Non-Annuitants - Thinking About Canceling Variable Participation?

What You Should Know

Deciding whether to remain in the Variable Fund is a personal decision, and should be based on such factors as how much of your account is in the Variable Fund, how long it will be before you retire, and your overall risk tolerance. The Department cannot advise you on the best course of action because we do not know your personal situation and, like you, we cannot predict future stock market performance. However, below is some information you should know when evaluating whether to remain in the Variable Fund.

Non-annuitants (non-retirees) have three options for canceling variable participation:

- 1. Cancel Future Contributions Only Your existing variable contributions remain in the Variable Fund and continue to earn variable rate interest, but all new contributions go into the Core Fund.
- **2.** Conditional Variable Cancellation New contributions go into the Core Fund, and your existing Variable balance transfers to the Core Fund when you are at least "breaking even" (when compared to what your account balance would be if you had never participated in the Variable Fund).
- 3. Unconditional Variable Cancellation New contributions go into the Core Fund and your existing variable balance transfers to the Core Fund, regardless of whether your account is "ahead" or "behind".

You can consult the following resources for more detailed information about your variable cancellation options; the *How Participation in the Variable Trust Affects Your WRS Benefits* brochure (ET-4930), and the online videos in the Departments video library at etc.wi.gov/webcasts.htm.

Things to Think About if You Are Considering Canceling Variable Participation

- A Variable cancellation cannot become effective until the January 1 after the Department receives your completed cancellation form. This means that Core and Variable effective rate interest will always be credited to your account for the year in which we receive your cancellation form. Exception: If you receive a lump benefit before the end of the year, the Variable effective interest rate will not be applied to your account. However, if you receive an annuity that has an effective date before the end of the year, the full variable annuity adjustment would be applied to the Variable portion of your annuity on the annuity payment issued on the following May 1. For example, if your annuity effective date is in 2008, the full variable annuity adjustment based on 2008 Variable Fund investment returns will be reflected on your May 1, 2009, annuity payment.
- If you cancel your variable participation, once your Variable account balance has transferred to the Core Fund you will have a "residual" Variable excess or deficiency recorded on your WRS account. This is a record of the amount that your account is "ahead" (Variable excess) or "behind" (Variable deficiency) as a result of your past Variable Fund participation. Your residual Variable excess or deficiency will subsequently be credited with Core Fund effective rate interest each year. This means that the amount of your excess or deficiency will grow to a larger amount each year after your Variable funds are transferred to the Core Fund. The more years it will be until you retire, the more that your excess or deficiency will have grown.
- The Variable excess or deficiency is used to adjust your formula retirement benefit. When you retire, your Variable excess or deficiency will either increase (Variable excess) or decrease (Variable deficiency) your formula benefit. This excess or deficiency is not applicable to your money purchase retirement benefit calculation, because the Core and Variable investment returns are already reflected in your money purchase balances. You receive the higher of the formula benefit (after the variable adjustment) or the money purchase calculation. For more information about formula and money purchase retirement benefit calculations you can consult the *Calculating Your Retirement Benefit* brochure (ET-4107) or the online videos in the Department's video library at etf.wi.gov/webcasts.htm.
- Conditional vs. Unconditional Cancellation If you unconditionally cancel Variable participation, and you
 are "behind" after the annual Core and Variable interest is credited to your account for the year in which
 ETF receives your unconditional cancellation, you will have a residual Variable deficiency that will grow

larger each year until your annuity begins. For example, if you file an unconditional cancellation in 2008 and have a variable deficiency after interest for 2008 is credited to your account (gains and/or losses) you will have a January 1, 2009, variable deficiency balance that will be increased each year until you retire. However, if you file a conditional cancellation, your variable monies will stay in the Variable Fund until you are at least "breaking even". Consequently, by filing a Conditional cancellation you can never end up with a residual variable deficiency in your account after your variable monies transfer to the Core Fund.

- A possible disadvantage of filing a conditional Variable cancellation is that if the Variable Fund were to
 continue to experience losses each year, your Variable deficiency may continue to grow larger and you
 might never meet the "break-even" condition. In this situation your variable funds would never transfer
 to the Core Fund unless you later file an "unconditional" variable cancellation. Since there are no
 guarantees of how the Variable Fund will perform, or any maximum amount by which your variable
 account balance can be reduced, continuing variable participation always presents the risk of further
 losses.
- Your variable excess/deficiency balance is only updated once a year, after annual interest is credited.
 To find out your current excess/deficiency balance, check in Section 8 of your last *Annual Statement of Benefits*. A Variable Excess/Deficiency Update Calculator is also available on our Internet site at etfonline.wi.gov/ETFCalculatorWeb/ExcDefCalcAnnualUpdateController that you can use to project your future excess/deficiency balance.

Retirees - Thinking About Canceling Variable Participation?

What You Should Know

Deciding whether to remain in the Variable Fund is a personal decision, and should be based on such factors as how much of your annuity is paid from the Variable Fund, your tolerance for risk and your personal financial situation. The Department cannot advise you on the best course of action because we don't know your personal situation and, like you, we cannot predict how the stock market will perform in the future. However, below is some information you should know when evaluating whether to remain in the Variable Fund.

Retirees have two options for canceling variable participation:

- 1. Conditional Variable Cancellation After the Variable annuity adjustment is applied to the Variable portion of your annuity on the May 1 after the year in which ETF receives your conditional Variable cancellation, we determine whether your new annuity amount is at least as much as it would be if you had never participated in the Variable Fund.
- 2. Unconditional Variable Cancellation After the Variable annuity adjustment is applied to your Variable annuity on May 1 after the year in which ETF receives your conditional Variable cancellation, your Variable annuity is transferred to the Core Fund. This transfer occurs regardless of whether your annuity is "ahead" or "behind" the amount it would be if you had never participated in the Variable Fund.

Note: As a retiree you can also file a "Future Contributions Only" variable cancellation. However, this would only apply to any new contributions you may make if you return to work for a WRS employer. Your variable annuity would remain in the Variable Fund, and you would continue to receive the annual variable annuity adjustments on that portion of your annuity.

You can consult the following resources for more detailed information about your variable cancellation options; the *How Participation in the Variable Trust Affects Your WRS Benefits* brochure (ET-4930), and the online videos in the Departments video library at etf-wi.gov/webcasts.htm.

Things to Think About if You Are Considering Canceling Variable Participation

 A Variable cancellation cannot become effective until the January 1 after the Department receives your completed cancellation form. This means that the Core and Variable annuity adjustments will always be applied to your annuity on May 1 after the year in which ETF receives your Variable cancellation form. • If you file a conditional Variable cancellation, your Variable annuity will not be transferred to the Core Fund until your annuity is at least as much as it would be if you had never participated in the Variable Fund. However, this does not mean that your Variable annuity will only transfer if it is at least as much as it was when you first retired. If you had a Variable excess when you retired, when your annuity began it was already higher due to your past Variable participation. If your Variable annuity has subsequently decreased, the amount of your annuity could be less than it was when your annuity first began and still meet the "break even" condition for transfer.

If you file a conditional variable cancellation, the Department will not be able to determine whether your annuity meets the "break even" condition for transfer until the Core and Variable annuity adjustment rates for the current year are available and the Department has applied these rates to your Core and Variable annuities. These calculations are normally done each March. For example, if you file a conditional variable cancellation in 2008, in March 2009 we will do the calculations to determine whether your variable annuity will transfer to the Core Fund after the May 1, 2009, annuity adjustments.

- If you file an unconditional Variable cancellation, after the Core and Variable annuity adjustments are applied to your annuity on the following May 1 annuity payment your Variable annuity will be transferred to the Core Fund regardless of whether you are "ahead" or "behind". For example, if you file an unconditional variable cancellation in 2008, after the May 1, 2009, core and variable annuity adjustments are applied to your annuity, your variable annuity will transfer to the Core Fund. If you file an unconditional Variable cancellation form with ETF during a year in which there are significant Variable Fund losses, you are basically "locking in" the annuity decrease that you will experience on the following May 1 because you will not be able to benefit from any rebound in the stock market.
- Because Core Fund investment results are smoothed over a five-year period, interest crediting and
 annuity adjustments will be lower than the actual investment results in years with high returns and
 higher than the actual investment results in years with very low returns. For example, the fact that there
 have been positive Core Fund investment returns during the past five years will help offset 2008 Core
 Fund losses. However, this smoothing also means that 2008 Core Fund losses will result in lower
 Core interest and annuity adjustment rates for the next four years, until the losses have been fully
 recognized.

If you unconditionally cancel your variable participation in a year with significant Variable and Core Fund losses, after the decrease in your annuity on the following May 1 payment your variable annuity will transfer to the Core Fund. After that, core annuity adjustments will always be applied to your entire annuity. It is important to recognize that since the Core Fund losses will result in lower Core annuity adjustment rates for five years, after your annuity transfers to the Core Fund **you could then receive low or even negative Core annuity adjustments on your entire annuity for several years** (depending on the Core Fund investment returns in those years). For example, if you unconditionally cancel variable participation in 2008, and there are significant Core and Variable Fund losses in 2008, your variable annuity would be significantly decreased on May 1, 2009, and you could then receive low or even negative core annuity adjustments in 2010 through 2013 as well.

- A possible disadvantage of filing a conditional Variable cancellation is that if the Variable Fund were to continue to experience losses each year, your Variable annuity would continue to decrease each year and you might never meet the "break-even" condition. In this situation your Variable annuity would never transfer to the Core Fund unless you later file an "unconditional" Variable cancellation.
- Minimum Core Annuity Amount Even if there are Core annuity decreases due to prolonged years of poor investment returns, your Core annuity can never be reduced below the finalized annuity amount you received at retirement. However, there is no limit to the amount that your Variable annuity can be decreased. If you cancel Variable participation and your Variable annuity is transferred to the Core Fund, the new minimum amount to which your annuity can be decreased is the combined total of the finalized amount of your Core annuity when it began, plus the amount of your Variable annuity at the time it transfers to the Core Fund.