

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

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

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

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

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

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

Example (term-certain—Joint life annuity):

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

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

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

annuities, and other optional features differ between programs as well.

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

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

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

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

(5) **May I cancel my purchase of an annuity contract?** Your contract will specify a period of time in which you can cancel your decision to purchase the annuity. Once the rescission period expires, your decision is irrevocable.

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

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

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

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

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

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

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

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

(b) For a TAP annuity, if you do not submit a tax withholding Form W-4P to the department before your first payment, taxes will be

withheld according to Internal Revenue Service requirements, using a filing status of married with three exemptions.

(c) The department does not:

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

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

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

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

(8) **How do I purchase a life annuity?**

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

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

(ii) Plan 3 Annuity Payment Request Form;

(iii) Spousal consent form, if married;

(iv) Proof of your birth date;

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

and

(vi) Tax withholding Form W-4P.

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

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

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