

CERTIFICATION OF ENROLLMENT  
ENGROSSED SUBSTITUTE HOUSE BILL 1206

54th Legislature  
1995 Regular Session

Passed by the House April 18, 1995  
Yeas 92 Nays 1

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Speaker of the  
House of Representatives

Passed by the Senate April 7, 1995  
Yeas 34 Nays 9

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President of the Senate

Approved

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Governor of the State of Washington

CERTIFICATE

I, Timothy A. Martin, Chief Clerk of the House of Representatives of the State of Washington, do hereby certify that the attached is **ENGROSSED SUBSTITUTE HOUSE BILL 1206** as passed by the House of Representatives and the Senate on the dates hereon set forth.

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Chief Clerk

FILED

Secretary of State  
State of Washington

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ENGROSSED SUBSTITUTE HOUSE BILL 1206

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AS AMENDED BY THE SENATE

Passed Legislature - 1995 Regular Session

State of Washington                      54th Legislature                      1995 Regular Session

By House Committee on Appropriations (originally sponsored by  
Representatives Carlson, Sommers, Cooke and Dellwo)

Read first time 03/06/95.

1            AN ACT Relating to creating new retirement systems; amending RCW  
2 41.32.005, 41.32.032, 41.45.010, 41.45.020, 41.45.030, 41.45.050,  
3 41.45.060, 41.45.070, 41.50.075, 41.50.110, 41.50.030, 41.50.050,  
4 41.50.060, 41.54.030, 41.04.440, 41.04.445, and 41.04.450; reenacting  
5 and amending RCW 41.32.010; adding new sections to chapter 41.32 RCW;  
6 adding new sections to chapter 41.50 RCW; adding a new section to  
7 chapter 41.45 RCW; adding a new section to chapter 41.54 RCW; adding a  
8 new section to chapter 43.33A RCW; adding a new chapter to Title 41  
9 RCW; creating new sections; repealing RCW 41.04.250, 41.04.255,  
10 41.04.260, 41.32.775, 41.45.040, 41.45.0601, 41.45.901, 41.50.032, and  
11 41.50.250; and providing an effective date.

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

13            NEW SECTION.    **Sec. 1.** The legislature recognizes that teachers,  
14 principals, and district administrators need the ability to make  
15 transitions to other public or private sector careers, and that the  
16 retirement system should not be a barrier to exercise of employee  
17 choice. The legislature also recognizes that teachers, principals, and  
18 district administrators need a secure and viable retirement benefit,

1 not only for their own financial protection, but also that public funds  
2 are spent prudently for their intended purpose.

3 It is the legislative intent to create a new public retirement  
4 system that balances flexibility with stability, provides both  
5 increased employee control of investments and responsible protection of  
6 the public's investment in employee benefits, and encourages the  
7 pursuit of public sector careers without preventing employees from  
8 transitioning into other public or private sector employment.

9 Therefore, the purpose of chapter . . . , Laws of 1995 (this act) is  
10 to continue to provide teachers, principals, and district  
11 administrators with a guaranteed pension at retirement age based on  
12 years of public service with an element of inflation protection. It is  
13 further the purpose of chapter . . . , Laws of 1995 (this act) to create  
14 a parallel retirement plan where employees have options regarding the  
15 investment of their retirement contributions and have the opportunity,  
16 along with the accompanying risk, to receive a full rate of return on  
17 their investments and where employees who leave public employment prior  
18 to retirement receive a fair and reasonable value from the retirement  
19 system.

20 **PART I**

21 **DEFINED BENEFIT--TRS III**

22 **Sec. 101.** RCW 41.32.005 and 1992 c 72 s 4 are each amended to read  
23 as follows:

24 RCW 41.32.010 through 41.32.067 shall apply to members of plan I  
25 (~~and~~), plan II, and plan III.

26 **Sec. 102.** RCW 41.32.010 and 1994 c 298 s 3, 1994 c 247 s 2, and  
27 1994 c 197 s 12 are each reenacted and amended to read as follows:

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

30 (1)(a) "Accumulated contributions" for plan I members, means the  
31 sum of all regular annuity contributions and, except for the purpose of  
32 withdrawal at the time of retirement, any amount paid under RCW  
33 41.50.165(2) with regular interest thereon.

34 (b) "Accumulated contributions" for plan II members, means the sum  
35 of all contributions standing to the credit of a member in the member's

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

3 (2) "Actuarial equivalent" means a benefit of equal value when  
4 computed upon the basis of such mortality tables and regulations as  
5 shall be adopted by the director and regular interest.

6 (3) "Annuity" means the moneys payable per year during life by  
7 reason of accumulated contributions of a member.

8 (4) "Member reserve" means the fund in which all of the accumulated  
9 contributions of members are held.

10 (5)(a) "Beneficiary" for plan I members, means any person in  
11 receipt of a retirement allowance or other benefit provided by this  
12 chapter.

13 (b) "Beneficiary" for plan II and plan III members, means any  
14 person in receipt of a retirement allowance or other benefit provided  
15 by this chapter resulting from service rendered to an employer by  
16 another person.

17 (6) "Contract" means any agreement for service and compensation  
18 between a member and an employer.

19 (7) "Creditable service" means membership service plus prior  
20 service for which credit is allowable. This subsection shall apply  
21 only to plan I members.

22 (8) "Dependent" means receiving one-half or more of support from a  
23 member.

24 (9) "Disability allowance" means monthly payments during  
25 disability. This subsection shall apply only to plan I members.

26 (10)(a) "Earnable compensation" for plan I members, means:

27 (i) All salaries and wages paid by an employer to an employee  
28 member of the retirement system for personal services rendered during  
29 a fiscal year. In all cases where compensation includes maintenance  
30 the employer shall fix the value of that part of the compensation not  
31 paid in money.

32 (ii) "Earnable compensation" for plan I members also includes the  
33 following actual or imputed payments, which are not paid for personal  
34 services:

35 (A) Retroactive payments to an individual by an employer on  
36 reinstatement of the employee in a position, or payments by an employer  
37 to an individual in lieu of reinstatement in a position which are  
38 awarded or granted as the equivalent of the salary or wages which the  
39 individual would have earned during a payroll period shall be

1 considered earnable compensation and the individual shall receive the  
2 equivalent service credit.

3 (B) If a leave of absence, without pay, is taken by a member for  
4 the purpose of serving as a member of the state legislature, and such  
5 member has served in the legislature five or more years, the salary  
6 which would have been received for the position from which the leave of  
7 absence was taken shall be considered as compensation earnable if the  
8 employee's contribution thereon is paid by the employee. In addition,  
9 where a member has been a member of the state legislature for five or  
10 more years, earnable compensation for the member's two highest  
11 compensated consecutive years of service shall include a sum not to  
12 exceed thirty-six hundred dollars for each of such two consecutive  
13 years, regardless of whether or not legislative service was rendered  
14 during those two years.

15 (iii) For members employed less than full time under written  
16 contract with a school district, or community college district, in an  
17 instructional position, for which the member receives service credit of  
18 less than one year in all of the years used to determine the earnable  
19 compensation used for computing benefits due under RCW 41.32.497,  
20 41.32.498, and 41.32.520, the member may elect to have earnable  
21 compensation defined as provided in RCW 41.32.345. For the purposes of  
22 this subsection, the term "instructional position" means a position in  
23 which more than seventy-five percent of the member's time is spent as  
24 a classroom instructor (including office hours), a librarian, or a  
25 counselor. Earnable compensation shall be so defined only for the  
26 purpose of the calculation of retirement benefits and only as necessary  
27 to insure that members who receive fractional service credit under RCW  
28 41.32.270 receive benefits proportional to those received by members  
29 who have received full-time service credit.

30 (iv) "Earnable compensation" does not include:

31 (A) Remuneration for unused sick leave authorized under RCW  
32 41.04.340, 28A.400.210, or 28A.310.490;

33 (B) Remuneration for unused annual leave in excess of thirty days  
34 as authorized by RCW 43.01.044 and 43.01.041.

35 (b) "Earnable compensation" for plan II and plan III members, means  
36 salaries or wages earned by a member during a payroll period for  
37 personal services, including overtime payments, and shall include wages  
38 and salaries deferred under provisions established pursuant to sections  
39 403(b), 414(h), and 457 of the United States Internal Revenue Code, but

1 shall exclude lump sum payments for deferred annual sick leave, unused  
2 accumulated vacation, unused accumulated annual leave, or any form of  
3 severance pay.

4 "Earnable compensation" for plan II and plan III members also  
5 includes the following actual or imputed payments which, except in the  
6 case of (b)(ii)(B) of this subsection, are not paid for personal  
7 services:

8 (i) Retroactive payments to an individual by an employer on  
9 reinstatement of the employee in a position or payments by an employer  
10 to an individual in lieu of reinstatement in a position which are  
11 awarded or granted as the equivalent of the salary or wages which the  
12 individual would have earned during a payroll period shall be  
13 considered earnable compensation, to the extent provided above, and the  
14 individual shall receive the equivalent service credit.

15 (ii) In any year in which a member serves in the legislature the  
16 member shall have the option of having such member's earnable  
17 compensation be the greater of:

18 (A) The earnable compensation the member would have received had  
19 such member not served in the legislature; or

20 (B) Such member's actual earnable compensation received for  
21 teaching and legislative service combined. Any additional  
22 contributions to the retirement system required because compensation  
23 earnable under (b)(ii)(A) of this subsection is greater than  
24 compensation earnable under (b)(ii)(B) of this subsection shall be paid  
25 by the member for both member and employer contributions.

26 (11) "Employer" means the state of Washington, the school district,  
27 or any agency of the state of Washington by which the member is paid.

28 (12) "Fiscal year" means a year which begins July 1st and ends June  
29 30th of the following year.

30 (13) "Former state fund" means the state retirement fund in  
31 operation for teachers under chapter 187, Laws of 1923, as amended.

32 (14) "Local fund" means any of the local retirement funds for  
33 teachers operated in any school district in accordance with the  
34 provisions of chapter 163, Laws of 1917 as amended.

35 (15) "Member" means any teacher included in the membership of the  
36 retirement system. Also, any other employee of the public schools who,  
37 on July 1, 1947, had not elected to be exempt from membership and who,  
38 prior to that date, had by an authorized payroll deduction, contributed  
39 to the member reserve.

1 (16) "Membership service" means service rendered subsequent to the  
2 first day of eligibility of a person to membership in the retirement  
3 system: PROVIDED, That where a member is employed by two or more  
4 employers the individual shall receive no more than one service credit  
5 month during any calendar month in which multiple service is rendered.  
6 The provisions of this subsection shall apply only to plan I members.

7 (17) "Pension" means the moneys payable per year during life from  
8 the pension reserve.

9 (18) "Pension reserve" is a fund in which shall be accumulated an  
10 actuarial reserve adequate to meet present and future pension  
11 liabilities of the system and from which all pension obligations are to  
12 be paid.

13 (19) "Prior service" means service rendered prior to the first date  
14 of eligibility to membership in the retirement system for which credit  
15 is allowable. The provisions of this subsection shall apply only to  
16 plan I members.

17 (20) "Prior service contributions" means contributions made by a  
18 member to secure credit for prior service. The provisions of this  
19 subsection shall apply only to plan I members.

20 (21) "Public school" means any institution or activity operated by  
21 the state of Washington or any instrumentality or political subdivision  
22 thereof employing teachers, except the University of Washington and  
23 Washington State University.

24 (22) "Regular contributions" means the amounts required to be  
25 deducted from the compensation of a member and credited to the member's  
26 individual account in the member reserve. This subsection shall apply  
27 only to plan I members.

28 (23) "Regular interest" means such rate as the director may  
29 determine.

30 (24)(a) "Retirement allowance" for plan I members, means monthly  
31 payments based on the sum of annuity and pension, or any optional  
32 benefits payable in lieu thereof.

33 (b) "Retirement allowance" for plan II and plan III members, means  
34 monthly payments to a retiree or beneficiary as provided in this  
35 chapter.

36 (25) "Retirement system" means the Washington state teachers'  
37 retirement system.

38 (26)(a) "Service" for plan I members means the time during which a  
39 member has been employed by an employer for compensation.

1 (i) If a member is employed by two or more employers the individual  
2 shall receive no more than one service credit month during any calendar  
3 month in which multiple service is rendered.

4 (ii) As authorized by RCW 28A.400.300, up to forty-five days of  
5 sick leave may be creditable as service solely for the purpose of  
6 determining eligibility to retire under RCW 41.32.470.

7 (iii) As authorized in RCW 41.32.065, service earned in an out-of-  
8 state retirement system that covers teachers in public schools may be  
9 applied solely for the purpose of determining eligibility to retire  
10 under RCW 41.32.470.

11 (b) "Service" for plan II and plan III members, means periods of  
12 employment by a member for one or more employers for which earnable  
13 compensation is earned subject to the following conditions:

14 (i) A member employed in an eligible position or as a substitute  
15 shall receive one service credit month for each month of September  
16 through August of the following year if he or she earns earnable  
17 compensation for eight hundred ten or more hours during that period and  
18 is employed during nine of those months, except that a member may not  
19 receive credit for any period prior to the member's employment in an  
20 eligible position except as provided in RCW 41.32.812 and 41.50.132;

21 (ii) If a member is employed either in an eligible position or as  
22 a substitute teacher for nine months of the twelve month period between  
23 September through August of the following year but earns earnable  
24 compensation for less than eight hundred ten hours but for at least six  
25 hundred thirty hours, he or she will receive one-half of a service  
26 credit month for each month of the twelve month period;

27 (iii) All other members in an eligible position or as a substitute  
28 teacher shall receive service credit as follows:

29 (A) A service credit month is earned in those calendar months where  
30 earnable compensation is earned for ninety or more hours;

31 (B) A half-service credit month is earned in those calendar months  
32 where earnable compensation is earned for at least seventy hours but  
33 less than ninety hours; and

34 (C) A quarter-service credit month is earned in those calendar  
35 months where earnable compensation is earned for less than seventy  
36 hours.

37 (iv) Any person who is a member of the teachers' retirement system  
38 and who is elected or appointed to a state elective position may  
39 continue to be a member of the retirement system and continue to



1 receive a service credit month for each of the months in a state  
2 elective position by making the required member contributions.

3 (v) When an individual is employed by two or more employers the  
4 individual shall only receive one month's service credit during any  
5 calendar month in which multiple service for ninety or more hours is  
6 rendered.

7 (vi) As authorized by RCW 28A.400.300, up to forty-five days of  
8 sick leave may be creditable as service solely for the purpose of  
9 determining eligibility to retire under RCW 41.32.470. For purposes of  
10 plan II "forty-five days" as used in RCW 28A.400.300 is equal to two  
11 service credit months. Use of less than forty-five days of sick leave  
12 is creditable as allowed under this subsection as follows:

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

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

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

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

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

21 (vii) As authorized in RCW 41.32.065, service earned in an out-of-  
22 state retirement system that covers teachers in public schools may be  
23 applied solely for the purpose of determining eligibility to retire  
24 under RCW 41.32.470.

25 (viii) The department shall adopt rules implementing this  
26 subsection.

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

29 (28) "Service credit month" means a full service credit month or an  
30 accumulation of partial service credit months that are equal to one.

31 (29) "Teacher" means any person qualified to teach who is engaged  
32 by a public school in an instructional, administrative, or supervisory  
33 capacity. The term includes state, educational service district, and  
34 school district superintendents and their assistants and all employees  
35 certificated by the superintendent of public instruction; and in  
36 addition thereto any full time school doctor who is employed by a  
37 public school and renders service of an instructional or educational  
38 nature.

1 (30) "Average final compensation" for plan II and plan III members,  
2 means the member's average earnable compensation of the highest  
3 consecutive sixty service credit months prior to such member's  
4 retirement, termination, or death. Periods constituting authorized  
5 leaves of absence may not be used in the calculation of average final  
6 compensation except under RCW 41.32.810(2).

7 (31) "Retiree" means any person in receipt of a retirement  
8 allowance or other benefit provided by this chapter resulting from  
9 service rendered to an employer while a member. A person is in receipt  
10 of a retirement allowance as defined in subsection (24) of this section  
11 or other benefit as provided by this chapter when the department mails,  
12 causes to be mailed, or otherwise transmits the retirement allowance  
13 warrant.

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

16 (33) "Director" means the director of the department.

17 (34) "State elective position" means any position held by any  
18 person elected or appointed to state-wide office or elected or  
19 appointed as a member of the legislature.

20 (35) "State actuary" or "actuary" means the person appointed  
21 pursuant to RCW 44.44.010(2).

22 (36) "Substitute teacher" means:

23 (a) A teacher who is hired by an employer to work as a temporary  
24 teacher, except for teachers who are annual contract employees of an  
25 employer and are guaranteed a minimum number of hours; or

26 (b) Teachers who either (i) work in ineligible positions for more  
27 than one employer or (ii) work in an ineligible position or positions  
28 together with an eligible position.

29 (37)(a) "Eligible position" for plan II members from June 7, 1990,  
30 through September 1, 1991, means a position which normally requires two  
31 or more uninterrupted months of creditable service during September  
32 through August of the following year.

33 (b) "Eligible position" for plan II and plan III on and after  
34 September 1, 1991, means a position that, as defined by the employer,  
35 normally requires five or more months of at least seventy hours of  
36 earnable compensation during September through August of the following  
37 year.

1 (c) For purposes of this chapter an employer shall not define  
2 "position" in such a manner that an employee's monthly work for that  
3 employer is divided into more than one position.

4 (d) The elected position of the superintendent of public  
5 instruction is an eligible position.

6 (38) "Plan I" means the teachers' retirement system, plan I  
7 providing the benefits and funding provisions covering persons who  
8 first became members of the system prior to October 1, 1977.

9 (39) "Plan II" means the teachers' retirement system, plan II  
10 providing the benefits and funding provisions covering persons who  
11 first became members of the system on and after October 1, 1977, and  
12 prior to the effective date of this act.

13 (40) "Plan III" means the teachers' retirement system, plan III  
14 providing the benefits and funding provisions covering persons who  
15 first become members of the system on and after the effective date of  
16 this act or who transfer under section 303 of this act.

17 (41) "Education association" means an association organized to  
18 carry out collective bargaining activities, the majority of whose  
19 members are employees covered by chapter 41.59 RCW or academic  
20 employees covered by chapter 28B.52 RCW.

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

25 ~~((41))~~ (43) "Index A" means the index for the year prior to the  
26 determination of a postretirement adjustment.

27 ~~((42))~~ (44) "Index B" means the index for the year prior to index  
28 A.

29 ~~((43))~~ (45) "Index year" means the earliest calendar year in  
30 which the index is more than sixty percent of index A.

31 ~~((44))~~ (46) "Adjustment ratio" means the value of index A divided  
32 by index B.

33 **Sec. 103.** RCW 41.32.032 and 1992 c 212 s 17 are each amended to  
34 read as follows:

35 (1) Any teacher, as defined under RCW 41.32.010, who is first  
36 employed by a public school on or after June 7, 1984, shall become a  
37 member of the retirement system ~~((as directed under RCW 41.32.780))~~ if  
38 otherwise eligible.

1 (2) Any person who before June 7, 1984, has established service  
2 credit under chapter 41.40 RCW while employed in an educational staff  
3 associate position and who is employed in such a position on or after  
4 June 7, 1984 has the following options:

5 (a) To remain a member of the public employees' retirement system  
6 notwithstanding the provisions of RCW 41.32.240 or 41.32.780; or

7 (b) To irrevocably elect to join the retirement system under this  
8 chapter and to receive service credit for previous periods of  
9 employment in any position included under RCW 41.32.010. This service  
10 credit and corresponding employee contribution shall be computed as  
11 though the person had then been a member of the retirement system under  
12 this chapter. All employee contributions credited to a member under  
13 chapter 41.40 RCW for service now to be credited to the retirement  
14 system under this chapter shall be transferred to the system and the  
15 member shall not receive any credit nor enjoy any rights under chapter  
16 41.40 RCW for those periods of service. The member shall pay any  
17 difference between the employee contributions made under chapter 41.40  
18 RCW and transferred under this subsection and what would have been  
19 required under this chapter, including interest as set by the director.  
20 The member shall be given until July 1, 1989, to make the irrevocable  
21 election permitted under this section. The election shall be made by  
22 submitting written notification as required by the department  
23 requesting credit under this section and by remitting any necessary  
24 proof of service or payments within the time set by the department.

25 Any person, not employed as an educational staff associate on June  
26 7, 1984, may, before June 30 of the fifth school year after that  
27 person's return to employment as a teacher, request and establish  
28 membership and credit under this subsection.

29

### PLAN III

30 NEW SECTION. **Sec. 104.** (1) Sections 104 through 117 of this act  
31 shall apply only to plan III members.

32 (2) Plan III shall consist of two separate elements: (a) A defined  
33 benefit portion covered under this subchapter; and (b) a defined  
34 contribution portion covered under chapter 41.-- RCW (sections 201  
35 through 209 of this act). All contributions on behalf of the employer  
36 paid by an employee shall be made to the defined benefit portion of

1 plan III and shall be nonrefundable when paid to the fund described in  
2 RCW 41.50.075(3).

3 (3) Unless otherwise specified, all references to "plan III" in  
4 this subchapter refer to the defined benefit portion of plan III.

5 NEW SECTION. **Sec. 105.** All teachers who first become employed by  
6 an employer in an eligible position on or after the effective date of  
7 this act shall be members of plan III.

8 NEW SECTION. **Sec. 106.** A member of the retirement system shall  
9 receive a retirement allowance equal to one percent of such member's  
10 average final compensation for each service credit year.

11 NEW SECTION. **Sec. 107.** Retirement allowances paid under the  
12 defined benefit portion of plan III shall have a postretirement cost-  
13 of-living allowance calculated and paid as provided in RCW 41.32.770.

14 NEW SECTION. **Sec. 108.** (1) Upon retirement for service as  
15 prescribed in section 113 of this act or retirement for disability  
16 under section 114 of this act, a member shall elect to have the  
17 retirement allowance paid pursuant to one of the following options,  
18 calculated so as to be actuarially equivalent to each other.

19 (a) Standard allowance. A member electing this option shall  
20 receive a retirement allowance payable throughout such member's life.  
21 Upon the death of the retired member, all benefits shall cease.

22 (b) The department shall adopt rules that allow a member to select  
23 a retirement option that pays the member a reduced retirement allowance  
24 and upon death, such portion of the member's reduced retirement  
25 allowance as the department by rule designates shall be continued  
26 throughout the life of and paid to such person or persons as the  
27 retiree shall have nominated by written designation duly executed and  
28 filed with the department at the time of retirement. The options  
29 adopted by the department shall include, but are not limited to, a  
30 joint and one hundred percent survivor option and joint and fifty  
31 percent survivor option.

32 (2) A member, if married, must provide the written consent of his  
33 or her spouse to the option selected under this section. If a member  
34 is married and both the member and the member's spouse do not give  
35 written consent to an option under this section, the department shall

1 pay a joint and fifty percent survivor benefit calculated to be  
2 actuarially equivalent to the benefit options available under  
3 subsection (1) of this section.

4 NEW SECTION. **Sec. 109.** Any member or beneficiary eligible to  
5 receive a retirement allowance under the provisions of section 113,  
6 114, or 117 of this act shall be eligible to commence receiving a  
7 retirement allowance after having filed written application with the  
8 department.

9 (1) Retirement allowances paid to members shall accrue from the  
10 first day of the calendar month immediately following such member's  
11 separation from employment.

12 (2) Retirement allowances paid to vested members no longer in  
13 service, but qualifying for such an allowance pursuant to section 112  
14 of this act shall accrue from the first day of the calendar month  
15 immediately following such qualification.

16 (3) Disability allowances paid to disabled members shall accrue  
17 from the first day of the calendar month immediately following such  
18 member's separation from employment for disability.

19 (4) Retirement allowances paid as death benefits shall accrue from  
20 the first day of the calendar month immediately following the member's  
21 death.

22 NEW SECTION. **Sec. 110.** (1) No retiree shall be eligible to  
23 receive such retiree's monthly retirement allowance if he or she is  
24 employed in an eligible position as defined in RCW 41.40.010 or  
25 41.32.010, or as a law enforcement officer or fire fighter as defined  
26 in RCW 41.26.030, except that a plan III retiree may work in eligible  
27 positions on a temporary basis for up to five months per calendar year.

28 (2) If a retiree's benefits have been suspended under this section,  
29 his or her benefits shall be reinstated when the retiree terminates the  
30 employment that caused the suspension of benefits. Upon reinstatement,  
31 the retiree's benefits shall be actuarially recomputed pursuant to the  
32 rules adopted by the department.

33 NEW SECTION. **Sec. 111.** (1) A member who is on a paid leave of  
34 absence authorized by a member's employer shall continue to receive  
35 service credit.

1 (2) A member who receives compensation from an employer while on an  
2 authorized leave of absence to serve as an elected official of a labor  
3 organization, and whose employer is reimbursed by the labor  
4 organization for the compensation paid to the member during the period  
5 of absence, may also be considered to be on a paid leave of absence.  
6 This subsection shall only apply if the member's leave of absence is  
7 authorized by a collective bargaining agreement that provides that the  
8 member retains seniority rights with the employer during the period of  
9 leave. The earnable compensation reported for a member who establishes  
10 service credit under this subsection may not be greater than the salary  
11 paid to the highest paid job class covered by the collective bargaining  
12 agreement.

13 (3) Except as specified in subsection (4) of this section, a member  
14 shall be eligible to receive a maximum of two years service credit  
15 during a member's entire working career for those periods when a member  
16 is on an unpaid leave of absence authorized by an employer. Such  
17 credit may be obtained only if:

18 (a) The member makes the contribution on behalf of the employer,  
19 plus interest, as determined by the department; and

20 (b) The member makes the employee contribution, plus interest, as  
21 determined by the department, to the defined contribution portion.  
22 The contributions required shall be based on the average of the  
23 member's earnable compensation at both the time the authorized leave of  
24 absence was granted and the time the member resumed employment.

25 (4) A member who leaves the employ of an employer to enter the  
26 armed forces of the United States shall be entitled to retirement  
27 system service credit for up to four years of military service if  
28 within ninety days of the member's honorable discharge from the United  
29 States armed forces, the member applies for reemployment with the  
30 employer who employed the member immediately prior to the member  
31 entering the United States armed forces.

32 The department shall bill the employer for its contribution  
33 required under this act for the period of military service, plus  
34 interest as determined by the department. Service credit under this  
35 subsection may be obtained only if the member makes the employee  
36 contribution plus interest to the defined contribution portion as  
37 determined by the department.

38 The contributions required shall be based on the average of the  
39 member's earnable compensation at both the time the member left the

1 employ of the employer to enter the armed forces and the time the  
2 member resumed employment.

3 NEW SECTION. **Sec. 112.** (1) The director may pay a member eligible  
4 to receive a retirement allowance or the member's beneficiary a lump  
5 sum payment in lieu of a monthly benefit if the initial monthly benefit  
6 would be less than one hundred dollars. The one hundred dollar limit  
7 shall be increased by three percent compounded annually on January 1.  
8 The lump sum payment shall be the actuarial equivalent of the monthly  
9 benefit.

10 (2) Persons covered under the provisions of subsection (1) of this  
11 section may upon returning to member status reinstate all previous  
12 service by depositing the lump sum payment received, with interest as  
13 computed by the director, within two years of returning to service or  
14 prior to retiring again, whichever comes first. In computing the  
15 amount due, the director shall exclude the accumulated value of the  
16 normal payments the member would have received while in beneficiary  
17 status if the lump sum payment had not occurred.

18 (3) Any member who receives a settlement under this section shall  
19 be deemed to be retired from this system.

20 NEW SECTION. **Sec. 113.** (1) NORMAL RETIREMENT. Any member who has  
21 vested and attained at least age sixty-five shall be eligible to retire  
22 and to receive a retirement allowance computed according to the  
23 provisions of section 106 of this act.

24 (2) EARLY RETIREMENT. Any member who has attained at least age  
25 fifty-five and has completed at least ten years of service shall be  
26 eligible to retire and to receive a retirement allowance computed  
27 according to the provisions of section 106 of this act, except that a  
28 member retiring pursuant to this subsection shall have the retirement  
29 allowance actuarially reduced to reflect the difference in the number  
30 of years between age at retirement and the attainment of age sixty-  
31 five.

32 NEW SECTION. **Sec. 114.** (1) A member of the retirement system who  
33 becomes totally incapacitated for continued employment by an employer  
34 as determined by the department shall be eligible to receive an  
35 allowance under the provisions of plan III. The member shall receive  
36 a monthly disability allowance computed as provided for in section 106



1 of this act and shall have this allowance actuarially reduced to  
2 reflect the difference in the number of years between age at disability  
3 and the attainment of age sixty-five.

4 Any member who receives an allowance under the provisions of this  
5 section shall be subject to comprehensive medical examinations as  
6 required by the department. If these medical examinations reveal that  
7 a member has recovered from the incapacitating disability and the  
8 member is offered reemployment by an employer at a comparable  
9 compensation, the member shall cease to be eligible for the allowance.

10 (2) If the recipient of a monthly retirement allowance under this  
11 section dies, any further benefit payments shall be conditioned by the  
12 payment option selected by the retiree as provided in section 108 of  
13 this act.

14 NEW SECTION. **Sec. 115.** (1) An active member shall become vested  
15 in the right to a benefit upon completing ten years of service or upon  
16 completing five years of service and attaining age fifty-five.

17 (2) A vested member who separates or has separated may remain a  
18 member during the period of such member's absence from service for the  
19 exclusive purpose only of receiving a retirement allowance under the  
20 provisions of section 113 of this act.

21 (3) The retirement allowance payable under section 113 of this act  
22 to a member who separates after having completed at least twenty years  
23 of service shall be increased by twenty-five one-hundredths of one  
24 percent, compounded for each month from the date of separation to the  
25 date that the retirement allowance commences.

26 NEW SECTION. **Sec. 116.** A nonvested member who leaves service and  
27 then reenters membership must earn an additional twelve service credit  
28 months to restore past service credit in the defined benefit portion of  
29 plan III.

30 NEW SECTION. **Sec. 117.** If a member who is vested dies prior to  
31 retirement, the surviving spouse or eligible child or children shall  
32 receive a retirement allowance computed as provided in section 108 of  
33 this act actuarially reduced to reflect a joint and one hundred percent  
34 survivor option and if the member was not eligible for normal  
35 retirement at the date of death a further reduction as described in  
36 section 113(2) of this act.

1 If the surviving spouse who is receiving the retirement allowance  
2 dies leaving a child or children under the age of majority, then such  
3 child or children shall continue to receive an allowance in an amount  
4 equal to that which was being received by the surviving spouse, share  
5 and share alike, until such child or children reach the age of  
6 majority.

7 If there is no surviving spouse eligible to receive an allowance at  
8 the time of the member's death, such member's child or children under  
9 the age of majority shall receive an allowance, share and share alike.  
10 The allowance shall be calculated with the assumption that the age of  
11 the spouse and member were equal at the time of the member's death.

12 NEW SECTION. **Sec. 118.** Sections 104 through 117 of this act are  
13 designated as a subchapter within chapter 41.32 RCW with the subchapter  
14 heading "Provisions Applicable to Plan III."

15 **PART II**

16 **DEFINED CONTRIBUTION PORTION OF PLAN III**

17 NEW SECTION. **Sec. 201.** The purpose of chapter . . . , Laws of 1995  
18 (this act) is to:

19 (1) Provide a fair and reasonable value from the retirement system  
20 for those who leave public employment before retirement;

21 (2) Increase flexibility for such employees to make transitions  
22 into other public or private sector employment;

23 (3) Increase employee options for addressing retirement needs,  
24 personal financial planning, and career transitions; and

25 (4) Continue the legislature's established policy of having  
26 employees contribute toward their retirement benefits.

27 NEW SECTION. **Sec. 202.** As used in this chapter, the following  
28 terms have the meanings indicated:

29 (1) "Actuary" means the state actuary or the office of the state  
30 actuary.

31 (2) "Board" means the employee retirement benefits board authorized  
32 in chapter 41.50 RCW.

33 (3) "Department" means the department of retirement systems.

34 (4) "Compensation" for purposes of this chapter is the same as  
35 "earnable compensation" for plan III in chapter 41.32 RCW.

1 (5) "Member" means any employee included in the membership of a  
2 retirement system as provided for plan III in chapter 41.32 RCW.

3 (6) "Member account" means the sum of the contributions and  
4 earnings on behalf of the member.

5 (7) "Retiree" means any member in receipt of an allowance or other  
6 benefit provided by this chapter resulting from service rendered to an  
7 employer by such member.

8 NEW SECTION. **Sec. 203.** (1) This chapter applies only to members  
9 of plan III retirement systems created under chapter 41.32 RCW.

10 (2) Plan III consists of two separate elements: (a) A defined  
11 benefit portion covered under sections 101 through 117, chapter . . . ,  
12 Laws of 1995 (sections 101 through 117 of this act); and (b) a defined  
13 contribution portion covered under this chapter. Unless specified  
14 otherwise, all references to "plan III" in this chapter refer to the  
15 defined contribution portion of plan III.

16 NEW SECTION. **Sec. 204.** (1) A member shall contribute from his or  
17 her compensation according to one of the following rate structures:

<u>Option A</u>	<u>Contribution Rate</u>
All Ages	5.0% fixed
<u>Option B</u>	
Up to Age 35	5.0%
Age 35 to 44	6.0%
Age 45 and above	7.5%
<u>Option C</u>	
Up to Age 35	6.0%
Age 35 to 44	7.5%
Age 45 and above	8.5%

28 (2) The board shall have the right to offer contribution rate  
29 options in addition to those listed in subsection (1) of this section,  
30 provided that no significant additional administrative costs are  
31 created. All options offered by the board shall conform to the  
32 requirements stated in subsections (3) and (4) of this section.

33 (3) Within ninety days of the date that an employee becomes a  
34 member of plan III, he or she has an irrevocable option to choose one  
35 of the above contribution rate structures. If the member does not

1 select an option within this ninety-day period, he or she shall be  
2 assigned option A. Such assignment shall be irrevocable.

3 (4) Contributions shall begin the first day of the month  
4 immediately following the earlier of the selection of an option or the  
5 end of the ninety-day period.

6 NEW SECTION. **Sec. 205.** The legislature may authorize  
7 contributions to the members' accounts for a biennium through budget  
8 appropriation.

9 NEW SECTION. **Sec. 206.** The member's account shall be invested by  
10 the state investment board unless the member elects to self direct  
11 investments as authorized by the board. Members who make this election  
12 shall pay the expenses for self-directed investment.

13 NEW SECTION. **Sec. 207.** (1) If the member retires, becomes  
14 disabled, or otherwise terminates employment, the balance in the  
15 member's account may be distributed in accordance with an option  
16 selected by the member either as a lump sum or pursuant to other  
17 options authorized by the board.

18 (2) If the member dies while in service, the balance of the  
19 member's account may be distributed in accordance with an option  
20 selected by the member either as a lump sum or pursuant to other  
21 options authorized by the board. The distribution shall be made to  
22 such person or persons as the member shall have nominated by written  
23 designation duly executed and filed with the department. If there be  
24 no such designated person or persons still living at the time of the  
25 member's death, the balance of the member's account in the retirement  
26 system, less any amount identified as owing to an obligee upon  
27 withdrawal of such account balance pursuant to a court order filed  
28 under RCW 41.50.670, shall be paid to the member's surviving spouse as  
29 if in fact such spouse had been nominated by written designation, or if  
30 there is no surviving spouse, then to such person or persons, trust, or  
31 organization as the member shall have nominated by written designation  
32 duly executed and filed with the department.

33 (3) The distribution under subsections (1) or (2) of this section  
34 shall be less any amount identified as owing to an obligee upon  
35 withdrawal pursuant to a court order filed under RCW 41.50.670.

1        NEW SECTION.    **Sec. 208.**    (1) Subject to subsections (2) and (3) of  
2 this section, the right of a person to a pension, an annuity, a  
3 retirement allowance, any optional benefit, any other right accrued or  
4 accruing to any person under the provisions of this chapter, and the  
5 various funds created by chapter . . . , Laws of 1995 (this act) and all  
6 moneys and investments and income thereof, is hereby exempt from any  
7 state, county, municipal, or other local tax, and shall not be subject  
8 to execution, garnishment, attachment, the operation of bankruptcy or  
9 insolvency laws, or other process of law whatsoever, and shall be  
10 unassignable.

11        (2) This section shall not be deemed to prohibit a beneficiary of  
12 a retirement allowance from authorizing deductions therefrom for  
13 payment of premiums due on any group insurance policy or plan issued  
14 for the benefit of a group comprised of public employees of the state  
15 of Washington or its political subdivisions and that has been approved  
16 for deduction in accordance with rules that may be adopted by the state  
17 health care authority and/or the department. This section shall not be  
18 deemed to prohibit a beneficiary of a retirement allowance from  
19 authorizing deductions therefrom for payment of dues and other  
20 membership fees to any retirement association or organization the  
21 membership of which is composed of retired public employees, if a total  
22 of three hundred or more of such retired employees have authorized such  
23 deduction for payment to the same retirement association or  
24 organization.

25        (3) Subsection (1) of this section shall not prohibit the  
26 department from complying with (a) a wage assignment order for child  
27 support issued pursuant to chapter 26.18 RCW, (b) an order to withhold  
28 and deliver issued pursuant to chapter 74.20A RCW, (c) a notice of  
29 payroll deduction issued pursuant to RCW 26.23.060, (d) a mandatory  
30 benefits assignment order issued by the department, (e) a court order  
31 directing the department to pay benefits directly to an obligee under  
32 a dissolution order as defined in RCW 41.50.500(3) which fully complies  
33 with RCW 41.50.670 and 41.50.700, or (f) any administrative or court  
34 order expressly authorized by federal law.

35        NEW SECTION.    **Sec. 209.**    (1) The retirement plan created by this  
36 chapter shall be administered so as to comply with the federal Internal  
37 Revenue Code, Title 26 U.S.C., and specifically with plan qualification

1 requirements imposed on governmental plans by section 401(a) of the  
2 Internal Revenue Code.

3 (2) Any section or provision of this chapter which may be  
4 susceptible to more than one construction shall be interpreted in favor  
5 of the construction most likely to satisfy requirements imposed by  
6 section 401(a) of the Internal Revenue Code.

7 (3) If any section or provision of this chapter is found to be in  
8 conflict with the plan qualification requirements for governmental  
9 plans in section 401(a) of the Internal Revenue Code, the conflicting  
10 part of this chapter is hereby inoperative solely to the extent of the  
11 conflict, and such finding shall not affect the operation of the  
12 remainder of this chapter.

13 NEW SECTION. **Sec. 210.** Sections 201 through 209 of this act shall  
14 constitute a new chapter in Title 41 RCW.

15 **PART III**  
16 **MISCELLANEOUS**

17 NEW SECTION. **Sec. 301.** A new section is added to chapter 41.50  
18 RCW to read as follows:

19 (1) The employee retirement benefits board is created within the  
20 department of retirement systems.

21 (2) The board shall be composed of eight members appointed by the  
22 governor and one ex officio member as follows:

23 (a) Three members representing the public employees' retirement  
24 system: One retired, two active. The members shall be appointed from  
25 a list of nominations submitted by organizations representing each  
26 category. The initial term of appointment shall be two years for the  
27 retired member, one year for one active member, and three years for the  
28 remaining active member.

29 (b) Three members representing the teachers' retirement system:  
30 One retired, two active. The members shall be appointed from a list of  
31 nominations submitted by organizations representing each category. The  
32 initial term of appointment shall be one year for the retired member,  
33 two years for one active member, and three years for the remaining  
34 active member.

1 (c) Two members with experience in defined contribution plan  
2 administration. The initial term for these members shall be two years  
3 for one member and three years for the remaining member.

4 (d) The director of the department shall serve ex officio and shall  
5 be the chair of the board.

6 (3) After the initial appointments, members shall be appointed to  
7 three-year terms.

8 (4) The board shall meet at least quarterly during the calendar  
9 year, at the call of the chair.

10 (5) Members of the board shall serve without compensation but shall  
11 receive travel expenses as provided for in RCW 43.03.050 and 43.03.060.  
12 Such travel expenses shall be reimbursed by the department from the  
13 retirement system expense fund.

14 (6) The board shall adopt rules governing its procedures and  
15 conduct of business.

16 (7) The actuary shall perform all actuarial services for the board  
17 and provide advice and support.

18 (8) The state investment board shall provide advice and support to  
19 the board.

20 NEW SECTION. **Sec. 302.** A new section is added to chapter 41.50  
21 RCW to read as follows:

22 The board shall adopt rules as necessary and exercise all the  
23 powers and perform all duties prescribed by law with respect to:

24 (1) The preselection of options for members to choose from for  
25 self-directed investment deemed by the board to be in the best interest  
26 of the member. At the board's request, the state investment board may  
27 provide investment options for purposes of this subsection;

28 (2) The selection of optional benefit payment schedules available  
29 to members and survivors of members upon the death, disability,  
30 retirement, or termination of the member. The optional benefit  
31 payments may include but not be limited to: Fixed and participating  
32 annuities, joint and survivor annuities, and payments that bridge to  
33 social security or defined benefit plan payments;

34 (3) Approval of actuarially equivalent annuities that may be  
35 purchased from the combined plan II and plan III funds under RCW  
36 41.50.075 (2) or (3);

1 (4) Determination of the basis for administrative charges to the  
2 self-directed investment fund to offset self-directed account expenses;  
3 and

4 (5) Selection of investment options for the deferred compensation  
5 program.

6 NEW SECTION. **Sec. 303.** A new section is added to chapter 41.32  
7 RCW under the subchapter heading "Plan II" to read as follows:

8 (1) Every plan II member employed by an employer in an eligible  
9 position may make an irrevocable option to transfer to plan III. For  
10 those who elect to transfer:

11 (a) All service credit in plan II shall be transferred to the  
12 defined benefit portion of plan III.

13 (b) The accumulated contributions in plan II shall be transferred  
14 to the member's account in the defined contribution portion established  
15 in sections 201 through 209 of this act, pursuant to procedures  
16 developed by the department and subject to section 209 of this act.

17 (c) A member vested on the effective date of this act under plan II  
18 shall be automatically vested in plan III upon transfer.

19 (d) Members employed by an employer in an eligible position on  
20 January 1, 1998, who request to transfer to plan III by January 1,  
21 1998, shall have their account in the defined contribution portion of  
22 plan III, other than those accumulated contributions attributable to  
23 restorations made under RCW 41.50.165(2), increased by twenty percent  
24 of their plan II accumulated contributions as of January 1, 1996. If  
25 the member who requests to transfer dies before January 1, 1998, the  
26 additional payment provided by this subsection shall be paid to the  
27 member's estate, or such person or persons, trust, or organization as  
28 the member shall have nominated by written designation duly executed  
29 and filed with the department.

30 (e) The legislature reserves the right to discontinue the right to  
31 transfer under this section.

32 (2) This subsection shall also apply to dual members as provided in  
33 section 320 of this act.

34 (3) Any member who elects to transfer to plan III and has eligible  
35 unrestored withdrawn contributions in plan II, may subsequently restore  
36 such contributions under the provisions of RCW 41.32.825. The restored  
37 plan II service credit will be automatically transferred to plan III.



1 Contributions restored will be transferred to the member's account in  
2 plan III.

3 (4) Anyone previously retired from plan II is prohibited from  
4 transferring to plan III.

5 NEW SECTION. **Sec. 304.** A new section is added to chapter 41.32  
6 RCW under the subchapter heading "Plan II" to read as follows:

7 Any person who elected pursuant to RCW 41.32.032(2)(a) to remain a  
8 member of the public employees' retirement system under chapter 41.40  
9 RCW may make an irrevocable option to transfer to plan III pursuant to  
10 section 303 of this act, PROVIDED THAT:

11 (1) Only service credit for previous periods of employment in a  
12 position covered by RCW 41.32.010 is transferred to plan III;

13 (2) Equivalent accumulated employee and employer contributions  
14 attributable to service covered by subsection (1) of this section are  
15 transferred to plan III;

16 (3) Employer contributions transferred under this section shall be  
17 paid into the teachers' retirement system combined plan II and III  
18 fund.

19 Any person, not employed as an educational staff associate on the  
20 effective date of this act may choose, within one year of the person's  
21 return to employment as a teacher, to transfer to plan III under this  
22 section.

23 **Sec. 305.** RCW 41.45.010 and 1989 c 273 s 1 are each amended to  
24 read as follows:

25 It is the intent of the legislature to provide a dependable and  
26 systematic process for funding the benefits provided to members and  
27 retirees of the public employees' retirement system, chapter 41.40 RCW;  
28 the teachers' retirement system, chapter 41.32 RCW; the law enforcement  
29 officers' and fire fighters' retirement system, chapter 41.26 RCW; and  
30 the Washington state patrol retirement system, chapter 43.43 RCW.

31 The funding process established by this chapter is intended to  
32 achieve the following goals:

33 (1) To continue to fully fund the public employees' retirement  
34 system plan II, the teachers' retirement system plans II and III, and  
35 the law enforcement officers' and fire fighters' retirement system plan  
36 II as provided by law;

1 (2) To fully amortize the total costs of the public employees'  
2 retirement system plan I, the teachers' retirement system plan I, and  
3 the law enforcement officers' and fire fighters' retirement system plan  
4 I not later than June 30, 2024;

5 (3) To establish predictable long-term employer contribution rates  
6 which will remain a relatively constant proportion of the future state  
7 budgets; and

8 (4) To fund, to the extent feasible, benefit increases for plan I  
9 members and all benefits for plan II and III members over the working  
10 lives of those members so that the cost of those benefits are paid by  
11 the taxpayers who receive the benefit of those members' service.

12 **Sec. 306.** RCW 41.45.020 and 1989 c 273 s 2 are each amended to  
13 read as follows:

14 As used in this chapter, the following terms have the meanings  
15 indicated unless the context clearly requires otherwise.

16 (1) "Council" means the economic and revenue forecast council  
17 created in RCW ((82.01.130)) 82.33.010.

18 (2) "Department" means the department of retirement systems.

19 (3) "Law enforcement officers' and fire fighters' retirement system  
20 plan I" and "law enforcement officers' and fire fighters' retirement  
21 system plan II" mean((s)) the benefits and funding provisions  
22 ((covering persons who first became members of the law enforcement  
23 officers' and fire fighters' retirement system prior to October 1,  
24 1977.

25 (4) "~~Law enforcement officers' and fire fighters' retirement system~~  
26 ~~plan II~~" means the benefits and funding provisions covering persons who  
27 first became members of the law enforcement officers' and fire  
28 fighters' retirement system on or after October 1, 1977)) under chapter  
29 41.26 RCW.

30 ((+5)) (4) "Public employees' retirement system plan I" ((means  
31 the benefits and funding provisions covering persons who first became  
32 members of the public employees' retirement system prior to October 1,  
33 1977.

34 (6) "~~Public employees' retirement system plan II~~" means the  
35 benefits and funding provisions covering persons who first became  
36 members of the public employees' retirement system on or after October  
37 1, 1977)) and "public employees' retirement system plan II" mean the  
38 benefits and funding provisions under chapter 41.40 RCW.

1       (~~(7)~~) (5) "Teachers' retirement system plan I," "teachers'  
2 retirement system plan II," and "teachers' retirement system plan III"  
3 mean(~~(s)~~) the benefits and funding provisions (~~(covering persons who~~  
4 first became members of the teachers' retirement system prior to  
5 October 1, 1977.

6       (~~(8)~~) "Teachers' retirement system plan II" means the benefits and  
7 funding provisions covering persons who first became members of the  
8 teachers' retirement system on or after October 1, 1977)) under chapter  
9 41.32 RCW.

10       (~~(9)~~) (6) "Washington state patrol retirement system" means the  
11 retirement benefits provided under chapter 43.43 RCW.

12       (7) "Unfunded liability" means the unfunded actuarial accrued  
13 liability of a retirement system.

14       (~~(10)~~) (8) "Actuary" or "state actuary" means the state actuary  
15 employed under chapter 44.44 RCW.

16       (~~(11)~~) (9) "State retirement systems" means the retirement  
17 systems listed in RCW 41.50.030.

18       **Sec. 307.** RCW 41.45.030 and 1993 c 519 s 17 are each amended to  
19 read as follows:

20       (1) Beginning September 1, (~~(1989)~~) 1995, and every (~~(six)~~) two  
21 years thereafter, the state actuary shall submit to the council  
22 information regarding the experience and financial condition of each  
23 state retirement system. The council shall review this and such other  
24 information as it may require.

25       (2) (~~(The council shall review the information submitted by the~~  
26 state actuary and)) By December 31, 1995, and every two years  
27 thereafter, the council, by affirmative vote of five councilmembers,  
28 shall adopt the following long-term economic assumptions:

29       (a) Growth in system membership;

30       (b) Growth in salaries, exclusive of merit or longevity increases;

31       (c) Growth in inflation; and

32       (d) Investment rate of return.

33       (3) The council shall work with the department of retirement  
34 systems, the state actuary, and the executive director of the state  
35 investment board, and shall consider long-term historical averages, in  
36 developing the economic assumptions. The assumptions adopted by the  
37 council shall be used by the state actuary in conducting valuation  
38 studies of the state retirement systems.

1       (~~(3) The council may utilize information provided by the state~~  
2 ~~actuary and such other information as it may request.~~)

3       **Sec. 308.** RCW 41.45.050 and 1989 c 273 s 5 are each amended to  
4 read as follows:

5       (1) (~~(Beginning September 1, 1990,~~) Employers of members of the  
6 public employees' retirement system, the teachers' retirement system,  
7 and the Washington state patrol retirement system shall make  
8 contributions to those systems based on the rates established in RCW  
9 41.45.060 and 41.45.070.

10       (2) (~~(Beginning September 1, 1990,~~) The state shall make  
11 contributions to the law enforcement officers' and fire fighters'  
12 retirement system based on the rates established in RCW 41.45.060 and  
13 41.45.070. The state treasurer shall transfer the required  
14 contributions each month on the basis of salary data provided by the  
15 department.

16       (3) (~~(Beginning September 1, 1990,~~) The department shall bill  
17 employers, and the state shall make contributions to the law  
18 enforcement officers' and fire fighters' retirement system, using the  
19 combined rates established in RCW 41.45.060 and 41.45.070 regardless of  
20 the level of pension funding provided in the biennial budget. Any  
21 member of an affected retirement system may, by mandamus or other  
22 appropriate proceeding, require the transfer and payment of funds as  
23 directed in this section.

24       (4) The contributions received for the public employees' retirement  
25 system shall be allocated between the public employees' retirement  
26 system plan I fund and public employees' retirement system plan II fund  
27 as follows: The contributions necessary to fully fund the public  
28 employees' retirement system plan II employer contribution required by  
29 RCW 41.40.650 shall first be deposited in the public employees'  
30 retirement system plan II fund. All remaining public employees'  
31 retirement system employer contributions shall be deposited in the  
32 public employees' retirement system plan I fund.

33       (~~(The employer contributions for the teachers' retirement system,~~  
34 ~~and the state contributions for the law enforcement officers' and fire~~  
35 ~~fighters' retirement system shall be allocated in the same manner as~~  
36 ~~the public employees' retirement system and in accordance with the law~~  
37 ~~enforcement officers' and fire fighters' retirement system plan II and~~  
38 ~~the teachers' retirement system plan II contribution rates required by~~

1 ~~RCW 41.26.450 and 41.32.775 respectively))~~ (5) The contributions  
2 received for the teachers' retirement system shall be allocated between  
3 the plan I fund and the combined plan II and plan III fund as follows:  
4 The contributions necessary to fully fund the combined plan II and plan  
5 III employer contribution shall first be deposited in the combined plan  
6 II and plan III fund. All remaining teachers' retirement system  
7 employer contributions shall be deposited in the plan I fund.

8 (6) The contributions received under RCW 41.26.450 for the law  
9 enforcement officers' and fire fighters' retirement system shall be  
10 allocated between the law enforcement officers' and fire fighters'  
11 retirement system plan I and the law enforcement officers' and fire  
12 fighters' retirement system plan II fund as follows: The contributions  
13 necessary to fully fund the law enforcement officers' and fire  
14 fighters' retirement system plan II employer contributions shall be  
15 first deposited in the law enforcement officers' and fire fighters'  
16 retirement system plan II fund. All remaining law enforcement  
17 officers' and fire fighters' retirement system employer contributions  
18 shall be deposited in the law enforcement officers' and fire fighters'  
19 retirement system plan I fund.

20 **Sec. 309.** RCW 41.45.060 and 1993 c 519 s 19 are each amended to  
21 read as follows:

22 (1) ~~((For the period of September 1, 1993, through August 31, 1995,~~  
23 ~~the basic state contribution rate for the law enforcement officers' and~~  
24 ~~fire fighters' retirement system, and the basic employer contribution~~  
25 ~~rates for the public employees' retirement system, the teachers'~~  
26 ~~retirement system, and the Washington state patrol retirement system~~  
27 ~~shall be as determined in the 1991 valuations prepared by the office of~~  
28 ~~the state actuary.))~~ The state actuary shall provide actuarial  
29 valuation results based on the assumptions adopted under RCW 41.45.030.

30 (2) Not later than September 30, ((1994)) 1996, and every two years  
31 thereafter((:

32 (a))), consistent with the assumptions adopted under RCW 41.45.030,  
33 the council shall adopt ((the contributions to be used in the ensuing  
34 biennial period for the systems specified in subsection (1) of this  
35 section.

36 (b))) both: (a) A basic state contribution rate for the law  
37 enforcement officers' and fire fighters' retirement system; and (b)  
38 basic employer contribution rates for the public employees' retirement

1 system plan I, the teachers' retirement system plan I, and the  
2 Washington state patrol retirement system to be used in the ensuing  
3 biennial period.

4 (3) The employer and state contribution rates adopted by the  
5 council shall be the level percentages of pay that are needed:

6 (a) To fully amortize the total costs of the public employees'  
7 retirement system plan I, the teachers' retirement system plan I, the  
8 law enforcement officers' and fire fighters' retirement system plan I,  
9 and the unfunded liability of the Washington state patrol retirement  
10 system not later than June 30, 2024; and

11 (b) To also continue to fully fund the public employees' retirement  
12 system plan II, the teachers' retirement system plans II and III, and  
13 the law enforcement officers' and fire fighters' retirement system plan  
14 II in accordance with RCW 41.40.650, 41.26.450, and this section.

15 (4) The aggregate actuarial cost method shall be used to calculate  
16 a combined plan II and III employer contribution rate.

17 (5) The council shall immediately notify the directors of the  
18 office of financial management and department of retirement systems of  
19 the state and employer contribution rates adopted ((under (a) of this  
20 subsection)).

21 ((+e)) (6) The director of the department of retirement systems  
22 shall collect those rates adopted by the council ((under this  
23 chapter)).

24 **Sec. 310.** RCW 41.45.070 and 1990 c 18 s 2 are each amended to read  
25 as follows:

26 (1) ((Beginning September 1, 1991,)) In addition to the basic  
27 employer contribution rate established in RCW 41.45.060, the department  
28 shall also charge employers of public employees' retirement system,  
29 teachers' retirement system, or Washington state patrol retirement  
30 system members an additional supplemental rate to pay for the cost of  
31 additional benefits, if any, granted to members of those systems  
32 ((after January 1, 1990)). The supplemental contribution rates  
33 required by this section shall be calculated by the state actuary and  
34 shall be charged regardless of language to the contrary contained in  
35 the statute which authorizes additional benefits.

36 (2) ((Beginning September 1, 1991,)) In addition to the basic state  
37 contribution rate established in RCW 41.45.060 for the law enforcement  
38 officers' and fire fighters' retirement system the department shall

1 also establish a supplemental rate to pay for the cost of additional  
2 benefits, if any, granted to members of the law enforcement officers'  
3 and fire fighters' retirement system (~~(after January 1, 1990)~~). This  
4 supplemental rate shall be calculated by the state actuary and the  
5 state treasurer shall transfer the additional required contributions  
6 regardless of language to the contrary contained in the statute which  
7 authorizes the additional benefits.

8 (3) The supplemental rate charged under this section to fund  
9 benefit increases provided to active members of the public employees'  
10 retirement system plan I, the teachers' retirement system plan I, the  
11 law enforcement officers' and fire fighters' retirement system plan I,  
12 and Washington state patrol retirement system, shall be calculated as  
13 the level percentage of all members' pay needed to fund the cost of the  
14 benefit not later than June 30, 2024.

15 (4) The supplemental rate charged under this section to fund  
16 benefit increases provided to active and retired members of the public  
17 employees' retirement system plan II, the teachers' retirement system  
18 plan II and plan III, or the law enforcement officers' and fire  
19 fighters' retirement system plan II, shall be calculated as the level  
20 percentage of all members' pay needed to fund the cost of the benefit,  
21 as calculated under RCW 41.40.650, 41.32.775, or 41.26.450,  
22 respectively.

23 (5) The supplemental rate charged under this section to fund  
24 postretirement adjustments which are provided on a nonautomatic basis  
25 to current retirees shall be calculated as the percentage of pay needed  
26 to fund the adjustments as they are paid to the retirees. The  
27 supplemental rate charged under this section to fund automatic  
28 postretirement adjustments for active or retired members of the public  
29 employees' retirement system plan I and the teachers' retirement system  
30 plan I shall be calculated as the level percentage of pay needed to  
31 fund the cost of the automatic adjustments not later than June 30,  
32 2024.

33 NEW SECTION. **Sec. 311.** A new section is added to chapter 41.45  
34 RCW to read as follows:

35 (1) The required contribution rate for members of the plan II  
36 teachers' retirement system shall be fixed at the rates in effect on  
37 the effective date of this act, subject to the following:

1 (a) Beginning September 1, 1998, except as provided in (b) of this  
2 subsection, the employee contribution rate shall not exceed the  
3 employer plan II and III rates adopted under RCW 41.45.060 and  
4 41.45.070 for the teachers' retirement system;

5 (b) In addition, the employee contribution rate for plan II shall  
6 be increased by fifty percent of the contribution rate increase caused  
7 by any plan II benefit increase passed after the effective date of this  
8 act.

9 (2) The required plan II and III contribution rates for employers  
10 shall be adopted in the manner described in RCW 41.45.060.

11 **Sec. 312.** RCW 41.50.075 and 1991 c 35 s 108 are each amended to  
12 read as follows:

13 (1) Two funds are hereby created and established in the state  
14 treasury to be known as the Washington law enforcement officers' and  
15 fire fighters' system plan I retirement fund, and the Washington law  
16 enforcement officers' and fire fighters' system plan II retirement fund  
17 which shall consist of all moneys paid into them in accordance with the  
18 provisions of this chapter and chapter 41.26 RCW, whether such moneys  
19 take the form of cash, securities, or other assets. The plan I fund  
20 shall consist of all moneys paid to finance the benefits provided to  
21 members of the law enforcement officers' and fire fighters' retirement  
22 system plan I, and the plan II fund shall consist of all moneys paid to  
23 finance the benefits provided to members of the law enforcement  
24 officers' and fire fighters' retirement system plan II.

25 (2) All of the assets of the Washington state teachers' retirement  
26 system shall be credited according to the purposes for which they are  
27 held, to two funds to be maintained in the state treasury, namely, the  
28 teachers' retirement system plan I fund and the teachers' retirement  
29 system combined plan II and III fund. The plan I fund shall consist of  
30 all moneys paid to finance the benefits provided to members of the  
31 Washington state teachers' retirement system plan I, and the combined  
32 plan II and III fund shall consist of all moneys paid to finance the  
33 benefits provided to members of the Washington state teachers'  
34 retirement system plan II and III.

35 (3) There is hereby established in the state treasury two separate  
36 funds, namely the public employees' retirement system plan I fund and  
37 the public employees' (~~{retirement system}~~) retirement system plan II  
38 fund. The plan I fund shall consist of all moneys paid to finance the



1 benefits provided to members of the public employees' retirement system  
2 plan I, and the plan II fund shall consist of all moneys paid to  
3 finance the benefits provided to members of the public employees'  
4 retirement system plan II.

5 (4) There is hereby established in the state treasury the plan III  
6 defined contribution fund which shall consist of all contributions and  
7 earnings paid on behalf of members, except as otherwise provided.

8 **Sec. 313.** RCW 41.50.110 and 1990 c 8 s 3 are each amended to read  
9 as follows:

10 (1) Notwithstanding any provision of law to the contrary, the  
11 retirement system expense fund is hereby redesignated as the department  
12 of retirement systems expense fund from which shall be paid the  
13 expenses of the administration of the department and the expenses of  
14 administration of the retirement systems created in chapters 2.10,  
15 2.12, 41.26, 41.32, 41.40, 41.-- (sections 201 through 209 of this  
16 act), and 43.43 RCW.

17 (2) In order to reimburse the department of retirement systems  
18 expense fund on an equitable basis the department shall ascertain and  
19 report to each employer, as defined in RCW 41.26.030, 41.32.010, or  
20 41.40.010, the sum necessary to defray its proportional share of the  
21 entire expense of the administration of the retirement system that the  
22 employer participates in during the ensuing biennium or fiscal year  
23 whichever may be required. Such sum is to be computed in an amount  
24 directly proportional to the estimated entire expense of the  
25 administration as the ratio of monthly salaries of the employer's  
26 members bears to the total salaries of all members in the entire  
27 system. It shall then be the duty of all such employers to include in  
28 their budgets or otherwise provide the amounts so required.

29 (3) The department shall compute and bill each employer, as defined  
30 in RCW 41.26.030, 41.32.010, or 41.40.010, at the end of each month for  
31 the amount due for that month to the department of retirement systems  
32 expense fund and the same shall be paid as are its other obligations.  
33 Such computation as to each employer shall be made on a percentage rate  
34 of salary established by the department. However, the department may  
35 at its discretion establish a system of billing based upon calendar  
36 year quarters in which event the said billing shall be at the end of  
37 each such quarter.

1       (4) The director may adjust the expense fund contribution rate for  
2 each system at any time when necessary to reflect unanticipated costs  
3 or savings in administering the department.

4       (~~(3) All employers shall pay a standard fee to the department to~~  
5 ~~cover the cost of administering the system.~~) (5) An employer who fails  
6 to submit timely and accurate reports to the department may be assessed  
7 an additional fee related to the increased costs incurred by the  
8 department in processing the deficient reports. Fees paid under this  
9 subsection shall be deposited in the retirement system expense fund.

10       (a) Every six months the department shall determine the amount of  
11 an employer's fee by reviewing the timeliness and accuracy of the  
12 reports submitted by the employer in the preceding six months. If  
13 those reports were not both timely and accurate the department may  
14 prospectively assess an additional fee under this subsection.

15       (b) An additional fee assessed by the department under this  
16 subsection shall not exceed fifty percent of the standard fee.

17       (c) The department shall adopt rules implementing this section.

18       (6) Expenses incurred pursuant to section 206 of this act shall be  
19 deducted from the defined contribution fund in accordance with rules  
20 established by the board under section 302 of this act.

21       NEW SECTION. Sec. 314. A new section is added to chapter 41.50  
22 RCW to read as follows:

23       (1) "Employee" as used in this section and section 315 of this act  
24 includes all full-time, part-time, and career seasonal employees of the  
25 state, a county, a municipality, or other political subdivision of the  
26 state, whether or not covered by civil service; elected and appointed  
27 officials of the executive branch of the government, including full-  
28 time members of boards, commissions, or committees; justices of the  
29 supreme court and judges of the court of appeals and of the superior  
30 and district courts; and members of the state legislature or of the  
31 legislative authority of any county, city, or town.

32       (2) The state, through the department, and any county,  
33 municipality, or other political subdivision of the state acting  
34 through its principal supervising official or governing body is  
35 authorized to contract with an employee to defer a portion of that  
36 employee's income, which deferred portion shall in no event exceed the  
37 amount allowable under 26 U.S.C. Sec. 457, and deposit or invest such  
38 deferred portion in a credit union, savings and loan association, bank,

1 or mutual savings bank or purchase life insurance, shares of an  
2 investment company, or fixed and/or variable annuity contracts from any  
3 insurance company or any investment company licensed to contract  
4 business in this state.

5 (3) The department can provide such plans as the employee  
6 retirement benefits board, established under section 301 of this act,  
7 deems are in the interests of state employees. In addition to the  
8 types of investments described in this section, the department may  
9 invest the deferred portion of an employee's income, without limitation  
10 as to amount, in any of the class of investments described in RCW  
11 43.84.150 as in effect on January 1, 1981. Any income deferred under  
12 such a plan shall continue to be included as regular compensation, for  
13 the purpose of computing the state or local retirement and pension  
14 benefits earned by any employee.

15 (4) Coverage of an employee under a deferred compensation plan  
16 under this section shall not render such employee ineligible for  
17 simultaneous membership and participation in any pension system for  
18 public employees.

19 NEW SECTION. **Sec. 315.** A new section is added to chapter 41.50  
20 RCW to read as follows:

21 (1) The deferred compensation principal account is hereby created  
22 in the state treasury. Any deficiency in the deferred compensation  
23 administrative account caused by an excess of administrative expenses  
24 disbursed from that account over earnings of investments of balances  
25 credited to that account shall be eliminated by transferring moneys to  
26 that account from the deferred compensation principal account.

27 (2) The amount of compensation deferred by employees under  
28 agreements entered into under the authority contained in section 314 of  
29 this act shall be paid into the deferred compensation principal account  
30 and shall be sufficient to cover costs of administration and staffing  
31 in addition to such other amounts as determined by the department. The  
32 deferred compensation principal account shall be used to carry out the  
33 purposes of section 314 of this act. All eligible state employees  
34 shall be given the opportunity to participate in agreements entered  
35 into by the department under section 314 of this act. State agencies  
36 shall cooperate with the department in providing employees with the  
37 opportunity to participate.

1 (3) Any county, municipality, or other subdivision of the state may  
2 elect to participate in any agreements entered into by the department  
3 under section 314 of this act, including the making of payments  
4 therefrom to the employees participating in a deferred compensation  
5 plan upon their separation from state or other qualifying service.  
6 Accordingly, the deferred compensation principal account shall be  
7 considered to be a public pension or retirement fund within the meaning  
8 of Article XXIX, section 1 of the state Constitution, for the purpose  
9 of determining eligible investments and deposits of the moneys therein.

10 (4) All moneys in the deferred compensation principal account, all  
11 property and rights purchased therewith, and all income attributable  
12 thereto, shall remain (until made available to the participating  
13 employee or other beneficiary) solely the money, property, and rights  
14 of the state and participating counties, municipalities, and  
15 subdivisions (without being restricted to the provision of benefits  
16 under the plan) subject only to the claims of the state's and  
17 participating jurisdictions' general creditors. Participating  
18 jurisdictions shall each retain property rights separately.

19 (5) The state investment board, at the request of the employee  
20 retirement benefits board as established under section 301 of this act,  
21 is authorized to invest moneys in the deferred compensation principal  
22 account in accordance with RCW 43.84.150. Except as provided in RCW  
23 43.33A.160, one hundred percent of all earnings from these investments  
24 shall accrue directly to the deferred compensation principal account.

25 (6) The deferred compensation administrative account is hereby  
26 created in the state treasury. All expenses of the department  
27 pertaining to the deferred compensation plan including staffing and  
28 administrative expenses shall be paid out of the deferred compensation  
29 administrative account. Any excess of earnings of investments of  
30 balances credited to this account over administrative expenses  
31 disbursed from this account shall be transferred to the deferred  
32 compensation principal account. Any deficiency in the deferred  
33 compensation administrative account caused by an excess of  
34 administrative expenses disbursed from this account over earnings of  
35 investments of balances credited to this account shall be transferred  
36 to this account from the deferred compensation principal account.

37 (7) In addition to the duties specified in this section and section  
38 314 of this act, the department shall administer the salary reduction  
39 plan established in RCW 41.04.600 through 41.04.645.

1 (8) The department shall keep or cause to be kept full and adequate  
2 accounts and records of the assets, obligations, transactions, and  
3 affairs of any deferred compensation plans created under section 314 of  
4 this act and this section.

5 (9) The department shall file an annual report of the financial  
6 condition, transactions, and affairs of the deferred compensation plans  
7 under its jurisdiction. A copy of the annual report shall be filed  
8 with the speaker of the house of representatives, the president of the  
9 senate, the governor, and the state auditor.

10 (10) Members of the employee retirement benefits board established  
11 under section 301 of this act shall be deemed to stand in a fiduciary  
12 relationship to the employees participating in the deferred  
13 compensation plans created under section 314 of this act and this  
14 section and shall discharge the duties of their respective positions in  
15 good faith and with that diligence, care, and skill which ordinary  
16 prudent persons would exercise under similar circumstances in like  
17 positions.

18 (11) The department may adopt rules necessary to carry out the  
19 purposes of section 314 of this act and this section.

20 **Sec. 316.** RCW 41.50.030 and 1975-'76 2nd ex.s. c 105 s 5 are each  
21 amended to read as follows:

22 (1) As soon as possible but not more than one hundred and eighty  
23 days after March 19, 1976, there is transferred to the department of  
24 retirement systems, except as otherwise provided in this chapter, all  
25 powers, duties, and functions of:

26 ((+1)) (a) The Washington public employees' retirement system  
27 ((and the retirement board thereof));

28 ((+2)) (b) The Washington state teachers' retirement system ((and  
29 the board of trustees thereof));

30 ((+3)) (c) The Washington law enforcement officers' and fire  
31 fighters' retirement system ((and the retirement board thereof));

32 ((+4)) (d) The Washington state patrol retirement system ((and the  
33 retirement board thereof));

34 ((+5)) (e) The Washington judicial retirement system ((and the  
35 retirement board thereof)); and

36 ((+6)) (f) The state treasurer with respect to the administration  
37 of the judges' retirement fund imposed pursuant to chapter 2.12 RCW.

1       (2) On the effective date of this act there is transferred to the  
2 department all powers, duties, and functions of the deferred  
3 compensation committee.

4       (3) The department shall administer sections 201 through 209 of  
5 this act.

6       **Sec. 317.** RCW 41.50.050 and 1993 c 61 s 1 are each amended to read  
7 as follows:

8       The director shall:

9       (1) Have the authority to organize the department into not more  
10 than (~~three~~) four divisions, each headed by an assistant director;

11       (2) Have free access to all files and records of various funds  
12 assigned to the department and inspect and audit the files and records  
13 as deemed necessary;

14       (3) Employ personnel to carry out the general administration of the  
15 department;

16       (4) Submit an annual written report of the activities of the  
17 department to the governor and the chairs of the appropriate  
18 legislative committees with one copy to the staff of each of the  
19 committees, including recommendations for statutory changes the  
20 director believes to be desirable;

21       (5) Adopt such rules and regulations as are necessary to carry out  
22 the powers, duties, and functions of the department pursuant to the  
23 provisions of chapter 34.05 RCW.

24       **Sec. 318.** RCW 41.50.060 and 1975-'76 2nd ex.s. c 105 s 8 are each  
25 amended to read as follows:

26       The director may delegate the performance of such powers, duties,  
27 and functions, other than those relating to rule making, to employees  
28 of the department, but the director shall remain and be responsible for  
29 the official acts of the employees of the department.

30       The director shall be responsible for the public employees'  
31 retirement system, the teachers' retirement system, the judicial  
32 retirement system, the law enforcement officers' and fire fighters'  
33 retirement system, and the Washington state patrol retirement system.  
34 The director shall also be responsible for the deferred compensation  
35 program.

1       **Sec. 319.** RCW 41.54.030 and 1990 c 192 s 2 are each amended to  
2 read as follows:

3       (1) A dual member(~~(s)~~) may combine service in all systems (~~(may be~~  
4 ~~combined)~~) for the (~~sole~~) purpose of:

5       (a) Determining the member's eligibility to receive a service  
6 retirement allowance; and

7       (b) Qualifying for a benefit under section 115(3) of this act.

8       (2) A dual member who is eligible to retire under any system may  
9 elect to retire from all the member's systems and to receive service  
10 retirement allowances calculated as provided in this section. Each  
11 system shall calculate the allowance using its own criteria except that  
12 the member shall be allowed to substitute the member's base salary from  
13 any system as the compensation used in calculating the allowance.

14       (3) The service retirement allowances from a system which, but for  
15 this section, would not be allowed to be paid at this date based on the  
16 dual member's age shall be either actuarially adjusted from the  
17 earliest age upon which the combined service would have made such dual  
18 member eligible in that system, or the dual member may choose to defer  
19 the benefit until fully eligible.

20       NEW SECTION. **Sec. 320.** A new section is added to chapter 41.54  
21 RCW to read as follows:

22       Any dual member who elects to transfer under section 303 of this  
23 act may subject to the provisions of this chapter:

24       (1) Similarly transfer any other prior plan II service credit to  
25 plan III of the same retirement system; or

26       (2) Combine service credit in all systems for purposes of vesting  
27 pursuant to section 303(1)(c) of this act.

28       NEW SECTION. **Sec. 321.** A new section is added to chapter 43.33A  
29 RCW to read as follows:

30       Pursuant to section 302 of this act, the state investment board, at  
31 the request of the employee retirement benefits board, is authorized to  
32 offer investment options for self-directed investment under plan III.

33       **Sec. 322.** RCW 41.04.440 and 1984 c 227 s 1 are each amended to  
34 read as follows:

35       (1) The sole purpose of RCW 41.04.445 and 41.04.450 is to allow the  
36 members of the retirement systems created in chapters 2.10, 2.12,

1 41.26, 41.32, 41.40, 41.-- (sections 201 through 209 of this act), and  
2 43.43 RCW to enjoy the tax deferral benefits allowed under 26 USC  
3 414(h). This act does not alter in any manner the provisions of RCW  
4 41.26.450(~~(, 41.32.775)~~) and 41.40.650 which require that the member  
5 contribution rates shall be set so as to provide fifty percent of the  
6 cost(~~(s)~~) of the respective retirement plans.

7 (2) Should the legislature revoke any benefit allowed under (~~this~~  
8 ~~act~~) 26 U.S.C. 414(h), no affected employee shall be entitled  
9 thereafter to receive such benefit as a matter of contractual right.

10 **Sec. 323.** RCW 41.04.445 and 1992 c 212 s 15 are each amended to  
11 read as follows:

12 (1) This section applies to all members who are:

13 (a) Judges under the retirement system established under chapter  
14 2.10, 2.12, or 2.14 RCW;

15 (b) Employees of the state under the retirement system established  
16 by chapter 41.32, 41.40, or 43.43 RCW;

17 (c) Employees of school districts under the retirement system  
18 established by chapter 41.32 or 41.40 RCW, except for substitute  
19 teachers as defined by RCW 41.32.010;

20 (d) Employees of educational service districts under the retirement  
21 system established by chapter 41.32 or 41.40 RCW; or

22 (e) Employees of community college districts under the retirement  
23 system established by chapter 41.32 or 41.40 RCW.

24 (2) Only for compensation earned after the effective date of the  
25 implementation of this section and as provided by section 414(h) of the  
26 federal internal revenue code, the employer of all the members  
27 specified in subsection (1) of this section shall pick up only those  
28 member contributions as required under:

29 (a) RCW 2.10.090(1);

30 (b) RCW 2.12.060;

31 (c) RCW 2.14.090;

32 (d) RCW 41.32.263;

33 (e) RCW 41.32.350;

34 (f) (~~RCW 41.32.775;~~

35 ~~(g)~~) RCW 41.40.330 (1) and (3);

36 (~~(h)~~) (g) RCW 41.40.650; (~~and~~

37 ~~(i)~~) (h) Section 207 of this act;

38 (i) RCW 43.43.300; and



1        (j) Section 204 of this act.

2        (3) Only for the purposes of federal income taxation, the gross  
3 income of the member shall be reduced by the amount of the contribution  
4 to the respective retirement system picked up by the employer.

5        (4) All member contributions to the respective retirement system  
6 picked up by the employer as provided by this section, plus the accrued  
7 interest earned thereon, shall be paid to the member upon the  
8 withdrawal of funds or lump-sum payment of accumulated contributions as  
9 provided under the provisions of the retirement systems.

10       (5) At least forty-five days prior to implementing this section,  
11 the employer shall provide:

12       (a) A complete explanation of the effects of this section to all  
13 members; and

14       (b) Notification of such implementation to the director of the  
15 department of retirement systems.

16       **Sec. 324.** RCW 41.04.450 and 1985 c 13 s 3 are each amended to read  
17 as follows:

18       (1) Employers of those members under chapters 41.26 (~~and~~), 41.40,  
19 and 41.-- (sections 201 through 209 of this act) RCW who are not  
20 specified in RCW 41.04.445 may choose to implement the employer pick up  
21 of all member contributions without exception under RCW 41.26.080(1),  
22 41.26.450, 41.40.330(1), (~~and~~) 41.40.650, and chapter 41.-- RCW  
23 (sections 201 through 209 of this act). If the employer does so  
24 choose, the employer and members shall be subject to the conditions and  
25 limitations of RCW 41.04.445 (3), (4), and (5) and RCW 41.04.455.

26       (2) An employer exercising the option under this section may later  
27 choose to withdraw from and/or reestablish the employer pick up of  
28 member contributions only once in a calendar year following forty-five  
29 days prior notice to the director of the department of retirement  
30 systems.

31       NEW SECTION. **Sec. 325.** The benefits provided pursuant to this act  
32 are not provided to employees as a matter of contractual right prior to  
33 the effective date of this act. The legislature retains the right to  
34 alter or abolish these benefits at any time prior to the date this act  
35 becomes effective.

1        NEW SECTION.    **Sec. 326.**    The following acts or parts of acts are  
2 each repealed:

3        (1) RCW 41.04.250 and 1981 c 256 s 2, 1975 1st ex.s. c 274 s 2,  
4 1973 1st ex.s. c 99 s 1, 1972 ex.s. c 19 s 1, & 1971 ex.s. c 264 s 1;

5        (2) RCW 41.04.255 and 1991 c 249 s 2 & 1982 c 107 s 2;

6        (3) RCW 41.04.260 and 1993 c 34 s 2 & 1991 sp.s. c 13 s 101;

7        (4) RCW 41.32.775 and 1990 c 274 s 9, 1989 c 273 s 19, 1986 c 268  
8 s 2, 1984 c 184 s 11, & 1977 ex.s. c 293 s 6;

9        (5) RCW 41.45.040 and 1993 c 519 s 18 & 1989 c 273 s 4;

10       (6) RCW 41.45.0601 and 1993 c 519 s 20 & 1992 c 239 s 1;

11       (7) RCW 41.45.901 and 1989 c 273 s 33;

12       (8) RCW 41.50.032 and 1984 c 184 s 15 & 1982 c 163 s 9; and

13       (9) RCW 41.50.250 and 1991 c 35 s 72, 1989 c 273 s 21, 1981 c 3 s  
14 32, 1969 c 128 s 4, 1963 c 174 s 6, 1955 c 220 s 2, 1953 c 200 s 3,  
15 1949 c 240 s 5, & 1947 c 274 s 9.

16       NEW SECTION.    **Sec. 327.**    This act shall take effect July 1, 1996.

17       NEW SECTION.    **Sec. 328.**    Part headings and subchapter headings as  
18 used in this act constitute no part of the law.

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