



## Q&A Guide for Almost Retirees (those who want to retire in 2008 or 2009)

### 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, 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 2008, you received 13.1% core interest and 6% variable interest (if applicable) on your WRS account for 2007. 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 2008?

It is impossible to predict the 2008 interest rates at this time. The interest rates are based on investment earnings as of December 31, 2008 and the rates will be released during the first quarter of 2009. 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 2008 core interest rate will be based on investments earnings from 2004 – 2008. The years 2004 – 2007 all had positive investment returns so those should help offset the probable negative 2008 core investment returns. The 2008 variable interest rate (either positive or negative) is based on the 2008 variable investment returns and there is no smoothing mechanism like that of the Core Fund. Those in the Variable Fund will likely see a large negative rate of return for 2008.

**5. I already received my retirement application for a 2008/2009 retirement date. Should I order an updated application due to the market downturn?**

It depends. **If you are in the Core Fund only** (even if you participated in the Variable Fund in the past), your estimate will not change. If your annuity is higher under the money purchase calculation, 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. The interest rates used in the calculation are listed in the side margin of the front page of your retirement application. If your annuity is higher under the formula calculation, the factors used in the calculation will not change.

**If you participate in the Variable Fund and plan to retire in 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%. All estimates created on or after October 21, 2008, use a -20% estimated variable interest rate for 2008. If you are in the Variable Fund, you plan to retire in 2009 and your retirement application was produced before October 21, 2008, you should request an updated estimate directly from ETF (ETF can be contacted at 1-877-533-5020). The date the estimate was produced is located in the upper portion of the first page of the retirement application. If you are in the Variable Fund with a 2008 planned retirement date, you do not need to order a new application because your estimate will not change.

**6. My annuity is higher under the formula calculation and I have NEVER participated in the Variable Fund. Is it better to retire in 2008 or 2009?**

The current market turbulence has 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 2008 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 2008 or 2009?**

It depends on the investment returns for 2008. Current or past variable participation has no effect on the money purchase annuity calculation. If you retire in 2008, 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 2008. If you retire in 2009, you will receive the actual core interest rate on your account for 2008. It will only benefit you to retire in 2008 if the actual 2008 core interest rate is lower than the prorated interest rate that you are guaranteed to receive if you retire in 2008. Unfortunately the core interest rate will not be known until early 2009 so **it is impossible to determine the "best" retirement date**. If core investment returns are better than -20% the 2008 core interest rate will be greater than 4.6% due to the five year smoothing mechanism and would provide higher interest crediting than the prorated 4.58% interest credited if you retire in December 2008.

**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 2008 or 2009?**

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 2008.

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 2008, you will retire with the same variable excess or deficiency that is listed on your January 1, 2008 ETF Statement of Benefits. If you retire in 2009, the current value of your excess/deficiency will be multiplied by the 2008 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. Core investment returns would have to be greater than -30% to have a negative 2008 core interest rate.

It is impossible to predict whether or not your retirement annuity will be higher if you retire in 2008 or 2009 because the core interest rate will not be known until early 2009. 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 2008 core interest rate is positive. If this occurs your variable deficiency in 2009 will be greater than your 2008 deficiency so there will be a larger reduction placed on your annuity if you retire in 2009. However, this reduction could be offset by your additional WRS service and increased age if you wait until 2009 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 2008 or 2009?**

It is important to understand that anyone who is currently in the Variable Fund can NOT avoid the 2008 Variable Fund investment losses. If you retire in 2008, you will receive a prorated percentage of 5% interest on your total WRS account for 2008 but you will receive the May 1, 2009 variable annuity adjustment. ***If you are retired for just one day in 2008, you will receive the May 1, 2009 variable annuity adjustment, even if you cancel Variable Fund participation effective January 1, 2009.***

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 2008.

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 2008, you will retire with the same variable excess or deficiency that is listed on your January 1, 2008 ETF Statement of Benefits. If you

retire in 2009, you will receive the 2008 Core Fund interest on the core portion of your account and 2008 Variable Fund interest on the variable portion of your account. Your variable excess or deficiency will be adjusted accordingly. It is expected that there will be sizable Variable Fund investment losses in 2008. It is also likely the most people who have a variable excess in 2008 will have a variable deficiency in 2009. If you currently have a variable excess and want to ensure that you do not have a variable deficiency at retirement, you may want to retire in 2008. Even if you retire in 2008 to avoid the 2008 variable interest crediting on your account, you will still receive the May 1, 2009 variable annuity adjustment which will most likely decrease the value of your monthly annuity. There is no way to avoid the effects of the predicted large variable losses for 2008.

It is impossible to predict whether or not your retirement annuity will be higher if you retire in 2008 or 2009 because the core and variable interest rates will not be known until early 2009. 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 2008 or 2009?**

It is important to understand that anyone who is currently in the Variable Fund can NOT avoid the 2008 Variable Fund investment losses. If you retire in 2008, you will receive a prorated percentage of 5% interest on your total WRS account for 2008 but you will receive the May 1, 2009 variable annuity adjustment. ***If you are retired for just one day in 2008, you will receive the May 1, 2009 variable annuity adjustment, even if you cancel Variable Fund participation effective January 1, 2009.***

Your best retirement date depends on the investment returns for 2008. If you retire in 2008, 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 2008. If you retire in 2009, you will receive the 2008 Core Fund interest on the core portion of your account and 2008 Variable Fund interest (either positive or negative) 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 2008 or 2009 because the core and variable interest rates will not be known until early 2009.

If you retire in 2008 to avoid the 2008 variable interest crediting on your account, you will still receive the May 1, 2009 variable annuity adjustment which will most likely decrease the value of your monthly annuity. There is no way to avoid the effects of the predicted large variable losses for 2008.

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. Will large negative variable investment returns have an impact on 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. If I cancel Variable Fund participation before I retire in 2008 or 2009, can I avoid the impact of the 2008 negative variable investment returns?**

No. Variable Fund cancellations are always effective on January 1<sup>st</sup> of a year so if you are currently in the Variable Fund, the earliest your cancellation can become effective is January 1, 2009. If you retire in 2008 and cancel variable participation effective January 1<sup>st</sup>, you will receive the May 1, 2009 variable annuity adjustment and the total value of your annuity will likely fall below its original level. If you retire in 2009 and cancel variable participation effective January 1<sup>st</sup>, you will receive the 2008 variable interest crediting on your account and your annuity will be calculated after 2008 interest is credited to your account. ***If you are currently in the Variable Fund, there is no way to avoid the impact of large negative variable investment returns.***

**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 during a market downturn. 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 this year due to the market downturn. 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 2008 or 2009 if your annuity is higher under the money purchase calculation.

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. Once I retire, how will the market downturn 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 2008 or 2009 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>

To view a history of annuity dividends/adjustments: [http://www.swib.state.wi.us/returns\\_history.pdf](http://www.swib.state.wi.us/returns_history.pdf)

**16. 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, but if you retire in 2008, you will receive the May 1, 2009 variable annuity adjustment that will most likely decrease your original annuity. If you unconditionally cancel variable participation effective January 1, 2009, you will NOT receive any future variable adjustments after the one you will receive on May 1, 2009. If you unconditionally cancel variable participation effective January 1, 2009 and retire in 2009, you will receive the 2008 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>

**17. 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 September 30, 2008, the Core Fund was at -15.1% and the Variable Fund was at -21.5% for the year.