

Trust Fund News



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*Developing and delivering
quality benefits and services
to members while safe-
guarding the integrity of the
Trust Funds.*

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2009 Preliminary Investment Returns Announced

Annuity Reductions Expected

The State of Wisconsin Investment Board (SWIB) has announced 2009 preliminary investment returns of 22.2% for the Core Trust Fund and 33.7% for the Variable Trust Fund.

How will these figures affect Wisconsin Retirement System (WRS) members? The Department of Employee Trust Funds (ETF) will not have a definitive answer until late February or early March, once final investment results have been reported.

However, given these preliminary figures, the following table shows the

approximate Core Fund and Variable Fund effective rates and annuity adjustments for next year:

Projected Annuity Adjustment Rates*

Core: approximately -1%

Variable: 25% to 30%

*applied to retirees' monthly payments

Projected Effective Rates**

Core: approximately 4%

Variable: 32% to 36%

**applied to employee account balances

Projections, continued on page 2

A Message From the Secretary: Effects of Smoothing, Compound Interest on Benefits

In light of the impressive trust fund investment gains projected for 2009 (see above), we anticipate many retirees asking why, for the second year in a row, the Department of Employee Trust Funds (ETF) is predicting a negative Core Fund annuity adjustment for 2010. The answer has two parts: "smoothing" and the negative compounding of money.

Smoothing

Although investment returns were impressive in 2009 and the State of Wisconsin Investment Board (SWIB) beat its target benchmarks, the effects of the historic market decline of 2008 will be felt for years to come. The article above describes how investment returns for the WRS Core Fund are smoothed over the course of five years in order to mitigate market volatility, which helps protect all WRS members from unpredictable

market swings. Smoothing means that:

- only 20% of last year's \$21 billion Core Fund decrease was factored into the Core effective rate and annuity adjustment calculations. (The remaining 80% of the decrease from 2008 will be spread out in equal increments in each of the next four years);
- the Core effective rate (for active and inactive members) will not hit negative levels this year and it was positive last year despite the market conditions;
- last year's -2.1% Core annuity adjustment, even when combined with this year's projected negative Core annuity adjustment, still does not total more than the previous year's Core annuity increase of 6.6%; and

Message, continued on page 3

Given the large (but preliminary) Core Fund increase, why is the Core annuity adjustment projected to be a reduction? The sheer size of 2008's Core Fund decline is the reason for the negative annuity adjustment. Core Fund investment results for any given year are "smoothed" (recognized) in equal increments over a five-year period to help cushion the effect of year-to-year market volatility.

Therefore, this year's Core annuity adjustment reflects investment gains and losses experienced from 2005-2009. While the value of the Core Fund increased each year from 2005 to 2007, the decline in 2008 was a steep 26.2% (negative 26.2%). See *A Message from the Secretary* for more details on interest compounding and how a decrease affects the Fund.

Extending the time period over which Core Fund investment results are recognized — which is what the smoothing process does — helps mitigate the effect of year-to-year stock market volatility on the Fund. This works to protect retirees from large fluctuations in annuities from one year to the next, and employees and employers from similar swings in contribution rates.

Retirees: Remember that your Core annuity can never be decreased below the finalized amount you received at retirement. You may

experience Core annuity increases, which can later be repealed through negative Core annuity adjustments. However, there is a threshold; negative Core adjustments can never decrease your annuity below the finalized annuity amount.

Conversely, there is no limit to how much a Variable annuity can be reduced if there are Variable Fund losses. Variable Fund returns are fully distributed each year (no five-year smoothing). Therefore, members in this fund experience Variable annuity adjustments that are much closer to actual Variable Fund investment performance.

In addition: Know that your WRS annuity is guaranteed for your lifetime — you cannot outlive your annuity. And, if you chose one of the joint survivor options at retirement, your joint survivor cannot outlive your annuity, either.

When will retirees find out how much their monthly annuities may change? Core and Variable annuity adjustments will first be reflected on the May 1 payment. Several weeks prior, ETF will notify retirees regarding any monthly payment changes. In the meantime, monitor our Internet site at <http://etf.wi.gov> for announcements regarding final investment returns and subsequent rates and adjustments.

Staff Furloughs Close ETF Offices

Due to mandatory furloughs for state agencies, the Department of Employee Trust Funds, including all customer service phone lines, will be closed for business on specific days over the next two years. As a result, members should expect longer wait times for basic services such as return e-mails, phone calls, retirement estimates and retirement appointments. We encourage members to utilize the Department's Internet site to view and print forms and brochures, and review other needed information. **For the period ending June 30, 2011, ETF will be closed on the following days. This list includes holiday closures:**

2010

January 1 (holiday)	September 3 (furlough)
January 18 (holiday)	September 6 (holiday)
February 15 (furlough)	October 11 (furlough)
May 28 (furlough)	November 25 (holiday)
May 31 (holiday)	November 26 (furlough)
July 2 (furlough)	December 24 (holiday)
July 5 (holiday)	December 31 (holiday)

2011

January 17 (holiday)
February 21 (furlough)
May 27 (furlough)
May 30 (holiday)

Bill Introduced to Close Variable Fund

In late 2008 the Employee Trust Funds Board (ETF) approved recommending to the Wisconsin Legislature that the Wisconsin Retirement System (WRS) Variable Trust Fund be phased out. Since then, State Senator Bob Wirch and State Representative Mary Hubler have introduced legislation based on that recommendation to close it to new enrollees as of January 1, 2011. The Variable Fund, an all equity (stock) fund, is a voluntary investment option for WRS members.

The legislation, Senate Bill (SB) 320, would not affect WRS members who currently partici-

pate in the Variable Fund.

As reported in the January 2009 edition of *Trust Fund News*, the ETF Board had numerous discussions about the appropriateness of the Variable Fund. The Board concluded that the Variable Fund, in light of the evolution of the WRS Core Fund over time, no longer meets the intended purpose of the Variable Fund and is not consistent with the design structure and philosophy of a defined benefit pension plan such as the WRS.

To monitor the status of SB 320 online, go to <http://www.legis.state.wi.us>.

Message, continued from page 1

- the employer and employee contribution rates for 2010, which were announced in June 2009, were much lower than they would have been without smoothing.

Compounding

In short, if you experience an investment decrease, you need an even larger percentage investment increase to get you back to where you started. That holds true for the investments of an individual, as well as a large public pension fund like the WRS.

For example, if a \$100 investment declines 10%, you are left with \$90. A 10% gain will only get you back to \$99. It takes about an 11% gain to “break even” after a 10% loss. In addition, the amount needed to break even increases exponentially as the decline increases.

For the WRS Core Fund, it would have taken a 35% gain in 2009 to fully offset the 26.2% loss in 2008, and a 57% gain to offset the 2008 loss and replace the average 7.8% investment gain we expected in 2008 and 2009. Progress toward recovering some of the decrease has been made with this year’s return. However, there is a long road ahead and no

one can predict what the markets will do from year to year.

ETF’s Internet site

Please bookmark ETF’s Internet site, <http://etf.wi.gov>, to monitor important news and how it affects your WRS account and benefits. We understand how vitally important your retirement benefit or, if you’re still working, your WRS account, is to your financial situation. Therefore, we strive to provide up-to-date information as soon as it becomes available.

And the best way to convey all of this quickly, to as many members and employers as possible, is through our Internet site. For example, since October we have featured in the “What’s New?” column

regularly-updated information on possible SWIB investment returns and projected effective rates and annuity adjustments for several 2009 investment return scenarios. This information not only helps us prepare retirees for upcoming annuity adjustments, but it is also useful to members who may be considering retirement in the near future.



IRS Rule May Affect Wisconsin Retirement System, Protective Occupation Employees

The Wisconsin Retirement System (WRS), like other multi-employer public employee retirement systems nationwide, has been monitoring an Internal Revenue Service (IRS) regulation that has the potential to increase the current normal retirement age for protective occupation employees (police, firefighters, etc.). The effective date of the regulation, originally January 1, 2011, has been postponed to January 1, 2013. Many national public employee retirement

associations are seeking clarification from the IRS, which has already indicated the regulation could be further amended. Look for more information on our Internet site. However, because this is an IRS regulation, we recommend that if you have concerns or questions about this issue, contact the IRS or your congressional representatives. For IRS contact information specific to your area, check the IRS Internet site at www.irs.gov.

Normal Retirement Age (NRA)

The age at which a WRS participant may begin receiving a retirement annuity that is not reduced by an actuarial age reduction factor. The normal retirement ages for the WRS employment categories are as follows:

Employment Category	Normal Retirement Age
General employees and teachers	65
Elected officials and state executives	62
Protective Occupation with less than 25 years of service	54
Protective Occupation with 25 or more years of service	53

Minimum Retirement Age (MRA)

The earliest age at which a member can begin receiving a retirement annuity, if he/she also meets all other eligibility criteria. The MRA is 55 for most WRS members and age 50 for members with some creditable service in a protective occupation category (e.g., police and firefighters).

Why It's Important to Keep Your Address Updated

More than 45 million Americans change residences every year; did you? If you change residences, it is very important to fill out an address change form at your local post office and notify all of your contacts, including the Department of Employee Trust Funds (ETF).

Why do I have to complete an address change form — won't the postal service forward my mail? That is no longer 100% true. The United States Postal Service (USPS) has implemented new mailing list requirements for businesses (including government agencies like ETF). Simply put, we must now give our mailing list to a National Change of Address database, maintained by the USPS, every 95 days. If you change residences and do nothing to notify the USPS, ETF, or your other business contacts (such as financial institutions, credit card companies, etc.), your mail may be significantly delayed or not arrive at all.

I receive my WRS annuity via direct deposit. Why is it so important that I keep my mailing address updated? While a convenient (and standard) payment method, direct deposit is not a substitute for keeping your address updated with ETF. We still mail 1099-R statements, benefit payment statements, newsletters and other important news and information.

If you have NOT notified ETF of your address change but you DID file a Temporary Address Change card with the USPS: You will receive any "First Class" or "Priority" mail forwarded to you that ETF sends out. However, items that are mailed at the "bulk rate," such as the *Trust Fund News* and the *It's Your Choice* booklet, will not be forwarded.

We ask for your assistance in keeping your address on file current — it's definitely in your best interest to do so.

Informational Materials on Domestic Partner Benefits Available

As *Trust Fund News* reported last September, the state budget bill (2009 WI Act 28) made the benefit programs administered by the Department of Employee Trust Funds (ETF) available to domestic partners of state employees and domestic partners of employees of local government employers that participate in the Wisconsin Retirement System (WRS). **Now, same-sex and opposite-sex domestic partners are treated like a spouse for purposes of the benefit programs, including the WRS, group health insurance, deferred compensation, life insurance and other programs.**

ETF has produced an informational packet with more information on this topic. The packet contains the following important documents:

- Fact sheet, *Getting Started with Domestic Partner Benefits*
- Document, *Domestic Partner Benefits Frequently Asked Questions* (FAQ) (ET-2370)
- Form, *Affidavit of Domestic Partnership* (ET-2371)
- Form, *Affidavit of Termination of Domestic Partnership* (ET-2372)
- Form, *WRS Beneficiary Designation* (ET-2320)

Find these materials on our Internet site, under the *Publications*, *Retirees*, and *Members* menus. You may also call us to request a complete packet.

How do I sign up for benefits for my domestic partner? You must file an *Affidavit of Domestic Partnership* form (ET-2371) with ETF, certifying that you meet the requirements for domestic partnership under Chapter (ch.) 40 of Wisconsin law. You must also fill out applications for the benefit programs in which you would like to enroll your domestic partner.

Note: The domestic partner registry under Wis. Stat. ch. 770, also created by Act 28, has no effect on the benefit programs administered by ETF. Creating or terminating a domestic partnership on the ch. 770 state registry does not create or terminate a domestic partnership for ch. 40 benefit purposes. **Therefore, the forms used to create or dissolve a domestic partnership for ch. 40 benefit purposes are the ETF affidavits.**

Can I name my domestic partner as my beneficiary?

Yes — there are no restrictions on who you may name as your beneficiary. ETF will pay your WRS death benefits according to the most recent *Beneficiary Designation* form on file (received prior to your death, regardless of any changes in your personal situation). If your beneficiaries are determined under statutory standard sequence, your domestic partner will be your primary beneficiary. If you have a Wisconsin Deferred Compensation account, you must file a separate beneficiary designation form.

Are domestic partners of retirees eligible for benefits? Yes — domestic partner benefits are available to partners of retirees.

If I die after my WRS annuity begins, will my domestic partner receive my annuity after my death? Once your annuity begins, any death benefits are based on the annuity option you selected when you applied for retirement. If you select a guaranteed payment option, any remaining guaranteed payments will either be paid under statutory standard sequence or according to the most recent beneficiary designation received by ETF prior to your death. If you select a joint and survivor annuity option, your annuity continues for life to the one named survivor that you designate on your annuity application form.

Please note: Although a beneficiary designation can be changed for a guaranteed payment option after an annuity begins, the “named survivor” of a joint and survivor annuity can never be changed.

What are the tax implications if I add my domestic partner to my health insurance? Due to federal law, adding a domestic partner (and the domestic partner’s dependents, if applicable) to your group health insurance coverage can increase your taxable income. The value of that coverage is reportable for income tax purposes as “imputed income”. This means that you would be liable for state and federal income tax and the employee share of FICA (Social Security contributions) on that imputed income. Consult your tax professional before adding a domestic partner to fully determine how your specific tax situation may be affected.

Mailing Error Affected Some WRS Retirees

A list processing error last September resulted in mislabeled copies of *Trust Fund News* being mailed to approximately 36,000 retired Wisconsin Retirement System (WRS) members. The error occurred after automated equipment accidentally shifted retirees' last names, resulting in the placement of the wrong last name on some

newsletters. We would like to assure all WRS members that their personal information and records with ETF are intact and secure. The *Trust Fund News* mailing list, for instance, contains only the retiree's name and address. We apologize for any inconvenience and confusion this may have caused those affected by the error.

Wisconsin Retired Educators' Association (WREA) Announcement: Florida Presentation Set for March 24

All Wisconsin Retirement System (WRS) retirees living or wintering in Florida are invited to attend a WREA-hosted meeting featuring a presentation by Dave Mills, former executive director of the State of Wisconsin Investment Board. The meeting is set for Wednesday, March 24, 2010, from 10:00 a.m. to 11:30 a.m. at the Bridgeport Recreation Center, 1670 Lake Miona Drive, The Villages, FL 32162.

Mills will present up-to-date information about your Wisconsin pension and share a national perspective on the value of public pen-

sion funds, current trends and threats. A WRS retiree, Mills has volunteered to speak at this meeting. While there is no attendance fee, reservations are necessary. Attendance is limited to the first 125 people to RSVP. However, walk-ins may be accommodated if space is available.

Please e-mail your reservation to floridaretireemeeting@wrea.net. Include your name(s), e-mail address, and the number attending. For questions, call WREA's Middleton office at (608) 831-5115.

Wisconsin Coalition of Annuitants (WCOA) Meeting Set

The WCOA annual statewide conference is set for Monday, May 10, 2010 at the American Family Insurance Center in Madison. Registration begins at 8:30 a.m. and the conference runs

from 9:00 a.m. to 3:00 p.m. For more information, contact a WCOA coalition representative or call (608) 238-3265 or (608) 873-5694 or send an e-mail to kratzwrcp@charter.net.

ETF Recognized for Pension Plan Administration, Workplace Diversity Efforts

The Department of Employee Trust Funds (ETF) has received an award recognizing the agency for its public pension plan administration standards and a statewide award honoring its commitment to diversity. The Public Pension Coordinating Council (PPPC) recognized ETF for meeting professional standards for public pension plan design and administration. The PPPC is a confederation of three major organizations composed of public employee retirement systems nationwide: the National Association of State Retirement Administrators, the National

Conference on Public Employee Retirement Systems and the National Council on Teacher Retirement.

The Department also received the 2009 Annual Diversity Award for medium-sized agencies from the State of Wisconsin Council on Affirmative Action. The council particularly recognized ETF's commitment to workforce diversity and equal opportunity, its commitment to employee development, and for fostering a workplace culture committed to volunteer work and service to the community.

Department Schedules Presentations on WRS Benefits

The Department of Employee Trust Funds (ETF) has scheduled free, public presentations for Wisconsin Retirement System (WRS) members, 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. No reservations are needed. All locations are handicap accessible.

Note: Watch the online video version of these WRS presentations from the convenience of home. Look for the video, *Your WRS Benefits*, in our Video Library at <http://etf.wi.gov/webcasts.htm>.

Presentations

Your computer	Thurs., April 15	7:00-9:00 p.m.	
<i>Watch a live, interactive WRS presentation. Link will be posted on April 15, 2010 at http://etf.wi.gov.</i>			
Appleton	Tues., April 13	7:00-9:00 p.m.	Fox Valley Technical College-Cafeteria/Commons, 1825 N. Bluemound Dr., Appleton
Ashland	Tues., April 27	7:00-9:00 p.m.	WI Indianhead Technical College-Conference Center, 2100 Beaser Ave., Ashland
Eau Claire	Tues., April 20	7:00-9:00 p.m.	Chippewa Valley Technical College-Auditorium Rm 103, 620 W. Clairemont Ave., Eau Claire
La Crosse	Wed., April 14	7:00-9:00 p.m.	UW La Crosse-Graff Main Hall Auditorium Rm 260, 1725 State St., La Crosse. <i>Note: A representative from the Social Security Administration will present at 5:30 pm.</i>
Middleton/ Madison	Tues., March 9	7:00-9:00 p.m.	Middleton High School-Performing Arts Center, 2100 Bristol St., Middleton (North side of Bldg.)
Pewaukee	Tues., April 6	6:30-8:30 p.m.	Waukesha County Technical College-Richard T. Anderson College Center, 800 Main St., Pewaukee (Free parking in lots 7, 8, and 9)
Wausau	Tues., March 16	7:00-9:00 p.m.	Northcentral Technical College, Center for Health Sciences-Auditorium, 1000 W. Campus Dr., Wausau

If weather becomes severe, listen to local radio stations for possible cancellations.

Tentative fall 2010 WRS presentations set for: Fennimore, Green Bay, Hayward, Kenosha, Madison, Rhinelander, River Falls, Tomah, and West Bend.

ETF Offers Small Group Retirement Appointments

The Department of Employee Trust Funds (ETF) offers small group retirement appointments for Wisconsin Retirement System (WRS) members approaching retirement. The two-hour sessions are held at ETF's Madison office, located at 801 W. Badger Road, and at the Department's Waukesha office, located at 141 N.W. Barstow Street, Room 151 (West entrance).

In small group retirement appointments, participants receive an overview of WRS benefits and annuity calculations, along with a step-by-step explanation of the retirement estimate, annuity options, and application process. Participants may ask questions throughout the

session and benefit from the questions, comments, and information shared by other participants.

While a reservation for a group session is required, it usually can be scheduled much sooner than an individual appointment. To schedule a group appointment, call ETF's Madison appointment line at (608) 266-5717 or toll-free 1-877-533-5020, ext. 65717.

Group retirement appointment attendees must:

- Be within one year of their retirement date;
- Have a valid retirement estimate from ETF (less than one year old); and
- Bring the retirement estimate/packets to the session.

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**Send an e-mail via our Internet
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Fax Number: (608) 267-4549

Appointments: (608) 266-5717
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mended; 801 W. Badger Road

Waukesha: appointments required;
141 N.W. Barstow St., Rm. 411

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 with-
holding changes (annuitants only).*

Write Us:

ETF, P.O. Box 7931, Madison, WI
53707-7931. *Include your Social Secu-
rity number (SSN) with all correspon-
dence. Retirees wanting to change mailing
addresses should contact Payment Services
at the address listed above. Include SSN,
signature, and old and new addresses.*

Telephone Message Center:

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

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 the Wisconsin Relay Service at the numbers listed above. We will try to find another way to provide you with usable information.