

SEPARATION BENEFITS

ET-3101 (REV 10/2/2023)



Table of Contents

Before You Apply for a Separation Benefit	2
Vesting Requirements	3
Special Circumstances	4
Benefit Eligibility	5
Applying for a Benefit	5
Benefit Amount	6
Availability of Additional Contributions	
After Termination.....	8
Tax Liability	9
1099-R Statement	11
Required Minimum Distribution	12
Death Benefits	13
Canceling Your Application	13
Re-employment After Payment of a Separation Benefit..	14
Purchasing Forfeited Service	15
Deferring Your Benefit Application	16
Retirement Benefits	17
Out-of-State Credits.....	17
Alternate Payees	18

ETF 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. Visit etf.wi.gov to view the most current version of this document. Please contact ETF if you have any questions about a particular topic in this brochure.

ETF complies with applicable federal civil rights laws and does not discriminate on the basis of race, color, national origin, age, disability or sex in the provision of programs, services or employment. For more information please view ETF's *[Nondiscrimination and Language Access \(ET-8108\)](#)* available at etf.wi.gov. To request this information in another format, call 1-877-533-5020 (toll free). We will try to find another way to get the information to you in a usable form.

Cover photo courtesy of the Wisconsin Department of Tourism.

Before You Apply for a Separation Benefit

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:

- Your Wisconsin Retirement System account will be closed in full with no future benefit payable.
- 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 no longer be eligible for State of Wisconsin Group Health Insurance Program coverage. Contact your most recent WRS employer to determine if there are any other health or life insurance options available to you.
- Tax penalties may significantly reduce the amount of your payment.

If you are vested and wait to take a benefit until you reach minimum retirement age (age 55 or 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:

1. If you first began WRS employment after 1989 and terminated employment before April 24, 1998, you must have *some* WRS-creditable service in five calendar years.
2. 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 members with protective category service) once you terminate all WRS employment. If you are not vested, you are only eligible to 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 a separation benefit, refer to the "Alternate Payees" section of this brochure.

If you terminate 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 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. See the ETF website for more information about military service credits.

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 from the WRS.

Benefit Eligibility

You are eligible for a separation benefit if you have *terminated all* WRS-covered employment and remain terminated until your benefit effective date with *all* WRS-participating employers and you are:

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

Note: Terminated employment means that your employer has reported a termination date to ETF.

Covered employment includes qualifying employment with any employer that participates in the WRS, including all Wisconsin state agencies and most local governmental and school district employers.

Applying for a Benefit

You must request an application from ETF to apply for a separation benefit. ETF must receive your completed separation benefit application before you turn age 55 (age 50 if you have protective category service). After you turn age 55 (age 50), you are eligible for a retirement benefit instead of a separation benefit, unless you are not vested.

ETF will direct deposit your benefit payment approximately 60-120 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 thinking about applying for a separation benefit near the end of the year and you want annual interest included in your benefit, you must wait until after December to apply.

Benefit Amount

A separation benefit includes:

- All employee-required contributions, whether deducted from earnings or paid by the employer as a fringe benefit.
- Any additional contributions made to your WRS account.
- Accumulated interest on the employee contributions. The interest applies to contributions made up to the January 1 before 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 of the current year to the end of the month prior to the month in which your separation benefit is approved.

There is no provision allowing 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 for a later date.

Annual interest on Core Trust Fund contributions and net gains or losses on Variable Trust Fund contributions are credited on monies that have been in the system for a full year. Variable Fund and all additional contributions have interest credited at the actual effective rates, based on the investment experience of the fund.

Benefit Amount, continued

Depending on the years you were employed under the WRS, the amount of interest credited to your Core Fund employee contributions may vary.

- All employees who were active as of December 31, 1999 and later, will receive interest on Core Fund 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 Fund employee contributions. However, if these members return to WRS-covered employment, annual interest on their Core Fund employee contributions will be credited at the effective rate on the December 31, 1999 balances going 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 Fund employee contributions for separation benefit purposes. However, if these members return to WRS-covered employment:
 - The interest credited to their Core Fund employee contributions since January 1, 1990 will be increased from 3% to 5%.
 - The annual interest on their Core Fund employee contributions will be credited at the annual effective rate beginning on December 31 of the year they return to WRS-covered employment.

Availability of Additional Contributions After Termination

If you made additional contributions to your WRS account, these contributions can be paid:

- As a lump-sum (one-time) payment at any age.
- As an annuity certain (paid for a specific number of months) at any age.
- As a life annuity after age 55 (age 50 for members with protective category service). You may only select this option if your annuity amount is over the minimum amount set by the IRS each year. For more information about annuity payment options, go to the ETF website at etf.wi.gov.

You may roll over your lump-sum payment or annuity certain of fewer than 120 months to another qualified plan. See the “Tax Liability” section of this brochure for information on taxation and rollover of additional contributions. Also, see the *Additional Contributions (ET-2123)* brochure, available at etf.wi.gov or by contacting ETF.

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 early distributions from the WRS.

If your separation payment is \$200 or more, you can avoid immediate tax withholding if you choose to roll over your payment to:

- A traditional IRA [408(a)] or 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.

- Any funds converted to a Roth plan are included in your taxable income for that year. If you roll over your separation payment from ETF to a Roth IRA within 60 days, 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 age 59½. For exceptions to this rule, see *IRS Publication 590*.

* Some employee-required contributions are made on a post-tax basis (i.e., 2023 Act 4 County Jailers). Consult with your payroll/benefits office, tax advisor, or see ETF's *Tax Liability on WRS Benefits (ET-4125)* brochure for more information about how this may impact you.

Tax Liability, continued

- If you are younger than age 59½, you may be subject to a federal 10% income tax penalty on early distributions from the WRS that you do not roll over. This penalty is in addition to the regular income tax on the payment not rolled over. For exceptions to this rule, see *IRS Publication 590*.
- When there is a federal income tax penalty, you may also be subject to a state income tax penalty, depending in which state you live. In Wisconsin, the penalty is 33% of the federal penalty or 3.3% 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. However, 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 do not immediately roll over the payment from ETF, you may still do so within 60 days. It is your responsibility to find a financial institution that is willing to accept your rollover. Typically, 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 separation 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 your required minimum distribution age, your rollover options may be limited. Consult your tax advisor for more information.

1099-R Statement

Whether you take your separation benefit as a lump-sum payment, or roll over your separation benefit, ETF will send you a 1099-R statement 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 statement when you file your income tax return.

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

For information on taxation of lump-sum payments, see *IRS Publication 575*. For information on taxation of rollover payments, consult a tax advisor or see *IRS Publication 590*.

Required Minimum Distribution

Once you stop working for a WRS employer, federal law requires you to begin receiving your benefit payment(s) by a certain date, depending on your age. This is called a required minimum distribution (RMD). Visit etf.wi.gov for detailed information about current RMD requirements, and the potential impact a RMD may have on your WRS benefits and tax liability. You may also want to consult with your tax advisor.

It is important for you to contact ETF before a forced distribution is required. Once a forced distribution begins, your ability to choose a different payment option, if available, will be very limited. Your WRS account will be closed and you will not be able to return your payment(s).

Death Benefits

If you die before applying for your WRS benefit, a death benefit is payable to your beneficiary(ies). Death benefits are always paid according to the most recent, valid beneficiary designation on file with ETF prior to your death. *Your beneficiary information does not automatically change when a life event occurs, such as marriage or divorce.*

If a beneficiary designation is not on file, death benefits will be paid according to statutory standard sequence. Beneficiary designations may be updated at any time by submitting a completed *Beneficiary Designation (ET-2320)* form to ETF. This form is available at etf.wi.gov. Submitted changes to the beneficiary designation are not valid until approved by ETF.

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.

Cancellation requests received on or after the date of payment cannot be honored; your separation benefit will stand as paid and your WRS account will be closed in full.

If you die before your separation benefit payment is issued, your application is automatically canceled and death benefits will be paid based on the most recent valid beneficiary designation form on file with ETF. If you have not filed a valid designation form, payment is made according to statutory standard sequence.

Re-employment After Payment of a Separation Benefit

This does not apply to alternate payees.

In most instances, to be eligible for a lump-sum benefit, you must meet the 75-day break-in-service requirement. Your application will be canceled if you are re-employed or reinstated at your previous employer. Your application will also be canceled if you begin working as a WRS-participating employee for a new employer within 75 days of your termination date. If you have already been paid, you must repay your benefit in full.

Even where you have met the 75-day break in service, if you return to WRS-participating employment before your separation benefit effective date, you will have a benefit paid in error and will have to repay the benefit in full.

Example 1:

Kathy wants to take a lump-sum benefit. She terminates from her employer, the Village of Apple, and takes her lump-sum benefit payment. In order to be eligible for the benefit, Kathy must remain terminated from the Village of Apple for at least 75 calendar days.

Example 2:

Kathy begins working for the Town of Orange. Since her position at the Town of Orange does not meet WRS eligibility requirements and it is a different employer, she can start work without waiting 75 days and she would still be eligible for the lump-sum benefit.

If you begin working in an eligible WRS position after meeting the break-in-service requirement, your WRS account is treated as if you are a new employee for all programs, such as life insurance, health insurance, and income continuation insurance. If you return to WRS-covered employment on or after July 1, 2011, you must earn five years of WRS-creditable service to be vested. When you

Re-employment After Payment of a Separation Benefit, continued

return to WRS employment, benefits are paid according to statutory standard sequence, unless a new beneficiary designation form has been accepted by ETF.

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

Purchasing Forfeited Service

This does not apply to alternate payees.

If you return to WRS-covered employment and meet the service purchase requirements in effect at that time, you may be eligible to purchase the creditable service that was forfeited when you took a separation benefit.

For more information, see the *Buying Creditable Service* (ET-4121) brochure available at etf.wi.gov.

Deferring Your Benefit Application

Contributions left in the WRS will continue to earn annual interest. Once you reach age 55 (age 50 for members with protective category service) and are vested, you will be eligible for retirement benefits.

If you are not vested and are only eligible 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-covered 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. Once you satisfy the five-year requirement, you will be vested and eligible for a retirement annuity upon reaching your minimum retirement age.

Notify ETF of any change in your name or address. You can update this information by completing an [Address/Name/Gender Change \(ET-2815\)](#) form, sending a secure email at etf.wi.gov, or calling ETF at 1-877-533-5020. You will receive an annual *Statement of Benefits* if you keep ETF informed of your current mailing address.

Retirement Benefits

If you wait until you are age 55 (age 50 for members with protective category service) and are vested, you may apply for a retirement annuity.

WRS retirement benefits are calculated using two methods:

- The formula method.
- The money purchase method.

ETF calculates your benefit using both methods and automatically pays you the higher amount. Under both methods, any gain or loss from Variable Trust Fund participation and any additional contributions you made are reflected in the calculations.

Eligibility for a one-time, lump-sum payment versus a monthly payment depends on the size of your *For Annuitant's Life Only* benefit. Annual minimum and maximum amounts are determined by the IRS. See the current rates online at etf.wi.gov.

- If your monthly annuity is less than the minimum amount set by the IRS, you are restricted to a one-time, lump-sum payment.
- If your monthly annuity is at or above the minimum amount, but less than the maximum amount set by the IRS, you may choose between a lump-sum payment or a monthly payment.
- If your monthly annuity is greater than the maximum amount set by the IRS, you are not eligible for a lump-sum payment and may only take a monthly payment.

Out-of-State Credits

If you are planning to use Wisconsin service for credit in a retirement program in another state, check with that state's retirement 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 who 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 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, not the alternate payee's age.

- If the member is younger than age 55 (age 50 for members with protective category service), the alternate payee can apply for a separation benefit at any time until the member reaches age 55 (age 50 for members with protective category service).

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

Employer contributions and accumulated interest (approximately half of the value of your WRS account) and all associated service are forfeited. The alternate payee should carefully consider the consequences of taking a separation benefit.

- If the member is age 55 or older (age 50 for members with protective category service), the alternate payee can apply for a retirement benefit as long as the member is vested. Retirement benefits include all employee and employer contributions, 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.

Alternate Payees, continued

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

Contact ETF



etf.wi.gov

Find ETF-administered benefits information, forms, brochures, benefit calculators, educational offerings and other online resources. Stay connected with:

 ETF E-Mail Updates

 @wi_etf



1-877-533-5020

7:00 a.m. to 5:00 p.m. (CST), Monday-Friday
Benefit specialists are available to answer questions.
Wisconsin Relay: 711



PO Box 7931

Madison, WI 53707-7931

Write ETF or return forms.

