

1999 Wisconsin Act 11 and Participation in the Variable Trust Fund

Note: The injunction prohibiting implementation of 1999 Wisconsin Act 11 remains in effect. However, if the Wisconsin Supreme Court upholds the applicable portion of 1999 Wisconsin Act 11, the Variable Trust Fund will be opened to new elections as of January 1, 2001. In order for your variable election to become effective on that date, the Department must receive your variable election form no later than December 29, 2000.

If you submit the election form and the Court strikes down this provision of Act 11, your election to participate in the Variable Trust Fund will be invalid and the Department of Employee Trust Funds will take no further action on your variable election.

About the Variable Trust Fund

The Variable Trust Fund is invested primarily in common stocks. These are currently the same stocks that are in the Fixed Trust Fund. On December 31 of each year, variable investment gains (or losses) are credited to participating active and inactive member accounts, and variable adjustments are paid to all participating annuitants, based on the results of the Variable Trust Fund. The high investment earnings of the Variable Trust Fund over the past decade have generated considerable interest in reopening the Variable Trust Fund to new enrollments.

However, those participating in the Variable Trust Fund must be prepared for the possibility that poor stock market performances could result in investment losses. The higher potential return of the Variable Trust Fund is matched by the greater potential risk it involves; the value of your Variable Trust Fund account could decrease when the stock market declines.

Unlike Fixed Trust annuities -- which are guaranteed never to be less than the initial fixed monthly amount -- a variable annuity may decrease to less than the initial monthly amount. In 1994, Variable Trust Fund annuitants experienced a 4% decrease in their Variable Trust Fund annuities and a 14% decrease in 1990.

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1999 Wisconsin Act 11's Impact on the Variable Trust Fund

If the Supreme Court upholds the following funding provisions of 1999 Wisconsin Act 11, current and future Variable Trust Fund participants will be affected. It is important to note that the impacts described below apply to variable accounts as they affect formula benefits only. Except for investment returns, these changes do not affect the money purchase calculation.

1. Act 11 provides for a one-time \$4 billion transfer from the Transaction Amortization Account (TAA) to the three reserves (Annuity, Employer and Employee Reserves) of the Trust Fund. While this transfer will not affect the variable interest rate for 1999, it will create a **higher effective rate for the fixed fund**. The higher fixed effective rate resulting from the TAA transfer will result in a smaller difference between the investment returns of the Variable and Fixed Funds. The smaller difference in investment returns is likely to generate lower increases in existing variable participants' **variable excess balances** than they would have experienced without the special one-time TAA transfer. The lower a participant's variable excess balance, the lower the amount that will be added to that participant's monthly formula retirement benefit if he or she retires with a formula annuity.
2. Act 11 also distributes the remaining TAA balance over a five-year period and replaces it with a Market Recognition Account (MRA). Twenty percent of the TAA balance as valued at the end of 1999 (after the \$4 billion transfer) would be paid out each year over a five-year period, and investment gains/losses after 1999 would be credited instead to the new MRA. The change to the MRA and the phase-out of the TAA over the five-year period will result in higher fixed effective rate interest credited to active and eligible inactive members, and higher fixed dividends for annuitants **for the next five years** (e.g., higher than these rates would have been if the TAA were not being eliminated and the MRA established). Again, higher fixed effective rates resulting from the TAA phase-out will result in a smaller difference between the Variable and Fixed Funds. The smaller difference in funds is likely to generate **lower increases in existing variable participants' variable excess balances** than these participants would have experienced without the elimination of the TAA.

ELECTION TO PARTICIPATE IN THE VARIABLE TRUST FUND

Wis. Stat. § 40.04(7) (a) and Wis. Adm. Code ETF 10.31

TERMS OF THE ELECTION TO PARTICIPATE IN THE VARIABLE TRUST FUND

PLEASE READ CAREFULLY

What happens if you elect variable participation

If you make this election, 50% of all your future Wisconsin Retirement System (WRS) employee required and additional contributions will be deposited in the Variable Trust Fund. The other 50% will be invested in the Fixed Trust Fund. Existing contribution balances may not be transferred to the Variable Trust Fund. Your election to participate in the Variable Trust Fund is permanent and will continue as long as you are employed in a position covered by the WRS or until:

- You cancel participation in the Variable Trust Fund; or
- You close your WRS Account.

Determining the effective date of your variable participation election

The Department will determine the effective date of your election to participate in the Variable Trust Fund as follows:

- If you are a new WRS participant and your election form is received by the Department within 30 calendar days after your WRS coverage begin date, your variable participation is effective the first day of WRS-covered employment. For example, if you are covered under the WRS on January 15, 2001 and your election form is received on February 8, 2001, your variable participation is effective on January 15, 2001. All contributions after that date will be split between the Fixed and Variable Trust Funds.
- If you are a new WRS participant and your election form is received by the Department 31 or more calendar days after your WRS coverage begin date, your variable participation is effective the January 1 of the year after the year the Department receives your election form. For example, if you begin WRS employment on January 15, 2001 and the Department receives your election form on March 15, 2001, your variable participation becomes effective on January 1, 2002. All contributions after that date will be split between the Fixed and Variable Trust Funds.
- If you are an existing WRS participant, your variable participation is effective the January 1 of the year after the year the Department receives your election form. For example, if the Department receives your election form on December 27, 2000, your variable participation is effective January 1, 2001. If the Department receives your election form on February 9, 2001, your variable participation is effective on January 1, 2002. All contributions after that date will be split between the Fixed and Variable Trust Funds.

Note: Whenever the last day of the calendar year falls on a Saturday, Sunday or holiday when State offices are closed and the election is received on the first working day in January, the election form shall be deemed to have been received within the preceding calendar year.

When interest is posted to your WRS account

Interest gains (or losses) for the year are posted to your prior January 1 account balance on December 31 of each year. For example, on December 31, 2001, interest gains or losses for 2001 will be posted to your January 1, 2001 account balance.

How variable participation affects future monthly benefits

Your participation in the Variable Trust Fund will affect your monthly WRS benefit. If you receive a variable annuity, variable annuity payments increase or decrease based on variable investment results as of December 31 each year. Gains (or losses) are applied to April variable annuities (paid May 1). The variable portion of your annuity may decrease to less than the initial monthly variable amount. **Fixed annuities never decrease to less than the initial fixed monthly amount.**

- If your benefit is higher under the money purchase calculation method, the fixed and variable portions of your account will each be multiplied by the money purchase factor for your age to produce the fixed and variable portions of your annuity. The relative amounts of your fixed and variable portions will be in direct proportion to the amounts in your fixed and variable accounts.
- If your benefit is higher under the formula calculation method, a “variable adjustment” is made to your annuity, which is calculated by multiplying the variable excess or deficiency balance in your account by the money purchase factor for your age at the time your benefit begins. The variable excess or deficiency amount is based on a comparison of the actual balance in your account and what your account balance would be if you had invested only in the Fixed Trust. The dollar amount of the variable excess or deficiency will change each year, based on the investment experience of the Fixed and Variable Trust Funds, and will be shown on your annual Statement of Benefits. The relative amounts of your fixed and variable annuities are normally NOT in direct proportion to the amounts in your fixed and variable accounts.

Canceling variable participation

Once the Department receives the election form to participate in the Variable Fund, your variable participation can only be cancelled by filing a variable cancellation form.

You can obtain an *Election To Cancel Variable Participation* (ET-2313) by calling or writing the Department or by visiting our Internet site and downloading the form. The variable cancellation becomes effective on the first of the year after the year in which it is received by the Department. The variable gain or loss for the year in which the form is received will be applied to your January 1 account balance on December 31, after which the variable funds are transferred to your fixed account. Once the cancellation is received by the Department, it cannot be canceled or withdrawn.

Note: Whenever the last day of the calendar year falls on a Saturday, Sunday or holiday when State offices are closed and the election is received on the first working day in January, the election form shall be deemed to have been received within the preceding calendar year.

Canceling variable participation in the past and electing future participation

Active participants who cancelled their Variable Trust Fund participation with an effective date of January 1, 1999 or earlier have an opportunity to re-elect to participate in the Variable Trust Fund. Active participants who cancelled their Variable Trust Fund participation with an effective date of January 1, 2000 or later, **cannot** re-enroll in the Variable Trust Fund. If you cancelled participation on or after January 1, 2000, the only way you may re-enroll in the Variable Trust Fund is by closing your WRS account (ending your WRS participation and withdrawing your account balance), then later returning to work for a WRS participating employer. By becoming a new participating employee, you would have a new variable election option.

For additional information on how the Variable Trust Fund can affect your benefit, request the following publications:

- *How Participation in the Variable Trust Affects Your WRS Benefits* (ET-4930)
- *Calculating Your Retirement Benefits* (ET-4107)

If you have questions about this election, call toll free: 1-877-533-5020 or (608) 266-3285 (local Madison) or write to us at the address on the front of this form. Also visit our Internet site at: <http://badger.state.wi.us/agencies/etf> to download the publications.

ELECTION TO PARTICIPATE IN THE VARIABLE TRUST FUND

Wis. Stat. § 40.04(7) (a) and Wis. Adm. Code ETF 10.31

				Your Social Security Number	
Last Name		First	Middle I.	Birthdate (MM/DD/CCYY)	
Address	Street	City	State	Zip Code	

Important: If you want to participate in the Wisconsin Retirement System (WRS) Variable Trust Fund, please carefully read the information on this page and the terms of the election explained on the cover page. If you submit this form to the Department of Employee Trust Funds, you acknowledge that you understand the terms of the variable election as explained on this form and the cover page.

If the Wisconsin Supreme Court upholds the applicable portion of 1999 Wisconsin Act 11 effective January 1, 2001, any active WRS participant may elect to have 50% (fifty percent) of all future WRS employee required and additional contributions deposited in the Variable Trust Fund. The Variable Trust Fund is invested exclusively in common stocks. The WRS credits the variable portion of participating active and inactive accounts with a rate of interest based on investment gains or losses posted to the Variable Trust Fund. Likewise, annuitants participating in the Variable Trust Fund receive adjustments credited to the variable portion of their annuities based on Variable Trust Fund investment returns. **While participation in the Variable Trust Fund offers the possibility of gain, you must also be prepared to accept a loss. A variable annuity can provide a smaller amount of monthly retirement income as well as a greater amount.** For example, Variable Trust Fund annuitants experienced a 4% decrease in their Variable Trust annuities in 1994 and a 14% decrease in 1990. Unlike a fixed annuity, which is guaranteed never to be less than the initial fixed monthly amount, **a variable annuity may decrease to less than the initial monthly amount.**

ELECTION TO PARTICIPATE IN THE VARIABLE TRUST FUND

I elect to have 50% of all my future WRS employee required and additional contributions deposited in the Variable Trust Fund. I understand that the effective date of my election to participate in the Variable Trust Fund is determined by the Department based on the date this election form is received at the Department. I understand that once the Department receives this election form, it cannot be rescinded. An election to cancel (ET-2313) must be filed to end my Variable Trust Fund participation.

If I am currently actively employed, I understand that this variable election will take effect the January 1 of the year following receipt of this election form by the Department. If I am a new participant after 2000 and my election form is received by ETF within 30 calendar days after the start of my WRS coverage, I understand that participation in the Variable Trust Fund is effective immediately, upon start of my WRS coverage. If I am a new WRS participant after 2000 and my election form is received by the Department 31 or more calendar days after the start of my WRS coverage, I understand that participation in the Variable Trust Fund is effective January 1 of the year following receipt of the election form.

I acknowledge that unfavorable stock market performances may result in losses to my Variable Trust Fund account as much as positive stock market performances may result in gains to my Variable Trust Fund account and that this experience will impact my WRS retirement benefits.

I have read and understand and agree to all of the terms of this election as stated on the cover sheet of this election. I understand that Wis. Stat. § 943.395 provides criminal penalties for knowingly making false or fraudulent claims on this form and hereby certify that to the best of my knowledge and belief, the information is true and correct.

Date (MM/DD/CCYY)	Signature	Daytime Telephone Number
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Sign. Make a copy for your records. Submit original form. The Department will mail you an acknowledgement.