Wisconsin Retirement System

Trust Fund News

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

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http://etf.wi.gov

May 2004
Inactive Member edition

INSIDE

Department Announces Effective Rate, 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 advantage of the economic recovery.

Rates continued on page 2

Special Feature Inside:

Pull-out section from the State of Wisconsin Investment Board

ETF Offers Group Retirement Planning Sessions

The Department of Employee Trust Funds (ETF) is now offering on-site group retirement planning sessions for Wisconsin Retirement System (WRS) members. The two-hour sessions, designed for six to eight participants and their guests, are held three times a week in the Madison office, located at 801 W. Badger Road. Sessions are held on Mondays at 1:00 p.m.; Wednesdays at 1:00 p.m.; Thursdays at 8:30 a.m.

The goal of this new initiative is to provide additional counseling opportunities for individuals who may not want to wait six to eight weeks for individual appointments. It's also a nice alternative to "walking in" without an appointment and waiting to see a retirement specialist.

You must have an appointment to attend a group counseling session. Call the Department's Madison appointment line at (608) 266-5717. **Attendees must be within one year of minimum retirement age; have a valid retirement estimate from ETF; and bring their retirement packet to the session.**

In a group session, participants receive an overview of WRS benefits and annuity calculations with a step-by-step explanation of the retirement estimate, annuity options, and the application process. There are opportunities to ask questions throughout the session. information on the retirement process to share.

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

The fixed annuity dividend would have been 0% (no change), if not for 2003 Act 153, which was signed by Governor Doyle on March 15. Under the new law, ETF will pay a positive (or negative) fixed annuity dividend from the fixed annuity reserve if the annual dividend calculation process results in at least a .5% increase (or decrease). 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 dividend in their May 1 payments.

Avoid Surprises: Keep Your Beneficiary Designation Current

Do you know who your current beneficiary is? Is your designation current? Keeping your beneficiary designation current is very important because it is NOT automatically updated in the event of divorce, marriage, birth or death of children, or any other changes in your personal situation. Outdated beneficiary designations have resulted in death benefits being paid to ex-spouses, parents, and siblings – even after members had long since acquired a new family. **Example: A divorce, annulment, or similar event will not invalidate a *Beneficiary Designation* which named your former spouse. To remove a former spouse as a beneficiary, you must file a new designation.**

If you are the owner of a Wisconsin Retirement System (WRS) account from which a death benefit or life insurance benefit would be payable upon your death, you may file a *Beneficiary Designation*. If no *Beneficiary Designation* is on file, WRS death ben-

Beneficiary continued on page 6

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 participants' 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:

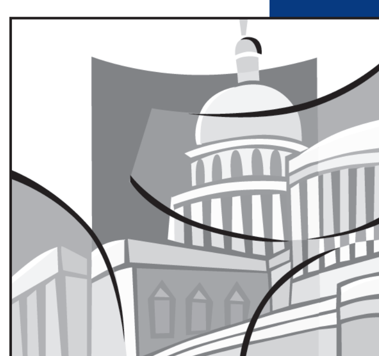
5% Assumed Interest: See Fact #1 above — about transferring monies to fund the annuity for a retiree's projected lifetime. The **actual** amount transferred to the annuity reserve on the annuitant's behalf is based on the assumption that the fixed fund will earn 5% each year. *Consequently, only fixed 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

Questions continued on page 4

A Rose By Any Other Name … Can Trigger IRS Tax Penalties



Does the name on your *Trust Fund News* address label match the name on your Social Security card? The Wisconsin Retirement System (WRS) annually reports to the Internal Revenue Service (IRS) payments made during the year, whether these were monthly annuities or lump sum payments of separation or death benefits.

The IRS now checks these reports by matching the Taxpayer Identification Number (TIN) and payee name against its database of Taxpayer Identification Numbers. For most individuals, the TIN is the person's Social Security number. For estates of deceased individuals, the TIN is the 9-digit number assigned to the decedent's estate by the IRS.

The IRS also checks the payee name against Social Security Administration records of the numbers assigned to individuals. If the identification number reported by the WRS does not match the name that goes with that number in the Social Security Administration records, the IRS may charge the Department of Employee Trust Funds (ETF) with tax penalties and ETF may need to track down individuals to obtain proof of their names and Social Security numbers.

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Questions continued from page 3

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 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).*

IRS continued from page 3

A Department review of the IRS reports of name and number mismatches has found many cases of people changing their names informally or through marriage, divorce or other court action. You can help us avoid time and expense (and possible tax penalties) by making sure that the name by which you are known to the WRS and the Social Security Administration is the same.

In fact, to be sure you are properly credited with the money withheld for federal taxes, you will want your Social Security name to match the name used by any employer, bank or other institution required to report your income to the IRS. There is no cost to change the name on your Social Security card. You will need to complete Form SS-5, available on the Social Security Administration Internet site at the following address: http://www.ssa.gov/replace_sscard.html.

To request a paper copy, call 1-800-772-1213 or visit your local Social Security office. You can also change your name on your ETF record. To do so, please contact the Department of Employee Trust Funds in writing.

Approaching Retirement Age? Consider Your Options Carefully

When you left Wisconsin Retirement System (WRS) covered employment, one of the most important decisions you made was to forego taking a separation benefit, keeping your retirement benefit intact. Your next big decision is deciding when to apply for a retirement benefit.

You may apply for a retirement annuity no earlier than 30 days before you turn 55 (or 50, for protective employees). Although you are not required to apply for a retirement benefit once you become eligible, you should consider doing so for the following reasons:

1) You will lose the-employer required contributions and associated accumulated interest in your account if you die as an inactive participant and you have reached minimum retirement age. Remember: Your WRS account consists of employer- and employee-required and additional (if any) contributions plus interest.

If you keep your account intact until you reach retirement age, and if you are vested (see below), your retirement benefit will include all of these contributions and interest. The death benefit payable from your account (if you have not taken a retirement benefit and if you have reached minimum retirement age) will only include employee-required contributions and accumulated interest, plus any additional contributions you may have made.

2) You may never recover the full amount of the annuity payments you have foregone if you delay applying for your benefit. If you remain an inactive member after you've reached minimum retirement age (i.e., not take a retirement benefit), your account will continue to grow with interest each year. But this growth will not make up in value what you could have been paid had you taken a retirement benefit when first eligible.

3) If you leave your account intact, you are not eligible to receive post-retirement dividends, which can add value to your benefit over time. See page 2 for charts illustrating post-retirement dividends and adjustments paid to WRS retirees over the past ten years.

Are You Vested?

Being vested means that upon reaching minimum retirement age you are entitled to a retirement benefit that includes the employer-required contributions in your account, plus interest. You are always entitled to your employee-required and additional (if any) contribution balances. If your WRS coverage began before January 1, 1990 or if you terminated WRS employment after April 23, 1998, you are automatically vested.

If your WRS coverage began after 1989 and your last WRS termination was before April 24,1998, you must have some creditable service in five separate calendar years to be vested. If you are **NOT** vested, your are only eligible for a separation benefit regardless of your age. You should carefully consider this information as you decide when to apply for a benefit. However, we encourage you to consult with a financial planner as you may have other assets that may influence your decision

Retirement Planning To-Do List

1) Approximately one year before you plan to retire, contact the Social Security Administration for a **projection of your Social Security benefits** at age 62 or your anticipated retirement date, whichever is later.

2) Twelve months before you plan to retire, contact the Department of Employee Trust Funds (ETF) to **request a WRS retirement benefit estimate packet**. Note: if your benefit will begin before you reach age 62, we recommend that you also send us a copy of your age-62 Social Security benefit projection. It will help us produce a more accurate estimate of your accelerate payment options.

3) **Read and understand your benefit options.** ETF will send you a retirement benefit estimate and application that shows your annuity options and the estimated monthly amount of each. It is critical that you thoroughly understand your options before making your selection. If you have any questions or are unclear about any of the options for which you are eligible, contact us for further clarification.

4) **Choose your option,** complete the rest of the application form, and return it to ETF 30 days before you reach your minimum retirement age or, if you are over minimum retirement age, as soon as possible. Your option selection is irrevocable 60 days after the date of your first annuity payment.

Granting Power of Attorney

Under Wisconsin law, the Department of Employee Trust Funds (DETF) cannot release information about your account or benefits to anyone other than you, not even to your spouse. Furthermore, under most circumstances only you can sign documents on which your signature is required. One exception: When someone is acting as your designated agent. You can designate someone as your agent by granting that person Power of Attorney (POA) in a written document signed by you.

What authority does my agent have? You define the agent's authority in the POA document. In Wisconsin, there are two general categories of powers that can be granted to an agent: the authority to make business/financial transactions and the authority to make health care decisions for you. DETF will honor a business/financial POA document that you have signed.

An agent normally has the authority to act in your place. In addition to obtaining information about your account or benefits, your agent can also take action or sign most documents on your behalf. Examples include changing your address or tax withholding, electing or canceling variable participation, etc. However, as of May 14, 1998, under Wisconsin law you cannot grant your agent the authority to name or change the person(s) or entity(ies) who will receive any death benefits payable upon your death. Exception: If you signed the POA document before May 14, 1998, and granted your agent the authority to name or change your beneficiary(ies) in that document, the Department will honor that authority.

When does the POA authority expire?
There are two basic types of POA: non-durable and durable. A non-durable POA ends when you become incapacitated or disabled so as to be unable to make decisions or handle your own affairs. A durable POA remains in effect after such incapacitation occurs. The authority granted in a POA ends immediately when any one of the following events occurs:

- For non-durable POAs only, when you become incapacitated.
- You revoke the POA that you granted, as long as you have not become incapacitated at the time of the revocation.
- At the time of your death. All powers of attorney end immediately upon your death. Once you are deceased, we can only release information about your account or benefits to your beneficiaries, your estate representative, or to any individuals to whom they authorize the Department to release information. If you grant a non-durable POA and subsequently become incapacitated, that person may no longer act as your agent. To act on your behalf a person must obtain legal guardianship, which can only be granted by the court.

What are my agent's responsibilities to me? The holder of a POA has a legal fiduciary duty to act in your best interests, and may not take actions on your behalf that are for his or her own benefit.

What proof of POA does the Department of Employee Trust Funds require? The Department requires an original copy of the written POA document signed by you, unless the POA document specifically states that a photocopy is as valid as the original (or words to that effect). In either case, we must receive the POA document before we can release information about your account or benefits to the agent, or accept your agent's signature on your behalf.

How do I grant POA? You must sign a document granting POA, which must specify the powers that you are granting to your agent. Basic Wisconsin POA documents are available at many office supply stores. Separate POA documents are available for business/financial and health care POAs.

What if I have a complex situation or am uncertain what powers I should grant to my agent? If you have specific concerns or questions, we recommend that you consult with your attorney or another trusted and knowledgeable advisor.

Beneficiary, continued from page 2

efits and life insurance benefits will be paid according to the Chapter 40 statutory standard sequence in effect on the date of death.

Updating your beneficiary designation with the Department of Employee Trust Funds (ETF) is easier than ever, thanks to the on-line availability of the *Beneficiary Designation* (ET-2347) form. You can print the form from our Internet site at **http://etf.wi.gov/publications/et2347.pdf**, make the necessary changes, and mail it to ETF. You may also call our self-service line and request a paper copy. Call toll free 1-877-383-1888 or 608-266-2323 (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

Deferred Compensation Accounts Now Divisible Under Court Order

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).

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May 2004 Inactive Member Edition

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.

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