

Trust Fund News



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Toll free: 1-877-533-5020
(608) 266-3285
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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.

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

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%, retirees could see a negative fixed dividend

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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

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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 benefits.

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.

When is the Best Time to Apply for a Retirement Benefit?

Many participants with inactive WRS accounts wonder when would be the best time to take a benefit. The answer depends on many factors, including a person's own financial situation. However, there are some general facts that may help you decide when the time is right.

If you are below your minimum retirement age, you are only eligible for a separation benefit, which is a lump sum payment of the employee contributions in your retirement account plus accumulated interest. Any voluntary additional contributions in your account (plus accumulated interest) are also included in your payment. Here's what you would forfeit if you take a separation benefit:

- All of the earned creditable service you have accrued;
- All of the employer contributions that would be included in your benefit if you waited until you reached minimum retirement age and were eligible for a retirement benefit.* *The minimum retirement*

age for most participants is age 55, and age 50 for most participants who have some creditable service in a protective occupation category.

It is rarely to your advantage to take a separation benefit, since it involves forfeiting at least half of the value of your account. Furthermore, if you do not roll the taxable portion of your separation benefit into an eligible plan, your payment will be subject to significant excise taxes in addition to income tax liabilities.

* Vesting Requirement: If you began WRS employment after 1989, terminated employment before April 24, 1998, and have service in less than five calendar years, you are only eligible for a separation benefit. This is true even after you reach minimum retirement age. However, if you leave your WRS account intact and return to covered WRS employment at any time, you will immediately be vested and eligible to receive a retirement benefit based on your entire WRS account after reaching minimum retirement age.

When to apply, continued on page 4

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>.~~



Once you have reached **minimum retirement age**, you are eligible for a retirement benefit based on the full value of your account. When would be the best time to apply depends on many factors, including your personal financial situation and how it would affect your tax liabilities, but consider these **KEY** facts:

- If you die as an inactive participant, the death benefit will consist of the employee required contributions only. The employer contributions cannot 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, which will be based on both your employee and employer contributions. Once your annuity begins, the death benefits payable upon your death will depend on the annuity option that you selected.
- If your monthly retirement annuity is calculated to be \$143 per month or less, you are restricted to a lump sum retirement benefit. If your monthly annuity would be more than \$143, but less than \$289, you may choose between a lump sum retirement benefit and a monthly annuity payable to you for life. If your annuity is at least \$289 per month, you are restricted to a monthly annuity; a lump sum is not available.*

**The \$143 and \$289 amounts increase each year, based on the national salary index.*

- The Department calculates your retirement benefit based on both the formula and money purchase methods and pays the higher of the two benefit calculations. The formula calculation is based on your three highest years of earnings, formula multiplier(s) based on your employment category, your years of WRS creditable service, and any applicable actuarial reduction for early retirement. The money purchase calculation is based on your account balance and your age at the time your annuity begins. The more time that elapses between your WRS termination date and the date your retirement annuity begins, the more

likely your annuity is to be higher under the money purchase calculation.

- If you delay applying for your retirement annuity until you are older, the amount of your monthly payments is normally larger when you do apply. However, you must also consider how long it will take to recover the payments you have lost by delaying your application. To help you decide the best time to apply, use the *WRS Retirement Benefits Calculator* on our Internet site, <http://etf.wi.gov>.
- Your annuity can never be backdated more than 90 days prior to the date that the Department receives your retirement benefit application. Furthermore, if you have an inactive WRS account when you apply for your retirement benefit, your monthly annuity must begin on the first of a month, so it may not be possible to backdate your annuity the full 90 days. The Department can accept your application up to 60 days before your annuity begin date.
- You should contact the Department to request a retirement estimate packet approximately six to twelve months before the date that you plan to begin your retirement benefit. We can only prepare retirement estimates one year in advance of your anticipated annuity begin date. Until then, you can use the *WRS Retirement Benefits Calculator* on our Internet site, <http://etf.wi.gov>, to project your retirement benefits at different ages.

If you are an alternate payee who received a portion of your former spouse's WRS account through a Qualified Domestic Relations Order (QDRO), most of the information above applies to you, since for most purposes you are treated as an inactive participant who terminated WRS employment on the decree date. However, your eligibility for a separation benefit versus a retirement benefit is based on your former spouse's age rather than your age.

This means that you are eligible for a retirement benefit when your former spouse reaches minimum retirement age. Also, you can apply for a benefit from your alternate payee account while your former spouse is still working under the WRS; there is no requirement for your former spouse to terminate WRS employment before you are eligible to take a benefit from your alternate payee account.

ETF Offers Many Ways to Access Benefit Information

The Department of Employee Trust Funds (ETF) places a high priority on ensuring that all members have a thorough understanding of Wisconsin Retirement System (WRS) benefits in order to make well-informed decisions. We offer many ways to provide the best possible service and information. These include:

Individual appointments: Individual counseling appointments are provided in both the Madison and Milwaukee offices. A telephone appointment with one of our specialists can also be scheduled. In addition, you are welcome to stop by our offices without an appointment, Monday through Friday, from 7:45 a.m. to 4:30 p.m., but you may encounter a lengthy wait before seeing a specialist. To schedule an appointment, call (608) 266-5717 (Madison office) or (414) 227-4294 (Milwaukee office).

Did you know that it's not absolutely necessary to see a specialist in order to apply for benefits or make other important decisions? There are other ways to get the information you need to make an informed decision:

Small Group Appointments: The Madison office now conducts three group counseling appointments per week. These are for members who have their retirement packets and are within one year of retirement.

Large Group Presentations: About 13,000 members attend WRS public benefit presentations every year. The standard presentation includes opportunities to ask questions. ETF conducts presentations each spring and fall in approximately 15 locations throughout the state. To view the fall 2005 schedule, or to see a

taped benefit presentation online, visit the "News" section of our Internet site at the following location: <http://etf.wi.gov/news.htm>.

Informational Brochures: Extensive benefit information is provided in our booklets and brochures, which are all available on our Internet site. You may also request paper copies.

Call or Write the Department: Dial toll-free 1-877-533-5020 or (608) 266-3285 (local Madison) to talk with a benefits specialist between the hours of 7:45 a.m. and 4:30 p.m., Monday through Friday. Write to us at P.O. Box 7931, Madison, WI 53707-7931.

Internet Site: Our Internet site, <http://etf.wi.gov>, provides comprehensive information as well as key forms and brochures. The site also has calculators, links to statutes and rules, benefit summaries, program information, and more. Send us an e-mail through the "Contact Us" button on our Internet site.

Annual Statement of Benefits: Each year, you receive an annual *Statement of Benefits* showing your WRS account balances, service, average monthly earnings, benefits earned to date, etc.

Telephone Message System: Our Telephone Message System provides 120 pre-recorded messages about a wide variety of benefit-related topics. This system is available 24 hours a day, 7 days a week, and is particularly helpful to those who do not have Internet access. Call 1-800-991-5540 or (608) 264-6633 (local Madison).

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 automati-

cally 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>. To request a form, call our toll-free Self Service Line at 1-877-383-1888 or 608-266-2323 (local Madison).

Department Offers Two Informative Presentations On Line

The Department of Employee Trust Funds (ETF) 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 audi-

ence 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 the presentation:

- 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.
- Internet connection: 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>.



Check out On Line WRS Calculators

The Department has calculators available on our Internet site that can be used as a tool to help project future Wisconsin Retirement System (WRS) retirement benefits. The calculators do

not access the data in member accounts; participants must enter the information necessary for the calculations. Consequently, there is no risk for unauthorized access to confidential data.

Retirement Benefit Calculator

This calculator enables a person to project your retirement benefits. Simply enter information about your account projected to the date you are considering beginning your retirement benefit. The calculator will project retirement benefit amounts for all of the eligible options. This calculator is now able to perform formula benefit calculations using creditable service in multiple employment categories (e.g., if you have service in the general and protective

categories). It will also calculate money purchase retirement benefits based on the projected account balance that you enter.

The calculator does not provide official WRS estimates, and there is no guarantee that anyone will receive the projected amounts. If you are considering applying for a retirement benefit within the next year, we recommend that you contact the Department to request an official retirement estimate packet.

Variable Excess/Deficiency Update Calculator

If you participate or have participated in the variable trust fund, you have a variable excess or deficiency balance in your account. This calculator can help you update the variable excess or deficiency balance from your last annual Statement of Benefits, based on projected fixed and variable rates that you enter. It can also tell you how much your variable excess or deficiency would increase or decrease your formula retirement benefit at your projected retirement age.

If you left your variable contributions invested in

Calculators, continued on page 7

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

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, Madi-

son, 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	Ervin, Irene E.	Gavelek, Rose	Lorenz, Leona
Bell, Esther	Gehrke, William	Hyde, Helen	Ruffalo, Emil
Disrud, Norman	Gelman, Mary	Lord, Helen B.	Sehrt, Naomi

Calculators, continued from page 6

the variable fund but are considering canceling your variable participation, the new calculator may be useful as a tool to help you make a decision. If your variable contributions were already transferred to the fixed fund because you cancelled your variable participation, you will continue to have a "residual" excess or deficiency based on your past variable participation. You can estimate how much your excess/deficiency balance will be at the age you considering taking a retirement benefit by entering a projected average future fixed interest rate.

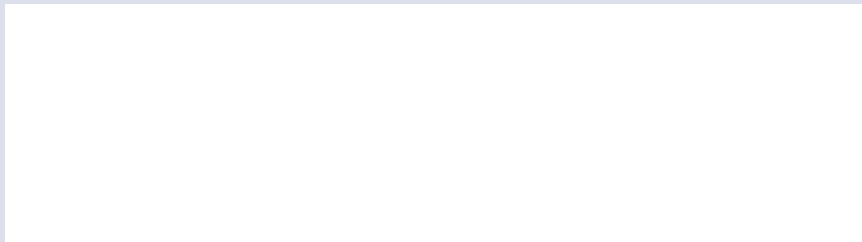
This calculator cannot provide an official update of your variable excess/deficiency balance; that information is available on the Statement of Benefits. The updated information from the calculator will only be as accurate as the projected interest rates that you enter, and future rates are difficult to predict. General information about the effects of variable participation on your WRS benefits and about canceling variable participation is available in the brochure *How Participation in the Variable Trust Affects Your WRS Benefits*.

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

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Department Secretary
Deputy Secretary
Editor

Eric Stanchfield
David Stella
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 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.