

Separation Benefits



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The Wisconsin Department of Employee Trust Funds 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. The most current version of this form can be found at etf.wi.gov. Please contact ETF if you have any questions about a particular topic in this brochure.

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.

Before You Apply for a Separation Benefit

Please read this brochure carefully. It provides important information about your benefit rights.

A separation benefit is a one-time lump sum payment consisting only of employee contributions, additional contributions (if applicable) and accumulated interest.

The decision to take a separation benefit now, instead of waiting to take a retirement benefit, has significant financial, insurance and tax consequences. If you take a separation benefit:

- you will lose your employer contributions and interest (***approximately half the value of your WRS account***).
- you will lose your creditable service earned prior to the separation benefit, and the benefit rights associated with that period of service.
- you will lose eligibility for future health insurance coverage. Contact your most recent employer to determine if you have any other health or life insurance options that may be available to you.
- tax penalties may significantly reduce the amount of your payment.

If you are vested and wait to take a benefit until age 55 (age 50 for members with protective category service), you are entitled to a retirement benefit based on the *total* value of your WRS account. This includes the employee *and* employer contributions, additional contributions (if applicable) and accumulated interest.

Vesting Requirements

You may have to meet one of two vesting laws depending on when you first began WRS employment.

- If you first began WRS employment after 1989 and terminated employment before April 24, 1998, then you must have some WRS creditable service in five calendar years.
- If you first began WRS employment on or after July 1, 2011, you must have five 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 members) once you terminate all WRS employment. If you are not vested, you may only receive a separation benefit.

Special Circumstances

- ***If you are an alternate payee*** who received a portion of your former spouse's or domestic partner's WRS account through a Qualified Domestic Relations Order (divorce, legal separation or annulment), and are considering taking a separation benefit, please refer to the "Alternate Payee" section of this booklet.
- ***If you leave WRS employment to enter active military service*** and return to work with the same WRS employer upon discharge from the military, you are eligible for a military service credit for your period of active military service. However, if you take a separation benefit before returning to work with your WRS employer, you forfeit your right to continuous military service credit. More detailed information about military service credit is available in the *Military Service Credit* (ET-4122) brochure, available online at etf.wi.gov.
- ***If you terminate WRS employment due to a disability***, you should contact ETF about eligibility for disability benefits before you apply for a separation benefit. Once you have closed your account by taking a separation benefit, you are no longer eligible for disability benefits payable from the WRS.

Benefit Eligibility

You are eligible for a separation benefit if you are *terminated* (i.e., your employer has reported a termination date to ETF) from ***all*** WRS-covered employment with ***all*** WRS-participating employers and you are:

- under age 55 (under age 50 for protective category service), or
- age 55 or older (age 50 or older for protective category service), ***and*** you are not vested.

Covered employment includes qualifying employment with any employer who participates in the WRS. Participating employers include all Wisconsin state agencies and most local governmental and school district employers. Non-teaching employment with the City and County of Milwaukee is not covered under the WRS.

Applying for a Benefit

You must request an application from ETF to apply for a separation benefit.

ETF must receive your separation benefit application before your 55th birthday (50th birthday if you have protective category service). After your 55th (50th) birthday, you are eligible for a retirement benefit rather than a separation benefit, unless you are not vested.

ETF will direct deposit your payment approximately 60 to 120 days after receiving your application. Processing time varies, depending on the volume of applications and when we receive the report of termination and final earnings from your employer. You may check with your last employer to determine the status of the final earnings report.

If you are considering applying for a separation benefit near the end of the year and you want annual interest included in your benefit, you should wait to apply until after December.

Benefit Amount

A separation benefit includes:

1. All employee contributions, whether deducted from earnings or paid by the employer as a fringe benefit;
2. Any additional contributions made to your account; and
3. Accumulated interest to the January 1 preceding the date that your separation benefit is approved. If you last terminated WRS employment prior to May 16, 1989, your benefit will also include prorated 5% annual interest from January 1 until the end of the month prior to the month in which your separation benefit is approved.

There is no provision for a partial separation. You cannot withdraw a portion of your required or additional contributions. However, if you have additional contributions, you may withdraw only the additional contributions and leave the required contributions until a later date.

Between January 1, 1986 and June 29, 2011, a benefit adjustment contribution may have been made to the WRS based on your earnings. These contributions are not included in your separation benefit, nor any other benefit based on your account balance.

They are used to fund formula retirement benefits.

Annual interest on Core* fund contributions and net gains or losses on Variable fund contributions are credited on monies that have been in the system for a full year. Variable employee and all additional contributions have interest credited at the actual effective rates, based on the investment experience of the fund. Depending on the years you were employed under the WRS, the amount of interest credited to your Core employee contributions may vary.

- All employees who were active as of December 31, 1999 and later, will receive interest on Core employee contributions at the effective rate.
- All contributions of members employed prior to 1982 have interest credited at the effective rates.
- As of January 1, 1985, employees who were first employed after 1981 and who terminated prior to January 1, 1990, receive 5% annual interest on Core employee contributions. However, if these members return to covered WRS employment, annual interest on their Core employee contributions will be credited at the effective rate on December 31, 1999 balances forward.
- As of January 1, 1990, employees who were first employed after 1981 **and** who terminated prior to December 31, 1999 receive 3% annual interest on Core employee contributions for separation benefit purposes. However, if these members return to WRS-covered employment, the interest credited to their core employee contributions since January 1, 1990 will be increased from 3% to 5%. The annual interest on their core employee contributions will also be credited at the annual effective rate beginning with the annual interest credited on December 31 of the year they return to covered employment.

*Legislation enacted in 2006 changed the name of the Fixed Retirement Investment Trust, or Fixed Fund, to the Core Retirement Investment Trust, or Core fund. In the future, the Fixed Fund will be referred to as the Core fund.

Availability of Additional Contributions After Termination

If you made additional contributions to your WRS account, these contributions can be paid in one of the following options:

- As a lump sum at any age.
- As an annuity certain at any age.
- As a life annuity after age 55 (age 50 for protectives).

An annuity certain is a specific dollar amount paid monthly for a specified period of time, from 24 to 180 months.

You may rollover your lump sum payment or annuity certain of fewer than 120 months. Please see the “Tax Liability” section of this brochure for information on taxation and rollover of additional contributions. For more information, also see the *Additional Contributions* (ET-2123) brochure, available online at etf.wi.gov.

Tax Liability

Most contributions to a WRS account are made on a “pre-tax” basis and are subject to state and federal income taxes when the member receives a benefit payment. Additionally, members who are younger than age 59½ when they take a separation benefit may also be subject to additional income tax penalties on any early distributions from the WRS. If your separation payment is \$200 or more, you can avoid immediate tax liabilities if you choose to roll over your payment to:

- a traditional IRA [408(a)];
- a Roth IRA [408(b)]; or
- an eligible qualified employer plan, including 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 about whether or not your WRS funds are eligible to be rolled over into another qualified plan, you must contact that plan administrator directly.

When your separation payment is taxed depends on what you do with it when you receive it from ETF.

- If you **do not roll over the payment in the year you receive it**, you will pay taxes on any amount that you have not previously paid taxes on. ETF is required to withhold 20% of the taxable portion of your payment for federal income tax.

- If you are younger than age 59½, you may be subject to a 10% additional income tax penalty on early distributions from the WRS (including the amounts withheld for income tax) that you do not roll over. This tax is in addition to the regular income tax on the payment not rolled over. For exceptions to this rule, please see *IRS publication 590*.
- When there is a federal additional tax, you may also owe an additional state tax, depending on the state you live in. In Wisconsin, the additional tax is 33% of the federal 10%, or 3.33% of the taxable gross benefit.
- If you roll over your payment to a **traditional IRA or an eligible employer plan**, you will not pay any taxes now but when you withdraw the funds as a qualified distribution in the future, you will pay taxes on any amount that you have not already paid taxes on.
- If you roll over your payment to a **Roth IRA** in the year you receive the payment from ETF, you will pay taxes on any amount that you have not already paid taxes on. All funds you withdraw from your Roth IRA as a qualified distribution in the future, including accumulated interest, are tax-free if you have held the account for at least five years and are at least 59 ½ years old. For exceptions to this rule, please see *IRS Publication 590*.
- If you **do not roll over the payment immediately**, you may still do so within 60 days. If you roll it over within 60 days, it will not be taxable in the year it was issued. However, ETF will have already withheld the required 20% for the federal withholding; that amount is not refundable from ETF. You can report the 20% withholding on your income tax return.

To roll over 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 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 older than age 70½, the amount you can rollover may be limited. Consult your tax advisor for additional information.

1099-R Statement

Whether you take your separation benefit as a lump sum payment, or rollover your separation benefit, ETF will send you a 1099-R form showing the amount of income tax withheld, the total amount of your benefit and the taxable portion of your benefit. You will receive the 1099-R the following January. You will need this form when you file your income tax forms.

For more information, see the *Federal Withholding Requirements & Direct Rollover Option* (ET-7289) document, which is included in your separation benefit packet.

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*.

Required Minimum Distributions

If you are no longer working under the WRS, you must receive a disbursement known as a 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. These include applying for your benefits, rolling over your benefits to another qualified plan or deferring 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, 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 about the RMD.

Death Benefits

If you were to die before applying for your WRS benefit, a death benefit is payable to your beneficiary(ies). Death benefit payments will be made to the beneficiaries named on your most recent valid beneficiary designation form on file with ETF. If you have not filed a designation form, payment is made according to statutory standard sequence.

Beneficiary designations may be changed or updated at any time by requesting a *Beneficiary Designation* (ET-2320) form from ETF or online at etf.wi.gov.

Canceling Your Application

You may cancel your separation application by submitting a signed, written request to ETF no later than the close of business on the day before the date of your payment. Application cancellation requests received on or after the date of the payment cannot be honored and your separation will stand as paid.

If you die before your separation benefit payment is issued, your application is automatically cancelled.

Reemployment After Payment of a Separation Benefit

-Does not apply to alternate payees-

Your application will be cancelled if you are reemployed or reinstated as a WRS-participating employee within 75 days after we receive your application (or after your termination date, if later). If you have already been paid, you must repay your benefit.

Upon reemployment after payment of a separation benefit, your account is treated as if you were new in the WRS for all programs, such as life insurance, health insurance and income continuation insurance.

If you are reinstated to your former position after a contested dismissal, you may be required to repay the benefit plus interest, depending on the court order, arbitration award or compromise settlement.

Purchasing Forfeited Service

-Does not apply to alternate payees-

If you again become a participating employee under the WRS, you will be eligible to purchase the service forfeited by payment of a separation benefit if you meet the requirements in effect at that time. The cost will be based on your three highest annual earnings at the time you purchase the forfeited service.

Deferring Your Benefit Application

If you leave your contributions in the WRS, it will receive annual interest. Once you reach age 55 (age 50 for protectives), you are eligible for retirement benefits, unless you are not vested.

If you are not vested and are eligible only for a separation benefit, you can leave your contributions in the WRS and return to work at a later time. How you become vested after returning to WRS employment depends on which of the following vesting categories you belong to:

- If you were first employed after 1989 and terminated employment before April 24, 1998, have service in less than five calendar years, and return to WRS-covered employment, you will be immediately vested and eligible for a retirement annuity upon reaching your minimum retirement age.
- If you began your first employment with a WRS employer on or after July 1, 2011 and you left WRS employment with fewer than five years of creditable service, you may satisfy the five-year requirement after returning to WRS-covered employment by combining the creditable service you earned before leaving with the new creditable service you earn after returning. After you satisfy the five-year requirement, you will be vested and eligible for a retirement annuity upon reaching your minimum retirement age.

If you defer your application until you are eligible for a retirement benefit, please contact us at least once every seven years to ensure that you do not lose your benefit rights.

Please notify ETF of any change in your name or address by submitting a signed *Address/Name Change* (ET-2815) form available online or by request. You will receive an annual *Statement of Benefits* if you keep ETF informed of your current mailing address.

Retirement Benefits

If you are older than age 55 (age 50 for protectives) and are vested, you may apply for a retirement annuity. The retirement annuity is the larger of a formula annuity or an annuity that can be purchased by employee and employer contributions, plus accumulated interest.

If your *For Annuitant's Life Only* monthly annuity option is \$190 or less in 2016, you will receive a lump sum payment representing the present value of this option.

If your *For Annuitant's Life Only* monthly annuity option is more than \$190 but less than \$388 in 2016, you may choose either a lump sum payment (present value) or a monthly annuity.

If your *For Annuitant's Life Only* monthly annuity option is \$388 or more in 2016, you must receive monthly annuity payments. You are not eligible for a lump sum payment.

Note: These amounts are subject to change annually.

Out-of-State Credits

If you are planning to use Wisconsin service for credit in a retirement program in another state, please check with the other state's system before applying for a benefit under the WRS. In some states, you must waive part or all of your Wisconsin benefit in order to receive credit for your Wisconsin service.

Alternate Payees

An alternate payee is the former spouse or domestic partner of a WRS member that received a percentage of the member's account or annuity when the marriage or domestic partnership was terminated through divorce, annulment or legal separation. An alternate payee may apply for a benefit at any time, regardless of their own age or employment status. Even if the member is still employed under the WRS, benefits are payable to the alternate payee. However, the type of benefit available is dependent on the member's age.

- If the member is younger than age 55 (age 50 with protective employment) — The alternate payee can apply for a separation benefit at any time until the member reaches age 55 (age 50 if protective). A separation benefit will only

include the employee and additional contributions (if any), plus accrued interest. **Employer contributions and all associated service are forfeited.** The alternate payee should carefully consider the consequences of taking a separation benefit. The alternate payee would forfeit all rights to a future retirement benefit when the member is eligible for a retirement benefit.

- If the member is age 55 or older (age 50 with protective employment) — The alternate payee can apply for a retirement benefit as long as the member is vested. Retirement benefits include all employee, employer and additional contributions (if any), plus accrued interest. WRS retirement benefits are calculated using both the formula and the money purchase methods. The alternate payee automatically receives the higher benefit amount.

If you have an account based on your own employment under the WRS and are also an alternate payee of another WRS member, your benefit eligibility will be different for the two accounts. Each account remains separate; the accounts cannot be combined. You can apply for a separation benefit from your alternate payee account regardless of whether you are still employed under the WRS. Taking a separation benefit from your alternate payee account will have no effect on your own WRS account.

If you take a separation benefit as a member and also as an alternate payee, you will forfeit the creditable service from each account. If you return to covered WRS employment and meet the service purchase requirements in effect at that time, you will be eligible to purchase the creditable service forfeited from your own WRS account. You cannot purchase the service you forfeited from your alternate payee account.

ETF's booklet, *How Divorce Can Affect Your WRS Benefits* (ET-4925), is available online at etf.wi.gov and explains in detail the benefit options for which an alternate payee is eligible.

Contact ETF

Visit us online at etf.wi.gov

Find Wisconsin Retirement System benefits information, forms and publications, benefit calculators, educational offerings, email 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, or change your address information
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)

Write or Return Forms

P.O. Box 7931
Madison, WI 53707-7931

Visit by Appointment

801 West Badger Road
Madison, WI 53713
7:45 a.m. to 4:30 p.m.

