

Chapter 415-111 WAC

PLAN 3—DEFINED CONTRIBUTION PLANS

WAC

ADMINISTRATION

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DISPOSITION OF SECTIONS FORMERLY CODIFIED IN THIS CHAPTER

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| 415-111-450 | How does a court-ordered division of property affect my Plan 3 account? [Statutory Authority: RCW 41.50.050(5), 41.50.060, 41.50.770, 41.50.780, 2001 c 42. WSR 02-12-084, § 415-111-450, filed 6/4/02, effective 7/5/02. Statutory Authority: RCW 41.50.050(5), 41.50.-670 through 41.50.720. WSR 02-03-120, § 415-111-450, filed 1/23/02, effective 3/1/02.] Repealed by WSR 03-12-014, filed 5/27/03, effective 7/1/03. Statutory Authority: RCW 41.50.050(5) and 41.50.670. |
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ADMINISTRATION

WAC 415-111-100 To whom does this chapter apply? This chapter applies only to members of Plan 3 retirement systems created under chapters 41.32 (TRS), 41.35 (SERS) and 41.40 (PERS) RCW.

[Statutory Authority: RCW 41.50.050(5) and chapter 41.34 RCW. WSR 02-03-120, § 415-111-100, filed 1/23/02, effective 3/1/02. Statutory Authority: Chapters 41.32, 41.34, 41.35, 41.50 RCW. WSR 01-01-059, § 415-111-100, filed 12/12/00, effective 1/12/01.]

WAC 415-111-110 Member and employer responsibility. (1) What am I responsible for as a Plan 3 member?

As a Plan 3 member your responsibilities include, but are not limited to:

- (a) Adhering to time frames;
- (b) Making investment decisions for your defined contribution account;
- (c) Reviewing account information provided on statements, such as quarterly statements, and notifying the correct organization of any errors;
- (d) Filling out the correct form for a requested action;
- (e) Correctly completing the appropriate form for a requested action and submitting the form to the correct organization as directed on each form; and
- (f) Monitoring to ensure contributions do not exceed Internal Revenue Code limits (see WAC 415-111-111).

(2) What can happen if I do not fulfill my Plan 3 responsibilities? If you do not fulfill your responsibilities, the consequences may include, but are not limited to:

- (a) You may not qualify for certain benefits, such as the transfer payment;
- (b) You may have a delay in the correction of errors on your account;
- (c) You may have a delay in the processing of your request for a defined contribution withdrawal; or
- (d) You may have a delay in the investment of your account as directed.

(3) What responsibilities do employers have? Employers' responsibilities include, but are not limited to:

- (a) Adhering to Plan 3 administrative requirements, including the respective roles of employers and employees, communicated to employers by the department in written materials and formal training;
- (b) Maintaining a supply of Plan 3 forms;
- (c) Reporting an employee's Plan 3 transfer decision as soon as possible after receipt of the appropriate form from the employee;
- (d) Submitting to DRS the form on which the member made the Plan 3 transfer decision as soon as possible after receipt of the appropriate form;
- (e) Reporting an employee's contribution rate decision as soon as possible after receipt of the appropriate form from the employee;
- (f) Reporting an employee's investment program as soon as possible after receipt of the appropriate form from the employee;
- (g) Monitoring to ensure that a member's contributions do not exceed Internal Revenue Code limits (see WAC 415-111-111); and
- (h) Submitting contributions to the department as soon as reasonable and at least in accordance with RCW 41.50.120, "reasonableness" will be based on the facts and circumstances.

Example

Assume the following:

- An employer has one payroll system;
- Payroll checks are issued semimonthly;
- At the same time checks are cut, the payroll department produces a data tape of employee contributions that has to be checked for accuracy, and checking the tape takes four days;
- Once the accuracy of the data tape is confirmed, a check for the aggregate amount of employee contributions is sent by the employer to DRS; and
- The entire process, from the cutting of payroll checks to the cutting of the aggregate employee contribution check takes eight days.

In this situation, eight days is a "reasonable" period of time.

(4) What can happen if my employer does not fulfill its responsibilities?

(a) If your employer does not fulfill its responsibilities, the consequences may include, but are not limited to:

(i) Your employer may have to make your member account whole;

(ii) Your employer may be subject to penalties assessed by the department; or

(iii) Your employer may be subject to penalties assessed by the Internal Revenue Service.

(b) If the department determines that an employer has erred in its administrative role, such that an employee incurs an investment loss, the department will determine the amount of loss and bill the employer.

[Statutory Authority: RCW 41.50.050(5), 41.50.112, 41.50.145, chapter 41.34 RCW. WSR 02-03-120, § 415-111-110, filed 1/23/02, effective 3/1/02. Statutory Authority: Chapters 41.32, 41.34, 41.35, 41.50 RCW. WSR 01-01-059, § 415-111-110, filed 12/12/00, effective 1/12/01.]

WAC 415-111-111 Monitoring deferral limits. (1) Can contributions in Plan 3 affect my deferral limits in other tax-deferred plans? Yes. Contributions to Plan 3 reduce your taxable income; this may affect your deferral limits if you participate in another tax deferred program that has a maximum contribution based on a percentage of your taxable income. You should consult with the Internal Revenue Service, a tax advisor, or a financial advisor regarding all questions of federal or state tax implications arising from participation in Plan 3.

(2) Who is responsible for ensuring that I do not exceed my tax deferral limits? Both your employer and you are responsible for ensuring that you do not exceed your tax deferral limits:

(a) Employers are responsible for monitoring to ensure that the contributions you make to your employer-sponsored tax deferred plan(s) do not exceed the limits under the Internal Revenue Code.

(b) You are responsible for monitoring to ensure that the total contributions you make to all of your tax deferred plan(s) do not exceed the limits under the Internal Revenue Code if you participate in a tax deferred program(s) outside of your employer sponsored plan(s).

[Statutory Authority: Chapters 41.32, 41.34, 41.35, 41.50 RCW. WSR 01-01-059, § 415-111-111, filed 12/12/00, effective 1/12/01.]

INVESTMENT OPTIONS

WAC 415-111-210 Investment program election. (1) You must choose between two investment programs:

(a) The total allocation portfolio, managed by the Washington state investment board; and

(b) The self-directed investment program. You may contribute to only one of these programs at a time. However, you may maintain accounts in both investment programs and transfer money between investment programs.

Under WAC 415-111-110, you bear the responsibility for completing the correct form for making an investment program election and submitting it to your employer as directed on the form.

(2) Where do I get the form to make my election?

Your employer must provide the appropriate form to elect an investment program if you are enrolling into Plan 3, transferring from Plan 2 to Plan 3, or changing your investment program.

(3) When do I have to choose an investment program? If you are a new member or are reenrolling, you must select one of the investment programs (the total allocation portfolio or the self-directed investment program) within ninety calendar days from your date of hire in an eligible position. However, if you are transferring from Plan 2 to Plan 3, you must select an investment program when you transfer. The ninety-day period does not apply to a member transferring from Plan 2 to Plan 3.

If we discover and determine you should be reported into Plan 3 membership retroactively, the ninety-day period starts from the date you are notified that you should have been reported.

(4) What happens if I do not make an investment program election? You will be assigned to the default investment program described in subsection (5) of this section, if:

(a) You are a new member or changing your employer and do not make an investment program election within the ninety-day election period described in subsection (3) of this section; or

(b) You are transferring from Plan 2 to Plan 3 and do not make an investment program election at the time of transfer.

(5) What is the default investment program? The default investment program is the self-directed investment program. See WAC 415-111-230.

(6) Can I change my investment program? Once you have made an initial investment election or been directed into the default program, you may change your investment program at any time by submitting the appropriate form to your employer.

[Statutory Authority: Chapters 41.32, 41.34, 41.35, 41.50 RCW, RCW 41.34.130, 41.34.060, and 41.34.140. WSR 11-18-018, § 415-111-210, filed 8/26/11, effective 9/26/11. Statutory Authority: Chapters 41.32, 41.34, 41.35, 41.50 RCW. WSR 01-01-059, § 415-111-210, filed 12/12/00, effective 1/12/01.]

WAC 415-111-220 How do I choose a defined contribution rate? (1) Contribution rates: If you are a member of the Teachers' Retirement System (TRS) Plan 3, the School Employees' Retirement System (SERS) Plan 3, or the Public Employees' Retirement System (PERS) Plan 3, you are required to contribute from your compensation according to one of the following rate structures:

| | Base Rate | Additional Rate | Total Contribution Rate |
|------------------|-----------|-----------------|-------------------------|
| Option A | | | |
| All ages | 5.0% | 0.0% | 5.0% |
| Option B | | | |
| Up to age 35 | 5.0% | 0.0% | 5.0% |
| Age 35 to 44 | 5.0% | 1.0% | 6.0% |
| Age 45 and above | 5.0% | 2.5% | 7.5% |

| | Base Rate | Additional Rate | Total Contribution Rate |
|------------------|-----------|-----------------|-------------------------|
| Option C | | | |
| Up to age 35 | 5.0% | 1.0% | 6.0% |
| Age 35 to 44 | 5.0% | 2.5% | 7.5% |
| Age 45 and above | 5.0% | 3.5% | 8.5% |
| Option D | | | |
| All ages | 5.0% | 2.0% | 7.0% |
| Option E | | | |
| All ages | 5.0% | 5.0% | 10.0% |
| Option F | | | |
| All ages | 5.0% | 10.0% | 15.0% |

(2) **How do I make the choice?** Under WAC 415-111-110, it is your responsibility to complete the correct form for choosing a contribution rate and submitting the form in a timely manner to your employer as directed on the form.

(3) **Where do I get the form to make my choice?** Your employer must provide the appropriate form to choose a contribution rate if you are enrolling in Plan 3 or transferring from Plan 2 to Plan 3.

(4) **When do I have to choose?** You must choose a contribution rate within ninety calendar days from your date of hire in an eligible position. However, if you are transferring from Plan 2 to Plan 3, you must choose a contribution rate at the same time you transfer. The ninety-day period does not apply to a member transferring from Plan 2 to Plan 3.

(5) **When do contributions begin?**

(a) Once you choose a contribution rate, contributions will begin the first day of the pay cycle in which you make the choice.

(b) If the employer advises the department that you should be reported into Plan 3 membership retroactively, the ninety-day period starts from the date it is discovered that you should have been reported. The department will decide which date to use.

(6) **What if I work for more than one employer?** If you are a Plan 3 member working in eligible positions for more than one employer, you may select a different contribution rate with each employer.

(7) **What happens if I do not make a choice?** Under RCW 41.34.040, you will be assigned a base rate of 5% (Option A) if:

(a) You are a new employee or changing your employer, and do not choose a contribution rate within the ninety-day election period described in subsection (4) of this section; or

(b) You are transferring from Plan 2 to Plan 3 and do not choose a contribution rate at the time of transfer. Contributions required under subsection (a) or (b) will begin the first day of the pay cycle in which you are assigned to Option A.

(8) **Can I change my contribution rate?**

(a) If you are a PERS 3 or SERS 3 member, once you choose a contribution rate or are assigned the base rate of 5% (Option A), you cannot change that contribution rate unless you change employers. This rule is required by an IRS deci-

sion on the tax qualified status of PERS 2 and 3 and SERS 2 and 3.

(b) Each time you change employers, you must choose a new contribution rate within ninety days or you will be assigned a base rate of 5% (Option A). No contributions will be taken until you choose a rate or until the ninety-day period has elapsed, whichever occurs first.

(c) Each January, through January 2015, TRS Plan 3 members may change their contribution rate option by providing written notification to their employer as described in WAC 415-111-110(1). After January 2015, TRS Plan 3 members may only change their contribution rate option as provided in (b) of this subsection. The termination of TRS rate flexibility after January 2015 is necessary to meet plan qualification requirements in the Internal Revenue Code.

[Statutory Authority: RCW 41.50.050(5). WSR 14-20-036, § 415-111-220, filed 9/24/14, effective 10/25/14. Statutory Authority: RCW 41.50.050(5) and 41.34.090. WSR 06-03-097, § 415-111-220, filed 1/17/06, effective 2/17/06. Statutory Authority: RCW 41.50.050(5) and 41.34.040. WSR 04-02-004, § 415-111-220, filed 12/24/03, effective 1/1/04; WSR 01-15-038, § 415-111-220, filed 7/13/01, effective 7/26/01. Statutory Authority: Chapters 41.32, 41.34, 41.35, 41.50 RCW. WSR 01-01-059, § 415-111-220, filed 12/12/00, effective 1/12/01.]

WAC 415-111-230 Self-directed investment program allocation. This section applies to members who invest in the self-directed investment program.

(1) **What is an allocation?** An allocation is a set of instructions identifying your choice of investment program funds and the percentage of your money you want to invest in each fund. The amount you allocate to each fund must be designated as a whole percentage, and the total must equal one-hundred percent.

Example: Martha has elected the self-directed investment program and is contributing \$150 per month. Martha decides to invest in three different funds with the following amounts: \$30 invested in fund #1, \$45 invested in fund #2 and \$75 invested in fund #3. To accomplish this she must establish the following allocation:

| | |
|-----------------------|------|
| Allocation to fund #1 | 20% |
| Allocation to fund #2 | 30% |
| Allocation to fund #3 | 50% |
| Total Allocation | 100% |

(2) **How do I establish an allocation?** You must establish your allocation by contacting the department's designated recordkeeper. Once established, you may change your allocation according to the provisions in subsection (5) of this section.

(3) **What happens if I do not establish an allocation?** If you do not provide an allocation before the department's designated recordkeeper begins receiving your contributions, your money will be invested as follows:

(a) Your most recent allocation will be used if you previously participated in the self-directed investment program. However, if your allocation includes a fund or funds that are no longer available, the portion of your money allocated to the unavailable fund(s) will be invested in the default fund.

Example: After participating in the self-directed program, Linda terminates employment. Subsequently, she is reemployed and elects to participate in the self-directed investment program again. She does not provide an allocation. Linda's previous allocation was:

| | |
|-----------------------|------|
| Allocation to fund #1 | 10% |
| Allocation to fund #2 | 40% |
| Allocation to fund #3 | 50% |
| Total Allocation | 100% |

Fund #2 is no longer available. Linda's future contributions will be allocated as follows:

| | |
|----------------------------|------|
| Allocation to fund #1 | 10% |
| Allocation to Default Fund | 40% |
| Allocation to fund #3 | 50% |
| Total Allocation | 100% |

(b) All of your money will be invested in the default fund if you do not meet the conditions in (a) of this subsection.

Example: Lew is a new member and elects the self-directed investment program, but does not establish an allocation. All of Lew's money will be invested in the default fund.

(4) **What is the default fund?** The default fund for the self-directed investment program is the Retirement Strategy Fund that assumes you will retire at age 65.

Example: Samantha was born in 1983. She will turn age 65 in 2048. The Retirement Strategy Fund closest to her age-65 retirement target date is the 2050 Retirement Strategy Fund. If Samantha does not establish an allocation per subsection (3) of this section, her money will be invested in the 2050 Retirement Strategy Fund.

(5) **Can I change my allocation?** You may change your allocation by contacting the department's designated recordkeeper. However, changes must be consistent with any restrictions on trading imposed by the funds involved. If necessary to protect the performance results of the investment program funds, the department may:

- (a) Limit the number of times you change allocations;
- (b) Limit the frequency of the changes;
- (c) Limit the manner of making changes; or
- (d) Impose other restrictions.

[Statutory Authority: Chapters 41.32, 41.34, 41.35, 41.50 RCW, RCW 41.34.130, 41.34.060, and 41.34.140. WSR 11-18-018, § 415-111-230, filed 8/26/11, effective 9/26/11. Statutory Authority: RCW 41.50.050(5) and chapter 41.34 RCW. WSR 08-18-058, § 415-111-230, filed 9/2/08, effective 10/3/08; WSR 06-03-098, § 415-111-230, filed 1/17/06, effective 2/17/06. Statutory Authority: Chapters 41.32, 41.34, 41.35, 41.50 RCW. WSR 01-01-059, § 415-111-230, filed 12/12/00, effective 1/12/01.]

WAC 415-111-310 Defined contribution account distribution (withdrawal). (1) How do I request a distribution (withdrawal) of funds from my defined contribution account?

- (a) You must separate from all eligible employment;
- (b) The department must receive the notice of separation from your employer(s); and
- (c) The department's designated recordkeeper must receive a completed request for a defined contribution distribution from your account. See WAC 415-111-110.

(2) Can I receive a special exception distribution?

(a) If you are terminally ill and eligible, the department's designated recordkeeper will arrange for payment to you within ten workdays. To be eligible for a special exception payment:

- (i) You must separate from all eligible employment;
- (ii) The department must receive the notice of separation from your employer(s);
- (iii) The department's designated recordkeeper must receive documentation verifying your terminal illness; and
- (iv) The department's designated recordkeeper must receive a completed request for a defined contribution distribution from your account (see WAC 415-111-110).

(b) If you have an unforeseeable emergency, the department's designated recordkeeper will consider your request for a special exception payment and arrange for payment to you whenever possible. To be eligible for consideration:

- (i) You must separate from all eligible employment;
- (ii) The department must receive the notice of separation from your employer(s);
- (iii) The department's designated recordkeeper must receive documentation verifying and explaining your unforeseeable emergency. The recordkeeper will consider only unforeseeable emergencies. An unforeseeable emergency is defined as a severe financial hardship resulting from:

- (A) An accident or serious illness of you or an immediate family member;
- (B) The need to pay for medical expenses for you or a dependent;
- (C) Imminent foreclosure or eviction from your primary residence;
- (D) The need to pay for funeral expenses of a spouse or immediate family member; or
- (E) Loss of property due to casualty.

(iv) The department's designated recordkeeper must receive a completed request for a defined contribution distribution from your account (see WAC 415-111-110).

(c) Depending on which program you are invested in, self-directed or WSIB Total Allocation Portfolio (TAP), the recordkeeper will distribute your special exception payment as specified in the table below, less any applicable tax withholding.

| | Terminal Illness | Unforeseeable Emergency |
|----------------------|----------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------|
| Self-Directed | Up to 100% of the balance in the account within 10 days after approvals are completed. | Up to 100% of the balance in the account within 10 days after approvals are completed. |

| | Terminal Illness | Unforeseeable Emergency |
|----------------------------------------------|---------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| WSIB Total Allocation Portfolio (TAP) | Up to 100% of the balance in the account based on the most recent valuation within 10 days after approvals are completed. | Up to 80% of the balance in the account distributed as a lump sum payment through the normal month-end distribution process. If 100% liquidation is requested, the remaining balance in the account will be disbursed after the final valuation has been made. |

(3) **Can I still receive my defined contribution distribution if I have returned to work before receiving my funds?** If you return to work in an eligible position after all the criteria in subsection (1) of this section are met, you may receive distribution from your defined contribution account.

(4) **What are my options for distributing my defined contribution funds?** You have the following options for distributions from your Plan 3 defined contribution account. Options for both the WSIB and the self-directed investment programs are combined where applicable.

(a) **Lump sum cash distribution. In either program,** you may request the entire amount of your funds in a single lump-sum payment.

(b) **Direct rollover. In either program,** you may have some or all of your funds rolled over to an eligible retirement plan or individual retirement account (IRA). If you choose a partial rollover, the remaining funds that were not rolled over will be distributed to you as a lump sum, unless you create a personal payment schedule under (d) of this subsection.

(c) **Scheduled payments. In either program,** subject to the distribution requirements of IRC section 401 (a)(9), you may request that your funds be distributed in equal payments over a specified period of time, or that a specific dollar amount be paid on a monthly basis until the account is exhausted. You may also request equal payments over your lifetime or the lifetimes of you and your beneficiary. Scheduled payments for the WSIB program are made monthly only. Scheduled payments for the self-directed program may be made monthly, quarterly, semiannually or annually. Both programs have a minimum payment requirement of one hundred dollars per month.

(d) **Personalized payment plan. In either program,** you may create a personalized payment plan using any part of one or more of the distribution options provided in (a), (b), and (c) of this subsection (see examples below).

(e) **Annuity purchase. In either program,** you may request to have your funds used to purchase an annuity that pays a benefit for your lifetime or the lifetimes of you and your joint annuitant. See WAC 415-111-320 for information about purchasing an annuity and descriptions of the various annuity contracts.

(5) **Market fluctuations.** Your defined contribution account is subject to actual investment earnings (both gains and losses). These gains or losses will be used to adjust the value of your account. The defined contribution payment plans are subject to the same market fluctuations. As a result, the funding of your selected payment plan may last longer than anticipated due to market gains, or end earlier than anticipated due to market losses.

EXAMPLE (WSIB - Partial rollover with payments until account exhausted):

Pat has \$10,000 in the WSIB investment program. Pat wants to rollover \$2,000 of the total to an IRA, but does not want to receive the remainder of the account in a lump sum payment as provided by the partial direct rollover option. Pat selects the personalized payment schedule option and requests to do a partial rollover of \$2,000 and receive the remaining \$8,000 in equal monthly payments of \$125 until the account is exhausted (approximately 64 months).

EXAMPLE (Self - Partial rollover with payments for fixed period):

Chris has \$10,000 in the self-directed investment program. Chris wants to rollover \$3,000 of the total to an IRA, but does not want to receive the remainder of the account in a lump sum payment as provided by the partial direct rollover option. Chris selects the personalized payment schedule option and requests to do a partial rollover of \$3,000 and receive the remaining \$7,000 in quarterly payments of \$250 over the next 7 years (28 quarters).

| Summary of Distribution Options | |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| SELF | WSIB |
| Lump Sum Cash Distribution or Direct Rollover | Lump Sum Cash Distribution or Direct Rollover |
| - Entire account - Partial amount - Remaining funds can be distributed in a lump-sum payment or by a personalized payment schedule (see below). | - Entire account - Partial amount - Remaining funds can be distributed in a lump-sum payment or by a personalized payment schedule (see below). |
| Scheduled Payments | Scheduled Payments |
| - Equal payments - Monthly, quarterly, semi-annual or annual - Specified period of time, or - Until the account is exhausted - Payments can be combined life expectancy of you and a beneficiary. | - Equal payments - Monthly payments only - Specified period of time, or - Until the account is exhausted - Payments can be combined life expectancy of you and a beneficiary. |
| Annuity Purchase | Annuity Purchase |
| - Purchase an annuity from an insurance company - Set up to pay benefits for | - Purchase an annuity, administered by the state of Washington - Set up to pay benefits for |

| Summary of Distribution Options | |
|---------------------------------------------------------------------|---------------------------------------------------------------------|
| SELF | WSIB |
| - Your lifetime, or - Lifetimes of you and your joint annuitant. | - Your lifetime, or - Lifetimes of you and your joint annuitant. |
| In addition to the above, you may set up: | In addition to the above, you may set up: |
| Personalized Payment Plan | Personalized Payment Plan |
| - Customized for your needs - Available for options above. | - Customized for your needs - Available for options above. |

(6) **Minimum required distribution.** Beginning on April 1 of the calendar year following the year in which you turn age 70 1/2, you are required to withdraw a minimum amount from your defined contributions annually. If you are still working at age 70 1/2, distribution is required to begin immediately upon retirement.

(7) See RCW 41.34.070 for additional information.

[Statutory Authority: RCW 41.50.050(5). WSR 15-19-027, § 415-111-310, filed 9/8/15, effective 10/9/15. Statutory Authority: RCW 41.50.050(5) and 41.50.088. WSR 05-24-050, § 415-111-310, filed 12/1/05, effective 1/1/06. Statutory Authority: RCW 41.50.050(5), 41.34.070(3). WSR 03-19-120, § 415-111-310, filed 9/17/03, effective 11/1/03. Statutory Authority: RCW 41.50.050(5) and 41.34.070. WSR 02-03-120, § 415-111-310, filed 1/23/02, effective 3/1/02. Statutory Authority: Chapters 41.32, 41.34, 41.35, 41.50 RCW. WSR 01-01-059, § 415-111-310, filed 12/12/00, effective 1/12/01.]

WAC 415-111-320 May I purchase a life annuity with my Plan 3 defined contribution account? Any time after you become eligible to withdraw funds from your Plan 3 account, you may use part or all of your funds to purchase a life annuity according to this section. To purchase a Total Allocation Portfolio (TAP) Annuity that is administered by the state of Washington you must use funds that are in the Washington state investment board (WSIB) investment program. To purchase an annuity through an insurance company that is offered by the self-directed investment program, you must use funds that are in the self-directed investment program.

(1) **What is a life annuity?** A life annuity is a contract that provides a guaranteed income for the rest of your life in exchange for a lump-sum dollar amount you pay up front. The contract specifies the amount you pay to purchase the annuity, the amount you will receive each month, and any other terms and conditions.

(a) **A single life annuity** is based on your lifetime. It provides guaranteed payments for as long as you live. The payments stop upon your death.

(b) **A joint life annuity** is based on two lifetimes, yours and another person that you choose (referred to as your joint annuitant). It provides guaranteed payments to you during your lifetime, and then, if your joint annuitant survives you, to your joint annuitant for the remainder of his/her lifetime. The payments stop when both you and your joint annuitant die.

(c) **A term-certain—Single life annuity** is based on your lifetime. It provides you with regular payments for as long as you live. It also guarantees the payments for a specific, predetermined period of time (term-certain). If you die before the specified period of time, payments will continue to your beneficiary for the balance of the specified period.

(d) **A term-certain—Joint life annuity** is based on two lifetimes, yours and your joint annuitant's. It provides regular payments for as long as you or your joint annuitant lives. It also guarantees those payments for a specific, predetermined period of time (term-certain). If you and your joint annuitant should both die before the specified period of time, payments will continue to your beneficiary for the balance of the specified period.

Example (term-certain—Joint life annuity):

John purchased a 20-year term-certain joint life annuity. He received monthly payments until his death 10 years later. Upon John's death, Mary, John's joint annuitant, will receive payments for the duration of her life.

- If Mary lives for 5 years after John's death, upon her death the annuity will make payments to John's beneficiary for 5 years, the remainder of the 20-year term.
- If Mary lives for 5 years after John's death, upon her death the annuity will make payments to John's beneficiary for 5 years, the remainder of the 20-year term.

(2) **Are the life annuities offered by each investment program different?** The life annuities offered through the WSIB investment program and the self-directed investment program have distinct features and options. Each program may offer some or all of the annuities described in subsection (1) of this section. Minimum purchase price, payment frequency, survivorship percentages, length of term-certain annuities, and other optional features differ between programs as well.

(3) **How is the original purchase price of the life annuity determined?** You will choose how much of your defined contribution funds to use as your original purchase price. The minimum purchase price depends on the type of annuity you purchase: The minimum purchase price for a TAP annuity is twenty-five thousand dollars and the minimum purchase price for an annuity through a self-directed investment program insurance company is five thousand dollars.

The minimum purchase price for a life annuity is subject to change.

(4) **How are the monthly annuity payments calculated?** The amount of your monthly annuity payment is based on various actuarial assumptions, including without limitation, assumptions about life expectancy and anticipated investment returns. The amount of your monthly annuity payment will vary depending on:

- (a) The original purchase price;
- (b) Your age;
- (c) The age of your joint annuitant (if any);
- (d) The survivorship percentage you select on a joint annuity (if any); and
- (e) Other features of your specific annuity, including, but not limited to, COLAs or refunds of undistributed balances upon your death.

(5) **May I cancel my purchase of an annuity contract?** Your contract will specify a period of time in which you can

cancel your decision to purchase the annuity. Once the rescission period expires, your decision is irrevocable.

(6) Can the terms of the annuity be changed after the rescission period expires? You may not make any changes after the rescission period unless your annuity contract explicitly states otherwise. Some contracts allow you to make changes in specific circumstances. For instance, you may make changes to an annuity purchased through the Washington state investment board investment program only as follows:

(a) If you name someone other than your spouse as the joint annuitant, you may convert to a single life annuity at any time after your payments begin. This option may only be used once and is irrevocable.

(b) If you marry after purchasing a single life annuity, you may convert to a joint life annuity and name your new spouse as joint annuitant, provided that:

(i) Your monthly annuity payment is not subject to property division pursuant to a dissolution order (definition of dissolution order in RCW 41.50.500 includes orders of legal separation);

(ii) The selection is made during a one-year window on or after the date of the first anniversary and before the second anniversary of your marriage; and

(iii) You provide satisfactory proof of your new marriage and your new spouse's birth date.

(7) What are the tax consequences of a life annuity?

(a) You, your joint annuitant or your beneficiary may be liable for federal and/or state taxes on payments from your annuity in the year in which they are received. You will receive an annual statement indicating the taxable portion of your annuity payments.

(b) For a TAP annuity, if you do not submit a tax withholding Form W-4P to the department before your first payment, taxes will be withheld according to Internal Revenue Service requirements, using a filing status of married with three exemptions.

(c) The department does not:

(i) Guarantee that payments should or should not be designated as exempt from federal income tax;

(ii) Guarantee that it was correct in withholding or not withholding taxes from benefit payments to you;

(iii) Represent or guarantee any particular federal or state income, payroll, personal property or other tax consequence because of the department's determination of the taxable status of a distribution; or

(iv) Assume any liability for your compliance with the Internal Revenue Code.

(8) How do I purchase a life annuity?

(a) The forms required to purchase an annuity and the applicable directions are available on the department's web site or upon request from the department, and include:

(i) Plan 3 Request for Payment of Defined Contributions Funds Form;

(ii) Plan 3 Annuity Payment Request Form;

(iii) Spousal consent form, if married;

(iv) Proof of your birth date;

(v) Proof of your joint annuitant's birth date, if applicable; and

(vi) Tax withholding Form W-4P.

(b) You may transfer funds from one investment program to the other in order to have sufficient funds in the appropriate investment program to cover the cost of the annuity purchase.

(9) What if there is an error in my contract? Carefully examine your contract upon receipt. If there is an error or omission, you must report the error or omission immediately according to the instructions in your contract.

[Statutory Authority: RCW 41.50.050(5), WSR 13-18-034, § 415-111-320, filed 8/28/13, effective 10/1/13; WSR 10-16-086, § 415-111-320, filed 7/30/10, effective 9/1/10. Statutory Authority: RCW 41.50.050(5) and 41.50.088, WSR 05-24-050, § 415-111-320, filed 12/1/05, effective 1/1/06.]

WAC 415-111-400 Optional service credit purchase rules. (1) Statutory deadline dates.

(a) When you are purchasing service credit available from participation as a former member of Plan 2, you will be subject to the statutory deadline date as if you were in Plan 2. The transfer of membership from Plan 2 to Plan 3 will not change a statutory deadline date for purchasing service credit while you were a member of Plan 2.

(b) When you are a Plan 3 member purchasing Plan 3 service credit, you are not subject to a statutory deadline date.

(2) Interest on purchase cost. When purchasing service credit as a Plan 3 member, you will not be required to pay interest on member contributions. When paying employer contributions, you will be required to pay interest on those contributions.

(3) Allocation of purchase money.

(a) Member contributions will be applied to your defined contribution account when paid. Paid member contributions are not refundable, except as a withdrawal of defined contributions under RCW 41.34.070 and WAC 415-111-310.

(b) Employer contributions and interest on employer contributions that you pay will be allocated to the fund described in RCW 41.50.075(3) and shall not be refundable.

[Statutory Authority: RCW 41.50.050(5), 41.32.810, 41.32.865, 41.35.470, 41.35.650, 41.40.710, 41.40.805, WSR 02-03-120, § 415-111-400, filed 1/23/02, effective 3/1/02.]

WAC 415-111-410 Submitting a beneficiary designation for Plan 3 members. (1) You may designate or change a beneficiary for your defined contribution account at any time. When received by the department, the most recent beneficiary designation supersedes all prior beneficiaries and will be used for your Plan 3 defined contribution account.

(2) If you designate a beneficiary as a Plan 2 member and move to Plan 3, the Plan 2 beneficiary designation will be used as your Plan 3 defined contribution account beneficiary.

(3) The beneficiary you designate for your defined contribution account can be different from the beneficiary you designate when you apply for your defined benefit retirement.

[Statutory Authority: RCW 41.50.050(5), 41.40.835, 41.40.845, WSR 02-03-120, § 415-111-410, filed 1/23/02, effective 3/1/02.]

WAC 415-111-440 Gainsharing. (1) What is gain-sharing?

(a) When the average of investment returns on the net assets held in the Plan 2 and 3 pension funds exceeds ten per-

cent over a four-year period, the amount in excess of ten percent is called extraordinary gains.

(b) A portion of the extraordinary gains is paid to qualified Plan 3 members, retirees and designated survivors and is called gainsharing. The amount a person receives is calculated based on total service credit.

(c) Gainsharing payments are made in January of even-numbered years.

(d) Gainsharing is based on fiscal years (July 1 - June 30). If the retirement fund does not earn in excess of ten percent over the four-year period, there is no gainsharing payment.

(e) A gainsharing payment is credited to an investment program according to the investment allocations that you have on file. Gainsharing payments appear on your first quarter statement in even-numbered years.

(2) Are my survivors eligible for my gainshare payments if I die?

(a) If you die in-service and your surviving spouse or eligible child or children choose to receive a monthly retirement allowance, they will be eligible to receive gainsharing payments. If you do not have a surviving spouse or minor child or children, your account will no longer receive gainsharing payments.

(b) If you die as the beneficiary receiving a survivorship benefit from a death-in-service member with gainsharing payments, your gainsharing payments will continue to your minor child or children until they reach the age of majority or die. If you do not have any minor children, your account will no longer receive gainsharing payments.

(c) If you die after retirement and you chose a survivorship benefit, the gainsharing payment will continue to your survivor. If you did not choose a survivorship benefit, your account will no longer receive gainsharing payments.

(3) What happens if I die before the first payment is made? If you have qualified for a gainsharing payment, but die prior to the payment being made, the payment will be paid to your estate, or the person or persons, trust, or organization you nominated by the most recent written designation filed with the department.

[Statutory Authority: RCW 41.50.050(5) and chapter 41.31A RCW. WSR 02-03-120, § 415-111-440, filed 1/23/02, effective 3/1/02.]