Wisconsin Retirement System

Trust Fund News

Published by the
Wisconsin Department of
Employee Trust Funds
P.O. Box 7931, Madison,
WI 53707-7931

Toll free: 1-877-533-5020
(608) 266-3285
http://etf.wi.gov

Volume 22, No. 2
May 2004
Active/Retiree edition

INSIDE

Department Announces Effective Rates, Annuity Dividends and Adjustments

The Department of Employee Trust Funds (ETF) established the fixed and variable effective interest rates for active Wisconsin Retirement System (WRS) members and eligible inactive members.

For 2003, the fixed effective rate is 7.4% and the variable effective rate is 34% — the largest increase in WRS history. **These rates are applied to the retirement accounts of all active employees and inactive members who began employment before January 1, 1982 or terminated employment after December 29, 1999.** The record-setting variable effective rate will have a substantial, positive impact on the account balances of the 72,000 employees and inactive members participating in the variable.

The Department also set the annual post-retirement adjustments for retirement annuities. The fixed annuity adjustment is 1.4% and the variable annuity adjustment is 25% — the second highest variable adjustment in WRS history.

Overall, the Fixed Trust Fund is still experiencing the effects of poor investment market performance from 2000 through 2002. However, the significant rebound in the markets, especially over the last two quarters of 2003, had a positive influence on the rates. In addition, new investment strategies adopted by the State of Wisconsin Investment Board (SWIB) last fall have helped the stock portfolios take full advan-

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Special Feature Inside:

Four-page insert from the State of Wisconsin Investment Board

How to Read and Understand Your Statement of Benefits

Each year the Department of Employee Trust Funds (ETF) produces the Annual *Statement of Benefits* for actively employed and inactive members who have Wisconsin Retirement System (WRS) account balances.

Distribution of these *Statements* began in mid-April. Your annual *Statement* shows your WRS account balances as of January 1, 2004, and includes two new items: your date of birth and your current Final Average Earnings (FAE) based on your three highest years of earnings reported as of January 1, 2004. This is the FAE that was used to calculate your projected monthly formula benefit shown on your *Statement*. The monthly benefit projections are based on your current account balances as of January 1, 2004, and assume that as of that date you had reached the retirement ages shown on your *Statement*.

Your *Statement* also shows the last four digits of your Social Security number; your 2003 earnings and service as reported by your employer; your total years of before-2000 and after-1999 WRS creditable service by employment category; your employee-required contributions (and additional contributions, if any); and the fixed interest and variable gains/losses credited to your contribution balances.

You should carefully review your *Statement of Benefits* and the materials enclosed

Statement, continued on page 2

Fixed Fund and Variable Fund Percentages

State of Wisconsin Investment Board (SWIB) investment returns as of December 31 each year influence the effective rates and adjustments that are computed, set, and paid by ETF. The charts below provide a ten-year look at both the Fixed and Variable Fund returns and subsequent rates and adjustments.

Fixed Fund Percentages			
Year	SWIB Investment Returns	ETF Fixed Effective Rate	ETF Fixed Annuity Adjustment
2003	24.2%	7.4%	1.4%
2002	-8.8% (loss)	5.0%	0.0%
2001	-2.3% (loss)	8.4%	3.3%
2000	-0.8% (loss)	10.9%	5.7%
1999	15.7%	24.1%*	17.1*
1998	14.6	13.1%	7.2%
1997	17.2%	12.8%	7.7%
1996	14.4%	12.5%	6.6%
1995	23.1%	11.3%	5.6%
1994	-0.6% (loss)	7.7%	2.8%

*Provisions of 1999 Wisconsin Act 11 resulted in a higher rate than would have otherwise occurred.

Variable Fund Percentages			
Year	SWIB Investment Returns	ETF Effective Rate	ETF Annuity Adjustment
2003	32.7%	34%	25%
2002	-21.9% (loss)	-23%(loss)	-27% (loss)
2001	-8.4% (loss)	-9% (loss)	-14% (loss)
2000	-7.2% (loss)	-7% (loss)	-11% (loss)
1999	27.8%	28%	21%
1998	17.5%	18%	12%
1997	21.6%	23%	18%
1996	19.8%	20%	14%
1995	25.6%	27%	19%
1994	0.8%	0%	-4% (loss)

Rates, continued from page 1

tage of the economic recovery.

The fixed annuity adjustment would have been 0% (no change) if not for 2003 Wisconsin Act 153, which was effective on March 30. Under the new law, ETF will pay a positive fixed annuity adjustment from the fixed annuity reserve if the annual adjustment calculation process results in at least a .5% increase. In a negative year, the fixed annuity can be adjusted downward if the calculation produces a loss of -.5% or greater. The Department may also establish a different percentage threshold through the administrative rule process.

Previously, the law restricted ETF from granting any fixed annuity increase unless there were sufficient funds in the annuity reserve to provide all retirees with a 2% (or more) increase. The Department's calculations this year determined the fixed annuity increase to be 1.4% — not payable under the old law; now payable under Act 153.

Act 153 affected approximately 120,000 WRS annuitants. ETF included the adjustment in their May 1 payments.

Statement, continued from page 1

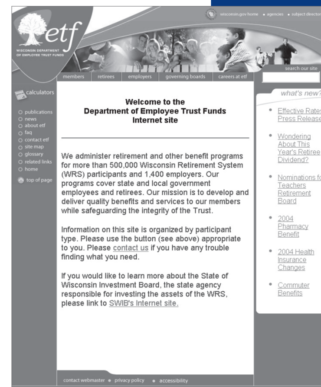
with it. If you have questions regarding your 2003 service, earnings or contributions, contact your employer for an explanation. Your employer is responsible for reporting any corrections to ETF.

Note: Due to the complex nature of some accounts, ETF is unable to provide benefit projections on all Statements. In these situations, a written explanation will appear in the "Retirement Benefit Projections" area.

ETF Internet Site Has New Look

We've redesigned our Internet site to better serve Wisconsin Retirement System (WRS) members and employers. The pages are more user friendly, but perhaps the most significant improvement is the site's construction – it was built using newer technologies that, among other things, allow visitors to bookmark any page on the site (rather than just the homepage).

The site redesign allows for easy, logical navigation and features updated graphics, pictures, and colors. The conveniently placed "What's New" section of the homepage contains current items of interest to members such as health insurance or interest crediting news. Other sections accessible from the homepage include publications, news, calculators for estimating retirement benefits and service purchases, ETF governing boards, employment opportunities, and a site map. You can access the site at http://etf.wi.gov.



Questions and Answers: Future Fixed Fund Interest and Annuity Dividend Rates

Question: Why is the fixed annuity adjustment always different than the effective interest crediting rate? To understand the answer, you must first know a few basic facts:

Fact #1: When a Wisconsin Retirement System (WRS) annuity begins, sufficient funds needed to pay that annuity for the retiree's projected lifetime are transferred to a separate fund called the annuity reserve.

Fact #2: All WRS annuities are paid from the annuity reserve.

Fact #3: Annuity adjustments are based on a comparison between the money in the annuity reserve and what the WRS would be obligated to pay its retirees in the future (i.e., liabilities). If the annuity reserve has more than enough funds to pay its liabilities, then an increase can be granted. If the annuity reserve has less than the amount needed, it may be necessary to repeal past adjustments (increases) — which means that annuities will be decreased.

Annual interest is credited to the fixed annuity reserve at the same rate as that credited to nonretired participant accounts. For 2003 that rate was 7.4%. However, that is only the first step in the fixed annuity adjustment calculation process. Various accounting adjustments play a role in calculating the final number, which for 2003 was 1.4%. Primary among these adjustments are the "built in" 5% assumed interest assumption, mortality experience, and any prior year's carryover of gains or losses. These are explained as follows:

5% Assumed Interest: See Fact #1 above — about transferring monies to fund the annuity for a retiree's projected lifetime. The **actual** amount transferred to the annuity reserve on the annuitant's behalf is based on the assumption that the fixed fund will earn 5% each year. *Consequently, only fixed fund investment earnings in excess of the assumed 5% earnings are available to fund annuity increases.* If the fund earns less than 5%, that shortfall must also be "made up."

Mortality Rates: WRS annuitants' life expectancies continue to increase. This is a very good thing for retirees. However, it also means that the fund will have to pay their annuities for a longer period of time than expected, which will require more funds than anticipated. Consequently, increased longevity has the effect of reducing annuity increases.

Carryover: The Department calculates fixed annuity adjustments to one-tenth percent. Under WRS law an annuity adjustment must be at least one-half percent (increase or decrease). If there is not enough money to generate an increase (or decrease), the remaining funds (or deficit) will be carried over and included when calculating the next year's annuity adjustment rate.

Question: Why are fixed interest rates "smoothed?" Smoothing fixed fund interest crediting has benefits for employees and annuitants. For one, it makes for *less volatile fixed interest rates,* which have a stabilizing effect on WRS future contribution rates. This stability helps provide more level contribution rate changes. Another key benefit is that the *fixed annuity adjustments are more stable* compared to what they would

Questions continued on page 4

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be if each year's investment returns were fully recognized every year (as happens with annuities paid from the variable fund).

Question: How will the recent upturn in investment market returns affect future fixed effective rates and annuity adjustments?

- The improved market returns will clearly result in better fixed interest and annuity adjustments than if the returns had remained poor. However, fixed fund investment results are smoothed over a five-year period, and we will experience the 2000, 2001 and 2002 losses through 2007. This will have the effect of lowering the fixed interest and annuity adjustments through 2007.

- The distribution of the December 31, 1999, Transaction Amortization Account (TAA) balance in 2000 through 2004 (mandated in 1999 Wisconsin Act 11) has also kept fixed interest and annuity adjustment rates **higher** than they would have been if based solely on the investment returns for those years. The TAA distribution ends after this year, which means that beginning with the 2005 rates, the fixed effective and annuity adjustment rates will be based **solely** on the actual investment returns from 2001 through 2005.

Question: What kind of fixed interest and annuity adjustment rates can we expect in the next few years? The following chart assumes that 7.8% fixed interest (after smoothing) will be credited to the annuity reserve each year beginning with 2004 and shows *approximately* what the fixed effective and annuity adjustment rates would be. The actual rates will be different if the fixed fund earns more or less than 7.8% each year (as is highly likely).

Fixed Effective Rate and Annuity Adjustment Projections

	2003*	2004	2005	2006	2007	2008	2009
SWIB's Actual Investment Return	24.2%	7.8%	7.8%	7.8%	7.8%	7.8%	7.8%
ETF Fixed Effective Rate	7.4%	7.4%	5.4%	7.3%	10.2%	8.0%	8.1%
ETF Fixed Annuity Adjustment	1.4%	1.7%	0.0%	1.4%	4.4%	2.3%	2.4%

**Reflects actual rates (rather than projected).*

Active Employees: How to Maximize Death Benefits If You Become Terminally Ill

We all plan to live long, healthy lives. Unfortunately, a certain percentage of us will become terminally ill while still working. In this situation, most people want to maximize the death benefit payable to their beneficiaries. The death benefit for any participant who dies as an active Wisconsin Retirement System (WRS) employee includes the employee-required contributions and interest **plus** a matching amount of employer contributions and interest.

This means that the death benefit will often be higher if you die as an "active" employee than it would be if your are an "annuitant" on the date of death.

Whether the death benefit would be higher if you die as an active employee or an annuitant depends on your individual WRS account, including your years of service, annual earnings and account balances, your age and your beneficiary's age, and the annuity option you select if you begin an annuity before your date of death.

In order to make these critical and irrevocable decisions at such a difficult time, you need specific information about the death benefits that would be payable if you die as an active WRS covered employee or as an annuitant. The Department will provide information about the death benefits available if you are in active, inactive or annuitant status on your date of death. We normally provide this information (called a *Summary of Survivor Benefits*) with disability benefit estimates.

If you or your representative(s) wish to receive the completed *Summary,* **you (or someone acting on your behalf) must contact us to inform us of the critical state of your illness.**

We will provide disability benefit estimates along with the *Summary* so that you can make a well-informed decision. It is also important that you and/or your representatives contact your employer to learn how other employee benefits will be affected by your employment status at the time of death. To request disability ben-

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Returning to Work After Retirement

Whether for economic, social, or other reasons, Wisconsin Retirement System (WRS) retirees often choose to reenter the work force. Going back to work for a non-WRS employer will have no affect on WRS benefits administered by the Department of Employee Trust Funds (retirement, health insurance, and life insurance). In addition, there are no restrictions on when one can return to work.

However, if you are a WRS retiree thinking about going back to work for a WRS employer, keep this in mind: To be eligible for your retirement benefit, if your new WRS employment is in a position that meets WRS participation standards (the employer will know), your employment cannot begin until the **latest** of the following dates:

- the day after your annuity effective date;
- the thirty-first day after the date your WRS employment terminated; or
- the thirty-first day after the date the Department receives your retirement benefit application.

Important Notes: If your return to WRS-eligible employment occurs before this required break in service or if you enter into an enforceable return-to-work contract prior to terminating employment, your annuity or lump sum benefit will be cancelled.

In addition, if your WRS employer is the same one from which you terminated employment before your annuity began, the 30-day break in service requirement applies even if your new employment does **not** meet WRS participation standards.

If you are rehired in a position that meets WRS participation standards after the 30-day requirement, you will have a choice of:

· Remaining an annuitant. If you decide to remain an annuitant, you should file a *Rehired Annuitant Election* form (ET-2319) with your employer electing not to participate in the WRS as an active employee. If you do not elect active WRS coverage at this time, you may elect it in the future, if you meet eligibility requirements.

· Electing coverage under the WRS. You can elect to become covered under the WRS at any time. If you choose to be covered by the WRS again, you must file the *Rehired Annuitant Election* form with your employer. Your annuity will be terminated and your WRS coverage will begin effective the first of the month after the Department receives your completed election form.

WRS Participation Standards

A position meets WRS participation standards if you are expected to work at least one third of full time during one or more years. For example, if you return to work for the state in a project or limited- term employment (LTE) position and are expected to work at least one third of full time during at least one year, your position will meet WRS participation standards.

If you choose to elect coverage and stop your annuity: Upon terminating WRS employment, you can reapply for a retirement annuity. At that time you can select any annuity option for which you are eligible, regardless of the option you chose when you originally retired. Your retirement annuity will be recalculated using your new final average monthly earnings (if applicable) for all of your WRS employment, including your covered employment after you return to work.

For more detailed information about returning to work, including how your retirement annuity is recalculated once you reretire (if you cancelled it when you came back to work), review the Department's brochure, *Information for Retirees* (ET-4116). You'll find it on our Internet site at http://etf.wi.gov/publications/et4116.htm, or call us toll free at 1-877-533-5020 or (608) 266-3285 to request a paper copy.

Disability continued from page 4

efit estimates and/or a *Summary of Survivor Benefits*, you or your employer, or someone acting on your behalf, should contact ETF toll free at 1-877-533-5020 or (608) 266-3285 (local Madison). We will need the following information to prepare disability benefit estimates and the *Summary of Survivor Benefits*:

- Your name
- Social Security number
- Home address & telephone number
- Date of birth
- Last day worked
- Last day paid
- Current or most recently completed annual earnings
- Projected final annual earnings
- Years of active military service
- Spouse's name and date of birth (if married)

Board Corner

McCaffery and Panicucci assume seats on TR Board

Wayne McCaffery, an economics teacher at Stevens Point Area Senior High School, and Dennis Panicucci, a science teacher in the Hartford School District, have been appointed to the Teachers Retirement Board (TR Board) effective May 1, 2004.

McCaffery has been a member of the TR Board since 1989, serving as chair since 1998. He has taught economics for 25 years and is a chartered mutual fund counselor. Panicucci has taught the last 34 years at Hartford's Central Middle School and is a recipient of The Herb Kohl Fellowship for his contributions as a classroom teacher. McCaffery and Panicucci were the only public school teachers to file nomination papers following last fall's *Trust Fund News* announcement that the terms of two TR Board members would expire this spring. As a result, McCaffery and Panicucci were automatically seated and no election was held. Their five-year terms begin May 1, 2004. More information on the five Wisconsin Retirement System (WRS) governing boards, including meeting schedules, agendas, and membership can be found on our Internet site at http://etf.wi.gov/gov_boards.htm.

Direct Deposit Procedure Is Still Fast, Safe, Secure

Tired of watching your mailbox every first of the month? We often receive phone calls from annuitants whose retirement benefit checks did not arrive in a timely manner. In many cases, the check was delayed in its route through the postal system. We advise having monthly benefit payments deposited directly into a checking or savings account electronically via the direct deposit system. This service is free of charge, fast, and a very safe method for depositing your monthly benefit payment. It eliminates the possibility of a lost or stolen paper check, which can occur when a paper check is sent to your home.

Currently, more than 80% of Wisconsin Retirement System (WRS) annuitants receive their payments electronically. Monthly payments are credited to their accounts on the first business day of the month. To sign up for electronic deposit, complete a Direct Deposit Authorization form (ET-7282). It's available by calling our toll free self-service line at 1-877-383-1888 or (608) 266-2323. You can also print the form from our Internet site. Go to http://etf.wi.gov/publications/et7282.pdf.

The Department requires a minimum of 30 days to process your direct deposit request **after** your annuity begins or your request to change an existing direct deposit. ETF will send your first annuity benefit payment to you in the form of a paper check via the U.S. Postal Service. Your second annuity payment will go electronically to your financial institution.

Important Reminder: Each time you change your financial institution or account number you must complete a new authorization form.

Deferred Compensation Accounts Now Divisible

Governor Doyle recently signed 2003 Wisconsin Act 160, authorizing the Deferred Compensation Board to divide a participant's deferred compensation account assets pursuant to a domestic relations order (DRO) issued by a court relating to any marriage that terminated after December 1, 2001. The Economic Growth and Tax Reconciliation Relief Act of 2001 (also known as EGTRRA) clarified that this type of division is allowed under federal law.

Wisconsin statutes, however, provided no authority for the Deferred Compensation Board to accept or act upon a DRO.

For many couples involved in divorce, retirement benefits are often among the most substantial assets owned. By permitting a division by DRO, Act 160 puts participants' deferred compensation accounts on par with their other retirement assets during a divorce proceeding. The legislation permits up to 100% of a participant's assets to be assigned to a spouse, former spouse, child or other dependent to satisfy a family support or marital property obligation.

Approximately 40,000 state and local government employees participate in the Wisconsin Deferred Compensation (WDC) Program. For more information about the WDC or Act 160, check the WDC Internet site at www.wdc457.org or contact: WDC, 902 Ann Street, Suite A, Madison, WI 53713. Dial toll free 1-800-257-4457 or (608) 256-6200 (local Madison).

ETF Seeks Persons With Abandoned WRS Accounts

The Department has updated its list of individuals age 70 and older with abandoned Wisconsin Retirement System (WRS) accounts. Each year ETF publishes their names in an attempt to find these individuals or their heirs and let them know this money is available. Most accounts are small, but over the years a few have been substantial. The WRS members or their heirs have ten years after publication to apply for the benefit.

If you know the whereabouts of anyone on this list, please ask them or their heirs to write to ETF at P.O. Box 7931, Madison, WI 53707-7931. Inquiries must include the participant's complete name (published name, current and prior name), date of birth, Social Security number and the year that the name was published.

The lastest additions to the abandoned account list follows. To see the complete list on our Internet site, go to:
http://etf.wi.gov/news/abandoned_wrs.htm

Adams, Helene B.
Betters, Delores J.
Beverly, Juanita
Bohman, Arthur D.
Cis, Lois M.
Condon, Joan P.
Cordier, Robert A.
Cummins, Joseph E.
Epkins, Samuel
Farooki, Ayesha H.
Finger. General H.
Gizewski, Mary
Grant, Malcolm L.
Griffin, Gerald P.
Grinnell, Deon L.
Gushee, Marion E.
Hansen, Annalea M.
Janke, Diane S.
Kaiser, Carroll J.
Kunter, Barbara M.
Lahman, Anne H.
Larson, Greta E.
Libresco, Leonard
Lyvers, Francis K.
Mahan, Roy D.
Mandich, Peter
Nellis, Michael D.
Nelson, Leroy
Paochia, Ching
Paulick, Alfred W.
Perhalla, Rudolph J.
Quinonez, Jose
Royle, Regina J.
Rutherford, James W.
Sauter, Constance M.
Stewart, William G.
Stopher, Glenn D.
Taderera, Joseph V.
Walls, David L.
Welliver, Elsebet
Ybarra, Elveria

Beneficiaries of Life Insurance Claims Sought

The Department also seeks people who, under Wis. Stat. S. 40.02 (8) (a), are the beneficiaries of the deceased life insurance policy holders listed below. For an application and additional information, write to ETF at P.O. Box 7931, Madison, WI 53707-7931. Inquiries should include the participant's complete name -- including published names and former name(s) -- and date of birth, Social Security number and year the name was published.

Bell, Emma
Bell, Esther
Disrud, Norman
Ervin, Irene E
Gaynor, Ann
Gehrke, William
Gelman, Mary
Havelek, Rose
Hyde, Helen
Lord, Helen B
Lorenz, Leona
Luethy, Rosemary
Ruffalo, Emil
Sehrt, Naomi
Strunk, Richard
White, Percy

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.

WEAC-Retired

WEAC-Retired is a Wisconsin Education Association Council statewide affiliate exclusively for retired public education employees. It is the only Wisconsin public education retiree organization affiliated with WEAC and the National Education Association.

Membership is open to all retired public education personnel (teacher, education support professional, or administrator from the K-12, Wisconsin Technical College System or University of Wisconsin sectors). For annuitants who were WEAC members prior to retirement, membership keeps them connected with their colleagues, local association, UniServ unit, WEAC and NEA.

The organization has more than 8,000 members and is governed by an elected 28 member Board of Directors. WEAC-Retired has 21 chapters and more are being organized. Concurrent membership in NEA-Retired is required and included in the dues cost. Dues for 2003-04 are: $250 life; $40 annual.

For additional information, phone the WEAC-Retired office at 1-800-362-8034, e-mail lueckd@weac.org or visit the website at www.weac.org/constit/retired.htm.

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Trust Fund News is published three times a year by the Wisconsin Department of Employee Trust Funds to inform Wisconsin Retirement System members about benefit programs.

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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.

Fax: (608) 267-4549

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.