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**SUBSTITUTE HOUSE BILL 2680**

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**State of Washington**

**59th Legislature**

**2006 Regular Session**

**By** House Committee on Appropriations (originally sponsored by Representatives Conway, Fromhold, Lovick, Kenney, Quall, Simpson and Moeller; by request of Select Committee on Pension Policy)

READ FIRST TIME 01/26/06.

1 AN ACT Relating to purchasing service credit in plan 2 and plan 3  
2 of the teachers' retirement system for public education experience  
3 performed as a teacher in a public school in another state or with the  
4 federal government; adding new sections to chapter 41.32 RCW; and  
5 providing an effective date.

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

7 NEW SECTION. **Sec. 1.** A new section is added to chapter 41.32 RCW  
8 under the subchapter heading "plan 2" to read as follows:

9 (1) An active member who has completed a minimum of five years of  
10 creditable service in the teachers' retirement system may, upon written  
11 application to the department, make a one-time purchase of up to seven  
12 years of service credit for public education experience outside the  
13 Washington state retirement system, subject to the following  
14 limitations:

15 (a) The public education experience being claimed must have been  
16 performed as a teacher in a public school in another state or with the  
17 federal government;

18 (b) The public education experience being claimed must have been

1 covered by a retirement or pension plan provided by a state or  
2 political subdivision of a state, or by the federal government;

3 (c) The member is not currently receiving a benefit or currently  
4 eligible to receive an unreduced retirement benefit from a retirement  
5 or pension plan of a state or political subdivision of a state or the  
6 federal government that includes the service credit to be purchased;

7 (d) The member has less than ten years of creditable service in the  
8 retirement system; and

9 (e) The purchase will not result in the purchase of service credit  
10 years that exceed the member's total years of creditable service in the  
11 retirement system at the time of purchase.

12 (2) The service credit purchased shall be membership service, and  
13 may be used to qualify the member for retirement.

14 (3) The member shall pay the product of the sum of the employer and  
15 employee contribution rates multiplied by the member's annualized  
16 salary at the time of purchase and further multiplied by the total  
17 number of years of service credit to be purchased, plus compounded  
18 interest for the period for which the service credit is purchased at a  
19 rate equal to the investment rate of return assumption set forth in  
20 chapter 41.45 RCW. Compounded interest shall be applied to each year  
21 of service credit purchased as follows: No interest for the first  
22 year, one years' interest for the second year, two years' interest for  
23 the third year, three years' interest for the fourth year, four years'  
24 interest for the fifth year, five years' interest for the sixth year,  
25 and six years' interest for the seventh year. The applicable employer  
26 and employee contribution rates shall be based on the member's age at  
27 entry into the retirement system and calculated under the entry age  
28 normal cost method.

29 (4) The member may pay all or part of the cost of the service  
30 credit to be purchased with a lump sum payment, eligible rollover,  
31 direct rollover, or trustee-to-trustee transfer from an eligible  
32 retirement plan. The department shall adopt rules to ensure that all  
33 lump sum payments, rollovers, and transfers comply with the  
34 requirements of the internal revenue code and regulations adopted by  
35 the internal revenue service. The rules adopted by the department may  
36 condition the acceptance of a rollover or transfer from another plan on  
37 the receipt of information necessary to enable the department to

1 determine the eligibility of any transferred funds for tax-free  
2 rollover treatment or other treatment under federal income tax law.

3 (5) The employer shall pay an amount sufficient to ensure that the  
4 contribution level to the teachers' retirement system will not increase  
5 due to a member's one-time purchase of service credit under this  
6 section. The employer also may pay all or a portion of the member's  
7 cost of the service credit purchased under this section.

8 NEW SECTION. **Sec. 2.** A new section is added to chapter 41.32 RCW  
9 under the subchapter heading "plan 3" to read as follows:

10 (1) An active member who has completed a minimum of five years of  
11 creditable service in the teachers' retirement system may, upon written  
12 application to the department, make a one-time purchase of up to seven  
13 years of service credit for public education experience outside the  
14 Washington state retirement system, subject to the following  
15 limitations:

16 (a) The public education experience being claimed must have been  
17 performed as a teacher in a public school in another state or with the  
18 federal government;

19 (b) The public education experience being claimed must have been  
20 covered by a retirement or pension plan provided by a state or  
21 political subdivision of a state, or by the federal government;

22 (c) The member is not currently receiving a benefit or currently  
23 eligible to receive an unreduced retirement benefit from a retirement  
24 or pension plan of a state or political subdivision of a state or the  
25 federal government that includes the service credit to be purchased;

26 (d) The member has less than ten years of creditable service in the  
27 retirement system; and

28 (e) The purchase will not result in the purchase of service credit  
29 years that exceed the member's total years of creditable service in the  
30 retirement system at the time of purchase.

31 (2) The service credit purchased shall be membership service, and  
32 may be used to qualify the member for retirement.

33 (3) The member shall pay the product of the employer contribution  
34 rate multiplied by the member's annualized salary at the time of  
35 purchase and further multiplied by the total number of years of service  
36 credit to be purchased, plus compounded interest for the period for  
37 which the service credit is purchased at a rate equal to the investment

1 rate of return assumption set forth in chapter 41.45 RCW. Compounded  
2 interest shall be applied to each year of service credit purchased as  
3 follows: No interest for the first year, one years' interest for the  
4 second year, two years' interest for the third year, three years'  
5 interest for the fourth year, four years' interest for the fifth year,  
6 five years' interest for the sixth year, and six years' interest for  
7 the seventh year. The total amount paid by the member shall be deemed  
8 a contribution on behalf of the employer for the purpose of RCW  
9 41.32.867, and shall not be refundable. The applicable employer  
10 contribution rate shall be based on the member's age at entry into the  
11 retirement system and calculated under the entry age normal cost  
12 method.

13 (4) The member may pay all or part of the cost of the service  
14 credit to be purchased with a lump sum payment, eligible rollover,  
15 direct rollover, or trustee-to-trustee transfer from an eligible  
16 retirement plan. The department shall adopt rules to ensure that all  
17 lump sum payments, rollovers, and transfers comply with the  
18 requirements of the internal revenue code and regulations adopted by  
19 the internal revenue service. The rules adopted by the department may  
20 condition the acceptance of a rollover or transfer from another plan on  
21 the receipt of information necessary to enable the department to  
22 determine the eligibility of any transferred funds for tax-free  
23 rollover treatment or other treatment under federal income tax law.

24 (5) The employer shall pay an amount sufficient to ensure that the  
25 contribution level to the teachers' retirement system will not increase  
26 due to a member's one-time purchase of service credit under this  
27 section. The employer also may pay all or a portion of the member's  
28 cost of the service credit purchased under this section.

29 NEW SECTION. **Sec. 3.** This act takes effect January 1, 2007.

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