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**CORRESPONDENCE MEMORANDUM**

**DATE:** May 14, 2007  
**TO:** Employee Trust Funds Board  
**FROM:** Jean Gilding, Deputy Administrator  
Division of Retirement Services  
Audrey Koehn, Policy Advisor  
Division of Retirement Services  
**SUBJECT:** Analysis of Separation Benefits Paid in Calendar Year 2006

This memorandum provides an analysis of separation benefits paid to Wisconsin Retirement System (WRS) participants in calendar year 2006. The memorandum analyzes the age distribution, the years of service, the employment categories, and the gross payment for the 3,406 members who took separation benefits in 2006.

The statistics for 2006 are very similar to those from 2005. In 2006, the age distribution was just slightly older (38.12 average years in 2006 from 37.25 average years in 2005), and the overall payout was .5% higher.

Background

Participants who terminate all WRS covered employment and who have not yet reached minimum retirement age (50 for protective category employees and 55 for all other employment category employees) are eligible for a separation benefit from the WRS. Also, participants who began WRS covered employment after December 31, 1989 **AND** who terminated their WRS covered employment prior to April 24, 1998 must have WRS service in at least five calendar years in order to be eligible for a retirement annuity once reaching minimum retirement age. If this vesting requirement is not met, the participant is only eligible for a separation benefit. In order to be eligible for a separation benefit the individual must remain separated from all WRS employment throughout a period beginning with the WRS employment termination date and ending on the latest of the following dates:

- The 31<sup>st</sup> day after termination of all WRS employment.
- The 31<sup>st</sup> day after the date the Department receives the benefit application.

Upon payment of a separation benefit, the participant's account is closed and the individual has no further right, interest or claim to any benefit from the WRS. Upon taking a separation benefit, the participant forfeits the employer-required contributions and the associated accumulated interest. The separation payment to the participant consists of:

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- 1) Employee-required contributions, whether deducted from the employee's earnings or picked up by the employer;
- 2) Additional contributions; and
- 3) Accumulated interest on the employee required and additional contributions.

The following data provides information on the age, years of service, employment category, and payment amount for former WRS participants who received separation benefit payments in calendar year 2006.

Age Distribution

The age of participants who applied for and received separation benefits in calendar year 2006 ranged from a low of 19 years to a high of 71 years. The average age was 38.12 years and the median age was 37 years. As shown in the following chart, of the 3,406 separation benefits paid, 149 (or 4.37%) were paid to inactive participants who were over minimum retirement age and who were restricted to a separation benefit because they did not meet vesting requirements at the time they terminated WRS employment.

<b>Age of Participant</b>	<b>Number of Participants</b>	<b>Percent of Participants</b>
18 – 25	305	8.96
26 – 30	573	16.82
31 – 35	602	17.67
36 – 40	586	17.21
41 – 45	529	15.53
46 – 50	427	12.54
51 – 54	235	6.90
55+	149	4.37
<b>Totals</b>	<b>3406</b>	<b>100.0</b>

Years of Service

The years of service for participants who took a separation benefit in calendar year 2006 ranged from a low of 0.01 years to a high of 31.22 years. The average years of service was 3.27 years and the median was 2.02 years of service. As shown in the chart below, of the 3,406 separation benefits paid in calendar year 2006, 1,008 individuals (or 29.60%) had less than one year of creditable service and an additional 1,664 individuals (or 48.85%) had between one and five years of creditable service. In all, a total of 78.45% of the separation benefits were paid to participants with less than five years of creditable service.

<b>Years of Service</b>	<b>Number of Participants</b>	<b>Percent of Participants</b>
<1	1008	29.60
1 – 4.99	1664	48.85
5 – 9.99	529	15.53
10 – 14.99	147	4.32
15 – 19.99	45	1.32
20+	13	.38
<b>Totals</b>	<b>3406</b>	<b>100.0</b>

Employment Category

The following chart shows the WRS employment category, at time of employment termination, for those individuals who received a separation benefit in calendar year 2006. The participants in the general employment category (including teachers) comprised the majority of individuals taking separation benefits with 93.72% of the total.

<b>Employment Category</b>	<b>Number of Participants</b>	<b>Percent of Participants</b>
General	3192	93.72
Executive/Elected	6	0.18
Protective with Soc. Sec.	196	5.75
Protective without Soc. Sec.	12	0.35
<b>Totals</b>	<b>3406</b>	<b>100.0</b>

The chart below identifies the groups within the general employment category receiving separation benefits. Teachers made up 20.24% of the general employment category group, while education support personnel made up 14.94% of the total general category. The “other” group consists of non-teachers and non-educational support staff who terminated employment with State and local government employers.

<b>General Category Breakdown</b>	<b>Separation Population In General Category</b>	<b>Percent of General Category</b>	<b>Percent of Total Separation Payment Population (3406)</b>
Teacher	646	20.24	18.97
Educational Support	477	14.94	14.00
Other	2069	64.82	60.75
<b>Totals</b>	<b>3192</b>	<b>100.0</b>	<b>93.72</b>

Gross Payment

The following chart breaks down the separation payment “gross” amount (prior to required deductions such as federal tax withholding, child support liens, tax liens, benefit program overpayments, etc.) payable in 2006. Of the separation benefits paid in 2006, 81.65% had gross payments of less than \$10,000. The smallest amounts (from \$30.01 to \$79.76) primarily represent individuals who were inactive and who did not meet WRS vesting requirements. The highest gross amount in 2006 was \$181,001.78, while the lowest amount was \$30.01. The average gross amount was \$6,798.63. The total gross amount for 2006 separations was \$23,156,124.10.

Additionally, 10 individuals (or 0.29% of those receiving a separation benefit in 2006) had gross benefit amounts of over \$100,000. These 10 individuals ranged in age between 45 and 52 and had an average of 21.6 years of creditable service. There does not appear to be a pattern as to why separation benefits were taken in these cases. Participants applying for a separation benefit are not asked why they are withdrawing funds prior to minimum retirement age or what they intend to do with the separation payment. Even so, of the 10 individuals with the largest

separation payments, several volunteered information. Three requested to have the separation payments rolled over into other investment vehicles and three had financial hardships.

<b>Gross Benefit Amount</b>	<b>Number of Participants</b>	<b>Percent of Participants</b>
<\$10K	2781	81.65
\$10 – 20K	377	11.07
\$20 – 30K	120	3.52
\$30 – 40K	52	1.53
\$40 – 50K	23	0.68
\$50 – 100K	43	1.26
\$100K+	10	0.29
<b>Totals</b>	<b>3406</b>	<b>100.0</b>

#### Resource Information

If a participant requests an application for purposes of applying for a separation benefit and the participant is within one year of minimum retirement age, the Department contacts the member to ensure the participant has the information necessary to make an informed decision. The information provided includes an explanation of the negative consequences of taking a separation benefit such as forfeiture of the employer-required contributions and associated interest, federal tax consequences, and the loss of rights to previous law provisions should the individual return to WRS-covered employment. The Department then holds the separation benefit application for 30 days, giving the individual time to consider the consequences and make an informed decision.

In addition to the above contacts, the Department provides written and verbal information about the affects of taking a separation benefit, including the following:

- ◆ Inclusion in large group field presentations and small group counseling sessions
- ◆ Counseling to callers and walk-in customers by the Member Services staff
- ◆ Automated telephone messages
- ◆ The Separation Benefit booklet, ET-3101

Attached for the Board are pie charts to further illustrate the distribution characteristics described in this memorandum. Questions concerning this information may be directed to Jean Gilding at [jean.gilding@etf.state.wi.us](mailto:jean.gilding@etf.state.wi.us) or at 608-266-1210.

Attachments