Q&A Guide for Almost Retirees

(those who want to retire in 2009 or 2010)

1. What are the two types of retirement annuity calculations?

Your retirement annuity is calculated under two different methods and your annuity is based on the HIGHER of the two calculations. You do not select your calculation method; you automatically receive the higher of the two calculations. A **formula calculation** is based on years of WRS service, three highest years of earnings, formula factors based on employment category and age at retirement. A **money purchase calculation** is based on the total value of your WRS account and a money purchase factor based on your age at the time of retirement.

2. How do I know if my annuity will be higher under the Formula or Money Purchase calculation method?

1) On the second page of your annual ETF Statement of Benefits, you will find annuity projections. This section of the statement will indicate which calculation method provides the higher benefit. 2) If you have already received your retirement estimate and application from ETF, you will need to look on the upper half of the first page of the application. It will state on the application if your benefit is higher under the formula or money purchase calculation. Also, if your years of creditable service and three high years of earnings are listed on the application, your annuity is higher under the formula calculation. If that information is not on the application, you annuity is higher under the money purchase calculation.

3. How is interest credited to my WRS account for the year prior to retirement and during the first year of my retirement?

Your WRS account is credited with the full effective rate of interest for the year prior to your retirement. For example, if you retire in 2009, you received 3.3% core interest and -40% variable interest (if applicable) on your WRS account for 2008. For the year in which you retire, you receive 5% prorated interest on your account based on your actual retirement date. For example, if you retire on July 1st, you will receive 6/12 of 5% interest (2.5%) on your account for that year. The prorated percentage of 5% interest is guaranteed – the actual interest rates during your first year of retirement have no effect on your initial annuity calculation.

4. What will the interest rates be for 2009?

It is impossible to predict the 2009 interest rates at this time. The interest rates are based on investment earnings as of December 31, 2009 and the rates will be released during the first quarter of 2010. Investment earnings/losses under the Core Fund are smoothed over a five year period so only 20% of the total return is realized within a given year. This creates more stable core interest rates. The 2009 core interest rate (either positive or negative) will be based on investments earnings from 2005 – 2009. The years 2005 – 2007 all had positive investment returns but 2008 had a -26.2% rate of return so the negative returns of 2008 will have a negative effect on the core effective interest rate for 2009. The 2009 variable interest rate (either positive or negative) is based on the 2009 variable investment returns and there is no smoothing mechanism like that of the Core Fund.

5. **What are the investment returns so far this year?**

   Investment returns are posted on the State of Wisconsin Investment Board (SWIB) website (http://www.swib.state.wi.us/) and are updated throughout the year. As of April 30, 2009, the Core Fund was at -1.5% and the Variable Fund was at 0.1% so far for the year. To view a history of investment returns, interest rates and annuity adjustments: http://www.swib.state.wi.us/returns_history.pdf

6. **My annuity is higher under the formula calculation and I have NEVER participated in the Variable Fund. Is it better to retire in 2009 or 2010?**

   Current market conditions have NO effect on your initial retirement annuity. Your annuity is based on your earnings, years of service, set formula factors and your age. Under a formula retirement annuity, the longer you wait to retire, the better. The longer you work, the more WRS service and earnings you will acquire and the older you will be at retirement. These factors increase your overall formula retirement benefit. There is no real advantage or disadvantage of retiring in 2009 in this situation.

7. **My annuity is higher under the money purchase calculation and I have NEVER participated in the Variable Fund or I previously participated in the Variable Fund but all of my money is now in the Core Fund. Is it better to retire in 2009 or 2010?**

   It depends on the investment returns for 2009. Current or past variable participation has no effect on the money purchase annuity calculation. If you retire in 2009, you will receive a guaranteed prorated percentage of 5% interest on your account according to your retirement date. For example, if you retire on December 15th, you will receive 11/12 of 5% interest, or 4.58% interest, on your WRS account for 2009. If you retire in 2010, you will receive the actual core interest rate on your account for 2009.

   It will only benefit you to retire in 2009 if the actual 2009 core interest rate is lower than the prorated interest rate that you are guaranteed to receive if you retire in 2009. Unfortunately the core interest rate will not be known until early 2010 so ***it is impossible to determine the "best" retirement date***. According to a February 2009 estimate from ETF, if core investment returns meet the annual benchmark of 7.8%, the 2009 core interest rate will be between 1.9% and 2.3%. As of April 30, 2009, the Core Fund investment returns were -1.5%. Anyone who begins receiving a retirement benefit with an effective date between June 1, 2009 and December 31, 2009 will receive a guaranteed 2009 interest rate between 2% and 4.58%, depending on the benefit effective date. Unless there are very large gains in the market throughout 2009 and investments returns greatly exceed the 7.8% benchmark for annual investment returns, it will likely be more advantageous to retire in late 2009 versus early 2010.

8. **My annuity is higher under the formula calculation and I used to participate in the Variable Fund but all of my money is now in the Core Fund. Is it better to retire in 2009 or 2010?**

   When you cancel Variable Fund participation, a variable excess or deficiency is placed on your WRS account. This is an accounting mechanism that tracks whether or not there is more or less money in your total WRS account because of your Variable Fund participation. Each year this amount is credited with the core interest rate and will be used to adjust your formula annuity calculation at retirement. Your current variable excess or deficiency is listed on the annual ETF Statement of Benefits that you received in the spring of 2009.

   Your formula annuity is based on your earnings, years of service, set formula factors and your age. Once that calculation is complete, your annuity will be adjusted upwards if you have a variable excess and downwards if you have a variable deficiency at retirement. If you retire in 2009, you will retire with the same variable excess or deficiency that is listed on your January 1, 2009 ETF Statement of Benefits. If you retire in 2010, the current value of your excess or deficiency will be multiplied by the 2009 core interest rate. If the interest rate is positive, the excess or deficiency will increase and if the interest rate is negative, the excess or deficiency will decrease.

It is impossible to predict whether or not your retirement annuity will be higher if you retire in 2009 or 2010 because the core interest rate will not be known until early 2010. In general, under a formula retirement annuity, the longer you wait to retire, the better. The longer you work the more WRS service you will acquire and the older you will be at retirement. These factors increase your overall formula retirement benefit. The only exception may be if you currently have a variable deficiency on your account and if the 2009 core interest rate is positive. If this occurs your variable deficiency in 2010 will be greater than your 2009 deficiency so there will be a larger reduction placed on your annuity if you retire in 2010. However, this reduction could be offset by your additional WRS service and increased age if you wait until 2010 to retire. Again, it is impossible to predict an optimal retirement date.

For more information about how a variable excess or deficiency affects your formula retirement annuity, see http://www.uwsa.edu/hr/benefits/retsav/downturnpastvar.pdf and pages 3-5 of the following ETF brochure: http://etf.wi.gov/publications/et4930.pdf

9. **My annuity is higher under the formula calculation and I currently participate in the Variable Fund. Is it better to retire in 2009 or 2010?**

If you currently participate in the Variable Fund or have ever participated in the Variable Fund, you will have a variable excess or deficiency on your WRS account. This is an accounting mechanism that tracks whether or not there is more or less money in your total WRS account because of your Variable Fund participation. Your current variable excess or deficiency is listed on the annual ETF Statement of Benefits that you received in the spring of 2009.

Your formula annuity is based on your earnings, years of service, set formula factors and your age. Once that calculation is complete, your annuity will be adjusted upwards if you have a variable excess and downwards if you have a variable deficiency at retirement. If you retire in 2009, you will retire with the same variable excess or deficiency that is listed on your January 1, 2009 ETF Statement of Benefits. If you retire in 2010, you will receive the 2009 Core Fund interest on the core portion of your account and 2009 Variable Fund interest on the variable portion of your account. Your variable excess or deficiency will be adjusted accordingly. Most WRS participants who have money in the Variable Fund now have a variable deficiency on their account. If there are large variable investment returns in 2009 and you currently have a variable deficiency, your deficiency will most likely be smaller if you retire in 2010 which will increase your overall retirement benefit if you retire in 2010 versus 2009.

It is impossible to predict whether or not your retirement annuity will be higher if you retire in 2009 or 2010 because the core and variable interest rates will not be known until early 2010. In general, under a formula retirement annuity, the longer you wait to retire, the better. The longer you work the more WRS service you will acquire and the older you will be at retirement. These factors increase your overall formula retirement benefit.

For more information about how a variable excess or deficiency affects your formula retirement annuity, see http://www.uwsa.edu/hr/benefits/retsav/downturnvar.pdf and pages 3-5 of the following ETF brochure: http://etf.wi.gov/publications/et4930.pdf

10. My annuity is higher under the money purchase calculation and I currently participate in the Variable Fund. Is it better to retire in 2009 or 2010?

Your best retirement date depends on the investment returns for 2009. If you retire in 2009, you will receive a guaranteed prorated percentage of 5% interest on your account according to your retirement date. For example, if you retire on December 15th, you will receive 11/12 of 5% interest, or 4.58% interest, on your total WRS account for 2009. If you retire in 2010, you will receive the 2009 Core Fund interest on the core portion of your account and 2009 Variable Fund interest on the variable portion of your account. It is impossible to predict whether or not your retirement annuity will be higher if you retire in 2009 or 2010 because the core and variable interest rates will not be known until early 2010.

It will only benefit you to retire in 2009 if the actual 2009 interest rates are lower than the prorated interest rate that you are guaranteed to receive if you retire in 2009. According to a February 2009 estimate from ETF, if core investment returns meet the annual benchmark of 7.8%, the 2009 core interest rate will be between 1.9% and 2.3%. As of April 30, 2009, the Core Fund investment returns were -1.5% and the Variable Fund investment returns were 0.1%. Anyone who begins receiving a retirement benefit with an effective date between June 1, 2009 and December 31, 2009 will receive a guaranteed 2009 interest rate between 2% and 4.58%, depending on the benefit effective date.

If there are large market gains in 2009 and the Variable Fund investment returns are greater than 5%, the 2009 effective rate of interest on the variable portion of your account may exceed the guaranteed prorated interest that you will receive if you retire in 2009. We will not know until late 2009 if it is more advantageous to retire in 2009 or 2010 if you are currently in the Variable Fund.

For more information about how a variable excess or deficiency affects your money purchase retirement annuity, see http://www.uwsa.edu/hr/benefits/retsav/downturnvar.pdf and pages 3-5 of the following ETF brochure: http://etf.wi.gov/publications/et4930.pdf

11. I have only been in the Variable Fund for a few years. How will participation in the Variable Fund impact my retirement annuity calculation?

You need to review what percentage of your WRS account is in the Variable Fund to determine how much it will affect your retirement annuity. If the overall percentage is minimal, there will not be a large impact on your annuity. Upon retirement, the core portion of your annuity can not fall below its original level but the variable portion of your annuity can fall below its original level. Even if a small portion of your annuity is in the Variable Fund, you total annuity may fall below its original level if there are sizable negative variable annuity adjustments. Both active employees and retirees have the option to cancel variable participation. For more information about cancellation options, see pages 7-9 of the following ETF brochure: http://etf.wi.gov/publications/et4930.pdf

12. I already received my retirement application for a 2009/2010 retirement date. Should I order an updated application?

It depends. Interest for 2008 was credited to your WRS account on March 28, 2009. Any estimates produced before that date do not include 2008 interest. If your estimate was produced after March 28, 2009, you do not need to order a new application because your estimate includes 2008 interest crediting. The date your estimate was produced is located in the upper portion of the first page of the retirement application. The interest rates used in the calculation are listed in the side margin of the front page of your retirement application.

If your benefit is higher under the formula method and you have never participated in the Variable Fund, your annuity estimates are not affected by interest crediting so you do not need to request a new estimate.

If your benefit is higher under the formula method, you participated in the Variable Fund prior to 2008 and have canceled Variable Fund participation and moved all of your contributions to the Core Fund prior to 2008, it probably not necessary to request a new estimate. In this situation, your variable excess or deficiency will be credited with the 3.3% Core Fund interest rate for 2008 so it should have a minimal impact on the total value of your retirement benefit.

If your benefit is higher under the money purchase calculation and all of your contributions are in the Core Fund, ETF assumes 0% interest for the year prior to retirement (if interest rate is not known) and prorated 5% interest for the year of retirement given your expected retirement date. If your estimate was produced before March 28, 2009, ETF assumed 0% interest for the Core Fund for 2008 and the actual Core Fund interest rate for 2008 was 3.3%. In this situation, your annuity should be slightly higher than the estimate you received, but you do not need to request a new estimate.

If you currently participate in the Variable Fund and/or you participated in the Variable Fund in 2008 but canceled participation effective January 1, 2009 and your estimate was produced before March 28, 2009, you may want to request an updated estimate. For all retirement estimates created before October 21, 2008, ETF used an estimated 2008 variable interest rate of 0%. On October 21, 2008, ETF began using a -20% estimated variable interest rate for 2008. In mid-November, ETF began using an estimated 2008 variable interest rate of -30% and on December 5, 2008, ETF began using an estimated 2008 variable interest rate of -40%. The actual variable interest rate for 2008 was -40%. Even if your estimate was produced between December 5, 2008 and March 28, 2009, when ETF assumed -40% interest for 2008, you should request a new estimate because the variable excess or deficiency on your account was not updated until March 28, 2009. The amount of your variable excess or deficiency will affect the value of your formula annuity calculation.

If you need to request an updated retirement application, you should contact ETF directly at 1-877-533-5020 to request the information.

13. I heard that I should retire now because ETF is going to change the way that retirement benefits are calculated and if I wait to retire, I will receive a lower monthly annuity. Is that true?

No, the annuity calculation methods are set by state statute so ETF can not just decide to change the method of calculation. There have been major market downturns in the past that were followed by major upswings in performance. Poor investment returns impact the amount of interest that is applied to a participant's account, which could ultimately result in a lower retirement benefit if the annuity is higher under the money purchase calculation (based on the dollar value of the account). However, the calculation methods that are used are not changing.

14. What month in the year is the best time to retire?

This answer is different for each person. If your annuity is higher under the money purchase calculation, it is usually beneficial to retire just after the end of the calendar year in January so you receive full interest crediting on your account for the prior year. This "general rule" may not hold true in any year that the effective rate of interest is less than 5%. Since the interest rate for the current year is not yet known, it is impossible to predict if it is more beneficial to retire in 2009 or 2010 if your annuity is higher under the money purchase calculation. If you retire in December 2009 and your annuity is higher under the money purchase method, you are guaranteed 4.58% interest on your total WRS account for 2009.

If you are unclassified faculty, academic staff or limited and paid on a fiscal year basis and your annuity is higher under the formula calculation, it may benefit you to retire just after the end of the academic or fiscal year. Your last fiscal year of earnings may be your highest and this will increase your overall formula benefit. Some people also select their retirement date in order to maximize their sick leave credits that pay for health insurance in retirement. There is no one or correct answer to this question.

15. What is the last day in 2009 that I can retire if I want to guarantee that I receive the prorated 4.58% interest on my account for 2009 (avoid receiving that actual interest rate on my account for 2009)?

Your annuity must begin in 2009 in order to avoid receiving the 2009 effective interest rate on your account. Your annuity effective date would have to be on or before December 31, 2009 so your official termination date would have to be on or before December 30, 2009.

16. Once I retire, how will the market conditions affect future annuity adjustments?

Once retired, there may be an annual annuity adjustment on May 1st of each year. Any adjustments made to a retirement annuity are based on the performance of the retirement system. If you have all of your money in the Core Fund at retirement, your annuity can never fall below its original annuity level at final calculation. In this situation, if you retire in 2009 or 2010 and there are negative Core Fund annuity adjustments over the next few years, you are insulated from the effect of the negative adjustments because your original annuity can not decrease. If you receive positive annuity adjustments, those adjustments can be repealed if there are future negative annuity adjustments, but your annuity can not fall below its original level.

If you are in the Variable Fund at retirement, your annuity can fall below its original level if there are negative variable annuity adjustments. The core portion of your annuity can never fall below its original level, but the variable portion will most likely fall below its original level if there are large negative variable annuity adjustments. Annuitants do have the option to cancel variable participation in retirement. Please see page 7-9 of the following ETF brochure for more information about cancelling variable participation: http://etf.wi.gov/publications/et4930.pdf

17. I'm currently in the Variable Fund and I can't afford to have my annuity decrease on an annual basis if there are poor variable investment returns. Can I cancel variable participation after I retire?

Yes. If you retire in 2009 and unconditionally cancel variable participation effective January 1, 2010, you will NOT receive any future variable adjustments after the one you will receive on May 1, 2010. If you unconditionally cancel variable participation effective January 1, 2010 and retire in 2010, you will receive the 2009 variable interest crediting but you will never receive any annuity adjustments based on Variable Fund performance. Please see pages 7-9 of the following brochure to learn about variable cancellation options: http://etf.wi.gov/publications/et4930.pdf