



WRS Members Ask:

Is it better to retire at the end of the current year or at the beginning of the new year?

Every year, Wisconsin Retirement System (WRS) participants who plan to retire at the end of the year want to know whether their WRS annuity would be higher if their annuity begins just before the end of the year or at the beginning of the new year. **There is no simple or definitive “one size fits all” answer.**

Whether a late December or January 1 annuity effective date provides the higher annuity depends on your individual account history. The key factors that may affect which annuity begin date provides the highest WRS benefits for you include:

1. **Whether your annuity is higher under the Formula Calculation or the Money Purchase calculation.**
2. **You currently participate in the Variable Fund or participated in the past.**
3. **The Core Fund interest rate for the current year (and the Variable interest rate if you currently participate in the Variable Fund).**
4. **If you *currently* participate in the Variable Fund, how much of your account is in the Core Fund vs. Variable Fund?**

Here are some additional things to consider about your monthly annuity:

1. Your Core annuity cannot be decreased below the finalized initial amount. Your Core annuity can be *increased*, based on the Core Fund investment returns, and those increases can be *repealed* (through negative Core annuity adjustments) if there are poor Core Fund investment returns, but your Core annuity can never go below the initial amount. However, there is no limit to how much your Variable annuity can be decreased if there are multiple years with poor Variable Fund investment returns.
2. The Core annuity adjustment is prorated in the first year after you retire based on how many complete months your annuity was in force during the year in which it began. However, the Variable annuity adjustment is never prorated; you receive the full Variable annuity adjustment in the year after the year in which your annuity begins.



How do I find out which calculation method would produce a higher retirement annuity amount? See Section 10 of your most recent annual *Statement of Benefits* or use any of these tools to calculate your own benefit projections:

- Online calculators at <http://etf.wi.gov/calculator.htm>:
 - *WRS Retirement Benefits Calculator*
 - *Variable Excess/Deficiency Calculator*
- Worksheets in our *Calculating Your Retirement Benefits* brochure (ET-4107)
- View our online video, *Calculating Your Retirement Benefits*. Find it in the Video Library at <http://etf.wi.gov/webcasts.htm>.

You Currently Participate in the Core Fund only

If you have never participated in the Variable Fund, or you previously cancelled Variable participation and your Variable balance has already been transferred to the Core Fund, the volatility of the stock market will either have a lesser effect on the initial amount of your retirement annuity or no effect at all. Your entire annuity will be paid from the Core Fund, but whether your initial annuity will be higher if it begins before or after the end of the year will depend on your individual account history. The following facts may help you determine the best annuity effective date for you.

1. Your Formula Annuity Calculation is Higher

If you have never participated in the Variable Fund, beginning your annuity before the end of the year will not increase the initial amount of your annuity. Investment earnings have no effect on the initial amount of your retirement benefits; the longer you work the more service you will have, and the higher your annuity will be.

...but you previously participated in the Variable Fund.

If you previously participated in the Variable Fund, you have a “residual” Variable excess or deficiency that will be used to increase or decrease your formula annuity. If your annuity begins after the end of the current calendar year, this year’s current Core effective rate of interest will be applied to your current Variable excess or deficiency balance. If you have a residual excess, positive interest crediting will increase your Variable excess and the initial amount of your formula annuity. If you have a residual Variable deficiency, positive interest crediting would increase the amount of your Variable deficiency and decrease the initial amount of your formula annuity.

2. Your Money Purchase Annuity Calculation is Higher

If you currently participate in the Core Fund only and if your annuity is higher under the Money Purchase calculation and if the final current year Core Fund effective interest rate is less than 4.6%, it may be to your advantage to terminate



employment before December 31 and begin your annuity in December. If your annuity effective date is before the last day of the current year, your account balance is credited with prorated 5% interest for each full month on the year that elapsed before the month in which your annuity begins.

Example: If your annuity becomes effective in December, you will receive prorated 5% interest for eleven months, or 4.583%. Therefore, in any year in which the actual Core effective rate is less than 4.6%, eleven months of prorated 5% interest would be higher than the actual Core effective rate interest for that year. This would give you a higher account balance, which will in turn provide a higher initial benefit amount. How much higher would depend on the actual Core effective interest rate.

Eligibility — December annuity effective date

You must terminate WRS employment on or before December 30 to be eligible for a December annuity effective date. While the Department provides rough projections of the estimated Core effective rate each year, the actual Core effective interest rate will not be known for two or three months after the end of the year.

However, if you terminate employment in December and the actual Core effective rate is 4.6% or higher (i.e. higher than eleven months of prorated interest), you can change your annuity effective date to January 1 (and therefore receive effective rate interest) if ETF receives your written request to change your annuity effective date no later than 60 days after the date your first annuity payment is issued. Once the 60-day deadline is past, you are no longer eligible to change your annuity effective date. Contact ETF for more information about the best time to submit your retirement annuity application to preserve your flexibility.

You Currently Participate in both the Core and Variable Funds...

The above information describing Core Fund annuities applies to the Core portion of your benefits. The information regarding when you must terminate employment to have a December annuity effective date and the deadline for changing your annuity effective date is also applicable if you participate in the Variable Fund.

However, participating in the Variable Fund makes determining whether to begin your annuity in December or January significantly more complex. One key point is that you will be subject to the Variable Fund gains or losses for the current year, regardless of whether your annuity begins in December or January. You will either have the current year's Variable effective rate of interest applied to the Variable portion of your account, or the Variable annuity adjustment will be applied to the Variable portion of your annuity on next year's May 1 annuity payment. How the current year's Variable investment



returns will affect the amount of your WRS annuity will depend on whether your annuity begins in December or January, and on whether your annuity is higher under the Formula or Money Purchase calculation.

1. ...and your Formula Annuity Calculation is Higher

Your Variable excess or deficiency balance as of your annuity effective date will be used to increase or decrease your formula annuity. If your annuity begins in December, your Variable excess or deficiency as of the beginning of the current year will be used to adjust your annuity. That balance is available in Section 8 of this year's *Annual Statement of Benefits*, which you should have received from your employer in the spring.

However, if your annuity effective date is in January, at the end of the current year the Core and Variable portions of your account will be credited with the current year's Core and Variable effective rate interest. Once that occurs a new January 1 Variable excess/deficiency balance is calculated. Whether your Variable excess or deficiency will improve depends on whether the Variable effective rate for the current year is higher or lower than the Core effective rate. If the Variable rate is higher it will improve the Variable adjustment to your formula annuity, but if the Core rate is higher it will have a negative effect on the Variable adjustment.

2. ...and your Money Purchase Calculation is Higher

Depending on the Core and Variable effective rates for the current year, it may be to your advantage to terminate employment and begin your annuity in December. If your annuity is effective in December, both the Core and Variable portions of your account will be credited with eleven months of prorated 5% interest (4.583%). If the Core and Variable effective interest rates for the current year are higher than this prorated interest (i.e., a 4.6% or greater Core effective rate, and a 5% or greater Variable effective rate), this would give you a higher account balance. A higher account balance will provide a larger initial benefit amount. How much larger will depend on how high the actual Core and Variable effective rates are.

If the Core effective rate is higher than the 4.583% prorated interest but the Variable effective rate is lower than the prorated interest, or vice versa, whether a December or January effective date would provide a larger initial annuity amount would depend on the actual Core and Variable rates and how much of your account balance is in the Variable Fund. The initial amount of your annuity will be based on the total dollar balance of your account as of the annuity effective date, so the effective date that results in the highest interest crediting (and therefore the highest total account balance) would provide the largest annuity.



Detailed information about how participating in the Variable Fund affects your WRS retirement benefits is available in our brochure, *How Participation in the Variable Trust Affects Your WRS Benefits* (ET-4930). Find it at <http://etf.wi.gov/publications/et4930.pdf>. You may also refer to our online video, *WRS Trust Funds: Core and Variable*. Find it in our Video Library, <http://etf.wi.gov/webcasts.htm>.

Variable Cancellations

If you are interested in cancelling your Variable participation, detailed information on the effects of canceling Variable participation is provided with the *Canceling Variable Participation* form, available at <http://etf.wi.gov/publications/et2313.pdf>. If ETF receives your completed Variable cancellation form (page 9 of ET-2313) before December 31 of any year, you will still have the Variable gain or loss for that year applied to your Variable account or annuity.

New Video: *When Should I Retire?*

The Department's newest online video, *When Should I Retire?* provides another way to help you determine the best time of the year to retire. The program features a 10-minute introduction applicable to all WRS members and four 8-minute individual chapters — view the one based on your personal circumstances. A printable reference document is also available.

Other Resources

We encourage you to take advantage of the many resources available so that you can make informed decisions. These include the information provided in this document and the information on ETF's website. You may also contact our customer service specialists in person, by phone, e-mail or in writing.



Contact ETF

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Madison, Wis. 53707-7931

Wisconsin Relay Service (for speech and hearing impaired)

7-1-1 or
800-947-3529 (English)
800-833-7813 (Spanish)

E-mail ETF via the "contact
ETF" section of our website,
<http://etf.wi.gov>

ETF Self-Service Line

877-383-1888 or
(608) 266-2323
Request forms and brochures, report
home address changes, make tax with-
holding changes (retirees only).

ETF Message Center

800-991-5540 or
(608) 264-6633
Listen to pre-recorded telephone
messages on a variety of WRS topics.