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CORRESPONDENCE MEMORANDUM

DATE: November 27, 2006
TO: Employee Trust Funds Board
FROM: Jean Gilding, Deputy Administrator
Division of Retirement Services

Audrey Koehn, Policy Advisor
Division of Retirement Services
SUBJECT: Analysis of Separation Benefits Paid in Calendar Year 2005

At its June 2006 meeting, the ETF Board asked the Department to provide an analysis of separation benefits paid to Wisconsin Retirement System (WRS) participants in calendar year 2005. The Board was particularly interested in the years of service and age distribution of those taking separation benefits. An analysis has now been completed on the 3,399 separation benefits paid in 2005.

Background

Participants who terminate all WRS covered employment and who have not yet reached minimum retirement age (50 for protective category employees and 55 for all other employment category employees) are eligible for a separation benefit from the WRS. Also, inactive participants (those who terminated employment and left their money in the WRS) who are subject to WRS vesting requirements¹ are only eligible for a separation benefit from the WRS. In order to be eligible for a separation benefit the individual must remain separated from all WRS employment throughout a period beginning with the WRS employment termination date and ending on the latest of the following dates:

- The 31st day after termination of all WRS employment.
- The 31st day after the date the Department receives the benefit application.

Upon payment of a separation benefit, the participant's account is closed and the individual has no further right, interest or claim to any benefit from the WRS. Upon taking a separation

¹ Participants who began WRS covered employment after December 31, 1989 **AND** who terminated their WRS covered employment prior to April 24, 1998 must have WRS service in at least five calendar years in order to be eligible for a retirement annuity once reaching minimum retirement age. If this vesting requirement is not met, the participant is only eligible for a separation benefit.

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benefit, the participant forfeits the employer-required contributions and the associated accumulated interest. The separation payment to the participant consists of:

- 1) Employee-required contributions, whether deducted from the employee's earnings or picked up by the employer;
- 2) Additional contributions (both employer and employee); and
- 3) Accumulated interest on the employee's required and additional contributions.

The data below provides breakdowns on the age, years of service, employment category, and payment amount for former WRS participants who received separation benefit payments in calendar year 2005.

Age Distribution

As shown in the following chart, the age of participants who applied for and received separation benefits in calendar year 2005 ranged from a low of 18 years to a high of 75 years. The average age was 37.25 years and the median age was 36 years. Of the 3,399 separation benefits paid, 122 (or 3.6%) were paid to inactive participants who were over minimum retirement age and who were restricted to a separation benefit because they did not meet vesting requirements.

Age of Participant	Number of Participants	Percent of Participants
18 – 25	408	12.0
26 – 30	586	17.2
31 – 35	633	18.6
36 – 40	548	16.1
41 – 45	507	14.9
46 – 50	389	11.5
51 – 54	206	6.1
55+	122	3.6
Totals	3399	100.0

Years of Service

As shown in the chart below, the years of service for participants who took a separation benefit in calendar year 2005 ranged from a low of 0.01 years to a high of 31.9 years. The average years of service was 3.29 years and the median was 2.0 years of service. Of the 3,399 separation benefits paid in calendar year 2005, 1,025 individuals (or 30.2%) had less than one year of creditable service and an additional 1,680 individuals (or 49.4%) had between one and five years of creditable service. In all, a total of 79.6% of the separation benefits were paid to participants with less than five years of creditable service.

Years of Service	Number of Participants	Percent of Participants
<1	1025	30.2
1 – 4.99	1681	49.4
5 – 9.99	488	14.3
10 – 14.99	137	4.0
15 – 19.99	46	1.4
20+	21	0.6
Totals	3399	100.0

Employment Category

The following chart shows the WRS employment category, at time of employment termination, for those individuals who received a separation benefit in calendar year 2005. The participants in the general employment category (including teachers) comprised the majority of individuals taking separation benefits with 93.6 percent of the total.

Employment Category	Number of Participants	Percent of Participants
General	3181	93.6
Executive/Elected	5	0.1
Protective with Soc. Sec.	206	6.1
Protective without Soc. Sec.	7	0.2
Totals	3399	100.0

The next chart displays a breakdown of groups within the general employment category who received a separation benefit in 2005. Teachers made up 21.4% of the general employment category group, while educational support personnel made up 14.5% of the total general category. The “other” group consists of non-teachers and non-educational support staff who terminated employment with State and local government employers.

General Category Breakdown	Separation Population In General Category	Percent of General Category	Percent of Total Separation Payment Population (3399)
Teacher	682	21.4	20.1
Educational Support	461	14.5	13.5
Other	2038	64.1	60.0
Totals	3181	100.0	93.6

Gross Payment

The following chart breaks down the separation payment “gross” amount (prior to required deductions such as federal tax withholding, child support liens, tax liens, benefit program overpayments, etc.) payable in 2005. Of the total gross amounts payable in 2005, 83% were less than \$10,000. The smallest amounts (from \$10.28 to \$81.84) primarily represent individuals who were inactive and who did not meet WRS vesting requirements. The highest gross amount payable in 2005 was \$201,882.83, while the lowest amount payable was \$10.28.

The average gross amount payable was \$6,749.48. The total gross amount payable for 2005 separations was \$22,941,410.48.

Additionally, our analysis found that 19 individuals (or 0.6% of those receiving separation benefit payments in 2005) had gross benefit amounts payable of over \$100,000. These 19 individuals ranged in age between 45 and 54 and carried an average of 21.8 years of creditable service. After review of their member files, there was no pattern as to why separation benefits were taken. Participants applying for a separation benefit are not required or asked to indicate why they are withdrawing funds prior to minimum retirement age or as to what the individuals intend to do with the separation payment. Even so, of the 19 individuals with the largest separation payments, a very limited number volunteered information. These included five requests to have the separation payments rolled over into other investment vehicles, one indicated the money was needed to pay a tax lien, and another indicated the money would be used to purchase a home.

Gross Benefit Amount	Number of Participants	Percent of Participants
<\$10K	2821	82.9
\$10 – 20K	329	9.7
\$20 – 30K	119	3.5
\$30 – 40K	55	1.6
\$40 – 50K	29	0.9
\$50 – 100K	27	0.8
\$100K+	19	0.6
Totals	3399	100.0

Resource Information

If a participant requests an application for purposes of applying for a separation benefit and, the participant is within one year of minimum retirement age, the Department contacts the member to ensure the participant has the information necessary to make an informed decision. The information provided includes an explanation of the negative consequences of taking a separation benefit such as forfeiture of the employer-required contributions and associated interest, federal tax consequences, and the loss of rights under previous law provisions should the individual return to WRS-covered employment. The Department then holds the separation benefit application for 30 days, giving the individual time to consider the consequences and make an informed decision.

In addition to the above contacts, the Department provides written and verbal information about the affects of taking a separation benefit, including the following:

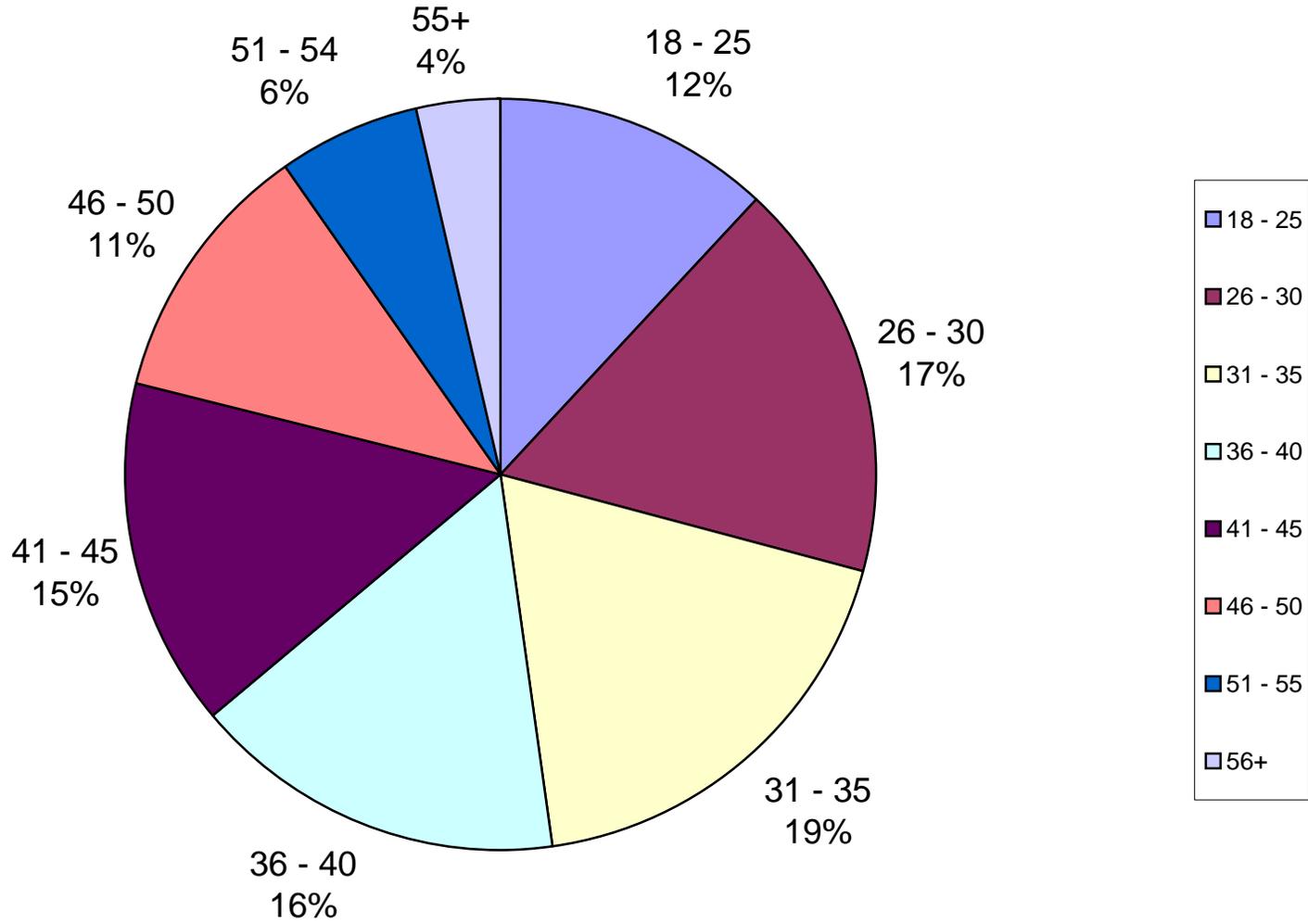
- ◆ Inclusion in large group field presentations and small group counseling sessions
- ◆ Counseling to callers and walk-in customers by the Member Services staff
- ◆ Automated telephone messages
- ◆ The Separation Benefit booklet, ET-3101

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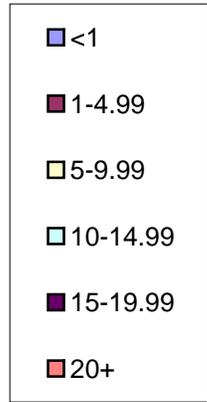
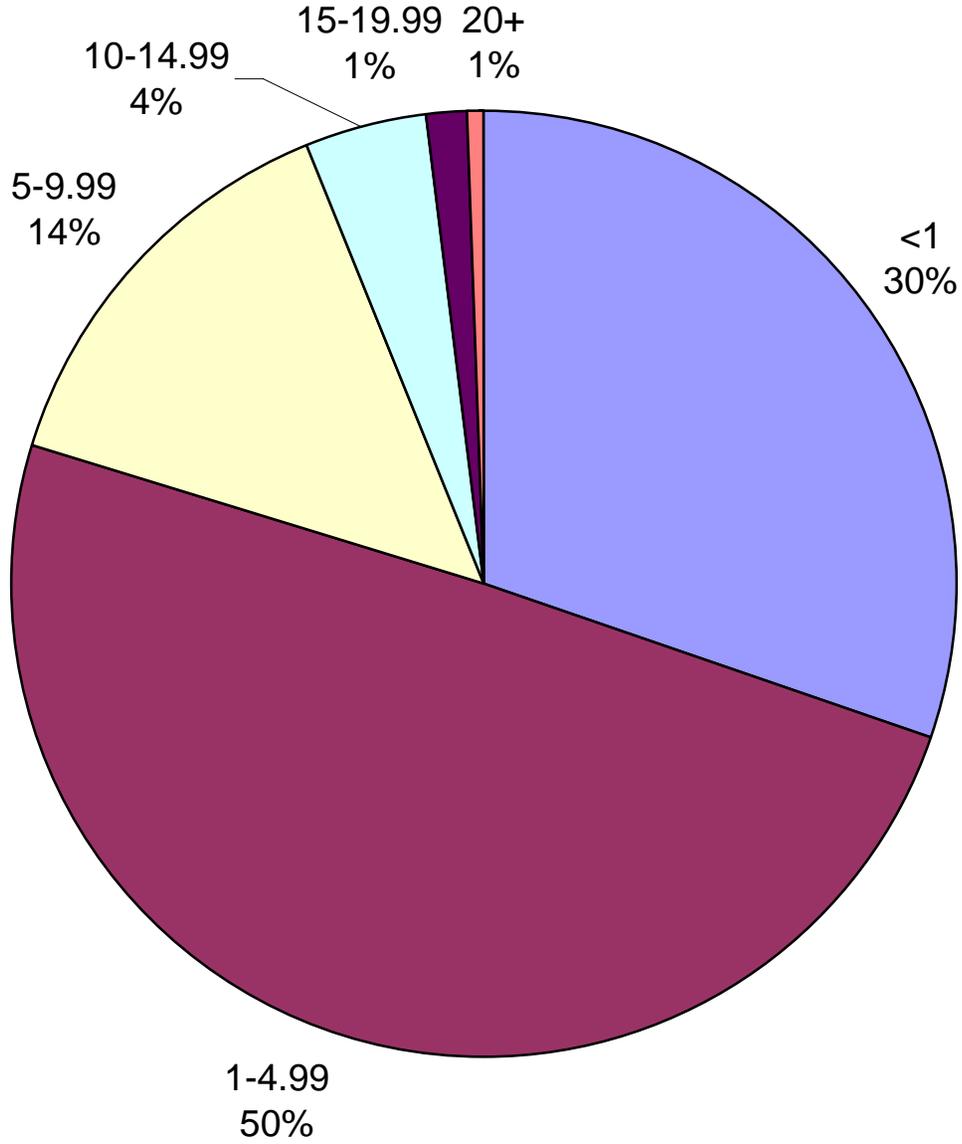
Attached for the Board are pie charts to further illustrate the distribution characteristics described in this memorandum. Questions concerning this information may be directed to Jean Gilding at jean.gilding@etf.state.wi.us or at 608-266-1210.

Attachments

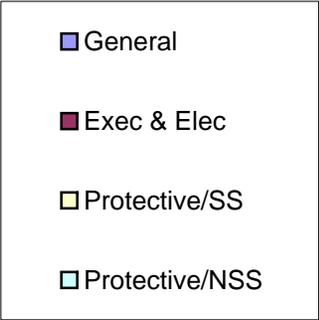
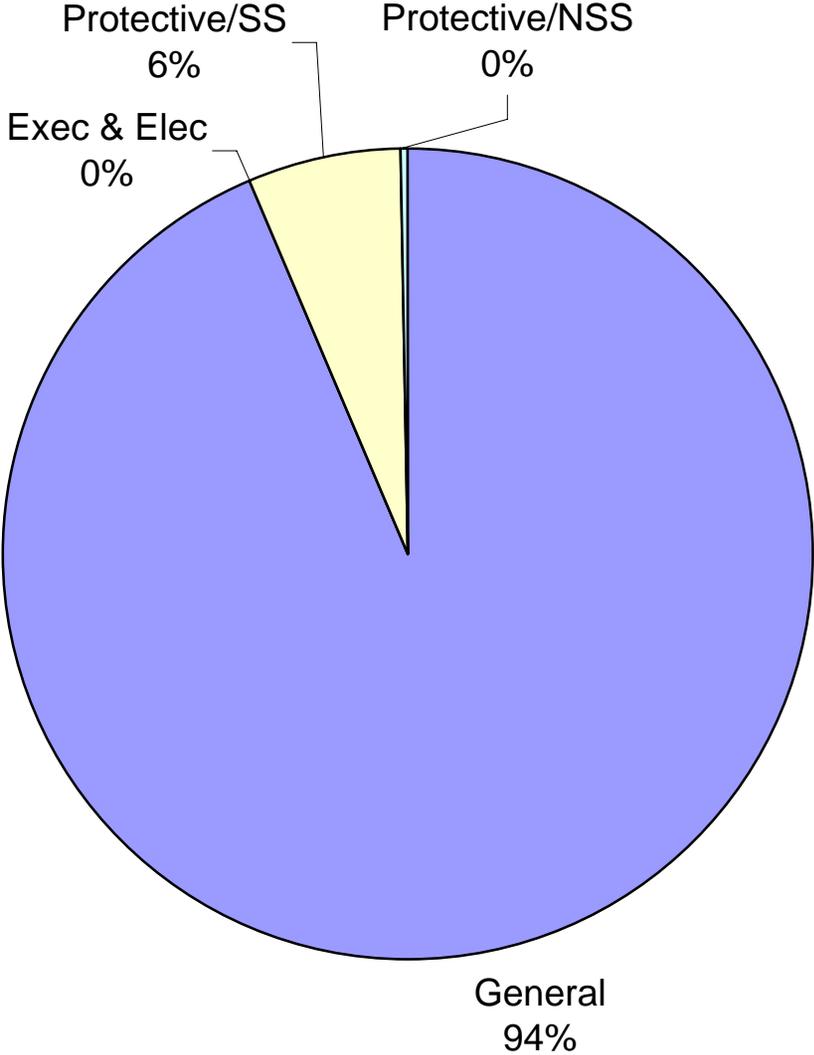
2005 Separations - Age Distribution



2005 - Years of Service at Separation



2005 - Employment Category at Separation



2005 Separations - Gross Payment Amount

