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 23, No. 2
May 2005

INSIDE

3

Questions About Annual Statement of Benefits

Retirement Board Seeks Three Candidates

4

ETF Now Has Two On Line Presentations

Keep Your Beneficiary Designation Current

5

Answers to Common Questions About Your WRS Benefits

6

Annuitants: Sign Up for E-Routing

7

ETF Seeks Owners of Abandoned Accounts

ETF Sets Effective Rates and Post-Retirement Increases

The Department of Employee Trust Funds (ETF) established the 2004 fixed and variable effective interest rates for active Wisconsin Retirement System (WRS) members and eligible inactive members. The fixed effective rate is 8.5%; the variable effective rate is 12%. These rates are applied to the retirement accounts of all **active employees** as well as to the accounts of eligible **inactive** members.

The Department also set the annual post-retirement dividend and adjustment for retirement annuities, which were applied to the May 1, 2005 annuity payment. The fixed annuity dividend is 2.6% and the variable annuity adjustment is 7%. Approximately 32,000 retirees (out of a total of 125,000) participate in the Variable Trust, which is invested primarily in common stocks; their annuities fully reflect the gains and losses of the investments.

ETF is pleased the earnings on trust fund investments were enough to provide retirees with an increase and working members with credits to their retirement accounts. Whether the Department will pay a fixed annuity dividend next year depends on fixed trust fund investment performance in 2005. According to ETF projections:

- An investment gain of 6.3% or more is needed in 2005 to pay retirees a fixed dividend next year; and
- If the investment gain is less than 1.1%,

Rates, continued on page 2

Special Feature Inside:
Four-page insert from the State of Wisconsin Investment Board

Social Security Changes and the WRS

Editor's note: President Bush has launched a campaign to change the Social Security program. While he hasn't offered any specific proposal to revamp the program, he has cited his Commission's 2001 report to strengthen Social Security "a good blueprint to go by." While changes to Social Security would not directly affect the Wisconsin Retirement System (WRS), they could affect future retirees' total post-retirement income. Therefore, it is important to stay informed about how changes to Social Security may affect you personally.

Social Security is one "leg" of the traditional "three-legged stool" philosophy behind financing one's retirement. The other legs are pension benefits and personal savings. Traditionally, retirement planners recommend that retirees replace 75% to 85% of their pre-retirement income to adequately meet their needs. Some are now recommending replacing 90% or more due to rapidly increasing health care costs.

Problems with funding the Social Security system have been apparent for some time. Experts predict that Social Security will not have adequate funds to pay promised benefits beginning in 2042 (according to Social Security trustees) or 2052 (according to the Congressional Budget Office). The approaching retirement of the large "baby boom" generation is creating the eventual shortfall. Reductions in future Social Security benefit levels may require future retirees to close the gap with additional personal savings.

Private accounts

The President's Commission proposed three

Social Security, continued on page 2

Rates, continued from page 1

retirees could see a negative fixed dividend next year.

In other words, there will be no fixed annuity increase paid to retirees in 2006 if the State of Wisconsin Investment Board (SWIB) finalized Fixed Trust investment return for 2005 is between 1.1% and 6.3%.

What if investment returns are higher than 6.3% in 2005? The Department anticipates paying a small fixed annuity increase if the SWIB finalized Fixed Fund investment return is higher than 6.3%. For planning purposes, the Department's consulting actuaries have set a **7.8% investment return assumption** for the fund. Given the fact that SWIB finalized investment returns for 2004 were 12.7%, and assuming the fund returns exactly 7.8% each year, the accompanying chart shows **approximately** what the fixed effective rates and the fixed annuity dividends would be. Keep in mind that actual rates will be different if the fixed fund earns more or less than 7.8% each year.

Why are fixed interest rates "smoothed"? Smoothing fixed fund interest crediting has benefits for employees and annuitants. For one, it makes for less volatile interest rate crediting to the Fixed Fund. This has a stabilizing effect on future WRS employee and employer contribution rates. Another key benefit is that the fixed annuity dividends 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).

Wisconsin Retirement System

Fixed Effective Rate / Dividend Projections

	2004	2005	2006	2007	2008	2009	2010
SWIB Net Investment Return	12.7%	7.8%	7.8%	7.8%	7.8%	7.8%	7.8%
Fixed Trust Fund Effective Rate	8.5%	6.4%	8.3%	11.1%	8.9%	8.2%	8.1%
Fixed Trust Fund Dividend	2.6%	0.8%	2.5%	5.1%	3.1%	2.4%	2.4%

Social Security, continued from page 1

plans for change and all included the establishment of private accounts, in which individual account holders would decide how to invest assets. Plan 2 is most frequently cited and has two main components:

1) Allow workers to divert 4% of the total 12.4% payroll tax, up to $1,000 annually, into a private account (the remaining 8.4% of the tax would fund benefits under the traditional Social Security program); and

2) Change the method of calculating an individual's initial Social Security benefit by indexing it to price inflation rather than national wage growth.

Both components of Plan 2 are controversial. Private accounts would represent a dramatic shift in the current Social Security program. At present, Social Security is a pure defined benefit plan, under which benefits are calculated according to a formula. Under Plan 2, individuals who opt for private accounts would receive a portion of their benefit according to the formula and the remainder from whatever is in the private account at retirement.

The formula under the current program allows a degree of certainty — the Social Security Administration can estimate an individual's future benefit, which it does when it sends workers their annual benefit statements. With private accounts, the eventual payment would vary. It could be large or small, depending on how the individual invested the account assets.

Because a portion of Social Security payroll taxes would be diverted to the accounts, less money would be available to pay benefits under the traditional program.

Under the second component of Plan 2, an inflation-based factor would replace the wage-based factor. Wages generally rise faster than the inflation rate, so the change could result in a cut in future benefit.

A number of Social Security experts believe that implementing minor changes in Social Security now would resolve future funding problems. They argue that more drastic measures, such as private accounts and large benefit reductions, are not necessary. Their recommendations include changing the formula for Social Security benefit increases to an amount lower than the Consumer Price Index, lifting the cap on the maximum income subject to Social Security taxation and gradually increasing the eligibility age to 70.

Questions and Answers About the Annual Statement of Benefits

Each year, the Department of Employee Trust Funds (ETF) issues an annual Statement of Benefits to all participants in the Wisconsin Retirement System (WRS). The following are answers to some of the most frequently asked questions.

When is the Statement of Benefits produced each year? The statements are produced and distributed each year starting in mid-April. Statements are issued to active employees and inactive participants who continue to have funds in the WRS. Active employees receive their statements through their employers; ETF mails them to all inactive participants using their home addresses on record.

Why does it take so long to produce the statements each year? Employers are required to pay the required employer and employee contributions to ETF on a monthly basis. By the last day of January, they must also report, for each employee, the previous year's service and earnings. Once those reports are in, the Department must reconcile the monthly reports with the annual reports, and only then can account balances get finalized and statements of benefits produced. Since there are nearly 268,000 WRS-covered employees and 1,400 employers, this process takes over two months to complete.

Can I get a duplicate statement if mine has been lost? After May 1 of each year you can request duplicate statements for the previous year.

What if there is wrong employment information on the statement? If, after reviewing your statement you find information that is incorrect, please contact your current employer.

Can I add additional money to my account and how much? Yes, you are able to add additional contributions to your account each year. You'll find instructions for how to calculate the amount allowed under the Internal Revenue Service Code in our *Maximum Voluntary Contribution Worksheet* (ET-2566), which can be found on the Publications menu of our Internet site, http://etf.wi.gov.

Board Corner

Teachers Retirement Board Needs Candidates

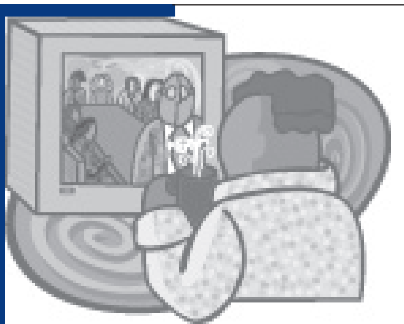
Teachers: Are you interested in working on behalf of fellow retirement system participants by serving on the Teachers Retirement (TR) Board? The TR Board is an important part of the Wisconsin Retirement System (WRS). This 13-member body advises the policy-setting Employee Trust Funds (ETF) Board on a variety of retirement and other benefit issues.

ETF provides an orientation to all board members through an educational program covering a wide range of subjects and board member functions and responsibilities. Topics include the purpose and structure of the Boards that govern ETF; fiduciary responsibilities; board meetings; and information on ETF's statutory authority, organization, major programs, and funding.

In September, ETF will issue a call for nomination papers for active teachers in elementary and secondary schools (excluding the Milwaukee Public School District) interested in serving on the TR Board. A total of three candidates are needed, including one to fill a vacancy due to the resignation of a teacher participant last fall. In addition, the terms of two other current Board members will expire in the spring of 2006.

Look for further news and information, including the availability of nominating papers and filing deadlines, in the September issue of *Trust Fund News*. More information on Board schedules, agendas, and membership can be found on our Internet site at http://etf.wi.gov/gov_boards.htm.

Langyel Named to Teachers Retirement Board
Michael Langyel, a math teacher in the Milwaukee Public Schools (MPS) district, has been appointed to the Teachers Retirement Board. Langyel filed nomination papers following last fall's *Trust Fund News* announcement that the term of the current MPS participating teacher member would expire in May. As a result, Langyel was automatically seated and no election was held. His five-year term began May 1, 2005.



Department Offers Two Informative Presentations On Line

The Department now has two informative on line presentations available for viewing anytime day or night from the comfort of home — or any location with Internet access. They are as follows:

Your Statement of Benefits

This one-hour presentation explains the information provided on the annual Statement of Benefits. It covers creditable service, the money purchase value of accounts, employer and employee contributions, beneficiaries and making additional contributions. We recommend that participants have their Statement of Benefits in hand while watching the presentation. **Note: This program will be available for viewing after May 17, 2005.**

Your Wisconsin Retirement System Benefits

This two-hour presentation, taped before an audience of state employees, covers WRS retirement, separation and survivor benefits, as well as health and life insurance. Topics exclusive to local government and protective category employees are not covered in depth.

There are some minimum technical requirements for viewing these presentations:

- You must have a computer with 16+ MB RAM and a sound card. You will also need a Web browser, such as Microsoft Internet Explorer or Netscape, and streaming player software, such as Windows Media Player 9.0.
- Dial-up modems need to be a minimum of 56 kbps. If you have DSL or Cable (broadband) connections, you should encounter no problems.

To view these programs, look for the links in the "News" section of our Internet site, http://etf.wi.gov.

Keep Your Beneficiary Designation Up to Date

If you have a Wisconsin Retirement System (WRS) account with a death benefit or life insurance benefit that would be payable upon your death, you may update your designation by filing our *Beneficiary Designation* form. Simply stating who you want to be your beneficiary(ies) in a letter or e-mail sent to the Department of Employee Trust Funds (ETF) does not change your beneficiary designation. You must file the Department's form in order for your designation to be valid.

Under WRS law, all death benefits must be paid according to the last beneficiary designation received by the Department before your death, regardless of any changes in your personal situation. 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 former 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* on which you named your former spouse. To remove a former spouse as a beneficiary, you must file a new designation.

You can print the form from our Internet site at the following address:

http://etf.wi.gov/publications/wrs.htm

You may also obtain a form by calling our toll-free Self Service Line at 1-877-383-1888 or 608-266-2323 (local Madison).

Answers to Common Questions About Your WRS Benefits

Should I take a benefit from my Wisconsin Retirement System (WRS) account right after I terminate employment? It depends on whether you have reached your minimum retirement age (55 for most participants; age 50 for most participants with some creditable service in a protective occupation category). Prior to age 55 (50) a participant is only eligible for a separation benefit, which is a lump sum benefit consisting of employee required contributions plus interest. (Any voluntary additional contributions to your account would also be included.) When a separation benefit is taken, any years of creditable service earned are forfeited, along with all rights to the employer contributions.

It is rarely an advantage to take a separation benefit, since it involves forfeiting a minimum of half of the value of the account. There are also significant tax consequences. Unless the participant rolls the taxable portion of the separation benefit into an eligible plan, the payment will be subject to significant excise taxes in addition to income tax liabilities.

Participants who take a separation benefit and later return to employment covered under the WRS are treated as a new participant in the system. In addition to "starting over" with a new retirement account, other benefits can be affected. Example: A state employee terminates employment and takes a separation benefit, then later returns to state employment. The state does not pay any share of the health insurance premiums for the first six months after the person returns to work. If, instead of taking a separation benefit, the employee became "inactive" (did not close the account), he/she would be eligible for the state share of premiums immediately upon returning to state employment.

If you **do** take a separation benefit and later return to WRS employment, you may be eligible to purchase the years of service that you forfeited. However, the cost is based on your three highest years of earnings after you return to work, so the cost may be considerably higher than the amount you withdrew.

However, if you are age 55 (50 for protectives) when you terminate employment, **or** if you are below minimum retirement age when you terminate employment but delay taking a benefit until age 55 (50), you are eligible for a retirement benefit. Retirement benefits are based on the full value of your account, including employer contributions.

If you are age 55 (50 for protectives) you can still delay applying for your retirement annuity until you are older, and the amount of your monthly payments will normally be higher the longer you wait. **However, you must carefully consider how long it will take to recover the payments you have lost by delaying application**. Use the *WRS Retirement Benefits Calculator* on our Internet site to project your retirement benefits at different ages. Go to http://etf.wi.gov and look for the calculator icon in the upper left corner.

Another point to consider is that if you die as an inactive participant, the death benefit will consist of the employee required contributions only; the employer contributions will not be included in the death benefit. Consequently, if providing for your spouse or other beneficiary(ies) is a consideration, you may wish to apply for a retirement benefit. Any death benefits payable upon your death will depend on the annuity option that you selected.

Does the reason why I leave employment affect my WRS benefit eligibility? You must terminate all employment covered under the WRS to be eligible for a benefit from your WRS account. No benefits are payable while you are on leave of absence, since you are still an employee. However, once you have terminated employment, it does not matter why you terminated; your WRS benefit rights are the same regardless of whether you resign, are discharged, or are laid off. WRS benefits are an earned right, and the type of benefit for which you are eligible is based only on your age. Exception: if you leave employment due to a disability, you should contact the Department immediately about eligibility for disability benefits before you apply for a separation or retirement benefit. Disability benefits are normally higher than retirement benefits, but once a separation or retirement benefit is taken, you are no longer eligible for a disability benefit.

Can I get a lump sum benefit when I retire? Retirement benefits are normally only payable as a monthly annuity paid to you for life, with a num-

Questions, continued on page 6

Questions, continued from page 5

ber of annuity options available providing different levels of death benefit protection. You are only eligible for a lump sum retirement benefit if your account is too small to pay an annuity of at least $289* per month.

**The $289 amount is increased annually based on the national salary index.*

What do I need to do to apply for my retirement benefit? Contact the Department six to twelve months before you plan to retire to request a retirement estimate packet. Your packet will include estimated amounts for the various annuity options, a retirement application, information about the taxability of your benefits, and information about continuing any health and life insurance benefits administered through this Department.

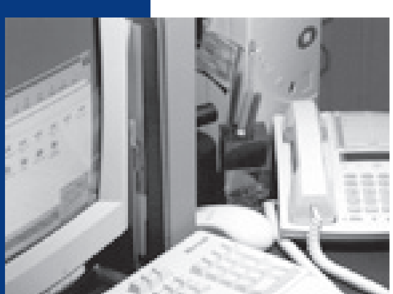
Is there a "magic number" of combined years of service and age that will give me an unreduced retirement benefit (e.g. the "rule of 85")? No, there is no such "magic number." For participants in all employment categories other than protective, a participant with 30 years of service can get a formula retirement benefit with no actuarial reduction at age 57. If you have less than 30 years of service, there will be some actuarial reduction for early retirement if you retire before age 65 (age 62 for elected officials, executive retirement plan participants and judges).

However, actuarial reductions are calculated based on years of service as well as age; the more service a person has, the less the actuarial reduction will be. Protective occupation participants with at least 25 years of creditable service can get an unreduced formula benefit at age 53; with less than 25 years an unreduced benefit is payable at age 54.

Note: Your retirement benefit will always be the higher of the benefit amounts calculated by two methods — "formula" (based on final average earnings, formula multiplier(s) based on employment category(ies), years of service, and any actuarial reduction for early retirement) and "money purchase" (based only on the dollar balance in your WRS account and your age when your benefit begins). The concept of an "unreduced benefit" is not applicable to money purchase retirement benefit calculations. Currently, over half of all new retirement benefits are higher under the money purchase calculation.

Do I need to tell ETF when I start receiving Social Security benefits? Is my annuity "offset" by Social Security? Normally you do not need to notify the Department when you begin receiving Social Security benefits, since Social Security benefits are not offset from your WRS annuity. This is true even if you selected an accelerated payment option (formerly called Social Security Integrated options), which pays a higher benefit until age 62 when you can apply for a Social Security benefit.

There is an exception: if you are a protective occupation participant receiving duty disability benefits under s. 40.65, Wis. Stat. due to a permanent work-related disability. Most sources of income are offset from your duty disability benefits, including any Social Security benefits; unemployment compensation; worker's compensation; separation; retirement or disability benefits from any retirement system (including the WRS); and earnings from any employer or self-employment. You must notify the Department within 30 days after receiving any income that must be offset from your duty disability benefit. A booklet entitled *40.65 Duty Disability and Survivor Benefits* (ET-5103) is available that provides more detailed information about the income that must be offset from duty disability benefits.



Annuitants: Sign Up to Receive *Trust Fund News* On Line

Registration is ongoing for retired participants of the Wisconsin Retirement System (WRS) who want to receive *Trust Fund News* electronically, via E-routing. So far, more than 450 retirees have signed up. E-routing, a service of the Department of Administration, Division of Enterprise Technology, offers automated delivery of communications, including *Trust Fund News*, that originate from state agencies. Retired WRS participants who register for the service voluntarily forego receiving a paper copy of the newsletter and instead read it on line. Trust fund dollars are saved through lower costs for paper, postage and handling. All you have to do is to register on the E-routing database with a current e-mail address and then select *Trust Fund News* for E-routing delivery. You can sign up for E-Routing on line at the following address:

http://wsp3.state.wi.us/state/erouting

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 latest 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

Adkins, Herbert B.
Alligood, Charles E.
Banks, Georgia A.
Birnbaum, Marilyn B.
Booker, J.D.
Bosch, Joe
Bryan, Clifford R.
Burlingame, Vonnie L.
Coenen, Thomas H.
Coleman, Mary E.
Dahlman, Barbara
Davis, Lytton V.
Diny, Cecilia C.
Edling, Frederick B.
Ey, Marilyn H.
Fisher, Joann K.
Grice, Earl A.
Grubman, Roberta R.
Havens, Joann S.
Heard, Norman F.
Hinrichs, Donna J.
Hissa, Edwin A.
Holt, Mary L.
Huang, Bernadette C.
Huesler, Corrine
Hughes, Betty J.
Johnson, Merle
Johnson, Roy
Kirkendall, Alan L.
Koepcke, Kayleen J.
Kollerjahn, Jack A.
Krueger, Paula
Landau, Nina S.
Leach, Marcia A.
Leck, Gerald L.
Miller, Shirley M.
Munoz, Ysrael V.
Mussara, Esther F.
Nelson, David L.
Nevin, Noel M.
Pamanet, Jr., Louis E.
Pope, Dawn C.
Ramer, Richard C.
Riley, Margaret F.
Roy, Prabir
Rugzie, Ronald E.
Sandstrom, Ann S.
Schmidt, George A.
Schmidt, Henry M.
Schneck, Robert J.
Schuetz, Pearl V.
Sharpless, Elwood
Simmonds, Mary L.
Skowland, Kay M.
Smith, Mary C.
Sullivan, Beverly L.
Swanson, James E.
Swiggum, Rose M.
Turner, Sonya J.
Vitense, Beverly J.
Watling, Gertrude C.
Wheaton, Warren P.
Williams, Theresa E.
Wolf, Frank
Wynes, Thomas P.
Young, Dianne

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.
Gehrke, William
Gelman, Mary
Gavelek, Rose
Hyde, Helen
Lord, Helen B.
Lorenz, Leona
Ruffalo, Emil
Sehrt, Naomi

Did You Know?

- In 2004, the Department of Employee Trust Funds (ETF) paid out nearly $2.8 billion in retirement benefits to 126,000 retired state and local government employees, 90% of whom reside in Wisconsin.
- The oldest living Wisconsin Retiremen System (WRS) annuitant is 109 years old.
- For all annuitants, the average annuity for 2004 was $22,552.
- Of those who retired prior to 1965, 318 individuals are still receiving annuity payments!

*sources: *ETF annuity payment records; Wisconsin Retirement System 22nd Annual Actuarial Valuations of Retired Lives, December 31, 2004.*

Department of Employee Trust Funds
PO Box 7931
Madison, WI 53707-7931

http://etf.wi.gov

FORWARDING SERVICE REQUESTED

PRSRT STD
US POST PAID
MADISON WI
PERMIT NO. 2798

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.

Department Secretary	Eric Stanchfield
Deputy Secretary	David Stella
Editor	Nancy Ketterhagen

Call Toll-Free:
1-877-533-5020 or (608) 266-3285
Have your Social Security Number available.

TTY: (608) 267-0676
For an an appointment in Madison:
(608) 266-5717

For an appointment in Milwaukee:
(414) 227-4294

Send an e-mail via our Internet site:
http://etf.wi.gov

Telephone Message Center:
1-800-991-5540 or (608) 264-6633
Listen to pre-recorded messages on a variety of WRS topics.

Toll-Free Self-Service Line:
1-877-383-1888 or (608) 266-2323
Request ETF forms and brochures, report home address changes, or make tax withholding changes (annuitants only).

Write Us:
ETF, P.O. 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 listed above. Include SSN, signature, and old and new addresses.*

ETF Fax Number:
(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.