

# CHOOSING AN ANNUITY OPTION



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# What is an Annuity?

An annuity is a series of monthly payments paid for the life of the annuitant or during a specific period. There are different types of annuities available called annuity options. A person who receives monthly benefit payments is called an *annuitant*.

You have a choice of annuity options, unless your account is too small for a monthly benefit. Your eligibility for a one-time lump-sum payment versus a monthly payment depends on the size of your For Annuitant's Life Only benefit. Annual minimum and maximum amounts are determined by the IRS. See [etf.wi.gov](http://etf.wi.gov) for the current rates.

- If your monthly annuity is less than the minimum amount set by the IRS, you are restricted to a one-time lump-sum payment.
- If your monthly annuity is at or above the minimum amount, but less than the maximum amount set by the IRS, you may choose between a lump-sum payment or a monthly payment.
- If your monthly annuity is greater than the maximum amount set by the IRS, you are not eligible for a lump-sum payment and may only take a monthly payment.

The annuity option selected will determine whether benefits are payable after your death.

Members who are eligible for a monthly payment have three *life annuity* options:

- For Annuitant's Life Only
- Life with 60 Payments Guaranteed
- Life with 180 Payments Guaranteed

If you provided the Department of Employee Trust Funds with information about a qualified joint survivor, you also have four *Joint and Survivor Annuity* options:

- 75% Continued to Named Survivor
- 100% Continued to Named Survivor
- Reduced 25% on Death of Annuitant or Death of Named Survivor
- 100% Continued to Named Survivor with 180 Payments Guaranteed

**All monthly annuity options provide you with payments for the rest of your life.** However, the options differ in what happens after you pass away.

There are three possible outcomes depending on the annuity option you select:

- The annuity stops and there is no death benefit payable to the named survivor or beneficiary(ies).
- The named survivor, if still living, receives payments, with the percentage paid determined by your selected annuity option.
- Annuity options that include guaranteed payments may provide a death benefit to the beneficiary(ies). The beneficiary(ies) would be eligible for any remaining guaranteed payments.

The amounts for joint and survivor annuities are calculated using rates based on the life expectancy of both you and your named survivor. Contact ETF if your application has an incorrect date of birth for either of you, or to request a new application that includes joint and survivor estimates.

Payments to beneficiaries are always made based on the most recent valid beneficiary designation received by ETF prior to your death.

- You should periodically review your beneficiary designation information and update it as necessary.
- Alternate payees should consider filing a beneficiary designation form.
- Changes in your personal situation like marriage, divorce, or termination of a domestic partnership do not change your beneficiary designation.
- You must file a new designation with ETF to change your beneficiary.
- If a beneficiary designation is not on file, survivor benefits are paid based on statutory standard sequence.

## Annuity Option Selection

You select an annuity option when you apply for retirement benefits. A *Retirement Benefit Estimate and Application* (ET-4301) is sent upon your request, and contains estimates of your annuity payments under each of the available options. You should request your estimate at least 6 to 8 months, but no more than 12 months, before you plan to retire.

When choosing an annuity option, you should consider all of your assets such as life insurance, home, investments, savings, etc., to determine what type of survivor protection, if any, is needed.

A thorough understanding of the various options will help you make the selection that will best meet your needs.

***The various annuity options differ in what happens after you pass away.*** The following sections explain the benefits available.

Contact ETF before completing your benefit application if you do not understand all of the options.

## Annuity Options: Life Annuities

This section explains the death benefits for the *Life Annuity* options.

### **For Annuitant's Life Only (No Death Benefit)**

- This option is payable to you for life.
- The monthly payment will end when you pass away.
- There is no death benefit payable to any beneficiary.

### **Life Annuity with 60 Payments Guaranteed**

- This option is payable to you for life.
- If you die before 60 monthly payments have been made, the remainder of the 60 monthly payments are paid to your beneficiary(ies).

### **Life Annuity with 180 Payments Guaranteed**

- This option is payable to you for life.
- If you die before 180 monthly payments have been made, the remainder of the 180 monthly payments are paid to your beneficiary(ies).

# Annuity Options: Joint and Survivor Annuities

This section explains death benefits for the *Joint and Survivor Annuity* options.

Joint and survivor options provide death benefits for one person who you choose as your named survivor.

- *Note:* You may choose any person as your named survivor. However, if you choose someone who is not your spouse, the Internal Revenue Service has restrictions on the age difference between you and that person. If the age difference is more than ten years, your annuity options are limited.
- See the [Named Survivor information](http://etf.wi.gov) at [etf.wi.gov](http://etf.wi.gov). Your named survivor will receive a lifetime annuity if he or she survives you. If you did not specify a named survivor when you requested your retirement application, these options will be blank.
- Your named survivor can be changed *only* if ETF receives your written request within 60 days after the date of your first payment. It cannot be changed after this time.

Joint and survivor annuities are calculated using rates based on the life expectancy of both you and your named survivor. Contact ETF immediately if your application has an incorrect birth date for either of you, or to request a new application that includes joint and survivor estimates.

## **75% Continued to Named Survivor**

- This option is payable to you for life.
- When you die, your named survivor will receive 75% of your monthly payment for the rest of their life.
- If your named survivor dies before you, all payments stop upon your death.
- If your named survivor dies within the first five years that you are receiving your annuity, your annuity increases to the “For Annuitant’s Life Only” amount.

## **100% Continued to Named Survivor**

- This option is payable to you for life.
- When you die, your named survivor will receive the same monthly payment that you did for the rest of their life.
- If your named survivor dies before you, all payments stop upon your death.
- If your named survivor dies within the first five years that you are receiving your annuity, your annuity increases to the “For Annuitant’s Life Only” amount.

## **Reduced 25% on Death of Annuitant or Named Survivor**

- This option is payable to you for life.
- When you or your named survivor dies, the remaining individual will receive 75% of the monthly amount for life.
- If your named survivor dies first and your annuity began on or after January 1, 2002, your monthly payment will reduce by 25% beginning with the payment for the month after your named survivor’s death.

## **100% Continued to Named Survivor with 180 Payments Guaranteed**

- This option is payable to you for life.
- When you die, your named survivor will receive the same monthly payment that you did for the rest of their life.
- If both you and your named survivor die before 180 payments have been made, the remainder of the 180 payments are made to the designated beneficiary(ies).

## Annuity Options: Life Annuities with Accelerated Payments

This section explains annuities with an *accelerated payment* option and the death benefits associated with these payments.

Accelerated payments are intended to pay you the same amount from your Wisconsin Retirement System annuity alone before you turn age 62, as you would get from the WRS *and* Social Security together *after* you reach age 62.

Accelerated payments are normally available if your retirement annuity begins before age 62 and your *For Annuitant's Life Only* after-age-62 payment meets the annual monthly minimum requirement. The same annuity options are available, but with an accelerated payment provision.

With an accelerated option, you would receive a temporary increase to your monthly WRS annuity payment until the month after you turn age 62.

For example, if you turn age 62 in December, your January 1 check would be the last one with the temporary, higher payment. At age 62, your WRS annuity payment would decrease because the temporary accelerated portion would end.

ETF has no connection with the Social Security Administration (SSA). However, when calculating the temporary accelerated portion of an annuity, ETF estimates Social Security payments based on tables assuming an entire career of employment (30 or more years) covered under Social Security. ***This amount may be very different from your actual Social Security amount at age 62.***

To help limit a decrease in your total income at age 62, you can get an online Social Security estimate at [www.ssa.gov](http://www.ssa.gov) and then submit this information to ETF when requesting your retirement estimate. ETF will use this information to calculate your accelerated payment options. ***Caution: If your before-age-62 amount is overestimated based on an SSA statement, your after-age-62 lifetime amount will be reduced. This means any death benefit on the lifetime portion will be lower.***

Even if ETF uses your estimate from the SSA to calculate your temporary accelerated payment, there may still be a significant difference between the amount of your temporary payment and your actual Social Security payment beginning at age 62. The temporary portion of your annuity is subject to the same annual adjustments as the lifetime portion of your annuity.

These adjustments (either positive or negative) are based on investment returns of the WRS trust funds and may exceed the increases in Social Security benefits. Therefore, if your temporary accelerated payment ending at age 62 is greater than your beginning Social Security payment, your income will be less. Regardless of any change in the before- and after-age-62 amounts, you can change your option only within the 60-day period as explained in the *Changing Options* section of this brochure.

Your death benefits are impacted by when the accelerated payments began and which life annuity option you selected:

- If you die while receiving an accelerated payment option that began *before* July 1, 2008, the temporary accelerated portion of your annuity ends at death. Any death benefit available is based **only** on the after-age-62 portion of your annuity that may be payable to a beneficiary(ies) or named survivor.
- If you die while receiving an accelerated payment option that began *after* June 30, 2008, the temporary accelerated portion of your annuity is paid as a death benefit until you would have reached age 62. Any additional death benefits are based on the after-age-62 portion of your annuity that may be payable to a beneficiary(ies) or named survivor.

If you selected the *Reduced 25% on Death of Annuitant or Named Survivor* option, the after-age-62 amount (permanent portion) of your annuity will be reduced if your named survivor dies first. However, your temporary accelerated portion does not change if your named survivor dies before you reach age 62.

Before choosing an accelerated option, applicants approved for Social Security Disability Insurance or § 40.65 Duty Disability benefits should carefully consider and understand how choosing an accelerated option will impact their total and taxable income before and after age 62.

### Special Considerations for Alternate Payees

An alternate payee is the former spouse or domestic partner of a WRS member who received a portion of the member's retirement benefits through a Qualified Domestic Relations Order (QDRO).

For an alternate payee, the amount of the Social Security benefit used to estimate the accelerated payment options uses the WRS member's earnings, not the alternate payee's. ***This assumed amount may be very different from the alternate payee's actual Social Security benefit at age 62.***

To help limit a potential decrease in total income at age 62, an alternate payee can get their own Social Security estimate online at [www.ssa.gov](http://www.ssa.gov) and submit this information to ETF when requesting a retirement estimate. ETF will then use this information to calculate the accelerated payment options. ***Caution: If your before-age-62 amount is overestimated based on a SSA statement, your after-age-62 lifetime amount will be reduced. This means any death benefit on the lifetime portion will be lower.***

### Special Considerations for Protective Category Members

If you are a protective category member not covered under Social Security (i.e., most firefighters), but have other employment covered under Social Security, you may be eligible for accelerated payment options. Please send ETF a copy of your Social Security statement if you want estimates for these options.

Your estimate from the SSA office will be more accurate if it includes their reduction for the Windfall Elimination Provision, which applies to people who receive a pension for employment that was not subject to Social Security. When we receive a copy of your SSA statement and your stop-work age is within one year of the age on your WRS benefit begin date, we will use their estimated benefit to calculate your accelerated payment options.

ETF's Accelerated Payment Calculator is available at [etf.wi.gov](http://etf.wi.gov). This calculator will help you determine if an *accelerated payment* option is right for you. It allows you to enter data from your retirement benefit estimate and calculates your ***accelerated threshold***. The accelerated threshold is the point at which you begin to lose benefits as a result of choosing an *accelerated payment* option. Essentially, the longer you live after age 62, the more it will "cost" you from your after-age-62 lifetime benefit.

## Consent of Spouse or Domestic Partner

Depending on the option you select, your spouse may be required to sign your retirement application. Spousal consent is required on all annuity applications for required contributions if you select any option other than a joint and survivor option with your spouse as named survivor. Spousal consent is not required if you:

- select a joint and survivor option with your spouse as named survivor,
- are applying for an annuity from additional contributions only, **or**
- have been married to your spouse less than one full year immediately preceding your annuity effective date, or you are legally separated from your spouse on your annuity effective date.

*If you have a Chapter 40 domestic partnership in effect at ETF for one year prior to your benefit effective date, your domestic partner's signature may be required on your application.*

**A spouse should not sign the spousal consent if they want to preserve spousal rights to be a named survivor for a joint and survivor annuity option. This is also true for a domestic partner when any joint and survivor options are available and the domestic partnership has been in effect on ETF records for at least one year before your annuity effective date.**

*Note:* Under state law, domestic partners are treated similarly to spouses for some WRS benefit programs authorized in Chapter 40 of the state statutes. Chapter 40 benefit programs are administered by ETF. For additional information on domestic partner benefits, see the [Domestic Partner Benefits \(ET-2166\)](#) brochure on ETF's website.



## Changing Options

ETF must **receive** your request to change your annuity option within 60 days after the date of your first payment **or** the date your lump-sum payment was issued, if applicable. Based on WRS regulations, you may be eligible for only a monthly option, only a lump-sum option, or for either a monthly or lump-sum option.

Eligibility for a one-time, lump-sum payment versus a monthly payment depends on the size of your For Annuitant's Life Only benefit. Annual minimum and maximum amounts are determined by the IRS. Go to [etf.wi.gov](http://etf.wi.gov) for current rates.

- If you are only eligible for a monthly annuity option, you can change from one monthly option to another monthly option.
- If you are eligible to choose either a monthly or lump-sum option, you can request to change to or from a lump-sum option.
  - From a monthly to lump-sum option—unless you return the monthly payment(s) already issued, the amount paid will be deducted from your lump-sum payment.
  - From lump-sum to a monthly option—you must return the net lump-sum payment (or the gross payment if your lump-sum benefit was paid in the prior tax year). ETF cannot begin your monthly benefit until the payment that refunds your entire lump-sum benefit is received.

Your spouse's or domestic partner's signature may be required for an option change. You can use the *Retirement Annuity Option Change Application* (ET-4319) or *Disability Annuity Option Change Application* (ET-5333), available from ETF. The option you select on the original application cannot be changed if your acceptable request is not received by the deadline.

Since the period in which you can change your annuity option is short, it is especially important to carefully consider the annuity option selection **before** you apply.

## Canceling Your Application

ETF must **receive** your written request to cancel your application no later than the last working day before the 21<sup>st</sup> of the month in which your first monthly benefit payment is dated.

To cancel your application for a lump-sum payment, ETF must **receive** your written request to cancel no later than the last business day before the date of your lump-sum check. If ETF approves your request to cancel your application, it becomes void and you must repay any payment issued. You must request and complete a new application when you wish to apply for a benefit.

## Relative Value of Annuity Options

The monthly amount you will receive varies depending on any potential death benefits of the option you select. The total amount required to fund the benefit is the same no matter which option you choose. If you choose an option that continues payments to a named survivor or a beneficiary, that higher death benefit is funded by reducing your monthly benefit. This means you give up some of your benefit to choose an option with potential death benefits. As the potential death benefit increases, your benefit decreases. It is important that you understand the options. The best option for you is the one that meets your individual needs.

The following table shows differences in the amounts that would be payable under the various annuity options. This is for comparison purposes only. The examples are based on a *For Annuitant's Life Only* option of \$1,000.

	Example A	Example B	Example C
Annuitant's Age	57	60	65
Named Survivor's Age	53	59	65
Annuity Option Type	Monthly Amount	Monthly Amount	Monthly Amount
For Annuitant's Life Only	\$1,000	\$1,000	\$1,000
Life Annuity with 60 Payments Guaranteed	\$997	\$996	\$996
Life Annuity with 180 Payments Guaranteed	\$977	\$969	\$961
*Joint and Survivor Annuity-75% Continued to Named Survivor	\$910	\$913	\$928
*Joint and Survivor Annuity-100% Continued to Named Survivor	\$883	\$888	\$906
*Joint and Survivor Annuity-Reduced 25% on Death of Annuitant or Named Survivor	\$925	\$937	\$965
*Joint and Survivor Annuity-100% Continued to Named Survivor with 180 Payments Guaranteed	\$882	\$886	\$902

The amounts payable for accelerated options are shown in the chart below. This example is a general category employee age 59 who has a named survivor age 53. He has 25 years of creditable service (5 years pre-2000 and 20 years post-1999) and a *projected* Social Security benefit (temporary portion) of \$840 at age 62 based on final average monthly earnings of \$2,500. He participates in the Variable Fund and his total Variable Excess balance is \$10,000. The *estimated* \$840 is based on the 2020 Social Security tables. The factors used are effective January 1, 2020.

Accelerated Payments With These Annuity Options	Total WRS Payment Before Age 62	Temporary Portion	WRS Payment After Age 62 - Life Annuity
For Annuitant's Life Only	\$1,706	\$840	\$866
Life Annuity with 60 Payments Guaranteed	\$1,703	\$840	\$863
Life Annuity with 180 Payments Guaranteed	\$1,682	\$840	\$842
*Joint and Survivor Annuity-75% Continued to Named Survivor	\$1,613	\$840	\$773
*Joint and Survivor Annuity-100% Continued to Named Survivor	\$1,587	\$840	\$747
*Joint and Survivor Annuity-Reduced 25% on Death of Annuitant or Named Survivor	\$1,626	\$840	\$786
*Joint and Survivor Annuity-100% Continued to Named Survivor with 180 Payments Guaranteed	\$1,587	\$840	\$747

\*The amounts for the joint and survivor options are based on the age of both the annuitant and the named survivor. Different age combinations produce different results.

## Additional Contributions

Once all WRS-covered employment ends, you may apply for your employee additional contributions. You may take this benefit as one of the following:

- **A lump-sum payment.**
- **A life annuity.** Annuity options are only available if your payment amount (for the *Annuitant's Life Only* option) meets the minimum monthly amount **or** if your annuity from additional contributions begins on the same date as your monthly annuity from required contributions. However, if the begin dates for these annuity payments are different, your additional life annuity must meet the minimum monthly amount on its own.
- **An annuity certain.** An annuity certain is paid monthly for a specified period with the following restrictions:
  - Monthly payments must be a minimum of 24 months and maximum of 180 months.
  - You must be receiving an annuity from your required account *or* be eligible to receive an annuity by meeting the minimum monthly amount *on its own*. An annuity certain amount must also meet the minimum monthly amount *on its own*.
  - To be eligible for a monthly annuity, your *For Annuitant's Life Only* option must be more than the annual minimum amount set by the IRS. Go to [etf.wi.gov](http://etf.wi.gov) for additional information.

If you die before the specified number of payments have been made from the annuity certain, your beneficiary(ies) will receive the remaining monthly payments.

The monthly amount of an annuity depends on the payment period you choose (24 to 180 months) and the amount of money in your additional contributions account. The following table shows the amount payable per month for each \$1,000 in an additional contributions account.

Additional lump-sum payments and annuities certain paid over a period of fewer than 10 years are eligible for a direct rollover of the taxable portion of the payment. You must apply for the rollover when you apply for your benefit.

Additional contributions paid by your employer can be paid only as a life annuity, unless you are eligible for and choose a lump-sum retirement benefit.

Number of Months Paid	Monthly Amount Provided For Each \$1,000	Number of Months Paid	Monthly Amount Provided For Each \$1,000
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

Additional Accumulation	Number of Years Payable	Calculation	Monthly Amount
\$ 1,000	2 years (24 Payments)	\$43.82 x 1	\$ 43.82
\$ 5,000	15 years (180 Payments)	\$7.85 x 5	\$ 39.25
\$10,283	3 years (36 Payments)	\$29.92 x 10.283	\$307.67
\$10,283	15 years (180 Payments)	\$7.85 x 10.283	\$ 80.72

## 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 1/2.

### **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.

# Contact ETF



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Wisconsin Relay: 711



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Write ETF or return forms.

