



## Q&A Guide for Almost Retirees (those who want to retire in 2011 or 2012)

### 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 (available in the [My UW System portal](#) in Benefit Information - Statements), 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, your 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 2011, you received 4.8% core interest and 16% variable interest (if applicable) on your WRS account for 2010. 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 1<sup>st</sup>, 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 2011?

It is impossible to predict the 2011 interest rates at this time. The interest rates are based on investment earnings as of December 31, 2011 and the rates will be released during the first quarter of 2012. 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 2011 core interest rate (either positive or negative) will be based on investments earnings from 2007 – 2011. The years 2007, 2009 and 2010 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 2011. The 2011 variable interest rate (either positive or negative) is based on the 2011 variable investment returns and there is no smoothing mechanism like that of the Core Fund.

In November 2011, ETF released the following projections regarding the Core Fund:

| Core Effective Rate / Annuity Adjustment Projections                    |                |                |                |
|---|----------------|----------------|----------------|
| If SWIB's net investment return on 12/31/11 is...                       | 5%             | 0%             | -5%            |
| ...the 2011 Core Effective Rate is projected to be approximately...     | 1.8% to 2.8%   | 0.8% to 1.8%   | -0.2% to 0.8%  |
| ...the 2011 Core Annuity Adjustment is projected to be approximately... | -3.2% to -4.2% | -4.1% to -5.1% | -4.9% to -5.9% |

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

Investment returns are posted on the State of Wisconsin Investment Board (SWIB) website ([www.swib.state.wi.us/](http://www.swib.state.wi.us/)) and are updated throughout the year. As of October 31, 2011, the Core Fund was at 2.8% and the Variable Fund was at -1.8% so far for the year. See the November 2011 [ETF open letter](#) about year-to-date investment returns for additional information. To view a history of investment returns, interest rates and annuity adjustments: [www.swib.state.wi.us/returns\\_history.pdf](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 2011 or 2012?**

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 2011 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 2011 or 2012?**

It depends on the investment returns for 2011. Current or past variable participation has no effect on the money purchase annuity calculation. If you retire in 2011, 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 15<sup>th</sup>, you will receive 11/12 of 5% interest, or 4.58% interest, on your WRS account for 2011. If you retire in 2012, you will receive the actual core interest rate on your account for 2011.

It will only benefit you to retire in 2011 if the actual 2011 core interest rate is lower than the prorated interest rate that you are guaranteed to receive if you retire in 2011. Unfortunately the core interest rate will not be known until early 2012 so *it is impossible to determine the "best" retirement date*. According to a November 2011 estimate from ETF, if core investment returns are 5%, the 2011 core interest rate will

be 1.8%-2.8%. As of October 31, 2011, the Core Fund investment returns were 2.8%. Anyone who begins receiving a retirement benefit with an effective date in December of 2011 will receive a guaranteed 2011 interest rate of 4.58%, depending on the benefit effective date. Unless there is a sizable gain during the last few months of 2011, it will likely be more advantageous to retire in late 2011 versus early 2012 if your retirement annuity is larger under the money purchase calculation.

**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 2011 or 2012?**

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 2011 (available in the [My UW System portal](#) in Benefit Information - Statements).

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 2011, you will retire with the same variable excess or deficiency that is listed on your January 1, 2011 ETF Statement of Benefits. If you retire in 2012, the current value of your excess or deficiency will be multiplied by the 2011 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 2011 or 2012 because the core interest rate will not be known until early 2012. 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 2011 core interest rate is positive. If this occurs your variable deficiency in 2012 will be greater than your 2011 deficiency so there will be a larger reduction placed on your annuity if you retire in 2012. However, this reduction could be offset by your additional WRS service and increased age if you wait until 2012 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 [www.uwsa.edu/hr/benefits/retsav/downturnpastvar.pdf](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 2011 or 2012?**

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 2011 (available in the [My UW System portal](#) in Benefit Information - Statements).

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 2011, you will retire with the same variable excess or deficiency that is listed on your January 1, 2011 ETF Statement of Benefits. If you retire in 2012, you will receive the 2011 Core Fund interest on the core portion of your account and 2011 Variable Fund interest on the variable portion of your account. Your variable excess or deficiency will be adjusted accordingly. Most WRS participants who began participation in the Variable Fund prior to 2008 have a variable deficiency on their account. If there are large variable investment returns in 2011 and you currently have a variable deficiency, your deficiency will most likely be smaller if you retire in 2012 which will increase your overall retirement benefit if you retire in 2012 versus 2011. As of October 31, 2011, the Variable Fund was down 1.8% for the year. If the Variable Fund does not improve by the end of 2011, it is likely that there will be a negative variable interest rate for 2011.

It is impossible to predict whether or not your retirement annuity will be higher if you retire in 2011 or 2012 because the core and variable interest rates will not be known until early 2012. 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 [www.uwsa.edu/hr/benefits/retsav/downturnvar.pdf](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 2011 or 2012?**

Your best retirement date depends on the investment returns for 2011. If you retire in 2011, 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 15<sup>th</sup>, you will receive 11/12 of 5% interest, or 4.58% interest, on your total WRS account for 2011. If you retire in 2012, you will receive the 2011 Core Fund interest on the core portion of your account and 2011 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 2011 or 2012 because the core and variable interest rates will not be known until early 2012.

It will only benefit you to retire in 2011 if the actual 2011 interest rates are lower than the prorated interest rate that you are guaranteed to receive if you retire in 2011. According to a November 2011 estimate from ETF, if core investment returns are 5%, the 2011 core interest rate will be 1.8%-2.8%. As of October 31, 2011, the Core Fund investment returns were 2.8% and the Variable Fund investment returns were -1.8%. Anyone who begins receiving a retirement benefit with an effective date in December of 2011 will receive a guaranteed 2011 interest rate of 4.58%, depending on the benefit effective date. Unless there is a sizable gain during the last few months of 2011, it will likely be more advantageous to retire in late 2011 versus early 2012 if your retirement annuity is larger under the money purchase calculation.

Unless there is a sizable gain during the last few months of 2011, it will likely be more advantageous to retire in late 2011 versus early 2012.

For more information about how a variable excess or deficiency affects your money purchase retirement annuity, see [www.uwsa.edu/hr/benefits/retsav/downturnvar.pdf](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, your 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 have a retirement estimate/application that doesn't include 2010 interest? Should I order an updated application?**

It depends. If your application was produced in 2008 or 2009 or if you participate in the Variable Fund (or are no longer in the Variable Fund but were in the Variable Fund in 2008 and 2009) and your estimate was produced before February 12, 2010, you should request an updated estimate from ETF.

ETF will provide a retirement estimate once per year. If your estimate is less than one year old (date estimate produced in the upper portion of the first page of the retirement application) and/or does not include 2010 interest, it is likely that your estimate is relatively accurate or understated.

The interest rates used in the calculation of your estimated retirement annuity are listed in the side margin of the front page of your retirement application. If your application includes the actual 2010 interest rates, 4.8% Core/16% Variable, your estimate should be relatively accurate.

ETF will update your estimate before you receive your first annuity payment if the interest rates are known for the year (example – your estimate does not include 2010 interest – when you retire, ETF will update estimate to include 2010 interest before you receive your first annuity check).

You can use ETF's online calculator to update your estimates: [www.etf.wi.gov/calculator.htm](http://www.etf.wi.gov/calculator.htm).

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

**13. How did the state legislation (Wisconsin Acts 10 and 32) that passed during the summer of 2011 impact how my retirement benefit is calculated?**

***Change to formula factor for the Elected/Executive WRS Category:*** This group had a formula factor of 2%. Under Act 10, the factor was reduced to 1.6%, consistent with general category employees. The new formula factor for UW employees in this category applies to service earned after June 29, 2011. This category generally includes members of the legislature, unclassified executives (UW System president and vice presidents, chancellors...) and other elected officials.

Almost all UW System employees are covered by either the General or Teacher WRS category so there was no change to the formula annuity calculation for almost all UW employees.

**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 2011 or 2012 if your annuity is higher under the money purchase calculation. If you retire in December 2011 and your annuity is higher under the money purchase method, you are guaranteed 4.58% interest on your total WRS account for 2011.

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 2011 that I can retire if I want to guarantee that I receive the prorated 4.58% interest on my account for 2011 (avoid receiving that actual interest rate on my account for 2011)?**

Your annuity must begin in 2011 in order to avoid receiving the 2011 effective interest rate on your account. Your annuity effective date would have to be on or before December 31, 2011 so your official termination date would have to be on or before December 30, 2011.

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

Once retired, there may be an annual annuity adjustment on May 1<sup>st</sup> 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 2011 or 2012 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 cannot 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 2011 and unconditionally cancel variable participation effective January 1, 2012, you will NOT receive any future variable adjustments after the one you will receive on May 1, 2012. If you unconditionally cancel variable participation effective January 1, 2012 and retire in 2012, you will receive the 2011 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>

**18. How did the mandatory furlough days affect my retirement benefit?**

There was no effect on your retirement benefit. You received full credit under the WRS for any furlough days that you were required to take. Even though your pay was reduced due to the furlough, your earnings reported to the WRS were NOT reduced (earnings are reported to the WRS as if you do not have a reduction in pay due to furlough).