
HOUSE BILL 2488

State of Washington

55th Legislature

1998 Regular Session

By Representatives D. Sommers, Lambert, Carlson and H. Sommers; by request of Joint Committee on Pension Policy

Read first time . Referred to Committee on .

1 AN ACT Relating to creation of the public employees' retirement
2 system, plan III; amending RCW 41.40.005, 41.40.054, 41.34.020,
3 41.34.030, 41.34.060, 41.34.080, 41.32.8401, 41.45.010, 41.45.020,
4 41.45.050, 41.45.060, 41.45.061, 41.45.070, 41.50.075, 41.50.086,
5 41.50.088, 41.05.011, and 43.33A.190; reenacting and amending RCW
6 41.40.010, 41.40.088, and 41.54.030; adding new sections to chapter
7 41.40 RCW; adding new sections to chapter 41.34 RCW; adding a new
8 section to chapter 41.45 RCW; adding a new chapter to Title 41 RCW; and
9 creating a new section.

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

11 NEW SECTION. **Sec. 1.** The legislature recognizes that public
12 employees need the ability to make transitions to other public or
13 private sector careers, and that the retirement system should not be a
14 barrier to the exercise of employee choice. The legislature also
15 recognizes that public employees need a secure and viable retirement
16 benefit, not only for their own financial protection, but also that
17 public funds are spent prudently for their intended purpose.

18 It is the legislative intent to create a new public retirement
19 system that balances flexibility with stability, provides both

1 increased employee control of investments and responsible protection of
2 the public's investment in employee benefits, and encourages the
3 pursuit of public sector careers without preventing employees from
4 moving into other public or private sector employment.

5 Therefore, the purpose of chapter . . . , Laws of 1998 (this act) is
6 to continue to provide classified employees with a guaranteed pension
7 at retirement age based on years of public service with an element of
8 inflation protection. It is further the purpose of chapter . . . , Laws
9 of 1998 (this act) to create a parallel retirement plan where employees
10 have options regarding the investment of their retirement contributions
11 and have the opportunity, along with the accompanying risk, to receive
12 a full rate of return on their investments and where employees who
13 leave public employment prior to retirement receive a fair and
14 reasonable value from the retirement system.

15 **Sec. 2.** RCW 41.40.005 and 1992 c 72 s 8 are each amended to read
16 as follows:

17 RCW 41.40.010 through 41.40.112 shall apply to members of plan I
18 (~~and~~), plan II, and plan III.

19 **Sec. 3.** RCW 41.40.010 and 1997 c 254 s 10 and 1997 c 88 s 6 are
20 each reenacted and amended to read as follows:

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

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

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

27 (3) "State treasurer" means the treasurer of the state of
28 Washington.

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

1 also include any city of the first class that has its own retirement
2 system.

3 (b) "Employer" for plan II and plan III members, means every
4 branch, department, agency, commission, board, and office of the state,
5 and any political subdivision and municipal corporation of the state
6 admitted into the retirement system, including public agencies created
7 pursuant to RCW 35.63.070, 36.70.060, and 39.34.030.

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

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

14 (a) Any person who became a member of the system prior to April 1,
15 1949;

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

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

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

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

35 (f) Any member who has been a contributor under the system for two
36 or more years and who has restored all contributions that may have been
37 withdrawn as provided by RCW 41.40.150 and who on the effective date of
38 the individual's retirement has rendered five or more years of service
39 for the state or any political subdivision prior to the time of the

1 admission of the employer into the system; except that the provisions
2 relating to the minimum amount of retirement allowance for the member
3 upon retirement at age seventy as found in RCW 41.40.190(4) shall not
4 apply to the member.

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

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

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

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

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

28 (C) Assault pay only as authorized by RCW 27.04.100, 72.01.045, and
29 72.09.240;

30 (D) Compensation that a member would have received but for a
31 disability occurring in the line of duty only as authorized by RCW
32 41.40.038;

33 (E) Compensation that a member receives due to participation in the
34 leave sharing program only as authorized by RCW 41.04.650 through
35 41.04.670; and

36 (F) Compensation that a member receives for being in standby
37 status. For the purposes of this section, a member is in standby
38 status when not being paid for time actually worked and the employer
39 requires the member to be prepared to report immediately for work, if

1 the need arises, although the need may not arise. ((Standby
2 compensation is regular salary for the purposes of RCW 41.50.150(2).))

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

4 (A) Remuneration for unused sick leave authorized under RCW
5 41.04.340, 28A.400.210, or 28A.310.490;

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

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

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

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

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

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

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

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

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

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

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

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

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

35 (ii) An individual shall receive no more than a total of twelve
36 service credit months of service during any calendar year. If an
37 individual is employed in an eligible position by one or more employers
38 the individual shall receive no more than one service credit month

1 during any calendar month in which multiple service for seventy or more
2 hours is rendered.

3 (iii) A school district employee may count up to forty-five days of
4 sick leave as creditable service solely for the purpose of determining
5 eligibility to retire under RCW 41.40.180 as authorized by RCW
6 28A.400.300. For purposes of plan I "forty-five days" as used in RCW
7 28A.400.300 is equal to two service credit months. Use of less than
8 forty-five days of sick leave is creditable as allowed under this
9 subsection as follows:

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

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

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

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

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

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

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

1 any calendar month in which multiple service for ninety or more hours
2 is rendered.

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

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

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

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

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

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

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

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

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

23 (13) "Membership service" means:

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

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

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

38 (d) Service not to exceed six consecutive months of probationary
39 service, rendered after October 1, 1947, and before April 1, 1949, and

1 prior to becoming a member, in the case of any member, upon payment in
2 full by such member of five percent of such member's salary during said
3 period of probationary service, except that the amount of the
4 employer's contribution shall be calculated by the director based on
5 the first month's compensation earnable as a member.

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

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

13 (15) "Regular interest" means such rate as the director may
14 determine.

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

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

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

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

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

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

1 (21)(a) "Retirement allowance" for plan I members means the sum of
2 the annuity and the pension.

3 (b) "Retirement allowance" for plan II and plan III members means
4 monthly payments to a retiree or beneficiary as provided in this
5 chapter.

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

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

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

16 (25) "Eligible position" means:

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

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

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

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

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

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

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

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

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

6 (33) "Plan I" means the public employees' retirement system, plan
7 I providing the benefits and funding provisions covering persons who
8 first became members of the system prior to October 1, 1977, and prior
9 to the effective date of this act.

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

13 (35) "Plan III" means the public employees' retirement system, plan
14 III providing the benefits and funding provisions covering persons who
15 first became members of the system on and after January 1, 1999, or who
16 transfer under section 6 of this act.

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

21 ~~((36))~~ (37) "Index A" means the index for the year prior to the
22 determination of a postretirement adjustment.

23 ~~((37))~~ (38) "Index B" means the index for the year prior to index
24 A.

25 ~~((38))~~ (39) "Index year" means the earliest calendar year in
26 which the index is more than sixty percent of index A.

27 ~~((39))~~ (40) "Adjustment ratio" means the value of index A divided
28 by index B.

29 ~~((40))~~ (41) "Annual increase" means, initially, fifty-nine cents
30 per month per year of service which amount shall be increased each July
31 1st by three percent, rounded to the nearest cent.

32 ~~((41))~~ (42) "Separation from service" occurs when a person has
33 terminated all employment with an employer.

34 (43) "Member account" or "member's account" for purposes of plan
35 III means the sum of the contributions and earnings on behalf of the
36 member in the defined contribution portion of plan III.

37 **Sec. 4.** RCW 41.40.054 and 1997 c 103 s 3 are each amended to read
38 as follows:

1 A member shall not receive a disability retirement benefit under
2 RCW 41.40.200, 41.40.220, 41.40.230, 41.40.235, 41.40.250, (~~or~~)
3 41.40.670, or section 18 of this act if the disability is the result of
4 criminal conduct by the member committed after April 21, 1997.

5 **Sec. 5.** RCW 41.40.088 and 1991 c 343 s 9 and 1991 c 35 s 96 are
6 each reenacted and amended to read as follows:

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

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

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

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

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

35 (b) If a member in an eligible position for each month of the
36 period from September through August of the following year does not
37 meet the hours requirements of (a) of this subsection, the member is
38 entitled to one-half service credit month for each month of the period

1 if he or she earns earnable compensation for at least six hundred
2 thirty hours but less than eight hundred ten hours during that period,
3 and is employed nine months of that period.

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

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

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

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

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

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

16 (1) Every plan II member employed by an employer in an eligible
17 position may make an irrevocable option to transfer to plan III.

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

20 (3) Any plan II member who wishes to transfer to plan III after
21 December 31, 1999, may transfer during the month of January in any
22 following year, provided that the member earns service credit for that
23 month.

24 (4) The accumulated contributions in plan II, less fifty percent of
25 any contributions made pursuant to RCW 41.50.165(2) shall be
26 transferred to the member's account in the defined contribution portion
27 established in chapter 41.34 RCW, pursuant to procedures developed by
28 the department and subject to RCW 41.34.090. Contributions made
29 pursuant to RCW 41.50.165(2) that are not transferred to the member's
30 account shall be transferred to the fund created in RCW 41.50.075(2),
31 except that interest earned on all such contributions shall be
32 transferred to the member's account.

33 (5) The legislature reserves the right to discontinue the right to
34 transfer under this section.

35 (6) Anyone previously retired from plan II is prohibited from
36 transferring to plan III.

1 NEW SECTION. **Sec. 7.** A new section is added to chapter 41.40 RCW
2 to read as follows:

3 (1) Sections 7 through 21 of this act apply only to plan III
4 members.

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

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

10 NEW SECTION. **Sec. 8.** A new section is added to chapter 41.40 RCW
11 to read as follows:

12 All public employees who first become employed by an employer in an
13 eligible position on or after January 1, 1999, shall be members of plan
14 III.

15 NEW SECTION. **Sec. 9.** A new section is added to chapter 41.40 RCW
16 to read as follows:

17 (1) A member of the retirement system shall receive a retirement
18 allowance equal to one percent of such member's average final
19 compensation for each service credit year.

20 (2) The retirement allowance payable under section 18 of this act
21 to a member who separates after having completed at least twenty
22 service credit years shall be increased by twenty-five one-hundredths
23 of one percent, compounded for each month from the date of separation
24 to the date that the retirement allowance commences.

25 NEW SECTION. **Sec. 10.** A new section is added to chapter 41.40 RCW
26 to read as follows:

27 (1) Anyone who requests to transfer under section 6 of this act
28 before December 31, 1999, and establishes service credit for January
29 2000, shall have their member account increased by sixty-five percent
30 of:

31 (a) Plan II accumulated contributions as of January 1, 1999, less
32 fifty percent of any payments made pursuant to RCW 41.50.165(2); or

33 (b) All amounts withdrawn after January 1, 1999, which are
34 completely restored before January 1, 2000.

35 (2) If a member who requests to transfer dies before January 1,
36 2000, the additional payment provided by this section shall be paid to

1 the member's estate, or the person or persons, trust, or organization
2 the member nominated by written designation duly executed and filed
3 with the department.

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

7 NEW SECTION. **Sec. 11.** A new section is added to chapter 41.40 RCW
8 to read as follows:

9 Retirement allowances paid under the defined benefit portion of
10 plan III shall have a postretirement cost-of-living allowance
11 calculated and paid as provided in RCW 41.40.640.

12 NEW SECTION. **Sec. 12.** A new section is added to chapter 41.40 RCW
13 to read as follows:

14 (1) Upon retirement for service as prescribed in section 18 of this
15 act or retirement for disability under section 19 of this act a member
16 shall elect to have the retirement allowance paid pursuant to one of
17 the following options, calculated so as to be actuarially equivalent to
18 each other.

19 (a) Standard allowance. A member electing this option shall
20 receive a retirement allowance payable throughout such member's life.
21 Upon the death of the retired member, all benefits shall cease.

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

32 (2) A member, if married, must provide the written consent of his
33 or her spouse to the option selected under this section. If a member
34 is married and both the member and the member's spouse do not give
35 written consent to an option under this section, the department shall
36 pay a joint and fifty percent survivor benefit calculated to be

1 actuarially equivalent to the benefit options available under
2 subsection (1) of this section.

3 NEW SECTION. **Sec. 13.** A new section is added to chapter 41.40 RCW
4 to read as follows:

5 Any member or beneficiary eligible to receive a retirement
6 allowance under the provisions of section 18, 19, or 21 of this act
7 shall be eligible to commence receiving a retirement allowance after
8 having filed written application with the department.

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

12 (2) Retirement allowances payable to eligible members no longer in
13 service, but qualifying for such an allowance pursuant to section 18 of
14 this act shall accrue from the first day of the calendar month
15 immediately following such qualification.

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

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

22 NEW SECTION. **Sec. 14.** A new section is added to chapter 41.40 RCW
23 to read as follows:

24 (1) No retiree shall be eligible to receive such retiree's monthly
25 retirement allowance if he or she is employed in an eligible position
26 as defined in RCW 41.40.010 or 41.32.010, or as a law enforcement
27 officer or fire fighter as defined in RCW 41.26.030.

28 (2) If a retiree's benefits have been suspended under this section,
29 his or her benefits shall be reinstated when the retiree terminates the
30 employment that caused the suspension of benefits. Upon reinstatement,
31 the retiree's benefits shall be actuarially recomputed pursuant to the
32 rules adopted by the department.

33 NEW SECTION. **Sec. 15.** A new section is added to chapter 41.40 RCW
34 to read as follows:

35 (1) A member who is on a paid leave of absence authorized by a
36 member's employer shall continue to receive service credit.

1 (2) A member who receives compensation from an employer while on an
2 authorized leave of absence to serve as an elected official of a labor
3 organization, and whose employer is reimbursed by the labor
4 organization for the compensation paid to the member during the period
5 of absence, may also be considered to be on a paid leave of absence.
6 This subsection shall only apply if the member's leave of absence is
7 authorized by a collective bargaining agreement that provides that the
8 member retains seniority rights with the employer during the period of
9 leave. The earnable compensation reported for a member who establishes
10 service credit under this subsection may not be greater than the salary
11 paid to the highest paid job class covered by the collective bargaining
12 agreement.

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

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

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

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

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

34 The department shall establish the member's service credit and
35 shall bill the employer for its contribution required under chapter
36 239, Laws of 1995 for the period of military service, plus interest as
37 determined by the department. Service credit under this subsection may
38 be obtained only if the member makes the employee contribution to the
39 defined contribution portion as determined by the department.

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

5 NEW SECTION. **Sec. 16.** A new section is added to chapter 41.40 RCW
6 to read as follows:

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

16 (2) No purchased plan III membership service will be credited until
17 all payments required of the member are made, with interest. Upon
18 receipt of all payments owed by the member, the department shall bill
19 the employer for any contributions, plus interest, required to purchase
20 membership service.

21 NEW SECTION. **Sec. 17.** A new section is added to chapter 41.40 RCW
22 to read as follows:

23 (1) The director may pay a member eligible to receive a retirement
24 allowance or the member's beneficiary a lump sum payment in lieu of a
25 monthly benefit if the initial monthly benefit would be less than one
26 hundred dollars. The one hundred dollar limit shall be increased by
27 three percent compounded annually on January 1st. The lump sum payment
28 shall be the actuarial equivalent of the monthly benefit.

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

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

3 NEW SECTION. **Sec. 18.** A new section is added to chapter 41.40 RCW
4 to read as follows:

5 (1) NORMAL RETIREMENT. Any member who is at least age sixty-five
6 and who has:

7 (a) Completed ten service credit years; or

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

10 (c) Completed five service credit years by January 1, 1999, under
11 plan II and who transferred to plan III under section 6 of this act;
12 shall be eligible to retire and to receive a retirement allowance
13 computed according to the provisions of section 9 of this act.

14 (2) EARLY RETIREMENT. Any member who has attained at least age
15 fifty-five and has completed at least ten years of service shall be
16 eligible to retire and to receive a retirement allowance computed
17 according to the provisions of section 9 of this act, except that a
18 member retiring pursuant to this subsection shall have the retirement
19 allowance actuarially reduced to reflect the difference in the number
20 of years between age at retirement and the attainment of age sixty-
21 five.

22 NEW SECTION. **Sec. 19.** A new section is added to chapter 41.40 RCW
23 to read as follows:

24 (1) A member of the retirement system who becomes totally
25 incapacitated for continued employment by an employer as determined by
26 the department shall be eligible to receive an allowance under the
27 provisions of plan III. The member shall receive a monthly disability
28 allowance computed as provided for in section 9 of this act and shall
29 have this allowance actuarially reduced to reflect the difference in
30 the number of years between age at disability and the attainment of age
31 sixty-five.

32 Any member who receives an allowance under the provisions of this
33 section shall be subject to comprehensive medical examinations as
34 required by the department. If these medical examinations reveal that
35 a member has recovered from the incapacitating disability and the
36 member is offered reemployment by an employer at a comparable
37 compensation, the member shall cease to be eligible for the allowance.

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

5 NEW SECTION. **Sec. 20.** A new section is added to chapter 41.40 RCW
6 to read as follows:

7 (1) Any member who elects to transfer to plan III and has eligible
8 unrestored withdrawn contributions in plan II, may restore such
9 contributions under the provisions of RCW 41.40.740(1) with interest as
10 determined by the department. The restored plan II service credit will
11 be automatically transferred to plan III. Restoration payments will be
12 transferred to the member account in plan III. If the member fails to
13 meet the time limitations of RCW 41.40.740(1), they may restore such
14 contributions under the provisions of RCW 41.50.165(2). The restored
15 plan II service credit will be automatically transferred to plan III.
16 One-half of the restoration payments under RCW 41.50.165(2) plus
17 interest shall be allocated to the member's account.

18 (2) Any member who elects to transfer to plan III may purchase plan
19 II service credit under RCW 41.40.710(3). Purchased plan II service
20 credit will be automatically transferred to plan III. Contributions on
21 behalf of the employer paid by the employee shall be allocated to the
22 defined benefit portion of plan III and shall not be refundable when
23 paid to the fund described in RCW 41.50.075(2). Contributions on
24 behalf of the employee shall be allocated to the member account. If
25 the member fails to meet the time limitations of RCW 41.40.710(3), they
26 may subsequently restore such contributions under the provisions of RCW
27 41.50.165(2). Purchased plan II service credit will be automatically
28 transferred to plan III. One-half of the payments under RCW
29 41.50.165(2), plus interest, shall be allocated to the member's
30 account.

31 NEW SECTION. **Sec. 21.** A new section is added to chapter 41.40 RCW
32 to read as follows:

33 If a member dies prior to retirement, the surviving spouse or
34 eligible child or children shall receive a retirement allowance
35 computed as provided in section 12 of this act actuarially reduced to
36 reflect a joint and one hundred percent survivor option and if the

1 member was not eligible for normal retirement at the date of death a
2 further reduction as described in section 18 of this act.

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

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

14 **Sec. 22.** RCW 41.34.020 and 1996 c 39 s 13 are each amended to read
15 as follows:

16 As used in this chapter, the following terms have the meanings
17 indicated:

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

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

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

23 (4) "Compensation" for purposes of this chapter is the same as
24 "earnable compensation" for plan III in chapter 41.32 RCW or
25 "compensation earnable" for plan III in chapter 41.40 RCW, except that
26 the compensation may be reported when paid, rather than when earned.

27 (5) "Employer" means the same as "employer" for plan III in chapter
28 41.32 RCW or for plan III in chapter 41.40 RCW.

29 (6) "Member" means any employee included in the membership of a
30 retirement system as provided for in chapter 41.32 RCW of plan III and
31 chapter 41.40 RCW of plan III.

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

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

1 **Sec. 23.** 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 41.40 RCW.

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

6 (a) A defined benefit portion covered under:

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

8 (ii) Sections 7 through 21 of this act; and

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

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

12 **Sec. 24.** RCW 41.34.060 and 1996 c 39 s 15 are each amended to read
13 as follows:

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

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

21 (b) For members of the retirement system under chapter 41.40 RCW
22 plan III investment shall be in the same portfolio as that of the
23 public employees' retirement system combined plan II and III fund under
24 RCW 41.50.075(3) for members of the retirement system under chapter
25 41.40 RCW plan III.

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

31 **Sec. 25.** RCW 41.34.080 and 1995 c 239 s 208 are each amended to
32 read as follows:

33 (1) Subject to subsections (2) and (3) of this section, the right
34 of a person to a pension, an annuity, a retirement allowance, any
35 optional benefit, any other right accrued or accruing to any person
36 under the provisions of this chapter, and the various funds created by
37 chapter 239, Laws of 1995 and chapter . . . , Laws of 1998 (this act)

1 and all moneys and investments and income thereof, is hereby exempt
2 from any state, county, municipal, or other local tax, and shall not be
3 subject to execution, garnishment, attachment, the operation of
4 bankruptcy or insolvency laws, or other process of law whatsoever, and
5 shall be unassignable.

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

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

30 NEW SECTION. Sec. 26. A new section is added to chapter 41.34 RCW
31 to read as follows:

32 (1) Beginning July 1, 1998, and on January 1st of even-numbered
33 years thereafter, the member account of a person meeting the
34 requirements of this section shall be credited by the extraordinary
35 investment gain amount.

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

1 (a) Any member who earned service credit during the twelve-month
2 period from September 1st to August 30th immediately preceding the
3 distribution and had a balance of at least one thousand dollars in
4 their member account on August 30th of the year immediately preceding
5 the distribution; or

6 (b) Any person in receipt of a benefit pursuant to RCW 41.32.875 or
7 section 18 of this act; or

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

10 (i) Completed ten service credit years; or

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

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

15 (iv) Completed five service credit years by January 1, 1999, under
16 plan II and who transferred to plan III under section 6 of this act; or

17 (d) Any person who had a balance of at least one thousand dollars
18 in their member account on August 30th of the year immediately
19 preceding the distribution and who:

20 (i) Completed ten service credit years; or

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

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

25 (iv) Completed five service credit years by January 1, 1999, under
26 plan II and who transferred to plan III under section 6 of this act.

27 (3) The extraordinary investment gain amount shall be calculated as
28 follows:

29 (a) One-half of the value of the net assets held in trust for
30 pension benefits in the teachers' retirement system combined plan II
31 and III fund at the close of the previous state fiscal year not
32 including the amount attributable to member accounts;

33 (b) Multiplied by the amount which investment returns on those
34 assets geometrically averaged over the previous four state fiscal years
35 exceeds ten percent;

36 (c) Multiplied by the proportion of:

37 (i) The sum of the service credit on August 30th of the previous
38 year of all persons eligible for the benefit provided in subsection (1)
39 of this section; to

1 (ii) The sum of the service credit on August 30th of the previous
2 year of:

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

5 (B) Any person who earned service credit in plan II during the
6 twelve-month period from September 1st to August 30th immediately
7 preceding the distribution; and

8 (C) Any person in receipt of a benefit pursuant to RCW 41.32.765 or
9 41.40.630; and

10 (D) Any person with five or more years of service in plan II;

11 (d) Divided proportionally among persons eligible for the benefit
12 provided in subsection (1) of this section on the basis of their
13 service credit total on August 30th of the previous year.

14 (4) On January 1, 2000, the member account of a person meeting the
15 requirements of this section who transferred to plan III under section
16 6 of this act shall be credited by the extraordinary investment gain
17 amount calculated for the period of the four state fiscal years
18 beginning July 1, 1993, and ending June 30, 1997.

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

22 NEW SECTION. **Sec. 27.** A new section is added to chapter 41.34 RCW
23 to read as follows:

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

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

30 (1) The state investment board has the full authority to invest all
31 self-directed investment moneys in accordance with RCW 43.84.150 and
32 43.33A.140, and cumulative investment directions received pursuant to
33 RCW 41.34.060 and this section. In carrying out this authority the
34 state investment board, after consultation with the employee retirement
35 benefits board regarding any recommendations made pursuant to RCW
36 41.50.088(2), shall provide a set of options for members to choose from
37 for self-directed investment.

1 (2) All investment and operating costs of the state investment
2 board associated with making self-directed investments shall be paid by
3 members and recovered under procedures agreed to by the board and the
4 state investment board pursuant to the principles set forth in RCW
5 43.33A.160 and 43.84.160. All other expenses caused by self-directed
6 investment shall be paid by the member in accordance with rules
7 established by the board under RCW 41.50.088. With the exception of
8 these expenses, all earnings from self-directed investments shall
9 accrue to the member's account.

10 (3) The department shall keep or cause to be kept full and adequate
11 accounts and records of each individual member's account. Pursuant to
12 RCW 43.33A.180, the state investment board shall account for and report
13 on the investment of defined contribution assets under this chapter.

14 NEW SECTION. Sec. 29. A new section is added to chapter 41.34 RCW
15 to read as follows:

16 (1) No state board or commission, agency, or any officer, employee,
17 or member thereof shall be liable for any loss or deficiency resulting
18 from member defined contribution investments selected or required
19 pursuant to RCW 41.34.060 (1) or (2).

20 (2) Neither the board nor the state investment board, nor any
21 officer, employee, or member thereof shall be liable for any loss or
22 deficiency resulting from reasonable efforts to implement investment
23 directions pursuant to RCW 41.34.060 (1) or (2).

24 **Sec. 30.** RCW 41.32.8401 and 1997 c 10 s 1 are each amended to read
25 as follows:

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

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

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

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

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

- 1 (a) Establish service credit for January 1998; and
2 (b) Establish any service credit from July 1996 through December
3 1997; and
4 (c) Elect to transfer on or before March 1, 1999.

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

10 ~~((+4))~~ (5) The legislature reserves the right to modify or
11 discontinue the right to an incentive payment under this section for
12 any plan II members who have not previously transferred to plan III.

13 NEW SECTION. **Sec. 31.** The definitions in this section apply
14 throughout this chapter unless the context clearly requires otherwise.

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

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

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

20 (4) "Member" means any employee included in the membership of a
21 retirement system as provided for in chapter 41.32 RCW of plan 2 or
22 chapter 41.40 RCW of plan 2.

23 (5) "Member account" or "member's account" means the sum of any
24 contributions as provided for in this chapter and the earnings on
25 behalf of the member.

26 NEW SECTION. **Sec. 32.** (1) Beginning July 1, 1998, and on January
27 1st of even-numbered years thereafter, a member's account shall be
28 credited by the extraordinary investment gain amount.

29 (2) The extraordinary investment gain amount shall be calculated as
30 follows:

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

1 (b) Multiplied by the amount which the geometric average of the
2 rate of investment returns on those assets over the previous four state
3 fiscal years exceeds ten percent;

4 (c) Multiplied by the proportion of:

5 (i) The sum of the service credit on August 30th of the previous
6 year of all persons eligible for the benefit provided in subsection (1)
7 of this section, to:

8 (ii) The sum of the service credit on August 30th of the previous
9 year of:

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

12 (B) Any person who earned service credit in plan III during the
13 twelve-month period from September 1st to August 30th immediately
14 preceding the distribution;

15 (C) Any person in receipt of a benefit pursuant to RCW 41.32.765,
16 41.32.875, 41.40.630, or section 18 of this act; and

17 (D) Any person with ten or more years of service in plan III;

18 (d) Divided proportionally among persons eligible for the benefit
19 provided in subsection (1) of this section on the basis of their
20 service credit total on August 30th of the previous year.

21 (3) The legislature reserves the right to amend or repeal this
22 section in the future and no member or beneficiary has a contractual
23 right to receive this distribution not granted prior to that amendment
24 or repeal.

25 NEW SECTION. **Sec. 33.** The member's account shall be invested by
26 the state investment board except that members may elect to self-direct
27 their investments as authorized by the board.

28 NEW SECTION. **Sec. 34.** If the member retires, becomes disabled,
29 dies while in service, or otherwise terminates employment, the balance
30 in the member's account may be distributed in accordance with an option
31 selected by the member either as a lump sum or pursuant to other
32 options authorized by the board.

33 NEW SECTION. **Sec. 35.** (1) Subject to subsection (2) of this
34 section, the right of a person to any benefit or right accrued or
35 accruing to any person under this chapter is hereby exempt from any
36 state, county, municipal, or other local tax, and shall not be subject

1 to execution, garnishment, attachment, the operation of bankruptcy or
2 insolvency laws, or other process of law whatsoever, and shall not be
3 assignable.

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

14 NEW SECTION. **Sec. 36.** (1) The benefit created by this chapter
15 shall be administered so as to comply with the federal internal revenue
16 code, Title 26 U.S.C., and specifically with plan qualification
17 requirements imposed on governmental plans by section 401(a) of the
18 internal revenue code.

19 (2) Any section or provision of this chapter that may be
20 susceptible to more than one construction shall be interpreted in favor
21 of the construction most likely to satisfy requirements imposed by
22 section 401(a) of the internal revenue code.

23 (3) If any section or provision of this chapter is found to be in
24 conflict with the plan qualification requirements for governmental
25 plans in section 401(a) of the internal revenue code, the conflicting
26 part of this chapter is hereby inoperable solely to the extent of the
27 conflict, and such finding shall not affect the operation of the
28 remainder of the chapter.

29 NEW SECTION. **Sec. 37.** Sections 31 through 36 of this act
30 constitute a new chapter in Title 41 RCW.

31 **Sec. 38.** RCW 41.45.010 and 1995 c 239 s 305 are each amended to
32 read as follows:

33 It is the intent of the legislature to provide a dependable and
34 systematic process for funding the benefits provided to members and
35 retirees of the public employees' retirement system, chapter 41.40 RCW;
36 the teachers' retirement system, chapter 41.32 RCW; the law enforcement

1 officers' and fire fighters' retirement system, chapter 41.26 RCW; and
2 the Washington state patrol retirement system, chapter 43.43 RCW.

3 The funding process established by this chapter is intended to
4 achieve the following goals:

5 (1) To continue to fully fund the public employees' retirement
6 system plans II and III, the teachers' retirement system plans II and
7 III, and the law enforcement officers' and fire fighters' retirement
8 system plan II as provided by law;

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

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

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

20 **Sec. 39.** RCW 41.45.020 and 1995 c 239 s 306 are each amended to
21 read as follows:

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

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

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

27 (3) "Law enforcement officers' and fire fighters' retirement system
28 plan I" and "law enforcement officers' and fire fighters' retirement
29 system plan II" mean the benefits and funding provisions under chapter
30 41.26 RCW.

31 (4) "Public employees' retirement system plan I," ~~((and))~~ "public
32 employees' retirement system plan II," and "public employees'
33 retirement system plan III" mean the benefits and funding provisions
34 under chapter 41.40 RCW.

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

1 (6) "Washington state patrol retirement system" means the
2 retirement benefits provided under chapter 43.43 RCW.

3 (7) "Unfunded liability" means the unfunded actuarial accrued
4 liability of a retirement system.

5 (8) "Actuary" or "state actuary" means the state actuary employed
6 under chapter 44.44 RCW.

7 (9) "State retirement systems" means the retirement systems listed
8 in RCW 41.50.030.

9 **Sec. 40.** RCW 41.45.050 and 1995 c 239 s 308 are each amended to
10 read as follows:

11 (1) Employers of members of the public employees' retirement
12 system, the teachers' retirement system, and the Washington state
13 patrol retirement system shall make contributions to those systems
14 based on the rates established in RCW 41.45.060 and 41.45.070.

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

20 (3) The department shall bill employers, and the state shall make
21 contributions to the law enforcement officers' and fire fighters'
22 retirement system, using the combined rates established in RCW
23 41.45.060 and 41.45.070 regardless of the level of pension funding
24 provided in the biennial budget. Any member of an affected retirement
25 system may, by mandamus or other appropriate proceeding, require the
26 transfer and payment of funds as directed in this section.

27 (4) The contributions received for the public employees' retirement
28 system shall be allocated between the public employees' retirement
29 system plan I fund and the combined public employees' retirement system
30 plan II and III fund as follows: The contributions necessary to fully
31 fund the public employees' retirement system plan II and III employer
32 contribution required by RCW 41.40.650 shall first be deposited in the
33 public employees' retirement system plan II fund. All remaining public
34 employees' retirement system employer contributions shall be deposited
35 in the public employees' retirement system plan I fund.

36 (5) The contributions received for the teachers' retirement system
37 shall be allocated between the plan I fund and the combined plan II and
38 plan III fund as follows: The contributions necessary to fully fund

1 the combined plan II and plan III employer contribution shall first be
2 deposited in the combined plan II and plan III fund. All remaining
3 teachers' retirement system employer contributions shall be deposited
4 in the plan I fund.

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

17 **Sec. 41.** RCW 41.45.060 and 1995 c 239 s 309 are each amended to
18 read as follows:

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

21 (2) Not later than September 30, 1996, and every two years
22 thereafter, consistent with the assumptions adopted under RCW
23 41.45.030, the council shall adopt both: (a) A basic state
24 contribution rate for the law enforcement officers' and fire fighters'
25 retirement system; and (b) basic employer contribution rates for the
26 public employees' retirement system plan I, the teachers' retirement
27 system plan I, and the Washington state patrol retirement system to be
28 used in the ensuing biennial period.

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 and III, the teachers' retirement system plans II and
38 III, and the law enforcement officers' and fire fighters' retirement

1 system plan II in accordance with RCW 41.40.650, 41.26.450, and this
2 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 **Sec. 42.** RCW 41.45.061 and 1997 c 10 s 2 are each amended to read
11 as follows:

12 (1) The required contribution rate for members of the plan II
13 teachers' retirement system shall be fixed at the rates in effect on
14 July 1, (~~(1996)~~) 1998, subject to the following:

15 (a) Beginning (~~(September 1, 1997)~~) July 1, 1999, except as
16 provided in (b) of this subsection, the employee contribution rate
17 shall not exceed the employer plan II and III rates adopted under RCW
18 41.45.060 and 41.45.070 for the teachers' retirement system;

19 (b) In addition, the employee contribution rate for plan II shall
20 be increased by fifty percent of the contribution rate increase caused
21 by any plan II benefit increase passed after July 1, (~~(1996)~~) 1998;

22 (c) In addition, the employee contribution rate for plan II shall
23 not be increased as a result of any distributions pursuant to section
24 26 of this act.

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

27 **Sec. 43.** RCW 41.45.070 and 1995 c 239 s 310 are each amended to
28 read as follows:

29 (1) In addition to the basic employer contribution rate established
30 in RCW 41.45.060, the department shall also charge employers of public
31 employees' retirement system, teachers' retirement system, or
32 Washington state patrol retirement system members an additional
33 supplemental rate to pay for the cost of additional benefits, if any,
34 granted to members of those systems. Except as provided in subsection
35 (6) of this section, the supplemental contribution rates required by
36 this section shall be calculated by the state actuary and shall be

1 charged regardless of language to the contrary contained in the statute
2 which authorizes additional benefits.

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

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

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

27 (5) The supplemental rate charged under this section to fund
28 postretirement adjustments which are provided on a nonautomatic basis
29 to current retirees shall be calculated as the percentage of pay needed
30 to fund the adjustments as they are paid to the retirees. The
31 supplemental rate charged under this section to fund automatic
32 postretirement adjustments for active or retired members of the public
33 employees' retirement system plan I and the teachers' retirement system
34 plan I shall be calculated as the level percentage of pay needed to
35 fund the cost of the automatic adjustments not later than June 30,
36 2024.

37 (6) A supplemental rate shall not be charged to pay for the cost of
38 additional benefits granted to members pursuant to chapter . . . , Laws
39 of 1998 (this act).

1 NEW SECTION. **Sec. 44.** A new section is added to chapter 41.45 RCW
2 to read as follows:

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

6 (a) Beginning January 1, 1999, except as provided in (b) of this
7 subsection, the employee contribution rate shall not exceed the
8 employer plan II and III rates adopted under RCW 41.45.060 and
9 41.45.070 for the public employees' retirement system;

10 (b) In addition, the employee contribution rate for plan II shall
11 be increased by fifty percent of the contribution rate increase caused
12 by any plan II benefit increase passed after January 1, 1999;

13 (c) In addition, the employee contribution rate for plan II shall
14 not be increased as a result of any distributions pursuant to section
15 26 of this act.

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

18 **Sec. 45.** RCW 41.50.075 and 1996 c 39 s 16 are each amended to read
19 as follows:

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

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

1 plan II and III fund shall consist of all moneys paid to finance the
2 benefits provided to members of the Washington state teachers'
3 retirement system plan II and III.

4 (3) There is hereby established in the state treasury two separate
5 funds, namely the public employees' retirement system plan I fund and
6 the ((public employees' retirement system)) combined plan II and III
7 fund. The plan I fund shall consist of all moneys paid to finance the
8 benefits provided to members of the public employees' retirement system
9 plan I, and the combined plan II and III fund shall consist of all
10 moneys paid to finance the benefits provided to members of the public
11 employees' retirement system plan II and plan III.

12 **Sec. 46.** RCW 41.50.086 and 1995 c 239 s 301 are each amended to
13 read as follows:

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

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

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

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

30 (c) Two members with experience in defined contribution plan
31 administration. The initial term for these members shall be two years
32 for one member and three years for the remaining member.

33 (d) The director of the department shall serve ex officio and shall
34 be the chair of the board.

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

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

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

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

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

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

11 **Sec. 47.** RCW 41.50.088 and 1995 c 239 s 302 are each amended to
12 read as follows:

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

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

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

25 ~~((3))~~ (b) Approval of actuarially equivalent annuities that may
26 be purchased from the combined plan II and plan III funds under RCW
27 41.50.075 (2) or (3);

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

31 ~~((5))~~ (d) Selection of investment options for the deferred
32 compensation program.

33 (2) The board shall recommend to the state investment board types
34 of options for member self-directed investment in the teachers'
35 retirement system plan III, as deemed by the board to be reflective of
36 the members' preferences.

1 **Sec. 48.** RCW 41.54.030 and 1996 c 55 s 4, 1996 c 55 s 3, and 1996
2 c 39 s 19 are each reenacted and amended to read as follows:

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

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

7 (b) Qualifying for a benefit under RCW 41.32.840(2) or section 18
8 of this act.

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

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

21 (4) The service retirement eligibility requirements of RCW
22 41.40.180 shall apply to any dual member whose prior system is plan I
23 of the public employees' retirement system established under chapter
24 41.40 RCW.

25 **Sec. 49.** RCW 41.05.011 and 1996 c 39 s 21 are each amended to read
26 as follows:

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

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

30 (2) "State purchased health care" or "health care" means medical
31 and health care, pharmaceuticals, and medical equipment purchased with
32 state and federal funds by the department of social and health
33 services, the department of health, the basic health plan, the state
34 health care authority, the department of labor and industries, the
35 department of corrections, the department of veterans affairs, and
36 local school districts.

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

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

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

8 (6) "Employee" includes all full-time and career seasonal employees
9 of the state, whether or not covered by civil service; elected and
10 appointed officials of the executive branch of government, including
11 full-time members of boards, commissions, or committees; and includes
12 any or all part-time and temporary employees under the terms and
13 conditions established under this chapter by the authority; justices of
14 the supreme court and judges of the court of appeals and the superior
15 courts; and members of the state legislature or of the legislative
16 authority of any county, city, or town who are elected to office after
17 February 20, 1970. "Employee" also includes: (a) Employees of a
18 county, municipality, or other political subdivision of the state if
19 the legislative authority of the county, municipality, or other
20 political subdivision of the state seeks and receives the approval of
21 the authority to provide any of its insurance programs by contract with
22 the authority, as provided in RCW 41.04.205; (b) employees of employee
23 organizations representing state civil service employees, at the option
24 of each such employee organization, and, effective October 1, 1995,
25 employees of employee organizations currently pooled with employees of
26 school districts for the purpose of purchasing insurance benefits, at
27 the option of each such employee organization; and (c) employees of a
28 school district if the authority agrees to provide any of the school
29 districts' insurance programs by contract with the authority as
30 provided in RCW 28A.400.350.

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

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

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

37 (b) Persons who separate from employment with a school district or
38 educational service district on or after October 1, 1993, and

1 immediately upon separation receive a retirement allowance under
2 chapter 41.32 or 41.40 RCW;

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

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

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

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

16 (12) "Plan year" means the time period established by the
17 authority.

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

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

21 (b) RCW 41.40.010(4)(b) on or after January 1, 1999;

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

25 **Sec. 50.** RCW 43.33A.190 and 1995 c 239 s 321 are each amended to
26 read as follows:

27 Pursuant to ~~((RCW 41.50.088, the state investment board, at the~~
28 ~~request of the employee retirement benefits board, is authorized to~~
29 ~~offer investment options for self-directed investment under plan III))~~
30 section 28 of this act, the state investment board shall invest all
31 self-directed investment moneys under teachers' retirement system plan
32 III and the public employees' retirement system plan III, with full
33 power to establish investment policy, develop investment options, and
34 manage self-directed investment funds.

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