

ADDITIONAL CONTRIBUTIONS



ET-2123 (REV 11/10/2022)



Table of Contents

Introduction	2
Employee After-Tax Additional Contributions	2
Tax-Deferred Additional Contributions Under Section 403(b) of the Internal Revenue Code (IRC)	3
Determining Annual Contribution and Benefit Limits	3
Investment of Your Additional Contributions	4
When to Apply	4
Buying Creditable Service	4
Benefit Payment Options	5
Required Minimum Distribution	6
Rollovers to Another Plan and Tax Liability	7
Death Benefits	7
Table I - Annuities Certain.....	8
Table II - Life Annuities	8

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Introduction

This brochure describes the type of additional contributions that you can make, the benefits of making these contributions, and the restrictions that apply.

If you are a Wisconsin Retirement System member who is currently a participating employee with a WRS employer, you can make voluntary additional contributions to your WRS account.

- All *active* WRS employees may make voluntary after-tax contributions to the WRS. Members cannot make additional contributions once their WRS-covered employment is terminated.
- Your eligibility to make these contributions, and the amount that you may contribute each year, is subject to federal tax laws.
- If you have made voluntary additional contributions, you can use this money to buy any creditable service that you are eligible to purchase.

Additional contributions begin to earn interest on the first of January *after* the Department of Employee Trust Funds receives them.

- For example, payments received in the current calendar year will begin to earn interest in January of the following calendar year. You may want to consider this before deciding when to submit additional contributions to your account.

Employee After-Tax Additional Contributions

Employee additional contributions are made to a WRS account from after-tax earnings. You may make after-tax additional contributions to your account while you are *actively* employed by a WRS-participating employer.

The amount that you can contribute in any year is subject to the limitations under federal tax laws. (See the *Determining Annual Contribution and Benefit Limits* section.) *Note:* Making an after-tax additional contribution is *not* a tax-deductible event.

There are three ways that you can make employee additional contributions to your WRS account:

1. Make an **e-Payment** through ETF's website at etf.wi.gov. The e-Payment site has no fees and is administered by US Bank. Any fees for returned payments or overdraft charges are the responsibility of the member. Payments made by 8:00 p.m. Central Standard Time (CST) will be credited the same business day. Payments received after 8:00 p.m. (CST) will be credited the following business day. Your bank statement will show your payment as "WRSETFAddl."

2. Establish **payroll deduction** with your employer. This requires an agreement between you and your employer to deduct a specified amount from your after-tax earnings. Your employer will then submit the contributions monthly to ETF. Employers are not required to allow employees to make additional contributions through payroll deduction.
3. Submit an additional contribution directly to ETF as a **lump-sum payment**. ETF must receive this payment with a completed *Additional Contributions Remittance (ET-2545)* form by the last state office business day of the year to earn interest beginning January 1 the following year. Checks should be made payable to: Department of Employee Trust Funds.

Although you make these additional contributions from after-tax earnings, the interest credited to your WRS account accumulates on a tax-deferred basis. You will pay state and federal income tax on the investment earnings that are credited to your account when you or your beneficiary receive these monies as a distribution from your WRS account.

Tax-Deferred Additional Contributions Under Section 403(b) of the Internal Revenue Code (IRC)

Prior to January 1, 2009, ETF accepted additional contributions from pre-tax earnings from employees of certain school districts and other educational institution employers. WRS tax-deferred additional contributions are regulated by IRC Section 403(b).

As of January 1, 2009, ETF stopped accepting 403(b) additional contributions, consistent with new federal plan requirements.

If you have a WRS 403(b) additional contributions account, the funds will continue to earn interest until you are eligible to withdraw the deposits. Withdrawals are subject to IRC rules (i.e., you must terminate from *all* WRS-covered employment).

Your tax-deferred additional contributions and the interest credited to your account are subject to state and federal income tax when they are distributed to you or your beneficiary.

For tax-deferred retirement savings, you may want to consider the Wisconsin Deferred Compensation (WDC) Program. The WDC is authorized under IRC Section 457. The WDC is available to all active state and university employees. Active local government and school district employees are also eligible *if* their employer has elected to offer this benefit program.

Contact your employer's benefits and payroll office for more information, or visit the WDC website at: wdc457.org.

Determining Annual Contribution and Benefit Limits

WRS additional contributions are compared to your gross compensation annually and are subject to annual limits set by federal tax law in IRC Section 415(c). For current amounts see etf.wi.gov. You may also reference the [*Maximum Additional Contributions Worksheet \(ET-2566\)*](#).

Your gross compensation includes any amounts that are deferred from these earnings (such as to an IRC Section 403(b) or 457 deferred compensation plan or a Section 125 employee reimbursement account).

If you make contributions to a plan other than the WRS, please consult with your tax professional to determine which of those contributions may be combined with WRS contributions to reach the IRC Section 415(c) limit, as individual circumstances may vary.

The following contributions apply toward your annual contribution limit. You must include these contributions in the calculation of your annual maximum contribution:

- Any **post-tax** employee-required contributions actually paid by you.
Note: This is rare and pursuant to a collective bargaining agreement. Employee-required contributions that are withheld from your salary on a **pre-tax** basis do not apply to the contribution limit.
- Any voluntary additional (after-tax) employee WRS contributions you already made.

When you take your benefit, employee additional contributions are included in benefit testing required by s. 415 (b) of the IRC, which provides for dollar limitations on benefits under qualified retirement plans. This may limit the amount of your benefit from your employee- and employer-required contributions.

Investment of Your Additional Contributions

Your additional contributions will be invested in the WRS Trust Funds and begin to earn interest on the first of January after they are received by ETF. If you are not participating in the Variable Trust Fund at the time you make your additional contributions, all of your additional contributions will be deposited in the Core Trust Fund.

If you participate in the Variable Trust Fund, your additional contributions may be split between the Core and Variable Trust Funds. How your additional contributions are invested depends on when you elected to participate in the Variable Trust Fund:

- If you elected to participate in the Variable Trust Fund on or after January 1, 2001, 50% of your additional contributions will automatically be deposited in the Variable Trust Fund. The remaining 50% will be deposited into the Core Trust Fund.
- If you elected to participate in the Variable Trust Fund before April 29, 1980, you may specify what portion of your additional contributions you wish to deposit into the Core and Variable Trust Funds. You may choose to have from 0% to 100% deposited into the Variable Trust Fund. If you do not instruct ETF on how you want your additional contributions invested, they will be divided equally between the Core and Variable Trust Funds.
- For more information, see the *Variable Trust Fund (ET-4930)* brochure, available at etf.wi.gov or by contacting ETF.

When you take a benefit from your additional contributions, accrued interest is included in your benefit. This includes annual interest credited at the effective rate each December 31, plus prorated interest from January 1 through the end of the month **before** the effective date of the lump-sum or monthly annuity payment.

When to Apply

The time of the year when you apply for a benefit from additional contributions will affect the amount of interest credited to your account.

- If you are considering applying for a lump-sum benefit near the end of the year and ***you want the annual effective rate interest included in your benefit***, you should wait to apply until after December to assure that your benefit will not be paid before annual interest is credited. The calendar year effective rate of interest is normally announced by the end of February.

Then in March, ETF begins to process the lump-sum payments that include annual interest.

- ***If you do not want the annual interest to be included in your payment***, we recommend that you apply by September 1. Unless your WRS employer has not yet reported your termination to ETF, applying by September 1 will normally result in your lump-sum benefit being approved and paid before the end of the calendar year.

Buying Creditable Service

If eligible, you may use your after-tax and/or tax-deferred additional contributions to purchase creditable service. The types of service an active employee may be eligible to purchase include WRS forfeited, qualifying and other governmental

service (federal, state, local, or military). For detailed information, see the *Buying Creditable Service (ET-4121)* brochure, available at etf.wi.gov or by contacting ETF.

Benefit Payment Options

You cannot withdraw your additional contributions until you terminate all WRS-covered employment. When your WRS employment ends, you may either:

- Begin receiving a benefit from your additional contributions.
- or**
- Delay distribution until April 1 of the year after the calendar year in which you reach your required minimum distribution age.

There is no minimum age for a distribution from your additional contributions. However, if you terminate your WRS employment before the year you reach minimum retirement age (age 55 for most; age 50 for members with protective category service), you may be subject to an early distribution penalty if you receive your balance before you are age 59½. You should contact a tax advisor for more information regarding this potential tax penalty.

You may withdraw both your after-tax and tax-deferred additional contributions in a lump-sum payment or as a monthly annuity. Annuity options are only available if:

- Your monthly payment amount (*For Annuitant's Life Only* option) is more than the minimum amount set annually by the IRS. For current rates, see etf.wi.gov.
- or**
- Your annuity from additional contributions begins on the same date as your monthly annuity from your required contributions.

If you have both after-tax and tax-deferred additional contributions, your benefit is based on the combined account balances.

How you receive your additional contributions will depend on whether you are receiving a separation benefit or a retirement benefit.

Separation Benefit: A separation benefit is a one-time, lump-sum payment consisting of your employee-required contributions, additional contributions (if applicable), and interest. It does not include employer-required contributions.

You are eligible to apply for a separation benefit if you have terminated all WRS employment and:

- You have not reached your minimum retirement age (age 55 for most; age 50 for members with protective category service that is not purchased) **or**
- You are not vested.*

If you apply for a separation benefit, your additional contributions will be included with the lump-sum payment. However, if you decide not to take a separation benefit (and leave your employee-required contributions with the WRS), you may apply for a benefit consisting only of your additional contributions at any time. (See the *Required Minimum Distribution* section for more information.)

Retirement Benefit: A retirement benefit consists of your employee- and employer-required contributions and accumulated interest. You are eligible to apply for a retirement benefit if you have terminated all WRS employment and:

- You have reached your minimum retirement age **and**
- You are vested.*

If your retirement benefit is paid monthly, you can either include your additional contributions with this benefit payment or delay distribution until a later date. However, if your retirement benefit is paid as a lump-sum payment, your additional contributions account will be included with this payment.

*You may have to meet one of two vesting laws depending on when you first began WRS employment:

1. If you first began WRS employment after 1989 and terminated employment before April 24, 1998, then you must have *some* WRS creditable service in five calendar years.
2. If you first began WRS employment on or after July 1, 2011, then you must have *five years* of WRS creditable service.

If neither vesting law applies, you were vested when you first began WRS employment. If you are vested, you may receive a retirement benefit at age 55 (age 50 for protective category member) once you terminate all WRS employment. If you are not vested, you may only receive a separation benefit.

Benefit Payment Options, continued

If you delay the distribution of your retirement benefit and select an annuity for your additional contributions alone, the annuity will be based on the additional contributions balance in your account and the annuity rates that are in effect when the annuity payments begin.

The *For Annuitant's Life Only* option must meet the annual minimum amount (see current rate at etf.wi.gov) to be eligible for **any** monthly option, including an annuity certain. The number of payments you select cannot exceed your life expectancy based on federal mortality tables.

Tables I and II at the end of this brochure show some of the available annuity options and the amount payable for each \$1,000 in your account. For more information, see the [Choosing an Annuity Option \(ET-4117\)](#) brochure and the [Calculating Your Retirement Benefits \(ET-4107\)](#) brochure. Both of these publications are available at etf.wi.gov or by contacting ETF.

Required Minimum Distribution

Once you have terminated WRS employment, federal law requires you to begin receiving your WRS payments by a certain date, depending on your age. This is called a required minimum distribution (RMD).

The SECURE Act of 2019 changed the age at which RMDs must begin. If you were born July 1, 1949 or later, your first RMD will be in the year you turn age 72. If you were born before July 1, 1949, the age remains 70 ½.

You are Covered by the New RMD Law if You Were Born July 1, 1949 or Later

If you are still working under the WRS but plan to stop working during the year you turn age 71 or before, you must apply by the end of the calendar year:

- If you stop working, and apply for WRS benefits, you may defer your benefit effective date until no later than March 1 of the calendar year you reach age 73.
- If you stop working, but do not apply for WRS benefits, ETF must begin your WRS payments the calendar year you turn age 72.
- If you will continue working under the WRS after you reach age 72 or older, your WRS benefit must become effective on or before March 1 of the year after you retire. To do this, you must apply for WRS payments by December 31 of the year you retire.

You are Covered by the Old RMD Law if You Were Born Before July 1, 1949

If your date of birth is before July 1, 1949, and you are still actively working under the WRS:

- When you stop working, your WRS benefit must become effective on or before March 1 of the following year. To do this, you must apply for WRS payments by December 31 of the year you retire.
- If you stop working, but do not apply for WRS benefits, ETF must begin your WRS payments the next calendar year.

It is important for you to contact ETF before an automatic distribution is required. Once an automatic distribution is paid, your WRS account is closed and you cannot return your payment or choose another payment option.

Rollovers to Another Plan and Tax Liability

You may roll over your lump-sum payment or annuity certain of fewer than 120 months to:

- A traditional IRA [408(a)]
- A Roth IRA [408(b)]

or

- An eligible employer plan, which includes plans under IRC sections 401(a), 401(k), Roth 401(k), 403(a), 403(b), Roth 403(b), 457(b) and Roth 457(b).

If you have questions on whether or not your WRS funds are eligible to be rolled over into another qualified plan, you should contact that plan directly.

Depending on the additional contribution types that were made to your account, you may already have paid taxes on the amount of the contribution. Any amount that you have already paid taxes on will not be taxed in the future.

For more information on taxation of rollovers, please consult a tax advisor or see IRS Publication 590. For more information on taxation of lump-sum payments, see IRS Publication 575.

To rollover your payment, you must submit an *Authorization for Direct Rollover* (ET-7355) form with your benefit application. This form is available by contacting ETF. You are responsible for ensuring that the receiving institution is eligible and willing to receive this rollover.

The check(s) for the amount of your rollover payment(s) is (are) made payable to the receiving financial institution but mailed directly to you. You are responsible for transmitting the check(s) to the receiving institution.

If you were born before July 1, 1949 (age 70 ½) or born on or after July 1, 1949 (age 72), the amount you can roll over may be limited. Consult your tax advisor for information.

The WRS does not accept rollovers only for the purpose of making additional contributions.

Death Benefits

Specific requirements apply to distributions to your beneficiary. If you die *after* you start receiving monthly payments from your additional contributions, the death benefit is based on the annuity option you selected.

- Any payments your beneficiary is entitled to must continue to be paid out at that time.
- Distribution cannot be delayed.

If you die *before* starting a benefit from your additional contributions account, your beneficiaries are subject to the following restrictions:

- 1. If your beneficiary is your spouse:** Your surviving spouse may delay receiving a benefit until January 1 of the year you would have reached your RMD age. Your spouse must file a beneficiary designation form with ETF by September of the year after your death to be allowed to postpone this distribution.

2. If your beneficiary is not your spouse: Your beneficiary(ies) has two options:

- Begin a monthly annuity (if your account is eligible for an annuity by meeting the minimum payment amount) effective no later than November 1 of the year after the calendar year in which you die.

or

- Apply for a lump-sum payment of your entire additional contributions account balance by September of the fifth year after your death.

Table I—Annuities Certain (payable for a specified time period)

Each \$1,000 of additional contributions provides the following monthly amount for the number of months selected as an *Annuity Certain*. The *For Annuitant's Life Only* option amount must meet the annual minimum to be eligible for an *Annuity Certain* option.

Annuity Certain

<u>Months</u>	<u>Amount</u>	<u>Months</u>	<u>Amount</u>
24	\$43.82	108	\$ 11.46
36	29.92	120	10.55
48	22.98	132	9.81
60	18.82	144	9.19
72	16.05	156	8.67
84	14.08	168	8.23
96	12.61	180	7.85

Examples

<u>Additional Amount</u>	<u>Number of Years Payable</u>	<u>Number of Payments</u>	<u>Monthly Amount</u>
\$ 1,000	2 years	24	\$ 43.82
1,000	5 years	60	18.82
1,000	15 years	180	7.85
10,000	2 years	24	438.20
10,000	5 years	60	188.20
10,000	15 years	180	78.50

Table II—Life Annuities (see *Choosing an Annuity Option (ET-4117)* for details)

Each \$1,000 of additional contributions provides the following monthly amounts for the no death benefit *For Annuitant's Life Only* option. The amount must meet the annual minimum unless it begins when your monthly annuity from required contributions begins.

For Annuitant's Life Only

<u>Monthly Benefit for Age</u>	<u>Per \$1,000 in Account</u>
50	\$5.06
55	\$5.38
60	\$5.81
65	\$6.41

To convert the *For Annuitant's Life Only* amount to an option which includes a guaranteed minimum number of payments, multiply by the factors below.

Conversion Factors

<u>Age of Member</u>	<u>Life - 60 Payments Guaranteed</u>	<u>Life - 180 Payments Guaranteed</u>
50	.999	.992
55	.998	.985
60	.997	.975
65	.995	.955

Contact ETF

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1-877-533-5020

7:00 a.m. to 5:00 p.m. (CST), Monday-Friday



Benefit specialists are available to answer questions.

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Write ETF or return forms.

