

# Wisconsin Deferred Compensation (WDC) Program

Helping You Turn Over

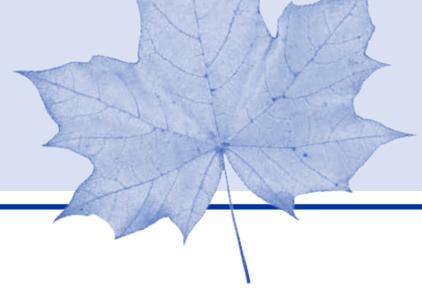


a New Retirement Leaf

## Retirement Guide

WDC Participant Distribution Options





## I Have Severed Employment ... What Do I Do Now?

Upon severance of employment, the money you have accumulated through your Wisconsin Deferred Compensation Program account becomes available to you. You have many choices as to how you can receive this money, and you do not have to do anything until you are ready to take a distribution. Only you can make this very personal decision after careful consideration of several factors, including your age, financial needs and other sources of income.

Please study each of your distribution options carefully in order to choose the one that best fits your financial needs. If you need further clarification, call the WDC at **(877) 457-WDCP (9327)** and press 0 to speak with a registered representative. While our registered representatives are able to explain the options available to you, they may not be able to tell you which payout and tax-withholding method is best for you.

Once you are ready to take a distribution, you may request a distribution online by logging in to your account at **www.wdc457.org**, or you may obtain the necessary form by calling the WDC at **(877) 457-9327** and pressing 0 to speak to a representative. Please mail your completed Distribution Request Form to the address listed on the form. Receipt of an appropriately completed distribution request and verification of your date of severance of employment (as defined by you having received your last paycheck) with your employer are required before any distributions can be processed.

### **Did You Know?**

*In addition to answering your questions about the WDC Program, Education Counselors for the WDC can now provide even more information to help you prepare for retirement. As part of the Empower Retirement Advisory Services offered by Advised Assets Group, LLC, a registered investment adviser, Education Counselors can help you complete a retirement readiness review at no cost to you. This review shows you where you are today and gives you information on how you can prepare for the future, including asset allocation information and/or investment recommendations, if applicable, and a spend-down projection. As long as you keep your WDC account, you have access to these counselors—even if you have left employment.*

*There is no guarantee provided by any party that participation in any of the Advisory Services will result in a profit or that the related account will outperform a self-managed portfolio invested without assistance.*

### **Important Note:**

*Although every effort is made to keep the information in this booklet current, it is subject to change without notice. Federal, state and local tax laws are continually revised and updated, and new WDC provisions may be adopted at any time.*



## What Are My Distribution Options?

When you become eligible for a distribution, you generally have these options:

1. **Leave your money in the WDC.**
2. **Take a distribution.**
3. **Roll over to your new employer’s plan, if allowed by the plan, or to an Individual Retirement Account (IRA).**

### Leave Your Money in the WDC

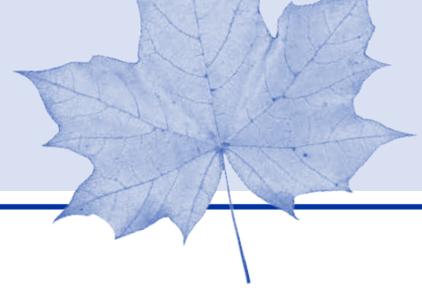
While you may be eligible to withdraw from your WDC account, you don’t have to take money out of the WDC. The only time you must take money out is when you reach the age for taking required minimum distributions—typically age 70½—and even then, you only have to withdraw a portion of your account.

Leaving your money in the WDC enables you to take advantage of low fees and competitively priced investment options, and it gives you the flexibility to withdraw as much money as you need, exactly when you need it. When you are ready to receive a distribution, you will be able to select from the payout options available through the WDC at that time.

#### **Rollovers into the WDC**

*You may roll over approved balances from other employer-sponsored plan accounts or traditional IRAs into the WDC to take advantage of the WDC benefits. These benefits include a diverse selection of investment options; low cost; professional fund management; access to your account 24 hours a day, seven days a week; and a local office of dedicated representatives. You are encouraged to discuss rolling money from one account to another with your financial advisor/planner, considering any potential fees and/or limitation of investment options. If you would like to roll over other qualified plan accounts into your WDC account, contact the WDC at (877) 457-WDCP (9327).*

Option	Tax Consequence	Pros	Cons
Leave your money in the WDC	Before Tax None until distributed from the WDC	<ul style="list-style-type: none"> <li>• Contributions are pretax and can help lower your current taxes. The account balance continues to grow tax-deferred.</li> <li>• You can access your account balance at any time.</li> <li>• WDC offers a diverse selection of investment options.</li> <li>• There are no fees for investment changes.</li> <li>• Salaried representatives are available to help.</li> <li>• Eligible rollovers are accepted at any time.</li> </ul>	Regular paycheck contributions cannot be made to the WDC after severance of employment.
	Roth None for qualified distributions	<ul style="list-style-type: none"> <li>• Roth contributions can continue to grow tax-deferred.</li> <li>• You can access your account balance at any time.</li> <li>• WDC offers a diverse selection of investment options.</li> <li>• There are no fees for investment changes.</li> <li>• Salaried representatives are available to help.</li> <li>• Eligible Roth rollovers are accepted at any time.</li> </ul>	



## Distribution Options, *continued*

### Take a Distribution<sup>1</sup>

There are several distribution options available to you with the WDC. Please note that there may be tax implications depending on the type of distribution you choose.

#### ***Periodic Payment of an Amount Certain***

A periodic payment of a certain amount means that you designate the dollar amount you wish to receive on a regular installment basis (monthly, quarterly, semiannually or annually). Payments to you will continue until your account balance is zero. The number of payments you receive will vary depending on the value of your investments. After you reach your required minimum distribution beginning date, you must ensure that the periodic payment amount you receive will deplete your account over a time period not to exceed your life expectancy.

#### ***Periodic Payment of a Period Certain***

When you select a periodic payment option defined by a certain time period, you will receive payments on a regular basis depending upon the frequency you choose (monthly, quarterly, semiannually or annually). Payment amounts depend on the length of time you choose to receive payments, the frequency you choose and the value of your investment options.

Your payment amount is calculated by dividing your current account balance by the number of remaining payments.

Your payment is recalculated each time a payment is distributed; therefore, your payment will not be the same amount each time. The payment amount will depend on the account value, which may fluctuate depending upon the performance of the investments that you have chosen. With this payment method, your balance will be zero by the end of the term you select.

The payment term you select should be in accordance with the minimum distribution requirements from the Internal Revenue Code and Treasury regulations.

*If you take a periodic payment distribution that will last longer than 10 years, federal and state taxes will be withheld using a default of married with three dependents unless you complete a WT-4 "Employee's Wisconsin Withholding Exemption Certificate/ New Hire Reporting" form. The state tax withholding form can be obtained by contacting the Wisconsin Department of Revenue at (608) 266-2486 or the WDC at (877) 457-9327.*

<sup>1</sup> Withdrawals may be subject to ordinary income tax. The 10% federal early withdrawal penalty for withdrawals prior to age 59½ do not apply to 457 plan withdrawals except for withdrawals attributable to rollovers from another type of plan or account.



## Partial Lump-Sum Distribution

You may elect to take a portion of your balance as a partial lump-sum distribution at any time, whether or not you are taking a periodic payment.<sup>2</sup>

If you initially elect to receive periodic payments and in the future wish to receive a partial lump-sum payment, you can still receive a partial lump-sum payment from your remaining balance. The partial payment will not affect your periodic payment schedule, but it will affect the time remaining for your periodic payments if you choose an amount certain. It will also affect the payment amount if you elected a period certain payout option. You may elect partial lump-sum payments at different times, or a series of partial lump-sum payments, as your needs dictate. Please complete a new distribution request for each partial lump-sum payment.

See the table below for tax implications.

## Full Lump-Sum Distribution

If you select a full lump-sum distribution, the full value of your account will be distributed. Unless you elect a direct rollover<sup>3</sup> of all or a portion of the distribution to another qualified retirement plan, the distribution will be paid to you, and there may be significant tax consequences (see below).

*If you currently receive a periodic payment and wish to change it, please complete a distribution request to elect your new periodic payment schedule.*

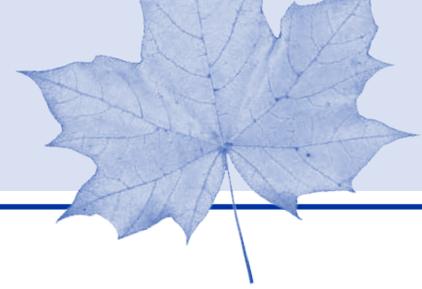
*Each payment for a period certain distribution is calculated as follows:*

$$\frac{\text{Current Account Balance}}{\text{Number of Remaining Payments}}$$

Option	Tax Consequence	Pros	Cons
Take a distribution	Before Tax <ul style="list-style-type: none"> <li>A mandatory 20% federal withholding tax applies directly to distributions taken that could be eligible for a rollover.</li> <li>Distributions are taxed as ordinary income in the year received unless rolled into a new employer's plan or an IRA within 60 days of the distribution.</li> </ul>	<ul style="list-style-type: none"> <li>Money (less taxes, if applicable) will be available immediately upon verification of your last payroll check from your employer.</li> <li>You have flexible distribution options, including periodic payments and partial lump-sum payments. Distributions are only taxed when distributed, and you can change payments as needed.</li> </ul>	<ul style="list-style-type: none"> <li>Withdrawals may be subject to ordinary income tax in the year of distribution.</li> <li>A mandatory 20% federal withholding tax applies to distributions taken that are eligible for rollover.</li> <li>There is no opportunity for further growth if money is not reinvested elsewhere.</li> </ul>
	Roth <ul style="list-style-type: none"> <li>The portion of a Roth distribution that is attributed to earnings may be taxed as regular income if it has been fewer than five tax years since the Roth account has been open and you are not at least age 59½, disabled or deceased.</li> </ul>	<ul style="list-style-type: none"> <li>There is no 10% early withdrawal tax penalty prior to age 59½, although Roth earnings may be taxed as regular income.</li> </ul>	<ul style="list-style-type: none"> <li>Portions of your Roth account may be taxable if certain criteria are not met.</li> <li>There is no opportunity for further growth if money is not reinvested elsewhere.</li> </ul>

<sup>2</sup> If you wish to receive a partial lump-sum payment, complete a distribution request for the amount you wish to receive.

<sup>3</sup> Funds rolled over to a Roth IRA are subject to income tax.



## Distribution Options, *continued*

### Roll Over to Your New Employer’s Plan or an IRA

When you become eligible to take a distribution (usually upon severance of employment), you may elect to roll over certain balances to another eligible 401(a), 401(k), 403(b) or governmental 457(b) plan if your new employer’s plan accepts such rollovers.

When considering rollovers, you may also elect to roll over your balance, partially or wholly, to an IRA with a financial institution of your choice. If you choose the direct rollover method, a Form 1099-R will be issued for reporting purposes; however, no federal income tax will be automatically withheld from amounts directly rolled over.

When you roll over your funds to an IRA or 401(a), 401(k) or 403(b) plan, you may be subject to an additional 10% penalty tax, in addition to ordinary federal and state income taxes, if you are under age 59½ and subsequently request a distribution from the plan that received your rollover funds. Keep in mind there is no early withdrawal penalty on your WDC contributions or other 457(b) plan balance.

#### **Rollovers to Roth Accounts**

Prior to submitting a direct rollover request, you need to verify that the new plan provides for a designated Roth account and can accept rollovers. Eligible rollover distributions are made payable directly to your new

employer’s Roth plan or Roth IRA. Taxes will not automatically be withheld from your rollover distribution. If you are under age 59½ and subsequently request a distribution from the plan that received your rollover funds, you may be subject to an additional 10% penalty tax in addition to ordinary federal and state income taxes.

#### **Roth-to-Roth Rollovers**

An eligible rollover distribution is paid from the WDC directly to your new employer’s plan. Prior to submitting a direct rollover request, you need to verify that the new employer’s plan provides for a designated Roth account and can accept Roth rollovers. You may also roll over your designated Roth assets to a Roth IRA.

#### **In-plan Rollovers (WDC to WDC Roth)**

Beginning with the addition of the WDC Roth in 2011, you have the option of converting before-tax WDC dollars to WDC Roth dollars with an In-plan Rollover. Keep in mind that you will be responsible for income taxes on the amount rolled over, and earnings will only be tax-free starting five years after the rollover. Also keep in mind that, as with all WDC accounts, the WDC Roth is subject to required minimum distribution rules.

Option	Tax Consequence	Pros	Cons
Direct a rollover to your new employer’s plan or to an IRA	Before Tax None until distributed from the new plan or IRA	<ul style="list-style-type: none"> <li>• Money is tax-deferred.</li> <li>• Plan or IRA may offer a diverse selection of investment options.</li> <li>• Loans may be available from your new employer’s plan.</li> </ul>	<ul style="list-style-type: none"> <li>• Fees may be higher than in the WDC.</li> <li>• A 10% early withdrawal penalty may apply if you take a distribution from the new plan or IRA prior to age 59½.</li> </ul>
	Roth None for qualified distributions. If rolling from a pretax account to a Roth, then taxes would be assessed	<ul style="list-style-type: none"> <li>• Plan or IRA may offer a diverse selection of investment options.</li> <li>• There is no required minimum distribution for Roth IRAs during the owner’s lifetime.</li> <li>• Loans may be available from your new employer’s plan.</li> <li>• Roth contributions can continue to grow tax-deferred.</li> </ul>	<ul style="list-style-type: none"> <li>• Fees may be higher than the WDC.</li> <li>• If Roth contributions are not offered by your new employer’s plan, you cannot roll your Roth contributions into that plan.</li> <li>• Roth IRAs are subject to income restrictions.</li> </ul>



## Required Minimum Distribution (RMD) Rules

In order to comply with U.S. Treasury regulations, you must take at least the RMD as mandated by the Internal Revenue Service (IRS) at your required beginning date (RBD) for both before-tax and WDC Roth contributions. Your RBD is no later than April 1 of the calendar year following the calendar year in which you reach age 70½ or sever employment, whichever is later. If you wait to take a distribution until April 1 of the calendar year following the calendar year in which you attain your RBD, you will be required to take a second distribution by December 31 of the same calendar year. If you are still working with the same employer that sponsored your WDC account, you are not required to take the RMD and may continue to contribute to your account. However, upon severance of employment, you will need to take your RMD immediately.

To meet the RMD rules, you can choose a WDC distribution option from the options already discussed in this brochure.

The WDC also offers an automated minimum distribution feature that enables you to automatically meet RMD rules. If you would like your minimum distribution amount to be calculated automatically and distributed to you each year, contact the WDC office at **(877) 457-9327** to obtain a copy of the Automated Minimum Distribution Request Form. Complete the form and mail it to the address listed on the form. You will automatically receive periodic payments, which are calculated by dividing your prior year's December 31 account balance by the life expectancy table figures contained in the applicable Treasury regulations, using your age in the year of distribution. You only have to complete this form once.

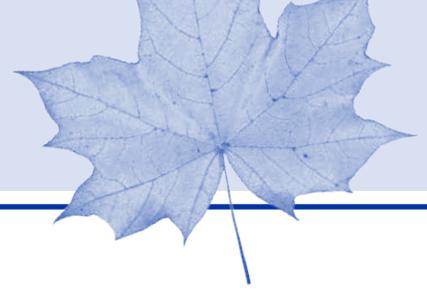
*The IRS may impose a 50% excise tax penalty on amounts that should have been distributed under the RMD rule but were not.*

*The WDC and Empower Retirement do not assume any responsibility or liability for ensuring that minimum distribution amounts are elected in a timely manner.*

*You are solely responsible for ensuring that minimum distribution amounts are elected in a timely manner. In addition, you are solely responsible for calculating the proper amount of the minimum distribution you must take each year unless you elect the automated minimum distribution payment option. We strongly advise you to consult with a tax advisor.*

## Tax Forms

*The WDC is responsible for issuing your 1099-R. You will be mailed a Form 1099-R postmarked by January 31 of the year following any year in which you receive a distribution. If you do not receive a Form 1099-R by February 15 after a year in which you received a distribution, please call the **WDC at (877) 457-9327** to request a duplicate.*



## Death Claims

Upon your death, your beneficiary(ies) will receive your WDC account balance. Your beneficiary is the person you specify to receive proceeds or benefits upon your death. Your primary beneficiary(ies) will receive benefits or the remainder of the benefits in the percentage that you specify. If your primary beneficiary(ies) predeceases you, your contingent beneficiary(ies) will receive benefits, or the remainder of the benefits, in the percentage(s) that you specify. Your beneficiary(ies) should contact the WDC office at **(877) 457-9327** to notify the WDC of your death and request a distribution.

The table below illustrates the distribution options available to a beneficiary if the WDC participant dies prior to age 70½.

### Distribution Options

Beneficiary Options	Spouse <sup>4</sup>	Non-spouse <sup>4</sup>	Non-individual (i.e., estate, trust, charity, etc.) <sup>5</sup>
Defer Payment	Yes <sup>6</sup>	No <sup>7</sup>	No <sup>5</sup>
Full Lump-Sum	Yes <sup>6</sup>	Yes <sup>7</sup>	Yes <sup>5</sup>
Periodic Payments	Yes <sup>6</sup>	Yes <sup>7</sup>	Yes <sup>5</sup>
Roll Over to Another Plan	Yes <sup>8</sup>	Inherited IRAs only	No

### Reminder:

Please remember to inform the WDC office of any beneficiary changes as soon as possible. To change your beneficiary, log on to **www.wdc457.org** and click on “My Accounts,” then on “Beneficiaries.” You can also call the WDC at **(877) 457-WDCP (9327)** from 7:00 a.m. to 7:00 p.m. weekdays to request a Beneficiary Designation Form.

## Beneficiary Sequence

Under Wisconsin law, when a person dies without a written beneficiary designation, or none of the designated beneficiaries survive to receive death benefits under the WDC, there is a certain sequence of relatives who become beneficiaries by default. This is known as the *standard sequence*. The full definition of the standard sequence can be found in the WDC Plan and Trust Document, which is available on the website, **www.wdc457.org**.

**Please visit [www.wdc457.org](http://www.wdc457.org) or call (877) 457-WDCP (9327) and press 0 to speak with a WDC representative for more information and/or to obtain a form.**

This material has been prepared for informational and educational purposes only. It is not intended to provide, and should not be relied upon for, investment, accounting, legal or tax advice.

<sup>4</sup> The IRS requires beneficiaries to take a minimum payment based on a period of no longer than the beneficiary's life expectancy. Rules may vary depending on the type of beneficiary. Please contact your registered representative for additional details.

<sup>5</sup> If the designated beneficiary is not an individual (i.e., estate, trust, etc.), distribution of the entire account generally must be made by the end of the calendar year that is five years after the participant's death.

<sup>6</sup> Payment can be deferred until the participant would have attained age 70½ or until the end of the calendar year following the participant's death, whichever is later.

<sup>7</sup> In general, if the non-spouse beneficiary does not elect periodic payments commencing before the end of the calendar year following the calendar year of the participant's death based on a period of no longer than the beneficiary's life expectancy, distribution is required within five years of the participant's date of death.

<sup>8</sup> RMDs are not eligible for rollover.

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