Wisconsin Retirement System

Trust Fund News

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INSIDE

State Law Now Allows Direct Plan-to-Plan Transfers to Buy WRS Service

Wisconsin law was recently changed to allow the Department to accept direct transfers of money from certain qualified retirement plans if the money is transferred to buy eligible Wisconsin Retirement System (WRS) creditable service. This change conforms Wisconsin law to changes in federal law that became effective in 2002.

If you have monies in another qualified retirement plan, you may be eligible to directly transfer those funds to the WRS to buy creditable service. You will not have an immediate tax liability on the monies transferred for this purpose.

There are several criteria that you must meet to take advantage of this provision:

· The funds must be transferred from a retirement plan qualified under sections 401(a), 401(k), 403(b) or 457(b) of the Internal Revenue Code (IRC).

· The plan from which you wish to transfer funds must agree to the transfer.

· There must be service that you are eligible to buy, such as your six-month qualifying period (if you began non-teaching employment before 1973), years of service forfeited through a separation benefit, or other governmental service eligible for purchase.

· Only pre-tax monies can be transferred directly from the other qualified retirement plan(s).

· You can only buy service while you are still employed in a position covered under the WRS.

The new law also permits you to use any tax-deferred additional contributions you have made to your (WRS) account* to buy creditable service. Your WRS employer is considered the plan administrator for WRS tax-deferred contributions, and therefore must con-

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Annuitant Questions About Variable Cancellations and Annual Annuity Adjustments

The Department continues to receive questions from annuitants about the effects of canceling variable participation and about annuity adjustments they may receive in the future. Following are answers to some of the more commonly asked questions:

When should I file a variable cancellation and when does it take effect? Your variable cancellation becomes effective on the January 1 after the Department receives it, regardless of when we receive it during the year. You will receive the variable increase (or decrease) based on the variable fund investment returns for the year in which the Department receives your variable cancellation form. For example, if you file a variable cancellation form in 2003, you will still receive the variable annuity increase (or decrease) on your May 1, 2004 annuity payment (based on the variable investment returns from 2003).

Is there a way to make sure that I don't get out of the variable fund with a loss? Yes - you can file a "conditional" variable cancellation, which means that you remain in the variable until you are at least "breaking even." Once the next year's variable adjustment is made to your annuity (based on the investment returns for the year in which you filed the cancellation form), your annuity is then evaluated to determine whether or not you are "ahead" (your annuity is larger than it would be if you had never participated in the variable fund). If your annuity is equal to or greater than the amount it would be if you had never participated in the variable fund, your vari-

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able annuity will then be transferred to the fixed fund. In the future your entire annuity would receive the fixed fund annuity adjustments.

However, if your annuity is "behind" (your annuity is less than it would be if you had never participated in the variable fund), your variable annuity remains invested in the variable fund for another year. Once the next year's variable adjustment is applied to your variable annuity, the same comparison is made to see if your annuity is "ahead" or "behind." Your variable annuity will remain in the variable fund until you are at least "breaking even."

More detailed information about the types of variable cancellations is available on the Department's Web site at http://etf.wi.gov.

What is the deadline for filing a variable cancellation in 2003? To become effective on January 1, 2004, the Department must receive your variable cancellation no later than January 2, 2004.

What if I file a variable cancellation form in 2003, and later change my mind? If you decide that you want to remain in the variable fund, you can rescind your variable cancellation if the Department receives your **written** request to rescind no later than January 2, 2004.

If you still want to cancel your variable participation, but want to change from one type of cancellation to another (e.g. you want to change from a conditional to an unconditional cancellation or vice versa), you can file a new variable cancellation form. If the Department receives your new cancellation form by January 2, 2004, it will override the cancellation form that you submitted in 2003. However, once the January 2, 2004, deadline has passed, the cancellation form received in 2003 can no longer be rescinded, and the cancellation will become effective on January 1, 2004.

There has never been a decrease in fixed annuities, even after three consecutive years of fixed fund. Yet a May 2003 *Trust Fund News* article stated we are likely to have fixed annuity decreases in 2005, 2006 and 2007, even if the even if the State of Wisconsin Investment Board (SWIB) reports fixed fund earnings of exactly 8% for each of the next few years. Why? Unlike the variable investment returns, fixed fund investment returns are "smoothed" over a five-year period. Each year's fixed effective and annuity adjustment rates are actually based on investment returns for the five years prior. This makes the rates less volatile, but also means that part of each year's gains and losses are carried several years forward into the future.

Unfortunately, when there have been several years of losses in the five-year period (such as the losses experienced during the last three years), even investment gains of 8% in the next few years would not be enough to offset the effects of the previous years of losses.

The chart below shows the fixed effective and annuity adjustment rates since 2000, and projects what the annual fixed annuity adjustments **might be** if the fixed fund earns 8% each year from 2003 through 2008. This projection is for illustration purposes only; different investment returns in the next five years will produce different rates.

Recent and Projected Future Fixed Fund Rates

	2000*	2001*	2002*	2003*	2004*	2005	2006	2007	2008
SWIB's Investment Returns	-.8%	-2.3%	-8.8%	8.0%	8.0%	8.0%	8.0%	8.0%	8.0%
Fixed Effective Interest Rates	10.9%	8.4%	5.0%	4.8%	4.7%	2.4%	4.3%	7.6%	7.9%
Fixed Annuity Dividend Rates**	5.7%	3.3%	0.0%	0.0%	-0.5%	-2.5%	-0.6%	2.5%	2.8%

*The remainder of the December 31, 1999, TAA balance (after the $4 billion transfer under 1999 Wis. Act 11) was divided into equal amounts and are being added to SWIB's investment returns for each year from 2000 through 2004. After 2004 the rates will only be based on the investment returns, which will be "smoothed" through the Market Recognition Account.

** The annuity dividend rates are shown in the year in which the investment gains or losses were recognized; the dividend will actually be paid in the following year. For example, the 3.3% dividend shown in 2001 was actually applied to monthly annuities on the May 1, 2002, payment.

What You Should Consider When Deciding to Retire

Participants often ask us about optimum retirement dates. Is it best to wait until after the first of the year? Would a later date or an upswing in the investment markets make a bigger difference in terms of annuity payment amount? There are many factors to consider when deciding what date would be to your advantage. While your Wisconsin Retirement System (WRS) retirement benefit will generally be higher the longer you continue to work, once you have made the decision to retire, you should choose a date that will help maximize your benefit amount.

Money purchase and formula benefits

WRS benefits are calculated under two separate methods: the formula method and the money purchase method. You do not need to decide which method is best for you when you apply for retirement. The Department of Employee Trust Funds (DETF) calculates your benefit both ways and automatically pays the higher amount.

Your **money purchase** monthly retirement benefit is calculated by multiplying the employee and matching employer deposits in your account (shown on your annual *Statement of Benefits*) by an actuarial money purchase factor based on your age when the annuity begins. This total amount is used to "purchase" your retirement benefit. If you participated in the Variable Fund, your variable experience is directly included in the money purchase calculation. There is no variable excess/deficiency as is used in a formula benefit.

If your retirement benefit will be higher under the money purchase calculation, then your benefit will gradually increase the longer you continue to work. Your WRS account receives effective rate interest crediting each year and the actuarial age factor decreases because of the shorter expected payout of your benefit. **One way to maximize your money purchase benefit, if you are certain that investment earnings are positive, is to wait to retire until after the end of a calendar year.** Your benefit would then be based on a higher money purchase balance because it would receive interest for the prior year.

However, if you decide to retire during a calendar year, your account balances (fixed and variable) receive pro-rated 5% interest, based on the number of full months elapsed in that year before your annuity begins. Example: If you retired on June 15, 2003, you would receive five-twelfths of 5%, or 2.1%, interest credited on your January 1, 2003 balances.

The Department calculates **formula benefits** by multiplying the following**:**

- Your final average earnings
- Your years of creditable service
- The formula multiplier based on your employment category
- Your age at the time of retirement

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Required Contribution Rates to Increase Next Year

The Employee Trust Funds (ETF) Board approved raising 2004 required contribution rates for nearly all employee groups, except for the Elected/Executive group. Rates for "general" category employees will **increase by .4%** of payroll next year; rates for protective category employees **without** Social Security will increase by 1.6%. Rates for protective category employees **with** Social Security will rise 1%; rates for executives and elected officials remain the same as 2003.

The rate increases, which go into effect for salaries and wages beginning January 1, 2004, are primarily due to lower than expected investment returns over the last three years and the effects of 1999 Wisconsin Act 11. Annual rate changes are considered normal for retirement systems that pre-fund benefits. Annuity benefits are not affected by these rate changes.

How does this affect active employees? Employers factor contribution rates into their annual operating budgets. They pay the "employer required" contributions and most of them, through collective bargaining or compensation agreements, elect to pay all or part of the employee contributions. State law requires that all contribution rate increases be shared equally between the employee and employer contribution rates. However, most employers currently pay the employer **and** the employee required contributions. Therefore, **any** change in contribution rates, whether increases or decreases, directly impact your employer — which in turn can affect you.

Will rates increase again next year? The Department expected higher contribution rates for 2004 (because of the investment markets) and believes rates will increase again in 2005. While raising contribution rates alone will not offset investment losses experienced over the last three years, increased employer and employee costs are a direct consequence. The system is designed so that over the long term, contribution rates remain fairly stable, and we expect the investment markets to return to historical norms.

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sent to the "transfer" of those contributions to buy WRS service. If you elect to pay a portion of the cost of purchasing service by a plan-to-plan transfer from another qualified plan, you must pay at least 10% of the total cost with your application before your WRS employment termination date. If you request an estimate and application to buy creditable service, the Department will provide detailed information with your application about how to pay for service using a plan-to-plan transfer. * *Only employees of certain Wisconsin educational institutions can make tax-deferred contributions to their WRS account under section 403(b) of the IRC.*

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If your last year of earnings would be one of your three high years and you know you will retire with a formula annuity, it will be to your advantage to **work through your final year to maximize the FAE used to calculate your formula benefit**. If you are a teacher, judge, or an educational support personnel employee, your FAE is based on your fiscal year earnings (July 1 to June 30).

Maximum Formula Benefit

There is a maximum monthly formula benefit. The amount you can receive depends on whether you were actively employed after 1999:

- If you were actively employed after 1999, your maximum monthly formula benefit is limited to 70% of your final average earnings for all employment categories except if you have employment in a protective category. The maximum formula benefit is 65% of final average earnings for protective category employees covered under Social Security (police) and 85% for protective employees not covered under Social Security (firefighters).

- If you were not actively employed after 1999, the maximum monthly formula benefit you can receive is limited to 65% of your final average earnings. If you were a protective employee not covered by Social Security (firefighters), your benefit maximum is 85% of your final average earnings.

The maximum monthly benefit limitation for your employment category is applied before any variable adjustment is made to your annuity if you participate in the variable program. **The maximum benefit limit does not apply to money purchase benefits.** Therefore, even though your formula benefit may get reduced, if your money purchase annuity is higher than your reduced formula annuity, you would receive the higher money purchase benefit.

Life Insurance

If you have life insurance coverage through the Wisconsin Public Employers Group Life Insurance Program, the amount of coverage after you retire is based on your **calendar year** earnings, regardless of whether your retirement benefit calculation is based on a calendar or fiscal year. Your termination date must be after the end of a calendar year for your earnings — for the year just ended — to be used to determine the amount of your life insurance coverage. Therefore**, if your last calendar year of earnings will be your highest year and you wish to maximize your life insurance benefits, your termination date would have to be in January or later to maximize the amount of your post-retirement life insurance coverage.** If you are eligible to continue life insurance coverage after retirement, you must pay premiums until age 65. At age 65 no further premiums are required, and the amount of basic coverage is adjusted to 75%; while 66, the amount drops to 50. For retirees of some local employers, the coverage will drop to 25% at age 67.

When should I contact ETF about my retirement? Contact us for retirement estimates 6 to 12 months before your anticipated retirement date. We will provide benefit estimates up to one year in advance. Retirement applications may be submitted no earlier than 90 days before your employment termination date.

Dual-Choice Enrollment Period October 6-24

The Dual-Choice health insurance enrollment period for 2004 is set for October 6-24, 2003. **Significant changes have been made to the program for 2004. If you participate in the program, it is imperative to learn what is in store and how these changes affect you.** Please carefully read the *It's Your Choice* booklet when it becomes available.

If you are an annuitant covered under the group health insurance program, you will receive a special mailing explaining the changes. To learn more, read the September issue of *It's Your Benefit* or look for the "Health Insurance Program Changes" button on our Internet site, http://etf.wi.gov. You may also call our Telephone Message Center toll-free at 1-800-991-5540 or (608) 264-6633 to hear recorded messages.

Active Employees Can Make After-Tax Contributions to Supplement Retirement Annuity or Purchase Service

How much will you need to achieve a secure, comfortable retirement? Most financial experts advise you prepare for the future with a combination of Social Security, personal savings, and a pension. Many agree that you will need from 75% to 90% of your current income at retirement. As an active Wisconsin Retirement System (WRS) participant, there is something you can do, while you're still working, to help "bridge the gap" between what you may have and what you will need at retirement: make after-tax additional contributions.

It's an idea worth considering, for several reasons:

- Additional contributions can increase your monthly retirement annuity. Or, you can withdraw your additional contributions in a lump sum.
- The interest credited to your contributions accumulates on a tax-deferred basis. You will not be subject to state and federal income tax on the earnings until the contributions are distributed to you or your beneficiary.
- Your additional contributions would be credited with the WRS effective rate of interest. Over the past ten years, the average annual increase in the fixed and variable effective rates have been 11.7% and 9.4%, respectively.
- Additional contributions would be included in any separation or death benefit paid from your account.
- You can use your additional contributions to buy any WRS creditable service that you are eligible to purchase.

How do I make regular after-tax additional contributions? You can make them through payroll deduction (see your employer for more information) or by submitting a check directly to the Department of Employee Trust Funds (DETF). *Note:* If you are an employee of an educational institution **and** your employer was enrolled in the WRS tax-deferred additional program before May 1982, you may also be eligible to make additional contributions from pre-tax dollars. See your employer for more information.

When do my contributions earn interest? Effective rate interest is credited on the balance in your additional account as of January 1 each year for amounts on account for the entire previous year. This means that amounts contributed during a calendar year receive no interest until the following year. For example, if you make an additional contribution on October 1, 2003, you will receive interest on January 1, 2005 for calendar year 2004. You will not receive interest for the period of October 1, 2003 through December 31, 2003. Therefore, it is most advantageous to wait until December 2003 to make an additional contribution. It is imperative that your payment reach the Department by the last working day of 2003 in order to receive interest on January 1, 2005 for the year 2004.

How much can I contribute? Your additional contributions to the WRS are subject to annual limits as imposed by federal tax law. A worksheet is available to help you determine your individual limit. Consult DETF's *Maximum Additional Contribution Worksheet* (ET-2566) for details.

When can I withdraw my contributions? When you terminate employment or retire from WRS-covered employment, you may elect to begin receiving a benefit (also called taking a distribution), or you may defer distribution up to April 1 of the year following the calendar year you attain age 70 ½. There is no minimum age for distribution. However, if you withdraw your additional contributions before age 55, you may be subject to an early distribution tax penalty if you receive your balance before you attain age 59 ½. Contact a tax advisor for more information regarding this potential tax penalty.

I am about to terminate WRS employment. I am not at minimum retirement age. Can I "roll" my employee required and additional contributions into another investment vehicle? Yes, to avoid an immediate tax liability on a lump sum payment or an annuity certain of less than 10 years, you can directly roll these monies into an eligible employer plan, a Sec. 403(b) tax deferred plan, a Sec. 457 governmental defined compensation plan, or a traditional Individual Retirement Account (IRA). But before you completely close your retirement account (take a separation benefit) and withdraw your additional contributions, you should carefully consider the tax liabilities you may face (see above). Instead, consider whether you can afford to leave these monies intact until you reach your minimum retirement age. They will continue to receive interest. Even better: At retirement, the portion of your annuity that comes from your WRS account will include the matching employer required contributions.

In other words, if you take a separation benefit, you will forfeit the employer contributions in your account and all benefit rights earned during your employment, including your years of creditable service.

To learn more about the benefits and restrictions that apply to additional contributions, please read DETF's *Additional Contributions* brochure (ET-2123). Also, if you are interested in making additional contributions to buy forfeited, qualifying and/or other governmental service, review our *Buying Creditable Service* brochure (ET-4121). You can find these brochures and all other documents referenced in this article on our Web site at etf.wi.gov.

Board Corner

Nominations Sought for Multiple Retirement Board Seats

The terms of three Wisconsin Retirement System (WRS) retirement board members will expire in spring 2004. Nomination packets will be available after October 1, 2003 for individuals interested in running for their seats. The details are as follows:

Retirement Board	Seat Representing	Current Representative
Teachers Retirement Board	Elementary and Secondary Teachers	Wayne McCaffery
Teachers Retirement Board	Elementary and Secondary Teachers	Gerald Pahl
Teachers Retirement Board	Milwaukee El. and Sec. Teachers	Irena Macek

The voting process for all elections will take place in February. Winners will begin terms in May 2004. Information about the responsibilities of these boards can be found on our Web site at etf.wi.gov under "About Us," and "Governing Boards." Completed nomination packets must be received by the Department of Employee Trust Funds by 4:30 p.m. on Thursday, November 13. To request a packet, contact the Board Election Coordinator, Department of Employee Trust Funds, P.O. Box 7931, Madison, WI 53707-7931. To send an e-mail to the Board Election Coordinator, use the "Contact Us" feature on our Internet site.

Technical College Instructors Elect Pederson

Technical college instructor members of the Wisconsin Retirement System (WRS) elected R. Thomas Pedersen to serve as their representative on the Teachers Retirement (TR) Board. Pedersen, an accounting and economics instructor at Wisconsin Indianhead Technical College-New Richmond, is also a certified public accountant and holds a masters in business administration degree from the University of Michigan.

In April, the Department of Employee Trust Funds distributed approximately 5,364 ballots to technical college instructor members, who cast 1,256 ballots representing 26.9% of the total. Pedersen received 71.7% of the votes. The other candidate was Terry Bilderback, a computer information systems instructor at Chippewa Valley Technical College.

Retirees Corner

Editorial policy statement: Trust Fund News periodically runs brief announcements submitted by and about retiree organizations, subject to space availability and made on a first-come, first-served basis. The Department of Employee Trust Funds does not guarantee publication of submitted articles.

Wisconsin Retired Educators Association (WREA)

The Wisconsin Retired Educators' Association (WREA) is an independent, non-partisan organization committed to monitoring and improving pension benefits for retired educators and other members of the Wisconsin Retirement System (WRS). It has been promoting the interests of retired educators and public education since 1951.

WREA offers a broad range of member services including pension fund protection. A statewide legislative alert network matches constituents to legislators and assures ongoing communication and participation in the legislative process. WREA members are also eligible for substantial discounts on long term care insurance, health insurance, travel programs, AAA roadside assistance, and auto and homeowners insurance. In the past year, WREA has added dental/vision, hearing, and prescription drug programs. A number of free publications and a quarterly newsletter provide important information.

WREA is a grassroots organization with over 11,500 members and 73 local units. It is affiliated with the National Retired Teachers Association (NRTA) – AARP's educator community.

Annual dues of $40 for regular members (retired teachers, administrators and school personnel) and $20 for associate members (other annuitants in the WRS, friends of education, and active educators) are payable to WREA, 2564 Branch Street, Middleton, WI 53562; Telephone: (608) 831-5115. FAX: (608) 831-1694. Internet site: www.wrea.net E-mail: wrea@wrea.net

ETF Sets Fall Public Presentation Schedule

The Department of Employee Trust Funds (ETF) has scheduled free, Public Presentations for Wisconsin Retirement System (WRS) participants, especially those considering or planning retirement in the near future. ETF specialists will review WRS retirement, disability, death, and separation benefits as well as health and life insurance benefits. Presentations run from 7 p.m. to 9 p.m. All locations are handicapped accessible with adequate free parking.

Public Presentations

Reservations are not needed except for the designated Interactive Television (ITV) presentations.

City/Area	Date	Location
Beaver Dam	Wed., Nov. 5	Beaver Dam Middle School-Auditorium, 108 Fourth Street, Beaver Dam
DeForest *ITV	Tues., Oct. 21	DeForest High School, 815 Jefferson St., DeForest **Reservations Required** *For reservations call Melissa Clark at (608) 877-5004*
Evansville	Tues., Oct. 14	Evansville High School-Auditorium, 640 S. Fifth St., Evansville
Grafton	Wed., Oct. 15	Grafton High School-Auditorium, 1950 Washington St., Grafton
Marshfield	Tues., Sept. 30	Marshfield High School-Auditorium, 1401 Becker Rd., Marshfield
Middleton ITV*	Wed., Sept. 24	Middleton High School, 7400 North Ave., Middleton **Reservations Required** *For reservations call Melissa Clark at (608) 877-5004*
Monona ITV*	Tues., Sept. 23	Monona Public Library, 100 Nichols Road, Monona **Reservations Required** *For reservations call Melissa Clark at (608) 877-5004*
Minocqua	Wed., Oct. 15	Lakeland Union High School-Auditorium, 9573 Hwy 70 West, Minocqua
Niagara	Tues., Oct. 14	Niagara High School-Theater, 700 Jefferson Ave., Niagara
Reedsburg	Mon., Oct. 13	Reedsburg Area High School-Cal Center, 1100 S. Albert Ave., Reedsburg
Schofield	Mon., Oct. 27	DC Everest Middle School-Theater, 9302 Schofield Ave., Schofield
Shawano	Thur., Nov. 13	Shawano Community High-Auditorium, 220 County Road B., Shawano
Thorp	Tues., Oct. 21	Thorp Elementary School-Commons, 605 S. Clark St., Thorp
Whitehall	Thurs., Nov. 6	Whitehall Memorial High School-Auditorium, 19121 Hobson St., Whitehall

If weather should become severe, listen to local radio stations for possible cancellations

Interactive Television Public Presentations

Due to limited space, reservations are required for all presentations listed BELOW:

Clayton, Grantsburg, Osceola (ITV presentation)* -- Tuesday, Sept. 23*
Hosted by Northern Lights Network. *For reservations, contact Connie Manske at (715) 986-2020.*
***** originating site in **Monona,** listed above

Barron, Spring Valley, St. Croix Falls (ITV presentation)* -- Wednesday, Sept. 24*
Hosted by Northern Lights Network. *For reservations, contact Connie Manske at (715) 986-2020.*
***** originating site in **Middleton,** listed above

Green Bay, Manitowoc, Sturgeon Bay (ITV presentation)* -- Tuesday, Oct. 21*
Hosted by CESA 7 ILS. *For reservations, contact Theresa Neuser at (920) 492-5960 ext. 641.*
***** originating site in **DeForest,** listed above

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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.

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