ADDITIONAL CONTRIBUTIONS

WISCONSIN DEPARTMENT OF EMPLOYEE TRUST FUNDS

Department of Employee Trust Funds
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ET-2123 (REV 5/2012)

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Who should read this booklet?

Members of the Wisconsin Retirement System who:

- ***would like to make additional contributions to their account to supplement their retirement benefit; or***
- ***are considering buying creditable service to increase their retirement benefits.***

Introduction

If you are a Wisconsin Retirement System (WRS) participant who is currently employed with a WRS employer you can make voluntary additional contributions to your WRS account.

- All active WRS employees may make voluntary after-tax contributions to the WRS.
- Your eligibility to make these contributions, and the amount that you may contribute each year, is subject to federal tax laws.
- If you have made voluntary additional contributions you can also use them to buy any creditable service that you are eligible to purchase.

WRS contributions begin to earn interest on the January 1 **after** the Department of Employee Trust Funds (ETF) receives the contributions. For example, payments received on January 2 or December 30 of 2011, (the first and last days in 2011 that payments not reported by employers as payroll deductions can be **received**) do **not** earn interest for calendar year 2011. Interest for calendar year 2012 is credited effective January 1, 2013. You may want to consider this fact when you are deciding what time of year to submit additional contributions to your account. Additional contributions received from WRS employers as payroll deductions are credited for the year earnings were paid (i.e., those deducted from earnings paid in December 2011 received from employers in January of 2012 are credited as 2011 contributions).

This booklet describes the type of additional contributions that you can make, the benefits of making these contributions and the restrictions that apply. A video on additional contributions is available at etf.wi.gov/webcasts.htm. You may access this and other videos by clicking on Members (Participants).

Employee After-Tax Additional Contributions

Employee additional contributions are made to a WRS account from after-tax earnings. As a WRS member, you may make after-tax additional contributions to your account in any calendar year that you receive earnings from a WRS participating employer. This applies even if your employment is not covered under the WRS and your earnings are not reported to the WRS. For example, if after you retire, you start temporary or part-time work with a WRS employer that is not WRS-covered employment, you could make additional contributions. The amount that you can contribute in any year is subject to the limitations under federal tax laws. (See the *Determining Annual Contribution Limits* section.)

There are two ways that you can make employee additional contributions to your WRS account.

- The first is through **payroll deduction**. This requires an agreement between you and your employer to deduct a specified amount from your after-tax earnings. Your employer will then submit the contributions monthly to ETF.
- The second method is for you to submit an additional contribution directly to ETF as a **lump sum payment**. ETF must receive this payment by the last state office business day of the year to earn interest for the following year.

Although you make these additional contributions from after-tax earnings, the interest credited to your WRS account accumulates on a tax-deferred basis. You will pay state and federal income tax on the investment earnings that are credited to your account when you or your beneficiary receive these amounts as a distribution from your WRS account.

Tax-Deferred Additional Contributions Under Section 403(b) of the Internal Revenue Code (IRC)

Prior to January 1, 2009, ETF accepted WRS additional contributions from pre-tax earnings from employees of certain school districts and other educational institution employers. These contributions received from employers as payroll deductions and the employees' WRS tax-deferred additional accounts are regulated by IRC Section 403(b). As of January 1, 2009, ETF stopped accepting 403(b) additional contributions due to new federal plan requirements. Therefore, 403(b) contributions from earnings **paid** in 2008 were the last 403(b) contributions accepted by ETF for WRS accounts.

If you have a WRS 403(b) additional contributions account, the funds will continue to earn interest until you are eligible to withdraw the deposits. Withdrawals are subject to IRC rules (i.e., you must terminate from **all** WRS-covered employment). Your tax-deferred additional contributions and the interest credited to your account are subject to state and federal income tax when they are distributed to you or your beneficiary.

As an alternative supplemental tax-deferred retirement savings program, you may want to consider the Wisconsin Deferred Compensation (WDC) Program. The WDC is authorized under IRC Section 457. The WDC is available to all active state and university employees. Active local government and school district employees are also eligible **if** their employer has elected to offer this optional benefit program. Contact your employer's benefits and payroll office for more information. Visit the WDC website at http://etf.wi.gov/members/benefits_def_comp.htm.

Determining Annual Contribution Limits

Certain WRS additional contributions are subject to annual limits as imposed by federal tax law in IRC Section 415(c). In 2012, you may contribute 100% of your gross compensation for the calendar year, up to $50,000. This $50,000 maximum limit may increase in future years.

The gross earnings amount that you will use to calculate the 100% limit includes the total of the taxable income you receive from your WRS employer(s), plus any amounts that are deferred from these earnings (such as to an IRC Section 403(b) or 457 deferred compensation plan or a Section 125 employee reimbursement account). If you make contributions to a plan other than the WRS, please consult with your tax professional in order to determine which of those contributions may be combined with WRS contributions to reach the IRC Section 415(c) limit, as individual circumstances may vary.

The following contributions apply toward your annual contribution limit. You must include these contributions in the calculation of your annual maximum contribution:

- Any employee required contributions that are actually paid by you.*
- Any voluntary additional (after-tax) employee WRS contributions.

A *Maximum Additional Contribution Worksheet* (ET-2566) is available on ETF's Internet site at etf.wi.gov/publications/et2566.pdf or call ETF for the current form.

Investment of Your Additional Contributions

Your additional contributions will be invested in the WRS Trust Funds and begin to earn interest on January 1 after they are received by ETF. (See *Introduction* section.) If you are not participating in the Variable Trust at the time you make your additional contributions, all of your additional contributions will be deposited in the Core Trust.

If you participate in the Variable Trust, your additional contributions may be split between the Core and Variable trusts. How your additional contributions are invested depends on when you elected to participate in the Variable Trust:

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*Effective July 1, 2011, 2011 WI Act 32 required that the WRS employee-required contributions made by the employee be treated as pre-tax contributions, not post-tax contributions. As a result, WRS employee-required contributions paid by the employee via pre-tax payroll deduction are technically employer contributions for IRS purposes. This type of contribution is allowed under IRC Section 414(h)(2) for an IRC Section 401(a) governmental plan, such as the WRS. Therefore, it will be very rare for WRS employee-required contributions to apply toward your annual contribution limit. The exception would be employee-required contributions made post-tax pursuant to a collective bargaining agreement or contract.

- If you elected to participate in the Variable Trust on or after January 1, 2001, 50% of your additional contributions will automatically be deposited in the Variable Trust. The remaining 50% will be deposited into the Core Trust.

- If you elected to participate in the Variable Trust before April 29, 1980, you may specify what portion of your additional contributions you wish to deposit into the Core and Variable Trusts. You may choose to have from 0% to 100% deposited into the Variable Trust. If you do not instruct ETF on how you want your additional contributions invested, they will be divided equally between the Core and Variable Trusts.

When you take a benefit from your additional contributions, accrued interest is included in your benefit. This includes annual interest credited at the effective rate each December 31, plus prorated interest from January 1 through the end of the month **before** the month that either your lump sum benefit is approved or your monthly annuity from additional contributions is effective.

Buying Creditable Service

You can use your after-tax and/or tax-deferred employee additional WRS account balance to purchase creditable service (if eligible). The types of service an active eligible employee can purchase include WRS forfeited, qualifying, and other governmental service (federal, state or local). The brochure *Buying Creditable Service* (ET-4121) provides details about this option and is available by request or at etf.wi.gov.

Benefit Payment Options

You cannot withdraw your additional contributions until you terminate all WRS-covered employment. When your WRS-covered employment ends, you may either:

- begin receiving a benefit from your additional contributions; or
- delay distribution up to April 1 of the year after the calendar year you reach age 70½.

There is no minimum age for a distribution. However, if you terminate your WRS employment before the year you reach age 55, you may be subject to an early distribution penalty if you receive your balance before you are age 59½. You should contact a tax advisor for more information regarding this potential tax penalty.

You may withdraw both your after-tax and tax-deferred additional contributions in a lump sum payment or as a monthly annuity. Annuity options are only available to you if your monthly payment amount (for Annuitant's Life Only option) is more than $172 per month **or** if your annuity from additional contributions begins on the same date as your monthly annuity from your required contributions. This amount applies to annuities that begin in 2012 and is indexed annually. If you have both after-tax and tax-deferred additional contributions, your benefit is based on the combined account balances.

How you receive your additional contributions will depend on whether you are receiving a separation benefit or a retirement benefit.

Separation Benefit — If you are younger than age 55 (50 for members with protective category service that is not purchased), or are not vested* and withdraw your employee contributions, your additional contributions are included in your lump sum separation benefit. If you leave your employee contributions in the WRS, you may begin a withdrawal from your additional account immediately or delay it until a later date. (see Distribution Requirements section.)

Retirement Benefit — If you are age 55 or older (50 for members with protective category service) and are vested*, and begin a benefit from your employee and employer contributions immediately, you may include your

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* You may have to meet one of two vesting laws depending on when you first began WRS employment.

1. If you first began WRS employment after 1989 and terminated employment before April 24, 1998, then you must have some WRS creditable service in 5 calendar years.
2. If you first began WRS employment on or after July 1, 2011, then you must have 5 years of WRS creditable service.

If neither vesting law applies, you were vested when you first began WRS employment. If you are vested, you may receive a retirement benefit at age 55 (age 50 for protective category participants) once you terminate all WRS employment. If you are not vested, you may only receive a separation benefit.

additional contributions with this benefit or elect to delay distribution until a later date. However, if your employee and employer contribution benefit is a lump sum payment, your additional contribution account is also included in this payment.

If you select an annuity for your additional account balance alone, your annuity will be based on the balance in your account and the annuity rates in effect when the annuity begins. The For Annuitant's Life Only option must meet the annual minimum ($172 in 2012) to be eligible for **any** monthly option, including annuity certain. The number of payments you select cannot exceed your life expectancy based on federal mortality tables. Tables I and II on Pages 5 and 6 show some of the available annuity options and the amount payable for each $1,000 in your account. For more information about the different benefit options, see the brochure *Choosing An Annuity Option* (ET-4117).

When to Apply

The time of the year when you apply for a benefit from additional contributions will affect the amount of interest credited to your account and the amount included in your benefit.

- If you are considering applying for a lump sum benefit near the end of the year and **you want annual effective rate interest included in your benefit**, you should wait to apply until after December to assure that your benefit will not be approved and paid before annual interest is credited. The calendar year effective rate of interest is normally announced by the end of February. Then in March, ETF begins to process the lump sum payments that include annual interest.

- **If you do not want annual interest to be included in your payment**, we recommend that you apply by September 1. Unless your WRS employer has not yet reported your termination to ETF, applying by September 1 will normally result in your lump sum benefit being approved and paid before the end of the calendar year.

Distribution Requirements

Distributions from your WRS required and additional account (tax-deferred and after-tax) must comply with federal tax laws. You must begin a distribution from both your required and additional accounts by April 1 of the year after the calendar year you reach age 70½ or the year you terminate WRS employment, if later.

Federal tax law requires that a minimum amount be paid to you from your WRS account beginning in the year in which you reach age 70½, or the year you retire if later. This means that if you delay beginning your distribution until your required begin date, your total payments in your first year must also include the minimum distribution amount for the previous year. You may be subject to substantial federal tax penalties if you fail to meet the minimum distribution requirements.

Wisconsin statutes require that you apply for a benefit from your required and additional accounts no later than the end of the year that you reach age 69½, or the year you terminate WRS employment if later. You may elect a later date for your benefit distribution (up to your required begin date) if you are age 69 when you apply. The WRS **cannot** make any partial distributions. Unless you are eligible for and choose a monthly option from your additional contributions, your whole balance will be paid as a lump sum benefit and your additional account will be closed.

ETF will notify you during your 69½ year, or the year you retire if later, that you must apply for a distribution. If you fail to submit a benefit application by the end of the year you reach age 69½ or the year you retire if later, ETF may initiate an automatic distribution from your account any time after the next January 1.

You may request benefit estimates from ETF up to one year before your anticipated benefit date. For information about the federal distribution requirements, contact the Internal Revenue Service or your tax consultant.

Death Benefits

Specific requirements apply to distributions to your beneficiary. If you die after you start receiving monthly payments from your additional contributions, the death benefit is based on the annuity option you selected.

- Any payments your beneficiary is entitled to must continue to be paid out at that time.
- Distribution cannot be delayed.

If you die before starting a benefit from your additional account, your beneficiaries are subject to the following restrictions.

- **If your beneficiary is your spouse**: Your surviving spouse may delay receiving a benefit until January 1 of the year you would have reached age 70½. Your spouse must file a beneficiary designation form with ETF by September of the year after your death to be allowed to postpone this distribution.

- **If your beneficiary is not your spouse**: Your beneficiary(ies) has two options:

  1) begin a monthly annuity (if your account meets annual monthly minimum) effective no later than November 1 of the year after the calendar year in which you die; or

  2) apply for a lump sum payment of your entire additional account balance by September of the fifth year after your death.

Rollovers to Another Plan and Tax Liability

You may roll over your lump sum payment or annuity certain of fewer than 120 months to:

- a traditional IRA ;
- a Roth IRA; or
- an eligible employer plan, which includes plans under IRC sections 401(a), 401 (k), 403 (a), 403 (b), and 457 (after-tax contributions may not be rolled over to a 457 plan).

Depending on the additional contribution types that were made to your account, you may already have paid taxes on the amount of the contribution. Any amount that you have already paid taxes on will not be taxed in the future.

For more information on taxation of rollovers, please consult a tax advisor, or see IRS Publication 590. For more information on taxation of lump sum payments, see IRS Publication 575.

To rollover your payment, you must submit an *Authorization for Direct Rollover* (ET-7355) with your benefit application. You are responsible for ensuring that the receiving institution is eligible and willing to receive this rollover. The check(s) for the amount of your rollover payment(s) is made payable to the receiving financial institution but mailed directly to you. You are responsible for transmitting the check(s) to the receiving institution. If you are over age 70½, the amount you can roll over may be limited. Consult your tax advisor for information.

The WRS accepts rollovers only for the purpose of buying WRS creditable service. The outside plans from which ETF can accept funds to buy WRS service are those authorized under IRC sections 401(a), 401(k), 403(b) and 457(b).

Table I - Annuities Certain

(Payable for a specified time period)

Each $1,000 of additional contributions provides the following monthly amount for the number of months selected as an Annuity Certain. The For Annuitant's Life Only option amount must meet the annual minimum to be eligible for an Annuity Certain option.

Annuity Certain

Months	Amount	Months	Amount
24	$43.82	108	$11.46
36	29.92	120	10.55
48	22.98	132	9.81
60	18.82	144	9.19
72	16.05	156	8.67
84	14.08	168	8.23
96	12.61	180	7.85

Examples

Additional Amount	Number of Years Payable	Number of Payments	Monthly Amount
$1,000	2 years	24	$ 43.82
1,000	5 years	60	18.82
1,000	15 years	180	7.85
10,000	2 years	24	438.20
10,000	5 years	60	188.20
10,000	15 years	180	78.50

Table II - Life Annuities

[See *Choosing An Annuity Option* (ET-4117) for details on the annuity options.]

Each $1,000 of additional contributions provides the following monthly amounts for the no death benefit For Annuitant's Life Only option. The amount must meet the annual minimum unless it begins when your monthly annuity from required contributions begins.

For Annuitant's Life Only

Monthly Benefit for Age	Per $1,000 in Account
55	$5.60
60	6.09
62	6.35
65	6.81

To convert the For Annuitant's Life Only amount to an option which includes a guaranteed minimum number of payments, multiply by the factors below.

Conversion Factors

Age of Member	Life - 60 Payments Guaranteed	Life- 180 payments Guaranteed*
55	.997	.977
60	.996	.962
62	.995	.953
65	.992	.932

Example: Member's Age	=	65
Total Accumulation	=	$10,500.00
$10,500.00 x .00681	=	$71.50 per month For Annuitant's Life Only
$71.50 x .992	=	$70.92 per month Life with 60 payments guaranteed
$71.50 x .932	=	$66.63 per month Life with 180 payments guaranteed

* *The number of guaranteed payments may be less than 180 monthly payments based on your life expectancy according to federal mortality tables.*

ETF does not discriminate on the basis of disability in the provision of programs, services or employment. If you are speech, hearing or visually impaired and need assistance, call toll free 1-877-533-5020 or (608) 266-3285 (local Madison). We will try to find another way to get the information to you in a usable form.

ETF has made every effort to ensure that this brochure is current and accurate. However, changes in the law or processes since the last revision to this brochure may mean that some details are not current. Please contact ETF if you have any questions about a particular topic in this brochure.

Always include your name, Member ID and date of birth on all correspondence to ETF.

Contact the Department of Employee Trust Funds

Internet Site

etf.wi.gov

Find Wisconsin Retirement System and related benefit program information, as well as several ways to contact ETF by e-mail. Look for the red envelope at etf.wi.gov to sign up for free ETF E-mail Updates.

Self-Service Lines

1-877-383-1888 (toll free)
(608) 266-2323 (local Madison)

Request forms or brochures through the ETF self-service lines, available 24 hours a day, seven days a week. Annuitants may also call to change address information or tax withholding elections.

Main Telephone Lines

1-877-533-5020 (toll free)
(608) 266-3285 (local Madison)

Employees and employers can speak on the telephone with an ETF benefit specialist from 7 a.m. to 5 p.m. Monday through Friday (except holidays).

Wisconsin Relay Service (for hearing and speech impaired) 7-1-1 or
1-800-947-3529 (English)
1-800-833-7813 (Spanish)

Telephone Message Center

1-800-991-5540 (toll free)
(608) 264-6633 (local Madison)

Hear detailed messages covering a variety of WRS topics. Please note that these are all recorded messages. You can speak with an ETF benefit specialist by calling the local or toll-free main telephone line.

Mailing Address

P. O. Box 7931
Madison, WI 53707-7931

Street Address

801 West Badger Road
Madison, WI 53713

Appointments

Schedule an appointment by calling:
1-877-533-5020 (toll free)
(608) 266-3285 (local Madison)

For appointments in your district, visit
http://etf.wi.gov/members/presentation_map.html.

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Wisconsin Department of Employee Trust Funds