
SUBSTITUTE SENATE BILL 6306

State of Washington**55th Legislature****1998 Regular Session**

By Senate Committee on Ways & Means (originally sponsored by Senators Long, Winsley, Rossi, Bauer, Roach and Anderson; by request of Joint Committee on Pension Policy)

Read first time 02/10/98.

1 AN ACT Relating to the Washington school employees' retirement
2 system; amending RCW 41.34.020, 41.34.030, 41.34.060, 41.34.080,
3 41.34.100, 41.45.010, 41.45.020, 41.45.050, 41.45.060, 41.45.061,
4 41.45.070, 41.50.030, 41.50.060, 41.50.075, 41.50.080, 41.50.086,
5 41.50.088, 41.50.110, 41.50.150, 41.50.152, 41.50.255, 41.50.500,
6 41.50.670, 41.50.790, 41.40.062, 41.26.500, 41.32.800, 41.40.690,
7 41.32.8401, 41.54.010, 41.54.040, 41.05.011, 43.33A.190, and 43.84.092;
8 reenacting and amending RCW 41.40.010, 41.40.088, and 41.54.030; adding
9 a new section to chapter 41.40 RCW; adding a new section to chapter
10 41.32 RCW; adding new sections to chapter 41.34 RCW; adding new
11 sections to chapter 41.45 RCW; adding a new section to chapter 41.50
12 RCW; adding a new section to chapter 41.54 RCW; adding new chapters to
13 Title 41 RCW; creating new sections; prescribing penalties; providing
14 effective dates; and declaring an emergency.

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

16 NEW SECTION. **Sec. 1.** The legislature recognizes that teachers and
17 school district employees share the same educational work environment
18 and academic calendar.

19 It is the intent of the legislature to achieve similar retirement
20 benefits for all educational employees by transferring the membership
21 of classified school employees in the public employees' retirement

1 system plan II to the Washington school employees' retirement system
2 plan II. The transfer of membership to the Washington school
3 employees' retirement system plan II is not intended to cause a
4 diminution or expansion of benefits for affected members. It is
5 enacted solely to provide public employees working under the same
6 conditions with the same options for retirement planning.

7 As members of the Washington school employees' retirement system
8 plan II, classified employees will have the same opportunity to
9 transfer to the Washington school employees' retirement system plan III
10 as their certificated coworkers. The ability to transfer to the
11 Washington school employees' retirement system plan III offers members
12 a new public retirement system that balances flexibility with
13 stability; provides increased employee control of investments and
14 responsible protection of the public's investment in employee benefits;
15 and encourages the pursuit of public sector careers without creating
16 barriers to other public or private sector employment.

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

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

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

23 (3) "State treasurer" means the treasurer of the state of
24 Washington.

25 (4) "Employer" for plan II and plan III members, means a school
26 district, an educational service district, the state school for the
27 deaf, or the state school for the blind.

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

30 (6)(a) "Compensation earnable" for plan II and plan III members,
31 means salaries or wages earned by a member during a payroll period for
32 personal services, including overtime payments, and shall include wages
33 and salaries deferred under provisions established pursuant to sections
34 403(b), 414(h), and 457 of the United States internal revenue code, but
35 shall exclude nonmoney maintenance compensation and lump sum or other
36 payments for deferred annual sick leave, unused accumulated vacation,
37 unused accumulated annual leave, or any form of severance pay.

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

4 (i) Retroactive payments to an individual by an employer on
5 reinstatement of the employee in a position, or payments by an employer
6 to an individual in lieu of reinstatement, which are awarded or granted
7 as the equivalent of the salary or wage which the individual would have
8 earned during a payroll period shall be considered compensation
9 earnable to the extent provided in this subsection, and the individual
10 shall receive the equivalent service credit;

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

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

16 (B) Such member's actual compensation earnable received for
17 nonlegislative public employment and legislative service combined. Any
18 additional contributions to the retirement system required because
19 compensation earnable under (b)(ii)(A) of this subsection is greater
20 than compensation earnable under this (b)(ii)(B) of this subsection
21 shall be paid by the member for both member and employer contributions;

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

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

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

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

35 (7) "Service" for plan II and plan III members, means periods of
36 employment by a member in an eligible position or positions for one or
37 more employers for which compensation earnable is paid. Compensation
38 earnable earned for ninety or more hours in any calendar month shall
39 constitute one service credit month except as provided in section 19 of

1 this act. Compensation earnable earned for at least seventy hours but
2 less than ninety hours in any calendar month shall constitute one-half
3 service credit month of service. Compensation earnable earned for less
4 than seventy hours in any calendar month shall constitute one-quarter
5 service credit month of service. Time spent in standby status, whether
6 compensated or not, is not service.

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

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

11 (b) A member shall receive a total of not more than twelve service
12 credit months of service for such calendar year. If an individual is
13 employed in an eligible position by one or more employers the
14 individual shall receive no more than one service credit month during
15 any calendar month in which multiple service for ninety or more hours
16 is rendered.

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

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

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

24 (iii) Twenty-two days equals one service credit month;

25 (iv) More than twenty-two days but less than thirty-three days
26 equals one and one-quarter service credit month; and

27 (v) Thirty-three or more days but less than forty-five days equals
28 one and one-half service credit month.

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

31 (9) "Service credit month" means a month or an accumulation of
32 months of service credit which is equal to one.

33 (10) "Membership service" means:

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

35 (b) All service after October 1, 1947, to any employer prior to the
36 time of its admission into the retirement system for which member and
37 employer contributions, plus interest as required by RCW 41.50.125,
38 have been paid.

1 (11) "Beneficiary" for plan II and plan III members means any
2 person in receipt of a retirement allowance or other benefit provided
3 by this chapter resulting from service rendered to an employer by
4 another person.

5 (12) "Regular interest" means such rate as the director may
6 determine.

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

11 (14) "Average final compensation" for plan II and plan III members
12 means the member's average compensation earnable of the highest
13 consecutive sixty months of service credit months prior to such
14 member's retirement, termination, or death. Periods constituting
15 authorized leaves of absence may not be used in the calculation of
16 average final compensation except under RCW 41.40.710(2).

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

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

22 (17) "Pension" means payments for life derived from contributions
23 made by the employer. All pensions shall be paid in monthly
24 installments.

25 (18) "Retirement allowance" for plan II and plan III members means
26 monthly payments to a retiree or beneficiary as provided in this
27 chapter.

28 (19) "Employee" or "employed" means a person who is providing
29 services for compensation to an employer, unless the person is free
30 from the employer's direction and control over the performance of work.
31 The department shall adopt rules and interpret this subsection
32 consistent with common law.

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

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

38 (22) "Eligible position" means any position that, as defined by the
39 employer, normally requires five or more months of service a year for

1 which regular compensation for at least seventy hours is earned by the
2 occupant thereof. For purposes of this chapter an employer shall not
3 define "position" in such a manner that an employee's monthly work for
4 that employer is divided into more than one position.

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

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

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

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

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

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

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

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

28 (31) "Plan III" means the Washington school employees' retirement
29 system plan III providing the benefits and funding provisions covering
30 persons who first became members of the system on and after September
31 1, 1999, or who transfer from plan II under section 115 of this act.

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

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

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

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

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

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

8 (38) "Classified employee" means an employee of a school district,
9 an educational service district, the state school for the deaf, or the
10 state school for the blind, who is not eligible for membership in the
11 teachers' retirement system established under chapter 41.32 RCW.

12 NEW SECTION. **Sec. 3.** A retirement system is hereby created for
13 the employees of school districts, educational service districts, the
14 state school for the deaf, and the state school for the blind. The
15 administration and management of the retirement system, the
16 responsibility for making effective the provisions of this chapter, and
17 the authority to make all rules necessary therefor are hereby vested in
18 the department. All such rules shall be governed by the provisions of
19 chapter 34.05 RCW. This retirement system shall be known as the
20 Washington school employees' retirement system.

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

25 (1) Persons in ineligible positions;

26 (2)(a) Persons holding elective offices or persons appointed
27 directly by the governor: PROVIDED, That such persons shall have the
28 option of applying for membership during such periods of employment:
29 AND PROVIDED FURTHER, That any persons holding or who have held
30 elective offices or persons appointed by the governor who are members
31 in the retirement system and who have, prior to becoming such members,
32 previously held an elective office, and did not at the start of such
33 initial or successive terms of office exercise their option to become
34 members, may apply for membership to be effective during such term or
35 terms of office, and shall be allowed to establish the service credit
36 applicable to such term or terms of office upon payment of the employee
37 contributions therefor by the employee with interest as determined by

1 the director and employer contributions therefor by the employer or
2 employee with interest as determined by the director: AND PROVIDED
3 FURTHER, That all contributions with interest submitted by the employee
4 under this subsection shall be placed in the employee's individual
5 account in the employee's savings fund and be treated as any other
6 contribution made by the employee, with the exception that any
7 contributions submitted by the employee in payment of the employer's
8 obligation, together with the interest the director may apply to the
9 employer's contribution, shall not be considered part of the member's
10 annuity for any purpose except withdrawal of contributions;

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

22 (3) Retirement system retirees: PROVIDED, That following
23 reemployment in an eligible position, a retiree may elect to
24 prospectively become a member of the retirement system if otherwise
25 eligible;

26 (4) Persons enrolled in state-approved apprenticeship programs,
27 authorized under chapter 49.04 RCW, and who are employed by employers
28 to earn hours to complete such apprenticeship programs, if the employee
29 is a member of a union-sponsored retirement plan and is making
30 contributions to such a retirement plan or if the employee is a member
31 of a Taft-Hartley retirement plan;

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

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

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

7 (8) Employees who are citizens of the United States and who reside
8 and perform duties for an employer outside of the United States:
9 PROVIDED, That unless otherwise excluded under this chapter or chapter
10 41.04 RCW, the employee may apply for membership (a) within thirty days
11 after employment in an eligible position and membership service credit
12 shall be granted from the first day of membership service, and (b)
13 after this thirty-day period, but membership service credit shall be
14 granted only if payment is made for the noncredited membership service
15 under RCW 41.50.165(2), otherwise service shall be from the date of
16 application.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

6 NEW SECTION. **Sec. 9.** The deductions from the compensation of
7 members, provided for in section 104 of this act, shall be made
8 notwithstanding that the minimum compensation provided for by law for
9 any member shall be reduced thereby. Every member shall be deemed to
10 consent and agree to the deductions made and provided for in this
11 chapter and receipt in full for his or her salary or compensation, and
12 payment, less the deductions, shall be a full and complete discharge
13 and acquittance of all claims and demands whatsoever for the services
14 rendered by the person during the period covered by the payment, except
15 as to benefits provided for under this chapter.

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

19 (2) Beginning September 1, 1990, the amount to be collected as the
20 employer's contribution shall be computed by applying the applicable
21 rates established in chapter 41.45 RCW to the total compensation
22 earnable of employer's members as shown on the current payrolls of the
23 employer. Each employer shall compute at the end of each month the
24 amount due for that month and the same shall be paid as are its other
25 obligations.

26 (3) In the event of failure, for any reason, of an employer other
27 than a political subdivision of the state to have remitted amounts due
28 for membership service of any of the employer's members rendered during
29 a prior biennium, the director shall bill such employer for such
30 employer's contribution together with such charges as the director
31 deems appropriate in accordance with RCW 41.50.120. Such billing shall
32 be paid by the employer as, and the same shall be, a proper charge
33 against any moneys available or appropriated to such employer for
34 payment of current biennial payrolls.

35 NEW SECTION. **Sec. 11.** (1) Subject to subsections (2) and (3) of
36 this section, the right of a person to a pension, an annuity, or

1 retirement allowance, any optional benefit, any other right accrued or
2 accruing to any person under the provisions of this chapter, the
3 various funds created by this chapter, and all moneys and investments
4 and income thereof, are hereby exempt from any state, county,
5 municipal, or other local tax, and shall not be subject to execution,
6 garnishment, attachment, the operation of bankruptcy or insolvency
7 laws, or other process of law whatsoever, and shall be unassignable.

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

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

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

35 NEW SECTION. **Sec. 13.** Any person who knowingly makes any false
36 statements, or falsifies or permits to be falsified any record or
37 records of this retirement system in any attempt to defraud the

1 retirement system as a result of such act, is guilty of a gross
2 misdemeanor.

3 NEW SECTION. **Sec. 14.** (1) Any person who was a member of the
4 state-wide city employees' retirement system governed by chapter 41.44
5 RCW and who was never reemployed by an employer as defined in RCW
6 41.40.010 and who is employed by an employer as defined in section 2 of
7 this act, may, in a writing filed with the director, elect to:

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

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

20 (c) Establish service credit for the initial period of employment
21 not to exceed six months, prior to establishing membership under
22 chapter 41.44 RCW, upon payment in full by the member of the total
23 employer's contribution to the benefit account fund of this retirement
24 system that would have been made under this chapter when the initial
25 service was rendered. The payment shall be based on the first month's
26 compensation earnable as a member of the state-wide city employees'
27 retirement system and as defined in RCW 41.44.030(13). However, a
28 person who has established service credit under RCW 41.40.010(13) (c)
29 or (d) shall not establish additional credit under this subsection nor
30 may anyone who establishes credit under this subsection establish any
31 additional credit under RCW 41.40.010(13) (c) or (d). No additional
32 payments are required for service credit described in this subsection
33 if already established under this chapter.

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

36 (3) Upon receipt of the written election and payments required by
37 subsection (1) of this section from any retiree described in subsection
38 (1) of this section, the department shall recompute the retiree's

1 allowance in accordance with this section and shall pay any additional
2 benefit resulting from such recomputation retroactively to the date of
3 retirement from the system governed by this chapter.

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

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

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

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

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

25 NEW SECTION. **Sec. 15.** Any person aggrieved by any decision of the
26 department affecting his or her legal rights, duties, or privileges
27 must, before he or she appeals to the courts, file with the director by
28 mail or personally within sixty days from the day the decision was
29 communicated to the person, a notice for a hearing before the
30 director's designee. The notice of hearing shall set forth in full
31 detail the grounds upon which the person considers the decision unjust
32 or unlawful and shall include every issue to be considered by the
33 department, and it must contain a detailed statement of facts upon
34 which the person relies in support of the appeal. These persons shall
35 be deemed to have waived all objections or irregularities concerning
36 the matter on which the appeal is taken, other than those specifically
37 set forth in the notice of hearing or appearing in the records of the
38 retirement system.

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

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

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

14 NEW SECTION. **Sec. 19.** (1) Except for any period prior to the
15 member's employment in an eligible position, a plan II or plan III
16 member who is employed by a school district or districts, an
17 educational service district, the state school for the blind, or the
18 state school for the deaf:

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

24 (b) If a member in an eligible position for each month of the
25 period from September through August of the following year does not
26 meet the hours requirements of (a) of this subsection, the member is
27 entitled to one-half service credit month for each month of the period
28 if he or she earns earnable compensation for at least six hundred
29 thirty hours but less than eight hundred ten hours during that period,
30 and is employed nine months of that period;

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

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

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

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

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

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

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

15 (2) The department shall adopt rules as necessary to implement this
16 section.

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

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

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

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

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

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

30 (a) Produce a retirement allowance which is lower than the original
31 retirement allowance;

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

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

35 For the purposes of this section, "index" means, for any calendar
36 year, that year's average consumer price index--Seattle, Washington

1 area for urban wage earners and clerical workers, all items, compiled
2 by the bureau of labor statistics, United States department of labor.

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

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

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

29 (2)(a) A member, if married, must provide the written consent of
30 his or her spouse to the option selected under this section, except as
31 provided in (b) of this subsection. If a member is married and both
32 the member and the member's spouse do not give written consent to an
33 option under this section, the department shall pay a joint and fifty
34 percent survivor benefit calculated to be actuarially equivalent to the
35 benefit options available under subsection (1) of this section unless
36 spousal consent is not required as provided in (b) of this subsection.

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

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

6 (ii) The spousal consent provisions of (a) of this subsection do
7 not apply.

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

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

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

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

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

28 NEW SECTION. Sec. 102. (1) The director may pay a member eligible
29 to receive a retirement allowance or the member's beneficiary, subject
30 to the provisions of subsection (5) of this section, a lump sum payment
31 in lieu of a monthly benefit if the initial monthly benefit computed in
32 accordance with section 101 of this act would be less than fifty
33 dollars. The lump sum payment shall be the greater of the actuarial
34 equivalent of the monthly benefits or an amount equal to the
35 individual's accumulated contributions plus accrued interest.

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

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

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

24 (5) Only persons entitled to or receiving a service retirement
25 allowance under section 101 of this act or an earned disability
26 allowance under section 105 of this act qualify for participation under
27 this section.

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

31 NEW SECTION. Sec. 103. (1) NORMAL RETIREMENT. Any member with at
32 least five service credit years who has attained at least age sixty-
33 five shall be eligible to retire and to receive a retirement allowance
34 computed according to the provisions of section 101 of this act.

35 (2) EARLY RETIREMENT. Any member who has completed at least twenty
36 service credit years and has attained age fifty-five shall be eligible
37 to retire and to receive a retirement allowance computed according to
38 the provisions of section 101 of this act, except that a member

1 retiring pursuant to this subsection shall have the retirement
2 allowance actuarially reduced to reflect the difference in the number
3 of years between age at retirement and the attainment of age sixty-
4 five.

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

14 Contribution rates required to fund the costs of the retirement
15 system shall always be equal for members and employers, except as
16 herein provided. Any adjustments in contribution rates required from
17 time to time for future costs shall likewise be shared equally by the
18 members and employers.

19 Any increase in the contribution rate required as the result of a
20 failure of an employer to make any contribution required by this
21 section shall be borne in full by the employer not making the
22 contribution.

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

26 Members contributions required by this section shall be deducted
27 from the members compensation earnable each payroll period. The
28 members contribution and the employers contribution shall be remitted
29 directly to the department within fifteen days following the end of the
30 calendar month during which the payroll period ends.

31 NEW SECTION. **Sec. 105.** (1) A member of the retirement system who
32 becomes totally incapacitated for continued employment by an employer
33 as determined by the department upon recommendation of the department
34 shall be eligible to receive an allowance under the provisions of
35 sections 101 through 112 of this act. The member shall receive a
36 monthly disability allowance computed as provided for in section 101 of
37 this act and shall have this allowance actuarially reduced to reflect

1 the difference in the number of years between age at disability and the
2 attainment of age sixty-five.

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

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

20 NEW SECTION. **Sec. 106.** Any member or beneficiary eligible to
21 receive a retirement allowance under the provisions of section 103,
22 105, or 107 of this act shall be eligible to commence receiving a
23 retirement allowance after having filed written application with the
24 department.

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

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

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

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

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

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

22 (a) A retirement allowance computed as provided for in section 103
23 of this act, actuarially reduced by the amount of any lump sum benefit
24 identified as owing to an obligee upon withdrawal of accumulated
25 contributions pursuant to a court order filed under RCW 41.50.670 and
26 actuarially adjusted to reflect a joint and one hundred percent
27 survivor option under section 23 of this act and if the member was not
28 eligible for normal retirement at the date of death a further reduction
29 as described in section 103 of this act; if a surviving spouse who is
30 receiving a retirement allowance dies leaving a child or children of
31 the member under the age of majority, then such child or children shall
32 continue to receive an allowance in an amount equal to that which was
33 being received by the surviving spouse, share and share alike, until
34 such child or children reach the age of majority; if there is no
35 surviving spouse eligible to receive an allowance at the time of the
36 member's death, such member's child or children under the age of
37 majority shall receive an allowance, share and share alike, calculated
38 as herein provided making the assumption that the ages of the spouse
39 and member were equal at the time of the member's death; or

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

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

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

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

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

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

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

37 (a) The member makes both the plan II employer and member
38 contributions plus interest as determined by the department for the

1 period of the authorized leave of absence within five years of
2 resumption of service or prior to retirement whichever comes sooner; or

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

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

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

15 (a) The member qualifies for service credit under this subsection
16 if:

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

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

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

27 (b) Upon receipt of member contributions under (a)(ii) of this
28 subsection, the department shall establish the member's service credit
29 and shall bill the employer for its contribution required under section
30 104 of this act for the period of military service, plus interest as
31 determined by the department.

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

37 NEW SECTION. **Sec. 109.** A member who separates or has separated
38 after having completed at least five years of service may remain a

1 member during the period of such member's absence from service for the
2 exclusive purpose only of receiving a retirement allowance under the
3 provisions of section 103 of this act if such member maintains the
4 member's accumulated contributions intact.

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

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

23 The restoration of such funds must be completed within five years
24 of the resumption of service or prior to retirement, whichever occurs
25 first.

26 (2) If a member fails to meet the time limitations of subsection
27 (1) of this section, the member may receive service credit destroyed by
28 the withdrawn contributions if the amount required under RCW
29 41.50.165(2) is paid.

30 NEW SECTION. **Sec. 112.** Sections 101 through 111 and 115 of this
31 act apply only to plan II members.

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

34 (1) Effective September 1, 1999, the membership of all plan II
35 members currently employed in eligible positions in a school district,

1 educational service district, state school for the deaf, or state
2 school for the blind and all plan II service credit for such members,
3 is transferred to the Washington school employees' retirement system
4 plan II. Plan II members who have withdrawn their member contributions
5 for prior plan II service may restore contributions and service credit
6 to the Washington school employees' retirement system plan II as
7 provided under RCW 41.40.740.

8 (2) The membership and previous service credit of a plan II member
9 not employed in an eligible position on September 1, 1999, will be
10 transferred to the Washington school employees' retirement system plan
11 II when he or she becomes employed in an eligible position. Plan II
12 members not employed in an eligible position on September 1, 1999, who
13 have withdrawn their member contributions for prior plan II service may
14 restore contributions and service credit to the Washington school
15 employees' retirement system plan II as provided under RCW 41.40.740.

16 (3) Members who restore contributions and service credit under
17 subsection (1) or (2) of this section shall have their contributions
18 and service credit transferred to the Washington school employees'
19 retirement system.

20 NEW SECTION. **Sec. 114.** A new section is added to chapter 41.32
21 RCW to read as follows:

22 (1) Effective January 1, 2001, the membership of all plan II and
23 plan III members currently employed in eligible positions in a school
24 district, educational service district, state school for the deaf, or
25 state school for the blind and all plan II and plan III service credit
26 for such members, is transferred to the Washington school employees'
27 retirement system plan II or plan III. Plan II and plan III members
28 who have withdrawn their member contributions for prior plan II service
29 may restore contributions and service credit to the Washington school
30 employees' retirement system plan II or plan III as provided under
31 section 111 of this act.

32 (2) The membership and previous service credit of a plan II or plan
33 III member not employed in an eligible position on January 1, 2001,
34 will be transferred to the Washington school employees' retirement
35 system plan II or plan III when he or she becomes employed in an
36 eligible position. Plan II members not employed in an eligible
37 position on January 1, 2001, who have withdrawn their member
38 contributions for prior plan II service may restore contributions and

1 service credit to the Washington school employees' retirement system
2 plan II as provided under section 111 of this act.

3 (3) Members who restore contributions and service credit under
4 subsection (1) or (2) of this section shall not be dual members for the
5 purpose of RCW 41.54.020(2).

6 NEW SECTION. **Sec. 115.** (1) Every plan II member employed by an
7 employer in an eligible position has the option to make an irrevocable
8 transfer to plan III.

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

11 (3) Any plan II member who wishes to transfer to plan III after
12 February 29, 2000, may transfer during the month of January in any
13 following year, provided that the member earns service credit for that
14 month.

15 (4) The accumulated contributions in plan II, less fifty percent of
16 any contributions made pursuant to RCW 41.50.165(2) shall be
17 transferred to the member's account in the defined contribution portion
18 established in chapter 41.34 RCW, pursuant to procedures developed by
19 the department and subject to RCW 41.34.090. Contributions made
20 pursuant to RCW 41.50.165(2) that are not transferred to the member's
21 account shall be transferred to the fund created in RCW 41.50.075(2),
22 except that interest earned on all such contributions shall be
23 transferred to the member's account.

24 (5) The legislature reserves the right to discontinue the right to
25 transfer under this section.

26 (6) Anyone previously retired from plan II is prohibited from
27 transferring to plan III.

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

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

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

1 NEW SECTION. **Sec. 202.** All classified employees who first become
2 employed by an employer in an eligible position on or after September
3 1, 1999, shall be members of plan III.

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

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

12 NEW SECTION. **Sec. 204.** (1) Anyone who requests to transfer under
13 section 115 of this act before March 1, 2000, and establishes service
14 credit for January 2000, shall have their member account increased by
15 sixty-five percent of:

16 (a) The member's public employees' retirement system plan II
17 accumulated contributions as of January 1, 1999, less fifty percent of
18 any payments made pursuant to RCW 41.50.165(2); or

19 (b) All amounts withdrawn after January 1, 1999, which are
20 completely restored before March 1, 2000.

21 (2) If a member who requests to transfer dies before January 1,
22 2000, the additional payment provided by this section shall be paid to
23 the member's estate, or the person or persons, trust, or organization
24 the member nominated by written designation duly executed and filed
25 with the department.

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

29 NEW SECTION. **Sec. 205.** Any member or beneficiary eligible to
30 receive a retirement allowance under the provisions of section 209,
31 210, or 212 of this act is eligible to commence receiving a retirement
32 allowance after having filed written application with the department.

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

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

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

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

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

14 (2) A member who receives compensation from an employer while on an
15 authorized leave of absence to serve as an elected official of a labor
16 organization, and whose employer is reimbursed by the labor
17 organization for the compensation paid to the member during the period
18 of absence, may also be considered to be on a paid leave of absence.
19 This subsection shall only apply if the member's leave of absence is
20 authorized by a collective bargaining agreement that provides that the
21 member retains seniority rights with the employer during the period of
22 leave. The earnable compensation reported for a member who establishes
23 service credit under this subsection may not be greater than the salary
24 paid to the highest paid job class covered by the collective bargaining
25 agreement.

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

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

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

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

1 (4) A member who leaves the employ of an employer to enter the
2 armed forces of the United States shall be entitled to retirement
3 system service credit for up to five years of military service if
4 within ninety days of the member's honorable discharge from the United
5 States armed forces, the member applies for reemployment with the
6 employer who employed the member immediately prior to the member
7 entering the United States armed forces. This subsection shall be
8 administered in a manner consistent with the requirements of the
9 federal uniformed services employment and reemployment rights act.

10 The department shall establish the member's service credit and
11 shall bill the employer for its contribution required under section 213
12 of this act for the period of military service, plus interest as
13 determined by the department. Service credit under this subsection may
14 be obtained only if the member makes the employee contribution to the
15 defined contribution portion as determined by the department.

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

20 NEW SECTION. **Sec. 207.** (1) Contributions on behalf of the
21 employer paid by the employee to purchase plan III service credit shall
22 be allocated to the defined benefit portion of plan III and shall not
23 be refundable when paid to the fund described in RCW 41.50.075(2).
24 Contributions on behalf of the employee shall be allocated to the
25 member account. If the member fails to meet the statutory time
26 limitations to purchase plan III service credit, it may be purchased
27 under the provisions of RCW 41.50.165(2). One-half of the purchase
28 payments under RCW 41.50.165(2), plus interest, shall be allocated to
29 the member's account.

30 (2) No purchased plan III membership service will be credited until
31 all payments required of the member are made, with interest. Upon
32 receipt of all payments owed by the member, the department shall bill
33 the employer for any contributions, plus interest, required to purchase
34 membership service.

35 NEW SECTION. **Sec. 208.** (1) The director may pay a member eligible
36 to receive a retirement allowance or the member's beneficiary a lump
37 sum payment in lieu of a monthly benefit if the initial monthly benefit

1 would be less than one hundred dollars. The one hundred dollar limit
2 shall be increased annually as determined by the director. The lump
3 sum payment shall be the actuarial equivalent of the monthly benefit.

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

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

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

16 (a) Completed ten service credit years; or

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

19 (c) Completed five service credit years by September 1, 1999, under
20 the public employees' retirement system plan II and who transferred to
21 plan III under section 115 of this act;

22 shall be eligible to retire and to receive a retirement allowance
23 computed according to the provisions of section 203 of this act.

24 (2) EARLY RETIREMENT. Any member who has attained at least age
25 fifty-five and has completed at least ten years of service shall be
26 eligible to retire and to receive a retirement allowance computed
27 according to the provisions of section 203 of this act, except that a
28 member retiring pursuant to this subsection shall have the retirement
29 allowance actuarially reduced to reflect the difference in the number
30 of years between age at retirement and the attainment of age sixty-
31 five.

32 NEW SECTION. Sec. 210. (1) A member of the retirement system who
33 becomes totally incapacitated for continued employment by an employer
34 as determined by the department shall be eligible to receive an
35 allowance under the provisions of plan III. The member shall receive
36 a monthly disability allowance computed as provided for in section 203
37 of this act and shall have this allowance actuarially reduced to

1 reflect the difference in the number of years between age at disability
2 and the attainment of age sixty-five.

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

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

13 NEW SECTION. **Sec. 211.** (1) Any member who elects to transfer to
14 plan III and has eligible unrestored withdrawn contributions in plan
15 II, may restore such contributions under the provisions of section 113
16 of this act with interest as determined by the department. The
17 restored plan II service credit will be automatically transferred to
18 plan III. Restoration payments will be transferred to the member
19 account in plan III. If the member fails to meet the time limitations
20 of section 113 of this act, they may restore such contributions under
21 the provisions of RCW 41.50.165(2). The restored plan II service
22 credit will be automatically transferred to plan III. One-half of the
23 restoration payments under RCW 41.50.165(2) plus interest shall be
24 allocated to the member's account.

25 (2) Any member who elects to transfer to plan III may purchase plan
26 II service credit under section 113 of this act. Purchased plan II
27 service credit will be automatically transferred to plan III.
28 Contributions on behalf of the employer paid by the employee shall be
29 allocated to the defined benefit portion of plan III and shall not be
30 refundable when paid to the fund described in RCW 41.50.075(2).
31 Contributions on behalf of the employee shall be allocated to the
32 member account. If the member fails to meet the time limitations of
33 section 113 of this act, they may subsequently restore such
34 contributions under the provisions of RCW 41.50.165(2). Purchased plan
35 II service credit will be automatically transferred to plan III. One-
36 half of the payments under RCW 41.50.165(2), plus interest, shall be
37 allocated to the member's account.

1 NEW SECTION. **Sec. 212.** If a member dies prior to retirement, the
2 surviving spouse or eligible child or children shall receive a
3 retirement allowance computed as provided in section 203 of this act
4 actuarially reduced to reflect a joint and one hundred percent survivor
5 option and if the member was not eligible for normal retirement at the
6 date of death a further reduction as described in section 209 of this
7 act.

8 If the surviving spouse who is receiving the retirement allowance
9 dies leaving a child or children under the age of majority, then such
10 child or children shall continue to receive an allowance in an amount
11 equal to that which was being received by the surviving spouse, share
12 and share alike, until such child or children reach the age of
13 majority.

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

19 NEW SECTION. **Sec. 213.** The required contribution rates to the
20 retirement system for employers shall be established by the director
21 from time to time as may be necessary upon the advice of the state
22 actuary. The state actuary shall use the aggregate actuarial cost
23 method to calculate contribution rates. The employer contribution rate
24 calculated under this section shall be used only for the purpose of
25 determining the amount of employer contributions to be deposited in the
26 plan II fund from the total employer contributions collected under
27 section 10 of this act.

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

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

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

1 NEW SECTION. **Sec. 214.** Sections 1 through 25, 101 through 112,
2 115, and 201 through 213 of this act constitute a new chapter in Title
3 41 RCW.

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

6 As used in this chapter, the following terms have the meanings
7 indicated:

8 (1) "Actuary" means the state actuary or the office of the state
9 actuary.

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

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

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

17 (b) "Compensation" for classified employees for purposes of this
18 chapter is the same as "compensation earnable" for plan III in section
19 2 of this act, except that the compensation may be reported when paid,
20 rather than when earned.

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

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

26 (6) "Member" means any employee included in the membership of a
27 retirement system as provided for in chapter 41.32 RCW of plan III or
28 chapter 41.-- RCW (sections 1 through 25, 101 through 112, 115, and 201
29 through 213 of this act) of plan III.

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

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

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

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

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

3 (1) This chapter applies only to members of plan III retirement
4 systems created under chapters 41.32 and 41.-- (sections 1 through 25,
5 101 through 112, 115, and 201 through 213 of this act) RCW.

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

7 (a) A defined benefit portion covered under:

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

9 (ii) Chapter 41.-- RCW (sections 1 through 25, 101 through 112,
10 115, and 201 through 213 of this act); and

11 (b) A defined contribution portion covered under this chapter.
12 Unless specified otherwise, all references to "plan III" in this
13 chapter refer to the defined contribution portion of plan III.

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

16 (1) Except as provided in subsection (2) of this section, the
17 member's account shall be invested by the state investment board.
18 (~~All contributions under this subsection shall be invested~~)

19 (a) For members of the retirement system as provided for in chapter
20 41.32 RCW of plan III, investment shall be in the same portfolio as
21 that of the teachers' retirement system combined plan II and III fund
22 under RCW 41.50.075(2).

23 (b) For members of the retirement system as provided for in chapter
24 41.-- RCW (sections 1 through 25, 101 through 112, 115, and 201 through
25 213 of this act) of plan III, investment shall be in the same portfolio
26 as that of the school employees' retirement system combined plan II and
27 III fund under RCW 41.50.075(3).

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

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

35 (1) Subject to subsections (2) and (3) of this section, the right
36 of a person to a pension, an annuity, a retirement allowance, any
37 optional benefit, any other right accrued or accruing to any person

1 under the provisions of this chapter, and the various funds created by
2 chapter 239, Laws of 1995, and chapter . . . , Laws of 1998 (this act)
3 and all moneys and investments and income thereof, is hereby exempt
4 from any state, county, municipal, or other local tax, and shall not be
5 subject to execution, garnishment, attachment, the operation of
6 bankruptcy or insolvency laws, or other process of law whatsoever, and
7 shall be unassignable.

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

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

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

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

1 (2) The benefits provided pursuant to chapter . . . , Laws of 1998
2 (this act) are not provided to employees as a matter of contractual
3 right prior to September 1, 1999. The legislature retains the right to
4 alter or abolish these benefits at any time prior to September 1, 1999.

5 NEW SECTION. Sec. 306. A new section is added to chapter 41.34
6 RCW to read as follows:

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

11 NEW SECTION. Sec. 307. A new section is added to chapter 41.34
12 RCW to read as follows:

13 (1) The state investment board has the full authority to invest all
14 self-directed investment moneys in accordance with RCW 43.84.150 and
15 43.33A.140, and cumulative investment directions received pursuant to
16 RCW 41.34.060 and this section. In carrying out this authority the
17 state investment board, after consultation with the employee retirement
18 benefits board regarding any recommendations made pursuant to RCW
19 41.50.088(2), shall provide a set of options for members to choose from
20 for self-directed investment.

21 (2) All investment and operating costs of the state investment
22 board associated with making self-directed investments shall be paid by
23 members and recovered under procedures agreed to by the board and the
24 state investment board pursuant to the principles set forth in RCW
25 43.33A.160 and 43.84.160. All other expenses caused by self-directed
26 investment shall be paid by the member in accordance with rules
27 established by the board under RCW 41.50.088. With the exception of
28 these expenses, all earnings from self-directed investments shall
29 accrue to the member's account.

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

35 NEW SECTION. Sec. 308. A new section is added to chapter 41.34
36 RCW to read as follows:

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

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

9 NEW SECTION. Sec. 309. (1) On July 1, 1998, the member account of
10 a person meeting the requirements of this section shall be credited by
11 the extraordinary investment gain amount.

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

14 (a) Any member of the teachers' retirement system plan III who
15 earned service credit during the twelve-month period from September 1st
16 to August 31st immediately preceding the distribution and had a balance
17 of at least one thousand dollars in their member account on August 31st
18 of the year immediately preceding the distribution; or

19 (b) Any person in receipt of a benefit pursuant to RCW 41.32.875;
20 or

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

23 (i) Completed ten service credit years; or

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

26 (iii) Completed five service credit years by July 1, 1996, under
27 plan II and who transferred to plan III under RCW 41.32.817; or

28 (d) Any person who had a balance of at least one thousand dollars
29 in their member account on August 31st of the year immediately
30 preceding the distribution and who:

31 (i) Completed ten service credit years; or

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

34 (iii) Completed five service credit years by July 1, 1996, under
35 plan II and who transferred to plan III under RCW 41.32.817.

36 (3) The extraordinary investment gain amount shall be calculated as
37 follows:

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

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

9 (c) Multiplied by the proportion of:

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

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

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

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

21 (C) Any person in receipt of a benefit pursuant to RCW 41.32.765 or
22 41.40.630; and

23 (D) Any person with five or more years of service in the teachers'
24 retirement system plan II or the public employees' retirement system
25 plan II;

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

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

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

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

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

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

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

6 (4) "Member" means any employee included in the membership of the
7 school employees' retirement system as provided for in section 2 this
8 act.

9 (5) "Member account" or "member's account" means the sum of any
10 contributions as provided for in chapter 41.34 RCW and the earnings on
11 behalf of the member.

12 (6) "Classified employee" means the same as in section 2 of this
13 act.

14 NEW SECTION. **Sec. 312.** (1) On March 1, 2000, the member account
15 of a person meeting the requirements of this section shall be credited
16 by the extraordinary investment gain amount.

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

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

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

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

29 (i) Completed ten service credit years; or

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

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

35 (e) Any classified employee who is a retiree pursuant to RCW
36 41.34.020(8) and who has completed five service credit years by
37 September 1, 1999, and who transferred to plan III under section 115 of
38 this act; or

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

4 (i) Completed ten service credit years; or

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

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

12 (h) Any classified employee who had a balance of at least one
13 thousand dollars in their member account on August 31st of the year
14 immediately preceding the distribution and who has completed five
15 service credit years by September 1, 1999, and who transferred to plan
16 III under section 115 of this act.

17 (3) The extraordinary investment gain amount shall be calculated as
18 follows:

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

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

27 (c) Multiplied by the proportion of:

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

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

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

35 (B) Any person who earned service credit in the teachers'
36 retirement system plan II or the Washington school employees'
37 retirement system plan II during the twelve-month period from September
38 1st to August 31st immediately preceding the distribution;

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

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

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

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

12 NEW SECTION. **Sec. 313.** (1) On March 1, 2000, the member account
13 of a person meeting the requirements of this section shall be credited
14 by the retroactive extraordinary investment gain amount.

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

17 (a) Any classified employee who earned service credit during the
18 twelve-month period from September 1st to August 31st immediately
19 preceding the distribution and who transferred to plan III under
20 section 115 of this act; or

21 (b) Any classified employee in receipt of a benefit pursuant to
22 section 209 of this act and who has completed five service credit years
23 by September 1, 1999, and who transferred to plan III under section 115
24 of this act; or

25 (c) Any classified employee who is a retiree pursuant to RCW
26 41.34.020(8) and who has completed five service credit years by
27 September 1, 1999, and who transferred to plan III under section 115 of
28 this act; or

29 (d) Any classified employee who has a balance of at least one
30 thousand dollars in their member account and who has completed five
31 service credit years by September 1, 1999, and who transferred to plan
32 III under section 115 of this act.

33 (3) The retroactive extraordinary investment gain amount shall be
34 calculated as follows:

35 (a) An amount equal to the average benefit per year of service paid
36 to members of the teachers' retirement system plan III pursuant to
37 section 309 of this act;

1 (b) Distributed to persons eligible for the benefit provided in
2 subsection (1) of this section on the basis of their service credit
3 total on August 31st of 1997.

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

7 NEW SECTION. **Sec. 314.** (1) On January 1, 2002, and January 1st of
8 even-numbered years thereafter, the member account of a person meeting
9 the requirements of this section shall be credited by the extraordinary
10 investment gain amount.

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

13 (a) Any member of the Washington school employees' retirement
14 system plan III who earned service credit during the twelve-month
15 period from September 1st to August 31st immediately preceding the
16 distribution and had a balance of at least one thousand dollars in
17 their member account on August 31st of the year immediately preceding
18 the distribution; or

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

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

23 (i) Completed ten service credit years; or

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

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

29 (e) Any classified employee who is a retiree pursuant to RCW
30 41.34.020(8) and who has completed five service credit years by
31 September 1, 1999, and who transferred to plan III under section 115 of
32 this act; or

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

36 (i) Completed ten service credit years; or

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

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

6 (h) Any classified employee who had a balance of at least one
7 thousand dollars in their member account on August 31st of the year
8 immediately preceding the distribution and who has completed five
9 service credit years by September 1, 1999, and who transferred to plan
10 III under section 115 of this act.

11 (3) The extraordinary investment gain amount shall be calculated as
12 follows:

13 (a) One-half of the value of the net assets held in trust for
14 pension benefits in the Washington school employees' retirement system
15 combined plan II and III fund at the close of the previous state fiscal
16 year not including the amount attributable to member accounts;

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

20 (c) Multiplied by the proportion of:

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

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

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

28 (B) Any person who earned service credit in the Washington school
29 employees' retirement system plan II during the twelve-month period
30 from September 1st to August 31st immediately preceding the
31 distribution;

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

34 (D) Any person with five or more years of service in the Washington
35 school employees' retirement system plan II;

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

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

4 NEW SECTION. **Sec. 315.** Sections 311 through 314 of this act
5 constitute a new chapter in Title 41 RCW.

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

8 It is the intent of the legislature to provide a dependable and
9 systematic process for funding the benefits provided to members and
10 retirees of the public employees' retirement system, chapter 41.40 RCW;
11 the teachers' retirement system, chapter 41.32 RCW; the law enforcement
12 officers' and fire fighters' retirement system, chapter 41.26 RCW; the
13 school employees' retirement system, chapter 41.-- RCW (sections 1
14 through 25, 101 through 112, 115, and 201 through 213 of this act); and
15 the Washington state patrol retirement system, chapter 43.43 RCW.

16 The funding process established by this chapter is intended to
17 achieve the following goals:

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

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

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

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

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

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

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

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

6 (3) "Law enforcement officers' and fire fighters' retirement system
7 plan I" and "law enforcement officers' and fire fighters' retirement
8 system plan II" mean the benefits and funding provisions under chapter
9 41.26 RCW.

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

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

16 (6) "School employees' retirement system plan II" and "school
17 employees' retirement system plan III" mean the benefits and funding
18 provisions under chapter 41.-- RCW (sections 1 through 25, 101 through
19 112, 115, and 201 through 213 of this act).

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

22 ~~((+7))~~ (8) "Unfunded liability" means the unfunded actuarial
23 accrued liability of a retirement system.

24 ~~((+8))~~ (9) "Actuary" or "state actuary" means the state actuary
25 employed under chapter 44.44 RCW.

26 ~~((+9))~~ (10) "State retirement systems" means the retirement
27 systems listed in RCW 41.50.030.

28 (11) "Classified employee" means a member of the Washington school
29 employees' retirement system plan II or plan III as defined in section
30 2 of this act.

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

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

35 (1) Employers of members of the public employees' retirement
36 system, the teachers' retirement system, the school employees'
37 retirement system, and the Washington state patrol retirement system

1 shall make contributions to those systems based on the rates
2 established in RCW 41.45.060 and 41.45.070.

3 (2) The state shall make contributions to the law enforcement
4 officers' and fire fighters' retirement system based on the rates
5 established in RCW 41.45.060 and 41.45.070. The state treasurer shall
6 transfer the required contributions each month on the basis of salary
7 data provided by the department.

8 (3) The department shall bill employers, and the state shall make
9 contributions to the law enforcement officers' and fire fighters'
10 retirement system, using the combined rates established in RCW
11 41.45.060 and 41.45.070 regardless of the level of pension funding
12 provided in the biennial budget. Any member of an affected retirement
13 system may, by mandamus or other appropriate proceeding, require the
14 transfer and payment of funds as directed in this section.

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

24 (5) The contributions received for the teachers' retirement system
25 shall be allocated between the plan I fund and the combined plan II and
26 plan III fund as follows: The contributions necessary to fully fund
27 the combined plan II and plan III employer contribution shall first be
28 deposited in the combined plan II and plan III fund. All remaining
29 teachers' retirement system employer contributions shall be deposited
30 in the plan I fund.

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

1 (7) The contributions received under RCW 41.26.450 for the law
2 enforcement officers' and fire fighters' retirement system shall be
3 allocated between the law enforcement officers' and fire fighters'
4 retirement system plan I and the law enforcement officers' and fire
5 fighters' retirement system plan II fund as follows: The contributions
6 necessary to fully fund the law enforcement officers' and fire
7 fighters' retirement system plan II employer contributions shall be
8 first deposited in the law enforcement officers' and fire fighters'
9 retirement system plan II fund. All remaining law enforcement
10 officers' and fire fighters' retirement system employer contributions
11 shall be deposited in the law enforcement officers' and fire fighters'
12 retirement system plan I fund.

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

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

17 (2) Not later than September 30, 1996, and every two years
18 thereafter, consistent with the assumptions adopted under RCW
19 41.45.030, the council shall adopt both:

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

22 (b) Basic employer contribution rates for the public employees'
23 retirement system plan I, the teachers' retirement system plan I, and
24 the Washington state patrol retirement system to be used in the ensuing
25 biennial period; and

26 (c) A basic employer contribution rate for the school employees'
27 retirement system for funding the public employees' retirement system
28 plan I.

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

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

36 (b) To also continue to fully fund the public employees' retirement
37 system plan II, the teachers' retirement system plans II and III, the
38 school employees' retirement system plans II and III, and the law

1 enforcement officers' and fire fighters' retirement system plan II in
2 accordance with RCW 41.40.650, 41.26.450, and this section.

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

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

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

10 NEW SECTION. **Sec. 405.** A new section is added to chapter 41.45
11 RCW to read as follows:

12 Until September 2001, the employer contribution rate charged on the
13 salaries of classified employee members of the Washington school
14 employees' retirement system shall be the same as the employer
15 contribution rate adopted for the public employees' retirement system
16 under RCW 41.45.060 and include the supplemental rate under RCW
17 41.45.070.

18 After September 2001, the employer contribution rate shall be
19 calculated under RCW 41.45.060.

20 **Sec. 406.** RCW 41.45.061 and 1997 c 10 s 2 are each amended to read
21 as follows:

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

25 (a) Beginning September 1, 1997, except as provided in (b) of this
26 subsection, the employee contribution rate shall not exceed the
27 employer plan II and III rates adopted under RCW 41.45.060 and
28 41.45.070 for the teachers' retirement system;

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

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

34 (c) In addition, the employee contribution rate for plan II shall
35 not be increased as a result of any distributions pursuant to sections
36 309 and 313 of this act.

1 (2) The required contribution rate for classified members of the
2 plan II school employees' retirement system shall be the same as the
3 public employees' retirement system plan II rate, subject to the
4 following:

5 (a) Beginning September 1, 1999, except as provided in (b) of this
6 subsection, the employee contribution rate shall not exceed the
7 employer plan II and III rates adopted under RCW 41.45.060 and
8 41.45.070 for the teachers' retirement system;

9 (b) Any change to the public employees' retirement system plan II
10 rate due to benefit increases shall not be included;

11 (c) The rate shall be increased by fifty percent of the
12 contribution rate increase caused by any plan II benefit increases
13 affecting classified plan II members; and

14 (d) The employee contribution rate for plan II shall not be
15 increased as a result of any distributions pursuant to sections 312
16 through 314 of this act.

17 (3) The required plan II and III contribution rates for employers
18 shall be adopted in the manner described in RCW 41.45.060.

19 (4) The required contribution rate for members of the plan II
20 public employees' retirement system shall be fixed at the rates in
21 effect on September 1, 1999, subject to the following:

22 (a) Beginning September 1, 1999, except as provided in (b) of this
23 subsection, the employee contribution rate shall not exceed the
24 employer plan II and III rates adopted under RCW 41.45.060 and
25 41.45.070 for the public employees' retirement system;

26 (b) In addition, the employee contribution rate for plan II shall
27 be increased by fifty percent of the contribution rate increase caused
28 by any plan II benefit increase passed after September 1, 1999;

29 (c) In addition, the employee contribution rate for plan II shall
30 not be increased as a result of any distributions pursuant to sections
31 312 through 314 of this act.

32 **Sec. 407.** RCW 41.45.070 and 1995 c 239 s 310 are each amended to
33 read as follows:

34 (1) In addition to the basic employer contribution rate established
35 in RCW 41.45.060, the department shall also charge employers of public
36 employees' retirement system, teachers' retirement system, school
37 employees' retirement system, or Washington state patrol retirement
38 system members an additional supplemental rate to pay for the cost of

1 additional benefits, if any, granted to members of those systems.
2 Except as provided in subsection (6) of this section, the supplemental
3 contribution rates required by this section shall be calculated by the
4 state actuary and shall be charged regardless of language to the
5 contrary contained in the statute which authorizes additional benefits.

6 (2) In addition to the basic state contribution rate established in
7 RCW 41.45.060 for the law enforcement officers' and fire fighters'
8 retirement system the department shall also establish a supplemental
9 rate to pay for the cost of additional benefits, if any, granted to
10 members of the law enforcement officers' and fire fighters' retirement
11 system. This supplemental rate shall be calculated by the state
12 actuary and the state treasurer shall transfer the additional required
13 contributions regardless of language to the contrary contained in the
14 statute which authorizes the additional benefits.

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

22 (4) The supplemental rate charged under this section to fund
23 benefit increases provided to active and retired members of the public
24 employees' retirement system plan II, the teachers' retirement system
25 plan II and plan III, the school employees' retirement system plan II
26 and plan III, or the law enforcement officers' and fire fighters'
27 retirement system plan II, shall be calculated as the level percentage
28 of all members' pay needed to fund the cost of the benefit, as
29 calculated under RCW 41.40.650(~~(, 41.32.775,)~~) or 41.26.450,
30 respectively.

31 (5) The supplemental rate charged under this section to fund
32 postretirement adjustments which are provided on a nonautomatic basis
33 to current retirees shall be calculated as the percentage of pay needed
34 to fund the adjustments as they are paid to the retirees. The
35 supplemental rate charged under this section to fund automatic
36 postretirement adjustments for active or retired members of the public
37 employees' retirement system plan I and the teachers' retirement system
38 plan I shall be calculated as the level percentage of pay needed to

1 fund the cost of the automatic adjustments not later than June 30,
2 2024.

3 (6) A supplemental rate shall not be charged to pay for the cost of
4 additional benefits granted to members pursuant to chapter 41.-- RCW
5 (sections 311 through 314 of this act) and section 309, chapter . . . ,
6 Laws of 1998 (section 309 of this act).

7 NEW SECTION. Sec. 408. A new section is added to chapter 41.45
8 RCW to read as follows:

9 Upon the advice of the state actuary, the state treasurer shall
10 divide the assets in the public employees' retirement system plan II as
11 of September 1, 1999, in such a manner that sufficient assets remain in
12 plan II to maintain the employee contribution rate calculated in the
13 latest actuarial valuation of the public employees' retirement system
14 plan II. The state actuary shall take into account changes in assets
15 that occur between the latest actuarial valuation and the date of
16 transfer. The balance of the assets shall be transferred to the
17 Washington school employees' retirement system plan II and III.

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

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

- 24 (a) The Washington public employees' retirement system;
- 25 (b) The Washington state teachers' retirement system;
- 26 (c) The Washington law enforcement officers' and fire fighters'
27 retirement system;
- 28 (d) The Washington state patrol retirement system;
- 29 (e) The Washington judicial retirement system; and
- 30 (f) The state treasurer with respect to the administration of the
31 judges' retirement fund imposed pursuant to chapter 2.12 RCW.

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

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

35 (4) The department shall administer the Washington school
36 employees' retirement system created under chapter 41.-- RCW (sections
37 1 through 25, 101 through 112, 115, and 201 through 213 of this act).

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

3 The director may delegate the performance of such powers, duties,
4 and functions, other than those relating to rule making, to employees
5 of the department, but the director shall remain and be responsible for
6 the official acts of the employees of the department.

7 The director shall be responsible for the public employees'
8 retirement system, the teachers' retirement system, the school
9 employees' retirement system, the judicial retirement system, the law
10 enforcement officers' and fire fighters' retirement system, and the
11 Washington state patrol retirement system. The director shall also be
12 responsible for the deferred compensation program.

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

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

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

37 (3) There is hereby established in the state treasury two separate
38 funds, namely the public employees' retirement system plan I fund and

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

6 (4) There is hereby established in the state treasury the school
7 employees' retirement system combined plan II and III fund. The
8 combined plan II and III fund shall consist of all moneys paid to
9 finance the benefits provided to members of the school employees'
10 retirement system plan II and plan III.

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

13 The state investment board shall provide for the investment of all
14 funds of the Washington public employees' retirement system, the
15 teachers' retirement system, the school employees' retirement system,
16 the Washington law enforcement officers' and fire fighters' retirement
17 system, the Washington state patrol retirement system, the Washington
18 judicial retirement system, and the judges' retirement fund, pursuant
19 to RCW 43.84.150, and may sell or exchange investments acquired in the
20 exercise of that authority.

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

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

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

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

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

1 two years for one active member, and three years for the remaining
2 active member.

3 (c) Three members representing the school 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 one year for the
7 retired member, two years for one active member, and three years for
8 the remaining active member.

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

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

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

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

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

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

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

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

28 **Sec. 506.** RCW 41.50.088 and 1995 c 239 s 302 are each amended to
29 read as follows:

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

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

36 ~~(2))~~ (a) The board shall recommend to the state investment board
37 types of options for member self-directed investment in the teachers'
38 retirement system plan III and the school employees' retirement system

1 plan III, as deemed by the board to be reflective of the members'
2 preferences.

3 (b) The selection of optional benefit payment schedules available
4 to members and survivors of members upon the death, disability,
5 retirement, or termination of the member. The optional benefit
6 payments may include but not be limited to: Fixed and participating
7 annuities, joint and survivor annuities, and payments that bridge to
8 social security or defined benefit plan payments;

9 ~~((3))~~ (c) Approval of actuarially equivalent annuities that may
10 be purchased from the combined plan II and plan III funds under RCW
11 41.50.075 (2) or (3); and

12 ~~((4))~~ (d) Determination of the basis for administrative charges
13 to the self-directed investment fund to offset self-directed account
14 expenses; ~~(and~~

15 ~~(5))~~ (2) Selection of investment options for the deferred
16 compensation program.

17 **Sec. 507.** RCW 41.50.110 and 1996 c 39 s 17 are each amended to
18 read as follows:

19 (1) Except as provided by RCW 41.50.255 and subsection (6) of this
20 section, all expenses of the administration of the department and the
21 expenses of administration of the retirement systems created in
22 chapters 2.10, 2.12, 41.26, 41.32, 41.40, 41.34, 41.-- (sections 1
23 through 25, 101 through 112, 115, and 201 through 213 of this act) and
24 43.43 RCW shall be paid from the department of retirement systems
25 expense fund.

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

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

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

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

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

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

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

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

28 **Sec. 508.** RCW 41.50.150 and 1997 c 221 s 1 are each amended to
29 read as follows:

30 (1) The employer of any employee whose retirement benefits are
31 based in part on excess compensation, as defined in this section,
32 shall, upon receipt of a billing from the department, pay into the
33 appropriate retirement system the present value at the time of the
34 employee's retirement of the total estimated cost of all present and
35 future benefits from the retirement system attributable to the excess
36 compensation. The state actuary shall determine the estimated cost
37 using the same method and procedure as is used in preparing fiscal note
38 costs for the legislature. However, the director may in the director's

1 discretion decline to bill the employer if the amount due is less than
2 fifty dollars. Accounts unsettled within thirty days of the receipt of
3 the billing shall be assessed an interest penalty of one percent of the
4 amount due for each month or fraction thereof beyond the original
5 thirty-day period.

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

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

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

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

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

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

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

21 (e) Any termination or severance payment.

22 (3) This section applies to the retirement systems listed in RCW
23 41.50.030 and to retirements occurring on or after March 15, 1984.
24 Nothing in this section is intended to amend or determine the meaning
25 of any definition in chapter 2.10, 2.12, 41.26, 41.32, 41.40, 41.--
26 (sections 1 through 25, 101 through 112, 115, and 201 through 213 of
27 this act), or 43.43 RCW or to determine in any manner what payments are
28 includable in the calculation of a retirement allowance under such
29 chapters.

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

33 **Sec. 509.** RCW 41.50.152 and 1995 c 387 s 1 are each amended to
34 read as follows:

35 (1) Except as limited by subsection (3) of this section, the
36 governing body of an employer under chapter 41.32, 41.-- (sections 1
37 through 25, 101 through 112, 115, and 201 through 213 of this act), or
38 41.40 RCW shall comply with the provisions of subsection (2) of this

1 section prior to executing a contract or collective bargaining
2 agreement with members under chapter 41.32, 41.-- (sections 1 through
3 25, 101 through 112, 115, and 201 through 213 of this act), or 41.40
4 RCW which provides for:

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

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

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

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

14 (e) Any other termination or severance payment.

15 (2) Any governing body entering into a contract that includes a
16 compensation provision listed in subsection (1) of this section shall
17 do so only after public notice in compliance with the open public
18 meetings act, chapter 42.30 RCW. This notification requirement may be
19 accomplished as part of the approval process for adopting a contract in
20 whole, and does not require separate or additional open public
21 meetings. At the public meeting, full disclosure shall be made of the
22 nature of the proposed compensation provision, and the employer's
23 estimate of the excess compensation billings under RCW 41.50.150 that
24 the employing entity would have to pay as a result of the proposed
25 compensation provision. The employer shall notify the department of
26 its compliance with this section at the time the department bills the
27 employer under RCW (~~41.40.150~~) 41.50.150 for the pension impact of
28 compensation provisions listed in subsection (1) of this section that
29 are adopted after July 23, 1995.

30 (3) The requirements of subsection (2) of this section shall not
31 apply to the adoption of a compensation provision listed in subsection
32 (1) of this section if the compensation would not be includable in
33 calculating benefits under chapter 41.32, 41.-- (sections 1 through 25,
34 101 through 112, 115, and 201 through 213 of this act), or 41.40 RCW
35 for the employees covered by the compensation provision.

36 **Sec. 510.** RCW 41.50.255 and 1995 c 281 s 1 are each amended to
37 read as follows:

1 The director is authorized to pay from the interest earnings of the
2 trust funds of the public employees' retirement system, the teachers'
3 retirement system, the Washington state patrol retirement system, the
4 Washington judicial retirement system, the judges' retirement system,
5 the school district employees' retirement system, or the law
6 enforcement officers' and fire fighters' retirement system lawful
7 obligations of the appropriate system for legal expenses and medical
8 expenses which expenses are primarily incurred for the purpose of
9 protecting the appropriate trust fund or are incurred in compliance
10 with statutes governing such funds.

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

15 The term "medical costs" includes, but is not limited to, expenses
16 for the medical examination or reexamination of members or retirees,
17 the costs of preparation of medical reports, and fees charged by
18 medical professionals for attendance at discovery proceedings or
19 hearings.

20 The director may also pay from the interest earnings of the trust
21 funds specified in this section costs incurred in investigating fraud
22 and collecting overpayments, including expenses incurred to review and
23 investigate cases of possible fraud against the trust funds and
24 collection agency fees and other costs incurred in recovering
25 overpayments. Recovered funds must be returned to the appropriate
26 trust funds.

27 **Sec. 511.** RCW 41.50.500 and 1991 c 365 s 1 are each amended to
28 read as follows:

29 Unless the context clearly requires otherwise, the definitions in
30 this section apply throughout RCW 41.50.500 through 41.50.650,
31 41.50.670 through 41.50.720, and 26.09.138.

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

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

1 (3) "Dissolution order" means any judgment, decree, or order of
2 spousal maintenance, property division, or court-approved property
3 settlement incident to a decree of divorce, dissolution, invalidity, or
4 legal separation issued by the superior court of the state of
5 Washington or a judgment, decree, or other order of spousal support
6 issued by a court of competent jurisdiction in another state or
7 country, that has been registered or otherwise made enforceable in this
8 state.

9 (4) "Mandatory benefits assignment order" means an order issued to
10 the department of retirement systems pursuant to RCW 41.50.570 to
11 withhold and deliver benefits payable to an obligor under chapter 2.10,
12 2.12, 41.26, 41.32, 41.40, 41.-- (sections 1 through 25, 101 through
13 112, 115, and 201 through 213 of this act), or 43.43 RCW.

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

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

18 (7) "Periodic retirement payments" means periodic payments of
19 retirement allowances, including but not limited to service retirement
20 allowances, disability retirement allowances, and survivors'
21 allowances. The term does not include a withdrawal of accumulated
22 contributions.

23 (8) "Property division obligation" means any outstanding court-
24 ordered property division or court-approved property settlement
25 obligation incident to a decree of divorce, dissolution, or legal
26 separation.

27 (9) "Standard allowance" means a benefit payment option selected
28 under RCW 2.10.146(1)(a), 41.26.460(1)(a), 41.32.785(1)(a),
29 41.40.188(1)(a), ~~((or))~~ 41.40.660(1), or section 23 of this act that
30 ceases upon the death of the retiree. Standard allowance also means
31 the benefit allowance provided under RCW 2.10.110, 2.10.130, 43.43.260,
32 41.26.100, 41.26.130(1)(a), or chapter 2.12 RCW. Standard allowance
33 also means the maximum retirement allowance available under RCW
34 41.32.530(1) following member withdrawal of accumulated contributions,
35 if any.

36 (10) "Withdrawal of accumulated contributions" means a lump sum
37 payment to a retirement system member of all or a part of the member's
38 accumulated contributions, including accrued interest, at the request

1 of the member including any lump sum amount paid upon the death of the
2 member.

3 **Sec. 512.** RCW 41.50.670 and 1996 c 39 s 18 are each amended to
4 read as follows:

5 (1) Nothing in this chapter regarding mandatory assignment of
6 benefits to enforce a spousal maintenance obligation shall abridge the
7 right of an obligee to direct payments of retirement benefits to
8 satisfy a property division obligation ordered pursuant to a court
9 decree of dissolution or legal separation or any court order or court-
10 approved property settlement agreement incident to any court decree of
11 dissolution or legal separation as provided in RCW 2.10.180, 2.12.090,
12 41.04.310, 41.04.320, 41.04.330, 41.26.053, 41.32.052, section 11 of
13 this act, 41.34.070(3), 41.40.052, 43.43.310, or 26.09.138, as those
14 statutes existed before July 1, 1987, and as those statutes exist on
15 and after July 28, 1991. The department shall pay benefits under this
16 chapter in a lump sum or as a portion of periodic retirement payments
17 as expressly provided by the dissolution order. A dissolution order
18 may not order the department to pay a periodic retirement payment or
19 lump sum unless that payment is specifically authorized under the
20 provisions of chapter 2.10, 2.12, 41.26, 41.32, 41.-- (sections 1
21 through 25, 101 through 112, 115, and 201 through 213 of this act),
22 41.34, 41.40, or 43.43 RCW, as applicable.

23 (2) The department shall pay directly to an obligee the amount of
24 periodic retirement payments or lump sum payment, as appropriate,
25 specified in the dissolution order if the dissolution order filed with
26 the department pursuant to subsection (1) of this section includes a
27 provision that states in the following form:

28 If (the obligor) receives periodic retirement payments
29 as defined in RCW 41.50.500, the department of retirement systems shall
30 pay to (the obligee) dollars from such payments
31 or . . . percent of such payments. If the obligor's debt is expressed
32 as a percentage of his or her periodic retirement payment and the
33 obligee does not have a survivorship interest in the obligor's benefit,
34 the amount received by the obligee shall be the percentage of the
35 periodic retirement payment that the obligor would have received had he
36 or she selected a standard allowance.

37 If (the obligor) requests or has requested a withdrawal
38 of accumulated contributions as defined in RCW 41.50.500, or becomes

1 eligible for a lump sum death benefit, the department of retirement
2 systems shall pay to (the obligee) dollars plus
3 interest at the rate paid by the department of retirement systems on
4 member contributions. Such interest to accrue from the date of this
5 order's entry with the court of record.

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

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

13 (5) Persons whose court decrees were entered between July 1, 1987,
14 and July 28, 1991, shall also be entitled to receive direct payments of
15 retirement benefits to satisfy court-ordered property divisions if the
16 dissolution orders comply or are modified to comply with this section
17 and RCW 41.50.680 through 41.50.720 and, as applicable, RCW 2.10.180,
18 2.12.090, 41.26.053, 41.32.052, section 11 of this act, 41.34.070,
19 41.40.052, 43.43.310, and 26.09.138.

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

23 (7) A division of benefits pursuant to a dissolution order under
24 this section shall be based upon the obligor's gross benefit prior to
25 any deductions. If the department is required to withhold a portion of
26 the member's benefit pursuant to 26 U.S.C. Sec. 3402 and the sum of
27 that amount plus the amount owed to the obligee exceeds the total
28 benefit, the department shall satisfy the withholding requirements
29 under 26 U.S.C. Sec. 3402 and then pay the remainder to the obligee.
30 The provisions of this subsection do not apply to amounts withheld
31 pursuant to 26 U.S.C. Sec. 3402(i).

32 **Sec. 513.** RCW 41.50.790 and 1996 c 175 s 1 are each amended to
33 read as follows:

34 (1) The department shall designate an obligee as a survivor
35 beneficiary of a member under RCW 2.10.146, 41.26.460, 41.32.530,
36 41.32.785, section 23 of this act, 41.40.188, or 41.40.660 if the
37 department has been served by registered or certified mail with a
38 dissolution order as defined in RCW 41.50.500 at least thirty days

1 prior to the member's retirement. The department's duty to comply with
2 the dissolution order arises only if the order contains a provision
3 that states in substantially the following form:

4 When (the obligor) applies for retirement the
5 department shall designate (the obligee) as
6 survivor beneficiary with a survivor benefit.

7 The survivor benefit designated in the dissolution order must be
8 consistent with the survivor benefit options authorized by statute or
9 administrative rule.

10 (2) The obligee's entitlement to a survivor benefit pursuant to a
11 dissolution order filed with the department in compliance with
12 subsection (1) of this section shall cease upon the death of the
13 obligee.

14 (3)(a) A subsequent dissolution order may order the department to
15 divide a survivor benefit between a survivor beneficiary and an
16 alternate payee. In order to divide a survivor benefit between more
17 than one payee, the dissolution order must:

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

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

22 (iii) Contain a provision clearly identifying the alternate payee
23 or payees; and

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

26 (b) The department will calculate actuarial adjustment for the
27 court-ordered survivor benefit based upon the life of the survivor
28 beneficiary.

29 (c) If the survivor beneficiary dies, the department shall
30 terminate the benefit. If the alternate payee predeceases the survivor
31 beneficiary, all entitlement of the alternate payee to a benefit ceases
32 and the entire benefit will revert to the survivor beneficiary.

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

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

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

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

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

9 (5) If a dissolution order directing designation of a survivor
10 beneficiary has been previously filed with the department in compliance
11 with this section, no additional obligation shall arise on the part of
12 the department upon filing of a subsequent dissolution order unless the
13 subsequent dissolution order:

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

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

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

21 (a) Specifically directs the member or department to make such
22 selection;

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

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

25 NEW SECTION. **Sec. 514.** A new section is added to chapter 41.50
26 RCW to read as follows:

27 (1) If the department determines that due to employer error a
28 member of the school employees' retirement system, plan III has
29 suffered a loss of investment return, the employer shall pay the
30 department for credit to the member's account the amount determined by
31 the department as necessary to correct the error.

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

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

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

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

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

9 (3) "State treasurer" means the treasurer of the state of
10 Washington.

11 (4)(a) "Employer" for plan I members, means every branch,
12 department, agency, commission, board, and office of the state, any
13 political subdivision or association of political subdivisions of the
14 state admitted into the retirement system, and legal entities
15 authorized by RCW 35.63.070 and 36.70.060 or chapter 39.34 RCW; and the
16 term shall also include any labor guild, association, or organization
17 the membership of a local lodge or division of which is comprised of at
18 least forty percent employees of an employer (other than such labor
19 guild, association, or organization) within this chapter. The term may
20 also include any city of the first class that has its own retirement
21 system.

22 (b) "Employer" for plan II members, means every branch, department,
23 agency, commission, board, and office of the state, and any political
24 subdivision and municipal corporation of the state admitted into the
25 retirement system, including public agencies created pursuant to RCW
26 35.63.070, 36.70.060, and 39.34.030; except that after August 31, 1999,
27 school districts, educational service districts, the state school for
28 the deaf, and the state school for the blind will no longer be
29 employers for the public employees' retirement system plan II.

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

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

36 (a) Any person who became a member of the system prior to April 1,
37 1949;

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

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

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

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

20 (f) Any member who has been a contributor under the system for two
21 or more years and who has restored all contributions that may have been
22 withdrawn as provided by RCW 41.40.150 and who on the effective date of
23 the individual's retirement has rendered five or more years of service
24 for the state or any political subdivision prior to the time of the
25 admission of the employer into the system; except that the provisions
26 relating to the minimum amount of retirement allowance for the member
27 upon retirement at age seventy as found in RCW 41.40.190(4) shall not
28 apply to the member.

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

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

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

1 (A) Retroactive payments to an individual by an employer on
2 reinstatement of the employee in a position, or payments by an employer
3 to an individual in lieu of reinstatement in a position which are
4 awarded or granted as the equivalent of the salary or wage which the
5 individual would have earned during a payroll period shall be
6 considered compensation earnable and the individual shall receive the
7 equivalent service credit;

8 (B) If a leave of absence is taken by an individual for the purpose
9 of serving in the state legislature, the salary which would have been
10 received for the position from which the leave of absence was taken,
11 shall be considered as compensation earnable if the employee's
12 contribution is paid by the employee and the employer's contribution is
13 paid by the employer or employee;

14 (C) Assault pay only as authorized by RCW 27.04.100, 72.01.045, and
15 72.09.240;

16 (D) Compensation that a member would have received but for a
17 disability occurring in the line of duty only as authorized by RCW
18 41.40.038;

19 (E) Compensation that a member receives due to participation in the
20 leave sharing program only as authorized by RCW 41.04.650 through
21 41.04.670; and

22 (F) Compensation that a member receives for being in standby
23 status. For the purposes of this section, a member is in standby
24 status when not being paid for time actually worked and the employer
25 requires the member to be prepared to report immediately for work, if
26 the need arises, although the need may not arise. (~~Standby~~
27 ~~compensation is regular salary for the purposes of RCW 41.50.150(2).~~)

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

29 (A) Remuneration for unused sick leave authorized under RCW
30 41.04.340, 28A.400.210, or 28A.310.490;

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

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

1 payments for deferred annual sick leave, unused accumulated vacation,
2 unused accumulated annual leave, or any form of severance pay.

3 "Compensation earnable" for plan II members also includes the
4 following actual or imputed payments, which are not paid for personal
5 services:

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

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

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

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

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

26 (iv) 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 (v) 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 (vi) 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 (9)(a) "Service" for plan I members, except as provided in RCW
39 41.40.088, means periods of employment in an eligible position or

1 positions for one or more employers rendered to any employer for which
2 compensation is paid, and includes time spent in office as an elected
3 or appointed official of an employer. Compensation earnable earned in
4 full time work for seventy hours or more in any given calendar month
5 shall constitute one service credit month except as provided in RCW
6 41.40.088. Compensation earnable earned for less than seventy hours in
7 any calendar month shall constitute one-quarter service credit month of
8 service except as provided in RCW 41.40.088. Only service credit
9 months and one-quarter service credit months shall be counted in the
10 computation of any retirement allowance or other benefit provided for
11 in this chapter. Any fraction of a year of service shall be taken into
12 account in the computation of such retirement allowance or benefits.
13 Time spent in standby status, whether compensated or not, is not
14 service.

15 (i) Service by a state employee officially assigned by the state on
16 a temporary basis to assist another public agency, shall be considered
17 as service as a state employee: PROVIDED, That service to any other
18 public agency shall not be considered service as a state employee if
19 such service has been used to establish benefits in any other public
20 retirement system.

21 (ii) An individual shall receive no more than a total of twelve
22 service credit months of service during any calendar year. If an
23 individual is employed in an eligible position by one or more employers
24 the individual shall receive no more than one service credit month
25 during any calendar month in which multiple service for seventy or more
26 hours is rendered.

27 (iii) A school district employee may count up to forty-five days of
28 sick leave as creditable service solely for the purpose of determining
29 eligibility to retire under RCW 41.40.180 as authorized by RCW
30 28A.400.300. For purposes of plan I "forty-five days" as used in RCW
31 28A.400.300 is equal to two service credit months. Use of less than
32 forty-five days of sick leave is creditable as allowed under this
33 subsection as follows:

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

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

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

1 (b) "Service" for plan II members, means periods of employment by
2 a member in an eligible position or positions for one or more employers
3 for which compensation earnable is paid. Compensation earnable earned
4 for ninety or more hours in any calendar month shall constitute one
5 service credit month except as provided in RCW 41.40.088. Compensation
6 earnable earned for at least seventy hours but less than ninety hours
7 in any calendar month shall constitute one-half service credit month of
8 service. Compensation earnable earned for less than seventy hours in
9 any calendar month shall constitute one-quarter service credit month of
10 service. Time spent in standby status, whether compensated or not, is
11 not service.

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

14 (i) Service in any state elective position shall be deemed to be
15 full time service, except that persons serving in state elective
16 positions who are members of the Washington school employees'
17 retirement system, teachers' retirement system, or law enforcement
18 officers' and fire fighters' retirement system at the time of election
19 or appointment to such position may elect to continue membership in the
20 Washington school employees' retirement system, teachers' retirement
21 system, or law enforcement officers' and fire fighters' retirement
22 system.

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

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

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

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

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

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

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

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

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

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

11 (13) "Membership service" means:

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

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

17 (c) Service not to exceed six consecutive months of probationary
18 service rendered after April 1, 1949, and prior to becoming a member,
19 in the case of any member, upon payment in full by such member of the
20 total amount of the employer's contribution to the retirement fund
21 which would have been required under the law in effect when such
22 probationary service was rendered if the member had been a member
23 during such period, except that the amount of the employer's
24 contribution shall be calculated by the director based on the first
25 month's compensation earnable as a member;

26 (d) Service not to exceed six consecutive months of probationary
27 service, rendered after October 1, 1947, and before April 1, 1949, and
28 prior to becoming a member, in the case of any member, upon payment in
29 full by such member of five percent of such member's salary during said
30 period of probationary service, except that the amount of the
31 employer's contribution shall be calculated by the director based on
32 the first month's compensation earnable as a member.

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

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

1 (15) "Regular interest" means such rate as the director may
2 determine.

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

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

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

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

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

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

27 (21) "Retirement allowance" means the sum of the annuity and the
28 pension.

29 (22) "Employee" or "employed" means a person who is providing
30 services for compensation to an employer, unless the person is free
31 from the employer's direction and control over the performance of work.
32 The department shall adopt rules and interpret this subsection
33 consistent with common law.

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

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

39 (25) "Eligible position" means:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

15 (1) The members and appointive and elective officials of any
16 political subdivision or association of political subdivisions of the
17 state may become members of the retirement system by the approval of
18 the local legislative authority.

19 (2) On and after September 1, 1965, every school district of the
20 state of Washington shall be an employer under this chapter. Every
21 member of each school district who is eligible for membership under RCW
22 41.40.023 shall be a member of the retirement system and participate on
23 the same basis as a person who first becomes a member through the
24 admission of any employer into the retirement system on and after April
25 1, 1949, except that after August 31, 1999, school districts will no
26 longer be employers for the public employees' retirement system plan
27 II.

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

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

34 (a) Shall receive a service credit month for each month of the
35 period from September through August of the following year if he or she
36 is employed in an eligible position, earns compensation earnable for
37 six hundred thirty hours or more during that period, and is employed

1 during nine months of that period, except that a member may not receive
2 credit for any period prior to the member's employment in an eligible
3 position;

4 (b) If a member in an eligible position does not meet the
5 requirements of (a) of this subsection, the member is entitled to a
6 service credit month for each month of the period he or she earns
7 earnable compensation for seventy or more hours; and the member is
8 entitled to a one-quarter service credit month for those calendar
9 months during which he or she earned compensation for less than seventy
10 hours.

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

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

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

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

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

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

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

37 (d) After August 31, 1999, school districts, educational service
38 districts, the state school for the deaf, and the state school for the

1 blind will no longer be employers for the public employees' retirement
2 system plan II.

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

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

6 (1) No retiree under the provisions of plan II shall be eligible to
7 receive such retiree's monthly retirement allowance if he or she is
8 employed in an eligible position as defined in RCW 41.40.010 ((~~or~~)),
9 41.32.010, or section 2 of this act, or as a law enforcement officer or
10 fire fighter as defined in RCW 41.26.030. If a retiree's benefits have
11 been suspended under this section, his or her benefits shall be
12 reinstated when the retiree terminates the employment that caused his
13 or her benefits to be suspended. Upon reinstatement, the retiree's
14 benefits shall be actuarially recomputed pursuant to the rules adopted
15 by the department.

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

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

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

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

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

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

33 (1) Except as provided in RCW 41.40.037, no retiree under the
34 provisions of plan II shall be eligible to receive such retiree's
35 monthly retirement allowance if he or she is employed in an eligible
36 position as defined in RCW 41.40.010 ((~~or~~)), 41.32.010, or section 2 of

1 this act, or as a law enforcement officer or fire fighter as defined in
2 RCW 41.26.030, except that a retiree who ends his or her membership in
3 the retirement system pursuant to RCW 41.40.023(3)(b) is not subject to
4 this section if the retiree's only employment is as an elective
5 official of a city or town.

6 (2) If a retiree's benefits have been suspended under this section,
7 his or her benefits shall be reinstated when the retiree terminates the
8 employment that caused his or her benefits to be suspended. Upon
9 reinstatement, the retiree's benefits shall be actuarially recomputed
10 pursuant to the rules adopted by the department.

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

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

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

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

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

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

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

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

27 (b) Establish any service credit from July 1996 through December
28 1997; and

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

30 ((+3)) (4) If a member who requests to transfer dies before
31 January 1, 1998, the additional payment provided by this section shall
32 be paid to the member's estate, or the person or persons, trust, or
33 organization the member nominated by written designation duly executed
34 and filed with the department.

35 ((+4)) (5) The legislature reserves the right to modify or
36 discontinue the right to an incentive payment under this section for
37 any plan II members who have not previously transferred to plan III.

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

3 The definitions in this section apply throughout this chapter
4 unless the context clearly requires otherwise.

5 (1) "Base salary" means salaries or wages earned by a member of a
6 system during a payroll period for personal services and includes wages
7 and salaries deferred under provisions of the United States internal
8 revenue code, but shall exclude overtime payments, nonmoney maintenance
9 compensation, and lump sum payments for deferred annual sick leave,
10 unused accumulated vacation, unused accumulated annual leave, any form
11 of severance pay, any bonus for voluntary retirement, any other form of
12 leave, or any similar lump sum payment.

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

14 (3) "Director" means the director of the department of retirement
15 systems.

16 (4) "Dual member" means a person who (a) is or becomes a member of
17 a system on or after July 1, 1988, (b) has been a member of one or more
18 other systems, and (c) has never been retired for service from a
19 retirement system and is not receiving a disability retirement or
20 disability leave benefit from any retirement system listed in RCW
21 41.50.030 or subsection (6) of this section.

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

26 (6) "System" means the retirement systems established under
27 chapters 41.32, 41.40, 41.44, 41.-- (sections 1 through 25, 101 through
28 112, 115, and 201 through 213 of this act), and 43.43 RCW; plan II of
29 the system established under chapter 41.26 RCW; and the city employee
30 retirement systems for Seattle, Tacoma, and Spokane. The inclusion of
31 an individual first class city system is subject to the procedure set
32 forth in RCW 41.54.061.

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

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

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

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

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

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

15 (4) The service retirement eligibility requirements of RCW
16 41.40.180 shall apply to any dual member whose prior system is plan I
17 of the public employees' retirement system established under chapter
18 41.40 RCW.

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

21 (1) The allowances calculated under RCW 41.54.030, 41.54.032, and
22 41.54.034 shall be paid separately by each respective current and prior
23 system. Any deductions from such separate payments shall be according
24 to the provisions of the respective systems.

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

28 (3) The department shall adopt rules under chapter 34.05 RCW to
29 ensure that where a dual member has service in a system established
30 under chapter 41.32, 41.40, 41.44, 41.-- (sections 1 through 25, 101
31 through 112, 115, and 201 through 213 of this act), or 43.43 RCW;
32 service in plan II of the system established under chapter 41.26 RCW;
33 and service under the city employee retirement system for Seattle,
34 Tacoma, or Spokane, the additional cost incurred as a result of the
35 dual member receiving a benefit under this chapter shall be borne by
36 the retirement system incurring the additional cost.

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

3 Persons who were members of the public employees' retirement system
4 plan II prior to the effective date of this section and were
5 transferred or mandated into membership pursuant to chapter . . . , Laws
6 of 1998 (this act) shall suffer no diminution of benefits guaranteed to
7 public employees' retirement system plan II members as of the date of
8 their change in membership.

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

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

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

14 (2) "State purchased health care" or "health care" means medical
15 and health care, pharmaceuticals, and medical equipment purchased with
16 state and federal funds by the department of social and health
17 services, the department of health, the basic health plan, the state
18 health care authority, the department of labor and industries, the
19 department of corrections, the department of veterans affairs, and
20 local school districts.

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

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

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

29 (6) "Employee" includes all full-time and career seasonal employees
30 of the state, whether or not covered by civil service; elected and
31 appointed officials of the executive branch of government, including
32 full-time members of boards, commissions, or committees; and includes
33 any or all part-time and temporary employees under the terms and
34 conditions established under this chapter by the authority; justices of
35 the supreme court and judges of the court of appeals and the superior
36 courts; and members of the state legislature or of the legislative
37 authority of any county, city, or town who are elected to office after
38 February 20, 1970. "Employee" also includes: (a) Employees of a

1 county, municipality, or other political subdivision of the state if
2 the legislative authority of the county, municipality, or other
3 political subdivision of the state seeks and receives the approval of
4 the authority to provide any of its insurance programs by contract with
5 the authority, as provided in RCW 41.04.205; (b) employees of employee
6 organizations representing state civil service employees, at the option
7 of each such employee organization, and, effective October 1, 1995,
8 employees of employee organizations currently pooled with employees of
9 school districts for the purpose of purchasing insurance benefits, at
10 the option of each such employee organization; and (c) employees of a
11 school district if the authority agrees to provide any of the school
12 districts' insurance programs by contract with the authority as
13 provided in RCW 28A.400.350.

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

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

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

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

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

28 (9) "Benefits contribution plan" means a premium only contribution
29 plan, a medical flexible spending arrangement, or a cafeteria plan
30 whereby state and public employees may agree to a contribution to
31 benefit costs which will allow the employee to participate in benefits
32 offered pursuant to 26 U.S.C. Sec. 125 or other sections of the
33 internal revenue code.

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

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

37 (12) "Plan year" means the time period established by the
38 authority.

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

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

4 (b) Section 2 of this act on or after September 1, 1999;

5 and who are at least age fifty-five and have at least ten years of
6 service under the teachers' retirement system plan III as defined in
7 RCW 41.32.010(40).

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

10 Pursuant to (~~RCW 41.50.088, the state investment board, at the~~
11 ~~request of the employee retirement benefits board, is authorized to~~
12 ~~offer investment options for self-directed investment under plan III))
13 section 307 of this act, the state investment board shall invest all
14 self-directed investment moneys under teachers' retirement system plan
15 III and the school employees' retirement system plan III, with full
16 power to establish investment policy, develop investment options, and
17 manage self-directed investment funds.~~

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

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

23 (2) The treasury income account shall be utilized to pay or receive
24 funds associated with federal programs as required by the federal cash
25 management improvement act of 1990. The treasury income account is
26 subject in all respects to chapter 43.88 RCW, but no appropriation is
27 required for refunds or allocations of interest earnings required by
28 the cash management improvement act. Refunds of interest to the
29 federal treasury required under the cash management improvement act
30 fall under RCW 43.88.180 and shall not require appropriation. The
31 office of financial management shall determine the amounts due to or
32 from the federal government pursuant to the cash management improvement
33 act. The office of financial management may direct transfers of funds
34 between accounts as deemed necessary to implement the provisions of the
35 cash management improvement act, and this subsection. Refunds or
36 allocations shall occur prior to the distributions of earnings set
37 forth in subsection (4) of this section.

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

9 (4) Monthly, the state treasurer shall distribute the earnings
10 credited to the treasury income account. The state treasurer shall
11 credit the general fund with all the earnings credited to the treasury
12 income account except:

13 (a) The following accounts and funds shall receive their
14 proportionate share of earnings based upon each account's and fund's
15 average daily balance for the period: The capitol building
16 construction account, the Cedar River channel construction and
17 operation account, the Central Washington University capital projects
18 account, the charitable, educational, penal and reformatory
19 institutions account, the common school construction fund, the county
20 criminal justice assistance account, the county sales and use tax
21 equalization account, the data processing building construction
22 account, the deferred compensation administrative account, the deferred
23 compensation principal account, the department of retirement systems
24 expense account, the drinking water assistance account, the Eastern
25 Washington University capital projects account, the education
26 construction fund, the emergency reserve fund, the federal forest
27 revolving account, the health services account, the public health
28 services account, the health system capacity account, the personal
29 health services account, the highway infrastructure account, the
30 industrial insurance premium refund account, the judges' retirement
31 account, the judicial retirement administrative account, the judicial
32 retirement principal account, the local leasehold excise tax account,
33 the local real estate excise tax account, the local sales and use tax
34 account, the medical aid account, the mobile home park relocation fund,
35 the municipal criminal justice assistance account, the municipal sales
36 and use tax equalization account, the natural resources deposit
37 account, the perpetual surveillance and maintenance account, the public
38 employees' retirement system plan I account, the public employees'
39 retirement system plan II account, the Puyallup tribal settlement

1 account, the resource management cost account, the site closure
2 account, the special wildlife account, the state employees' insurance
3 account, the state employees' insurance reserve account, the state
4 investment board expense account, the state investment board commingled
5 trust fund accounts, the supplemental pension account, the teachers'
6 retirement system plan I account, the teachers' retirement system
7 combined plan II and plan III account, the transportation
8 infrastructure account, the tuition recovery trust fund, the University
9 of Washington bond retirement fund, the University of Washington
10 building account, the volunteer fire fighters' relief and pension
11 principal account, the volunteer fire fighters' relief and pension
12 administrative account, the Washington judicial retirement system
13 account, the Washington law enforcement officers' and fire fighters'
14 system plan I retirement account, the Washington law enforcement
15 officers' and fire fighters' system plan II retirement account, the
16 Washington school employees' retirement system combined plan II and III
17 account, the Washington state patrol retirement account, the Washington
18 State University building account, the Washington State University bond
19 retirement fund, the water pollution control revolving fund, and the
20 Western Washington University capital projects account. Earnings
21 derived from investing balances of the agricultural permanent fund, the
22 normal school permanent fund, the permanent common school fund, the
23 scientific permanent fund, and the state university permanent fund
24 shall be allocated to their respective beneficiary accounts. All
25 earnings to be distributed under this subsection (4)(a) shall first be
26 reduced by the allocation to the state treasurer's service fund
27 pursuant to RCW 43.08.190.

28 (b) The following accounts and funds shall receive eighty percent
29 of their proportionate share of earnings based upon each account's or
30 fund's average daily balance for the period: The aeronautics account,
31 the aircraft search and rescue account, the central Puget Sound public
32 transportation account, the city hardship assistance account, the
33 county arterial preservation account, the department of licensing
34 services account, the economic development account, the essential rail
35 assistance account, the essential rail banking account, the ferry bond
36 retirement fund, the gasohol exemption holding account, the grade
37 crossing protective fund, the high capacity transportation account, the
38 highway bond retirement fund, the highway construction stabilization
39 account, the highway safety account, the marine operating fund, the

1 motor vehicle fund, the motorcycle safety education account, the
2 pilotage account, the public transportation systems account, the Puget
3 Sound capital construction account, the Puget Sound ferry operations
4 account, the recreational vehicle account, the rural arterial trust
5 account, the safety and education account, the small city account, the
6 special category C account, the state patrol highway account, the
7 transfer relief account, the transportation capital facilities account,
8 the transportation equipment fund, the transportation fund, the
9 transportation improvement account, the transportation revolving loan
10 account, and the urban arterial trust account.

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

14 NEW SECTION. Sec. 709. (1) The legislature declares that changing
15 the numerical designation of the different retirement plans within the
16 retirement systems from Roman numerals to Arabic numerals is of no
17 substantive importance.

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

- 20 (a) Where "I" is used, replace with "1";
21 (b) Where "II" is used, replace with "2"; and
22 (c) Where "III" is used, replace with "3."

23 NEW SECTION. Sec. 710. The benefits provided pursuant to chapter
24 . . ., Laws of 1998 (this act) are not provided to employees as a
25 matter of contractual right prior to September 1, 1999. The
26 legislature retains the right to alter or abolish these benefits at any
27 time prior to September 1, 1999.

28 NEW SECTION. Sec. 711. Except for sections 114 and 309 of this
29 act, this act takes effect September 1, 1999.

30 NEW SECTION. Sec. 712. Section 114 of this act takes effect
31 January 1, 2001.

32 NEW SECTION. Sec. 713. Section 309 of this act is necessary for
33 the immediate preservation of the public peace, health, or safety, or

1 support of the state government and its existing public institutions,
2 and takes effect immediately.

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