

CERTIFICATION OF ENROLLMENT

**SUBSTITUTE SENATE BILL 6306**

55th Legislature  
1998 Regular Session

Passed by the Senate March 7, 1998  
YEAS 46 NAYS 1

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**President of the Senate**

Passed by the House March 4, 1998  
YEAS 64 NAYS 33

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**Speaker of the  
House of Representatives**

Approved

CERTIFICATE

I, Mike O Connell, Secretary of the Senate of the State of Washington, do hereby certify that the attached is **SUBSTITUTE SENATE BILL 6306** as passed by the Senate and the House of Representatives on the dates hereon set forth.

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**Secretary**

FILED

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**Governor of the State of Washington**

**Secretary of State  
State of Washington**

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**SUBSTITUTE SENATE BILL 6306**

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AS AMENDED BY THE HOUSE

Passed Legislature - 1998 Regular Session

**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 41.50.086, 41.50.088, 41.50.110, 41.50.150, 41.50.152, 41.50.255,  
6 41.50.500, 41.50.670, 41.50.790, 41.40.062, 41.26.500, 41.32.800,  
7 41.40.690, 41.32.8401, 41.54.010, 41.54.040, 41.05.011, 43.33A.190, and  
8 43.84.092; reenacting and amending RCW 41.40.010, 41.40.088, and  
9 41.54.030; adding a new section to chapter 41.40 RCW; adding new  
10 sections to chapter 41.34 RCW; adding new sections to chapter 41.45  
11 RCW; adding a new section to chapter 41.50 RCW; adding a new section to  
12 chapter 41.54 RCW; adding new chapters to Title 41 RCW; creating new  
13 sections; prescribing penalties; providing effective dates; and  
14 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.

1 It is the intent of the legislature to achieve similar retirement  
2 benefits for all educational employees by transferring the membership  
3 of classified school employees in the public employees' retirement  
4 system plan II to the Washington school employees' retirement system  
5 plan II. The transfer of membership to the Washington school  
6 employees' retirement system plan II is not intended to cause a  
7 diminution or expansion of benefits for affected members. It is  
8 enacted solely to provide public employees working under the same  
9 conditions with the same options for retirement planning.

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

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

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

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

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

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

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

32 (6)(a) "Compensation earnable" for plan II and plan III members,  
33 means salaries or wages earned by a member during a payroll period for  
34 personal services, including overtime payments, and shall include wages  
35 and salaries deferred under provisions established pursuant to sections  
36 403(b), 414(h), and 457 of the United States internal revenue code, but  
37 shall 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 (b) "Compensation earnable" for plan II and plan III members also  
4 includes the following actual or imputed payments, which are not paid  
5 for personal 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, which are awarded or granted  
9 as the equivalent of the salary or wage which the individual would have  
10 earned during a payroll period shall be considered compensation  
11 earnable to the extent provided in this subsection, and the individual  
12 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 this (b)(ii)(B) of this subsection  
23 shall be 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.

37 (7) "Service" for plan II and plan III members, means periods of  
38 employment by a member in an eligible position or positions for one or  
39 more employers for which compensation earnable is paid. Compensation

1 earnable earned for ninety or more hours in any calendar month shall  
2 constitute one service credit month except as provided in section 19 of  
3 this act. Compensation earnable earned for at least seventy hours but  
4 less than ninety hours in any calendar month shall constitute one-half  
5 service credit month of service. Compensation earnable earned for less  
6 than seventy hours in any calendar month shall constitute one-quarter  
7 service credit month of service. Time spent in standby status, whether  
8 compensated or not, is not service.

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

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

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

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

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

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

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

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

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

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

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

35 (10) "Membership service" means all service rendered as a member.

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

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

3 (13) "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 (14) "Average final compensation" for plan II and plan III members  
8 means the member's average compensation earnable of the highest  
9 consecutive sixty months of service credit months prior to such  
10 member's retirement, termination, or death. Periods constituting  
11 authorized leaves of absence may not be used in the calculation of  
12 average final compensation except under RCW 41.40.710(2).

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

24 (31) "Plan III" means the Washington school employees' retirement  
25 system plan III providing the benefits and funding provisions covering  
26 persons who first became members of the system on and after September  
27 1, 2000, or who transfer from plan II under section 114 of this act.

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

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

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

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

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

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

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

7 NEW SECTION. **Sec. 3.** A retirement system is hereby created for  
8 the employees of school districts or educational service districts.  
9 The administration and management of the retirement system, the  
10 responsibility for making effective the provisions of this chapter, and  
11 the authority to make all rules necessary therefor are hereby vested in  
12 the department. All such rules shall be governed by the provisions of  
13 chapter 34.05 RCW. This retirement system shall be known as the  
14 Washington school employees' retirement system.

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

19 (1) Persons in ineligible positions;

20 (2)(a) Persons holding elective offices or persons appointed  
21 directly by the governor: PROVIDED, That such persons shall have the  
22 option of applying for membership during such periods of employment:  
23 AND PROVIDED FURTHER, That any persons holding or who have held  
24 elective offices or persons appointed by the governor who are members  
25 in the retirement system and who have, prior to becoming such members,  
26 previously held an elective office, and did not at the start of such  
27 initial or successive terms of office exercise their option to become  
28 members, may apply for membership to be effective during such term or  
29 terms of office, and shall be allowed to establish the service credit  
30 applicable to such term or terms of office upon payment of the employee  
31 contributions therefor by the employee with interest as determined by  
32 the director and employer contributions therefor by the employer or  
33 employee with interest as determined by the director: AND PROVIDED  
34 FURTHER, That all contributions with interest submitted by the employee  
35 under this subsection shall be placed in the employee's individual  
36 account in the employee's savings fund and be treated as any other  
37 contribution made by the employee, with the exception that any



1 contributions submitted by the employee in payment of the employer's  
2 obligation, together with the interest the director may apply to the  
3 employer's contribution, shall not be considered part of the member's  
4 annuity for any purpose except withdrawal of contributions;

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

16 (3) Retirement system retirees: PROVIDED, That following  
17 reemployment in an eligible position, a retiree may elect to  
18 prospectively become a member of the retirement system if otherwise  
19 eligible;

20 (4) Persons enrolled in state-approved apprenticeship programs,  
21 authorized under chapter 49.04 RCW, and who are employed by employers  
22 to earn hours to complete such apprenticeship programs, if the employee  
23 is a member of a union-sponsored retirement plan and is making  
24 contributions to such a retirement plan or if the employee is a member  
25 of a Taft-Hartley retirement plan;

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

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

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

1 (8) Employees who are citizens of the United States and who reside  
2 and perform duties for an employer outside of the United States:  
3 PROVIDED, That unless otherwise excluded under this chapter or chapter  
4 41.04 RCW, the employee may apply for membership (a) within thirty days  
5 after employment in an eligible position and membership service credit  
6 shall be granted from the first day of membership service, and (b)  
7 after this thirty-day period, but membership service credit shall be  
8 granted only if payment is made for the noncredited membership service  
9 under RCW 41.50.165(2), otherwise service shall be from the date of  
10 application.

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

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

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

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

34 (2) A retiree who has satisfied the break in employment requirement  
35 of subsection (1) of this section, may work up to five months per

1 calendar year in an eligible position without suspension of his or her  
2 benefit.

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

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

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

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

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

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

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

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

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

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

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

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

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

30        NEW SECTION.    **Sec. 11.**    (1) Subject to subsections (2) and (3) of  
31 this section, the right of a person to a pension, an annuity, or  
32 retirement allowance, any optional benefit, any other right accrued or  
33 accruing to any person under the provisions of this chapter, the  
34 various funds created by this chapter, and all moneys and investments  
35 and income thereof, are hereby exempt from any state, county,  
36 municipal, or other local tax, and shall not be subject to execution,

1 garnishment, attachment, the operation of bankruptcy or insolvency  
2 laws, or other process of law whatsoever, and shall be unassignable.

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

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

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

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

35 NEW SECTION. **Sec. 14.** (1) Any person who was a member of the  
36 state-wide city employees' retirement system governed by chapter 41.44

1 RCW and who was never reemployed by an employer as defined in RCW  
2 41.40.010 and who is employed by an employer as defined in section 2 of  
3 this act, may, in a writing filed with the director, elect to:

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

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

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

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

32 (3) Upon receipt of the written election and payments required by  
33 subsection (1) of this section from any retiree described in subsection  
34 (1) of this section, the department shall recompute the retiree's  
35 allowance in accordance with this section and shall pay any additional  
36 benefit resulting from such recomputation retroactively to the date of  
37 retirement from the system governed by this chapter.

38 (4) Any person who was a member of the state-wide city employees'  
39 retirement system under chapter 41.44 RCW and also became a member of

1 the public employees' retirement system established under chapter 41.40  
2 RCW or the Washington school employees' retirement system established  
3 under this chapter, and did not make the election under RCW 41.40.058  
4 or subsection (1) of this section because he or she was not a member of  
5 the public employees' retirement system prior to July 27, 1987, or did  
6 not meet the time limitations of RCW 41.40.058 or subsection (2) of  
7 this section, may elect to do any of the following:

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 that was previously credited under chapter 41.44 RCW but was canceled  
12 by discontinuance of service and withdrawal of accumulated  
13 contributions as provided in RCW 41.44.190; and

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

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

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

34 NEW SECTION. **Sec. 16.** Following its receipt of a notice for  
35 hearing in accordance with section 15 of this act, a hearing shall be  
36 held by the director or a duly authorized representative, in the county  
37 of the residence of the claimant at a time and place designated by the

1 director. Such hearing shall be conducted and governed in all respects  
2 by the provisions of chapter 34.05 RCW.

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

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

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

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

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

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

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

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

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

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



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

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

9        (2) The department shall adopt rules as necessary to implement this  
10 section.

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

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

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

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

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

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

24        (a) Produce a retirement allowance which is lower than the original  
25 retirement allowance;

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

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

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

33       NEW SECTION.    **Sec. 23.**    (1) Upon retirement for service as  
34 prescribed in section 103 or 209 of this act or retirement for  
35 disability under section 105 or 210 of this act, a member shall elect

1 to have the retirement allowance paid pursuant to one of the following  
2 options, calculated so as to be actuarially equivalent to each other.

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

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

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

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

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

37 (ii) The spousal consent provisions of (a) of this subsection do  
38 not apply.

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

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

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

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

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

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

29        (2) A retiree or a beneficiary, subject to the provisions of  
30 subsection (5) of this section, who is receiving a regular monthly  
31 benefit of less than fifty dollars may request, in writing, to convert  
32 from a monthly benefit to a lump sum payment. If the director approves  
33 the conversion, the calculation of the actuarial equivalent of the  
34 total estimated regular benefit will be computed based on the  
35 beneficiary's age at the time the benefit initially accrued. The lump

1 sum payment will be reduced to reflect any payments received on or  
2 after the initial benefit accrual date.

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

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

17 (5) Only persons entitled to or receiving a service retirement  
18 allowance under section 101 of this act or an earned disability  
19 allowance under section 105 of this act qualify for participation under  
20 this section.

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

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

28 (2) EARLY RETIREMENT. Any member who has completed at least twenty  
29 service credit years and has attained age fifty-five shall be eligible  
30 to retire and to receive a retirement allowance computed according to  
31 the provisions of section 101 of this act, except that a member  
32 retiring pursuant to this subsection shall have the retirement  
33 allowance actuarially reduced to reflect the difference in the number  
34 of years between age at retirement and the attainment of age sixty-  
35 five.

36 NEW SECTION. Sec. 104. The required contribution rates to the  
37 retirement system for both members and employers shall be established

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

8 Contribution rates required to fund the costs of the retirement  
9 system shall always be equal for members and employers, except as  
10 herein provided. Any adjustments in contribution rates required from  
11 time to time for future costs shall likewise be shared equally by the  
12 members and employers.

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

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

20 Members contributions required by this section shall be deducted  
21 from the members compensation earnable each payroll period. The  
22 members contribution and the employers contribution shall be remitted  
23 directly to the department within fifteen days following the end of the  
24 calendar month during which the payroll period ends.

25 NEW SECTION. **Sec. 105.** (1) A member of the retirement system who  
26 becomes totally incapacitated for continued employment by an employer  
27 as determined by the department upon recommendation of the department  
28 shall be eligible to receive an allowance under the provisions of  
29 sections 101 through 112 of this act. The member shall receive a  
30 monthly disability allowance computed as provided for in section 101 of  
31 this act and shall have this allowance actuarially reduced to reflect  
32 the difference in the number of years between age at disability and the  
33 attainment of age sixty-five.

34 Any member who receives an allowance under the provisions of this  
35 section shall be subject to comprehensive medical examinations as  
36 required by the department. If these medical examinations reveal that  
37 a member has recovered from the incapacitating disability and the

1 member is offered reemployment by an employer at a comparable  
2 compensation, the member shall cease to be eligible for the allowance.

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

14 NEW SECTION. **Sec. 106.** Any member or beneficiary eligible to  
15 receive a retirement allowance under the provisions of section 103,  
16 105, or 107 of this act shall be eligible to commence receiving a  
17 retirement allowance after having filed written application with the  
18 department.

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

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

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

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

33 NEW SECTION. **Sec. 107.** (1) Except as provided in RCW 11.07.010,  
34 if a member or a vested member who has not completed at least ten years  
35 of service dies, the amount of the accumulated contributions standing  
36 to such member's credit in the retirement system at the time of such  
37 member's death, less any amount identified as owing to an obligee upon

1 withdrawal of accumulated contributions pursuant to a court order filed  
2 under RCW 41.50.670, shall be paid to the member's estate, or such  
3 person or persons, trust, or organization as the member shall have  
4 nominated by written designation duly executed and filed with the  
5 department. If there be no such designated person or persons still  
6 living at the time of the member's death, such member's accumulated  
7 contributions standing to such member's credit in the retirement  
8 system, less any amount identified as owing to an obligee upon  
9 withdrawal of accumulated contributions pursuant to a court order filed  
10 under RCW 41.50.670, shall be paid to the member's surviving spouse as  
11 if in fact such spouse had been nominated by written designation, or if  
12 there be no such surviving spouse, then to such member's legal  
13 representatives.

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

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

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

38 (3) If a member who is eligible for retirement or a member who has  
39 completed at least ten years of service dies and is not survived by a

1 spouse or an eligible child, then the accumulated contributions  
2 standing to the member's credit, less any amount identified as owing to  
3 an obligee upon withdrawal of accumulated contributions pursuant to a  
4 court order filed under RCW 41.50.670, shall be paid:

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

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

11 NEW SECTION. **Sec. 108.** (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 as provided for under the provisions of sections 101  
14 through 112 of this act.

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

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

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

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



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

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

11 (a) The member qualifies for service credit under this subsection  
12 if:

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

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

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

23 (b) Upon receipt of member contributions under (a)(ii) of this  
24 subsection, the department shall establish the member's service credit  
25 and shall bill the employer for its contribution required under section  
26 104 of this act for the period of military service, plus interest as  
27 determined by the department.

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

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

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

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

19        The restoration of such funds must be completed within five years  
20 of the resumption of service or prior to retirement, whichever occurs  
21 first.

22        (2) If a member fails to meet the time limitations of subsection  
23 (1) of this section, the member may receive service credit destroyed by  
24 the withdrawn contributions if the amount required under RCW  
25 41.50.165(2) is paid.

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

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

30        (1) Effective September 1, 2000, the membership of all plan II  
31 members currently employed in eligible positions in a school district  
32 or educational service district and all plan II service credit for such  
33 members, is transferred to the Washington school employees' retirement  
34 system plan II. Plan II members who have withdrawn their member  
35 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 RCW 41.40.740.

3 (2) The membership and previous service credit of a plan II member  
4 not employed in an eligible position on September 1, 2000, will be  
5 transferred to the Washington school employees' retirement system plan  
6 II when he or she becomes employed in an eligible position. Plan II  
7 members not employed in an eligible position on September 1, 2000, who  
8 have withdrawn their member contributions for prior plan II service may  
9 restore contributions and service credit to the Washington school  
10 employees' retirement system plan II as provided under RCW 41.40.740.

11 (3) Members who restore contributions and service credit under  
12 subsection (1) or (2) of this section shall have their contributions  
13 and service credit transferred to the Washington school employees'  
14 retirement system.

15 NEW SECTION. **Sec. 114.** (1) Every plan II member employed by an  
16 employer in an eligible position has the option to make an irrevocable  
17 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 February 28, 2001, 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. 201.**    (1) Sections 201 through 213 of this act  
2 apply only to plan III members.

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

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

8        NEW SECTION.    **Sec. 202.**    All classified employees who first become  
9 employed by an employer in an eligible position on or after September  
10 1, 2000, shall be members of plan III.

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

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

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

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

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

28        (2) If a member who requests to transfer dies before January 1,  
29 2001, the additional payment provided by this section shall be paid to  
30 the member's estate, or the person or persons, trust, or organization  
31 the member nominated by written designation duly executed and filed  
32 with the department.

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

1        NEW SECTION.    **Sec. 205.**    Any member or beneficiary eligible to  
2 receive a retirement allowance under the provisions of section 209,  
3 210, or 212 of this act is eligible to commence receiving a retirement  
4 allowance after having filed written application with the department.

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

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

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

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

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

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

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

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

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

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

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

17 The department shall establish the member's service credit and  
18 shall bill the employer for its contribution required under section 213  
19 of this act for the period of military service, plus interest as  
20 determined by the department. Service credit under this subsection may  
21 be obtained only if the member makes the employee contribution to the  
22 defined contribution portion as determined by the department.

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

27 NEW SECTION. **Sec. 207.** (1) Contributions on behalf of the  
28 employer paid by the employee to purchase plan III service credit shall  
29 be allocated to the defined benefit portion of plan III and shall not  
30 be refundable when paid to the fund described in RCW 41.50.075(4).  
31 Contributions on behalf of the employee shall be allocated to the  
32 member account. If the member fails to meet the statutory time  
33 limitations to purchase plan III service credit, it may be purchased  
34 under the provisions of RCW 41.50.165(2). One-half of the purchase  
35 payments under RCW 41.50.165(2), plus interest, shall be allocated to  
36 the member's account.

37 (2) No purchased plan III membership service will be credited until  
38 all payments required of the member are made, with interest. Upon

1 receipt of all payments owed by the member, the department shall bill  
2 the employer for any contributions, plus interest, required to purchase  
3 membership service.

4 NEW SECTION. Sec. 208. (1) The director may pay a member eligible  
5 to receive a retirement allowance or the member's beneficiary a lump  
6 sum payment in lieu of a monthly benefit if the initial monthly benefit  
7 would be less than one hundred dollars. The one hundred dollar limit  
8 shall be increased annually as determined by the director. The lump  
9 sum payment shall be the actuarial equivalent of the monthly benefit.

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

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

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

22 (a) Completed ten service credit years; or

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

25 (c) Completed five service credit years by September 1, 2000, under  
26 the public employees' retirement system plan II and who transferred to  
27 plan III under section 114 of this act;

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

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

1        NEW SECTION.    **Sec. 210.**    (1) A member of the retirement system who  
2 becomes totally incapacitated for continued employment by an employer  
3 as determined by the department shall be eligible to receive an  
4 allowance under the provisions of plan III. The member shall receive  
5 a monthly disability allowance computed as provided for in section 203  
6 of this act and shall have this allowance actuarially reduced to  
7 reflect the difference in the number of years between age at disability  
8 and the attainment of age sixty-five.

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

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

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

31        (2) Any member who elects to transfer to plan III may purchase plan  
32 II service credit under section 113 of this act. Purchased plan II  
33 service credit will be automatically transferred to plan III.  
34 Contributions on behalf of the employer paid by the employee shall be  
35 allocated to the defined benefit portion of plan III and shall not be  
36 refundable when paid to the fund described in RCW 41.50.075(4).  
37 Contributions on behalf of the employee shall be allocated to the  
38 member account. If the member fails to meet the time limitations of



1 section 113 of this act, they may subsequently restore such  
2 contributions under the provisions of RCW 41.50.165(2). Purchased plan  
3 II service credit will be automatically transferred to plan III. One-  
4 half of the payments under RCW 41.50.165(2), plus interest, shall be  
5 allocated to the member's account.

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

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

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

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

33 Any increase in the contribution rate required as the result of a  
34 failure of an employer to make any contribution required by this  
35 section shall be borne in full by the employer not making the  
36 contribution.

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

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

7 NEW SECTION. **Sec. 214.** Sections 1 through 25, 101 through 112,  
8 114, and 201 through 213 of this act constitute a new chapter in Title  
9 41 RCW.

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

12 As used in this chapter, the following terms have the meanings  
13 indicated:

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

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

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

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

23 (b) "Compensation" for classified employees for purposes of this  
24 chapter is the same as "compensation earnable" for plan III in section  
25 2 of this act, except that the compensation may be reported when paid,  
26 rather than when earned.

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

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

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

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

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

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

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

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

10 (1) This chapter applies only to members of plan III retirement  
11 systems created under chapters 41.32 and 41.-- (sections 1 through 25,  
12 101 through 112, 114, and 201 through 213 of this act) RCW.

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

14 (a) A defined benefit portion covered under:

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

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

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

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

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

22 (1) Except as provided in subsection (2) of this section, the  
23 member's account shall be invested by the state investment board.  
24 ~~((All contributions under this subsection shall be invested))~~ In order  
25 to reduce transaction costs and address liquidity issues, based upon  
26 recommendations of the state investment board, the department may  
27 require members to provide up to ninety days' notice prior to moving  
28 funds from the state investment board portfolio to self-directed  
29 investment options provided under subsection (2) of this section.

30 (a) For members of the retirement system as provided for in chapter  
31 41.32 RCW of plan III, investment shall be in the same portfolio as  
32 that of the teachers' retirement system combined plan II and III fund  
33 under RCW 41.50.075(2).

34 (b) For members of the retirement system as provided for in chapter  
35 41.-- RCW (sections 1 through 25, 101 through 112, 114, and 201 through  
36 213 of this act) of plan III, investment shall be in the same portfolio

1 as that of the school employees' retirement system combined plan II and  
2 III fund under RCW 41.50.075(4).

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

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

10 (1) Subject to subsections (2) and (3) of this section, the right  
11 of a person to a pension, an annuity, a retirement allowance, any  
12 optional benefit, any other right accrued or accruing to any person  
13 under the provisions of this chapter, and the various funds created by  
14 chapter 239, Laws of 1995, and chapter . . . , Laws of 1998 (this act)  
15 and all moneys and investments and income thereof, is hereby exempt  
16 from any state, county, municipal, or other local tax, and shall not be  
17 subject to execution, garnishment, attachment, the operation of  
18 bankruptcy or insolvency laws, or other process of law whatsoever, and  
19 shall be unassignable.

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

34 (3) Subsection (1) of this section shall not prohibit the  
35 department from complying with (a) a wage assignment order for child  
36 support issued pursuant to chapter 26.18 RCW, (b) an order to withhold  
37 and deliver issued pursuant to chapter 74.20A RCW, (c) a notice of  
38 payroll deduction issued pursuant to RCW 26.23.060, (d) a mandatory

1 benefits assignment order issued by the department, (e) a court order  
2 directing the department to pay benefits directly to an obligee under  
3 a dissolution order as defined in RCW 41.50.500(3) which fully complies  
4 with RCW 41.50.670 and 41.50.700, or (f) any administrative or court  
5 order expressly authorized by federal law.

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

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

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

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

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

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

24 (1) The state investment board has the full authority to invest all  
25 self-directed investment moneys in accordance with RCW 43.84.150 and  
26 43.33A.140, and cumulative investment directions received pursuant to  
27 RCW 41.34.060 and this section. In carrying out this authority the  
28 state investment board, after consultation with the employee retirement  
29 benefits board regarding any recommendations made pursuant to RCW  
30 41.50.088(2), shall provide a set of options for members to choose from  
31 for self-directed investment.

32 (2) All investment and operating costs of the state investment  
33 board associated with making self-directed investments shall be paid by  
34 members and recovered under procedures agreed to by the board and the  
35 state investment board pursuant to the principles set forth in RCW  
36 43.33A.160 and 43.84.160. All other expenses caused by self-directed

1 investment shall be paid by the member in accordance with rules  
2 established by the board under RCW 41.50.088. With the exception of  
3 these expenses, all earnings from self-directed investments shall  
4 accrue to the member's account.

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

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

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

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

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

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

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

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

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

34 (i) Completed ten service credit years; or

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

1 (iii) Completed five service credit years by July 1, 1996, under  
2 plan II and who transferred to plan III under RCW 41.32.817; or  
3 (d) Any person who had a balance of at least one thousand dollars  
4 in their member account on August 31st of the year immediately  
5 preceding the distribution and who:  
6 (i) Completed ten service credit years; or  
7 (ii) Completed five service credit years, including twelve service  
8 months after attaining age fifty-four; or  
9 (iii) Completed five service credit years by July 1, 1996, under  
10 plan II and who transferred to plan III under RCW 41.32.817.  
11 (3) The extraordinary investment gain amount shall be calculated as  
12 follows:  
13 (a) One-half of the sum of the value of the net assets held in  
14 trust for pension benefits in the public employees' retirement system  
15 plan II fund and the teachers' retirement system combined plan II and  
16 III fund at the close of the previous state fiscal year not including  
17 the amount attributable to member accounts;  
18 (b) Multiplied by the amount which the compound average of  
19 investment returns on those assets over the previous four state fiscal  
20 years exceeds ten percent;  
21 (c) Multiplied by the proportion of:  
22 (i) The sum of the service credit on August 31st of the previous  
23 year of all persons eligible for the benefit provided in subsection (1)  
24 of this section; to  
25 (ii) The sum of the service credit on August 31st of the previous  
26 year of:  
27 (A) All persons eligible for the benefit provided in subsection (1)  
28 of this section;  
29 (B) Any person who earned service credit in the teachers'  
30 retirement system plan II or the public employees' retirement system  
31 plan II during the twelve-month period from September 1st to August  
32 31st immediately preceding the distribution;  
33 (C) Any person in receipt of a benefit pursuant to RCW 41.32.765 or  
34 41.40.630; and  
35 (D) Any person with five or more years of service in the teachers'  
36 retirement system plan II or the public employees' retirement system  
37 plan II;

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

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

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

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

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

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

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

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

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

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

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

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

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



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

3 (i) Completed ten service credit years; or

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

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

9 (e) Any classified employee who is a retiree pursuant to RCW  
10 41.34.020(8) and who has completed five service credit years by  
11 September 1, 2000, and who transferred to plan III under section 114 of  
12 this act; or

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

16 (i) Completed ten service credit years; or

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

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

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

29 (3) 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 Washington school employees' retirement  
34 system combined plan II and III fund at the close of the previous state  
35 fiscal year not including the amount attributable to member accounts;

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

39 (c) Multiplied by the proportion of:

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

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

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

8 (B) Any person who earned service credit in the teachers'  
9 retirement system plan II or the Washington school employees'  
10 retirement system plan II during the twelve-month period from September  
11 1st to August 31st immediately preceding the distribution;

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

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

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

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

23 NEW SECTION. **Sec. 313.** (1) On March 1, 2001, the member account  
24 of a person meeting the requirements of this section shall be credited  
25 by the 1998 retroactive extraordinary investment gain amount and the  
26 2000 retroactive extraordinary investment gain amount.

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

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

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

37 (c) Any classified employee who is a retiree pursuant to RCW  
38 41.34.020(8) and who has completed five service credit years by

1 September 1, 2000, and who transferred to plan III under section 114 of  
2 this act; or

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

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

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

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

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

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

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

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

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

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

30 It is the intent of the legislature to provide a dependable and  
31 systematic process for funding the benefits provided to members and  
32 retirees of the public employees' retirement system, chapter 41.40 RCW;  
33 the teachers' retirement system, chapter 41.32 RCW; the law enforcement  
34 officers' and fire fighters' retirement system, chapter 41.26 RCW; the  
35 school employees' retirement system, chapter 41.-- RCW (sections 1  
36 through 25, 101 through 112, 114, and 201 through 213 of this act); and  
37 the Washington state patrol retirement system, chapter 43.43 RCW.

1 The funding process established by this chapter is intended to  
2 achieve the following goals:

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

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

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

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

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

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

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

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

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

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

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

36 (6) "School employees' retirement system plan II" and "school  
37 employees' retirement system plan III" mean the benefits and funding

1 provisions under chapter 41.-- RCW (sections 1 through 25, 101 through  
2 112, 114, and 201 through 213 of this act).

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

5 ~~((+7))~~ (8) "Unfunded liability" means the unfunded actuarial  
6 accrued liability of a retirement system.

7 ~~((+8))~~ (9) "Actuary" or "state actuary" means the state actuary  
8 employed under chapter 44.44 RCW.

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

11 (11) "Classified employee" means a member of the Washington school  
12 employees' retirement system plan II or plan III as defined in section  
13 2 of this act.

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

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

18 (1) Employers of members of the public employees' retirement  
19 system, the teachers' retirement system, the school employees'  
20 retirement system, and the Washington state patrol retirement system  
21 shall make contributions to those systems based on the rates  
22 established in RCW 41.45.060 and 41.45.070.

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

28 (3) The department shall bill employers, and the state shall make  
29 contributions to the law enforcement officers' and fire fighters'  
30 retirement system, using the combined rates established in RCW  
31 41.45.060 and 41.45.070 regardless of the level of pension funding  
32 provided in the biennial budget. Any member of an affected retirement  
33 system may, by mandamus or other appropriate proceeding, require the  
34 transfer and payment of funds as directed in this section.

35 (4) The contributions received for the public employees' retirement  
36 system shall be allocated between the public employees' retirement  
37 system plan I fund and public employees' retirement system plan II fund  
38 as follows: The contributions necessary to fully fund the public

1 employees' retirement system plan II employer contribution required by  
2 RCW 41.40.650 shall first be deposited in the public employees'  
3 retirement system plan II fund. All remaining public employees'  
4 retirement system employer contributions shall be deposited in the  
5 public employees' retirement system plan I fund.

6 (5) The contributions received for the teachers' retirement system  
7 shall be allocated between the plan I fund and the combined plan II and  
8 plan III fund as follows: The contributions necessary to fully fund  
9 the combined plan II and plan III employer contribution shall first be  
10 deposited in the combined plan II and plan III fund. All remaining  
11 teachers' retirement system employer contributions shall be deposited  
12 in the plan I fund.

13 (6) The contributions received for the school employees' retirement  
14 system shall be allocated between the public employees' retirement  
15 system plan I fund and the school employees' retirement system combined  
16 plan II and plan III fund as follows: The contributions necessary to  
17 fully fund the combined plan II and plan III employer contribution  
18 shall first be deposited in the combined plan II and plan III fund.  
19 All remaining school employees' retirement system employer  
20 contributions shall be deposited in the public employees' retirement  
21 system plan I fund.

22 (7) The contributions received under RCW 41.26.450 for the law  
23 enforcement officers' and fire fighters' retirement system shall be  
24 allocated between the law enforcement officers' and fire fighters'  
25 retirement system plan I and the law enforcement officers' and fire  
26 fighters' retirement system plan II fund as follows: The contributions  
27 necessary to fully fund the law enforcement officers' and fire  
28 fighters' retirement system plan II employer contributions shall be  
29 first deposited in the law enforcement officers' and fire fighters'  
30 retirement system plan II fund. All remaining law enforcement  
31 officers' and fire fighters' retirement system employer contributions  
32 shall be deposited in the law enforcement officers' and fire fighters'  
33 retirement system plan I fund.

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

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

1 (2) Not later than September 30, 1996, and every two years  
2 thereafter, consistent with the assumptions adopted under RCW  
3 41.45.030, the council shall adopt both:

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

6 (b) Basic employer contribution rates for the public employees'  
7 retirement system plan I, the teachers' retirement system plan I, and  
8 the Washington state patrol retirement system to be used in the ensuing  
9 biennial period; and

10 (c) A basic employer contribution rate for the school employees'  
11 retirement system for funding the public employees' retirement system  
12 plan I.

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

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

20 (b) To also continue to fully fund the public employees' retirement  
21 system plan II, the teachers' retirement system plans II and III, the  
22 school employees' retirement system plans II and III, and the law  
23 enforcement officers' and fire fighters' retirement system plan II in  
24 accordance with RCW 41.40.650, 41.26.450, and this section.

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

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

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

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

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

37 (a) Beginning September 1, 1997, except as provided in (b) of this  
38 subsection, the employee contribution rate shall not exceed the

1 employer plan II and III rates adopted under RCW 41.45.060 and  
2 41.45.070 for the teachers' retirement system;

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

6 ~~(2) The required plan II and III contribution rates for employers  
7 shall be adopted in the manner described in RCW 41.45.060))~~;

8 (c) In addition, the employee contribution rate for plan II shall  
9 not be increased as a result of any distributions pursuant to sections  
10 309 and 312 of this act.

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

15 (a) Except as provided in (b) of this subsection, the member  
16 contribution rate shall not exceed the school employees' retirement  
17 system employer plan II and III contribution rate adopted under RCW  
18 41.45.060 and 41.45.070;

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

23 (3) The employee contribution rate for plan II shall not be  
24 increased as a result of any distributions pursuant to sections 312 and  
25 313 of this act.

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

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

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



1 state actuary and shall be charged regardless of language to the  
2 contrary contained in the statute 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, the teachers' retirement system  
22 plan II and plan III, the school employees' retirement system plan II  
23 and plan III, or the law enforcement officers' and fire fighters'  
24 retirement system plan II, shall be calculated as the level percentage  
25 of all members' pay needed to fund the cost of the benefit, as  
26 calculated under RCW 41.40.650(~~(, 41.32.775,)~~) or 41.26.450,  
27 respectively.

28 (5) The supplemental rate charged under this section to fund  
29 postretirement adjustments which are provided on a nonautomatic basis  
30 to current retirees shall be calculated as the percentage of pay needed  
31 to fund the adjustments as they are paid to the retirees. The  
32 supplemental rate charged under this section to fund automatic  
33 postretirement adjustments for active or retired members of the public  
34 employees' retirement system plan I and the teachers' retirement system  
35 plan I shall be calculated as the level percentage of pay needed to  
36 fund the cost of the automatic adjustments not later than June 30,  
37 2024.

38 (6) A supplemental rate shall not be charged to pay for the cost of  
39 additional benefits granted to members pursuant to chapter 41.-- RCW

1 (sections 311 through 313 of this act); section 309 of this act; or  
2 section 701, chapter . . . , Laws of 1998 (section 701 of this act).

3 NEW SECTION. **Sec. 407.** A new section is added to chapter 41.45  
4 RCW to read as follows:

5 Upon the advice of the state actuary, the state treasurer shall  
6 divide the assets in the public employees' retirement system plan II as  
7 of September 1, 2000, in such a manner that sufficient assets remain in  
8 plan II to maintain the employee contribution rate calculated in the  
9 latest actuarial valuation of the public employees' retirement system  
10 plan II. The state actuary shall take into account changes in assets  
11 that occur between the latest actuarial valuation and the date of  
12 transfer. The balance of the assets shall be transferred to the  
13 Washington school employees' retirement system plan II and III.

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

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

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

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

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

31 (4) The department shall administer the Washington school  
32 employees' retirement system created under chapter 41.-- RCW (sections  
33 1 through 25, 101 through 112, 114, and 201 through 213 of this act).

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

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

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

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

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

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

35 (3) There is hereby established in the state treasury two separate  
36 funds, namely the public employees' retirement system plan I fund and  
37 the public employees' retirement system plan II fund. The plan I fund  
38 shall consist of all moneys paid to finance the benefits provided to

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

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

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

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

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

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

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

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

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

1       (c) Three members representing classified employees of school  
2 districts and educational service districts: One retired, two active.  
3 The members shall be appointed from a list of nominations submitted by  
4 organizations representing each category. The initial term of  
5 appointment shall be one year for the retired member, two years for one  
6 active member, and three years for the remaining active member.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

36 (~~((1) The preselection of options for members to choose from for~~  
37 ~~self-directed investment deemed by the board to be in the best interest~~

1 of the member. ~~At the board's request, the state investment board may~~  
2 ~~provide investment options for purposes of this subsection;~~

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

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

14 ~~((3))~~ (c) Approval of actuarially equivalent annuities that may  
15 be purchased from the combined plan II and plan III funds under RCW  
16 41.50.075 (2) or (3); and

17 ~~((4))~~ (d) Determination of the basis for administrative charges  
18 to the self-directed investment fund to offset self-directed account  
19 expenses; ~~and~~

20 ~~(5))~~ (2) Selection of investment options for the deferred  
21 compensation program.

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

24 (1) Except as provided by RCW 41.50.255 and subsection (6) of this  
25 section, all expenses of the administration of the department and the  
26 expenses of administration of the retirement systems created in  
27 chapters 2.10, 2.12, 41.26, 41.32, 41.40, 41.34, 41.-- (sections 1  
28 through 25, 101 through 112, 114, and 201 through 213 of this act) and  
29 43.43 RCW shall be paid from the department of retirement systems  
30 expense fund.

31 (2) In order to reimburse the department of retirement systems  
32 expense fund on an equitable basis the department shall ascertain and  
33 report to each employer, as defined in RCW 41.26.030, 41.32.010,  
34 section 2 of this act, or 41.40.010, the sum necessary to defray its  
35 proportional share of the entire expense of the administration of the  
36 retirement system that the employer participates in during the ensuing  
37 biennium or fiscal year whichever may be required. Such sum is to be  
38 computed in an amount directly proportional to the estimated entire

1 expense of the administration as the ratio of monthly salaries of the  
2 employer's members bears to the total salaries of all members in the  
3 entire system. It shall then be the duty of all such employers to  
4 include in their budgets or otherwise provide the amounts so required.

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

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

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

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

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

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

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

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

34 (1) The employer of any employee whose retirement benefits are  
35 based in part on excess compensation, as defined in this section,  
36 shall, upon receipt of a billing from the department, pay into the  
37 appropriate retirement system the present value at the time of the  
38 employee's retirement of the total estimated cost of all present and



1 future benefits from the retirement system attributable to the excess  
2 compensation. The state actuary shall determine the estimated cost  
3 using the same method and procedure as is used in preparing fiscal note  
4 costs for the legislature. However, the director may in the director's  
5 discretion decline to bill the employer if the amount due is less than  
6 fifty dollars. Accounts unsettled within thirty days of the receipt of  
7 the billing shall be assessed an interest penalty of one percent of the  
8 amount due for each month or fraction thereof beyond the original  
9 thirty-day period.

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

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

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

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

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

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

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

25 (e) Any termination or severance payment.

26 (3) This section applies to the retirement systems listed in RCW  
27 41.50.030 and to retirements occurring on or after March 15, 1984.  
28 Nothing in this section is intended to amend or determine the meaning  
29 of any definition in chapter 2.10, 2.12, 41.26, 41.32, 41.40, 41.--  
30 (sections 1 through 25, 101 through 112, 114, and 201 through 213 of  
31 this act), or 43.43 RCW or to determine in any manner what payments are  
32 includable in the calculation of a retirement allowance under such  
33 chapters.

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

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

1 (1) Except as limited by subsection (3) of this section, the  
2 governing body of an employer under chapter 41.32, 41.-- (sections 1  
3 through 25, 101 through 112, 114, and 201 through 213 of this act), or  
4 41.40 RCW shall comply with the provisions of subsection (2) of this  
5 section prior to executing a contract or collective bargaining  
6 agreement with members under chapter 41.32, 41.-- (sections 1 through  
7 25, 101 through 112, 114, and 201 through 213 of this act), or 41.40  
8 RCW which provides for:

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 any payment in lieu of an accrual of annual leave or any payment  
12 added to regular salary, concurrent with a reduction of annual leave;

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

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

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

18 (e) Any other termination or severance payment.

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

34 (3) The requirements of subsection (2) of this section shall not  
35 apply to the adoption of a compensation provision listed in subsection  
36 (1) of this section if the compensation would not be includable in  
37 calculating benefits under chapter 41.32, 41.-- (sections 1 through 25,  
38 101 through 112, 114, and 201 through 213 of this act), or 41.40 RCW  
39 for the employees covered by the compensation provision.

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

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

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

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

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

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

31       Unless the context clearly requires otherwise, the definitions in  
32 this section apply throughout RCW 41.50.500 through 41.50.650,  
33 41.50.670 through 41.50.720, and 26.09.138.

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

36       (2) "Disposable benefits" means that part of the benefits of an  
37 individual remaining after the deduction from those benefits of any

1 amount required by law to be withheld. The term "required by law to be  
2 withheld" does not include any deduction elective to the member.

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

11 (4) "Mandatory benefits assignment order" means an order issued to  
12 the department of retirement systems pursuant to RCW 41.50.570 to  
13 withhold and deliver benefits payable to an obligor under chapter 2.10,  
14 2.12, 41.26, 41.32, 41.40, 41.-- (sections 1 through 25, 101 through  
15 112, 114, and 201 through 213 of this act), or 43.43 RCW.

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

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

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

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

29 (9) "Standard allowance" means a benefit payment option selected  
30 under RCW 2.10.146(1)(a), 41.26.460(1)(a), 41.32.785(1)(a),  
31 41.40.188(1)(a), ~~((or))~~ 41.40.660(1), or section 23 of this act that  
32 ceases upon the death of the retiree. Standard allowance also means  
33 the benefit allowance provided under RCW 2.10.110, 2.10.130, 43.43.260,  
34 41.26.100, 41.26.130(1)(a), or chapter 2.12 RCW. Standard allowance  
35 also means the maximum retirement allowance available under RCW  
36 41.32.530(1) following member withdrawal of accumulated contributions,  
37 if any.

38 (10) "Withdrawal of accumulated contributions" means a lump sum  
39 payment to a retirement system member of all or a part of the member's

1 accumulated contributions, including accrued interest, at the request  
2 of the member including any lump sum amount paid upon the death of the  
3 member.

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

6 (1) Nothing in this chapter regarding mandatory assignment of  
7 benefits to enforce a spousal maintenance obligation shall abridge the  
8 right of an obligee to direct payments of retirement benefits to  
9 satisfy a property division obligation ordered pursuant to a court  
10 decree of dissolution or legal separation or any court order or court-  
11 approved property settlement agreement incident to any court decree of  
12 dissolution or legal separation as provided in RCW 2.10.180, 2.12.090,  
13 41.04.310, 41.04.320, 41.04.330, 41.26.053, 41.32.052, section 11 of  
14 this act, 41.34.070(3), 41.40.052, 43.43.310, or 26.09.138, as those  
15 statutes existed before July 1, 1987, and as those statutes exist on  
16 and after July 28, 1991. The department shall pay benefits under this  
17 chapter in a lump sum or as a portion of periodic retirement payments  
18 as expressly provided by the dissolution order. A dissolution order  
19 may not order the department to pay a periodic retirement payment or  
20 lump sum unless that payment is specifically authorized under the  
21 provisions of chapter 2.10, 2.12, 41.26, 41.32, 41.-- (sections 1  
22 through 25, 101 through 112, 114, and 201 through 213 of this act),  
23 41.34, 41.40, or 43.43 RCW, as applicable.

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

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

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

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

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

15 (5) Persons whose court decrees were entered between July 1, 1987,  
16 and July 28, 1991, shall also be entitled to receive direct payments of  
17 retirement benefits to satisfy court-ordered property divisions if the  
18 dissolution orders comply or are modified to comply with this section  
19 and RCW 41.50.680 through 41.50.720 and, as applicable, RCW 2.10.180,  
20 2.12.090, 41.26.053, 41.32.052, section 11 of this act, 41.34.070,  
21 41.40.052, 43.43.310, and 26.09.138.

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

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

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

36 (1) The department shall designate an obligee as a survivor  
37 beneficiary of a member under RCW 2.10.146, 41.26.460, 41.32.530,  
38 41.32.785, section 23 of this act, 41.40.188, or 41.40.660 if the

1 department has been served by registered or certified mail with a  
2 dissolution order as defined in RCW 41.50.500 at least thirty days  
3 prior to the member's retirement. The department's duty to comply with  
4 the dissolution order arises only if the order contains a provision  
5 that states in substantially the following form:

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

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

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

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

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

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

24       (iii) Contain a provision clearly identifying the alternate payee  
25 or payees; and

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

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

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

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

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

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

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

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

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

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

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

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

23 (a) Specifically directs the member or department to make such  
24 selection;

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

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

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

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

34 (2) If the department determines that due to departmental error a  
35 member of plan III has suffered a loss of investment return, the  
36 department shall credit to the member's account from the school  
37 employees' retirement system combined plan II and III fund the amount  
38 determined by the department 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, 2000,  
27 school districts and educational service districts will no longer be  
28 employers for the public employees' retirement system plan II.

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

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

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

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

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

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

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

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

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

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

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

36 (A) Retroactive payments to an individual by an employer on  
37 reinstatement of the employee in a position, or payments by an employer  
38 to an individual in lieu of reinstatement in a position which are  
39 awarded or granted as the equivalent of the salary or wage which the

1 individual would have earned during a payroll period shall be  
2 considered compensation earnable and the individual shall receive the  
3 equivalent service credit;

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

10 (C) Assault pay only as authorized by RCW 27.04.100, 72.01.045, and  
11 72.09.240;

12 (D) Compensation that a member would have received but for a  
13 disability occurring in the line of duty only as authorized by RCW  
14 41.40.038;

15 (E) Compensation that a member receives due to participation in the  
16 leave sharing program only as authorized by RCW 41.04.650 through  
17 41.04.670; and

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

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

25 (A) Remuneration for unused sick leave authorized under RCW  
26 41.04.340, 28A.400.210, or 28A.310.490;

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

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

37 "Compensation earnable" for plan II members also includes the  
38 following actual or imputed payments, which are not paid for personal  
39 services:

1 (i) 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 to the extent provided above, and the  
7 individual shall receive the equivalent service credit;

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

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

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

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

21 (iv) Compensation that a member would have received but for a  
22 disability occurring in the line of duty only as authorized by RCW  
23 41.40.038;

24 (v) Compensation that a member receives due to participation in the  
25 leave sharing program only as authorized by RCW 41.04.650 through  
26 41.04.670; and

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

33 (9)(a) "Service" for plan I members, except as provided in RCW  
34 41.40.088, means periods of employment in an eligible position or  
35 positions for one or more employers rendered to any employer for which  
36 compensation is paid, and includes time spent in office as an elected  
37 or appointed official of an employer. Compensation earnable earned in  
38 full time work for seventy hours or more in any given calendar month  
39 shall constitute one service credit month except as provided in RCW

1 41.40.088. Compensation earnable earned for less than seventy hours in  
2 any calendar month shall constitute one-quarter service credit month of  
3 service except as provided in RCW 41.40.088. Only service credit  
4 months and one-quarter service credit months shall be counted in the  
5 computation of any retirement allowance or other benefit provided for  
6 in this chapter. Any fraction of a year of service shall be taken into  
7 account in the computation of such retirement allowance or benefits.  
8 Time spent in standby status, whether compensated or not, is not  
9 service.

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

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

22 (iii) A school district employee may count up to forty-five days of  
23 sick leave as creditable service solely for the purpose of determining  
24 eligibility to retire under RCW 41.40.180 as authorized by RCW  
25 28A.400.300. For purposes of plan I "forty-five days" as used in RCW  
26 28A.400.300 is equal to two service credit months. Use of less than  
27 forty-five days of sick leave is creditable as allowed under this  
28 subsection as follows:

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

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

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

34 (b) "Service" for plan II members, means periods of employment by  
35 a member in an eligible position or positions for one or more employers  
36 for which compensation earnable is paid. Compensation earnable earned  
37 for ninety or more hours in any calendar month shall constitute one  
38 service credit month except as provided in RCW 41.40.088. Compensation  
39 earnable earned for at least seventy hours but less than ninety hours

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

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

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

17 (ii) A member shall receive a total of not more than twelve service  
18 credit months of service for such calendar year. If an individual is  
19 employed in an eligible position by one or more employers the  
20 individual shall receive no more than one service credit month during  
21 any calendar month in which multiple service for ninety or more hours  
22 is rendered.

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

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

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

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

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

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

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

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

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

5 (13) "Membership service" means:

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

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

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

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

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

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

33 (15) "Regular interest" means such rate as the director may  
34 determine.

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

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

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

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

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

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

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

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

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

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

33 (25) "Eligible position" means:

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



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

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

8 (27) "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 (28) "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 (29) "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 (30) "Director" means the director of the department.

18 (31) "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 (32) "State actuary" or "actuary" means the person appointed  
22 pursuant to RCW 44.44.010(2).

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

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

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

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

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

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

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

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

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

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

8 (1) The members and appointive and elective officials of any  
9 political subdivision or association of political subdivisions of the  
10 state may become members of the retirement system by the approval of  
11 the local legislative authority.

12 (2) On and after September 1, 1965, every school district of the  
13 state of Washington shall be an employer under this chapter. Every  
14 member of each school district who is eligible for membership under RCW  
15 41.40.023 shall be a member of the retirement system and participate on  
16 the same basis as a person who first becomes a member through the  
17 admission of any employer into the retirement system on and after April  
18 1, 1949, except that after August 31, 2000, school districts will no  
19 longer be employers for the public employees' retirement system plan  
20 II.

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

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

27 (a) Shall receive a service credit month for each month of the  
28 period from September through August of the following year if he or she  
29 is employed in an eligible position, earns compensation earnable for  
30 six hundred thirty hours or more during that period, and is employed  
31 during nine months of that period, except that a member may not receive  
32 credit for any period prior to the member's employment in an eligible  
33 position;

34 (b) If a member in an eligible position does not meet the  
35 requirements of (a) of this subsection, the member is entitled to a  
36 service credit month for each month of the period he or she earns  
37 earnable compensation for seventy or more hours; and the member is

1 entitled to a one-quarter service credit month for those calendar  
2 months during which he or she earned compensation for less than seventy  
3 hours.

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

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

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

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

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

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

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

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

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

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

36 (1) No retiree under the provisions of plan II shall be eligible to  
37 receive such retiree's monthly retirement allowance if he or she is  
38 employed in an eligible position as defined in RCW 41.40.010 ((or)),

1 41.32.010, or section 2 of this act, or as a law enforcement officer or  
2 fire fighter as defined in RCW 41.26.030. If a retiree's benefits have  
3 been suspended under this section, his or her benefits shall be  
4 reinstated when the retiree terminates the employment that caused his  
5 or her benefits to be suspended. Upon reinstatement, the retiree's  
6 benefits shall be actuarially recomputed pursuant to the rules adopted  
7 by the department.

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

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

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

17 If a retiree's benefits have been suspended under this section, his  
18 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 (2) The department shall adopt rules implementing this section.

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

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

34 (2) If a retiree's benefits have been suspended under this section,  
35 his or her benefits shall be reinstated when the retiree terminates the  
36 employment that caused his or her benefits to be suspended. Upon

1 reinstatement, the retiree's benefits shall be actuarially recomputed  
2 pursuant to the rules adopted by the department.

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

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

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

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

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

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

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

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

19 (b) Establish any service credit from July 1996 through December  
20 1997; and

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

22 ~~((+3))~~ (4) If a member who requests to transfer dies before  
23 January 1, 1998, the additional payment provided by this section shall  
24 be paid to the member's estate, or the person or persons, trust, or  
25 organization the member nominated by written designation duly executed  
26 and filed with the department.

27 ~~((+4))~~ (5) The legislature reserves the right to modify or  
28 discontinue the right to an incentive payment under this section for  
29 any plan II members who have not previously transferred to plan III.

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

32 The definitions in this section apply throughout this chapter  
33 unless the context clearly requires otherwise.

34 (1) "Base salary" means salaries or wages earned by a member of a  
35 system during a payroll period for personal services and includes wages  
36 and salaries deferred under provisions of the United States internal  
37 revenue code, but shall exclude overtime payments, nonmoney maintenance

1 compensation, and lump sum payments for deferred annual sick leave,  
2 unused accumulated vacation, unused accumulated annual leave, any form  
3 of severance pay, any bonus for voluntary retirement, any other form of  
4 leave, or any similar lump sum payment.

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

6 (3) "Director" means the director of the department of retirement  
7 systems.

8 (4) "Dual member" means a person who (a) is or becomes a member of  
9 a system on or after July 1, 1988, (b) has been a member of one or more  
10 other systems, and (c) has never been retired for service from a  
11 retirement system and is not receiving a disability retirement or  
12 disability leave benefit from any retirement system listed in RCW  
13 41.50.030 or subsection (6) of this section.

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

18 (6) "System" means the retirement systems established under  
19 chapters 41.32, 41.40, 41.44, 41.-- (sections 1 through 25, 101 through  
20 112, 114, and 201 through 213 of this act), and 43.43 RCW; plan II of  
21 the system established under chapter 41.26 RCW; and the city employee  
22 retirement systems for Seattle, Tacoma, and Spokane. The inclusion of  
23 an individual first class city system is subject to the procedure set  
24 forth in RCW 41.54.061.

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

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

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

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

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

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

7 (4) The service retirement eligibility requirements of RCW  
8 41.40.180 shall apply to any dual member whose prior system is plan I  
9 of the public employees' retirement system established under chapter  
10 41.40 RCW.

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

13 (1) The allowances calculated under RCW 41.54.030, 41.54.032, and  
14 41.54.034 shall be paid separately by each respective current and prior  
15 system. Any deductions from such separate payments shall be according  
16 to the provisions of the respective systems.

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

20 (3) The department shall adopt rules under chapter 34.05 RCW to  
21 ensure that where a dual member has service in a system established  
22 under chapter 41.32, 41.40, 41.44, 41.-- (sections 1 through 25, 101  
23 through 112, 114, and 201 through 213 of this act), or 43.43 RCW;  
24 service in plan II of the system established under chapter 41.26 RCW;  
25 and service under the city employee retirement system for Seattle,  
26 Tacoma, or Spokane, the additional cost incurred as a result of the  
27 dual member receiving a benefit under this chapter shall be borne by  
28 the retirement system incurring the additional cost.

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

31 Persons who were members of the public employees' retirement system  
32 plan II prior to the effective date of this section and were  
33 transferred or mandated into membership pursuant to chapter . . . , Laws  
34 of 1998 (this act) shall suffer no diminution of benefits guaranteed to  
35 public employees' retirement system plan II members as of the date of  
36 their change in membership.

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

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

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

6       (2) "State purchased health care" or "health care" means medical  
7 and health care, pharmaceuticals, and medical equipment purchased with  
8 state and federal funds by the department of social and health  
9 services, the department of health, the basic health plan, the state  
10 health care authority, the department of labor and industries, the  
11 department of corrections, the department of veterans affairs, and  
12 local school districts.

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

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

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

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



1 the option of each such employee organization; and (c) employees of a  
2 school district if the authority agrees to provide any of the school  
3 districts' insurance programs by contract with the authority as  
4 provided in RCW 28A.400.350.

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

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

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

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

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

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

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

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

28 (12) "Plan year" means the time period established by the  
29 authority.

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

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

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

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

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

3       Pursuant to (~~RCW 41.50.088, the state investment board, at the~~  
4 ~~request of the employee retirement benefits board, is authorized to~~  
5 ~~offer investment options for self-directed investment under plan III~~))  
6 section 307 of this act, the state investment board shall invest all  
7 self-directed investment moneys under teachers' retirement system plan  
8 III and the school employees' retirement system plan III, with full  
9 power to establish investment policy, develop investment options, and  
10 manage self-directed investment funds.

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

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

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

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

1 (4) Monthly, the state treasurer shall distribute the earnings  
2 credited to the treasury income account. The state treasurer shall  
3 credit the general fund with all the earnings credited to the treasury  
4 income account except:

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

1 of Washington bond retirement fund, the University of Washington  
2 building account, the volunteer fire fighters' relief and pension  
3 principal account, the volunteer fire fighters' relief and pension  
4 administrative account, the Washington judicial retirement system  
5 account, the Washington law enforcement officers' and fire fighters'  
6 system plan I retirement account, the Washington law enforcement  
7 officers' and fire fighters' system plan II retirement account, the  
8 Washington school employees' retirement system combined plan II and III  
9 account, the Washington state patrol retirement account, the Washington  
10 State University building account, the Washington State University bond  
11 retirement fund, the water pollution control revolving fund, and the  
12 Western Washington University capital projects account. Earnings  
13 derived from investing balances of the agricultural permanent fund, the  
14 normal school permanent fund, the permanent common school fund, the  
15 scientific permanent fund, and the state university permanent fund  
16 shall be allocated to their respective beneficiary accounts. All  
17 earnings to be distributed under this subsection (4)(a) shall first be  
18 reduced by the allocation to the state treasurer's service fund  
19 pursuant to RCW 43.08.190.

20 (b) The following accounts and funds shall receive eighty percent  
21 of their proportionate share of earnings based upon each account's or  
22 fund's average daily balance for the period: The aeronautics account,  
23 the aircraft search and rescue account, the central Puget Sound public  
24 transportation account, the city hardship assistance account, the  
25 county arterial preservation account, the department of licensing  
26 services account, the economic development account, the essential rail  
27 assistance account, the essential rail banking account, the ferry bond  
28 retirement fund, the gasohol exemption holding account, the grade  
29 crossing protective fund, the high capacity transportation account, the  
30 highway bond retirement fund, the highway construction stabilization  
31 account, the highway safety account, the marine operating fund, the  
32 motor vehicle fund, the motorcycle safety education account, the  
33 pilotage account, the public transportation systems account, the Puget  
34 Sound capital construction account, the Puget Sound ferry operations  
35 account, the recreational vehicle account, the rural arterial trust  
36 account, the safety and education account, the small city account, the  
37 special category C account, the state patrol highway account, the  
38 transfer relief account, the transportation capital facilities account,  
39 the transportation equipment fund, the transportation fund, the

1 transportation improvement account, the transportation revolving loan  
2 account, and the urban arterial trust account.

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

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

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

- 12 (a) Where "I" is used, replace with "1";
- 13 (b) Where "II" is used, replace with "2"; and
- 14 (c) Where "III" is used, replace with "3."

15 NEW SECTION. **Sec. 710.** The state investment board, in  
16 consultation with the employee retirement benefits board, shall develop  
17 and implement administrative changes to mitigate the impact on the  
18 other pension funds of the movement of plan III members in and out of  
19 the state investment board portfolio. The changes shall be designed to  
20 meet the goals of minimizing the impact of the self-directed investing  
21 option on the state investment board's (1) asset allocation strategy,  
22 (2) liquidity needs, and (3) transaction costs. The changes may  
23 include but not be limited to restricting the frequency and timing of  
24 transfers in and out of the state investment board portfolio and  
25 charging appropriate fees to cover additional transaction costs caused  
26 by such transfers. At the September 1998 meeting of the joint  
27 committee on pension policy, the state investment board shall report on  
28 its progress in identifying and implementing administrative changes  
29 required by this section. If the state investment board determines  
30 that statutory changes are required to achieve the goals specified in  
31 this section, the state investment board shall recommend alternatives  
32 at the September 1998 meeting of the joint committee on pension policy.

33 NEW SECTION. **Sec. 711.** The joint committee on pension policy  
34 shall study the policy and the costs of merging the teachers'  
35 retirement system and the Washington school employees' retirement

1 system and shall report their findings to the legislature by January  
2 15, 1999.

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

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

13 NEW SECTION. **Sec. 714.** Except for sections 303, 306 through 309,  
14 404, 505, 507, 515, 701, 707, and 710 through 713 of this act, this act  
15 takes effect September 1, 2000.

16 NEW SECTION. **Sec. 715.** Section 505 of this act expires September  
17 1, 2000.

18 NEW SECTION. **Sec. 716.** Sections 303, 306 through 309, 404, 505,  
19 507, 515, 701, 707, and 710 through 713 of this act are necessary for  
20 the immediate preservation of the public peace, health, or safety, or  
21 support of the state government and its existing public institutions,  
22 and take effect immediately.

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