal tax & 2002 State tax rates.)

In this example, take-home pay will be $42 more per pay period, or $1008 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 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 under the EUTF, 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 July 1st. If you wish to change your election, you can only do so during a designated 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 child.
- 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.
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 will generally be effective at the end of the month in which the cancellation forms are received.

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.

Mid-plan year changes/cancellations that are allowable generally take effect the month 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 I COVER MY DOMESTIC PARTNER UNDER MY HEALTH PLAN, CAN I MAKE CHANGES TO MY PCP ENROLLMENT?

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 can make a corresponding change to your PCP election from a Self to Family plan contribution deductions. You will need to complete the PCP Domestic Partnership Acknowledgement Form, which can be obtained from your departmental personnel office or the HRD website.

IMPORTANT: Once you make this change, you will NOT be able to change or cancel until the next annual open enrollment period even if a qualified “change in status” occurs (see Q&A #5), such as death or termination of your domestic partner relationship.

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?

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?

No, enrolling in the PCP will not affect your deferred compensation plan contributions.

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

While you are on a leave without pay, out-of-pocket employee contributions that you pay to continue your health benefits plan coverages 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 leave without pay, your PCP election will be automatically continued if you continued your health benefits plan coverages during your leave by making the required out-of-pocket contributions.

If your health benefits coverages were cancelled because you did not make the required out-of-pocket contributions while you were on a leave without pay, 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 if supported by substantial evidence in the record.

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 587-1070.