
SUBSTITUTE HOUSE BILL 1430

State of Washington

54th Legislature

1995 Regular Session

By House Committee on Appropriations (originally sponsored by Representatives Carlson, Sehlin, Cooke, Sommers, Dellwo and Basich; by request of Joint Committee on Pension Policy)

Read first time 03/03/95.

1 AN ACT Relating to exempting employers with qualified retirement
2 plans from additional contributions; amending RCW 41.40.062; reenacting
3 and amending RCW 41.40.010; adding a new section to chapter 41.40 RCW;
4 repealing RCW 41.40.045; and declaring an emergency.

5 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF WASHINGTON:

6 **Sec. 1.** RCW 41.40.010 and 1994 c 298 s 2, 1994 c 247 s 5, 1994 c
7 197 s 23, and 1994 c 177 s 8 are each reenacted and amended to read as
8 follows:

9 As used in this chapter, unless a different meaning is plainly
10 required by the context:

11 (1) "Retirement system" means the public employees' retirement
12 system provided for in this chapter.

13 (2) "Department" means the department of retirement systems created
14 in chapter 41.50 RCW.

15 (3) "State treasurer" means the treasurer of the state of
16 Washington.

17 (4)(a) "Employer" for plan I members, means every branch,
18 department, agency, commission, board, and office of the state, any
19 political subdivision or association of political subdivisions of the

1 state admitted into the retirement system, and legal entities
2 authorized by RCW 35.63.070 and 36.70.060 or chapter 39.34 RCW; and the
3 term shall also include any labor guild, association, or organization
4 the membership of a local lodge or division of which is comprised of at
5 least forty percent employees of an employer (other than such labor
6 guild, association, or organization) within this chapter. The term may
7 also include any city of the first class that has its own retirement
8 system.

9 (b) "Employer" for plan II members, means every branch, department,
10 agency, commission, board, and office of the state, and any political
11 subdivision and municipal corporation of the state admitted into the
12 retirement system, including public agencies created pursuant to RCW
13 35.63.070, 36.70.060, and 39.34.030.

14 (5) "Member" means any employee included in the membership of the
15 retirement system, as provided for in RCW 41.40.023. RCW 41.26.045
16 does not prohibit a person otherwise eligible for membership in the
17 retirement system from establishing such membership effective when he
18 or she first entered an eligible position.

19 (6) "Original member" of this retirement system means:

20 (a) Any person who became a member of the system prior to April 1,
21 1949;

22 (b) Any person who becomes a member through the admission of an
23 employer into the retirement system on and after April 1, 1949, and
24 prior to April 1, 1951;

25 (c) Any person who first becomes a member by securing employment
26 with an employer prior to April 1, 1951, provided the member has
27 rendered at least one or more years of service to any employer prior to
28 October 1, 1947;

29 (d) Any person who first becomes a member through the admission of
30 an employer into the retirement system on or after April 1, 1951,
31 provided, such person has been in the regular employ of the employer
32 for at least six months of the twelve-month period preceding the said
33 admission date;

34 (e) Any member who has restored all contributions that may have
35 been withdrawn as provided by RCW 41.40.150 and who on the effective
36 date of the individual's retirement becomes entitled to be credited
37 with ten years or more of membership service except that the provisions
38 relating to the minimum amount of retirement allowance for the member

1 upon retirement at age seventy as found in RCW 41.40.190(4) shall not
2 apply to the member;

3 (f) Any member who has been a contributor under the system for two
4 or more years and who has restored all contributions that may have been
5 withdrawn as provided by RCW 41.40.150 and who on the effective date of
6 the individual's retirement has rendered five or more years of service
7 for the state or any political subdivision prior to the time of the
8 admission of the employer into the system; except that the provisions
9 relating to the minimum amount of retirement allowance for the member
10 upon retirement at age seventy as found in RCW 41.40.190(4) shall not
11 apply to the member.

12 (7) "New member" means a person who becomes a member on or after
13 April 1, 1949, except as otherwise provided in this section.

14 (8)(a) "Compensation earnable" for plan I members, means salaries
15 or wages earned during a payroll period for personal services and where
16 the compensation is not all paid in money, maintenance compensation
17 shall be included upon the basis of the schedules established by the
18 member's employer. Compensation that a member receives for being in
19 standby status is also compensation earnable, subject to the conditions
20 of this subsection. A member is in standby status when not being paid
21 for time actually worked and only when both of the following conditions
22 exist: (i) The member is required to be present at, or in the
23 immediate vicinity of, a specified location; and (ii) the employer
24 requires the member to be prepared to report immediately for work, if
25 the need arises, although the need may not arise. Standby compensation
26 is regular salary for the purposes of RCW 41.50.150(2).

27 (A) "Compensation earnable" for plan I members also includes the
28 following actual or imputed payments, which are not paid for personal
29 services:

30 (I) Retroactive payments to an individual by an employer on
31 reinstatement of the employee in a position, or payments by an employer
32 to an individual in lieu of reinstatement in a position which are
33 awarded or granted as the equivalent of the salary or wage which the
34 individual would have earned during a payroll period shall be
35 considered compensation earnable and the individual shall receive the
36 equivalent service credit;

37 (II) If a leave of absence is taken by an individual for the
38 purpose of serving in the state legislature, the salary which would
39 have been received for the position from which the leave of absence was

1 taken, shall be considered as compensation earnable if the employee's
2 contribution is paid by the employee and the employer's contribution is
3 paid by the employer or employee.

4 (III) Assault pay only as authorized by RCW 27.04.100, 72.01.045,
5 and 72.09.240;

6 (IV) Compensation that a member would have received but for a
7 disability occurring in the line of duty only as authorized by RCW
8 41.40.038; and

9 (V) Compensation that a member receives due to participation in the
10 leave sharing program only as authorized by RCW 41.04.650 through
11 41.04.670.

12 (B) "Compensation earnable" does not include:

13 (I) Remuneration for unused sick leave authorized under RCW
14 41.04.340, 28A.400.210, or 28A.310.490;

15 (II) Remuneration for unused annual leave in excess of thirty days
16 as authorized by RCW 43.01.044 and 43.01.041.

17 (b) "Compensation earnable" for plan II members, means salaries or
18 wages earned by a member during a payroll period for personal services,
19 including overtime payments, and shall include wages and salaries
20 deferred under provisions established pursuant to sections 403(b),
21 414(h), and 457 of the United States Internal Revenue Code, but shall
22 exclude nonmoney maintenance compensation and lump sum or other
23 payments for deferred annual sick leave, unused accumulated vacation,
24 unused accumulated annual leave, or any form of severance pay.
25 Compensation that a member receives for being in standby status is also
26 compensation earnable, subject to the conditions of this subsection.
27 A member is in standby status when not being paid for time actually
28 worked and only when both of the following conditions exist: (i) The
29 member is required to be present at, or in the immediate vicinity of,
30 a specified location; and (ii) the employer requires the member to be
31 prepared to report immediately for work, if the need arises, although
32 the need may not arise. Standby compensation is regular salary for the
33 purposes of RCW 41.50.150(2).

34 "Compensation earnable" for plan II members also includes the
35 following actual or imputed payments, which are not paid for personal
36 services:

37 (A) Retroactive payments to an individual by an employer on
38 reinstatement of the employee in a position, or payments by an employer
39 to an individual in lieu of reinstatement in a position which are

1 awarded or granted as the equivalent of the salary or wage which the
2 individual would have earned during a payroll period shall be
3 considered compensation earnable to the extent provided above, and the
4 individual shall receive the equivalent service credit;

5 (B) In any year in which a member serves in the legislature, the
6 member shall have the option of having such member's compensation
7 earnable be the greater of:

8 (I) The compensation earnable the member would have received had
9 such member not served in the legislature; or

10 (II) Such member's actual compensation earnable received for
11 nonlegislative public employment and legislative service combined. Any
12 additional contributions to the retirement system required because
13 compensation earnable under (b)(ii)(B)(II) of this subsection is
14 greater than compensation earnable under (b)(ii)(B)(I) of this
15 subsection shall be paid by the member for both member and employer
16 contributions;

17 (C) Assault pay only as authorized by RCW 27.04.100, 72.01.045, and
18 72.09.240;

19 (D) Compensation that a member would have received but for a
20 disability occurring in the line of duty only as authorized by RCW
21 41.40.038; and

22 (E) Compensation that a member receives due to participation in the
23 leave sharing program only as authorized by RCW 41.04.650 through
24 41.04.670.

25 (9)(a) "Service" for plan I members, except as provided in RCW
26 41.40.088, means periods of employment in an eligible position or
27 positions for one or more employers rendered to any employer for which
28 compensation is paid, and includes time spent in office as an elected
29 or appointed official of an employer. Compensation earnable earned in
30 full time work for seventy hours or more in any given calendar month
31 shall constitute one service credit month except as provided in RCW
32 41.40.088. Compensation earnable earned for less than seventy hours in
33 any calendar month shall constitute one-quarter service credit month of
34 service except as provided in RCW 41.40.088. Only service credit
35 months and one-quarter service credit months shall be counted in the
36 computation of any retirement allowance or other benefit provided for
37 in this chapter. Any fraction of a year of service shall be taken into
38 account in the computation of such retirement allowance or benefits.

1 Time spent in standby status, whether compensated or not, is not
2 service.

3 (i) Service by a state employee officially assigned by the state on
4 a temporary basis to assist another public agency, shall be considered
5 as service as a state employee: PROVIDED, That service to any other
6 public agency shall not be considered service as a state employee if
7 such service has been used to establish benefits in any other public
8 retirement system.

9 (ii) An individual shall receive no more than a total of twelve
10 service credit months of service during any calendar year. If an
11 individual is employed in an eligible position by one or more employers
12 the individual shall receive no more than one service credit month
13 during any calendar month in which multiple service for seventy or more
14 hours is rendered.

15 (iii) A school district employee may count up to forty-five days of
16 sick leave as creditable service solely for the purpose of determining
17 eligibility to retire under RCW 41.40.180 as authorized by RCW
18 28A.400.300. For purposes of plan I "forty-five days" as used in RCW
19 28A.400.300 is equal to two service credit months. Use of less than
20 forty-five days of sick leave is creditable as allowed under this
21 subsection as follows:

22 (A) Less than twenty-two days equals one-quarter service credit
23 month;

24 (B) Twenty-two days equals one service credit month;

25 (C) More than twenty-two days but less than forty-five days equals
26 one and one-quarter service credit month.

27 (b) "Service" for plan II members, means periods of employment by
28 a member in an eligible position or positions for one or more employers
29 for which compensation earnable is paid. Compensation earnable earned
30 for ninety or more hours in any calendar month shall constitute one
31 service credit month except as provided in RCW 41.40.088. Compensation
32 earnable earned for at least seventy hours but less than ninety hours
33 in any calendar month shall constitute one-half service credit month of
34 service. Compensation earnable earned for less than seventy hours in
35 any calendar month shall constitute one-quarter service credit month of
36 service. Time spent in standby status, whether compensated or not, is
37 not service.

38 Any fraction of a year of service shall be taken into account in
39 the computation of such retirement allowance or benefits.

1 (i) Service in any state elective position shall be deemed to be
2 full time service, except that persons serving in state elective
3 positions who are members of the teachers' retirement system or law
4 enforcement officers' and fire fighters' retirement system at the time
5 of election or appointment to such position may elect to continue
6 membership in the teachers' retirement system or law enforcement
7 officers' and fire fighters' retirement system.

8 (ii) A member shall receive a total of not more than twelve service
9 credit months of service for such calendar year. If an individual is
10 employed in an eligible position by one or more employers the
11 individual shall receive no more than one service credit month during
12 any calendar month in which multiple service for ninety or more hours
13 is rendered.

14 (iii) Up to forty-five days of sick leave may be creditable as
15 service solely for the purpose of determining eligibility to retire
16 under RCW 41.40.180 as authorized by RCW 28A.400.300. For purposes of
17 plan II "forty-five days" as used in RCW 28A.400.300 is equal to two
18 service credit months. Use of less than forty-five days of sick leave
19 is creditable as allowed under this subsection as follows:

20 (A) Less than eleven days equals one-quarter service credit month;

21 (B) Eleven or more days but less than twenty-two days equals one-
22 half service credit month;

23 (C) Twenty-two days equals one service credit month;

24 (D) More than twenty-two days but less than thirty-three days
25 equals one and one-quarter service credit month;

26 (E) Thirty-three or more days but less than forty-five days equals
27 one and one-half service credit month.

28 (10) "Service credit year" means an accumulation of months of
29 service credit which is equal to one when divided by twelve.

30 (11) "Service credit month" means a month or an accumulation of
31 months of service credit which is equal to one.

32 (12) "Prior service" means all service of an original member
33 rendered to any employer prior to October 1, 1947.

34 (13) "Membership service" means:

35 (a) All service rendered, as a member, after October 1, 1947;

36 (b) ~~((All service after October 1, 1947, to any employer prior to~~
37 ~~the time of its admission into the retirement system: PROVIDED, That~~
38 ~~an amount equal to the employer and employee contributions which would~~
39 ~~have been paid to the retirement system on account of such service~~

1 shall have been paid to the retirement system with interest (as
2 computed by the department) on the employee's portion prior to
3 retirement of such person, by the employee or his or her employer,
4 except as qualified by RCW 41.40.023: PROVIDED FURTHER, That employer
5 contributions plus employee contributions with interest submitted by
6 the employee under this subsection shall be placed in the employee's
7 individual account in the employees' savings fund and be treated as any
8 other contribution made by the employee, with the exception that the
9 contributions submitted by the employee in payment of the employer's
10 obligation, together with the interest the director may apply to the
11 employer's contribution, shall be excluded from the calculation of the
12 member's annuity in the event the member selects a benefit with an
13 annuity option;

14 (e)) Service not to exceed six consecutive months of probationary
15 service rendered after April 1, 1949, and prior to becoming a member,
16 in the case of any member, upon payment in full by such member of the
17 total amount of the employer's contribution to the retirement fund
18 which would have been required under the law in effect when such
19 probationary service was rendered if the member had been a member
20 during such period, except that the amount of the employer's
21 contribution shall be calculated by the director based on the first
22 month's compensation earnable as a member;

23 ((d)) (c) Service not to exceed six consecutive months of
24 probationary service, rendered after October 1, 1947, and before April
25 1, 1949, and prior to becoming a member, in the case of any member,
26 upon payment in full by such member of five percent of such member's
27 salary during said period of probationary service, except that the
28 amount of the employer's contribution shall be calculated by the
29 director based on the first month's compensation earnable as a member.

30 (14)(a) "Beneficiary" for plan I members, means any person in
31 receipt of a retirement allowance, pension or other benefit provided by
32 this chapter.

33 (b) "Beneficiary" for plan II members, means any person in receipt
34 of a retirement allowance or other benefit provided by this chapter
35 resulting from service rendered to an employer by another person.

36 (15) "Regular interest" means such rate as the director may
37 determine.

38 (16) "Accumulated contributions" means the sum of all contributions
39 standing to the credit of a member in the member's individual account,

1 including any amount paid under RCW 41.50.165(2), together with the
2 regular interest thereon.

3 (17)(a) "Average final compensation" for plan I members, means the
4 annual average of the greatest compensation earnable by a member during
5 any consecutive two year period of service credit months for which
6 service credit is allowed; or if the member has less than two years of
7 service credit months then the annual average compensation earnable
8 during the total years of service for which service credit is allowed.

9 (b) "Average final compensation" for plan II members, means the
10 member's average compensation earnable of the highest consecutive sixty
11 months of service credit months prior to such member's retirement,
12 termination, or death. Periods constituting authorized leaves of
13 absence may not be used in the calculation of average final
14 compensation except under RCW 41.40.710(2).

15 (18) "Final compensation" means the annual rate of compensation
16 earnable by a member at the time of termination of employment.

17 (19) "Annuity" means payments for life derived from accumulated
18 contributions of a member. All annuities shall be paid in monthly
19 installments.

20 (20) "Pension" means payments for life derived from contributions
21 made by the employer. All pensions shall be paid in monthly
22 installments.

23 (21) "Retirement allowance" means the sum of the annuity and the
24 pension.

25 (22) "Employee" means any person who may become eligible for
26 membership under this chapter, as set forth in RCW 41.40.023.

27 (23) "Actuarial equivalent" means a benefit of equal value when
28 computed upon the basis of such mortality and other tables as may be
29 adopted by the director.

30 (24) "Retirement" means withdrawal from active service with a
31 retirement allowance as provided by this chapter.

32 (25) "Eligible position" means:

33 (a) Any position that, as defined by the employer, normally
34 requires five or more months of service a year for which regular
35 compensation for at least seventy hours is earned by the occupant
36 thereof. For purposes of this chapter an employer shall not define
37 "position" in such a manner that an employee's monthly work for that
38 employer is divided into more than one position;

1 (b) Any position occupied by an elected official or person
2 appointed directly by the governor for which compensation is paid.

3 (26) "Ineligible position" means any position which does not
4 conform with the requirements set forth in subsection (25) of this
5 section.

6 (27) "Leave of absence" means the period of time a member is
7 authorized by the employer to be absent from service without being
8 separated from membership.

9 (28) "Totally incapacitated for duty" means total inability to
10 perform the duties of a member's employment or office or any other work
11 for which the member is qualified by training or experience.

12 (29) "Retiree" means any person in receipt of a retirement
13 allowance or other benefit provided by this chapter resulting from
14 service rendered to an employer while a member. A person is in receipt
15 of a retirement allowance as defined in subsection (21) of this section
16 or other benefit as provided by this chapter when the department mails,
17 causes to be mailed, or otherwise transmits the retirement allowance
18 warrant.

19 (30) "Director" means the director of the department.

20 (31) "State elective position" means any position held by any
21 person elected or appointed to state-wide office or elected or
22 appointed as a member of the legislature.

23 (32) "State actuary" or "actuary" means the person appointed
24 pursuant to RCW 44.44.010(2).

25 (33) "Plan I" means the public employees' retirement system, plan
26 I providing the benefits and funding provisions covering persons who
27 first became members of the system prior to October 1, 1977.

28 (34) "Plan II" means the public employees' retirement system, plan
29 II providing the benefits and funding provisions covering persons who
30 first became members of the system on and after October 1, 1977.

31 (35) "Index" means, for any calendar year, that year's annual
32 average consumer price index, Seattle, Washington area, for urban wage
33 earners and clerical workers, all items, compiled by the bureau of
34 labor statistics, United States department of labor.

35 (36) "Index A" means the index for the year prior to the
36 determination of a postretirement adjustment.

37 (37) "Index B" means the index for the year prior to index A.

38 (38) "Index year" means the earliest calendar year in which the
39 index is more than sixty percent of index A.

1 (39) "Adjustment ratio" means the value of index A divided by index
2 B.

3 NEW SECTION. **Sec. 2.** A new section is added to chapter 41.40 RCW
4 to read as follows:

5 (1) Membership service to any employer prior to the time of its
6 admission into the retirement system may be purchased for any member if
7 additional contributions are made. Such contributions shall be equal
8 to the total employee and employer contributions that would have been
9 required for all the member service prior to the employer's admission
10 to the retirement system, plus interest to the date of payment, as
11 determined by the director.

12 (2) The employer or member, or both, may make the contributions in
13 accordance with the options stated in this subsection. The employer
14 must select one of the options and apply it uniformly to all employees,
15 except those covered by subsection (5) of this section.

16 (a) Option A: The employer agrees to make all of the
17 contributions;

18 (b) Option B: The employer agrees to make a portion of the
19 contributions, with the balance to be paid by the employee; or

20 (c) Option C: The employer makes no contributions. The member
21 must make all contributions required by subsection (1) of this section,
22 plus interest, before membership service can be credited under this
23 section.

24 (3) All contributions plus interest made by the member shall be
25 placed in the member's individual account in the members' savings fund.

26 (4) All payments under this subsection and RCW 41.40.160(2) must be
27 completed within fifteen years from the date of the employer's
28 admission or prior to the retirement of such member, whichever occurs
29 sooner.

30 (5) No additional contributions under this section will be required
31 for service prior to the employer's admission into the retirement
32 system if the employer made contributions for such service to a
33 qualified retirement plan as defined by 26 U.S.C. Sec. 401(a) and such
34 contributions plus interest accrued cannot be transferred to the
35 retirement system. The employer may elect to purchase such service
36 under the retirement system. The member shall not be permitted to
37 purchase such service.

1 **Sec. 3.** RCW 41.40.062 and 1991 c 35 s 93 are each amended to read
2 as follows:

3 (1) The employees and appointive and elective officials of any
4 political subdivision or association of political subdivisions of the
5 state may become members of the retirement system by the approval of
6 the local legislative authority.

7 (2) On and after September 1, 1965, every school district of the
8 state of Washington shall be an employer under this chapter. Every
9 employee of each school district who is eligible for membership under
10 RCW 41.40.023 shall be a member of the retirement system and
11 participate on the same basis as a person who first becomes a member
12 through the admission of any employer into the retirement system on and
13 after April 1, 1949.

14 ~~((3) Each political subdivision becoming an employer under the~~
15 ~~meaning of this chapter shall make contributions to the funds of the~~
16 ~~retirement system as provided in RCW 41.50.250, 41.40.045, and~~
17 ~~41.40.048 and its employees shall contribute to the employees' savings~~
18 ~~fund at the rate established under the provisions of RCW 41.40.330. In~~
19 ~~addition to the foregoing requirement, where the political subdivision~~
20 ~~becoming an employer under this section has its own retirement plan,~~
21 ~~any of the employee members thereof who may elect to transfer to this~~
22 ~~retirement system may, if permitted by the plan, withdraw all or any~~
23 ~~part of their employees' contributions to the former plan and transfer~~
24 ~~the funds to the employees' savings fund at the time of their transfer~~
25 ~~of membership. Any portion of the employees' savings fund not~~
26 ~~withdrawn shall be transferred by the employer to the retirement system~~
27 ~~over a period not to exceed fifteen years. The length of the transfer~~
28 ~~period and the method of payment to be utilized during that period~~
29 ~~shall be established by agreement between the department and the~~
30 ~~political subdivision. Employers making deferred payments of employee~~
31 ~~funds under this section shall transfer an additional amount equal to~~
32 ~~the interest that would have been credited to each employee's savings~~
33 ~~fund had his or her contributions been transferred to the state~~
34 ~~retirement system's employee savings fund on the date the political~~
35 ~~subdivision became an employer under this section. Any funds remaining~~
36 ~~in the employer's former retirement plan after all obligations of the~~
37 ~~plan have been provided for, as evidenced by appropriate actuarial~~
38 ~~study, shall be disposed of by the governing body of the political~~
39 ~~subdivision in such manner as it deems appropriate. For the purpose of~~

1 administering and interpreting this chapter the department may
2 substitute the names of political subdivisions of the state for the
3 "state" and employees of the subdivisions for "state employees"
4 wherever those terms appear in this chapter. The department may also
5 alter any dates mentioned in this chapter for the purpose of making the
6 provisions of the chapter applicable to the entry of any political
7 subdivisions into the system. Any member transferring employment to
8 another employer which is covered by the retirement system may continue
9 as a member without loss of previously earned pension and annuity
10 benefits. The department shall keep accounts as are necessary to show
11 the contributions of each political subdivision to the benefit account
12 fund and shall have the power to debit and credit the various accounts
13 in accordance with the transfer of the members from one employer to
14 another.

15 (4) Employees of a political subdivision, maintaining its own
16 retirement system, who have been transferred to a health district
17 formed pursuant to chapter 70.46 RCW, but who have been allowed to
18 remain members of the political subdivision's retirement system may be
19 transferred as a group to the Washington public employees' retirement
20 system. This transfer may be made by the action of the legislative
21 authority of the political subdivision maintaining its own retirement
22 system. This transfer shall include employer's and member's funds in
23 the transferring municipalities' retirement system.

24 (5) Employees of a political subdivision, maintaining its own
25 retirement system, heretofore transferred to a joint airport operation
26 of two municipalities pursuant to chapter 14.08 RCW, may be transferred
27 as a group to the Washington public employees' retirement system. This
28 transfer may be made by the action of the legislative authority of the
29 political subdivision maintaining its own retirement system. This
30 transfer shall include employer's and member's funds in the
31 transferring municipalities' retirement system.))

32 NEW SECTION. **Sec. 4.** RCW 41.40.045 and 1989 c 273 s 22, 1986 c
33 268 s 4, 1973 1st ex.s. c 190 s 13, 1972 ex.s. c 151 s 14, 1971 ex.s.
34 c 271 s 11, 1963 c 174 s 15, 1961 c 291 s 11, & 1957 c 231 s 4 are each
35 repealed.

36 NEW SECTION. **Sec. 5.** This act is necessary for the immediate
37 preservation of the public peace, health, or safety, or support of the

1 state government and its existing public institutions, and shall take
2 effect immediately.

--- END ---