

Trust Fund News

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Act 11 Update

Two Unions File Suit Against ETF Over Implementation of Act 11 Provision

The Milwaukee Teachers Education Association (MTEA) and the Wisconsin Education Association Council (WEAC) have filed legal action centering on the implementation of a single provision in 1999 Wisconsin Act 11, the pension and benefits law ruled constitutional by the Wisconsin Supreme Court last June. Other portions of the law significantly affected the retirement benefits of WRS members, including more than 110,000 WRS retirees and 256,000 active employees.

The provision for which the Department's implementation has been questioned is the one authorizing a \$200 million credit within the Employer Reserve. Under the law, an aggregate \$200 million in "credit balance" accounts was created for WRS employers. The credits gave employers a temporary "holiday" from making certain required payments into the system until their pro-rata share was exhausted.

The MTEA and WEAC filed suit in Dane County Circuit Court against the Department of

Employee Trust Funds (ETF), the ETF Board, and Department Secretary Eric Stanchfield over the way ETF is applying the credit for individual employers. After the Court lifted its injunction in June 2001, the Department implemented all parts of the *Two Unions* continued on page 2

New Look for *Trust Fund News*

Notice something different about *Trust Fund News*? We've made changes in design, format – and yes, even added color – all in an effort to make reading *TFN* a more pleasant and reader-friendly experience. You can still count on reading the latest news and information regarding your Wisconsin Retirement System benefits and programs. But, as space allows, we will also try to provide news and feature stories on related items of interest. Send a note and let us know what you think of our new look. We would be glad to hear from you.

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Implementation of Federal Pension Legislation Delayed

The September 2001 edition of *Trust Fund News* told you about significant changes to state and local government pension plans that resulted from the Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA). [See articles: "President Bush Signs Historic Federal Legislation Affecting Government Pension Plans" and "New Federal Legislation Brings Changes to Distribution Rules."] The Department of Employee Trust Funds anticipated that the effective date of these changes would be January 1, 2002.

As of the *Trust Fund News* press deadline (December 7, 2001), implementation of these important changes cannot occur. That is because legislation bringing Wisconsin statutes governing state income tax into conformance with federal Internal Revenue Code provisions as amended by EGTRRA has not been enacted into state law. The Department of Employee Trust Funds (ETF) is working with the Department of Revenue to determine when state laws might

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legislation retroactive to the effective dates in Act 11. The legislation required the Department to begin giving employers their credits no later than March 1, 2000. The MTEA/WEAC suit seeks a declaratory judgement ordering the ETF Board to apply the employer credit beginning **prospectively** after the Supreme Court lifted the injunction.

The MTEA/WEAC suit challenges the way ETF has administered the employer credits. It claims Act 11, by permitting employers to temporarily stop making contributions into the retirement system, makes money available that could be used to increase teacher compensation.

Pending Legislation of Interest to Active WRS Employees

At the request of the Department of Employee Trust Funds (ETF), two Wisconsin legislators introduced bills that would change the Wisconsin Retirement System (WRS) contribution rate structure. Assembly Bill 498 and Senate Bill 245, introduced by Representative Dan Vrakas and Senator Bob Wirsch, establish a **flat 5% employee required contribution rate for all employment categories** under the WRS. These bills would also eliminate the current requirement that increases or decreases in the contribution rate be split equally between the employer and the employee.

What does this mean for employees under the WRS?

If the bills become law, the change will protect the value of employee accounts and associated benefits by establishing a floor that would curtail the recent decline in employee death and separation benefits and employee money purchase retirement benefits. Over the past five years, benefits have been lost for all employee categories (except the "general" category) due to significant contribution rate decreases. That is because the death, separation, and money purchase retirement benefits under the WRS are based on employee contributions and interest

applied to the employee's account.

If employee contribution rates continue to fall, then those benefits will continue to lose value. The proposed bills will freeze employee contribution rates at 5%, while any annual increases or decreases would be applied to the employer required contribution rate.

Employers would still be permitted to pick up any portion of the employee required contributions.

Another component of the proposed legislation is the elimination of a special contribution rate created in 1984 called the Benefit Adjustment Contribution (BAC). This contribution is technically treated as an employer contribution — but it is paid by the employee unless the employer agrees to pay for it under a compensation plan agreement. Almost all participating WRS employers now pay this contribution on behalf of employees.

Remember: Employer contributions are not credited to employee accounts, so if employees pay this BAC contribution out of their paychecks, it is not credited to their retirement accounts. This situation adversely affects the employee account value and creates significant

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be amended in order to apply the EGTRRA provisions.

This will affect changes that were planned to begin in January 2002 in both the Wisconsin Retirement System (WRS) and the Wisconsin Deferred Compensation Program (WDC).

For the WRS, these changes included:

- the ability to roll over eligible WRS distributions to a Section 457 deferred compensation plan (such as the WDC) or a Section 403(b) tax sheltered annuity plan, and
- increased contribution and benefit limits, and

For the WDC, these changes included:

- increased contribution limits
- removed the coordination of contributions between

Section 403(b) and 457 plans to allow a participant to contribute the maximum contribution to each plan



- added flexibility at distributions to cancel payment date and option elections and amend the form of payment once distributions have begun
- the ability to roll over eligible WDC distributions to an individual retirement account, Section 403(b) plan or qualified retirement plan

Watch for further updates on this issue on the Department's Web site at etf.wi.gov or the WDC's Internet site at www.wdc457.org in the "What's New" sections.



State Employee Union Asks for U.S. Supreme Court Review of Act 11 Decision

The State Engineers' Association (SEA) has filed a *Petition for Writ of Certiorari* with the United States Supreme Court, focusing its complaint on the constitutionality of the 1999 Wisconsin Act 11 provision authorizing a \$200 million employer credit within the Employer Reserve.

In its filing with the U.S. Supreme Court, the SEA raises questions centering on whether the assets and earnings of the WRS are the "private

property" of WRS members and if the provision allowing the \$200 employer credit violates protections under the U.S. constitution. Shortly after the Wisconsin Supreme Court ruled Act 11 constitutional last June, SEA filed a motion for reconsideration, but that was rejected.

As of the *Trust Fund News* press deadline, the Court had not decided whether to take the SEA case. Watch for an update in the May issue of *Trust Fund News* or monitor the Department's Internet site for further developments.

Act 11 Implementation Update

Backlog Gets Top Priority; Variable Contributions Deposited

The Department continues to work on the backlog of benefit recalculations brought about by 1999 Wisconsin Act 11. There are over 23,000 retirement benefit adjustments that must be calculated individually and manually; most of these are complex and labor-intensive.

ETF staff work concurrently on all types of benefit adjustments, with the aforementioned adjustments given the highest priority. We have hired extra staff to expedite the process. Even with additional help, however, we expect that it will take until late next year before all of this work is completed.

We are also working on implementing other Act

11 provisions, such as the reopening of the Variable Trust Fund. If you elected to participate in the Variable, 50% of your contributions reported after your variable participation effective date will be deposited in the Variable. **Your Variable contributions for 2001 will be reflected on your January 1, 2002 annual *Statement of Benefits***, which will be distributed next spring.

Please remember that your contributions for 2001 do not receive interest until the end of 2002, so your 2001 Variable contributions will not be credited with Variable interest until December 31, 2002.

Department to Mail Important Tax Forms

The Department will mail annuitant *1099-R* forms for 2001 to annuitant home addresses during the first week of January. Annuitants need this form when filing income tax returns for 2001. The *1099-R* includes information such as the total and taxable amounts of your annuity for the past year, the unrecovered balance of your Investment In Contract (the portion of your retirement account that was actually paid by you from after-tax dollars), and the amounts of federal and state tax withheld.

If you selected an "Accelerated Payment" option that pays a higher benefit before you reach age 62 and you were under age 62 in 2001, you will

receive two separate forms.

One is for the temporary portion of your account that is paid until you reach age 62 and one is for the permanent payment which continues after reaching age 62. These will be in separate envelopes and, depending on postal delivery, may arrive on separate days. The combined amounts on these two *1099-R* forms equal the total that you received in payments from the Wisconsin Retirement System (WRS) in 2001. If you do not receive your *1099-R* by January 31, or if it is lost or destroyed, please contact the Department for a replacement *1099-R*.



Tax Forms continued on page 4

Active Employees: 1999 Wisconsin Act 11 Increased Benefits Payable to Your Beneficiaries

Before Act 11, if you died as an active employee prior to reaching age 55, under the Wisconsin Retirement System (WRS), the death benefit normally consisted of your employee contribution balance only; employer contributions were not included. However, Act 11 has increased the "active" death benefit to include a matching amount of employer contributions. This means that for most active participants, the death benefit now payable is double the amount that would have been payable before Act 11. The minimum current death benefit amount is shown on your annual *Statement of Benefits*.

Your goal may be to provide a certain total amount payable to your beneficiaries upon your death, including life insurance and the death benefit from your WRS account. If this is the case, and because your WRS death benefit as an active employee is now higher, you will need less life insurance coverage to reach your target amount. Carefully consider the consequences before canceling any portion of your life insurance. Once cancelled you may not be able to re-enroll for the cancelled portion, or if you are eligible to re-enroll, you must provide evidence of insurability.

There are no restrictions on who can be named as your beneficiary to receive the higher active death benefit under Act 11. Any beneficiary can receive this benefit. Under WRS law, your death benefit must be paid according to the last beneficiary designation you filed with the *Department*. It is extremely important that you keep your beneficiary designation up to date, because your most recent designation will control who receives your death benefit upon your death regardless of any changes in your personal situation since you filed the designation (e.g., marriage, divorce, etc.).

When you file a new beneficiary designation form it replaces any old designation on file. The new designation also provides us with current information about your beneficiaries that will help us locate them upon your death. If you have never filed a designation form, or if you designated "standard sequence" on your most recent form on file, your death benefits will be paid according to statutory standard sequence (spouse, children, grandchildren, parents, siblings, estate).

Pending Legislation continued from page 2

confusion for both employees and employers.

The BAC was originally established as a contribution of 1% of gross earnings, subject to annual actuarial adjustments. Since contribution rates have fallen dramatically over the past five years, the BAC has been zero for all categories of WRS employees except "general" employees, whose rate has been reduced to 0.2%. The proposed legislation would eliminate the BAC for all employee categories and include the current 0.2% BAC in the employer contribution rate.

Note: The WRS consulting actuary has proposed making such contribution rate changes in recent reports, as has the independent actuary hired by the Legislative Audit Bureau. In addition, the Joint Survey Committee on Retirement Systems held a public hearing on AB 498 and SB 245 proposed legislation last October and passed them as good public policy.

Again, the changes proposed in these bills will not increase the total contribution rate for any category of employees; they simply reallocate the rates between the employer and employee rates.

Tax forms continued from page 3

This year the *1099-R* form has changed from a 3-ply to a single sheet with three separately printed forms on the single sheet. The single sheet will be perforated and folded at the perforations. **The single page must be divided into three separate forms by detaching at the perforation marks so that one form can be filed with the federal tax return, one with the state tax return and one kept with your tax records.**

Information provided in previous years that listed the amount of the annuity paid from additional contributions, required contributions and tax deferred contributions, and insurance

premiums paid will no longer appear on the bottom of the *1099-R*. This information is not required by the Internal Revenue Service and was deleted to allow the single page format. In addition, a control code will appear just above the annuitant's name that will be used to assure that only one *1099-R* will be inserted in an envelope.

There will also be an entry in the account number field of the *1099-R* to distinguish multiple annuity records on an annuitant's account, if applicable.



Forfeited Service Calculator Now Available On-Line

If you left WRS service in the past and forfeited service by taking a separation benefit, and later returned to WRS-covered employment, this article is for you. A new calculator on the ETF Internet site, etf.wi.gov, provides easy and immediate access to estimate the cost to buy WRS forfeited service.

Buying forfeited creditable service increases your total WRS creditable service, which can result in higher retirement benefits. The maximum service you can buy is the lesser of: the years of service you forfeited; the number of years of service you have accrued since returning to covered WRS employment; or 10 years.

The cost to purchase forfeited service is based on your highest annual earnings for fiscal years (teachers, educational support personnel and judges) or calendar

years (all others) completed at the time you apply. The cost increases proportionately as your annual earnings increase.

Forfeited Service Purchase Eligibility Requirements

- Only active WRS participants may buy WRS forfeited service;
- You must have been back to work under the WRS for at least three full years (fiscal years for teachers, judges and educational support personnel, calendar years for all other employment categories); and,
- You must purchase all of the years of forfeited service you are eligible to buy at one time; you cannot purchase less than the full amount.

To use the forfeited service cost estimate calculator, enter your personal data and the amount of service you wish to purchase. The calculator will compute and display the estimated cost to purchase forfeited service.

Annual Statement of Benefits Expected in May



The annual *Statement of Benefits* mailing is back on its regular distribution schedule. Actively employed and inactive Wisconsin Retirement System (WRS) members can expect to receive their *Statement* for calendar year 2001 by mid-May, 2002. The Department mails *Statements* directly to inactive members. Active members receive *Statements* through their employers. The distribution process normally takes place in May, but was delayed in 2001 (to September), due to the Act 11 decision.

Statements reflect changes in your active and inactive member accounts that occurred in calendar year 2001, including interest credits, service credits, Final Average Earning changes and other account activity. Active employees: If you elected to participate in the Variable Trust Fund during calendar year 2000, your *Statement* will reflect your Variable Fund contributions in 2001.

WRS annuitants do not receive a *Statement of Benefits*. It is produced only for actively employed and inactive WRS members (those who left WRS employment but have not yet taken a benefit).

Many members who participate in the Variable Trust Fund ask us how we calculate interest on the Variable portion of their retirement accounts. The accompanying chart illustrates the calculation for

an actively employed member in the general employment category who has an annual salary of \$30,000 and elected to enroll in the Variable effective January 1, 2001.

Sample Variable Contribution Interest Credit Calculation

\$0.00	=	Employee's Jan. 1, 2001 Variable Fund contribution account balance (based on 5% contribution rate with 50% allocated to the Variable)
\$750.00	=	Employee contributions to the Variable during 2001 (one-half of 5% x \$30,000)
\$750.00	=	January 1, 2002 Variable Fund employee contribution balance
-10%	=	Variable Fund investment experience in 2002 (estimate for illustration purposes only)
\$675	=	Employee Variable Fund contribution balance on January 1, 2003 (\$750 x -10%)

BOARD CORNER

Second Call for Nominations in Teachers Retirement Board Election

The Department has issued a second call for nominations in the spring 2001 Teachers Retirement Board (TR Board) election. Two positions are up for election, as the terms of current Board members Dorothy Vogel and Laurie Bickel expire in May. Wisconsin elementary and secondary school teachers outside of the Milwaukee School District who are interested in running for seats on the TR Board may request nomination papers. Completed nomination papers must be returned to

ETF by 4:30 p.m. on Friday, February 22, 2002. Voting will take place in early April. The two winners will serve five-year terms beginning May 2002.

To request nomination papers, contact the Board Election Coordinator, Department of Employee Trust Funds, P.O. Box 7931, Madison, WI 53707-7931. Phone (608) 267-2862. To send an e-mail to the Board Election Coordinator, visit our Internet site: etf.wi.gov.

Long-Term Care Insurance Options Available to State Employees and Annuitants

This article is the Department's annual reminder to eligible members about Long-Term Care (LTC) insurance, which is available to state employees, annuitants, their spouses and parents. LTC insurance typically pays for services that have very limited benefits or no coverage under your group health insurance plan. Some of these include long-term home health care, assisted living, community based (adult day care) and nursing home care. LTC coverage is optional and premiums are paid by the policyholder. There are no employer contributions. All policies are individual policies, not group insurance, and the contract is issued directly to the insured.

Beginning in January 2002, the Group Insurance Board and the Department of Employee Trust Funds will have three insurers

through two marketing agencies approved to offer LTC insurance to state participants. The newest policy is the Banker's United Life Assurance Company's Golden Care plan, available through Health Choice. This plan offers different payment options, including a single premium payment option and a ten-year premium option.

The other policies available are: John Hancock Advantage Gold through the Senior Care agency; Fortis/John Hancock series 7063 through Health Choice; American International Group (AIG) TLC II through Jack Schroeder & Associates.

Note to state retirees that are age 66 years or older and covered under the Minnesota Life Insurance Company plan through ETF: You are eligible to convert life insurance to pay long-term care premiums. Contact ETF toll free at 1-877-533-5020 to request the booklet, *Converting Your Group Life Insurance to Pay Health or Long-Term Care Insurance Premiums*.

Long Term Care Insurers and Marketing Agents:

Senior Care Insurance Services
(underwritten by John Hancock Life Insurance Company)
Toll free 1-877-578-8400
Madison (608) 273-3443

HealthChoice
(offers two policies; one underwritten by Fortis Benefits and John Hancock Life Insurance Company and the other by Banker's United Life Assurance Company)
Toll free 1-800-833-5823
Madison (608) 833-5823
www.healthchoice.com

RETIRES CORNER

Editorial policy statement: Trust Fund News will periodically run brief announcements submitted by and about retiree organizations. Publication is subject to space availability and made on a first-come, first-served basis. Trust Fund News does not guarantee publication of any particular submission.

The Wisconsin Coalition of Annuity (WCOA) annual conference is set for Tuesday, May 7, 2002 at the American Family Insurance national headquarters, located on American Family Drive in Madison.

The Coalition includes 20 organizations with both active and retired participants in the Wisconsin

Retirement System (WRS). The organization monitors legislative and administrative activity affecting the WRS in order to preserve the fiscal and administrative integrity of the system. All retirees are encouraged to join any of the Coalition's organizations.

For a list of member organizations and more information about the Coalition and the conference, contact: WCOA, 318 Karen Court, Madison, WI 53705. Phone: (608) 233-6737.

ETF Sets Schedule for Spring Public Benefit Presentations

The Department has scheduled free, public presentations for Wisconsin Retirement System (WRS) participants, especially those considering or planning retirement in the near future. ETF specialists will discuss pension and benefit changes brought by Wisconsin Act 11, in addition to WRS retirement, disability, death, and separation benefits and health and life insurance. The presentations run from 7 to 9 p.m. All locations are handicapped accessible with adequate free parking. Reservations are not required. If weather should become severe, please listen to local radio stations for possible cancellations.

Retirement Workshop Schedule

<u>City/Area</u>	<u>Date</u>	<u>Location</u>
Appleton	March 6	Fox Valley Technical College-Cafeteria 825 N. Bluemound Dr., Appleton
Cleveland	April 1	Lakeshore Technical College-Multipurpose Room 1290 North Ave., Cleveland
Madison	March 25	MATC Truax Campus-Mitby Theatre, 3550 Anderson St., Madison; Free parking in Student Parking area west of Wright Street
Milwaukee	February 21	Milwaukee Area Technical College-Auditorium 700 West State, Milwaukee
Platteville	February 18	Ullsvick Center-Beaux Arts Room Corner of Hickory & Main, Platteville
Rice Lake	March 20	WITC Rice Lake -- Conference Center Room 241 1900 College Drive, Rice Lake
Tomah	March 12	Tomah Senior High School-Cafeteria 901 Lincoln Ave., Tomah
Wausau	March 5	J. Muir Middle School 1400 W. Stewart., Wausau
Whitewater	April 4	UW-Whitewater-Roseman Auditorium (Park in Lot 7 off Starin Rd. Enter Pedestrian Mall door at the north end of the building) (No parking permit needed for this event)
Wisconsin Rapids	March 5	West Junior High- Auditorium, 1921 27th Ave. South, Wisconsin Rapids



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FORWARDING SERVICE REQUESTED

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(414) 227-4294

Send an e-mail

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Toll-Free Self-Service Line:

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Request ETF forms and brochures; Report home address changes or make tax withholding changes (annuitants only)

Write Us:

ETF, PO Box 7931, Madison, WI 53707-7931.
Include your Social Security Number (SSN) with all correspondence. Retirees wanting to change mailing addresses should contact Payment Services at the address above. Include SSN, signature, and old and new addresses.

The Department of Employee Trust Funds does not discriminate on the basis of disability in the provision of programs, services, or employment. If you are speech, hearing, or visually impaired and need assistance, call 1-877-533-5020; (608)266-3285 (local Madison) or TTY (608)267-0676. We will try to find another way to provide you with usable information.