



Retirement Savings Options Available to UW System Employees

UW System employees have three retirement savings options. The primary retirement plan is the Wisconsin Retirement System, a mandatory public employee retirement plan. The two optional retirement savings plans are the Tax-Sheltered Annuity 403(b) and Wisconsin Deferred Compensation 457 plans.

Wisconsin Retirement System (WRS)

- **Design of the WRS**
 - The WRS is a hybrid pension plan with both defined benefit and defined contribution components
 - Structured as a defined benefit plan but separate individual accounts for all participants are also maintained.
- **Vesting**
 - Employees who have WRS-creditable service prior to July 1, 2011 are immediately vested
 - Employees who do not have any WRS-creditable service prior to July 1, 2011, must have five years of creditable WRS service to be vested in the WRS
 - If not vested, can receive a separation benefit upon termination of employment
 - Separation benefit equals employee contributions plus accumulated interest
- **Retirement contributions**
 - Most employees are required to pay half the total WRS contribution – the employer contributes the other half of the total contribution
 - In 2012, the total WRS contribution for most employees is 11.8% - both the employee and the employer pay 5.9% of WRS-covered earnings¹ to the WRS
 - WRS contributions taken on a pre-tax basis for state and federal tax purposes
- **Interest crediting**
 - Employee accounts are credited with the annual effective rate of interest and annuitants receive an annual annuity adjustment based on the performance of the WRS
 - For a history of interest rates and dividends: www.swib.state.wi.us/returns_history.pdf
- **Guaranteed annuity for life upon retirement**
 - If account is too small at retirement to provide a monthly annuity, a lump sum benefit of the total value of WRS account will be payable
 - Options available to guarantee annuity for life of named survivor (age restrictions apply to non-spouse survivor)
- **Calculation of retirement benefits**
 - Retirement benefits are calculated under two methods – receive the greater of the two
 - Formula calculation: based on years of service, final average earnings, age and a formula factor based on employment category
 - Money purchase calculation: value of employee's individual account (employee & employer contributions plus accumulated interest) is multiplied by a factor based on age
- **Distribution options**
 - Two distribution options if employee terminates before minimum retirement age (typically 55)
 - Keep the account with the WRS and it will continue to accumulate interest. If the employee receives a distribution of the account after minimum retirement age and the employee is vested, the benefit will be based on full value of the account (employee & employer contributions plus accumulated interest).

¹ WRS contributions subject to IRS limits - receive WRS contributions on the first \$250,000 in gross earnings.

- Withdraw the account and receive a lump sum payment or roll into another retirement savings vehicle. If money is withdrawn before minimum retirement age or the employee is not vested, the benefit is based on only the employee contributions plus accumulated interest (not eligible to receive employer contributions).
- **Paid retiree health insurance benefits**
 - Accumulated sick leave balance at time of retirement is multiplied by highest hourly base rate of pay and converted to a dollar amount to pay for retiree health insurance under the State Group Health Insurance program.
 - Almost all employees with 15 or more years of continuous UW or state service are eligible for supplemental sick leave credits that increase overall value of account.
 - Program offsets full cost of retiree health insurance premiums until account is exhausted.
- **Death benefits**
 - If an employee dies while actively employed, a minimum of the total value of the employee's WRS account is payable (employee & employer contributions, plus accumulated interest).
- **Disability benefits**
 - The WRS provides disability benefits (service requirements apply)
- **For more information about the WRS:** www.wisconsin.edu/hr/benefits/retsav/wrs.htm

Tax-Sheltered Annuity (TSA) – 403(b) plan & Wisconsin Deferred Compensation (WDC) – 457 Plan

- **Pre-tax and post-tax (Roth) deferrals available**
 - Both programs allow investment of a portion of the employee's income on a pre-tax or post-tax (Roth) basis to save for retirement
- **No employer contribution or match**
- **Annual contribution maximums**
 - Can contribute up the annual IRS maximum to both plans
 - IRS annual contribution maximum is \$17,000 (\$22,500 if 50 or over)
 - Can contribute up to \$34,000 between the two plans (\$45,000 if 50 or over)
 - May be eligible for additional catch-up provisions (certain requirements must be met)
- **No account balance minimums required**
- **Low administrative fees**
- **Distributions**
 - Upon termination of employment, full access to total value of account and may take a distribution or roll money into another qualified retirement plan
- **Roll-ins from other retirement plans**
 - Pre-Tax Deferrals: the TSA vendors will accept tax-deferred money from 401(a) "qualified" plans, 401(k), 403(a), 403(b), 457 governmental deferred compensation plans and traditional IRAs.
 - Post-Tax (Roth) Deferrals: If you are permitted to withdraw your money from former Roth plan, you can roll Roth 403(b) or Roth 457 accounts from previous employers into your UW Roth 403(b) account.
 - Roth IRAs can only be rolled into other Roth IRAs.
 - Always check with past and current vendors regarding restrictions or potential tax penalties.
- **Investment companies available under TSA program**
 - Insurance companies: TIAA-CREF, Lincoln National Life, Riversource/Ameriprise
 - Mutual fund companies: Dreyfus, Fidelity, T. Rowe Price
 - Roth option available with TIAA-CREF, Fidelity, T. Rowe Price and Lincoln National Life only

- **TSA companies offer a variety of investment options**
 - Mutual funds including index, target retirement date, asset allocation and actively managed funds
 - Fixed and variable annuity products
- **FAQ about TSA program:** www.wisconsin.edu/hr/tsafaq.pdf
- **More information about the TSA program:** www.wisconsin.edu/hr/benefits/retsav/tsa.htm
- **Wisconsin Deferred Compensation offers 21 different investment options including:**
 - Five lifecycle portfolios
 - One stable value option
 - One FDIC-insured bank option
 - Ten mutual fund options
 - Four commingled trust options
 - Self-directed brokerage account
- **More information about WDC:** www.wdc457.org

Glossary of Terms

Defined Benefit Pension/Retirement Plan

A qualified pension plan that guarantees a specified benefit at the participant's age of retirement. The participant receives a specific monthly amount (annuity) based on a formula stated in the plan document that is based on salary history, years of service and age at retirement. Investment risk and portfolio management are entirely under the control of the retirement plan administrator. Contributions may be made by the employee, the employer, or both. There are restrictions on when and how you can withdraw these funds without penalties.

Defined Contribution Pension/Retirement Plan

A qualified pension plan that does not guarantee any particular pension amount upon retirement. The employer and/or employee pays into the pension fund a certain amount for each employee. The specific contributions made to the individual participant's retirement account are specified under the terms of the plan. The accumulated value of the employee's account at retirement or termination represents the total value of all contributions made, plus any investment income earned on those contributions.

Vesting

The minimum number of years of covered employment needed to qualify a participant for a benefit or distribution from a qualified retirement plan.

Annuity

A contract or agreement by which one receives fixed payments on an investment for a lifetime or for a specified number of years. The WRS provides a monthly payment for the life of the annuitant. The annuitant can also opt to provide a monthly annuity to a survivor.

Tax-Sheltered Annuity (TSA) Program

A voluntary supplemental retirement savings program authorized by section 403(b) of the Internal Revenue Code. An employee can invest a portion of income for retirement on a pre-tax or post-tax (Roth) basis. Investment options include a wide array of mutual funds and fixed and variable annuities managed by six authorized investment companies.

Wisconsin Deferred Compensation (WDC) Program

A voluntary supplemental retirement savings program authorized by section 457 of the Internal Revenue Code. An employee can invest a portion of income for retirement on a pre-tax or post-tax (Roth) basis.