

CHOOSING AN ANNUITY OPTION



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ETF has made every effort to ensure that this brochure is current and accurate. However, changes in the law or processes since the last revision to this brochure may mean that some details are not current. The most current version of this document can be found at etf.wi.gov. Please contact ETF if you have any questions about a particular topic in this brochure.

What is an Annuity?

An annuity is a Wisconsin Retirement System benefit paid monthly. There are different types of annuities available called annuity options. A person who receives monthly benefit payments is called an *annuitant*.

You have a choice of annuity options, unless your account is too small for a monthly benefit. Eligibility for a one-time lump sum payment versus a monthly payment depends on the amount of your annuity.

If your monthly annuity payment for the “For Annuitant’s Life Only” option is less than \$190 (for 2016), you are restricted to a lump sum payment.

If your annuity is at least \$190 (for 2016) but less than \$388, you may choose between a lump sum payment or a monthly option.

If your monthly annuity is \$388 (for 2016) or more, a lump sum payment is not available. These figures are adjusted annually. The option you select will determine the amount and whether death benefits will be payable after your death.

Members who are eligible for a monthly payment have three Life Annuity Options. They are:

- For Annuitant’s Life only;
- Life with 60 Payments Guaranteed; and
- Life with 180 Payments Guaranteed.

If you provided the Department of Employee Trust Funds with information regarding a qualified joint survivor, you have four Joint and Survivor Annuity Options.

They are:

- 75% Continued to Named Survivor;
- 100% Continued to Named Survivor;
- Reduced 25% on Death of Annuitant or Death of Named Survivor; and
- 100% Continued to Named Survivor with 180 Payments Guaranteed.

All monthly annuity options provide you with payments for the rest of your life. However, the options differ in what happens after you pass away.

There are three possible outcomes, depending on the option selected:

- The annuity stops and there is no death benefit payable to beneficiary(ies);
- Annuities payable for a guaranteed period are still in effect and the remaining payments will be made to a beneficiary;
- A joint and survivor annuity option was selected and, as long as the named survivor is living, they will receive benefits.

The amounts for joint and survivor annuities are calculated using rates based on the life expectancy of both you and your named survivor. Please contact ETF if your application has an incorrect date of birth for either of you, or to request a new application that includes joint and survivor estimates.

Annuity Option Selection

You select an annuity option at the time you apply for retirement benefits. A *Retirement Benefit Estimate and Application* (ET-4301) is sent upon your request, and contains estimates of your annuity payments under each of the available options. You should request your estimate at least 6 to 8 months—but no more than 12 months—before you plan to retire.

When choosing an annuity option, you should consider all of the assets in your estate such as life insurance, home, investments, savings, etc., to determine what type of survivor protection, if any, is needed.

A thorough understanding of the various options will assist you in making the selection that will best meet your needs. Contact ETF before completing your benefit application if you don’t understand all of the options.

Annuity Options: Life Annuities

The various annuity options differ in what happens after you pass away. This section explains the death benefits for the Life Annuity Options.

For Annuitant's Life Only (No Death Benefit)

- This option is payable to you for life.
- The monthly payment will terminate at your death.
- There is no death benefit payable to any beneficiary.

Life Annuity - With 60 Payments Guaranteed

- This option is payable to you for life.
- If you die before 60 monthly payments have been made, the remainder of the 60 monthly payments are paid to your beneficiary(ies).

Life Annuity - With 180 Payments Guaranteed

- This option is payable to you for life.
- If you die before 180 monthly payments have been made, the remainder of the 180 monthly payments are paid to your beneficiary(ies).

Annuity Options: Joint and Survivor Annuities

The various annuity options differ in what happens after you pass away. This section explains the death benefits for the Joint and Survivor Annuity options.

Joint and survivor options provide death benefits for one person who you choose as your named survivor. Your named survivor will receive a lifetime annuity if he or she survives you. You may choose a named survivor who is not your spouse if that person fits within the age limits specified for each option. If you did not specify a named survivor when you requested your retirement application, these options will be blank.

Your named survivor can be changed *only* if ETF receives your written request within 60 days after the date of your first payment.

Joint and survivor annuities are calculated using rates based on the life expectancy of both you and your named survivor. Please contact ETF immediately if your application has an incorrect date of birth for either of you or to request a new application, which includes joint and survivor estimates.

75% Continued to Named Survivor

- This option is payable to you for life.
- When you die, your named survivor will receive 75% of your monthly payment for the rest of his or her life.
- If your named survivor dies before you, all payments stop upon your death.
- If your named survivor dies within the first five years that you are receiving your annuity, your annuity increases to the "For Annuitant's Life Only" amount.
- You may not choose this option if your named survivor is more than 19 years younger than you and is not your spouse.

100% Continued to Named Survivor

- This option is payable to you for life.
- When you die, your named survivor will receive the same monthly payment that you did for the rest of his or her life.
- If your named survivor dies before you, all payments stop upon your death.
- If your named survivor dies within the first five years that you are receiving your annuity, your annuity increases to the "For Annuitant's Life Only" amount.

- You may not choose this option if your named survivor is more than 10 years younger than you and is not your spouse.

Reduced 25% on Death of Annuitant or Named Survivor

- This option is payable to you for life.
- When you or your named survivor dies, the remaining individual will receive 75% of the monthly amount for life.
- If your named survivor dies first and your annuity began on or after January 1, 2002, your monthly payment will reduce by 25% beginning with the payment for the month after your named survivor's death.
- You may not choose this option if your named survivor is more than 19 years younger than you and is not your spouse.

100% Continued to Named Survivor with 180 Payments Guaranteed

- This option is payable to you for life.
- When you die, your named survivor will receive the same monthly payment that you did for the rest of his or her life.
- If both you and your named survivor die before 180 payments have been made, the remainder of the 180 payments are made to your designated beneficiary(ies).
- You may not choose this option if your named survivor is more than 10 years younger than you and is not your spouse.

Annuity Options: Life Annuities with Accelerated Payments

The various annuity options differ in what happens after you pass away. This section explains annuities with an accelerated payment option and the death benefits associated with these payments.

Accelerated payments are intended to give you about the same income from your WRS annuity alone (prior to age 62) than what you may receive from the WRS and Social Security combined after age 62.

Accelerated payments are normally available if your retirement annuity begins before age 62 and your "For Annuitant's Life Only" after age 62 payment meets the annual monthly minimum requirement. The same annuity options are available, but they include an accelerated payment provision.

With an accelerated option, you would receive a temporary increase to your monthly WRS annuity payment until the month following the month you reach age 62.

For example, if you reach age 62 in December, your January 1 check would be the last one with the temporary portion of your benefit. At age 62, your WRS annuity payment would decrease because the temporary accelerated portion would end.

ETF has no connection with the Social Security Administration (SSA). However, when calculating the temporary accelerated portion of an annuity, ETF estimates Social Security payments based on tables assuming an entire career of employment (30 or more years) covered under Social Security. **This amount may be very different from your actual Social Security amount at age 62.**

To help limit a decrease in your total income at age 62, you can get an online Social Security estimate at ssa.gov and then submit this information to ETF when requesting your retirement estimate. ETF will use this information to calculate your accelerated payment options. **Caution: If your before-age-62 amount is increased based on a SSA Statement, your after-age-62 lifetime amount will be reduced. This means any death benefit on the lifetime portion will be lower.**

Even if ETF uses your estimate from the SSA to calculate your temporary accelerated payment, there may still be a significant difference between the amount of your temporary payment and your actual

Social Security payment beginning at age 62. The temporary portion of your annuity is subject to the same annual adjustments as the lifetime portion of your annuity.

These adjustments (either positive or negative) are based on investment returns of the WRS Trust Funds and may exceed the increases in Social Security benefits. Therefore, if your temporary accelerated payment ending at age 62 is greater than your beginning Social Security payment, your income will be less. Regardless of any change in the before and after age 62 amounts, your option can be changed only within the 60-day period as explained in the *Changing Options* section.

Your death benefits are impacted by when the accelerated payments began and which life annuity option you selected:

- If you die while receiving an accelerated payment option that began *before* July 1, 2008, the temporary accelerated portion of your annuity ends at death. Any death benefit available is based **only** on the after-age-62 portion of your annuity that may be payable to a beneficiary(ies) or named survivor.
- If you die while receiving an accelerated payment option that began *after* June 30, 2008, the temporary accelerated portion of your annuity is paid as a death benefit until you would have reached age 62. Any additional death benefits are based on the after-age-62 portion of your annuity that may be payable to a beneficiary(ies) or named survivor.

If you selected the Reduced 25% on Death of Annuitant or Named Survivor option, the after-age-62 amount (permanent portion) of your annuity will be reduced if your named survivor dies first. However, your temporary accelerated portion does not change if your named survivor dies before you reach age 62.

Before choosing an accelerated option, applicants approved for Social Security Disability Insurance or §40.65 Duty Disability benefits should carefully consider and understand how choosing an accelerated option will impact their total and taxable income before and after age 62.

Annuity Options: Life Annuities with Accelerated Payments (continued)

Special considerations for Alternate Payees:

An alternate payee is the former spouse or domestic partner of a WRS member who received a portion of the member's retirement benefits through a Qualified Domestic Relations Order (QDRO).

For an alternate payee, the amount of the Social Security benefit used to estimate the Accelerated Payment options uses the WRS member's earnings, not the alternate payee's. ***This assumed amount may be very different from the alternate payee's actual Social Security benefit at age 62.***

To help limit a potential decrease in total income at age 62, an alternate payee can get their own Social Security estimate online at ssa.gov and then submit this information to ETF when requesting a retirement estimate. ETF will then use this information to calculate the accelerated payment options. **Caution: If your before-age-62 amount is increased based on a SSA Statement, your after-age-62 lifetime amount will be reduced. This means any death benefit on the lifetime portion will be lower.**

ETF's Accelerated Payment Cost Calculator is available on our website at etf.wi.gov.

This calculator will help you determine if an Accelerated Payment Option is right for you. It allows you to enter data from your retirement benefit estimate and calculates your ***accelerated threshold***. The accelerated threshold is the point at which you begin to lose benefits as a result of choosing an Accelerated Payment Option. Essentially, the longer you live after age 62, the more it will "cost" you from your after-age-62 lifetime benefit.

Special considerations for Protective Category Members:

If you are a protective category employee not covered under Social Security (firefighter), but have other employment covered under Social Security, you may be eligible for the accelerated payment options. Please send ETF a copy of your Social Security statement if you want estimates for these options.

Your estimate from the SSA office will be more accurate if it includes their reduction for the Windfall Elimination Provision, which applies to people who receive a pension for employment that was not subject to Social Security. When we receive a copy of your SSA statement and your stop work age is within one year of the age on your WRS benefit begin date, we will use their estimated benefit to calculate your accelerated payment options.

Domestic Partnership

Under state law, same-sex and opposite-sex domestic partners are treated similarly to spouses for the benefit programs authorized in Chapter 40 of the state statutes. Chapter 40 benefit programs are administered by ETF, and include the Wisconsin Retirement System (WRS), group health insurance, deferred compensation, life insurance and other programs.

An *Affidavit of Domestic Partnership* form (ET-2371) **must be received and approved** by ETF to establish a Chapter 40 domestic partnership. Please see the domestic partnership information on ETF's Internet site at etf.wi.gov or call ETF to request the packet. When domestic partner is used in this brochure, it means a Chapter 40 domestic partnership is in effect at ETF.

Consent of Spouse or Domestic Partner

Depending on the option you select, your spouse may be required to sign your retirement application. Spousal consent is required on all annuity applications for required contributions if you select any option other than a joint and survivor option with your spouse as named survivor. Spousal consent is not required if you:

- select a joint and survivor option with your spouse as named survivor;
- are applying for an annuity from additional contributions only; or
- have been married to your spouse less than one full year immediately preceding your annuity effective date, or you are legally separated from your spouse on your annuity effective date.

If you have a Chapter 40 domestic partnership in effect at ETF for one year prior to your benefit effective date, your domestic partner's signature may be required on your application. Please see the Domestic Partner Benefits information on ETF's Internet site at etf.wi.gov or call ETF to request it.

Note: A spouse should not sign the spousal consent if he or she wants to preserve spousal rights to be a named survivor for a joint and survivor annuity option. This is also true for a domestic partner when any joint and survivor options are available and the domestic partnership has been in effect on ETF records for at least one year before your annuity effective date.

Changing Options

ETF must **receive** your request to change your annuity option within 60 days after the date of your first payment **or** the date your lump sum payment was issued, if applicable. Based on WRS regulations, you may be eligible for only a monthly option, only a lump sum option, or for either a monthly or lump sum option.

- If you are only eligible for a monthly annuity option, you can change from one monthly option to another monthly option.
- If you are eligible to choose either a monthly or lump sum option, you can request to change to or from a lump sum option.
 - From a monthly to lump sum option—unless you return the monthly payment(s) already issued, the amount paid will be deducted from your lump sum payment.
 - From lump sum to a monthly option—you must return the net lump sum payment (or the gross payment if your lump sum benefit was paid in the prior tax year). ETF cannot begin your monthly benefit until ETF receives your payment that refunds your entire lump sum benefit.

Your spouse's or domestic partner's signature may be required for an option change. You can use the *Retirement (ET-4319)* or *Disability Annuity Option Change Application (ET-5333)* form. The option you select on your original application cannot be changed if your acceptable request is not received by the deadline.

Since the period in which you can change your annuity option is short, it is especially important to carefully consider your annuity option selection **before** you apply.

Canceling Your Application

ETF must **receive** your written request to cancel your application no later than the last working day before the 21st of the month in which your first monthly benefit payment is dated.

To cancel your application for a lump sum payment, ETF must **receive** your written request to cancel no later than the last business day before the date of your lump sum check. If ETF approves your request to cancel your application, it becomes void and you must repay any payment issued. You must request and complete a new application when you wish to apply for a benefit.

Relative Value of Annuity Options

The monthly amounts vary for each option based on *potential* death benefits. The total amount required to fund the benefit is the same no matter which option is selected. If you choose an option that continues payments to a named survivor or a beneficiary, that higher death benefit is funded by reducing the monthly benefit. This means you give up some of your benefit to choose an option with potential death benefits. As the potential death benefit increases, your benefit decreases. It is important that you understand the options. The best option for you is the one that meets your individual needs.

The following table illustrates, for comparison purposes only, the differences in the amounts that would be payable under the various annuity options. The examples are based on a For Annuitant's Life Only option of \$1,000.

The amounts payable for accelerated options are shown in the chart below. This example is a general category employee age 60, with 30 years of service, a named survivor age 58, and an estimated Social Security benefit (temporary portion) of \$738 at age 62 based on final average monthly earnings of \$2,000. The \$738 is based on 2014 tables.

| | Example A | Example B | Example C |
|---|----------------|----------------|----------------|
| Annuitant's Age | 57 | 60 | 65 |
| Named Survivor's Age | 53 | 59 | 65 |
| Annuity Option Type | Monthly Amount | Monthly Amount | Monthly Amount |
| For Annuitant's Life Only | \$1,000 | \$1,000 | \$1,000 |
| Life Annuity with 60 Payments Guaranteed | \$997 | \$996 | \$995 |
| Life Annuity with 180 Payments Guaranteed | \$975 | \$967 | \$959 |
| *Joint and Survivor Annuity-75% Continued to Named Survivor | \$908 | \$911 | \$926 |
| *Joint and Survivor Annuity-100% Continued to Named Survivor | \$880 | \$885 | \$904 |
| *Joint and Survivor Annuity-Reduced 25% on Death of Annuitant or Named Survivor | \$924 | \$935 | \$964 |
| *Joint and Survivor Annuity-100% Continued to Named Survivor with 180 Payments Guaranteed | \$880 | \$884 | \$900 |

*The amounts for the joint and survivor options are based on the age of both the annuitant and the named survivor. Different age combinations produce different results.

| Accelerated Payments With These Annuity Options | Total WRS Payment Before Age 62 | Temporary Portion | WRS Payment After Age 62 - Life Annuity |
|---|---------------------------------|-------------------|---|
| For Annuitant's Life Only | \$1,653 | \$738 | \$915 |
| Life Annuity with 60 Payments Guaranteed | \$1,649 | \$738 | \$911 |
| Life Annuity with 180 Payments Guaranteed | \$1,623 | \$738 | \$885 |
| *Joint and Survivor Annuity-75% Continued to Named Survivor | \$1,567 | \$738 | \$829 |
| *Joint and Survivor Annuity-100% Continued to Named Survivor | \$1,542 | \$738 | \$804 |
| *Joint and Survivor Annuity-Reduced 25% on Death of Annuitant or Named Survivor | \$1,587 | \$738 | \$849 |
| *Joint and Survivor Annuity-100% Continued to Named Survivor with 180 Payments Guaranteed | \$1,540 | \$738 | \$802 |

*The amounts for the joint and survivor options are based on the age of both the annuitant and the named survivor.

Additional Contributions

Once all WRS-covered employment ends, you may apply for your employee additional contributions. You may take this benefit as one of the following:

- A lump sum payment.
- A life annuity. Annuity options are only available if your payment amount (for the *Annuitant's Life Only* option) meets the minimum monthly amount **or** if your annuity from additional contributions begins on the same date as your monthly annuity from required contributions. However, if the begin dates for these annuity payments are different, your additional life annuity must meet the minimum monthly amount on its own.
- An annuity certain. An annuity certain is paid monthly for a specified period with the following restrictions:
 1. Monthly payments must be a minimum of 24 months and maximum of 180 months.
 2. You must be receiving an annuity from your required account *or* be eligible to receive an annuity by meeting the minimum monthly amount *on its own*. An annuity certain amount must also meet the minimum monthly amount *on its own*.

To meet the minimum monthly amount for annuities beginning in 2016, the For Annuitant's Life Only option amount must be more than \$190. This amount changes annually.

If you die before the specified number of payments have been made from the annuity certain, your beneficiary(ies) will receive the remaining monthly payments.

The monthly amount as an annuity depends on the payment period you choose (24 to 180 months) and the amount of money in your additional contributions account. The following table shows the amount payable per month for each \$1,000 in an additional contributions account.

Additional lump sum payments and annuities certain paid over a period of fewer than 10 years are eligible for a direct rollover of the taxable portion of the payment. You must apply for the rollover when you apply for your benefit.

Additional contributions paid by your employer can be paid only as a life annuity, unless you are eligible for and choose a lump sum retirement benefit.

| Number of Months Paid | Monthly Amount Provided For Each \$1,000 | Number of Months Paid | Monthly Amount Provided For Each \$1,000 |
|-----------------------|--|-----------------------|--|
| 24 | \$43.82 | 108 | \$11.46 |
| 36 | \$29.92 | 120 | \$10.55 |
| 48 | \$22.98 | 132 | \$ 9.81 |
| 60 | \$18.82 | 144 | \$ 9.19 |
| 72 | \$16.05 | 156 | \$ 8.67 |
| 84 | \$14.08 | 168 | \$ 8.23 |
| 96 | \$12.61 | 180 | \$ 7.85 |

Examples

| Additional Accumulation | Number of Years Payable | Calculation | Monthly Amount |
|-------------------------|-------------------------|------------------|----------------|
| \$ 1,000 | 2 Yrs. (24 Payments) | \$43.82 x 1 | \$ 43.82 |
| \$ 5,000 | 15 Yrs. (180 Payments) | \$7.85 x 5 | \$ 39.25 |
| \$10,283 | 3 Yrs. (36 Payments) | \$29.92 x 10.283 | \$307.67 |
| \$10,283 | 15 Yrs. (180 Payments) | \$7.85 x 10.283 | \$ 80.72 |

Required Minimum Distribution

If you are no longer working under the WRS, you must receive a disbursement known as a required minimum distribution (RMD) each year beginning with the year in which you reach age 70½.

- ETF will notify you in the year you turn 69½ of your options to apply for your benefits, rollover your benefits to another qualified plan or to defer your benefits until March 1 of the calendar year you reach 71½.
- If you do not respond by December 31 of the year you reach 69½, ETF must make an automatic distribution of the entire account balance on or after the next January 1. This could result in a tax consequence, an effective date or type of payment that you do not want. It is important for you to contact ETF before an automatic distribution is required.
- If you do not take your RMD by April 1 in the year you turn 71½, or by December 31 of the year you end employment (if you continued working under the WRS after you reached age 70½), you may be required to pay a federal tax of 50% of the RMD amount that you should have received during that tax year.

If your covered WRS employment will end when you are 70½ or older, you should request your WRS annuity estimate up to one year in advance and begin your benefit during that year. Contact the IRS or your tax advisor for more information on the RMD.



Cover photo courtesy of the Wisconsin Department of Tourism.

Contact ETF

Visit us online at etf.wi.gov

Find Wisconsin Retirement System benefits information, forms and publications, benefit calculators, educational offerings, email and other online resources.

Call us toll free at 1-877-533-5020 or 608-266-3285 (local Madison)

Benefit specialists are available 7:00 a.m. to 5:00 p.m. (CST) Monday-Friday

Self-Service: Order forms and brochures, or change your address information
24 hours a day, 7 days a week.

Wisconsin Relay Service for hearing and speech impaired: 7-1-1
1-800-947-3529 (English), 1-800-833-7813 (Spanish)

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