

2 **SSB 6306 - H COMM AMD ADOPTED AS AMENDED 3/4/98**
3 By Committee on Appropriations

4

5 Strike everything after the enacting clause and insert the
6 following:

7 NEW SECTION. **Sec. 1.** The legislature recognizes that teachers
8 and school district employees share the same educational work
9 environment and academic calendar.

10 It is the intent of the legislature to achieve similar retirement
11 benefits for all educational employees by transferring the membership
12 of classified school employees in the public employees' retirement
13 system plan II to the Washington school employees' retirement system
14 plan II. The transfer of membership to the Washington school
15 employees' retirement system plan II is not intended to cause a
16 diminution or expansion of benefits for affected members. It is
17 enacted solely to provide public employees working under the same
18 conditions with the same options for retirement planning.

19 As members of the Washington school employees' retirement system
20 plan II, classified employees will have the same opportunity to
21 transfer to the Washington school employees' retirement system plan III
22 as their certificated coworkers. The ability to transfer to the
23 Washington school employees' retirement system plan III offers members
24 a new public retirement system that balances flexibility with
25 stability; provides increased employee control of investments and
26 responsible protection of the public's investment in employee benefits;
27 and encourages the pursuit of public sector careers without creating
28 barriers to other public or private sector employment.

29 NEW SECTION. **Sec. 2.** The definitions in this section apply
30 throughout this chapter, unless the context clearly requires otherwise:

31 (1) "Retirement system" means the Washington school employees'
32 retirement system provided for in this chapter.

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

1 (3) "State treasurer" means the treasurer of the state of
2 Washington.

3 (4) "Employer," for plan II and plan III members, means a school
4 district or an educational service district.

5 (5) "Member" means any employee included in the membership of the
6 retirement system, as provided for in section 4 of this act.

7 (6)(a) "Compensation earnable" for plan II and plan III members,
8 means salaries or wages earned by a member during a payroll period for
9 personal services, including overtime payments, and shall include wages
10 and salaries deferred under provisions established pursuant to sections
11 403(b), 414(h), and 457 of the United States internal revenue code, but
12 shall exclude nonmoney maintenance compensation and lump sum or other
13 payments for deferred annual sick leave, unused accumulated vacation,
14 unused accumulated annual leave, or any form of severance pay.

15 (b) "Compensation earnable" for plan II and plan III members also
16 includes the following actual or imputed payments, which are not paid
17 for personal services:

18 (i) Retroactive payments to an individual by an employer on
19 reinstatement of the employee in a position, or payments by an employer
20 to an individual in lieu of reinstatement, which are awarded or granted
21 as the equivalent of the salary or wage which the individual would have
22 earned during a payroll period shall be considered compensation
23 earnable to the extent provided in this subsection, and the individual
24 shall receive the equivalent service credit;

25 (ii) In any year in which a member serves in the legislature, the
26 member shall have the option of having such member's compensation
27 earnable be the greater of:

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

30 (B) Such member's actual compensation earnable received for
31 nonlegislative public employment and legislative service combined. Any
32 additional contributions to the retirement system required because
33 compensation earnable under (b)(ii)(A) of this subsection is greater
34 than compensation earnable under this (b)(ii)(B) of this subsection
35 shall be paid by the member for both member and employer contributions;

36 (iii) Assault pay only as authorized by RCW 27.04.100, 72.01.045,
37 and 72.09.240;

1 (iv) Compensation that a member would have received but for a
2 disability occurring in the line of duty only as authorized by RCW
3 41.40.038;

4 (v) Compensation that a member receives due to participation in the
5 leave sharing program only as authorized by RCW 41.04.650 through
6 41.04.670; and

7 (vi) Compensation that a member receives for being in standby
8 status. For the purposes of this section, a member is in standby
9 status when not being paid for time actually worked and the employer
10 requires the member to be prepared to report immediately for work, if
11 the need arises, although the need may not arise.

12 (7) "Service" for plan II and plan III members, means periods of
13 employment by a member in an eligible position or positions for one or
14 more employers for which compensation earnable is paid. Compensation
15 earnable earned for ninety or more hours in any calendar month shall
16 constitute one service credit month except as provided in section 19 of
17 this act. Compensation earnable earned for at least seventy hours but
18 less than ninety hours in any calendar month shall constitute one-half
19 service credit month of service. Compensation earnable earned for less
20 than seventy hours in any calendar month shall constitute one-quarter
21 service credit month of service. Time spent in standby status, whether
22 compensated or not, is not service.

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

25 (a) Service in any state elective position shall be deemed to be
26 full-time service.

27 (b) A member shall receive a total of not more than twelve service
28 credit months of service for such calendar year. If an individual is
29 employed in an eligible position by one or more employers the
30 individual shall receive no more than one service credit month during
31 any calendar month in which multiple service for ninety or more hours
32 is rendered.

33 (c) For purposes of plan II and III "forty-five days" as used in
34 RCW 28A.400.300 is equal to two service credit months. Use of less
35 than forty-five days of sick leave is creditable as allowed under this
36 subsection as follows:

37 (i) Less than eleven days equals one-quarter service credit month;

38 (ii) Eleven or more days but less than twenty-two days equals one-
39 half service credit month;

1 (iii) Twenty-two days equals one service credit month;
2 (iv) More than twenty-two days but less than thirty-three days
3 equals one and one-quarter service credit month; and
4 (v) Thirty-three or more days but less than forty-five days equals
5 one and one-half service credit month.
6 (8) "Service credit year" means an accumulation of months of
7 service credit which is equal to one when divided by twelve.
8 (9) "Service credit month" means a month or an accumulation of
9 months of service credit which is equal to one.
10 (10) "Membership service" means all service rendered as a member.
11 (11) "Beneficiary" for plan II and plan III members means any
12 person in receipt of a retirement allowance or other benefit provided
13 by this chapter resulting from service rendered to an employer by
14 another person.
15 (12) "Regular interest" means such rate as the director may
16 determine.
17 (13) "Accumulated contributions" means the sum of all contributions
18 standing to the credit of a member in the member's individual account,
19 including any amount paid under RCW 41.50.165(2), together with the
20 regular interest thereon.
21 (14) "Average final compensation" for plan II and plan III members
22 means the member's average compensation earnable of the highest
23 consecutive sixty months of service credit months prior to such
24 member's retirement, termination, or death. Periods constituting
25 authorized leaves of absence may not be used in the calculation of
26 average final compensation except under RCW 41.40.710(2).
27 (15) "Final compensation" means the annual rate of compensation
28 earnable by a member at the time of termination of employment.
29 (16) "Annuity" means payments for life derived from accumulated
30 contributions of a member. All annuities shall be paid in monthly
31 installments.
32 (17) "Pension" means payments for life derived from contributions
33 made by the employer. All pensions shall be paid in monthly
34 installments.
35 (18) "Retirement allowance" for plan II and plan III members means
36 monthly payments to a retiree or beneficiary as provided in this
37 chapter.
38 (19) "Employee" or "employed" means a person who is providing
39 services for compensation to an employer, unless the person is free

1 from the employer's direction and control over the performance of work.
2 The department shall adopt rules and interpret this subsection
3 consistent with common law.

4 (20) "Actuarial equivalent" means a benefit of equal value when
5 computed upon the basis of such mortality and other tables as may be
6 adopted by the director.

7 (21) "Retirement" means withdrawal from active service with a
8 retirement allowance as provided by this chapter.

9 (22) "Eligible position" means any position that, as defined by the
10 employer, normally requires five or more months of service a year for
11 which regular compensation for at least seventy hours is earned by the
12 occupant thereof. For purposes of this chapter an employer shall not
13 define "position" in such a manner that an employee's monthly work for
14 that employer is divided into more than one position.

15 (23) "Ineligible position" means any position which does not
16 conform with the requirements set forth in subsection (22) of this
17 section.

18 (24) "Leave of absence" means the period of time a member is
19 authorized by the employer to be absent from service without being
20 separated from membership.

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

24 (26) "Retiree" means any person who has begun accruing a retirement
25 allowance or other benefit provided by this chapter resulting from
26 service rendered to an employer while a member.

27 (27) "Director" means the director of the department.

28 (28) "State elective position" means any position held by any
29 person elected or appointed to state-wide office or elected or
30 appointed as a member of the legislature.

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

33 (30) "Plan II" means the Washington school employees' retirement
34 system plan II providing the benefits and funding provisions covering
35 persons who first became members of the public employees' retirement
36 system on and after October 1, 1977 and transferred to the Washington
37 school employees' retirement system under section 113 of this act.

38 (31) "Plan III" means the Washington school employees' retirement
39 system plan III providing the benefits and funding provisions covering

1 persons who first became members of the system on and after September
2 1, 2000, or who transfer from plan II under section 114 of this act.

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

7 (33) "Index A" means the index for the year prior to the
8 determination of a postretirement adjustment.

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

10 (35) "Adjustment ratio" means the value of index A divided by index
11 B.

12 (36) "Separation from service" occurs when a person has terminated
13 all employment with an employer.

14 (37) "Member account" or "member's account" for purposes of plan
15 III means the sum of the contributions and earnings on behalf of the
16 member in the defined contribution portion of plan III.

17 (38) "Classified employee" means an employee of a school district
18 or an educational service district who is not eligible for membership
19 in the teachers' retirement system established under chapter 41.32 RCW.

20 NEW SECTION. **Sec. 3.** A retirement system is hereby created for
21 the employees of school districts or educational service districts.
22 The administration and management of the retirement system, the
23 responsibility for making effective the provisions of this chapter, and
24 the authority to make all rules necessary therefor are hereby vested in
25 the department. All such rules shall be governed by the provisions of
26 chapter 34.05 RCW. This retirement system shall be known as the
27 Washington school employees' retirement system.

28 NEW SECTION. **Sec. 4.** Membership in the retirement system shall
29 consist of all regularly compensated classified employees and
30 appointive and elective officials of employers, as defined in this
31 chapter, with the following exceptions:

32 (1) Persons in ineligible positions;

33 (2)(a) Persons holding elective offices or persons appointed
34 directly by the governor: PROVIDED, That such persons shall have the
35 option of applying for membership during such periods of employment:
36 AND PROVIDED FURTHER, That any persons holding or who have held
37 elective offices or persons appointed by the governor who are members

1 in the retirement system and who have, prior to becoming such members,
2 previously held an elective office, and did not at the start of such
3 initial or successive terms of office exercise their option to become
4 members, may apply for membership to be effective during such term or
5 terms of office, and shall be allowed to establish the service credit
6 applicable to such term or terms of office upon payment of the employee
7 contributions therefor by the employee with interest as determined by
8 the director and employer contributions therefor by the employer or
9 employee with interest as determined by the director: AND PROVIDED
10 FURTHER, That all contributions with interest submitted by the employee
11 under this subsection shall be placed in the employee's individual
12 account in the employee's savings fund and be treated as any other
13 contribution made by the employee, with the exception that any
14 contributions submitted by the employee in payment of the employer's
15 obligation, together with the interest the director may apply to the
16 employer's contribution, shall not be considered part of the member's
17 annuity for any purpose except withdrawal of contributions;

18 (b) A member holding elective office who has elected to apply for
19 membership pursuant to (a) of this subsection and who later wishes to
20 be eligible for a retirement allowance shall have the option of ending
21 his or her membership in the retirement system. A member wishing to
22 end his or her membership under this subsection must file on a form
23 supplied by the department a statement indicating that the member
24 agrees to irrevocably abandon any claim for service for future periods
25 served as an elected official. A member who receives more than fifteen
26 thousand dollars per year in compensation for his or her elective
27 service, adjusted annually for inflation by the director, is not
28 eligible for the option provided by this subsection (2)(b);

29 (3) Retirement system retirees: PROVIDED, That following
30 reemployment in an eligible position, a retiree may elect to
31 prospectively become a member of the retirement system if otherwise
32 eligible;

33 (4) Persons enrolled in state-approved apprenticeship programs,
34 authorized under chapter 49.04 RCW, and who are employed by employers
35 to earn hours to complete such apprenticeship programs, if the employee
36 is a member of a union-sponsored retirement plan and is making
37 contributions to such a retirement plan or if the employee is a member
38 of a Taft-Hartley retirement plan;

1 (5) Persons rendering professional services to an employer on a
2 fee, retainer, or contract basis or when the income from these services
3 is less than fifty percent of the gross income received from the
4 person's practice of a profession;

5 (6) Employees who (a) are not citizens of the United States, (b) do
6 not reside in the United States, and (c) perform duties outside of the
7 United States;

8 (7) Employees who (a) are not citizens of the United States, (b)
9 are not covered by chapter 41.48 RCW, (c) are not excluded from
10 membership under this chapter or chapter 41.04 RCW, (d) are residents
11 of this state, and (e) make an irrevocable election to be excluded from
12 membership, in writing, which is submitted to the director within
13 thirty days after employment in an eligible position;

14 (8) Employees who are citizens of the United States and who reside
15 and perform duties for an employer outside of the United States:
16 PROVIDED, That unless otherwise excluded under this chapter or chapter
17 41.04 RCW, the employee may apply for membership (a) within thirty days
18 after employment in an eligible position and membership service credit
19 shall be granted from the first day of membership service, and (b)
20 after this thirty-day period, but membership service credit shall be
21 granted only if payment is made for the noncredited membership service
22 under RCW 41.50.165(2), otherwise service shall be from the date of
23 application.

24 NEW SECTION. **Sec. 5.** Any person who has been employed in a
25 nonelective position for at least nine months and who has made member
26 contributions required under this chapter throughout such period, shall
27 be deemed to have been in an eligible position during such period of
28 employment.

29 NEW SECTION. **Sec. 6.** Within thirty days after his or her
30 employment or his or her acceptance into membership each employee or
31 appointive or elective official shall submit to the department a
32 statement of his or her name and such other information as the
33 department shall require. Compliance with the provisions set forth in
34 this section shall be considered to be a condition of employment and
35 failure by an employee to comply may result in separation from service.

1 NEW SECTION. **Sec. 7.** (1)(a) If a retiree enters employment with
2 an employer sooner than one calendar month after his or her accrual
3 date, the retiree's monthly retirement allowance will be reduced by
4 five and one-half percent for every eight hours worked during that
5 month. This reduction will be applied each month until the retiree
6 remains absent from employment with an employer for one full calendar
7 month.

8 (b) The benefit reduction provided in (a) of this subsection will
9 accrue for a maximum of one hundred sixty hours per month. Any benefit
10 reduction over one hundred percent will be applied to the benefit the
11 retiree is eligible to receive in subsequent months.

12 (2) A retiree who has satisfied the break in employment requirement
13 of subsection (1) of this section, may work up to five months per
14 calendar year in an eligible position without suspension of his or her
15 benefit.

16 (3) If the retiree opts to reestablish membership under section 4
17 of this act, he or she terminates his or her retirement status and
18 becomes a member. Retirement benefits shall not accrue during the
19 period of membership and the individual shall make contributions and
20 receive membership credit. Such a member shall have the right to again
21 retire if eligible in accordance with section 103 or 209 of this act.
22 However, if the right to retire is exercised to become effective before
23 the member has rendered two uninterrupted years of service, the
24 retirement formula and survivor options the member had at the time of
25 the member's previous retirement shall be reinstated.

26 NEW SECTION. **Sec. 8.** Those members subject to this chapter who
27 became disabled in the line of duty and who received or are receiving
28 benefits under Title 51 RCW or a similar federal workers' compensation
29 program shall receive or continue to receive service credit subject to
30 the following:

31 (1) No member may receive more than one month's service credit in
32 a calendar month.

33 (2) No service credit under this section may be allowed after a
34 member separates or is separated without leave of absence.

35 (3) Employer contributions shall be paid by the employer at the
36 rate in effect for the period of the service credited.

1 (4) Employee contributions shall be collected by the employer and
2 paid to the department at the rate in effect for the period of service
3 credited.

4 (5) Contributions shall be based on the regular compensation which
5 the member would have received had the disability not occurred. If
6 contribution payments are made retroactively, interest shall be charged
7 at the rate set by the director on both employee and employer
8 contributions. No service credit shall be granted until the employee
9 contribution has been paid.

10 (6) The service and compensation credit shall not be granted for a
11 period to exceed twelve consecutive months.

12 (7) Should the legislature revoke the service credit authorized
13 under this section or repeal this section, no affected employee is
14 entitled to receive the credit as a matter of contractual right.

15 NEW SECTION. **Sec. 9.** The deductions from the compensation of
16 members, provided for in section 104 of this act, shall be made
17 notwithstanding that the minimum compensation provided for by law for
18 any member shall be reduced thereby. Every member shall be deemed to
19 consent and agree to the deductions made and provided for in this
20 chapter and receipt in full for his or her salary or compensation, and
21 payment, less the deductions, shall be a full and complete discharge
22 and acquittance of all claims and demands whatsoever for the services
23 rendered by the person during the period covered by the payment, except
24 as to benefits provided for under this chapter.

25 NEW SECTION. **Sec. 10.** (1) The director shall report to each
26 employer the contribution rates required for the ensuing biennium or
27 fiscal year, whichever is applicable.

28 (2) Beginning September 1, 1990, the amount to be collected as the
29 employer's contribution shall be computed by applying the applicable
30 rates established in chapter 41.45 RCW to the total compensation
31 earnable of employer's members as shown on the current payrolls of the
32 employer. Each employer shall compute at the end of each month the
33 amount due for that month and the same shall be paid as are its other
34 obligations.

35 (3) In the event of failure, for any reason, of an employer other
36 than a political subdivision of the state to have remitted amounts due
37 for membership service of any of the employer's members rendered during

1 a prior biennium, the director shall bill such employer for such
2 employer's contribution together with such charges as the director
3 deems appropriate in accordance with RCW 41.50.120. Such billing shall
4 be paid by the employer as, and the same shall be, a proper charge
5 against any moneys available or appropriated to such employer for
6 payment of current biennial payrolls.

7 NEW SECTION. **Sec. 11.** (1) Subject to subsections (2) and (3) of
8 this section, the right of a person to a pension, an annuity, or
9 retirement allowance, any optional benefit, any other right accrued or
10 accruing to any person under the provisions of this chapter, the
11 various funds created by this chapter, and all moneys and investments
12 and income thereof, are hereby exempt from any state, county,
13 municipal, or other local tax, and shall not be subject to execution,
14 garnishment, attachment, the operation of bankruptcy or insolvency
15 laws, or other process of law whatsoever, and shall be unassignable.

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

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

1 NEW SECTION. **Sec. 12.** A member shall not receive a disability
2 retirement benefit under section 105 or 210 of this act if the
3 disability is the result of criminal conduct by the member committed
4 after April 21, 1997.

5 NEW SECTION. **Sec. 13.** Any person who knowingly makes any false
6 statements, or falsifies or permits to be falsified any record or
7 records of this retirement system in any attempt to defraud the
8 retirement system as a result of such act, is guilty of a gross
9 misdemeanor.

10 NEW SECTION. **Sec. 14.** (1) Any person who was a member of the
11 state-wide city employees' retirement system governed by chapter 41.44
12 RCW and who was never reemployed by an employer as defined in RCW
13 41.40.010 and who is employed by an employer as defined in section 2 of
14 this act, may, in a writing filed with the director, elect to:

15 (a) Transfer to this retirement system all service currently
16 credited under chapter 41.44 RCW;

17 (b) Reestablish and transfer to this retirement system all service
18 which was previously credited under chapter 41.44 RCW but which was
19 canceled by discontinuance of service and withdrawal of accumulated
20 contributions as provided in RCW 41.44.190. The service may be
21 reestablished and transferred only upon payment by the member to the
22 employees' savings fund of this retirement system of the amount
23 withdrawn plus interest thereon from the date of withdrawal until the
24 date of payment at a rate determined by the director. No additional
25 payments are required for service credit described in this subsection
26 if already established under this chapter; and

27 (c) Establish service credit for the initial period of employment
28 not to exceed six months, prior to establishing membership under
29 chapter 41.44 RCW, upon payment in full by the member of the total
30 employer's contribution to the benefit account fund of this retirement
31 system that would have been made under this chapter when the initial
32 service was rendered. The payment shall be based on the first month's
33 compensation earnable as a member of the state-wide city employees'
34 retirement system and as defined in RCW 41.44.030(13). However, a
35 person who has established service credit under RCW 41.40.010(13) (c)
36 or (d) shall not establish additional credit under this subsection nor
37 may anyone who establishes credit under this subsection establish any

1 additional credit under RCW 41.40.010(13) (c) or (d). No additional
2 payments are required for service credit described in this subsection
3 if already established under this chapter.

4 (2) The written election must be filed and the payments must be
5 completed in full within one year after employment by an employer.

6 (3) Upon receipt of the written election and payments required by
7 subsection (1) of this section from any retiree described in subsection
8 (1) of this section, the department shall recompute the retiree's
9 allowance in accordance with this section and shall pay any additional
10 benefit resulting from such recomputation retroactively to the date of
11 retirement from the system governed by this chapter.

12 (4) Any person who was a member of the state-wide city employees'
13 retirement system under chapter 41.44 RCW and also became a member of
14 the public employees' retirement system established under chapter 41.40
15 RCW or the Washington school employees' retirement system established
16 under this chapter, and did not make the election under RCW 41.40.058
17 or subsection (1) of this section because he or she was not a member of
18 the public employees' retirement system prior to July 27, 1987, or did
19 not meet the time limitations of RCW 41.40.058 or subsection (2) of
20 this section, may elect to do any of the following:

21 (a) Transfer to this retirement system all service currently
22 credited under chapter 41.44 RCW;

23 (b) Reestablish and transfer to this retirement system all service
24 that was previously credited under chapter 41.44 RCW but was canceled
25 by discontinuance of service and withdrawal of accumulated
26 contributions as provided in RCW 41.44.190; and

27 (c) Establish service credit for the initial period of employment
28 not to exceed six months, prior to establishing membership under
29 chapter 41.44 RCW.

30 To make the election or elections, the person must pay the amount
31 required under RCW 41.50.165(2) prior to retirement from this
32 retirement system.

33 NEW SECTION. **Sec. 15.** Any person aggrieved by any decision of the
34 department affecting his or her legal rights, duties, or privileges
35 must, before he or she appeals to the courts, file with the director by
36 mail or personally within sixty days from the day the decision was
37 communicated to the person, a notice for a hearing before the
38 director's designee. The notice of hearing shall set forth in full

1 detail the grounds upon which the person considers the decision unjust
2 or unlawful and shall include every issue to be considered by the
3 department, and it must contain a detailed statement of facts upon
4 which the person relies in support of the appeal. These persons shall
5 be deemed to have waived all objections or irregularities concerning
6 the matter on which the appeal is taken, other than those specifically
7 set forth in the notice of hearing or appearing in the records of the
8 retirement system.

9 NEW SECTION. **Sec. 16.** Following its receipt of a notice for
10 hearing in accordance with section 15 of this act, a hearing shall be
11 held by the director or a duly authorized representative, in the county
12 of the residence of the claimant at a time and place designated by the
13 director. Such hearing shall be conducted and governed in all respects
14 by the provisions of chapter 34.05 RCW.

15 NEW SECTION. **Sec. 17.** Judicial review of any final decision and
16 order by the director is governed by the provisions of chapter 34.05
17 RCW.

18 NEW SECTION. **Sec. 18.** No bond of any kind shall be required of a
19 claimant appealing to the superior court, the court of appeals, or the
20 supreme court from a finding of the department affecting the claimant's
21 right to retirement or disability benefits.

22 NEW SECTION. **Sec. 19.** (1) Except for any period prior to the
23 member's employment in an eligible position, a plan II or plan III
24 member who is employed by a school district or districts or an
25 educational service district:

26 (a) Shall receive a service credit month for each month of the
27 period from September through August of the following year if he or she
28 is employed in an eligible position, earns compensation earnable for
29 eight hundred ten hours or more during that period, and is employed
30 during nine months of that period;

31 (b) If a member in an eligible position for each month of the
32 period from September through August of the following year does not
33 meet the hours requirements of (a) of this subsection, the member is
34 entitled to one-half service credit month for each month of the period
35 if he or she earns earnable compensation for at least six hundred

1 thirty hours but less than eight hundred ten hours during that period,
2 and is employed nine months of that period;

3 (c) In all other instances, a member in an eligible position is
4 entitled to service credit months as follows:

5 (i) One service credit month for each month in which compensation
6 is earned for ninety or more hours;

7 (ii) One-half service credit month for each month in which
8 compensation is earned for at least seventy hours but less than ninety
9 hours; and

10 (iii) One-quarter service credit month for each month in which
11 compensation is earned for less than seventy hours.

12 (2) The department shall adopt rules implementing this section.

13 NEW SECTION. **Sec. 20.** RCW 43.01.044 shall not result in any
14 increase in retirement benefits. The rights extended to state officers
15 and employees under RCW 43.01.044 are not intended to and shall not
16 have any effect on retirement benefits under this chapter.

17 NEW SECTION. **Sec. 21.** (1) The annual compensation taken into
18 account in calculating retiree benefits under this system shall not
19 exceed the limits imposed by section 401(a)(17) of the federal internal
20 revenue code for qualified trusts.

21 (2) The department shall adopt rules as necessary to implement this
22 section.

23 NEW SECTION. **Sec. 22.** Beginning July 1, 1979, and every year
24 thereafter, the department shall determine the following information
25 for each retired member or beneficiary whose retirement allowance has
26 been in effect for at least one year:

27 (1) The original dollar amount of the retirement allowance;

28 (2) The index for the calendar year prior to the effective date of
29 the retirement allowance, to be known as "index A";

30 (3) The index for the calendar year prior to the date of
31 determination, to be known as "index B"; and

32 (4) The ratio obtained when index B is divided by index A.

33 The value of the ratio obtained shall be the annual adjustment to
34 the original retirement allowance and shall be applied beginning with
35 the July payment. In no event, however, shall the annual adjustment:

1 (a) Produce a retirement allowance which is lower than the original
2 retirement allowance;

3 (b) Exceed three percent in the initial annual adjustment; or

4 (c) Differ from the previous year's annual adjustment by more than
5 three percent.

6 For the purposes of this section, "index" means, for any calendar
7 year, that year's average consumer price index--Seattle, Washington
8 area for urban wage earners and clerical workers, all items, compiled
9 by the bureau of labor statistics, United States department of labor.

10 NEW SECTION. **Sec. 23.** (1) Upon retirement for service as
11 prescribed in section 103 or 209 of this act or retirement for
12 disability under section 105 or 210 of this act, a member shall elect
13 to have the retirement allowance paid pursuant to one of the following
14 options, calculated so as to be actuarially equivalent to each other.

15 (a) Standard allowance. A member electing this option shall
16 receive a retirement allowance payable throughout such member's life.
17 However, if the retiree dies before the total of the retirement
18 allowance paid to such retiree equals the amount of such retiree's
19 accumulated contributions at the time of retirement, then the balance
20 shall be paid to the member's estate, or such person or persons, trust,
21 or organization as the retiree shall have nominated by written
22 designation duly executed and filed with the department; or if there be
23 no such designated person or persons still living at the time of the
24 retiree's death, then to the surviving spouse; or if there be neither
25 such designated person or persons still living at the time of death nor
26 a surviving spouse, then to the retiree's legal representative.

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

36 (2)(a) A member, if married, must provide the written consent of
37 his or her spouse to the option selected under this section, except as
38 provided in (b) of this subsection. If a member is married and both

1 the member and the member's spouse do not give written consent to an
2 option under this section, the department shall pay a joint and fifty
3 percent survivor benefit calculated to be actuarially equivalent to the
4 benefit options available under subsection (1) of this section unless
5 spousal consent is not required as provided in (b) of this subsection.

6 (b) If a copy of a dissolution order designating a survivor
7 beneficiary under RCW 41.50.790 has been filed with the department at
8 least thirty days prior to a member's retirement:

9 (i) The department shall honor the designation as if made by the
10 member under subsection (1) of this section; and

11 (ii) The spousal consent provisions of (a) of this subsection do
12 not apply.

13 NEW SECTION. **Sec. 24.** (1) Except as provided in section 7 of this
14 act, no retiree under the provisions of plan II shall be eligible to
15 receive such retiree's monthly retirement allowance if he or she is
16 employed in an eligible position as defined in section 2 of this act,
17 RCW 41.40.010 or 41.32.010, or as a law enforcement officer or fire
18 fighter as defined in RCW 41.26.030, except that a retiree who ends his
19 or her membership in the retirement system pursuant to RCW
20 41.40.023(3)(b) is not subject to this section if the retiree's only
21 employment is as an elective official.

22 (2) If a retiree's benefits have been suspended under this section,
23 his or her benefits shall be reinstated when the retiree terminates the
24 employment that caused his or her benefits to be suspended. Upon
25 reinstatement, the retiree's benefits shall be actuarially recomputed
26 pursuant to the rules adopted by the department.

27 (3) The department shall adopt rules implementing this section.

28 NEW SECTION. **Sec. 25.** Sections 1 through 24 of this act apply to
29 members of plan II and plan III.

30 NEW SECTION. **Sec. 101.** A member of the retirement system shall
31 receive a retirement allowance equal to two percent of such member's
32 average final compensation for each service credit year of service.

33 NEW SECTION. **Sec. 102.** (1) The director may pay a member eligible
34 to receive a retirement allowance or the member's beneficiary, subject
35 to the provisions of subsection (5) of this section, a lump sum payment

1 in lieu of a monthly benefit if the initial monthly benefit computed in
2 accordance with section 101 of this act would be less than fifty
3 dollars. The lump sum payment shall be the greater of the actuarial
4 equivalent of the monthly benefits or an amount equal to the
5 individual's accumulated contributions plus accrued interest.

6 (2) A retiree or a beneficiary, subject to the provisions of
7 subsection (5) of this section, who is receiving a regular monthly
8 benefit of less than fifty dollars may request, in writing, to convert
9 from a monthly benefit to a lump sum payment. If the director approves
10 the conversion, the calculation of the actuarial equivalent of the
11 total estimated regular benefit will be computed based on the
12 beneficiary's age at the time the benefit initially accrued. The lump
13 sum payment will be reduced to reflect any payments received on or
14 after the initial benefit accrual date.

15 (3) Persons covered under the provisions of RCW 41.40.625 or
16 subsection (1) of this section may upon returning to member status
17 reinstate all previous service by depositing the lump sum payment
18 received, with interest as computed by the director, within two years
19 of returning to service or prior to rereading, whichever comes first.
20 In computing the amount due, the director shall exclude the accumulated
21 value of the normal payments the member would have received while in
22 beneficiary status if the lump sum payment had not occurred.

23 (4) If a member fails to meet the time limitations under subsection
24 (3) of this section, reinstatement of all previous service will occur
25 if the member pays the amount required under RCW 41.50.165(2). The
26 amount, however, shall exclude the accumulated value of the normal
27 payments the member would have received while in beneficiary status if
28 the lump sum payment had not occurred.

29 (5) Only persons entitled to or receiving a service retirement
30 allowance under section 101 of this act or an earned disability
31 allowance under section 105 of this act qualify for participation under
32 this section.

33 (6) It is the intent of the legislature that any member who
34 receives a settlement under this section shall be deemed to be retired
35 from this system.

36 NEW SECTION. Sec. 103. (1) NORMAL RETIREMENT. Any member with at
37 least five service credit years who has attained at least age sixty-

1 five shall be eligible to retire and to receive a retirement allowance
2 computed according to the provisions of section 101 of this act.

3 (2) EARLY RETIREMENT. Any member who has completed at least twenty
4 service credit years and has attained age fifty-five shall be eligible
5 to retire and to receive a retirement allowance computed according to
6 the provisions of section 101 of this act, except that a member
7 retiring pursuant to this subsection shall have the retirement
8 allowance actuarially reduced to reflect the difference in the number
9 of years between age at retirement and the attainment of age sixty-
10 five.

11 NEW SECTION. **Sec. 104.** The required contribution rates to the
12 retirement system for both members and employers shall be established
13 by the director from time to time as may be necessary upon the advice
14 of the state actuary. The state actuary shall use the aggregate
15 actuarial cost method to calculate contribution rates. The employer
16 contribution rate calculated under this section shall be used only for
17 the purpose of determining the amount of employer contributions to be
18 deposited in the plan II fund from the total employer contributions
19 collected under section 10 of this act.

20 Contribution rates required to fund the costs of the retirement
21 system shall always be equal for members and employers, except as
22 herein provided. Any adjustments in contribution rates required from
23 time to time for future costs shall likewise be shared equally by the
24 members and employers.

25 Any increase in the contribution rate required as the result of a
26 failure of an employer to make any contribution required by this
27 section shall be borne in full by the employer not making the
28 contribution.

29 The director shall notify all employers of any pending adjustment
30 in the required contribution rate and such increase shall be announced
31 at least thirty days prior to the effective date of the change.

32 Members contributions required by this section shall be deducted
33 from the members compensation earnable each payroll period. The
34 members contribution and the employers contribution shall be remitted
35 directly to the department within fifteen days following the end of the
36 calendar month during which the payroll period ends.

1 NEW SECTION. **Sec. 105.** (1) A member of the retirement system who
2 becomes totally incapacitated for continued employment by an employer
3 as determined by the department upon recommendation of the department
4 shall be eligible to receive an allowance under the provisions of
5 sections 101 through 112 of this act. The member shall receive a
6 monthly disability allowance computed as provided for in section 101 of
7 this act and shall have this allowance actuarially reduced to reflect
8 the difference in the number of years between age at disability and the
9 attainment of age sixty-five.

10 Any member who receives an allowance under the provisions of this
11 section shall be subject to comprehensive medical examinations as
12 required by the department. If these medical examinations reveal that
13 a member has recovered from the incapacitating disability and the
14 member is offered reemployment by an employer at a comparable
15 compensation, the member shall cease to be eligible for the allowance.

16 (2) If the recipient of a monthly retirement allowance under this
17 section dies before the total of the retirement allowance paid to the
18 recipient equals the amount of the accumulated contributions at the
19 date of retirement, then the balance shall be paid to the member's
20 estate, or the person or persons, trust, or organization as the
21 recipient has nominated by written designation duly executed and filed
22 with the director, or, if there is no designated person or persons
23 still living at the time of the recipient's death, then to the
24 surviving spouse, or, if there is no designated person or persons still
25 living at the time of his or her death nor a surviving spouse, then to
26 his or her legal representative.

27 NEW SECTION. **Sec. 106.** Any member or beneficiary eligible to
28 receive a retirement allowance under the provisions of section 103,
29 105, or 107 of this act shall be eligible to commence receiving a
30 retirement allowance after having filed written application with the
31 department.

32 (1) Retirement allowances paid to members under the provisions of
33 section 103 of this act shall accrue from the first day of the calendar
34 month immediately following such member's separation from employment.

35 (2) Retirement allowances paid to vested members no longer in
36 service, but qualifying for such an allowance pursuant to section 103
37 of this act, shall accrue from the first day of the calendar month
38 immediately following such qualification.

1 (3) Disability allowances paid to disabled members under the
2 provisions of section 105 of this act shall accrue from the first day
3 of the calendar month immediately following such member's separation
4 from employment for disability.

5 (4) Retirement allowances paid as death benefits under the
6 provisions of section 107 of this act shall accrue from the first day
7 of the calendar month immediately following the member's death.

8 NEW SECTION. **Sec. 107.** (1) Except as provided in RCW 11.07.010,
9 if a member or a vested member who has not completed at least ten years
10 of service dies, the amount of the accumulated contributions standing
11 to such member's credit in the retirement system at the time of such
12 member's death, less any amount identified as owing to an obligee upon
13 withdrawal of accumulated contributions pursuant to a court order filed
14 under RCW 41.50.670, shall be paid to the member's estate, or such
15 person or persons, trust, or organization as the member shall have
16 nominated by written designation duly executed and filed with the
17 department. If there be no such designated person or persons still
18 living at the time of the member's death, such member's accumulated
19 contributions standing to such member's credit in the retirement
20 system, less any amount identified as owing to an obligee upon
21 withdrawal of accumulated contributions pursuant to a court order filed
22 under RCW 41.50.670, shall be paid to the member's surviving spouse as
23 if in fact such spouse had been nominated by written designation, or if
24 there be no such surviving spouse, then to such member's legal
25 representatives.

26 (2) If a member who is eligible for retirement or a member who has
27 completed at least ten years of service dies, the surviving spouse or
28 eligible child or children shall elect to receive either:

29 (a) A retirement allowance computed as provided for in section 103
30 of this act, actuarially reduced by the amount of any lump sum benefit
31 identified as owing to an obligee upon withdrawal of accumulated
32 contributions pursuant to a court order filed under RCW 41.50.670 and
33 actuarially adjusted to reflect a joint and one hundred percent
34 survivor option under section 23 of this act and if the member was not
35 eligible for normal retirement at the date of death a further reduction
36 as described in section 103 of this act; if a surviving spouse who is
37 receiving a retirement allowance dies leaving a child or children of
38 the member under the age of majority, then such child or children shall

1 continue to receive an allowance in an amount equal to that which was
2 being received by the surviving spouse, share and share alike, until
3 such child or children reach the age of majority; if there is no
4 surviving spouse eligible to receive an allowance at the time of the
5 member's death, such member's child or children under the age of
6 majority shall receive an allowance, share and share alike, calculated
7 as herein provided making the assumption that the ages of the spouse
8 and member were equal at the time of the member's death; or

9 (b) The member's accumulated contributions, less any amount
10 identified as owing to an obligee upon withdrawal of accumulated
11 contributions pursuant to a court order filed under RCW 41.50.670.

12 (3) If a member who is eligible for retirement or a member who has
13 completed at least ten years of service dies and is not survived by a
14 spouse or an eligible child, then the accumulated contributions
15 standing to the member's credit, less any amount identified as owing to
16 an obligee upon withdrawal of accumulated contributions pursuant to a
17 court order filed under RCW 41.50.670, shall be paid:

18 (a) To a person or persons, estate, trust, or organization as the
19 member shall have nominated by written designation duly executed and
20 filed with the department; or

21 (b) If there is no such designated person or persons still living
22 at the time of the member's death, then to the member's legal
23 representatives.

24 NEW SECTION. **Sec. 108.** (1) A member who is on a paid leave of
25 absence authorized by a member's employer shall continue to receive
26 service credit as provided for under the provisions of sections 101
27 through 112 of this act.

28 (2) A member who receives compensation from an employer while on an
29 authorized leave of absence to serve as an elected official of a labor
30 organization, and whose employer is reimbursed by the labor
31 organization for the compensation paid to the member during the period
32 of absence, may also be considered to be on a paid leave of absence.
33 This subsection shall only apply if the member's leave of absence is
34 authorized by a collective bargaining agreement that provides that the
35 member retains seniority rights with the employer during the period of
36 leave. The compensation earnable reported for a member who establishes
37 service credit under this subsection may not be greater than the salary

1 paid to the highest paid job class covered by the collective bargaining
2 agreement.

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

8 (a) The member makes both the plan II employer and member
9 contributions plus interest as determined by the department for the
10 period of the authorized leave of absence within five years of
11 resumption of service or prior to retirement whichever comes sooner; or

12 (b) If not within five years of resumption of service but prior to
13 retirement, pay the amount required under RCW 41.50.165(2).

14 The contributions required under (a) of this subsection shall be
15 based on the average of the member's compensation earnable at both the
16 time the authorized leave of absence was granted and the time the
17 member resumed employment.

18 (4) A member who leaves the employ of an employer to enter the
19 armed forces of the United States shall be entitled to retirement
20 system service credit for up to five years of military service. This
21 subsection shall be administered in a manner consistent with the
22 requirements of the federal uniformed services employment and
23 reemployment rights act.

24 (a) The member qualifies for service credit under this subsection
25 if:

26 (i) Within ninety days of the member's honorable discharge from the
27 United States armed forces, the member applies for reemployment with
28 the employer who employed the member immediately prior to the member
29 entering the United States armed forces; and

30 (ii) The member makes the employee contributions required under
31 section 104 of this act within five years of resumption of service or
32 prior to retirement, whichever comes sooner; or

33 (iii) Prior to retirement and not within ninety days of the
34 member's honorable discharge or five years of resumption of service the
35 member pays the amount required under RCW 41.50.165(2).

36 (b) Upon receipt of member contributions under (a)(ii) of this
37 subsection, the department shall establish the member's service credit
38 and shall bill the employer for its contribution required under section

1 104 of this act for the period of military service, plus interest as
2 determined by the department.

3 (c) The contributions required under (a)(ii) of this subsection
4 shall be based on the compensation the member would have earned if not
5 on leave, or if that cannot be estimated with reasonable certainty, the
6 compensation reported for the member in the year prior to when the
7 member went on military leave.

8 NEW SECTION. **Sec. 109.** A member who separates or has separated
9 after having completed at least five years of service may remain a
10 member during the period of such member's absence from service for the
11 exclusive purpose only of receiving a retirement allowance under the
12 provisions of section 103 of this act if such member maintains the
13 member's accumulated contributions intact.

14 NEW SECTION. **Sec. 110.** A member who ceases to be an employee of
15 an employer except by service or disability retirement may request a
16 refund of the member's accumulated contributions. The refund shall be
17 made within ninety days following the receipt of the request and
18 notification of termination through the contribution reporting system
19 by the employer; except that in the case of death, an initial payment
20 shall be made within thirty days of receipt of request for such payment
21 and notification of termination through the contribution reporting
22 system by the employer. A member who files a request for refund and
23 subsequently enters into employment with another employer prior to the
24 refund being made shall not be eligible for a refund. The refund of
25 accumulated contributions shall terminate all rights to benefits under
26 sections 101 through 112 of this act.

27 NEW SECTION. **Sec. 111.** (1) A member, who had left service and
28 withdrawn the member's accumulated contributions, shall receive service
29 credit for such prior service if the member restores all withdrawn
30 accumulated contributions together with interest since the time of
31 withdrawal as determined by the department.

32 The restoration of such funds must be completed within five years
33 of the resumption of service or prior to retirement, whichever occurs
34 first.

35 (2) If a member fails to meet the time limitations of subsection
36 (1) of this section, the member may receive service credit destroyed by

1 the withdrawn contributions if the amount required under RCW
2 41.50.165(2) is paid.

3 NEW SECTION. **Sec. 112.** Sections 101 through 111 and 114 of this
4 act apply only to plan II members.

5 NEW SECTION. **Sec. 113.** A new section is added to chapter 41.40
6 RCW to read as follows:

7 (1) Effective September 1, 2000, the membership of all plan II
8 members currently employed in eligible positions in a school district
9 or educational service district and all plan II service credit for such
10 members, is transferred to the Washington school employees' retirement
11 system plan II. Plan II members who have withdrawn their member
12 contributions for prior plan II service may restore contributions and
13 service credit to the Washington school employees' retirement system
14 plan II as provided under RCW 41.40.740.

15 (2) The membership and previous service credit of a plan II member
16 not employed in an eligible position on September 1, 2000, will be
17 transferred to the Washington school employees' retirement system plan
18 II when he or she becomes employed in an eligible position. Plan II
19 members not employed in an eligible position on September 1, 2000, who
20 have withdrawn their member contributions for prior plan II service may
21 restore contributions and service credit to the Washington school
22 employees' retirement system plan II as provided under RCW 41.40.740.

23 (3) Members who restore contributions and service credit under
24 subsection (1) or (2) of this section shall have their contributions
25 and service credit transferred to the Washington school employees'
26 retirement system.

27 NEW SECTION. **Sec. 114.** (1) Every plan II member employed by an
28 employer in an eligible position has the option to make an irrevocable
29 transfer to plan III.

30 (2) All service credit in plan II shall be transferred to the
31 defined benefit portion of plan III.

32 (3) Any plan II member who wishes to transfer to plan III after
33 February 28, 2001, may transfer during the month of January in any
34 following year, provided that the member earns service credit for that
35 month.

1 (4) The accumulated contributions in plan II, less fifty percent of
2 any contributions made pursuant to RCW 41.50.165(2) shall be
3 transferred to the member's account in the defined contribution portion
4 established in chapter 41.34 RCW, pursuant to procedures developed by
5 the department and subject to RCW 41.34.090. Contributions made
6 pursuant to RCW 41.50.165(2) that are not transferred to the member's
7 account shall be transferred to the fund created in RCW 41.50.075(2),
8 except that interest earned on all such contributions shall be
9 transferred to the member's account.

10 (5) The legislature reserves the right to discontinue the right to
11 transfer under this section.

12 (6) Anyone previously retired from plan II is prohibited from
13 transferring to plan III.

14 NEW SECTION. **Sec. 201.** (1) Sections 201 through 213 of this act
15 apply only to plan III members.

16 (2) Plan III consists of two separate elements: (a) A defined
17 benefit portion covered under this subchapter; and (b) a defined
18 contribution portion covered under chapter 41.34 RCW.

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

21 NEW SECTION. **Sec. 202.** All classified employees who first become
22 employed by an employer in an eligible position on or after September
23 1, 2000, shall be members of plan III.

24 NEW SECTION. **Sec. 203.** (1) A member of the retirement system
25 shall receive a retirement allowance equal to one percent of such
26 member's average final compensation for each service credit year.

27 (2) The retirement allowance payable under section 209 of this act
28 to a member who separates after having completed at least twenty
29 service credit years shall be increased by twenty-five one-hundredths
30 of one percent, compounded for each month from the date of separation
31 to the date that the retirement allowance commences.

32 NEW SECTION. **Sec. 204.** (1) Anyone who requests to transfer under
33 section 114 of this act before March 1, 2001, and establishes service
34 credit for January 2001, shall have their member account increased by
35 sixty-five percent of:

1 (a) The member's public employees' retirement system plan II
2 accumulated contributions as of January 1, 2000, less fifty percent of
3 any payments made pursuant to RCW 41.50.165(2); or

4 (b) All amounts withdrawn after January 1, 2000, which are
5 completely restored before March 1, 2001.

6 (2) If a member who requests to transfer dies before January 1,
7 2001, the additional payment provided by this section shall be paid to
8 the member's estate, or the person or persons, trust, or organization
9 the member nominated by written designation duly executed and filed
10 with the department.

11 (3) The legislature reserves the right to modify or discontinue the
12 right to an additional payment under this section for any plan II
13 members who have not previously transferred to plan III.

14 NEW SECTION. **Sec. 205.** Any member or beneficiary eligible to
15 receive a retirement allowance under the provisions of section 209,
16 210, or 212 of this act is eligible to commence receiving a retirement
17 allowance after having filed written application with the department.

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

21 (2) Retirement allowances payable to eligible members no longer in
22 service, but qualifying for such an allowance pursuant to section 15 of
23 this act shall accrue from the first day of the calendar month
24 immediately following such qualification.

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

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

31 NEW SECTION. **Sec. 206.** (1) A member who is on a paid leave of
32 absence authorized by a member's employer shall continue to receive
33 service credit.

34 (2) A member who receives compensation from an employer while on an
35 authorized leave of absence to serve as an elected official of a labor
36 organization, and whose employer is reimbursed by the labor
37 organization for the compensation paid to the member during the period

1 of absence, may also be considered to be on a paid leave of absence.
2 This subsection shall only apply if the member's leave of absence is
3 authorized by a collective bargaining agreement that provides that the
4 member retains seniority rights with the employer during the period of
5 leave. The earnable compensation reported for a member who establishes
6 service credit under this subsection may not be greater than the salary
7 paid to the highest paid job class covered by the collective bargaining
8 agreement.

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

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

16 (b) The member makes the employee contribution, plus interest, as
17 determined by the department, to the defined contribution portion.

18 The contributions required shall be based on the average of the
19 member's earnable compensation at both the time the authorized leave of
20 absence was granted and the time the member resumed employment.

21 (4) A member who leaves the employ of an employer to enter the
22 armed forces of the United States shall be entitled to retirement
23 system service credit for up to five years of military service if
24 within ninety days of the member's honorable discharge from the United
25 States armed forces, the member applies for reemployment with the
26 employer who employed the member immediately prior to the member
27 entering the United States armed forces. This subsection shall be
28 administered in a manner consistent with the requirements of the
29 federal uniformed services employment and reemployment rights act.

30 The department shall establish the member's service credit and
31 shall bill the employer for its contribution required under section 213
32 of this act for the period of military service, plus interest as
33 determined by the department. Service credit under this subsection may
34 be obtained only if the member makes the employee contribution to the
35 defined contribution portion as determined by the department.

36 The contributions required shall be based on the compensation the
37 member would have earned if not on leave, or if that cannot be
38 estimated with reasonable certainty, the compensation reported for the
39 member in the year prior to when the member went on military leave.

1 NEW SECTION. **Sec. 207.** (1) Contributions on behalf of the
2 employer paid by the employee to purchase plan III service credit shall
3 be allocated to the defined benefit portion of plan III and shall not
4 be refundable when paid to the fund described in RCW 41.50.075(4).
5 Contributions on behalf of the employee shall be allocated to the
6 member account. If the member fails to meet the statutory time
7 limitations to purchase plan III service credit, it may be purchased
8 under the provisions of RCW 41.50.165(2). One-half of the purchase
9 payments under RCW 41.50.165(2), plus interest, shall be allocated to
10 the member's account.

11 (2) No purchased plan III membership service will be credited until
12 all payments required of the member are made, with interest. Upon
13 receipt of all payments owed by the member, the department shall bill
14 the employer for any contributions, plus interest, required to purchase
15 membership service.

16 NEW SECTION. **Sec. 208.** (1) The director may pay a member eligible
17 to receive a retirement allowance or the member's beneficiary a lump
18 sum payment in lieu of a monthly benefit if the initial monthly benefit
19 would be less than one hundred dollars. The one hundred dollar limit
20 shall be increased annually as determined by the director. The lump
21 sum payment shall be the actuarial equivalent of the monthly benefit.

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

30 (3) Any member who receives a settlement under this section is
31 deemed to be retired from this system.

32 NEW SECTION. **Sec. 209.** (1) NORMAL RETIREMENT. Any member who is
33 at least age sixty-five and who has:

34 (a) Completed ten service credit years; or

35 (b) Completed five service credit years, including twelve service
36 credit months after attaining age fifty-four; or

1 (c) Completed five service credit years by September 1, 2000, under
2 the public employees' retirement system plan II and who transferred to
3 plan III under section 114 of this act;
4 shall be eligible to retire and to receive a retirement allowance
5 computed according to the provisions of section 203 of this act.

6 (2) EARLY RETIREMENT. Any member who has attained at least age
7 fifty-five and has completed at least ten years of service shall be
8 eligible to retire and to receive a retirement allowance computed
9 according to the provisions of section 203 of this act, except that a
10 member retiring pursuant to this subsection shall have the retirement
11 allowance actuarially reduced to reflect the difference in the number
12 of years between age at retirement and the attainment of age sixty-
13 five.

14 NEW SECTION. Sec. 210. (1) A member of the retirement system who
15 becomes totally incapacitated for continued employment by an employer
16 as determined by the department shall be eligible to receive an
17 allowance under the provisions of plan III. The member shall receive
18 a monthly disability allowance computed as provided for in section 203
19 of this act and shall have this allowance actuarially reduced to
20 reflect the difference in the number of years between age at disability
21 and the attainment of age sixty-five.

22 Any member who receives an allowance under the provisions of this
23 section shall be subject to comprehensive medical examinations as
24 required by the department. If these medical examinations reveal that
25 a member has recovered from the incapacitating disability and the
26 member is offered reemployment by an employer at a comparable
27 compensation, the member shall cease to be eligible for the allowance.

28 (2) If the recipient of a monthly retirement allowance under this
29 section dies, any further benefit payments shall be conditioned by the
30 payment option selected by the retiree as provided in section 23 of
31 this act.

32 NEW SECTION. Sec. 211. (1) Any member who elects to transfer to
33 plan III and has eligible unrestored withdrawn contributions in plan
34 II, may restore such contributions under the provisions of section 113
35 of this act with interest as determined by the department. The
36 restored plan II service credit will be automatically transferred to
37 plan III. Restoration payments will be transferred to the member

1 account in plan III. If the member fails to meet the time limitations
2 of section 113 of this act, they may restore such contributions under
3 the provisions of RCW 41.50.165(2). The restored plan II service
4 credit will be automatically transferred to plan III. One-half of the
5 restoration payments under RCW 41.50.165(2) plus interest shall be
6 allocated to the member's account.

7 (2) Any member who elects to transfer to plan III may purchase plan
8 II service credit under section 113 of this act. Purchased plan II
9 service credit will be automatically transferred to plan III.
10 Contributions on behalf of the employer paid by the employee shall be
11 allocated to the defined benefit portion of plan III and shall not be
12 refundable when paid to the fund described in RCW 41.50.075(4).
13 Contributions on behalf of the employee shall be allocated to the
14 member account. If the member fails to meet the time limitations of
15 section 113 of this act, they may subsequently restore such
16 contributions under the provisions of RCW 41.50.165(2). Purchased plan
17 II service credit will be automatically transferred to plan III. One-
18 half of the payments under RCW 41.50.165(2), plus interest, shall be
19 allocated to the member's account.

20 NEW SECTION. **Sec. 212.** If a member dies prior to retirement, the
21 surviving spouse or eligible child or children shall receive a
22 retirement allowance computed as provided in section 203 of this act
23 actuarially reduced to reflect a joint and one hundred percent survivor
24 option and if the member was not eligible for normal retirement at the
25 date of death a further reduction as described in section 209 of this
26 act.

27 If the surviving spouse who is receiving the retirement allowance
28 dies leaving a child or children under the age of majority, then such
29 child or children shall continue to receive an allowance in an amount
30 equal to that which was being received by the surviving spouse, share
31 and share alike, until such child or children reach the age of
32 majority.

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

1 NEW SECTION. **Sec. 213.** The required contribution rates to the
2 retirement system for employers shall be established by the director
3 from time to time as may be necessary upon the advice of the state
4 actuary. The state actuary shall use the aggregate actuarial cost
5 method to calculate contribution rates. The employer contribution rate
6 calculated under this section shall be used only for the purpose of
7 determining the amount of employer contributions to be deposited in the
8 plan II fund from the total employer contributions collected under
9 section 10 of this act.

10 Any increase in the contribution rate required as the result of a
11 failure of an employer to make any contribution required by this
12 section shall be borne in full by the employer not making the
13 contribution.

14 The director shall notify all employers of any pending adjustment
15 in the required contribution rate and such increase shall be announced
16 at least thirty days prior to the effective date of the change.

17 The employer's contribution shall be remitted directly to the
18 department within fifteen days following the end of the calendar month
19 during which the payroll period ends.

20 NEW SECTION. **Sec. 214.** Sections 1 through 25, 101 through 112,
21 114, and 201 through 213 of this act constitute a new chapter in Title
22 41 RCW.

23 **Sec. 301.** RCW 41.34.020 and 1996 c 39 s 13 are each amended to
24 read as follows:

25 As used in this chapter, the following terms have the meanings
26 indicated:

27 (1) "Actuary" means the state actuary or the office of the state
28 actuary.

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

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

32 (4)(a) "Compensation" for teachers for purposes of this chapter is
33 the same as "earnable compensation" for plan III in chapter 41.32 RCW
34 except that the compensation may be reported when paid, rather than
35 when earned.

36 (b) "Compensation" for classified employees for purposes of this
37 chapter is the same as "compensation earnable" for plan III in section

1 2 of this act, except that the compensation may be reported when paid,
2 rather than when earned.

3 (5)(a) "Employer" for teachers for purposes of this chapter means
4 the same as "employer" for plan III in chapter 41.32 RCW.

5 (b) "Employer" for classified employees for purposes of this
6 chapter means the same as "employer" for plan III in section 2 of this
7 act.

8 (6) "Member" means any employee included in the membership of a
9 retirement system as provided for in chapter 41.32 RCW of plan III or
10 chapter 41.-- RCW (sections 1 through 25, 101 through 112, 114, and 201
11 through 213 of this act) of plan III.

12 (7) "Member account" or "member's account" means the sum of the
13 contributions and earnings on behalf of the member.

14 (8) "Retiree" means any member in receipt of an allowance or other
15 benefit provided by this chapter resulting from service rendered to an
16 employer by such member.

17 (9) "Teacher" means a member of the teachers' retirement system
18 plan III as defined in RCW 41.32.010(29).

19 (10) "Classified employee" means a member of the school employees'
20 retirement system plan III as defined in section 2 of this act.

21 **Sec. 302.** RCW 41.34.030 and 1995 c 239 s 203 are each amended to
22 read as follows:

23 (1) This chapter applies only to members of plan III retirement
24 systems created under chapters 41.32 and 41.-- (sections 1 through 25,
25 101 through 112, 114, and 201 through 213 of this act) RCW.

26 (2) Plan III consists of two separate elements:

27 (a) A defined benefit portion covered under:

28 (i) Sections 101 through 117, chapter 239, Laws of 1995; or

29 (ii) Sections 1 through 25 and 201 through 213 of this act; and

30 (b) A defined contribution portion covered under this chapter.

31 Unless specified otherwise, all references to "plan III" in this
32 chapter refer to the defined contribution portion of plan III.

33 **Sec. 303.** RCW 41.34.060 and 1996 c 39 s 15 are each amended to
34 read as follows:

35 (1) Except as provided in subsection (2) of this section, the
36 member's account shall be invested by the state investment board.
37 (~~All contributions under this subsection shall be invested~~) In order

1 to reduce transaction costs and address liquidity issues, based upon
2 recommendations of the state investment board, the department may
3 require members to provide up to ninety days' notice prior to moving
4 funds from the state investment board portfolio to self-directed
5 investment options provided under subsection (2) of this section.

6 (a) For members of the retirement system as provided for in chapter
7 41.32 RCW of plan III, investment shall be in the same portfolio as
8 that of the teachers' retirement system combined plan II and III fund
9 under RCW 41.50.075(2).

10 (b) For members of the retirement system as provided for in chapter
11 41.-- RCW (sections 1 through 25, 101 through 112, 114, and 201 through
12 213 of this act) of plan III, investment shall be in the same portfolio
13 as that of the school employees' retirement system combined plan II and
14 III fund under RCW 41.50.075(4).

15 (2) Members may elect to self-direct their investments as
16 ((authorized by the board, other than as provided in subsection (1) of
17 this section. Expenses caused by self-directed investment shall be
18 paid by the member in accordance with rules established by the board
19 under RCW 41.50.088)) set forth in sections 307 and 707 of this act.

20 **Sec. 304.** RCW 41.34.080 and 1995 c 239 s 208 are each amended to
21 read as follows:

22 (1) Subject to subsections (2) and (3) of this section, the right
23 of a person to a pension, an annuity, a retirement allowance, any
24 optional benefit, any other right accrued or accruing to any person
25 under the provisions of this chapter, and the various funds created by
26 chapter 239, Laws of 1995, and chapter . . ., Laws of 1998 (this act)
27 and all moneys and investments and income thereof, is hereby exempt
28 from any state, county, municipal, or other local tax, and shall not be
29 subject to execution, garnishment, attachment, the operation of
30 bankruptcy or insolvency laws, or other process of law whatsoever, and
31 shall be unassignable.

32 (2) This section shall not be deemed to prohibit a beneficiary of
33 a retirement allowance from authorizing deductions therefrom for
34 payment of premiums due on any group insurance policy or plan issued
35 for the benefit of a group comprised of public employees of the state
36 of Washington or its political subdivisions and that has been approved
37 for deduction in accordance with rules that may be adopted by the state
38 health care authority and/or the department. This section shall not be

1 deemed to prohibit a beneficiary of a retirement allowance from
2 authorizing deductions therefrom for payment of dues and other
3 membership fees to any retirement association or organization the
4 membership of which is composed of retired public employees, if a total
5 of three hundred or more of such retired employees have authorized such
6 deduction for payment to the same retirement association or
7 organization.

8 (3) Subsection (1) of this section shall not prohibit the
9 department from complying with (a) a wage assignment order for child
10 support issued pursuant to chapter 26.18 RCW, (b) an order to withhold
11 and deliver issued pursuant to chapter 74.20A RCW, (c) a notice of
12 payroll deduction issued pursuant to RCW 26.23.060, (d) a mandatory
13 benefits assignment order issued by the department, (e) a court order
14 directing the department to pay benefits directly to an obligee under
15 a dissolution order as defined in RCW 41.50.500(3) which fully complies
16 with RCW 41.50.670 and 41.50.700, or (f) any administrative or court
17 order expressly authorized by federal law.

18 **Sec. 305.** RCW 41.34.100 and 1995 c 239 s 325 are each amended to
19 read as follows:

20 (1) The benefits provided pursuant to chapter 239, Laws of 1995 are
21 not provided to employees as a matter of contractual right prior to
22 July 1, 1996. The legislature retains the right to alter or abolish
23 these benefits at any time prior to July 1, 1996.

24 (2) The benefits provided pursuant to chapter . . . , Laws of 1998
25 (this act) are not provided to employees as a matter of contractual
26 right prior to September 1, 2000. The legislature retains the right to
27 alter or abolish these benefits at any time prior to September 1, 2000.

28 NEW SECTION. **Sec. 306.** A new section is added to chapter 41.34
29 RCW to read as follows:

30 All moneys in members' accounts, all property and rights purchased
31 therewith, and all income attributable thereto, shall be held in trust
32 by the state investment board, as set forth under RCW 43.33A.030, for
33 the exclusive benefit of the members and their beneficiaries.

34 NEW SECTION. **Sec. 307.** A new section is added to chapter 41.34
35 RCW to read as follows:

1 (1) The state investment board has the full authority to invest all
2 self-directed investment moneys in accordance with RCW 43.84.150 and
3 43.33A.140, and cumulative investment directions received pursuant to
4 RCW 41.34.060 and this section. In carrying out this authority the
5 state investment board, after consultation with the employee retirement
6 benefits board regarding any recommendations made pursuant to RCW
7 41.50.088(2), shall provide a set of options for members to choose from
8 for self-directed investment.

9 (2) All investment and operating costs of the state investment
10 board associated with making self-directed investments shall be paid by
11 members and recovered under procedures agreed to by the board and the
12 state investment board pursuant to the principles set forth in RCW
13 43.33A.160 and 43.84.160. All other expenses caused by self-directed
14 investment shall be paid by the member in accordance with rules
15 established by the board under RCW 41.50.088. With the exception of
16 these expenses, all earnings from self-directed investments shall
17 accrue to the member's account.

18 (3) The department shall keep or cause to be kept full and adequate
19 accounts and records of each individual member's account. The
20 department shall account for and report on the investment of defined
21 contribution assets or may enter into an agreement with the state
22 investment board for such accounting and reporting under this chapter.

23 NEW SECTION. **Sec. 308.** A new section is added to chapter 41.34
24 RCW to read as follows:

25 (1) A state board or commission, agency, or any officer, employee,
26 or member thereof is not liable for any loss or deficiency resulting
27 from member defined contribution investments selected or required
28 pursuant to RCW 41.34.060 (1) or (2).

29 (2) Neither the board nor the state investment board, nor any
30 officer, employee, or member thereof is liable for any loss or
31 deficiency resulting from reasonable efforts to implement investment
32 directions pursuant to RCW 41.34.060 (1) or (2).

33 NEW SECTION. **Sec. 309.** (1) On July 1, 1998, and January 1, 2000,
34 the member account of a person meeting the requirements of this section
35 shall be credited by the extraordinary investment gain amount.

36 (2) The following persons are eligible for the benefit provided in
37 subsection (1) of this section:

1 (a) Any member of the teachers' retirement system plan III who
2 earned service credit during the twelve-month period from September 1st
3 to August 31st immediately preceding the distribution and had a balance
4 of at least one thousand dollars in their member account on August 31st
5 of the year immediately preceding the distribution; or
6 (b) Any person in receipt of a benefit pursuant to RCW 41.32.875;
7 or
8 (c) Any person who is a retiree pursuant to RCW 41.34.020(8) and
9 who:
10 (i) Completed ten service credit years; or
11 (ii) Completed five service credit years, including twelve service
12 months after attaining age fifty-four; or
13 (iii) Completed five service credit years by July 1, 1996, under
14 plan II and who transferred to plan III under RCW 41.32.817; or
15 (d) Any person who had a balance of at least one thousand dollars
16 in their member account on August 31st of the year immediately
17 preceding the distribution and who:
18 (i) Completed ten service credit years; or
19 (ii) Completed five service credit years, including twelve service
20 months after attaining age fifty-four; or
21 (iii) Completed five service credit years by July 1, 1996, under
22 plan II and who transferred to plan III under RCW 41.32.817.
23 (3) The extraordinary investment gain amount shall be calculated as
24 follows:
25 (a) One-half of the sum of the value of the net assets held in
26 trust for pension benefits in the public employees' retirement system
27 plan II fund and the teachers' retirement system combined plan II and
28 III fund at the close of the previous state fiscal year not including
29 the amount attributable to member accounts;
30 (b) Multiplied by the amount which the compound average of
31 investment returns on those assets over the previous four state fiscal
32 years exceeds ten percent;
33 (c) Multiplied by the proportion of:
34 (i) The sum of the service credit on August 31st of the previous
35 year of all persons eligible for the benefit provided in subsection (1)
36 of this section; to
37 (ii) The sum of the service credit on August 31st of the previous
38 year of:

1 (A) All persons eligible for the benefit provided in subsection (1)
2 of this section;

3 (B) Any person who earned service credit in the teachers'
4 retirement system plan II or the public employees' retirement system
5 plan II during the twelve-month period from September 1st to August
6 31st immediately preceding the distribution;

7 (C) Any person in receipt of a benefit pursuant to RCW 41.32.765 or
8 41.40.630; and

9 (D) Any person with five or more years of service in the teachers'
10 retirement system plan II or the public employees' retirement system
11 plan II;

12 (d) Divided proportionally among persons eligible for the benefit
13 provided in subsection (1) of this section on the basis of their
14 service credit total on August 31st of the previous year.

15 (4) The distribution provided for in this section shall be made
16 solely from assets included in the teachers' retirement system combined
17 plan II and III fund.

18 NEW SECTION. **Sec. 310.** Section 309 of this act is added to
19 chapter 41.34 RCW, but because of its temporary nature, shall not be
20 codified.

21 NEW SECTION. **Sec. 311.** The definitions in this section apply
22 throughout this chapter unless the context requires otherwise.

23 (1) "Actuary" means the state actuary or the office of the state
24 actuary.

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

26 (3) "Teacher" means any employee included in the membership of the
27 teachers' retirement system as provided for in chapter 41.32 RCW.

28 (4) "Member account" or "member's account" means the sum of any
29 contributions as provided for in chapter 41.34 RCW and the earnings on
30 behalf of the member.

31 (5) "Classified employee" means the same as in section 2 of this
32 act.

33 NEW SECTION. **Sec. 312.** (1) On January 1, 2002, and on January 1st
34 of even-numbered years thereafter, the member account of a person
35 meeting the requirements of this section shall be credited by the
36 extraordinary investment gain amount.

1 (2) The following persons shall be eligible for the benefit
2 provided in subsection (1) of this section:

3 (a) Any member of the teachers' retirement system plan III or the
4 Washington school employees' retirement system plan III who earned
5 service credit during the twelve-month period from September 1st to
6 August 31st immediately preceding the distribution and had a balance of
7 at least one thousand dollars in their member account on August 31st of
8 the year immediately preceding the distribution; or

9 (b) Any person in receipt of a benefit pursuant to RCW 41.32.875 or
10 section 209 of this act; or

11 (c) Any person who is a retiree pursuant to RCW 41.34.020(8) and
12 who:

13 (i) Completed ten service credit years; or

14 (ii) Completed five service credit years, including twelve service
15 months after attaining age fifty-four; or

16 (d) Any teacher who is a retiree pursuant to RCW 41.34.020(8) and
17 who has completed five service credit years by July 1, 1996, under plan
18 II and who transferred to plan III under RCW 41.32.817; or

19 (e) Any classified employee who is a retiree pursuant to RCW
20 41.34.020(8) and who has completed five service credit years by
21 September 1, 2000, and who transferred to plan III under section 114 of
22 this act; or

23 (f) Any person who had a balance of at least one thousand dollars
24 in their member account on August 31st of the year immediately
25 preceding the distribution and who:

26 (i) Completed ten service credit years; or

27 (ii) Completed five service credit years, including twelve service
28 months after attaining age fifty-four; or

29 (g) Any teacher who had a balance of at least one thousand dollars
30 in their member account on August 31st of the year immediately
31 preceding the distribution and who has completed five service credit
32 years by July 1, 1996, under plan II and who transferred to plan III
33 under RCW 41.32.817; or

34 (h) Any classified employee who had a balance of at least one
35 thousand dollars in their member account on August 31st of the year
36 immediately preceding the distribution and who has completed five
37 service credit years by September 1, 2000, and who transferred to plan
38 III under section 114 of this act.

1 (3) The extraordinary investment gain amount shall be calculated as
2 follows:

3 (a) One-half of the sum of the value of the net assets held in
4 trust for pension benefits in the teachers' retirement system combined
5 plan II and III fund and the Washington school employees' retirement
6 system combined plan II and III fund at the close of the previous state
7 fiscal year not including the amount attributable to member accounts;

8 (b) Multiplied by the amount which the compound average of
9 investment returns on those assets over the previous four state fiscal
10 years exceeds ten percent;

11 (c) Multiplied by the proportion of:

12 (i) The sum of the service credit on August 31st of the previous
13 year of all persons eligible for the benefit provided in subsection (1)
14 of this section; to

15 (ii) The sum of the service credit on August 31st of the previous
16 year of:

17 (A) All persons eligible for the benefit provided in subsection (1)
18 of this section;

19 (B) Any person who earned service credit in the teachers'
20 retirement system plan II or the Washington school employees'
21 retirement system plan II during the twelve-month period from September
22 1st to August 31st immediately preceding the distribution;

23 (C) Any person in receipt of a benefit pursuant to RCW 41.32.765 or
24 section 103 of this act; and

25 (D) Any person with five or more years of service in the teachers'
26 retirement system plan II or the Washington school employees'
27 retirement system plan II;

28 (d) Divided proportionally among persons eligible for the benefit
29 provided in subsection (1) of this section on the basis of their
30 service credit total on August 31st of the previous year.

31 (4) The legislature reserves the right to amend or repeal this
32 section in the future and no member or beneficiary has a contractual
33 right to receive this distribution not granted prior to that time.

34 NEW SECTION. **Sec. 313.** (1) On March 1, 2001, the member account
35 of a person meeting the requirements of this section shall be credited
36 by the 1998 retroactive extraordinary investment gain amount and the
37 2000 retroactive extraordinary investment gain amount.

1 (2) The following persons shall be eligible for the benefits
2 provided in subsection (1) of this section:

3 (a) Any classified employee who earned service credit during the
4 twelve-month period from September 1st to August 31st immediately
5 preceding the distribution and who transferred to plan III under
6 section 114 of this act; or

7 (b) Any classified employee in receipt of a benefit pursuant to
8 section 209 of this act and who has completed five service credit years
9 by September 1, 2000, and who transferred to plan III under section 114
10 of this act; or

11 (c) Any classified employee who is a retiree pursuant to RCW
12 41.34.020(8) and who has completed five service credit years by
13 September 1, 2000, and who transferred to plan III under section 114 of
14 this act; or

15 (d) Any classified employee who has a balance of at least one
16 thousand dollars in his or her member account and who has completed
17 five service credit years by September 1, 2000, and who transferred to
18 plan III under section 114 of this act.

19 (3) The 1998 retroactive extraordinary investment gain amount shall
20 be calculated as follows:

21 (a) An amount equal to the average benefit per year of service paid
22 to members of the teachers' retirement system plan III pursuant to
23 section 309 of this act in 1998;

24 (b) Distributed to persons eligible for the benefit provided in
25 subsection (1) of this section on the basis of their service credit
26 total on August 31, 1997.

27 (4) The 2000 retroactive extraordinary investment gain amount shall
28 be calculated as follows:

29 (a) An amount equal to the average benefit per year of service paid
30 to members of the teachers' retirement system plan III pursuant to
31 section 309 of this act in 2000;

32 (b) Distributed to persons eligible for the benefit provided in
33 subsection (1) of this section on the basis of their service credit
34 total on August 31, 1999.

35 (5) The legislature reserves the right to amend or repeal this
36 section in the future and no member or beneficiary has a contractual
37 right to receive this distribution not granted prior to that time.

1 NEW SECTION. **Sec. 314.** Sections 311 through 313 of this act
2 constitute a new chapter in Title 41 RCW.

3 **Sec. 401.** RCW 41.45.010 and 1995 c 239 s 305 are each amended to
4 read as follows:

5 It is the intent of the legislature to provide a dependable and
6 systematic process for funding the benefits provided to members and
7 retirees of the public employees' retirement system, chapter 41.40 RCW;
8 the teachers' retirement system, chapter 41.32 RCW; the law enforcement
9 officers' and fire fighters' retirement system, chapter 41.26 RCW; the
10 school employees' retirement system, chapter 41.-- RCW (sections 1
11 through 25, 101 through 112, 114, and 201 through 213 of this act); and
12 the Washington state patrol retirement system, chapter 43.43 RCW.

13 The funding process established by this chapter is intended to
14 achieve the following goals:

15 (1) To continue to fully fund the public employees' retirement
16 system plan II, the teachers' retirement system plans II and III, the
17 school employees' retirement system plans II and III, and the law
18 enforcement officers' and fire fighters' retirement system plan II as
19 provided by law;

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

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

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

31 **Sec. 402.** RCW 41.45.020 and 1995 c 239 s 306 are each amended to
32 read as follows:

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

35 (1) "Council" means the economic and revenue forecast council
36 created in RCW 82.33.010.

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

1 (3) "Law enforcement officers' and fire fighters' retirement system
2 plan I" and "law enforcement officers' and fire fighters' retirement
3 system plan II" mean the benefits and funding provisions under chapter
4 41.26 RCW.

5 (4) "Public employees' retirement system plan I" and "public
6 employees' retirement system plan II" mean the benefits and funding
7 provisions under chapter 41.40 RCW.

8 (5) "Teachers' retirement system plan I," "teachers' retirement
9 system plan II," and "teachers' retirement system plan III" mean the
10 benefits and funding provisions under chapter 41.32 RCW.

11 (6) "School employees' retirement system plan II" and "school
12 employees' retirement system plan III" mean the benefits and funding
13 provisions under chapter 41.-- RCW (sections 1 through 25, 101 through
14 112, 114, and 201 through 213 of this act).

15 (7) "Washington state patrol retirement system" means the
16 retirement benefits provided under chapter 43.43 RCW.

17 ((+7)) (8) "Unfunded liability" means the unfunded actuarial
18 accrued liability of a retirement system.

19 ((+8)) (9) "Actuary" or "state actuary" means the state actuary
20 employed under chapter 44.44 RCW.

21 ((+9)) (10) "State retirement systems" means the retirement
22 systems listed in RCW 41.50.030.

23 (11) "Classified employee" means a member of the Washington school
24 employees' retirement system plan II or plan III as defined in section
25 2 of this act.

26 (12) "Teacher" means a member of the teachers' retirement system as
27 defined in RCW 41.32.010(15).

28 **Sec. 403.** RCW 41.45.050 and 1995 c 239 s 308 are each amended to
29 read as follows:

30 (1) Employers of members of the public employees' retirement
31 system, the teachers' retirement system, the school employees'
32 retirement system, and the Washington state patrol retirement system
33 shall make contributions to those systems based on the rates
34 established in RCW 41.45.060 and 41.45.070.

35 (2) The state shall make contributions to the law enforcement
36 officers' and fire fighters' retirement system based on the rates
37 established in RCW 41.45.060 and 41.45.070. The state treasurer shall

1 transfer the required contributions each month on the basis of salary
2 data provided by the department.

3 (3) The department shall bill employers, and the state shall make
4 contributions to the law enforcement officers' and fire fighters'
5 retirement system, using the combined rates established in RCW
6 41.45.060 and 41.45.070 regardless of the level of pension funding
7 provided in the biennial budget. Any member of an affected retirement
8 system may, by mandamus or other appropriate proceeding, require the
9 transfer and payment of funds as directed in this section.

10 (4) The contributions received for the public employees' retirement
11 system shall be allocated between the public employees' retirement
12 system plan I fund and public employees' retirement system plan II fund
13 as follows: The contributions necessary to fully fund the public
14 employees' retirement system plan II employer contribution required by
15 RCW 41.40.650 shall first be deposited in the public employees'
16 retirement system plan II fund. All remaining public employees'
17 retirement system employer contributions shall be deposited in the
18 public employees' retirement system plan I fund.

19 (5) The contributions received for the teachers' retirement system
20 shall be allocated between the plan I fund and the combined plan II and
21 plan III fund as follows: The contributions necessary to fully fund
22 the combined plan II and plan III employer contribution shall first be
23 deposited in the combined plan II and plan III fund. All remaining
24 teachers' retirement system employer contributions shall be deposited
25 in the plan I fund.

26 (6) The contributions received for the school employees' retirement
27 system shall be allocated between the public employees' retirement
28 system plan I fund and the school employees' retirement system combined
29 plan II and plan III fund as follows: The contributions necessary to
30 fully fund the combined plan II and plan III employer contribution
31 shall first be deposited in the combined plan II and plan III fund.
32 All remaining school employees' retirement system employer
33 contributions shall be deposited in the public employees' retirement
34 system plan I fund.

35 (7) The contributions received under RCW 41.26.450 for the law
36 enforcement officers' and fire fighters' retirement system shall be
37 allocated between the law enforcement officers' and fire fighters'
38 retirement system plan I and the law enforcement officers' and fire
39 fighters' retirement system plan II fund as follows: The contributions

1 necessary to fully fund the law enforcement officers' and fire
2 fighters' retirement system plan II employer contributions shall be
3 first deposited in the law enforcement officers' and fire fighters'
4 retirement system plan II fund. All remaining law enforcement
5 officers' and fire fighters' retirement system employer contributions
6 shall be deposited in the law enforcement officers' and fire fighters'
7 retirement system plan I fund.

8 **Sec. 404.** RCW 41.45.060 and 1995 c 239 s 309 are each amended to
9 read as follows:

10 (1) The state actuary shall provide actuarial valuation results
11 based on the assumptions adopted under RCW 41.45.030.

12 (2) Not later than September 30, 1996, and every two years
13 thereafter, consistent with the assumptions adopted under RCW
14 41.45.030, the council shall adopt both:

15 (a) A basic state contribution rate for the law enforcement
16 officers' and fire fighters' retirement system; (~~and~~)

17 (b) Basic employer contribution rates for the public employees'
18 retirement system plan I, the teachers' retirement system plan I, and
19 the Washington state patrol retirement system to be used in the ensuing
20 biennial period; and

21 (c) A basic employer contribution rate for the school employees'
22 retirement system for funding the public employees' retirement system
23 plan I.

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

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

31 (b) To also continue to fully fund the public employees' retirement
32 system plan II, the teachers' retirement system plans II and III, the
33 school employees' retirement system plans II and III, and the law
34 enforcement officers' and fire fighters' retirement system plan II in
35 accordance with RCW 41.40.650, 41.26.450, and this section.

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

1 (5) The council shall immediately notify the directors of the
2 office of financial management and department of retirement systems of
3 the state and employer contribution rates adopted.

4 (6) The director of the department of retirement systems shall
5 collect those rates adopted by the council.

6 **Sec. 405.** RCW 41.45.061 and 1997 c 10 s 2 are each amended to read
7 as follows:

8 (1) The required contribution rate for members of the plan II
9 teachers' retirement system shall be fixed at the rates in effect on
10 July 1, 1996, subject to the following:

11 (a) Beginning September 1, 1997, except as provided in (b) of this
12 subsection, the employee contribution rate shall not exceed the
13 employer plan II and III rates adopted under RCW 41.45.060 and
14 41.45.070 for the teachers' retirement system;

15 (b) In addition, the employee contribution rate for plan II shall
16 be increased by fifty percent of the contribution rate increase caused
17 by any plan II benefit increase passed after July 1, 1996((~~-~~

18 ~~(2) The required plan II and III contribution rates for employers
19 shall be adopted in the manner described in RCW 41.45.060))i~~

20 (c) In addition, the employee contribution rate for plan II shall
21 not be increased as a result of any distributions pursuant to sections
22 309 and 312 of this act.

23 (2) The required contribution rate for members of the school
24 employees' retirement system plan II shall be fixed at the rates in
25 effect on September 1, 2000, for members of the public employees'
26 retirement system plan II, subject to the following:

27 (a) Except as provided in (b) of this subsection, the member
28 contribution rate shall not exceed the school employees' retirement
29 system employer plan II and III contribution rate adopted under RCW
30 41.45.060 and 41.45.070;

31 (b) The member contribution rate for the school employees'
32 retirement system plan II shall be increased by fifty percent of the
33 contribution rate increase caused by any plan II benefit increase
34 passed after September 1, 2000.

35 (3) The employee contribution rate for plan II shall not be
36 increased as a result of any distributions pursuant to sections 312 and
37 313 of this act.

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

3 **Sec. 406.** RCW 41.45.070 and 1995 c 239 s 310 are each amended to
4 read as follows:

5 (1) In addition to the basic employer contribution rate established
6 in RCW 41.45.060, the department shall also charge employers of public
7 employees' retirement system, teachers' retirement system, school
8 employees' retirement system, or Washington state patrol retirement
9 system members an additional supplemental rate to pay for the cost of
10 additional benefits, if any, granted to members of those systems.
11 Except as provided in subsection (6) of this section, the supplemental
12 contribution rates required by this section shall be calculated by the
13 state actuary and shall be charged regardless of language to the
14 contrary contained in the statute which authorizes additional benefits.

15 (2) In addition to the basic state contribution rate established in
16 RCW 41.45.060 for the law enforcement officers' and fire fighters'
17 retirement system the department shall also establish a supplemental
18 rate to pay for the cost of additional benefits, if any, granted to
19 members of the law enforcement officers' and fire fighters' retirement
20 system. This supplemental rate shall be calculated by the state
21 actuary and the state treasurer shall transfer the additional required
22 contributions regardless of language to the contrary contained in the
23 statute which authorizes the additional benefits.

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

31 (4) The supplemental rate charged under this section to fund
32 benefit increases provided to active and retired members of the public
33 employees' retirement system plan II, the teachers' retirement system
34 plan II and plan III, the school employees' retirement system plan II
35 and plan III, or the law enforcement officers' and fire fighters'
36 retirement system plan II, shall be calculated as the level percentage
37 of all members' pay needed to fund the cost of the benefit, as

1 calculated under RCW 41.40.650(~~(, 41.32.775,)~~) or 41.26.450,
2 respectively.

3 (5) The supplemental rate charged under this section to fund
4 postretirement adjustments which are provided on a nonautomatic basis
5 to current retirees shall be calculated as the percentage of pay needed
6 to fund the adjustments as they are paid to the retirees. The
7 supplemental rate charged under this section to fund automatic
8 postretirement adjustments for active or retired members of the public
9 employees' retirement system plan I and the teachers' retirement system
10 plan I shall be calculated as the level percentage of pay needed to
11 fund the cost of the automatic adjustments not later than June 30,
12 2024.

13 (6) A supplemental rate shall not be charged to pay for the cost of
14 additional benefits granted to members pursuant to chapter 41.-- RCW
15 (sections 311 through 313 of this act); section 309 of this act; or
16 section 701, chapter . . . , Laws of 1998 (section 701 of this act).

17 NEW SECTION. Sec. 407. A new section is added to chapter 41.45
18 RCW to read as follows:

19 Upon the advice of the state actuary, the state treasurer shall
20 divide the assets in the public employees' retirement system plan II as
21 of September 1, 2000, in such a manner that sufficient assets remain in
22 plan II to maintain the employee contribution rate calculated in the
23 latest actuarial valuation of the public employees' retirement system
24 plan II. The state actuary shall take into account changes in assets
25 that occur between the latest actuarial valuation and the date of
26 transfer. The balance of the assets shall be transferred to the
27 Washington school employees' retirement system plan II and III.

28 **Sec. 501.** RCW 41.50.030 and 1995 c 239 s 316 are each amended to
29 read as follows:

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

34 (a) The Washington public employees' retirement system;

35 (b) The Washington state teachers' retirement system;

36 (c) The Washington law enforcement officers' and fire fighters'
37 retirement system;

- 1 (d) The Washington state patrol retirement system;
2 (e) The Washington judicial retirement system; and
3 (f) The state treasurer with respect to the administration of the
4 judges' retirement fund imposed pursuant to chapter 2.12 RCW.

5 (2) On July 1, 1996, there is transferred to the department all
6 powers, duties, and functions of the deferred compensation committee.

7 (3) The department shall administer chapter 41.34 RCW.

8 (4) The department shall administer the Washington school
9 employees' retirement system created under chapter 41.-- RCW (sections
10 1 through 25, 101 through 112, 114, and 201 through 213 of this act).

11 **Sec. 502.** RCW 41.50.060 and 1995 c 239 s 318 are each amended to
12 read as follows:

13 The director may delegate the performance of such powers, duties,
14 and functions, other than those relating to rule making, to employees
15 of the department, but the director shall remain and be responsible for
16 the official acts of the employees of the department.

17 The director shall be responsible for the public employees'
18 retirement system, the teachers' retirement system, the school
19 employees' retirement system, the judicial retirement system, the law
20 enforcement officers' and fire fighters' retirement system, and the
21 Washington state patrol retirement system. The director shall also be
22 responsible for the deferred compensation program.

23 **Sec. 503.** RCW 41.50.075 and 1996 c 39 s 16 are each amended to
24 read as follows:

25 (1) Two funds are hereby created and established in the state
26 treasury to be known as the Washington law enforcement officers' and
27 fire fighters' system plan I retirement fund, and the Washington law
28 enforcement officers' and fire fighters' system plan II retirement fund
29 which shall consist of all moneys paid into them in accordance with the
30 provisions of this chapter and chapter 41.26 RCW, whether such moneys
31 take the form of cash, securities, or other assets. The plan I fund
32 shall consist of all moneys paid to finance the benefits provided to
33 members of the law enforcement officers' and fire fighters' retirement
34 system plan I, and the plan II fund shall consist of all moneys paid to
35 finance the benefits provided to members of the law enforcement
36 officers' and fire fighters' retirement system plan II.

1 (2) All of the assets of the Washington state teachers' retirement
2 system shall be credited according to the purposes for which they are
3 held, to two funds to be maintained in the state treasury, namely, the
4 teachers' retirement system plan I fund and the teachers' retirement
5 system combined plan II and III fund. The plan I fund shall consist of
6 all moneys paid to finance the benefits provided to members of the
7 Washington state teachers' retirement system plan I, and the combined
8 plan II and III fund shall consist of all moneys paid to finance the
9 benefits provided to members of the Washington state teachers'
10 retirement system plan II and III.

11 (3) There is hereby established in the state treasury two separate
12 funds, namely the public employees' retirement system plan I fund and
13 the public employees' retirement system plan II fund. The plan I fund
14 shall consist of all moneys paid to finance the benefits provided to
15 members of the public employees' retirement system plan I, and the plan
16 II fund shall consist of all moneys paid to finance the benefits
17 provided to members of the public employees' retirement system plan II.

18 (4) There is hereby established in the state treasury the school
19 employees' retirement system combined plan II and III fund. The
20 combined plan II and III fund shall consist of all moneys paid to
21 finance the benefits provided to members of the school employees'
22 retirement system plan II and plan III.

23 **Sec. 504.** RCW 41.50.080 and 1981 c 3 s 34 are each amended to read
24 as follows:

25 The state investment board shall provide for the investment of all
26 funds of the Washington public employees' retirement system, the
27 teachers' retirement system, the school employees' retirement system,
28 the Washington law enforcement officers' and fire fighters' retirement
29 system, the Washington state patrol retirement system, the Washington
30 judicial retirement system, and the judges' retirement fund, pursuant
31 to RCW 43.84.150, and may sell or exchange investments acquired in the
32 exercise of that authority.

33 **Sec. 505.** RCW 41.50.086 and 1995 c 239 s 301 are each amended to
34 read as follows:

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

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

3 (a) Three members representing the public employees' retirement
4 system: One retired, two active. The members shall be appointed from
5 a list of nominations submitted by organizations representing each
6 category. The initial term of appointment shall be two years for the
7 retired member, one year for one active member, and three years for the
8 remaining active member.

9 (b) Three members representing the teachers' retirement system:
10 One retired, two active. The members shall be appointed from a list of
11 nominations submitted by organizations representing each category. The
12 initial term of appointment shall be one year for the retired member,
13 two years for one active member, and three years for the remaining
14 active member.

15 (c) Three members representing classified employees of school
16 districts and educational service districts: One retired, two active.
17 The members shall be appointed from a list of nominations submitted by
18 organizations representing each category. The initial term of
19 appointment shall be one year for the retired member, two years for one
20 active member, and three years for the remaining active member.

21 (d) Two members with experience in defined contribution plan
22 administration. The initial term for these members shall be two years
23 for one member and three years for the remaining member.

24 ~~((d))~~ (e) The director of the department shall serve ex officio
25 and shall be the chair of the board.

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

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

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

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

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

38 ~~((8) The state investment board shall provide advice and support~~
39 ~~to the board.))~~

1 **Sec. 506.** RCW 41.50.086 and 1995 c 239 s 301 are each amended to
2 read as follows:

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

5 (2) The board shall be composed of ~~((eight))~~ eleven members
6 appointed by the governor and one ex officio member as follows:

7 (a) Three members representing the public employees' retirement
8 system: One retired, two active. The members shall be appointed from
9 a list of nominations submitted by organizations representing each
10 category. The initial term of appointment shall be two years for the
11 retired member, one year for one active member, and three years for the
12 remaining active member.

13 (b) Three members representing the teachers' retirement system:
14 One retired, two active. The members shall be appointed from a list of
15 nominations submitted by organizations representing each category. The
16 initial term of appointment shall be one year for the retired member,
17 two years for one active member, and three years for the remaining
18 active member.

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

25 (d) Two members with experience in defined contribution plan
26 administration. The initial term for these members shall be two years
27 for one member and three years for the remaining member.

28 ~~((d))~~ (e) The director of the department shall serve ex officio
29 and shall be the chair of the board.

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

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

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

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

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

3 ~~((8) The state investment board shall provide advice and support
4 to the board.))~~

5 **Sec. 507.** RCW 41.50.088 and 1995 c 239 s 302 are each amended to
6 read as follows:

7 (1) The board shall adopt rules as necessary and exercise all the
8 powers and perform all duties prescribed by law with respect to:

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

13 ~~(2))~~ (a) The board shall recommend to the state investment board
14 types of options for member self-directed investment in the teachers'
15 retirement system plan III and the school employees' retirement system
16 plan III, as deemed by the board to be reflective of the members'
17 preferences.

18 (b) The selection of optional benefit payment schedules available
19 to members and survivors of members upon the death, disability,
20 retirement, or termination of the member. The optional benefit
21 payments may include but not be limited to: Fixed and participating
22 annuities, joint and survivor annuities, and payments that bridge to
23 social security or defined benefit plan payments;

24 ~~((3))~~ (c) Approval of actuarially equivalent annuities that may
25 be purchased from the combined plan II and plan III funds under RCW
26 41.50.075 (2) or (3); and

27 ~~((4))~~ (d) Determination of the basis for administrative charges
28 to the self-directed investment fund to offset self-directed account
29 expenses; ~~((and~~

30 ~~(5))~~ (2) Selection of investment options for the deferred
31 compensation program.

32 **Sec. 508.** RCW 41.50.110 and 1996 c 39 s 17 are each amended to
33 read as follows:

34 (1) Except as provided by RCW 41.50.255 and subsection (6) of this
35 section, all expenses of the administration of the department and the
36 expenses of administration of the retirement systems created in
37 chapters 2.10, 2.12, 41.26, 41.32, 41.40, 41.34, 41.-- (sections 1

1 through 25, 101 through 112, 114, and 201 through 213 of this act) and
2 43.43 RCW shall be paid from the department of retirement systems
3 expense fund.

4 (2) In order to reimburse the department of retirement systems
5 expense fund on an equitable basis the department shall ascertain and
6 report to each employer, as defined in RCW 41.26.030, 41.32.010,
7 section 2 of this act, or 41.40.010, the sum necessary to defray its
8 proportional share of the entire expense of the administration of the
9 retirement system that the employer participates in during the ensuing
10 biennium or fiscal year whichever may be required. Such sum is to be
11 computed in an amount directly proportional to the estimated entire
12 expense of the administration as the ratio of monthly salaries of the
13 employer's members bears to the total salaries of all members in the
14 entire system. It shall then be the duty of all such employers to
15 include in their budgets or otherwise provide the amounts so required.

16 (3) The department shall compute and bill each employer, as defined
17 in RCW 41.26.030, 41.32.010, section 2 of this act, or 41.40.010, at
18 the end of each month for the amount due for that month to the
19 department of retirement systems expense fund and the same shall be
20 paid as are its other obligations. Such computation as to each
21 employer shall be made on a percentage rate of salary established by
22 the department. However, the department may at its discretion
23 establish a system of billing based upon calendar year quarters in
24 which event the said billing shall be at the end of each such quarter.

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

28 (5) An employer who fails to submit timely and accurate reports to
29 the department may be assessed an additional fee related to the
30 increased costs incurred by the department in processing the deficient
31 reports. Fees paid under this subsection shall be deposited in the
32 retirement system expense fund.

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

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

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

2 (6) Expenses other than those under RCW 41.34.060(2) shall be paid
3 pursuant to subsection (1) of this section.

4 **Sec. 509.** RCW 41.50.150 and 1997 c 221 s 1 are each amended to
5 read as follows:

6 (1) The employer of any employee whose retirement benefits are
7 based in part on excess compensation, as defined in this section,
8 shall, upon receipt of a billing from the department, pay into the
9 appropriate retirement system the present value at the time of the
10 employee's retirement of the total estimated cost of all present and
11 future benefits from the retirement system attributable to the excess
12 compensation. The state actuary shall determine the estimated cost
13 using the same method and procedure as is used in preparing fiscal note
14 costs for the legislature. However, the director may in the director's
15 discretion decline to bill the employer if the amount due is less than
16 fifty dollars. Accounts unsettled within thirty days of the receipt of
17 the billing shall be assessed an interest penalty of one percent of the
18 amount due for each month or fraction thereof beyond the original
19 thirty-day period.

20 (2) "Excess compensation," as used in this section, includes the
21 following payments, if used in the calculation of the employee's
22 retirement allowance:

23 (a) A cash out of unused annual leave in excess of two hundred
24 forty hours of such leave. "Cash out" for purposes of this subsection
25 means:

26 (i) Any payment in lieu of an accrual of annual leave; or

27 (ii) Any payment added to salary or wages, concurrent with a
28 reduction of annual leave;

29 (b) A cash out of any other form of leave;

30 (c) A payment for, or in lieu of, any personal expense or
31 transportation allowance to the extent that payment qualifies as
32 reportable compensation in the member's retirement system;

33 (d) The portion of any payment, including overtime payments, that
34 exceeds twice the regular daily or hourly rate of pay; and

35 (e) Any termination or severance payment.

36 (3) This section applies to the retirement systems listed in RCW
37 41.50.030 and to retirements occurring on or after March 15, 1984.
38 Nothing in this section is intended to amend or determine the meaning

1 of any definition in chapter 2.10, 2.12, 41.26, 41.32, 41.40, 41.--
2 (sections 1 through 25, 101 through 112, 114, and 201 through 213 of
3 this act), or 43.43 RCW or to determine in any manner what payments are
4 includable in the calculation of a retirement allowance under such
5 chapters.

6 (4) An employer is not relieved of liability under this section
7 because of the death of any person either before or after the billing
8 from the department.

9 **Sec. 510.** RCW 41.50.152 and 1995 c 387 s 1 are each amended to
10 read as follows:

11 (1) Except as limited by subsection (3) of this section, the
12 governing body of an employer under chapter 41.32, 41.-- (sections 1
13 through 25, 101 through 112, 114, and 201 through 213 of this act), or
14 41.40 RCW shall comply with the provisions of subsection (2) of this
15 section prior to executing a contract or collective bargaining
16 agreement with members under chapter 41.32, 41.-- (sections 1 through
17 25, 101 through 112, 114, and 201 through 213 of this act), or 41.40
18 RCW which provides for:

19 (a) A cash out of unused annual leave in excess of two hundred
20 forty hours of such leave. "Cash out" for purposes of this subsection
21 means any payment in lieu of an accrual of annual leave or any payment
22 added to regular salary, concurrent with a reduction of annual leave;

23 (b) A cash out of any other form of leave;

24 (c) A payment for, or in lieu of, any personal expense or
25 transportation allowance;

26 (d) The portion of any payment, including overtime payments, that
27 exceeds twice the regular rate of pay; or

28 (e) Any other termination or severance payment.

29 (2) Any governing body entering into a contract that includes a
30 compensation provision listed in subsection (1) of this section shall
31 do so only after public notice in compliance with the open public
32 meetings act, chapter 42.30 RCW. This notification requirement may be
33 accomplished as part of the approval process for adopting a contract in
34 whole, and does not require separate or additional open public
35 meetings. At the public meeting, full disclosure shall be made of the
36 nature of the proposed compensation provision, and the employer's
37 estimate of the excess compensation billings under RCW 41.50.150 that
38 the employing entity would have to pay as a result of the proposed

1 compensation provision. The employer shall notify the department of
2 its compliance with this section at the time the department bills the
3 employer under RCW (~~41.40.150~~) 41.50.150 for the pension impact of
4 compensation provisions listed in subsection (1) of this section that
5 are adopted after July 23, 1995.

6 (3) The requirements of subsection (2) of this section shall not
7 apply to the adoption of a compensation provision listed in subsection
8 (1) of this section if the compensation would not be includable in
9 calculating benefits under chapter 41.32, 41.-- (sections 1 through 25,
10 101 through 112, 114, and 201 through 213 of this act), or 41.40 RCW
11 for the employees covered by the compensation provision.

12 **Sec. 511.** RCW 41.50.255 and 1995 c 281 s 1 are each amended to
13 read as follows:

14 The director is authorized to pay from the interest earnings of the
15 trust funds of the public employees' retirement system, the teachers'
16 retirement system, the Washington state patrol retirement system, the
17 Washington judicial retirement system, the judges' retirement system,
18 the school district employees' retirement system, or the law
19 enforcement officers' and fire fighters' retirement system lawful
20 obligations of the appropriate system for legal expenses and medical
21 expenses which expenses are primarily incurred for the purpose of
22 protecting the appropriate trust fund or are incurred in compliance
23 with statutes governing such funds.

24 The term "legal expense" includes, but is not limited to, legal
25 services provided through the legal services revolving fund, fees for
26 expert witnesses, travel expenses, fees for court reporters, cost of
27 transcript preparation, and reproduction of documents.

28 The term "medical costs" includes, but is not limited to, expenses
29 for the medical examination or reexamination of members or retirees,
30 the costs of preparation of medical reports, and fees charged by
31 medical professionals for attendance at discovery proceedings or
32 hearings.

33 The director may also pay from the interest earnings of the trust
34 funds specified in this section costs incurred in investigating fraud
35 and collecting overpayments, including expenses incurred to review and
36 investigate cases of possible fraud against the trust funds and
37 collection agency fees and other costs incurred in recovering

1 overpayments. Recovered funds must be returned to the appropriate
2 trust funds.

3 **Sec. 512.** RCW 41.50.500 and 1991 c 365 s 1 are each amended to
4 read as follows:

5 Unless the context clearly requires otherwise, the definitions in
6 this section apply throughout RCW 41.50.500 through 41.50.650,
7 41.50.670 through 41.50.720, and 26.09.138.

8 (1) "Benefits" means periodic retirement payments or a withdrawal
9 of accumulated contributions.

10 (2) "Disposable benefits" means that part of the benefits of an
11 individual remaining after the deduction from those benefits of any
12 amount required by law to be withheld. The term "required by law to be
13 withheld" does not include any deduction elective to the member.

14 (3) "Dissolution order" means any judgment, decree, or order of
15 spousal maintenance, property division, or court-approved property
16 settlement incident to a decree of divorce, dissolution, invalidity, or
17 legal separation issued by the superior court of the state of
18 Washington or a judgment, decree, or other order of spousal support
19 issued by a court of competent jurisdiction in another state or
20 country, that has been registered or otherwise made enforceable in this
21 state.

22 (4) "Mandatory benefits assignment order" means an order issued to
23 the department of retirement systems pursuant to RCW 41.50.570 to
24 withhold and deliver benefits payable to an obligor under chapter 2.10,
25 2.12, 41.26, 41.32, 41.40, 41.-- (sections 1 through 25, 101 through
26 112, 114, and 201 through 213 of this act), or 43.43 RCW.

27 (5) "Obligee" means an ex spouse or spouse to whom a duty of
28 spousal maintenance or property division obligation is owed.

29 (6) "Obligor" means the spouse or ex spouse owing a duty of spousal
30 maintenance or a property division obligation.

31 (7) "Periodic retirement payments" means periodic payments of
32 retirement allowances, including but not limited to service retirement
33 allowances, disability retirement allowances, and survivors'
34 allowances. The term does not include a withdrawal of accumulated
35 contributions.

36 (8) "Property division obligation" means any outstanding court-
37 ordered property division or court-approved property settlement

1 obligation incident to a decree of divorce, dissolution, or legal
2 separation.

3 (9) "Standard allowance" means a benefit payment option selected
4 under RCW 2.10.146(1)(a), 41.26.460(1)(a), 41.32.785(1)(a),
5 41.40.188(1)(a), ~~((or))~~ 41.40.660(1), or section 23 of this act that
6 ceases upon the death of the retiree. Standard allowance also means
7 the benefit allowance provided under RCW 2.10.110, 2.10.130, 43.43.260,
8 41.26.100, 41.26.130(1)(a), or chapter 2.12 RCW. Standard allowance
9 also means the maximum retirement allowance available under RCW
10 41.32.530(1) following member withdrawal of accumulated contributions,
11 if any.

12 (10) "Withdrawal of accumulated contributions" means a lump sum
13 payment to a retirement system member of all or a part of the member's
14 accumulated contributions, including accrued interest, at the request
15 of the member including any lump sum amount paid upon the death of the
16 member.

17 **Sec. 513.** RCW 41.50.670 and 1996 c 39 s 18 are each amended to
18 read as follows:

19 (1) Nothing in this chapter regarding mandatory assignment of
20 benefits to enforce a spousal maintenance obligation shall abridge the
21 right of an obligee to direct payments of retirement benefits to
22 satisfy a property division obligation ordered pursuant to a court
23 decree of dissolution or legal separation or any court order or court-
24 approved property settlement agreement incident to any court decree of
25 dissolution or legal separation as provided in RCW 2.10.180, 2.12.090,
26 41.04.310, 41.04.320, 41.04.330, 41.26.053, 41.32.052, section 11 of
27 this act, 41.34.070(3), 41.40.052, 43.43.310, or 26.09.138, as those
28 statutes existed before July 1, 1987, and as those statutes exist on
29 and after July 28, 1991. The department shall pay benefits under this
30 chapter in a lump sum or as a portion of periodic retirement payments
31 as expressly provided by the dissolution order. A dissolution order
32 may not order the department to pay a periodic retirement payment or
33 lump sum unless that payment is specifically authorized under the
34 provisions of chapter 2.10, 2.12, 41.26, 41.32, 41.-- (sections 1
35 through 25, 101 through 112, 114, and 201 through 213 of this act),
36 41.34, 41.40, or 43.43 RCW, as applicable.

37 (2) The department shall pay directly to an obligee the amount of
38 periodic retirement payments or lump sum payment, as appropriate,

1 specified in the dissolution order if the dissolution order filed with
2 the department pursuant to subsection (1) of this section includes a
3 provision that states in the following form:

4 If (the obligor) receives periodic retirement payments
5 as defined in RCW 41.50.500, the department of retirement systems shall
6 pay to (the obligee) dollars from such payments
7 or . . . percent of such payments. If the obligor's debt is expressed
8 as a percentage of his or her periodic retirement payment and the
9 obligee does not have a survivorship interest in the obligor's benefit,
10 the amount received by the obligee shall be the percentage of the
11 periodic retirement payment that the obligor would have received had he
12 or she selected a standard allowance.

13 If (the obligor) requests or has requested a withdrawal
14 of accumulated contributions as defined in RCW 41.50.500, or becomes
15 eligible for a lump sum death benefit, the department of retirement
16 systems shall pay to (the obligee) dollars plus
17 interest at the rate paid by the department of retirement systems on
18 member contributions. Such interest to accrue from the date of this
19 order's entry with the court of record.

20 (3) This section does not require a member to select a standard
21 allowance upon retirement nor does it require the department to
22 recalculate the amount of a retiree's periodic retirement payment based
23 on a change in survivor option.

24 (4) A court order under this section may not order the department
25 to pay more than seventy-five percent of an obligor's periodic
26 retirement payment to an obligee.

27 (5) Persons whose court decrees were entered between July 1, 1987,
28 and July 28, 1991, shall also be entitled to receive direct payments of
29 retirement benefits to satisfy court-ordered property divisions if the
30 dissolution orders comply or are modified to comply with this section
31 and RCW 41.50.680 through 41.50.720 and, as applicable, RCW 2.10.180,
32 2.12.090, 41.26.053, 41.32.052, section 11 of this act, 41.34.070,
33 41.40.052, 43.43.310, and 26.09.138.

34 (6) The obligee must file a copy of the dissolution order with the
35 department within ninety days of that order's entry with the court of
36 record.

37 (7) A division of benefits pursuant to a dissolution order under
38 this section shall be based upon the obligor's gross benefit prior to
39 any deductions. If the department is required to withhold a portion of

1 the member's benefit pursuant to 26 U.S.C. Sec. 3402 and the sum of
2 that amount plus the amount owed to the obligee exceeds the total
3 benefit, the department shall satisfy the withholding requirements
4 under 26 U.S.C. Sec. 3402 and then pay the remainder to the obligee.
5 The provisions of this subsection do not apply to amounts withheld
6 pursuant to 26 U.S.C. Sec. 3402(i).

7 **Sec. 514.** RCW 41.50.790 and 1996 c 175 s 1 are each amended to
8 read as follows:

9 (1) The department shall designate an obligee as a survivor
10 beneficiary of a member under RCW 2.10.146, 41.26.460, 41.32.530,
11 41.32.785, section 23 of this act, 41.40.188, or 41.40.660 if the
12 department has been served by registered or certified mail with a
13 dissolution order as defined in RCW 41.50.500 at least thirty days
14 prior to the member's retirement. The department's duty to comply with
15 the dissolution order arises only if the order contains a provision
16 that states in substantially the following form:

17 When (the obligor) applies for retirement the
18 department shall designate (the obligee) as
19 survivor beneficiary with a survivor benefit.

20 The survivor benefit designated in the dissolution order must be
21 consistent with the survivor benefit options authorized by statute or
22 administrative rule.

23 (2) The obligee's entitlement to a survivor benefit pursuant to a
24 dissolution order filed with the department in compliance with
25 subsection (1) of this section shall cease upon the death of the
26 obligee.

27 (3)(a) A subsequent dissolution order may order the department to
28 divide a survivor benefit between a survivor beneficiary and an
29 alternate payee. In order to divide a survivor benefit between more
30 than one payee, the dissolution order must:

31 (i) Be ordered by a court of competent jurisdiction following
32 notice to the survivor beneficiary;

33 (ii) Contain a provision that complies with subsection (1) of this
34 section designating the survivor beneficiary;

35 (iii) Contain a provision clearly identifying the alternate payee
36 or payees; and

1 (iv) Specify the proportional division of the benefit between the
2 survivor beneficiary and the alternate payee or payees.

3 (b) The department will calculate actuarial adjustment for the
4 court-ordered survivor benefit based upon the life of the survivor
5 beneficiary.

6 (c) If the survivor beneficiary dies, the department shall
7 terminate the benefit. If the alternate payee predeceases the survivor
8 beneficiary, all entitlement of the alternate payee to a benefit ceases
9 and the entire benefit will revert to the survivor beneficiary.

10 (d) For purposes of this section, "survivor beneficiary" means:

11 (i) The obligee designated in the provision of dissolution filed in
12 compliance with subsection (1) of this section; or

13 (ii) In the event of more than one dissolution order, the obligee
14 named in the first decree of dissolution received by the department.

15 (e) For purposes of this section, "alternate payee" means a person,
16 other than the survivor beneficiary, who is granted a percentage of a
17 survivor benefit pursuant to a dissolution order.

18 (4) The department shall under no circumstances be held liable for
19 not designating an obligee as a survivor beneficiary under subsection
20 (1) of this section if the dissolution order or amendment thereto is
21 not served on the department by registered or certified mail at least
22 thirty days prior to the member's retirement.

23 (5) If a dissolution order directing designation of a survivor
24 beneficiary has been previously filed with the department in compliance
25 with this section, no additional obligation shall arise on the part of
26 the department upon filing of a subsequent dissolution order unless the
27 subsequent dissolution order:

28 (a) Specifically amends or supersedes the dissolution order already
29 on file with the department; and

30 (b) Is filed with the department by registered or certified mail at
31 least thirty days prior to the member's retirement.

32 (6) The department shall designate a court-ordered survivor
33 beneficiary pursuant to a dissolution order filed with the department
34 before June 6, 1996, only if the order:

35 (a) Specifically directs the member or department to make such
36 selection;

37 (b) Specifies the survivor option to be selected; and

38 (c) The member retires after June 6, 1996.

1 NEW SECTION. **Sec. 515.** A new section is added to chapter 41.50
2 RCW to read as follows:

3 (1) If the department determines that due to employer error a
4 member of plan III has suffered a loss of investment return, the
5 employer shall pay the department for credit to the member's account
6 the amount determined by the department as necessary to correct the
7 error.

8 (2) If the department determines that due to departmental error a
9 member of plan III has suffered a loss of investment return, the
10 department shall credit to the member's account from the school
11 employees' retirement system combined plan II and III fund the amount
12 determined by the department as necessary to correct the error.

13 **Sec. 601.** RCW 41.40.010 and 1997 c 254 s 10 and 1997 c 88 s 6 are
14 each reenacted and amended to read as follows:

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

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

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

21 (3) "State treasurer" means the treasurer of the state of
22 Washington.

23 (4)(a) "Employer" for plan I members, means every branch,
24 department, agency, commission, board, and office of the state, any
25 political subdivision or association of political subdivisions of the
26 state admitted into the retirement system, and legal entities
27 authorized by RCW 35.63.070 and 36.70.060 or chapter 39.34 RCW; and the
28 term shall also include any labor guild, association, or organization
29 the membership of a local lodge or division of which is comprised of at
30 least forty percent employees of an employer (other than such labor
31 guild, association, or organization) within this chapter. The term may
32 also include any city of the first class that has its own retirement
33 system.

34 (b) "Employer" for plan II members, means every branch, department,
35 agency, commission, board, and office of the state, and any political
36 subdivision and municipal corporation of the state admitted into the
37 retirement system, including public agencies created pursuant to RCW
38 35.63.070, 36.70.060, and 39.34.030; except that after August 31, 2000,

1 school districts and educational service districts will no longer be
2 employers for the public employees' retirement system plan II.

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

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

9 (a) Any person who became a member of the system prior to April 1,
10 1949;

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

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

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

23 (e) Any member who has restored all contributions that may have
24 been withdrawn as provided by RCW 41.40.150 and who on the effective
25 date of the individual's retirement becomes entitled to be credited
26 with ten years or more of membership service except that the provisions
27 relating to the minimum amount of retirement allowance for the member
28 upon retirement at age seventy as found in RCW 41.40.190(4) shall not
29 apply to the member;

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

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

3 (8)(a) "Compensation earnable" for plan I members, means salaries
4 or wages earned during a payroll period for personal services and where
5 the compensation is not all paid in money, maintenance compensation
6 shall be included upon the basis of the schedules established by the
7 member's employer.

8 (i) "Compensation earnable" for plan I members also includes the
9 following actual or imputed payments, which are not paid for personal
10 services:

11 (A) Retroactive payments to an individual by an employer on
12 reinstatement of the employee in a position, or payments by an employer
13 to an individual in lieu of reinstatement in a position which are
14 awarded or granted as the equivalent of the salary or wage which the
15 individual would have earned during a payroll period shall be
16 considered compensation earnable and the individual shall receive the
17 equivalent service credit;

18 (B) If a leave of absence is taken by an individual for the purpose
19 of serving in the state legislature, the salary which would have been
20 received for the position from which the leave of absence was taken,
21 shall be considered as compensation earnable if the employee's
22 contribution is paid by the employee and the employer's contribution is
23 paid by the employer or employee;

24 (C) Assault pay only as authorized by RCW 27.04.100, 72.01.045, and
25 72.09.240;

26 (D) Compensation that a member would have received but for a
27 disability occurring in the line of duty only as authorized by RCW
28 41.40.038;

29 (E) Compensation that a member receives due to participation in the
30 leave sharing program only as authorized by RCW 41.04.650 through
31 41.04.670; and

32 (F) Compensation that a member receives for being in standby
33 status. For the purposes of this section, a member is in standby
34 status when not being paid for time actually worked and the employer
35 requires the member to be prepared to report immediately for work, if
36 the need arises, although the need may not arise. (~~Standby~~
37 ~~compensation is regular salary for the purposes of RCW 41.50.150(2)-.)~~)

38 (ii) "Compensation earnable" does not include:

1 (A) Remuneration for unused sick leave authorized under RCW
2 41.04.340, 28A.400.210, or 28A.310.490;

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

5 (b) "Compensation earnable" for plan II members, means salaries or
6 wages earned by a member during a payroll period for personal services,
7 including overtime payments, and shall include wages and salaries
8 deferred under provisions established pursuant to sections 403(b),
9 414(h), and 457 of the United States Internal Revenue Code, but shall
10 exclude nonmoney maintenance compensation and lump sum or other
11 payments for deferred annual sick leave, unused accumulated vacation,
12 unused accumulated annual leave, or any form of severance pay.

13 "Compensation earnable" for plan II members also includes the
14 following actual or imputed payments, which are not paid for personal
15 services:

16 (i) Retroactive payments to an individual by an employer on
17 reinstatement of the employee in a position, or payments by an employer
18 to an individual in lieu of reinstatement in a position which are
19 awarded or granted as the equivalent of the salary or wage which the
20 individual would have earned during a payroll period shall be
21 considered compensation earnable to the extent provided above, and the
22 individual shall receive the equivalent service credit;

23 (ii) In any year in which a member serves in the legislature, the
24 member shall have the option of having such member's compensation
25 earnable be the greater of:

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

28 (B) Such member's actual compensation earnable received for
29 nonlegislative public employment and legislative service combined. Any
30 additional contributions to the retirement system required because
31 compensation earnable under (b)(ii)(A) of this subsection is greater
32 than compensation earnable under (b)(ii)(B) of this subsection shall be
33 paid by the member for both member and employer contributions;

34 (iii) Assault pay only as authorized by RCW 27.04.100, 72.01.045,
35 and 72.09.240;

36 (iv) Compensation that a member would have received but for a
37 disability occurring in the line of duty only as authorized by RCW
38 41.40.038;

1 (v) Compensation that a member receives due to participation in the
2 leave sharing program only as authorized by RCW 41.04.650 through
3 41.04.670; and

4 (vi) Compensation that a member receives for being in standby
5 status. For the purposes of this section, a member is in standby
6 status when not being paid for time actually worked and the employer
7 requires the member to be prepared to report immediately for work, if
8 the need arises, although the need may not arise. ((Standby
9 compensation is regular salary for the purposes of RCW 41.50.150(2).))

10 (9)(a) "Service" for plan I members, except as provided in RCW
11 41.40.088, means periods of employment in an eligible position or
12 positions for one or more employers rendered to any employer for which
13 compensation is paid, and includes time spent in office as an elected
14 or appointed official of an employer. Compensation earnable earned in
15 full time work for seventy hours or more in any given calendar month
16 shall constitute one service credit month except as provided in RCW
17 41.40.088. Compensation earnable earned for less than seventy hours in
18 any calendar month shall constitute one-quarter service credit month of
19 service except as provided in RCW 41.40.088. Only service credit
20 months and one-quarter service credit months shall be counted in the
21 computation of any retirement allowance or other benefit provided for
22 in this chapter. Any fraction of a year of service shall be taken into
23 account in the computation of such retirement allowance or benefits.
24 Time spent in standby status, whether compensated or not, is not
25 service.

26 (i) Service by a state employee officially assigned by the state on
27 a temporary basis to assist another public agency, shall be considered
28 as service as a state employee: PROVIDED, That service to any other
29 public agency shall not be considered service as a state employee if
30 such service has been used to establish benefits in any other public
31 retirement system.

32 (ii) An individual shall receive no more than a total of twelve
33 service credit months of service during any calendar year. If an
34 individual is employed in an eligible position by one or more employers
35 the individual shall receive no more than one service credit month
36 during any calendar month in which multiple service for seventy or more
37 hours is rendered.

38 (iii) A school district employee may count up to forty-five days of
39 sick leave as creditable service solely for the purpose of determining

1 eligibility to retire under RCW 41.40.180 as authorized by RCW
2 28A.400.300. For purposes of plan I "forty-five days" as used in RCW
3 28A.400.300 is equal to two service credit months. Use of less than
4 forty-five days of sick leave is creditable as allowed under this
5 subsection as follows:

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

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

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

11 (b) "Service" for plan II members, means periods of employment by
12 a member in an eligible position or positions for one or more employers
13 for which compensation earnable is paid. Compensation earnable earned
14 for ninety or more hours in any calendar month shall constitute one
15 service credit month except as provided in RCW 41.40.088. Compensation
16 earnable earned for at least seventy hours but less than ninety hours
17 in any calendar month shall constitute one-half service credit month of
18 service. Compensation earnable earned for less than seventy hours in
19 any calendar month shall constitute one-quarter service credit month of
20 service. Time spent in standby status, whether compensated or not, is
21 not service.

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

24 (i) Service in any state elective position shall be deemed to be
25 full time service, except that persons serving in state elective
26 positions who are members of the Washington school employees'
27 retirement system, teachers' retirement system, or law enforcement
28 officers' and fire fighters' retirement system at the time of election
29 or appointment to such position may elect to continue membership in the
30 Washington school employees' retirement system, teachers' retirement
31 system, or law enforcement officers' and fire fighters' retirement
32 system.

33 (ii) A member shall receive a total of not more than twelve service
34 credit months of service for such calendar year. If an individual is
35 employed in an eligible position by one or more employers the
36 individual shall receive no more than one service credit month during
37 any calendar month in which multiple service for ninety or more hours
38 is rendered.

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

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

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

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

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

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

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

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

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

21 (13) "Membership service" means:

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

23 (b) All service after October 1, 1947, to any employer prior to the
24 time of its admission into the retirement system for which member and
25 employer contributions, plus interest as required by RCW 41.50.125,
26 have been paid under RCW 41.40.056 or 41.40.057;

27 (c) Service not to exceed six consecutive months of probationary
28 service rendered after April 1, 1949, and prior to becoming a member,
29 in the case of any member, upon payment in full by such member of the
30 total amount of the employer's contribution to the retirement fund
31 which would have been required under the law in effect when such
32 probationary service was rendered if the member had been a member
33 during such period, except that the amount of the employer's
34 contribution shall be calculated by the director based on the first
35 month's compensation earnable as a member;

36 (d) Service not to exceed six consecutive months of probationary
37 service, rendered after October 1, 1947, and before April 1, 1949, and
38 prior to becoming a member, in the case of any member, upon payment in
39 full by such member of five percent of such member's salary during said

1 period of probationary service, except that the amount of the
2 employer's contribution shall be calculated by the director based on
3 the first month's compensation earnable as a member.

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

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

10 (15) "Regular interest" means such rate as the director may
11 determine.

12 (16) "Accumulated contributions" means the sum of all contributions
13 standing to the credit of a member in the member's individual account,
14 including any amount paid under RCW 41.50.165(2), together with the
15 regular interest thereon.

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

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

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

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

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

36 (21) "Retirement allowance" means the sum of the annuity and the
37 pension.

38 (22) "Employee" or "employed" means a person who is providing
39 services for compensation to an employer, unless the person is free

1 from the employer's direction and control over the performance of work.
2 The department shall adopt rules and interpret this subsection
3 consistent with common law.

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

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

9 (25) "Eligible position" means:

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

16 (b) Any position occupied by an elected official or person
17 appointed directly by the governor, or appointed by the chief justice
18 of the supreme court under RCW 2.04.240(2) or 2.06.150(2), for which
19 compensation is paid.

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

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

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

29 (29) "Retiree" means any person who has begun accruing a retirement
30 allowance or other benefit provided by this chapter resulting from
31 service rendered to an employer while a member.

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

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

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

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

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

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

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

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

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

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

18 (40) "Annual increase" means, initially, fifty-nine cents per month
19 per year of service which amount shall be increased each July 1st by
20 three percent, rounded to the nearest cent.

21 (41) "Separation from service" occurs when a person has terminated
22 all employment with an employer.

23 **Sec. 602.** RCW 41.40.062 and 1995 c 286 s 4 are each amended to
24 read as follows:

25 (1) The members and appointive and elective officials of any
26 political subdivision or association of political subdivisions of the
27 state may become members of the retirement system by the approval of
28 the local legislative authority.

29 (2) On and after September 1, 1965, every school district of the
30 state of Washington shall be an employer under this chapter. Every
31 member of each school district who is eligible for membership under RCW
32 41.40.023 shall be a member of the retirement system and participate on
33 the same basis as a person who first becomes a member through the
34 admission of any employer into the retirement system on and after April
35 1, 1949, except that after August 31, 2000, school districts will no
36 longer be employers for the public employees' retirement system plan
37 II.

1 **Sec. 603.** RCW 41.40.088 and 1991 c 343 s 9 and 1991 c 35 s 96 are
2 each reenacted and amended to read as follows:

3 (1) A plan I member who is employed by a school district or
4 districts, an educational service district, the state school for the
5 deaf, the state school for the blind, institutions of higher education,
6 or community colleges:

7 (a) Shall receive a service credit month for each month of the
8 period from September through August of the following year if he or she
9 is employed in an eligible position, earns compensation earnable for
10 six hundred thirty hours or more during that period, and is employed
11 during nine months of that period, except that a member may not receive
12 credit for any period prior to the member's employment in an eligible
13 position;

14 (b) If a member in an eligible position does not meet the
15 requirements of (a) of this subsection, the member is entitled to a
16 service credit month for each month of the period he or she earns
17 earnable compensation for seventy or more hours; and the member is
18 entitled to a one-quarter service credit month for those calendar
19 months during which he or she earned compensation for less than seventy
20 hours.

21 (2) Except for any period prior to the member's employment in an
22 eligible position, a plan II member who is employed by a school
23 district or districts, an educational service district, the state
24 school for the blind, the state school for the deaf, institutions of
25 higher education, or community colleges:

26 (a) Shall receive a service credit month for each month of the
27 period from September through August of the following year if he or she
28 is employed in an eligible position, earns compensation earnable for
29 eight hundred ten hours or more during that period, and is employed
30 during nine months of that period;

31 (b) If a member in an eligible position for each month of the
32 period from September through August of the following year does not
33 meet the hours requirements of (a) of this subsection, the member is
34 entitled to one-half service credit month for each month of the period
35 if he or she earns earnable compensation for at least six hundred
36 thirty hours but less than eight hundred ten hours during that period,
37 and is employed nine months of that period.

38 (c) In all other instances, a member in an eligible position is
39 entitled to service credit months as follows:

1 (i) One service credit month for each month in which compensation
2 is earned for ninety or more hours;

3 (ii) One-half service credit month for each month in which
4 compensation is earned for at least seventy hours but less than ninety
5 hours; and

6 (iii) One-quarter service credit month for each month in which
7 compensation is earned for less than seventy hours.

8 (d) After August 31, 2000, school districts and educational service
9 districts will no longer be employers for the public employees'
10 retirement system plan II.

11 (3) The department shall adopt rules implementing this section.

12 **Sec. 604.** RCW 41.26.500 and 1990 c 274 s 12 are each amended to
13 read as follows:

14 (1) No retiree under the provisions of plan II shall be eligible to
15 receive such retiree's monthly retirement allowance if he or she is
16 employed in an eligible position as defined in RCW 41.40.010 (~~(or)~~),
17 41.32.010, or section 2 of this act, or as a law enforcement officer or
18 fire fighter as defined in RCW 41.26.030. If a retiree's benefits have
19 been suspended under this section, his or her benefits shall be
20 reinstated when the retiree terminates the employment that caused his
21 or her benefits to be suspended. Upon reinstatement, the retiree's
22 benefits shall be actuarially recomputed pursuant to the rules adopted
23 by the department.

24 (2) The department shall adopt rules implementing this section.

25 **Sec. 605.** RCW 41.32.800 and 1997 c 254 s 6 are each amended to
26 read as follows:

27 (1) Except as provided in RCW 41.32.802, no retiree under the
28 provisions of plan II shall be eligible to receive such retiree's
29 monthly retirement allowance if he or she is employed in an eligible
30 position as defined in RCW 41.40.010 (~~(or)~~), 41.32.010, or section 2 of
31 this act, or as a law enforcement officer or fire fighter as defined in
32 RCW 41.26.030.

33 If a retiree's benefits have been suspended under this section, his
34 or her benefits shall be reinstated when the retiree terminates the
35 employment that caused his or her benefits to be suspended. Upon
36 reinstatement, the retiree's benefits shall be actuarially recomputed
37 pursuant to the rules adopted by the department.

1 (2) The department shall adopt rules implementing this section.

2 **Sec. 606.** RCW 41.40.690 and 1997 c 254 s 13 are each amended to
3 read as follows:

4 (1) Except as provided in RCW 41.40.037, no retiree under the
5 provisions of plan II shall be eligible to receive such retiree's
6 monthly retirement allowance if he or she is employed in an eligible
7 position as defined in RCW 41.40.010 (~~((or))~~), 41.32.010, or section 2 of
8 this act, or as a law enforcement officer or fire fighter as defined in
9 RCW 41.26.030, except that a retiree who ends his or her membership in
10 the retirement system pursuant to RCW 41.40.023(3)(b) is not subject to
11 this section if the retiree's only employment is as an elective
12 official of a city or town.

13 (2) If a retiree's benefits have been suspended under this section,
14 his or her benefits shall be reinstated when the retiree terminates the
15 employment that caused his or her benefits to be suspended. Upon
16 reinstatement, the retiree's benefits shall be actuarially recomputed
17 pursuant to the rules adopted by the department.

18 (3) The department shall adopt rules implementing this section.

19 **Sec. 701.** RCW 41.32.8401 and 1997 c 10 s 1 are each amended to
20 read as follows:

21 (1) Anyone who requests to transfer under RCW 41.32.817 before
22 January 1, 1998, and establishes service credit for January 1998, shall
23 have their member account increased by forty percent of:

24 (a) Plan II accumulated contributions as of January 1, 1996, less
25 fifty percent of any payments made pursuant to RCW 41.50.165(2); or

26 (b) All amounts withdrawn after January 1, 1996, which are
27 completely restored before January 1, 1998.

28 (2) A further additional payment of twenty-five percent, for a
29 total of sixty-five percent, shall be paid subject to the conditions
30 contained in subsection (1) of this section on July 1, 1998.

31 (3) Substitute teachers shall receive the additional payment
32 provided in subsection (1) of this section if they:

33 (a) Establish service credit for January 1998; and

34 (b) Establish any service credit from July 1996 through December
35 1997; and

36 (c) Elect to transfer on or before March 1, 1999.

1 (~~(3)~~) (4) If a member who requests to transfer dies before
2 January 1, 1998, the additional payment provided by this section shall
3 be paid to the member's estate, or the person or persons, trust, or
4 organization the member nominated by written designation duly executed
5 and filed with the department.

6 (~~(4)~~) (5) The legislature reserves the right to modify or
7 discontinue the right to an incentive payment under this section for
8 any plan II members who have not previously transferred to plan III.

9 **Sec. 702.** RCW 41.54.010 and 1993 c 517 s 8 are each amended to
10 read as follows:

11 The definitions in this section apply throughout this chapter
12 unless the context clearly requires otherwise.

13 (1) "Base salary" means salaries or wages earned by a member of a
14 system during a payroll period for personal services and includes wages
15 and salaries deferred under provisions of the United States internal
16 revenue code, but shall exclude overtime payments, nonmoney maintenance
17 compensation, and lump sum payments for deferred annual sick leave,
18 unused accumulated vacation, unused accumulated annual leave, any form
19 of severance pay, any bonus for voluntary retirement, any other form of
20 leave, or any similar lump sum payment.

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

22 (3) "Director" means the director of the department of retirement
23 systems.

24 (4) "Dual member" means a person who (a) is or becomes a member of
25 a system on or after July 1, 1988, (b) has been a member of one or more
26 other systems, and (c) has never been retired for service from a
27 retirement system and is not receiving a disability retirement or
28 disability leave benefit from any retirement system listed in RCW
29 41.50.030 or subsection (6) of this section.

30 (5) "Service" means the same as it may be defined in each
31 respective system. For the purposes of RCW 41.54.030, military service
32 granted under RCW 41.40.170(3) or 43.43.260 may only be based on
33 service accrued under chapter 41.40 or 43.43 RCW, respectively.

34 (6) "System" means the retirement systems established under
35 chapters 41.32, 41.40, 41.44, 41.-- (sections 1 through 25, 101 through
36 112, 114, and 201 through 213 of this act), and 43.43 RCW; plan II of
37 the system established under chapter 41.26 RCW; and the city employee
38 retirement systems for Seattle, Tacoma, and Spokane. The inclusion of

1 an individual first class city system is subject to the procedure set
2 forth in RCW 41.54.061.

3 **Sec. 703.** RCW 41.54.030 and 1996 c 55 s 4, 1996 c 55 s 3, and 1996
4 c 39 s 19 are each reenacted and amended to read as follows:

5 (1) A dual member may combine service in all systems for the
6 purpose of:

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

9 (b) Qualifying for a benefit under RCW 41.32.840(2) or section 203
10 of this act.

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

17 (3) The service retirement allowances from a system which, but for
18 this section, would not be allowed to be paid at this date based on the
19 dual member's age may be received immediately or deferred to a later
20 date. The allowances shall be actuarially adjusted from the earliest
21 age upon which the combined service would have made such dual member
22 eligible in that system.

23 (4) The service retirement eligibility requirements of RCW
24 41.40.180 shall apply to any dual member whose prior system is plan I
25 of the public employees' retirement system established under chapter
26 41.40 RCW.

27 **Sec. 704.** RCW 41.54.040 and 1996 c 55 s 5 are each amended to read
28 as follows:

29 (1) The allowances calculated under RCW 41.54.030, 41.54.032, and
30 41.54.034 shall be paid separately by each respective current and prior
31 system. Any deductions from such separate payments shall be according
32 to the provisions of the respective systems.

33 (2) Postretirement adjustments, if any, shall be applied by the
34 respective systems based on the payments made under subsection (1) of
35 this section.

36 (3) The department shall adopt rules under chapter 34.05 RCW to
37 ensure that where a dual member has service in a system established

1 under chapter 41.32, 41.40, 41.44, 41.-- (sections 1 through 25, 101
2 through 112, 114, and 201 through 213 of this act), or 43.43 RCW;
3 service in plan II of the system established under chapter 41.26 RCW;
4 and service under the city employee retirement system for Seattle,
5 Tacoma, or Spokane, the additional cost incurred as a result of the
6 dual member receiving a benefit under this chapter shall be borne by
7 the retirement system incurring the additional cost.

8 NEW SECTION. **Sec. 705.** A new section is added to chapter 41.54
9 RCW to read as follows:

10 Persons who were members of the public employees' retirement system
11 plan II prior to the effective date of this section and were
12 transferred or mandated into membership pursuant to chapter . . . , Laws
13 of 1998 (this act) shall suffer no diminution of benefits guaranteed to
14 public employees' retirement system plan II members as of the date of
15 their change in membership.

16 **Sec. 706.** RCW 41.05.011 and 1996 c 39 s 21 are each amended to
17 read as follows:

18 Unless the context clearly requires otherwise, the definitions in
19 this section shall apply throughout this chapter.

20 (1) "Administrator" means the administrator of the authority.

21 (2) "State purchased health care" or "health care" means medical
22 and health care, pharmaceuticals, and medical equipment purchased with
23 state and federal funds by the department of social and health
24 services, the department of health, the basic health plan, the state
25 health care authority, the department of labor and industries, the
26 department of corrections, the department of veterans affairs, and
27 local school districts.

28 (3) "Authority" means the Washington state health care authority.

29 (4) "Insuring entity" means an insurer as defined in chapter 48.01
30 RCW, a health care service contractor as defined in chapter 48.44 RCW,
31 or a health maintenance organization as defined in chapter 48.46 RCW.

32 (5) "Flexible benefit plan" means a benefit plan that allows
33 employees to choose the level of health care coverage provided and the
34 amount of employee contributions from among a range of choices offered
35 by the authority.

36 (6) "Employee" includes all full-time and career seasonal employees
37 of the state, whether or not covered by civil service; elected and

1 appointed officials of the executive branch of government, including
2 full-time members of boards, commissions, or committees; and includes
3 any or all part-time and temporary employees under the terms and
4 conditions established under this chapter by the authority; justices of
5 the supreme court and judges of the court of appeals and the superior
6 courts; and members of the state legislature or of the legislative
7 authority of any county, city, or town who are elected to office after
8 February 20, 1970. "Employee" also includes: (a) Employees of a
9 county, municipality, or other political subdivision of the state if
10 the legislative authority of the county, municipality, or other
11 political subdivision of the state seeks and receives the approval of
12 the authority to provide any of its insurance programs by contract with
13 the authority, as provided in RCW 41.04.205; (b) employees of employee
14 organizations representing state civil service employees, at the option
15 of each such employee organization, and, effective October 1, 1995,
16 employees of employee organizations currently pooled with employees of
17 school districts for the purpose of purchasing insurance benefits, at
18 the option of each such employee organization; and (c) employees of a
19 school district if the authority agrees to provide any of the school
20 districts' insurance programs by contract with the authority as
21 provided in RCW 28A.400.350.

22 (7) "Board" means the public employees' benefits board established
23 under RCW 41.05.055.

24 (8) "Retired or disabled school employee" means:

25 (a) Persons who separated from employment with a school district or
26 educational service district and are receiving a retirement allowance
27 under chapter 41.32 or 41.40 RCW as of September 30, 1993;

28 (b) Persons who separate from employment with a school district or
29 educational service district on or after October 1, 1993, and
30 immediately upon separation receive a retirement allowance under
31 chapter 41.32 or 41.40 RCW;

32 (c) Persons who separate from employment with a school district or
33 educational service district due to a total and permanent disability,
34 and are eligible to receive a deferred retirement allowance under
35 chapter 41.32 or 41.40 RCW.

36 (9) "Benefits contribution plan" means a premium only contribution
37 plan, a medical flexible spending arrangement, or a cafeteria plan
38 whereby state and public employees may agree to a contribution to
39 benefit costs which will allow the employee to participate in benefits

1 offered pursuant to 26 U.S.C. Sec. 125 or other sections of the
2 internal revenue code.

3 (10) "Salary" means a state employee's monthly salary or wages.

4 (11) "Participant" means an individual who fulfills the eligibility
5 and enrollment requirements under the benefits contribution plan.

6 (12) "Plan year" means the time period established by the
7 authority.

8 (13) "Separated employees" means persons who separate from
9 employment with an employer as defined in:

10 (a) RCW 41.32.010(11) on or after July 1, 1996((7)); or

11 (b) Section 2 of this act on or after September 1, 2000;

12 and who are at least age fifty-five and have at least ten years of
13 service under the teachers' retirement system plan III as defined in
14 RCW 41.32.010(40) or the Washington school employees' retirement system
15 plan III as defined in section 2 of this act.

16 **Sec. 707.** RCW 43.33A.190 and 1995 c 239 s 321 are each amended to
17 read as follows:

18 Pursuant to ~~((RCW 41.50.088, the state investment board, at the~~
19 ~~request of the employee retirement benefits board, is authorized to~~
20 ~~offer investment options for self-directed investment under plan III))~~
21 section 307 of this act, the state investment board shall invest all
22 self-directed investment moneys under teachers' retirement system plan
23 III and the school employees' retirement system plan III, with full
24 power to establish investment policy, develop investment options, and
25 manage self-directed investment funds.

26 **Sec. 708.** RCW 43.84.092 and 1997 c 218 s 5 are each amended to
27 read as follows:

28 (1) All earnings of investments of surplus balances in the state
29 treasury shall be deposited to the treasury income account, which
30 account is hereby established in the state treasury.

31 (2) The treasury income account shall be utilized to pay or receive
32 funds associated with federal programs as required by the federal cash
33 management improvement act of 1990. The treasury income account is
34 subject in all respects to chapter 43.88 RCW, but no appropriation is
35 required for refunds or allocations of interest earnings required by
36 the cash management improvement act. Refunds of interest to the
37 federal treasury required under the cash management improvement act

1 fall under RCW 43.88.180 and shall not require appropriation. The
2 office of financial management shall determine the amounts due to or
3 from the federal government pursuant to the cash management improvement
4 act. The office of financial management may direct transfers of funds
5 between accounts as deemed necessary to implement the provisions of the
6 cash management improvement act, and this subsection. Refunds or
7 allocations shall occur prior to the distributions of earnings set
8 forth in subsection (4) of this section.

9 (3) Except for the provisions of RCW 43.84.160, the treasury income
10 account may be utilized for the payment of purchased banking services
11 on behalf of treasury funds including, but not limited to, depository,
12 safekeeping, and disbursement functions for the state treasury and
13 affected state agencies. The treasury income account is subject in all
14 respects to chapter 43.88 RCW, but no appropriation is required for
15 payments to financial institutions. Payments shall occur prior to
16 distribution of earnings set forth in subsection (4) of this section.

17 (4) Monthly, the state treasurer shall distribute the earnings
18 credited to the treasury income account. The state treasurer shall
19 credit the general fund with all the earnings credited to the treasury
20 income account except:

21 (a) The following accounts and funds shall receive their
22 proportionate share of earnings based upon each account's and fund's
23 average daily balance for the period: The capitol building
24 construction account, the Cedar River channel construction and
25 operation account, the Central Washington University capital projects
26 account, the charitable, educational, penal and reformatory
27 institutions account, the common school construction fund, the county
28 criminal justice assistance account, the county sales and use tax
29 equalization account, the data processing building construction
30 account, the deferred compensation administrative account, the deferred
31 compensation principal account, the department of retirement systems
32 expense account, the drinking water assistance account, the Eastern
33 Washington University capital projects account, the education
34 construction fund, the emergency reserve fund, the federal forest
35 revolving account, the health services account, the public health
36 services account, the health system capacity account, the personal
37 health services account, the highway infrastructure account, the
38 industrial insurance premium refund account, the judges' retirement
39 account, the judicial retirement administrative account, the judicial

1 retirement principal account, the local leasehold excise tax account,
2 the local real estate excise tax account, the local sales and use tax
3 account, the medical aid account, the mobile home park relocation fund,
4 the municipal criminal justice assistance account, the municipal sales
5 and use tax equalization account, the natural resources deposit
6 account, the perpetual surveillance and maintenance account, the public
7 employees' retirement system plan I account, the public employees'
8 retirement system plan II account, the Puyallup tribal settlement
9 account, the resource management cost account, the site closure
10 account, the special wildlife account, the state employees' insurance
11 account, the state employees' insurance reserve account, the state
12 investment board expense account, the state investment board commingled
13 trust fund accounts, the supplemental pension account, the teachers'
14 retirement system plan I account, the teachers' retirement system
15 combined plan II and plan III account, the transportation
16 infrastructure account, the tuition recovery trust fund, the University
17 of Washington bond retirement fund, the University of Washington
18 building account, the volunteer fire fighters' relief and pension
19 principal account, the volunteer fire fighters' relief and pension
20 administrative account, the Washington judicial retirement system
21 account, the Washington law enforcement officers' and fire fighters'
22 system plan I retirement account, the Washington law enforcement
23 officers' and fire fighters' system plan II retirement account, the
24 Washington school employees' retirement system combined plan II and III
25 account, the Washington state patrol retirement account, the Washington
26 State University building account, the Washington State University bond
27 retirement fund, the water pollution control revolving fund, and the
28 Western Washington University capital projects account. Earnings
29 derived from investing balances of the agricultural permanent fund, the
30 normal school permanent fund, the permanent common school fund, the
31 scientific permanent fund, and the state university permanent fund
32 shall be allocated to their respective beneficiary accounts. All
33 earnings to be distributed under this subsection (4)(a) shall first be
34 reduced by the allocation to the state treasurer's service fund
35 pursuant to RCW 43.08.190.

36 (b) The following accounts and funds shall receive eighty percent
37 of their proportionate share of earnings based upon each account's or
38 fund's average daily balance for the period: The aeronautics account,
39 the aircraft search and rescue account, the central Puget Sound public

1 transportation account, the city hardship assistance account, the
2 county arterial preservation account, the department of licensing
3 services account, the economic development account, the essential rail
4 assistance account, the essential rail banking account, the ferry bond
5 retirement fund, the gasohol exemption holding account, the grade
6 crossing protective fund, the high capacity transportation account, the
7 highway bond retirement fund, the highway construction stabilization
8 account, the highway safety account, the marine operating fund, the
9 motor vehicle fund, the motorcycle safety education account, the
10 pilotage account, the public transportation systems account, the Puget
11 Sound capital construction account, the Puget Sound ferry operations
12 account, the recreational vehicle account, the rural arterial trust
13 account, the safety and education account, the small city account, the
14 special category C account, the state patrol highway account, the
15 transfer relief account, the transportation capital facilities account,
16 the transportation equipment fund, the transportation fund, the
17 transportation improvement account, the transportation revolving loan
18 account, and the urban arterial trust account.

19 (5) In conformance with Article II, section 37 of the state
20 Constitution, no treasury accounts or funds shall be allocated earnings
21 without the specific affirmative directive of this section.

22 NEW SECTION. **Sec. 709.** (1) The legislature declares that changing
23 the numerical designation of the different retirement plans within the
24 retirement systems from Roman numerals to Arabic numerals is of no
25 substantive importance.

26 (2) The code reviser, under RCW 1.08.025, is directed to change the
27 numerical designation of the retirement plans as follows:

- 28 (a) Where "I" is used, replace with "1";
29 (b) Where "II" is used, replace with "2"; and
30 (c) Where "III" is used, replace with "3."

31 NEW SECTION. **Sec. 710.** The state investment board, in
32 consultation with the employee retirement benefits board, shall develop
33 and implement administrative changes to mitigate the impact on the
34 other pension funds of the movement of plan III members in and out of
35 the state investment board portfolio. The changes shall be designed to
36 meet the goals of minimizing the impact of the self-directed investing
37 option on the state investment board's (1) asset allocation strategy,

1 (2) liquidity needs, and (3) transaction costs. The changes may
2 include but not be limited to restricting the frequency and timing of
3 transfers in and out of the state investment board portfolio and
4 charging appropriate fees to cover additional transaction costs caused
5 by such transfers. At the September 1998 meeting of the joint
6 committee on pension policy, the state investment board shall report on
7 its progress in identifying and implementing administrative changes
8 required by this section. If the state investment board determines
9 that statutory changes are required to achieve the goals specified in
10 this section, the state investment board shall recommend alternatives
11 at the September 1998 meeting of the joint committee on pension policy.

12 NEW SECTION. **Sec. 711.** The joint committee on pension policy
13 shall study the policy and the costs of merging the teachers'
14 retirement system and the Washington school employees' retirement
15 system and shall report their findings to the legislature by January
16 15, 1999.

17 NEW SECTION. **Sec. 712.** The department of retirement systems shall
18 study the ongoing costs of administering the plan III systems, ways to
19 decrease those costs, and methods of charging members for higher-cost
20 investment options. The department shall report to the joint committee
21 on pension policy by September 1998.

22 NEW SECTION. **Sec. 713.** The benefits provided pursuant to chapter
23 . . . , Laws of 1998 (this act) are not provided to employees as a
24 matter of contractual right prior to September 1, 2000. The
25 legislature retains the right to alter or abolish these benefits at any
26 time prior to September 1, 2000.

27 NEW SECTION. **Sec. 714.** Except for sections 303, 306 through 309,
28 404, 505, 507, 515, 701, 707, and 710 through 713 of this act, this act
29 takes effect September 1, 2000.

30 NEW SECTION. **Sec. 715.** Section 505 of this act expires September
31 1, 2000.

32 NEW SECTION. **Sec. 716.** Sections 303, 306 through 309, 404, 505,
33 507, 515, 701, 707, and 710 through 713 of this act are necessary for

1 the immediate preservation of the public peace, health, or safety, or
2 support of the state government and its existing public institutions,
3 and take effect immediately."

4 Correct the title.

--- END ---