

FREQUENTLY ASKED QUESTIONS REGARDING THE VARIABLE FUND

What is the Variable Fund?

The Wisconsin Retirement System (WRS) consists of a Core Fund and a Variable Fund. If you elect to participate in the Variable Fund, 50% of all WRS employee and employer required contributions and additional contributions made after your election will be deposited in the Variable Fund. The Variable Fund is invested in stocks only, while the total stock investment of the Core Fund is a diversified fund with investments in stocks, bonds and more. Participants who elect to participate in the Variable Fund are exposed to a higher degree of investment risk. Variable Fund investment returns have a more direct effect on your participant account at the end of each calendar year, while the impact of Core Fund returns is smoothed over five years.

How do I know if I am in the Variable Fund?

If you are a non-annuitant (not retired), you can look on your annual “Statement of Benefits” to confirm whether your retirement contributions go the Variable Fund and the Core Fund or just to the Core Fund. If you are an annuitant (retired), you can check your “Notice of Final Retirement Annuity Calculation” (ET-4820) to learn whether you have participated in the Variable Fund and the balance of your account. Also, if you received an “Annuity Correction Notice” (ET-4902), you can see whether any portion of your retirement annuity comes from the Variable Fund as well as any adjustment that was made to your annuity amount.

Is participation in the Variable Fund right for me?

Participation in the Variable Fund is a personal decision. Factors you may want to consider are: your individual circumstances, how many years you have until retirement, other personal investments you have, and your comfort level with a higher degree of investment risk. In the late 1990s and in 2003, the stock markets experienced very strong returns. However, during the period 2000 to 2002, the stock market performed poorly and in 2008 the stock market has been very volatile. For example, in 2002 the Variable Fund effective rate was –23% and the Variable Fund annuity adjustment was –27%. For a brief description of effective rates and annuity adjustments, view the *WRS -- Interest vs. Annuity Adjustments* online video in the ETF video library at etf.wi.gov/webcasts.htm.

Can my variable annuity be decreased below my original variable annuity amount?

Yes. Unlike the Core Fund, there is no limitation on Variable annuity decreases.

When I retire, how will participation in the Variable Fund affect my benefits?

Your Core Fund and Variable Fund account balances earn interest each year. Depending on which trust fund earns higher interest over the years, you will have either more or less money in your account than you would have if you had never participated in the Variable Fund. If your account balance is higher due to your participation, then you have an excess amount. If your account balance is lower, then you have a deficiency.

What is an excess and a deficiency, and what does it mean to my retirement account?

If you cancel your Variable Fund participation and once your Variable account balance has been transferred to the Core Fund, you will have a Variable excess or deficiency recorded on your WRS account. This is a record of the amount that your account is ahead (Variable excess) or behind (Variable deficiency) as a result of your Variable Fund participation. Your Variable excess or deficiency will be credited with Core Fund effective rate interest each year. This means that the amount of your excess or deficiency will grow to a larger amount each year after your Variable funds are transferred to the Core Fund. The longer it will be until you retire, the more your excess or deficiency will have grown.

The Variable excess or deficiency is used to adjust your formula retirement benefit. When you retire, your Variable excess or deficiency will either increase (Variable excess) or decrease (Variable deficiency) your formula benefit. This excess or deficiency is not applicable to your money purchase retirement benefit calculation, because the Core and Variable investment returns already are reflected in your money purchase balances. You receive the higher of the formula benefit or the money purchase calculation. For more information, please consult the *Calculating Your Retirement Benefit* brochure (ET-4107) or the online videos in the ETF video library at etf.wi.gov/webcasts.htm.

How do I know if I have an excess amount or a deficiency amount?

Your Variable excess or deficiency balance is updated only once per year, after annual interest is credited. You can find out your current excess or deficiency

balance by checking Section 8 of your last *Annual Statement of Benefits*. A Variable Excess/Deficiency Update Calculator is available on the ETF website at etfonline.wi.gov/ETFCalculatorWeb/ExcDefCalcAnnualUpdateController. You can use the calculator to project your future excess or deficiency balance.

Can I get out of the Variable Fund?

Yes. You can elect to cancel participation in the Variable Fund at any time. However, your cancellation becomes effective on the January 1 following the date ETF receives Form ET-2313, "Canceling Variable Participation."

What do I need to know if I want to cancel participation in the Variable Fund?

If you decide to cancel your participation in the Variable Fund, you should know at least the following: 1) that cancellation become effective on the January 1 following the date ETF receives your cancellation form; 2) whether you have a Variable excess or deficiency balance; and 3) which option for canceling is best for you and your personal financial situation (future contributions, conditional cancellation, or unconditional cancellation-see below for more information).

I am retired, what options do I have for canceling Variable Fund participation?

You can file either an unconditional cancellation or a conditional cancellation. If you file an unconditional cancellation, the Variable portion of your annuity will be transferred to the Core Fund after the annual Core and Variable adjustments are made to the May 1 payment in the year after your cancellation form is received. In the case of a conditional cancellation, after the annual Core and Variable Fund adjustments are made to your May 1 payment in the year after your cancellation form is received, the new amount of your total annuity will be compared to the amount that your annuity would be if you had never participated in the Variable Fund. For more information see the next question on conditional cancellation.

I am retired and want to file a conditional cancellation. When will the Variable portion of my annuity be transferred to the Core Fund?

If the amount of your total annuity is equal to or greater than the amount it would be if you had never participated in the Variable Fund, the Variable portion of your annuity is transferred to the Core Fund. The Core annuity adjustment will be applied to the total annuity every year thereafter. If the amount of your total

annuity is less than the amount it would have been if you had never participated in the Variable Fund, the Variable portion of your annuity will remain in the Variable Fund until your total annuity reaches an amount equal to or greater than the amount it would be if you had never participated in the Variable Fund.

I am not retired, what options do I have for canceling my Variable Fund participation?

You have three cancellation options: future contributions, conditional, and unconditional. A future contributions cancellation becomes effective at the end of the year in which ETF receives your cancellation form. Once it is effective, all new contributions to your account will be deposited in the Core Fund only. A conditional cancellation results in your Variable Fund being transferred to the Core Fund only when your account is equal to or greater than what your balance would be if you had never participated in the Variable Fund. An unconditional cancellation means that after the Variable gain or loss is applied to your account for the year in which ETF receives your cancellation form, your Variable balance will be transferred in to the Core Fund. After your Variable Funds are transferred to the Core Fund, you will have either a residual Variable excess or deficiency. Your residual excess or deficiency will be credited with the Core Fund effective rate interest each year until you take a retirement benefit.

Can you provide me with a brief history of the Variable Fund?

The Wisconsin Legislature established the Fixed (now called Core) Fund and Variable Fund in 1958. Until 1980, participants could elect to join the Variable Fund. During that period of time, elections to participate in the Variable Fund were irrevocable. There was no opportunity to cancel participation.

In response to concerns raised by WRS participants regarding unfavorable Variable Fund investment experiences, the Legislature closed the Variable Fund to new enrollments in 1980. Existing participants were permitted to cancel. Under this new law, once a participant opted out of the Variable Fund, he or she could never re-enroll.

In the late 1990s, stock market returns were high and the Legislature opened the Variable Fund to new participants. This new law (1999 Wisconsin Act 11) also allowed participants who previously cancelled their participation to re-enroll in the Variable Fund.

Where can I obtain additional information about the Variable Fund?

Visit the ETF website at <http://etf.wi.gov>. There you will find

links to: an information paper entitled “How do Variable Fund investments affect me”, a publication entitled “How Participation in the Variable Trust Affects Your WRS Benefits”, an online video called “WRS Trust Funds: Core & Variable”, forms for canceling or electing Variable Fund participation, as well as other helpful information. You also may wish to review the “Trust Fund News” newsletter for articles concerning the Variable Fund. You can review issues of the newsletter from 2000 through 2008 by visiting the ETF website and clicking on the publications link. There you will find the link for “Trust Fund News”.

You also are encouraged to monitor the “What’s New” section of our website for frequent information updates.