

Trust Fund News



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INSIDE

2

Questions and Answers on
Variable Participation

3

Consider Accelerated
Payment Options Carefully

4

What's New on ETF's
Internet Site?

Statement of Benefits

5

New Information on Military
Service Credit

6

Board Corner

Department to Mail
Tax Forms

7

Spring Public Presentation
Schedule Announced

Small Group Retirement
Counseling Sessions

Variable Fund Participation: Investment Risks and Rewards

-- by David C. Mills, executive director, State
of Wisconsin Investment Board

Trust Fund News Guest Article

People often call wanting to know what choice they should make about participating in the Variable Fund. While the Investment Board can not provide advice, we can offer investment and performance information that can help you make the best choice.

Variable Fund participation is a very personal decision and should be based on individual circumstances, including years until retirement and other personal investments that provide retirement funding. Some financial advisors and planners suggest that people who are near retirement or have already retired may want to consider more conservative investments, which may include having fewer stocks. Participating in the Variable Fund results

in greater stock exposure in your pension fund account.

The Variable Fund is invested in stocks only, while the Core Fund stock investments total about 58% of that fund. Participants in the Variable Fund are exposed to a higher degree of investment risk, trading possible losses from unfavorable stock market performance for the potential of higher long-run returns. The Core Fund is a fully diversified, balanced fund that includes a mixture of bonds, real estate, private equity and business loans. This helps to stabilize the effects of market changes.

In addition, Variable Fund investment returns have a more direct effect on par-

Variable, continued on page 2

Department Acts to Resolve Customer Service Challenges

In the last issue of *Trust Fund News*, we shared the significant service challenges facing the Department. We noted that although the Wisconsin Retirement System (WRS) is in excellent financial shape, the Department of Employee Trust Funds (ETF) will be challenged to provide basic services to members as more "baby boomers" retire. We said we would need to seek additional resources, and we have.

In September, Secretary Stanchfield, with the support of the ETF Board, submitted to the Department of Administration a proposed budget for the next two years. The proposal seeks an increase in resources and administrative flexibility to help us provide such core services as retirement estimates, survivor benefit processing, pre-retirement

counseling, and post-retirement assistance in a timely manner. These additional resources are necessary in order to meet our obligation to effectively serve public employees and retirees around the state.

Funding will not come from general tax revenue. Instead, a small portion of the investment returns of the Public Employee Trust Fund will be used. By law, the monies placed in the Trust Fund may only be used to pay and to administer WRS benefits. Our current operating budget is funded entirely from the Trust Fund investment earnings; the additional resources we seek would be funded in the same way.

We will keep you posted on the status of our budget proposal in future issues of *Trust Fund News*.

Variable, continued from page 1

ticipants' accounts at the end of each calendar year, while the impact of Core Fund returns is smoothed over five years. Because of the movement of the stock market, participants who choose to participate in the Variable Fund are likely to see a wide range of changes in the Variable portion of their account compared to the Core Fund portion.

The stocks in the Variable Fund are the same as those in the Core Fund. The Variable Fund's investments are diversified across large, mid-size, and small capitalization companies in the U.S., and by region internationally to help reduce risk. Assets are generally invested in equities with 79% in domestic stocks, 20% in international stocks and 1% in cash. The allocation between domestic and international stocks is reviewed annually.

During various times in history, including the late 1990s and again in 2003, the stock markets experienced exceptionally strong returns. There are also periods when the stock market performed poorly, most recently from

2000 to 2002. Historically, stocks have outperformed more conservative fixed income investments over the long term. However, the investment performance of the two funds -- based on a 20-year annualized total return ending December 31, 2005 -- were similar: 10.2% for the Core Fund and 10.3% for the Variable Fund.

This similar performance, can be attributed, in part, to changes in assets with the percentage of stock investments in the Core Fund increasing over several decades. In the last several years, the Core Fund has also benefited from exceptional returns from real estate and other private market investments that outperformed stocks.

Further information about Variable Fund investments, including a 20-year comparison of Core and Variable Fund annual returns, can be found at the State of Wisconsin Investment Board's Internet site: <http://www.swib.state.wi.us>.

Questions and Answers on Variable Participation

How does Variable Trust Fund participation affect my Wisconsin Retirement System (WRS) retirement benefits? It depends on how your benefit is calculated. There are two methods of calculating retirement benefits, the formula method (based on creditable service, final average earnings, a formula multiplier, and your age), and the money purchase method (based on your account balance). By law, the WRS always pays the higher of the formula or money purchase benefit calculations. Variable Fund participation will increase or decrease any benefits you are entitled to that are calculated based on your account balance (a separation benefit, a money purchase retirement annuity, and death benefits), because Variable Fund gains and losses directly affect your account balances.

Participation in the Variable Fund also affects your formula retirement benefit calculation. When you retire there is a "variable adjustment" to your formula annuity, based on the amount of your variable "excess" or "deficiency." Your variable excess or deficiency, shown on your annual *Statement of Benefits*, is the difference between your actual WRS account balance and the amount that would be in your account if you had never participated in the Variable Fund. If you have more money in your account because of your participation in the

Variable Fund, the "variable excess" will be used to increase your formula annuity. However, if your account balance is lower, your "variable deficiency" will result in a reduced formula annuity.

What if I cancel variable participation before I retire? You will still have a variable excess or deficiency. In fact, the excess or deficiency amount at the time your Variable Funds are transferred to the Core Fund will be credited with core effective rate interest each year until you take a benefit. This means that if your account is "ahead" (you have a variable excess), the amount of your excess will increase each year based on the annual Core Fund effective interest rates. However, if your account is "behind" (you have a variable deficiency), the deficiency amount in your account would also grow larger each year until you take a benefit.

For more detailed information, see the Department's brochure, *How Participation in the Variable Trust Affects Your WRS Benefits* (ET-4930). You will find it on our Internet site at the following address: <http://etf.wi.gov/publications/et4930.pdf>, or call us to request a copy.

It is critically important to understand how participation in the Variable Fund may affect your retirement benefit so that you can make an informed and careful decision about your financial future.

Consider Accelerated Payment Options Carefully

The Wisconsin Retirement System (WRS) offers a variety of monthly annuity payment options. One popular choice available only to those who retire before age 62 is the *accelerated payment* option. This option pays a higher annuity amount until age 62 (at which time the retiree is eligible for Social Security benefits) and then a lower amount after age 62.

The intent of this option is for the monthly WRS annuity payment received before age 62 to be approximately the same as the combination of the reduced WRS annuity received after age 62 and the Social Security benefit. Receiving a higher benefit in this way is an attractive option for many members – by “bridging the gap” from retirement to Social Security eligibility, the option enables them to afford to retire sooner than they would have otherwise been able.

However, the Department often gets questions from soon-to-be-62-year-old retirees who chose the accelerated payment option at retirement. The questions come shortly after we notify them that their monthly annuity payment will be reduced once they turn 62. These retirees have either forgotten that they chose the accelerated payment option or never fully understood the consequences of making this selection. Typical questions include the following:

I didn't apply for Social Security. Why is my monthly annuity decreasing? The accelerated payment option assumes that you will apply for Social Security when you turn 62. Once the option is selected at retirement, it cannot be changed after you reach age 62 even if you decide not to apply for Social Security. If you do not plan to begin receiving Social Security at age 62, you may not want to select this annuity option unless you have other resources to replace the dollars by which your WRS annuity will decrease at 62.

Why is the amount of the decrease different than my actual Social Security benefit? Remember that the objective of this option is for the total before-age-62 monthly annuity amount to be approximately the same as the combination of the after-age-62 monthly annuity and the Social Security benefit. Two things typically cause this difference:

- Technically, an accelerated payment annuity consists of two separate monthly annuities: one is a life annuity in the option selected at retirement that will continue past

the age of 62; the other is a *temporary* annuity that ends when the member reaches age 62. When the annuity begins, the amount of the temporary annuity is equal to the amount of the projected age-62 Social Security benefit.

However, post-retirement annuity adjustments (dividend increases or decreases) are applied each year to both the life annuity and the temporary annuity. Thus, the temporary annuity amount is likely to change before the participant turns 62. Consequently, when the temporary annuity ends at age 62, the amount that the total annuity decreases may no longer be equal to the amount of the person's incoming Social Security benefit. If the temporary annuity increased substantially since the annuitant retired, the member could experience a significant decrease in total income at age 62.

- Additionally, ETF must estimate the amount of Social Security you will be eligible for at age 62. Generally, we must make our estimates based on generic Social Security tables. The amount determined from these tables could be significantly different than your actual Social Security benefit. In order for ETF to more accurately estimate this amount, we recommend that before you retire you send us a Social Security Administration benefit projection letter that is based on your actual retirement date. We will then use that projection to calculate your accelerated payment options.

If I die before reaching age 62, will my survivor continue to receive the temporary portion of my accelerated annuity? No. If a retiree dies before reaching age 62, the temporary annuity stops immediately. It does not continue to a named survivor or beneficiary.

Who do I contact to apply to receive Social Security benefits beginning at age 62? You must contact the Social Security Administration (SSA) – not ETF. Customer service hours are 7 a.m. to 7 p.m., Monday through Friday; dial toll-free 1-800-772-1213. People who are deaf or hard of hearing may call the TTY number toll-free 1-800-325-0778. Visit the the SSA Internet site at <http://www.ssa.gov>.

While the accelerated payment option is a popular choice for some members, it is not right for everyone. For more information about WRS annuity options, see our *Choosing an Annuity Option* booklet (ET-4117). You'll find it on our Internet site under the Publications menu, or call us to request a paper copy.



What's New on ETF's Internet Site?

<http://etf.wi.gov>

Video Library

Click on the Video Library “button” on the left side of the Department of Employee Trust Funds (ETF) homepage to quickly find all of our online presentations providing detailed information on topics of interest to Wisconsin Retirement System (WRS) members. The previously recorded presentations can be viewed at anytime from any computer with an Internet connection. Current topics covered include: how to complete a retirement application; an overview of WRS survivor benefits and the importance of keeping beneficiary designations current; how to read and understand the annual *Statement of Benefits*; an overview of WRS benefits; and how to use ETF's online calculators.

Wait Times Announcement

Unprecedented growth in the number of members eligible to retire has substantially increased the demand for many of our basic services and, consequently, the wait times are now longer. This has led to an increase in the number of inquiries from members checking on the status of their estimates, applications, and other retirement-related business. Now, members can check the “Wait Times” article in the What's New column to quickly learn how long it is taking for the Department to process certain service

requests, including: retirement estimates, separation benefit payments, death benefit payments, and lump sum retirement benefit payments.

Calculators

Retirement Benefit Calculator – enables you to project your future retirement benefits under both the formula and money purchase methods. The calculator can also perform formula benefit calculations using creditable service in multiple employment categories.

Forfeited Service Cost Calculator – allows you to calculate an unofficial estimate of the cost of buying service previously forfeited by taking a WRS separation benefit. If you forfeited service in multiple employment categories, the calculator will also display the cost by employment category.

Variable Excess/Deficiency Update Calculator (for Variable Fund participants) – calculate your variable excess or deficiency balance from your last annual *Statement of Benefits*, based on projected core and variable rates that you enter. This calculator can also tell you how much your variable excess or deficiency would increase or decrease your formula retirement benefit at your projected retirement age.

2006 Statement of Benefits Expected This Spring

The *Statement of Benefits* mailing to actively employed and inactive Wisconsin Retirement System (WRS) members for calendar year 2006 will commence in April and continue through May. The Department mails *Statements* directly to inactive members; actively employed members receive their *Statements* through their employers. Retired members do not receive a *Statement of Benefits* because they no longer have account balances. The monies in their accounts were transferred to the annuity reserve to fund their annuities.

The *Statements* reflect changes in member accounts that occurred in calendar year 2006. These changes include contributions paid by the member or his or her employer, interest credited on account balances, creditable service earned, three high years of earnings, and any changes to the account. You should carefully review your *Statement* and the

enclosed materials. If you have questions regarding your 2006 service, earnings or contributions contact your employer for an explanation. Your employer is responsible for reporting any corrections to ETF. Be sure to keep your *Statement* to reference throughout 2007. The information provided does not change during calendar 2007. Therefore, it is accurate and up to date all year long.

Online presentation

For more detailed information, the Department now offers an online presentation, *Your Annual Statement of Benefits*. This one-hour video presentation reviews information provided on the *Statement*, including creditable service, the money purchase value of accounts, employer and employee contributions, beneficiaries, and making additional contributions. The presentation is available at <http://etf.wi.gov/webcasts.htm>.

New Information on WRS Credit for Military Service

If you have served in the military, and were discharged under conditions other than dishonorable, you may be eligible for Wisconsin Retirement System (WRS) service credit for part or all of your military service. There are several ways to qualify for military service credit, all of which are explained in the Department's *Military Service Credit* brochure (ET-4122).

In addition to the one year of pre-1974 active military service credit for each five years of WRS creditable service, participants may be eligible for active military service that is a break in continuous covered WRS employment. There is no restriction on the years during which this "continuous" military service was performed. **However, if you took a separation benefit before returning to work with your WRS employer, you are not eligible for military service credit under this provision.**

You may also be eligible for additional WRS credits if you assert your rights under the federal **Uniformed Services Employment and Reemployment Rights Act (USERRA)**. The key provisions of USERRA are listed below:

- You must have left covered WRS employment to enter military service, and must have notified your employer that you were leaving to enter the military.
- You must meet one of the following criteria:
 - If you were in the military for less than 31 days, you must have reported back to work with the same WRS employer on the next regularly scheduled work day after adequate travel and rest time.
 - If you were in the military for 31 to 180 days, you must have applied for reemployment with the same WRS employer within 14 days after completing your military service.
 - If you were in the military for more than 180 days, you must have applied for reemployment with the same WRS employer within 90 days after completing your military service.
- If you qualify for retirement credit under USERRA you are treated as though you were continuously employed by your WRS employer throughout your period of military service. Your WRS account is credited with both the years of service **and** the retirement contributions that would have been credited

to your account if you had remained continuously employed. This will increase any benefits paid from your account that are based on the dollar balance of your account (separation benefits, active or inactive death benefits and money purchase retirement benefits), as well as any benefits based on your years of creditable service (formula retirement benefits and WRS disability benefits).

You are responsible for paying any employee contributions to the Department that you would actually have paid had you remained employed, and the employer is responsible for any contributions that they would have paid on your behalf plus the accrued interest on both the employee and employer contributions.

It is important that you assert your rights under USERRA as soon as possible after you return to work with your WRS employer. This can avoid significant interest charges on late-reported contributions, and assures that you will retain your rights to WRS service credits and contributions under USERRA.

- If you took a separation benefit before returning to work with your WRS employer, since you are deemed to have been continuously employed your separation benefit is considered paid in error (and therefore constitutes an overpayment). Your account is restored as though you had never taken the separation benefit, **and you must repay your separation benefit plus interest.** If you have already bought back part or all of your forfeited service, your service purchase payment(s) will be applied to your overpayment.

The *Military Service Credit* brochure (ET-4122) can be found on the Department's Internet site at <http://etf.wi.gov/publications/et4122.htm>, or call us to request a paper copy.

Annuitants: Receive Newsletter Online

Registration is ongoing for retirees who want to receive *Trust Fund News* online, via E-Routing. A service of the Department of Administration, E-Routing offers e-mail notification of the availability of the latest issue of *Trust Fund News*. Members voluntarily forgo receiving a paper copy and instead read it online. Register on the E-Routing database with a current e-mail address and select *Trust Fund News* for E-Routing delivery. To learn more, go to the registration center at the following address: <http://wsp3.state.wi.us/state/erouting>

BOARD CORNER

The Department of Employee Trust Funds (ETF) is set to conduct three separate board elections. Ballot distribution will take place in late January, with results announced at the March retirement board meetings. The successful candidates' terms of office begin May 1, 2007.

ETF Board

WRS Annuitant Member

Nine candidates filed election papers for this election. Ballots will be mailed to all Wisconsin Retirement System (WRS) retirees at their home addresses on file with the Department. Retirees select **one** candidate of their choice.

The candidates are as follows:

Michael T. Lew, Wisconsin Dells
Theron H. Fisher, Onalaska
Robert Duero, Brookfield
James A. Gruentzel, Waunakee
Christine M. Williams, Sparta
Gary Tveten, Greenfield
Robert Cavanaugh, Manitowoc
James P. Egan, Eau Claire
Rose Bowen, Oconto

ETF Board

Educational Support Personnel Employee Member

Two candidates filed election papers for this election. Ballots will be distributed to all educational

support personnel employees in school districts and technical college districts through their employers. Voters select **one** candidate of their choice.

The candidates and their employers are as follows:
Kathleen Kreul, Southwest Wisconsin Technical College
Steven J. Eichman, School District of Janesville

Teachers Retirement Board

Active Teacher Members

Four candidates filed election papers for this election. There will be one election to select two candidates. Ballots will be distributed to all active teacher participants in the WRS (excluding the Milwaukee Public School District) through their employers. Voters select **two** candidates of their choice.

The candidates and their employers are as follows:
Leonard J. Herricks, Oshkosh Area School District
David L. Wiltgen, Eau Claire Area School District
Philip R. Freye, Sauk Prairie School District
Steven A. Scheible, Eau Claire Area School District



Department to Mail Tax Statement Forms

The Department of Employee Trust Funds (ETF) is set to mail *1099-R* forms to annuitants' home addresses in January. If your address has changed since receiving a *1099-R* form last year, and you have not reported it to ETF, please notify the Department of the change as soon as possible. If you are receiving a monthly annuity, this form is required for purposes of filing 2006 income tax returns. The *1099-R* form includes information such as the total and taxable amounts of the annuity for the past year, the unrecovered balance of your Investment In Contract (the portion of your retirement account that was actually paid by you from after-tax dollars), and the amounts of federal and state tax withheld.

Important Note: If you are receiving more

than one annuity from the Wisconsin Retirement System (WRS), such as an "accelerated payment option" or a beneficiary annuity, you will get a separate *1099-R* form for each annuity. The forms are sent in separate envelopes and, depending on postal delivery, may arrive on separate days. The **combined amounts** on these *1099-R* forms equal the total that you received in payments from the WRS in 2006. For most individuals, the total 2006 income tax withheld may be reflected on just one of the *1099-R* forms, not divided between the two forms.

If you do not receive your *1099-R* form by January 31, if it is lost or destroyed, or if you need to report an address change, please contact us toll-free at 1-877-533-5020 or (608) 266-3285 (local Madison).

ETF Sets Spring Public Presentation Schedule

The Department of Employee Trust Funds (ETF) has scheduled free, public presentations for Wisconsin Retirement System (WRS) participants, especially those considering or planning retirement in the near future. ETF specialists will discuss WRS retirement, death, and separation benefits, as well as health and life insurance benefits. Presentations run from 7 p.m. to 9 p.m., unless otherwise noted. No reservations are needed. All locations are handicapped accessible.

Watch a previously-recorded public presentation, *Your WRS Benefits*, online at <http://etf.wi.gov/webcasts.htm>

Public Presentations

<u>City/Area</u>	<u>Date</u>	<u>Location</u>
Appleton	Tues., March 13	Fox Valley Technical College-Cafeteria, 1825 N. Bluemound Dr., Appleton
Ashland	Thur., March 15	Ashland High School-Auditorium, 1900 Beaser Ave., Ashland
Black River Falls	Tues., March 20	Black River Falls Middle School-Lunda Theater, 1202 Pierce St., Black River Falls
Cleveland	Mon., April 9	Lakeshore Technical College-Multipurpose Rm., 1290 N.Ave., Cleveland
Eau Claire	Thur., Feb. 15	Chippewa Valley Technical College-Auditorium Rm. 103, 620 W. Clairemont, Eau Claire
Janesville**	Sat., March 3	Parker High School-Cafeteria, 3125 Mineral Point Ave., Janesville
**8:30 a.m. to 11:30 a.m. Program hosted by the Janesville chapter of the Wisconsin Retired Educators' Association (WREA). Includes presentations by Social Security representatives and the WREA at 8:30 a.m. WRS presentation begins at 9:30 a.m.		
Jefferson	Mon., Feb 19	Jefferson High School-Auditorium, 700 W. Milwaukee St., Jefferson
Madison	Wed., April 4	Madison Area Technical College-Mitby Theater, 3550 Anderson St., (Truax Campus), Madison
Marinette	Wed., March 7	Marinette High School-W.J. Jones Auditorium, 2135 Pierce Ave., Marinette
Milwaukee	Tues., March 6	Milwaukee Area Technical College-Rm T207 Auditorium, Corner of 6th St. and Highland Ave., Milwaukee
Platteville	Wed., Feb. 21	UW-Platteville, Pioneer Student Center, 1 University Plaza, Platteville
Port Washington	Tues., April 17	Port Washington High School-Auditorium, 427 W. Jackson St., Port Washington
Rhineland	Thur., March 22	Nicolet Area Technical College-The Nicolet Theater, College Dr. and Hwy G, Rhineland
Stevens Point	Wed., Feb. 28	UW-Stevens Point, Collins Classroom Center, Rm. 101, Corner of Isadore St. and Fourth Ave., Stevens Point
Viroqua	Wed., March 21	Viroqua Elementary School-Cafetorium, 115 N. Education Ave., Viroqua

ETF Offers Small Group Retirement Counseling Sessions

The Department of Employee Trust Funds (ETF) offers small group retirement counseling sessions for Wisconsin Retirement System (WRS) members approaching retirement. The two-hour sessions, designed for up to eight participants and their guests, are held three times a week in the Madison ETF office, located at 801 W. Badger Road. Sessions begin at 1:00 p.m. on Mondays and Wednesdays; and at 8:30 a.m. on Thursdays. The Department also conducts small group counseling sessions at its Waukesha office, located at 141 Northwest Barstow St. Please call for availability.

ETF specialists provide a step-by-step explanation of the retirement estimate and application process and an overview of post-retirement changes. Participants may ask questions

throughout the session and, in fact, often benefit from the questions and comments on the retirement process shared by other attendees. Small group retirement sessions provide participants with an alternative to scheduling individual appointments, which, due to demand, can require a wait of four to six weeks.

To schedule a group counseling appointment at either the Madison or the Waukesha office location, call ETF toll free at 1-877-533-5020 or (608) 266-5717 (local Madison). Group counseling 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.

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FORWARDING SERVICE REQUESTED



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or dial (608) 264-6633

Have your Social Security number available.

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or 1-800-947-3529

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.