VARIABLE TRUST FUND

ET-4930 (REV 11/16/2022)

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Cover photo courtesy of the Wisconsin Department of Tourism.

History

The Variable Trust Fund was created to establish a well-balanced, specialized investment program that could provide retirement benefits that would change with the value of investments in the general economy. When the Variable Trust Fund was established, it was anticipated that greater use of stock investments would:

- Result in the accumulation of larger retirement assets during a member's working years.
- Maintain the purchasing power of the deposits made and the benefits provided.
- Provide better protection during periods of inflation.

Members who elect the Variable option risk financial losses of their retirement funds due to the ups and downs of the stock market.

Originally, all retirement contributions were deposited into the Core Trust Fund. At the time the Variable Trust Fund was established, the Core Trust Fund (formerly called the Fixed Trust Fund) was invested entirely in bonds and other fixed income securities.

From 1957 to 1980, members could elect to join the Variable Trust Fund. That election was final and could not be changed. On April 29, 1980, a law change closed the Variable Fund to further enrollments. It also allowed existing members to cancel their Variable participation. On January 1, 2001, the Variable was re-opened to new enrollments.

The WRS Trust Funds

The Core and Variable Trust Funds are the two funds in which assets of the Wisconsin Retirement System are placed and managed by the State of Wisconsin Investment Board (SWIB).

The **Core Trust Fund** is the larger of the two funds that make up the WRS.

- It is a fully diversified, balanced fund which includes a mixture of holdings such as stocks, bonds, real estate, and private equity. The mixture of holdings helps stabilize the effects of market changes.
- The basic objective of the Core Fund is to earn the best long-term returns while taking acceptable risk.
- All members have at least half, if not all, of their retirement contributions deposited in the Core Fund.
- The Core Fund has the added protection of the “core floor” at retirement. This makes sure that the Core part of your annuity (monthly payment) does not fall below the starting amount if there are negative market returns.
- The Core Fund returns are smoothed (recognized evenly) over five-year periods. This helps keep interest and benefit adjustments more stable.
- As a WRS member, your Core Fund participation begins the same day your WRS coverage begins.

The **Variable Trust Fun**d is an *optional* fund.

- Funds are only invested in domestic and international stocks. The stocks held by the Core and Variable Funds are the same.
- The investment objective for the Variable Fund is to achieve returns equal to or more than that of similar stock portfolios each year.
- Participants in the Variable Fund are exposed to a higher degree of risk because of possible losses in the stock market. In exchange for the greater risk, members may earn greater returns.
- If a member chooses to participate in the Variable Fund, 50% of all contributions are deposited into the Variable Fund. This includes employee-required, voluntary additional, and employer contributions.
- Variable gains and losses are fully distributed each year. There is no smoothing, which spreads out the effect of gains and losses, as it does in the Core Fund.
- An election to participate in the Variable Fund applies to future contributions only. Existing Core balances cannot be transferred into the Variable Fund.

Note: Due to risk associated with the stock market, there is no limit to how much money may be lost from the Variable portion of your account or monthly benefit each year. Please consider your personal tolerance for risk and personal financial situation when deciding to participate in the Variable Fund. For more information, see the annual returns, rates, and adjustments section on ETF’s website.

How to Elect Variable Trust Fund Participation

To elect Variable Trust Fund participation, you must complete and send the *Election to Participate in the Variable Trust Fund* (ET-2356) form to ETF. Forms are available on the ETF website or you may contact ETF to request a form. If ETF receives your form within 30 days after your WRS coverage begins, your Variable election will be effective on your WRS begin date. All other elections will take effect on January 1, after ETF receives the form.

Your Variable election applies to all future contributions only. It is permanent and you will remain in the Variable Fund until you cancel your participation or you completely close your WRS account.

How WRS Retirement Benefits with Variable Are Calculated

There are two methods of calculating retirement benefits:

1. The Formula method.
2. The Money Purchase method.

By law, the WRS always pays the higher of these two calculations.

The examples below show how basic benefits are calculated. It includes the data used in the calculations, explains what the data is, and gives an example of each calculation.

Note the references to the “Variable Adjustment” in the formula calculation and the “Variable interest” in the money purchase calculation.

Formula Calculation		**Definition**	**Example**	
Final Average Monthly Earnings	→	Total of 3 highest annual earnings ÷ the service earned in those years ÷ 12 months. (calendar or fiscal years)	$3,652	
x Formula factors	→	Percentage factor(s) based on service in each employment category.	Pre-2000 x 0.01765	Post-1999 x .016
x Creditable Service	→	Years of service. (Includes purchased and military, if applicable.)	x 5.00	x 20.00
x Age Reduction Factor	→	A reduction percentage applied if retiring before normal retirement age.	x 0.936	
+/- **Variable Adjustment**	→	The excess or deficiency amount multiplied by a money purchase factor based on age. Applied *only if* the member participated in the Variable Fund.	+ $24 *$4,340(excess)* *x .00553 (age factor)* *= $24*	
= Benefit Amount	→	The highest paying monthly benefit (annuity) option. (Estimates will show all options available.)	**= $1,419**	
Money Purchase Calculation		**Definition**	**Example**	
Money Purchase Balance	→	All the money in the account. Includes all applicable Core and *Variable interest*.	$215,000.00	
x Money Purchase Factor	→	Based on age at retirement.	x .00553	
= Benefit Amount	→	The highest paying monthly benefit (annuity) option. (Estimates will show all options available.)	**= $1,188**	
Member automatically receives the higher of the two calculations = $1,419				

How Variable Participation Affects Your Retirement Benefit Calculation

Variable Trust Fund participation affects your retirement benefit calculation differently for formula and money purchase benefits. Deciding whether to cancel participation or remain in the Variable Fund is a personal decision that should be based on factors such as how much of your account is in the Variable Fund, how long will it be before you retire, and your overall risk tolerance.

If your benefit is higher under the money purchase calculation:

Your total money purchase balance plus interest includes the results of your Variable participation. No adjustment is needed.

Since the Core and Variable Funds earn different interest each year, the Core and Variable parts that make up your total monthly benefit will be different. Each part will be in direct proportion to your Core and Variable account balances.

If your benefit is higher under the formula calculation:

A Variable adjustment is made to your benefit calculation, based on your Variable excess or deficiency balance. When you participate in the Variable Fund, your account has either a variable excess or deficiency. This amount represents the difference between your actual account value and what it would be if you never participated in the Variable Fund.

- A Variable excess is the amount you are ahead.
- A Variable deficiency is the amount you are behind.

The excess or deficiency amount changes each year when Core and Variable interest is credited to your account. This is shown on your annual statement of benefits and helps you see the result each year since you began in the Variable Fund. It also helps if you decide to cancel Variable participation, and when and how to do that.

If you cancel your Variable participation *before* your benefit begins, your account will have a "residual" (remaining) excess or deficiency balance. That balance is credited with the Core effective interest rate each year. This means your remaining excess or deficiency will continue to change (usually grow) until you begin a retirement benefit. *You can reduce your risk of a residual variable deficiency if you choose to cancel conditionally.*

The effects of canceling Variable participation *after* you retire depends on the cancellation option you choose.

The Variable Excess or Deficiency Update Calculators on the ETF website show how to estimate how much your Variable adjustment may increase or decrease your formula benefit. There are two calculators:

- One is for members who have canceled Variable participation and have no remaining Variable balance.
- The other is for members who still have Variable balances.

Enter your excess or deficiency amount from your latest annual statement.

The Variable adjustment to your formula benefit is calculated by multiplying your Variable excess or deficiency amount by the money purchase factor based on your age on your benefit effective date. This amount is either added to or subtracted from your formula benefit. It is added if you have an "excess" and it is subtracted if you have a "deficiency."

The Variable adjustment increase grows each year until your benefit begins:

- The Variable part of your benefit will be based on your Variable Fund balance.
- The Core part will be the difference between your total formula benefit amount and the Variable part.

The following examples show the effects of Variable transfers:

- Before retirement
- At retirement
- Existing annuities

Effects on Variable Transfers **Before Retirement** **Residual** Excess or Deficiency	
• Your excess or deficiency balance is used in the formula calculation to increase or decrease your benefit. • Your excess or deficiency grows because of Core interest credited each year.	
Example: Transferred **before retirement** with an *excess* (amount ahead)	
$20,500	Total Residual Excess Balance
+ 1,435	Core Interest - 7.0% ($20,500 x 7.0%)
$21,935	New Excess Balance – Used to increase your formula benefit
Example: Transferred **before retirement** with a *deficiency* (amount behind)	
($20,500)	Total Residual Deficiency Balance
+ (1,435)	Core Interest - 7.0% (($20,500) x 7.0%)
($21,935)	New Deficiency Balance – Used to decrease your formula benefit
• If you file a *conditional* cancellation, you could *never* have a residual deficiency because your funds would only be transferred if you are “even” or “ahead.”	

Effects on Variable Transfers On Benefit Calculations **At Retirement** **Residual** Excess or Deficiency	
See how your excess or deficiency is used to increase or decrease your formula benefit. Note: Money purchase calculations already include the Variable excess or deficiency.	
Example: Transferred at **retirement** with an excess (amount ahead)	
$20,500	Total Residual Excess Balance
+ 1,435	Core Interest - 7.0% ($20,500 x 7.0%)
$21,935	New Excess Balance – Used to increase your formula benefit
x .00553	Money Purchase (age) factor at retirement
$121	Variable Adjustment (this is ***added*** to your formula benefit)
Example: Transferred **at retirement** with a deficiency (amount behind)	
($20,500)	Total Residual Deficiency Balance
+ (1,435)	Core Interest - 7.0% ($20,500 X 7.0%)
($21,935)	New Deficiency Balance – Used to decrease your formula benefit
x .00553	Money Purchase (age) factor at retirement
($121)	Variable Adjustment (this is ***subtracted*** from your formula benefit)

Effects of Variable Transfers on **Existing Annuities** When Ahead or Behind	
The final retirement annuity calculation below shows both the Core and Variable Annuity Amounts	
Example: Transferred after retirement when behind by $250	
$1,162.62	Core Annuity
+ 1,061.00	Variable Annuity
= $2,223.62	Total Annuity

- If Variable is canceled *conditionally*: The Variable annuity will receive the Variable adjustment each year until it reaches the level it would have been if the member never participated in the Variable. It then changes to a "Core Annuity."
- If Variable is canceled *unconditionally*: The annuity will receive the Variable adjustment for the current year. Then the Variable annuity is changed to a "Core Annuity" effective on the following May 1 payment regardless of the annuity amount.
- Transferring to Core when behind locks in the losses permanently.
- ETF sends an *Annuity Payment Statement* (ET-7211) each April when the annual Core and Variable adjustments are applied. It shows the amount that your total monthly benefit is ahead or behind and what it would have been if you never participated in the Variable Fund.

Annuity (Monthly Payment) Adjustments

Annuity adjustments are yearly changes to a retiree's annuity (monthly payment). Payments may increase or decrease based on Core and Variable Trust Fund investment returns.

When your retirement benefit begins, funds are transferred to the Core and Variable Annuity Reserves (the funds that pay all annuities) to pay your monthly benefit payment for your lifetime. When you retired, ETF built into your original Core annuity amount an assumption that the fund would earn 5% interest. Therefore, only investment returns above and beyond the 5% earnings assumption are available to pay Core increases.

After the year's returns are final, ETF's actuary determines the effective rates to apply to members' account balances. They use the effective rates, 5% assumed rate, and actuarial factors (death rates, previous year carryover, etc.) to calculate the annuity adjustments. Core returns are smoothed (recognized) over five years when calculating the annual Core effective rate and annuity adjustment. Variable adjustments are not smoothed.

When an annual change is made to your monthly benefit payment (annuity), ETF sends an *Annuity Payment Statement* (ET-7211) that shows the annual Core and Variable adjustments (either an increase or decrease). Annual adjustments are reflected on the May 1 payment.

How to Cancel Variable Trust Fund Participation

To cancel participation in the Variable Trust Fund, you must file a *Canceling Variable Participation* (ET-2313) form with ETF. Forms are available on the ETF website or you may contact ETF to request a form. The cancellation takes effect on January 1 after ETF receives the completed form. It does not take place immediately.

Once you cancel Variable Fund participation, you cannot participate again unless you close your WRS account (by taking a separation or lump-sum retirement benefit) and later return to WRS-covered employment. As a new WRS employee, you may elect to join the Variable Fund again.

After ETF receives your cancellation form, you can withdraw it in the same year if you change your mind. ETF must receive your written request to withdraw by ETF's last business day of the same year ETF received it. Once a cancellation is effective, it cannot be withdrawn.

Your Variable cancellation is normally effective on the January 1 after ETF receives it. However, a Variable cancellation received on the first working day of a calendar year is deemed to have been received in the year that has just ended. If ETF receives your Variable cancellation on the first day of the year in which state offices are open for business, the Variable cancellation is *considered effective* as though it was received during the previous year.

The Variable gain or loss will be applied to your account as of December 31 for the year in which ETF received your cancellation form.

Variable Cancellation Options

For more information on cancellation options, see the information provided on the *Canceling Variable Participation* (ET-2313) form. If you cancel your Variable participation, there is no opportunity to rejoin unless you terminate your WRS employment, completely close your WRS account by withdrawing your account balance in a lump sum, and then later return to work for a WRS-participating employer. By becoming a new participating employee, you will have a new Variable election opportunity.

For Non-Annuitants

Non-annuitants are members who are not receiving a monthly WRS benefit payment (annuity).

1. Cancel Future Contributions Only

Past Variable contributions remain in the Variable Trust Fund, but all future contributions go into the Core Trust Fund.

You may also file a conditional or unconditional election any time in the future.

2. Conditional Cancel

Cancels all future Variable contributions.

Past Variable contributions will be transferred to the Core Fund only when you at least “break even,” meaning your account is no longer behind (if you have a deficiency when you cancel). Depending on your deficiency amount, it could take some time for this to happen. ***This option ensures you will not have a residual deficiency.*** The transfer is made after the current year interest is applied.

Should the Variable Fund experience prolonged years of losses, your Variable deficiency could continue to increase and you might never meet the “break-even” condition. In this situation, your Variable Funds would never transfer to the Core Fund; they would remain in the Variable Fund unless at some point you file an “unconditional” Variable cancellation. Since there are no guarantees of how the Variable Fund will perform or any maximum amount by which your Variable account balance can be reduced, remaining in the Variable Fund always presents the risk of further losses.

If the condition to transfer has not been met by the time you begin your benefit, the cancellation will apply to your monthly benefit. You may also send an unconditional election at any time.

3. Unconditional Cancel

Cancels all future Variable contributions.

Past Variable contributions are transferred to the Core Fund effective the following January 1. This is after the current year interest is applied regardless of the excess or deficiency balance (how much you are ahead or behind). If you have a deficiency, your deficiency will grow and reduce your formula benefit when you retire.

For Annuitants (Retirees)

Annuitants are retirees who are receiving a monthly WRS benefit payment (annuity).

1. Conditional Cancel

The Variable part of your annuity will be changed to a Core annuity only when the Variable amount equals or exceeds the amount that you would be receiving if you had never participated in the Variable Fund (when you are even or ahead). Any annual Variable gains or losses will still be applied to your Variable annuity, until it changes to a Core annuity. You may file an unconditional election at any time.

2. Unconditional Cancel

The Variable part of your annuity will be changed to a Core annuity (regardless of the Variable annuity amount) effective the following January 1. Any Variable gains or losses for the current year will still be applied to the Variable annuity beginning with the next May 1 payment. Core annuity adjustments will be applied to your entire annuity in the following years.

Retirement Contributions and Multiple Accounts

Variable cancellations apply to both your required and additional (if applicable) Variable contributions. The required and additional Variable contributions will be combined when you conditionally transfer your Variable contributions from the Variable to the Core Fund.

If you have more than one WRS account, the Variable cancellation form applies to all of your Variable accounts unless otherwise stated on your *Canceling Variable Participation* (ET-2313) form. You may have additional accounts as a beneficiary (due to the death of another WRS member) or an alternate payee (due to a qualified domestic relations order after a divorce or separation). If you want your election to apply only to specific Variable accounts and/or annuity(ies), you must indicate on the form to which account(s) and/or annuity(ies) the election should apply.

For further information on cancellation options, see the information provided on the *Canceling Variable Participation* (ET-2313) form.

Contact ETF

etf.wi.gov

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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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