MoneyTalks

JANUARY 2002

Important News—Please Read

Implementation of Changes Resulting from Federal Pension Legislation Delayed

In the last two issues of MoneyTalks, you were informed of significant changes that were being made to the Wisconsin Deferred Compensation Program (WDC) as a result of the Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA). Implementation of these changes, anticipated to be effective January 1, 2002, has been DELAYED.

Before the WDC can adopt the new provisions, legislation is needed to bring Wisconsin income tax statutes into conformance with the Internal Revenue Code (IRC) as amended by EGTRRA. Normally, state income tax laws are updated in late spring with a retroactive effective date back to January 1st of that year.

Because of the potential fiscal impact of the EGTRRA changes on the state budget, the outlook on the passage of this routine amendment to Wisconsin statutes is uncertain. As a result, the Department of Employee Trust Funds has determined that implementation of the EGTRRA provisions must be delayed until the Wisconsin statutes are amended to avoid potential state income tax liability issues for WDC participants. Additional updates about this will be placed on the WDC's Web site at www.wdc457.org in the "News/Hot Topics" page.

See page 2 for details on what this delay could mean to you.

The WDC Has Moved!

The Plan Administrator's office, located at 16 N. Carroll St. on the Capitol Square in Madison, has relocated to be closer to the Department of Employee Trust Funds (DETF). Now, when you meet with DETF to discuss your Wisconsin Retirement System benefits, you will be within walking distance of the WDC administrative office. If you would like to meet with plan service representatives about your WDC benefits, you no longer need to worry about the downtown traffic and there is ample parking right in front of our office!

Our new location/address is:

Wisconsin Deferred Compensation Program
902 Ann Street, Suite A
Madison, Wisconsin 53713

Our telephone numbers remain:

In Madison, (608) 256-6200
Toll-free (800) 257-4457
TTY (800) 995-4457

Days the Market is Closed in 2002

New Year's Day	January 1, 2002
Martin Luther King, Jr. Day	January 21, 2002
President's Day	February 18, 2002
Good Friday	March 29, 2002
Memorial Day	May 27, 2002
Independence Day	July 4, 2002
Labor Day	September 2, 2002
Thanksgiving Day	November 28, 2002
Christmas Day	December 25, 2002

What Does Delayed EGTRRA Implementation Mean to You?

The following table illustrates the EGTRRA changes and how delayed implementation of this provision will affect you.

2002 EGTRRA Change	Impact to You of Delayed Effective Date
Contribution Limits	
The maximum annual deferral amount to a Section 457 plan was increased from 33⅓% of includible compensation[1] up to $8,500 per year to 100% of compensation up to $11,000 in 2002. The maximum amount that can be deferred during the catch-up period was also increased from $15,000 to two times the annual maximum (or $22,000 in 2002).	Until the state income tax laws are amended, you will not be able to defer more than the current maximum of $8,500 or 25% of taxable income, whichever is less, to the WDC. If you have increased your deferral to take advantage of the increased EGTRRA limits, you can maintain your deferral amount until you reach the pre-EGTRRA limit. If the Wisconsin laws are not amended, you may be required to stop your WDC deferrals once you reach the annual maximum limit.
If you participate in more than one retirement savings plan, the coordination of deferrals with other plan types [Section 403(b), a 401(k), a SEP or a SIMPLE plan] was repealed.	If you participate in more than one plan type, under Wisconsin income tax laws you must continue to coordinate the contributions between the plans. If you exceed the limits imposed in 2001, the amounts contributed in excess of this limit may be subject to state income tax if Wisconsin laws are not amended to conform to EGTRRA. If you do not have sufficient state income tax withheld from your paycheck, you may also be subject to a state income tax penalty.
EGTRRA offered an additional contribution opportunity to participants who are age 50 and older. In 2002, this contribution limit is $1,000. You cannot make this older worker contribution to the WDC during a year that you use the 457 catch-up.	This additional deferral opportunity will not be offered in the WDC until state income tax laws are amended.
Distribution Options	
EGTRRA repealed the distribution rules that required you to elect: • A distribution date within 60 days after separation from service that can only be changed one-time to a later date. • A form of payment and maintain this same payment option until your account balance is depleted. • A form of payment that does not have substantially increasing payments.	Until state laws are amended, if you elected a distribution date or are receiving payments from your account, you will not be able to: • Cancel your current elected distribution date, however, you will be able to postpone your 2002 distribution date to a later date, unless you have already used your one-time change option. • Change the form of distribution that you are currently receiving from the WDC. • Select a distribution option that has substantially increasing payments. **Note: If you were expecting to increase your payments in 2002 and this delay will now cause you a financial hardship, please contact the administrator for information on the emergency withdrawal provision.**
EGTRRA provided an opportunity for you to roll your eligible WDC distributions into an IRA, a 401(k) and a 403(b) and/or to roll dollars distributed from these plans into the WDC. Eligible distributions are single or partial lump sum payments and periodic payments that will liquidate your account in 10 years or less.	The WDC will not accept dollars rolled-in from another plan type until the state income tax laws are amended. As to eligible distributions that you roll to another plan or IRA, you need to be aware that these amounts may be subject to state income tax for 2002.

[1]Includible compensation is calculated by deducting any pretax contributions to any benefit/savings plan before determining the 33⅓ percent of income, which normally equals approximately 25% of taxable income.

Options for your WDC Distribution

As a result of the federal pension legislation (EGTRRA), beginning in 2002 you will be able to roll certain distributions from the WDC into a traditional individual retirement account (IRA) or other eligible retirement plan [such as a Section 401(k) or 403(b) plan]. Because Wisconsin laws do not currently conform to the 2001 IRC (see article on page 1), if you roll an eligible distribution to another account (except for another Section 457 plan account), you may be subject to state income tax on the amount distributed from the WDC.

In addition to the state income tax issue, there are other considerations that should be examined before making a decision to roll your WDC assets (when eligible for a distribution) into another plan. The following table is a general discussion of some of the options. You should consult with a financial or tax advisor for answers to your specific questions.

Your Choice at Distribution	Advantages	Possible Limitations
Once you terminate employment or retire, you can leave your balance in your WDC account and postpone your distribution up to April 1 of the calendar year following the year you reach age 70½, or the year you terminate employment if this is later.	• Diverse investment options include institutional funds and are monitored by the Board. • Options include a self directed brokerage option. • Transfers can be executed between different mutual funds daily. • Low cost. • Continue to defer state and federal income tax.	• You no longer can contribute to your WDC account.
Roll your WDC distribution into another retirement plan account.	• Consolidation of assets to one account. • Different investment options. • Continue to defer federal and possibly state income taxes.	• New plan may not accept roll-in dollars. • May be subject to state income tax on distribution if Wisconsin statutes are not amended. • Investment choices may be limited. • Transfers between options may not be processed daily. • May have higher fees. • WDC assets will take on tax rules of the receiving plan (i.e., may be subject to early withdrawal penalty for distributions prior to age 59½).
Roll your WDC distribution into an IRA.	• Consolidation of accounts. • Different investment options. • Continue to defer federal and possibly state income taxes.	• May be subject to state income tax on distribution if Wisconsin statutes are not amended. • Annual cost may be greater; broker may be paid on commission (based on investment selections). • May take several days to execute transfers between mutual fund families. • WDC assets will take on tax rules of the receiving plan (i.e., may be subject to early withdrawal penalty for distributions prior to age 59½).
Lump sum distribution in cash.	• You have immediate access to assets. • Flexibility to pay off debt, buy new home, plan extended vacation, etc. • No early distribution penalty if received before age 59½.	• Full taxation (federal and state) on the balance distributed. • No longer available to meet retirement income needs.

Tax laws are complex and subject to change. Neither Nationwide nor its representatives give tax or legal advice. Please consult a tax or legal advisor for answers to your specific questions.

Federal Tax Incentive to Invest for Retirement

Effective in 2002, there is a nonrefundable tax credit for federal income tax purposes for low-to-moderate income taxpayers who invest in their deferred compensation plan. Depending on your situation, this credit could be as much as a 50% reduction on the first $2,000 deferred into a retirement account, such as the WDC. The amount of the credit decreases as an individual's income increases.

Here's how it works:
If you earn $15,000 in 2002, contribute $40 per bi-weekly paycheck ($1,040 annually) to the WDC and file single exemption, the amount of taxable income you would have for the year would be $13,960 ($15,000 - $1,040 tax deferred contribution to the WDC).

In addition to lowering your taxable income for 2002, you would also earn a federal tax credit of $520 (50% of $1,040). This federal tax credit is only available for tax years 2002 through 2006.

The table below shows the available federal tax credit based on annual income.

Tax credit for low-to-moderate income taxpayers

	Filing Status		
Amount of Credit	**Joint**	**Head of Household**	**Single/Others**
50% of first $2,000 deferred	$0-$30,000	$0-$22,500	$0-$15,000
20% of first $2,000 deferred	$30,00-$32,500	$22,501-$24,375	$15,001-$16,250
10% of first $2,000 deferred	$32,501-$50,000	$24,376 to $37,500	$16,251-$25,000
None	>$50,000	>$37,500	>$25,000

At the time this newsletter was written, Wisconsin statutes did not recognize this provision in the federal tax code. As a result, it is uncertain if this federal tax credit will apply to your state income tax assessment for 2002 or later.

FDIC Insured Bank Option

M&I Bank has declared an annualized interest rate for the first quarter 2002 of 1.92% and an annualized yield of 1.94%.

Stable Value Fund

This information is now located on the Performance Results of Funds report included with your quarterly statement.

Wisconsin Deferred Compensation Program (WDC) is a supplemental retirement benefit plan regulated by Section 457 of the Internal Revenue Code and managed by the Wisconsin Department of Employee Trust Funds (DETF).

"Money Talks"
is distributed quarterly with the Participant Statement of Account. Questions regarding the WDC should be directed to the Plan Administrator's office:

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Plan Services provided by:
National Deferred Compensation, Inc.

The WDC does not discriminate on the basis of disability in the provision of service or employment. If you need this material interpreted in a different form, or if you need assistance, contact us at:
(608) 256-6200, or
(800) 257-4457.
Our tele-typewriter (tty) number is:
(800) 995-4457.

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