

ADDITIONAL CONTRIBUTIONS



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ET-2123 (REV 7/2014)



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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 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 use this money to buy any creditable service that you are eligible to purchase.

Additional contributions begin to earn interest on the January 1 after the Department of Employee Trust Funds receives them.

- Payments received in 2014 will not earn interest for calendar year 2014. They will begin earning interest on January 1, 2015.
- 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 as payroll deductions are credited for the year the earnings were paid (i.e., those deducted from earnings paid in December 2014, but received from employers in January 2015 are credited as 2014 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 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.

1. 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. Employers are not required to allow employees to make additional contributions through payroll deduction.
2. 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 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 2014, you may contribute 100% of your gross compensation for the calendar year, up to \$52,000. This 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 the 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.

*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.

How your additional contributions are invested depends on when you elected to participate in the Variable Trust:

- 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, local or military). 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 (age 50 for members with protective category service), 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 \$182 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 2014 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 *Required Minimum Distributions* section.)

* 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.

Retirement Benefit: If you are age 55 or older (50 for members with protective category service) and are vested*, and begin a retirement benefit from your employee and employer contributions immediately, you may include your 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 delay the distribution of your retirement benefit and 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 (\$182 in 2014) to be eligible for **any** monthly option, including an 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.

- 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.

Required Minimum Distributions

If you are no longer working under the WRS, you must receive a disbursement known as the required minimum distribution (RMD) each year beginning with the year in which you reach age 70½.

- ETF will notify you in the year you turn 69½ of your options to apply for your benefits, rollover your benefits to another qualified plan or to defer your benefits until March 1 of the calendar year you reach 71½.
- If you do not respond by December 31 of the year you reach 69½, ETF must make an automatic distribution of the entire account balance on or after the next January 1. This could result in a tax consequence, or an effective date or type of payment that you do not want. It is important for you to contact ETF before an automatic distribution is required.
- If you do not take your RMD by April 1 in the year you turn 71½, or by December 31 of the year you end employment (if you continued working under the WRS after you reached age 70½), you may be required to pay a federal tax of 50% of the RMD amount that you should have received during that tax year.

If your covered WRS employment will end when you are 70½ or older, you should request your WRS annuity estimate up to one year in advance and begin your benefit during that year. Contact the IRS or your tax advisor for more information on the RMD.

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 opposite-sex or same-sex 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 [408(a)] ;
- a Roth IRA [408(b)]; or
- an eligible employer plan, which includes plans under IRC sections 401(a), 401(k), Roth 401(k), 403(a), 403(b), Roth 403(b), 457(b) and Roth 457(b).
- If you have questions on whether or not your WRS funds are eligible to be rolled over into another qualified plan, you should contact that plan directly.

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 rollover 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

<u>Months</u>	<u>Amount</u>	<u>Months</u>	<u>Amount</u>
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

<u>Additional Amount</u>	<u>Number of Years Payable</u>	<u>Number of Payments</u>	<u>Monthly Amount</u>
\$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	\$5.52
60	\$5.98
62	\$6.21
65	\$6.64

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	.998	.979
60	.996	.967
62	.995	.959
65	.995	.959

Example: Member's Age = 65
 Total Accumulation = \$10,500.00
 $\$10,500.00 \times .00664 = \69.72 per month For Annuitant's Life Only
 $\$71.50 \times .995 = \69.37 per month Life with 60 payments guaranteed
 $\$71.50 \times .959 = \66.86 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 ETF

Visit us online at etf.wi.gov

Find Wisconsin Retirement System benefits information, forms and publications, benefit calculators, educational offerings, e-mail and other online resources.

Call us toll free at 1-877-533-5020 or 608-266-3285 (local Madison)

Benefit specialists are available 7:00 a.m. to 5:00 p.m. (CST) Monday-Friday

Self-Service: Order forms and brochures, change your address information or tax withholding 24 hours a day, 7 days a week.

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

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