

CERTIFICATION OF ENROLLMENT

SENATE BILL 6374

57th Legislature
2002 Regular Session

Passed by the Senate February 15, 2002
YEAS 46 NAYS 0

President of the Senate

Passed by the House March 5, 2002
YEAS 96 NAYS 0

**Speaker of the
House of Representatives**

CERTIFICATE

I, Tony M. Cook, Secretary of the Senate of the State of Washington, do hereby certify that the attached is **SENATE BILL 6374** as passed by the Senate and the House of Representatives on the dates hereon set forth.

Secretary

Approved

FILED

Governor of the State of Washington

Secretary of State
State of Washington

SENATE BILL 6374

Passed Legislature - 2002 Regular Session

State of Washington

57th Legislature

2002 Regular Session

By Senators Jacobsen, Winsley, Regala, Carlson and Fraser; by request of Joint Committee on Pension Policy

Read first time 01/16/2002. Referred to Committee on Ways & Means.

1 AN ACT Relating to correcting errors and oversights in certain
2 retirement system statutes; amending RCW 28A.405.900, 41.45.010,
3 41.45.050, 41.35.700, 41.35.510, and 41.50.790; reenacting and amending
4 RCW 41.45.020; reenacting RCW 41.45.060; and repealing 2001 2nd sp.s.
5 c 10 s 12.

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

7 **Sec. 1.** RCW 28A.405.900 and 2001 2nd sp.s. c 10 s 2 are each
8 amended to read as follows:

9 Certificated employees subject to the provisions of RCW
10 28A.310.250, (~~((28A.405.010 through 28A.405.240, 28A.405.400 through~~
11 ~~28A.405.410, 28A.415.250, and 28A.405.900))~~ 28A.405.100, 28A.405.210,
12 and 28A.405.220 shall not include those certificated employees hired to
13 replace certificated employees who have been granted sabbatical,
14 regular, or other leave by school districts, and shall not include
15 retirees hired for postretirement employment under the provisions of
16 chapter 10, Laws of 2001 2nd sp. sess.

17 It is not the intention of the legislature that this section apply
18 to any regularly hired certificated employee or that the legal or

1 constitutional rights of such employee be limited, abridged, or
2 abrogated.

3 **Sec. 2.** RCW 41.45.060 and 2001 2nd sp.s. c 11 s 10 and 2001 c 329
4 s 10 are each reenacted to read as follows:

5 (1) The state actuary shall provide actuarial valuation results
6 based on the economic assumptions and asset value smoothing technique
7 included in RCW 41.45.035 or adopted by the council under RCW 41.45.030
8 or 41.45.035.

9 (2) Not later than September 30, 2002, and every two years
10 thereafter, consistent with the economic assumptions and asset value
11 smoothing technique included in RCW 41.45.035 or adopted under RCW
12 41.45.030 or 41.45.035, the council shall adopt and may make changes
13 to:

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

16 (b) Basic employer contribution rates for the public employees'
17 retirement system, the teachers' retirement system, and the Washington
18 state patrol retirement system to be used in the ensuing biennial
19 period; and

20 (c) A basic employer contribution rate for the school employees'
21 retirement system for funding both that system and the public
22 employees' retirement system plan 1.

23 The contribution rates adopted by the council shall be subject to
24 revision by the legislature.

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

27 (a) To fully amortize the total costs of the public employees'
28 retirement system plan 1, the teachers' retirement system plan 1, and
29 the law enforcement officers' and fire fighters' retirement system plan
30 1 not later than June 30, 2024, except as provided in subsection (5) of
31 this section;

32 (b) To also continue to fully fund the public employees' retirement
33 system plans 2 and 3, the teachers' retirement system plans 2 and 3,
34 the school employees' retirement system plans 2 and 3, and the law
35 enforcement officers' and fire fighters' retirement system plan 2 in
36 accordance with RCW 41.45.061, 41.45.067, and this section; and

37 (c) For the law enforcement officers' and fire fighters' system
38 plan 2 the rate charged to employers, except as provided in RCW

1 41.26.450, shall be thirty percent of the cost of the retirement system
2 and the rate charged to the state shall be twenty percent of the cost
3 of the retirement system.

4 (4) The aggregate actuarial cost method shall be used to calculate
5 a combined plan 2 and 3 employer contribution rate and a Washington
6 state patrol retirement system contribution rate.

7 (5) The council shall immediately notify the directors of the
8 office of financial management and department of retirement systems of
9 the state and employer contribution rates adopted. The rates shall be
10 effective for the ensuing biennial period, subject to any legislative
11 modifications.

12 (6) The director of the department of retirement systems shall
13 collect the rates established in RCW 41.45.053 through June 30, 2003.
14 Thereafter, the director shall collect those rates adopted by the
15 council. The rates established in RCW 41.45.053, or by the council,
16 shall be subject to revision by the council.

17 **Sec. 3.** RCW 41.45.010 and 2001 2nd sp.s. c 11 s 2 are each amended
18 to read as follows:

19 It is the intent of the legislature to provide a dependable and
20 systematic process for funding the benefits provided to members and
21 retirees of the public employees' retirement system, chapter 41.40 RCW;
22 the teachers' retirement system, chapter 41.32 RCW; the law enforcement
23 officers' and fire fighters' retirement systems, chapter((s)) 41.26
24 ((and 41.26A)) RCW; the school employees' retirement system, chapter
25 41.35 RCW; and the Washington state patrol retirement system, chapter
26 43.43 RCW.

27 The legislature finds that the funding status of the state
28 retirement systems has improved dramatically since 1989. Because of
29 the big reduction in unfunded pension liabilities, it is now prudent to
30 adjust the long-term economic assumptions that are used in the
31 actuarial studies conducted by the state actuary. The legislature
32 finds that it is reasonable to increase the salary growth assumption in
33 light of Initiative Measure No. 732, to increase the investment return
34 assumption in light of the asset allocation policies and historical
35 returns of the state investment board, and to reestablish June 30,
36 2024, as the target date to achieve full funding of all liabilities in
37 the public employees' retirement system plan 1 ((and)), the teachers'

1 retirement system plan 1, and the law enforcement officers' and fire
2 fighters' retirement system plan 1.

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

5 (1) To continue to fully fund the public employees' retirement
6 system plans 2 and 3, the teachers' retirement system plans 2 and 3,
7 the school employees' retirement system plans 2 and 3, and the law
8 enforcement officers' and fire fighters' retirement system plan 2 as
9 provided by law;

10 (2) To fully amortize the total costs of the public employees'
11 retirement system plan 1 ((and)), the teachers' retirement system plan
12 1, and the law enforcement officers' and fire fighters' retirement
13 system plan 1, not later than June 30, 2024;

14 ~~(3) ((To ensure the actuarial funding of the restated law~~
15 ~~enforcement officers' and fire fighters' retirement system defined~~
16 ~~benefit plan, and provide for additional state funding if unfunded~~
17 ~~liabilities accrue in the future;~~

18 ~~(4))~~ To establish predictable long-term employer contribution
19 rates which will remain a relatively constant proportion of the future
20 state budgets; and

21 ~~((+5))~~ (4) To fund, to the extent feasible, benefit increases for
22 plan 1 members and all benefits for plan 2 and 3 members over the
23 working lives of those members so that the cost of those benefits are
24 paid by the taxpayers who receive the benefit of those members'
25 service.

26 **Sec. 4.** RCW 41.45.020 and 2001 2nd sp.s. c 11 s 4 and 2001 2nd
27 sp.s. c 11 s 3 are each reenacted and amended to read as follows:

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

30 (1) "Council" means the pension funding council created in RCW
31 41.45.100.

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

33 (3) "Law enforcement officers' and fire fighters' retirement system
34 plan 1" and "law enforcement officers' and fire fighters' retirement
35 system plan 2" means the benefits and funding provisions under chapter
36 41.26 RCW.

1 (4) (~~("Restated law enforcement officers' and fire fighters'~~
2 ~~retirement system defined benefit plan"~~ means the benefits and funding
3 ~~provisions under chapter 41.26A RCW.~~

4 ~~(5))~~ "Public employees' retirement system plan 1," "public
5 employees' retirement system plan 2," and "public employees' retirement
6 system plan 3" mean the benefits and funding provisions under chapter
7 41.40 RCW.

8 ~~((6))~~ (5) "Teachers' retirement system plan 1," "teachers'
9 retirement system plan 2," and "teachers' retirement system plan 3"
10 mean the benefits and funding provisions under chapter 41.32 RCW.

11 ~~((7))~~ (6) "School employees' retirement system plan 2" and
12 "school employees' retirement system plan 3" mean the benefits and
13 funding provisions under chapter 41.35 RCW.

14 ~~((8))~~ (7) "Washington state patrol retirement system" means the
15 retirement benefits provided under chapter 43.43 RCW.

16 ~~((9))~~ (8) "Unfunded liability" means the unfunded actuarial
17 accrued liability of a retirement system.

18 ~~((10))~~ (9) "Actuary" or "state actuary" means the state actuary
19 employed under chapter 44.44 RCW.

20 ~~((11))~~ (10) "State retirement systems" means the retirement
21 systems listed in RCW 41.50.030.

22 ~~((12))~~ (11) "Classified employee" means a member of the
23 Washington school employees' retirement system plan 2 or plan 3 as
24 defined in RCW 41.35.010.

25 ~~((13))~~ (12) "Teacher" means a member of the teachers' retirement
26 system as defined in RCW 41.32.010(15).

27 **Sec. 5.** RCW 41.45.050 and 2001 2nd sp.s. c 11 s 8 are each amended
28 to read as follows:

29 (1) Employers of members of the public employees' retirement
30 system, the teachers' retirement system, the school employees'
31 retirement system, and the Washington state patrol retirement system
32 shall make contributions to those systems based on the rates
33 established in RCW 41.45.060, 41.45.053, and 41.45.070.

34 (2) The state shall make contributions to the law enforcement
35 officers' and fire fighters' retirement system plan 2 based on the
36 rates established in RCW 41.45.060, 41.45.053, and 41.45.070. The
37 state treasurer shall transfer the required contributions each month on
38 the basis of salary data provided by the department.

1 (3) (~~The state shall ensure the systematic actuarial funding of~~
2 ~~the restated law enforcement officers' and fire fighters' retirement~~
3 ~~system defined benefit plan in the manner provided by chapter 41.26A~~
4 ~~RCW.~~

5 (4)) The department shall bill employers, and the state shall make
6 contributions to the law enforcement officers' and fire fighters'
7 retirement system plan 2, using the combined rates established in RCW
8 41.45.060, 41.45.053, and 41.45.070 regardless of the level of
9 appropriation provided in the biennial budget. Any member of an
10 affected retirement system may, by mandamus or other appropriate
11 proceeding, require the transfer and payment of funds as directed in
12 this section.

13 ((5)) (4) The contributions received for the public employees'
14 retirement system shall be allocated between the public employees'
15 retirement system plan 1 fund and the public employees' retirement
16 system combined plan 2 and plan 3 fund as follows: The contributions
17 necessary to fully fund the public employees' retirement system
18 combined plan 2 and plan 3 employer contribution shall first be
19 deposited in the public employees' retirement system combined plan 2
20 and plan 3 fund. All remaining public employees' retirement system
21 employer contributions shall be deposited in the public employees'
22 retirement system plan 1 fund.

23 ((6)) (5) The contributions received for the teachers' retirement
24 system shall be allocated between the plan 1 fund and the combined plan
25 2 and plan 3 fund as follows: The contributions necessary to fully
26 fund the combined plan 2 and plan 3 employer contribution shall first
27 be deposited in the combined plan 2 and plan 3 fund. All remaining
28 teachers' retirement system employer contributions shall be deposited
29 in the plan 1 fund.

30 ((7)) (6) The contributions received for the school employees'
31 retirement system shall be allocated between the public employees'
32 retirement system plan 1 fund and the school employees' retirement
33 system combined plan 2 and plan 3 fund as follows: The contributions
34 necessary to fully fund the combined plan 2 and plan 3 employer
35 contribution shall first be deposited in the combined plan 2 and plan
36 3 fund. All remaining school employees' retirement system employer
37 contributions shall be deposited in the public employees' retirement
38 system plan 1 fund.

1 (~~(8)~~) (7) The contributions received for the law enforcement
2 officers' and fire fighters' retirement system plan 2 shall be
3 deposited in the law enforcement officers' and fire fighters'
4 retirement system plan 2 fund.

5 **Sec. 6.** RCW 41.35.700 and 1998 c 341 s 211 are each amended to
6 read as follows:

7 (1) Any member who elects to transfer to plan 3 and has eligible
8 unrestored withdrawn contributions in plan 2, may restore such
9 contributions under the provisions of RCW (~~(41.40.750)~~) 41.35.500 with
10 interest as determined by the department. The restored plan 2 service
11 credit will be automatically transferred to plan 3. Restoration
12 payments will be transferred to the member account in plan 3. If the
13 member fails to meet the time limitations of RCW (~~(41.40.750)~~)
14 41.35.500, they may restore such contributions under the provisions of
15 RCW 41.50.165(2). The restored plan 2 service credit will be
16 automatically transferred to plan 3. One-half of the restoration
17 payments under RCW 41.50.165(2) plus interest shall be allocated to the
18 member's account.

19 (2) Any member who elects to transfer to plan 3 may purchase plan
20 2 service credit under RCW (~~(41.40.750)~~) 41.35.500. Purchased plan 2
21 service credit will be automatically transferred to plan 3.
22 Contributions on behalf of the employer paid by the employee shall be
23 allocated to the defined benefit portion of plan 3 and shall not be
24 refundable when paid to the fund described in RCW 41.50.075(4).
25 Contributions on behalf of the employee shall be allocated to the
26 member account. If the member fails to meet the time limitations of
27 RCW (~~(41.40.750)~~) 41.35.500, they may subsequently restore such
28 contributions under the provisions of RCW 41.50.165(2). Purchased plan
29 2 service credit will be automatically transferred to plan 3. One-half
30 of the payments under RCW 41.50.165(2), plus interest, shall be
31 allocated to the member's account.

32 **Sec. 7.** RCW 41.35.510 and 1998 c 341 s 114 are each amended to
33 read as follows:

34 (1) Every plan 2 member employed by an employer in an eligible
35 position has the option to make an irrevocable transfer to plan 3.

36 (2) All service credit in plan 2 shall be transferred to the
37 defined benefit portion of plan 3.

1 (3) Any plan 2 member who wishes to transfer to plan 3 after
2 February 28, 2001, may transfer during the month of January in any
3 following year, provided that the member earns service credit for that
4 month.

5 (4) The accumulated contributions in plan 2, less fifty percent of
6 any contributions made pursuant to RCW 41.50.165(2) shall be
7 transferred to the member's account in the defined contribution portion
8 established in chapter 41.34 RCW, pursuant to procedures developed by
9 the department and subject to RCW 41.34.090. Contributions made
10 pursuant to RCW 41.50.165(2) that are not transferred to the member's
11 account shall be transferred to the fund created in RCW
12 41.50.075(~~((+2))~~) (4), except that interest earned on all such
13 contributions shall be transferred to the member's account.

14 (5) The legislature reserves the right to discontinue the right to
15 transfer under this section.

16 (6) Anyone previously retired from plan 2 is prohibited from
17 transferring to plan 3.

18 **Sec. 8.** RCW 41.50.790 and 1998 c 341 s 514 are each amended to
19 read as follows:

20 (1) The department shall designate an obligee as a survivor
21 beneficiary of a member under RCW 2.10.146, 41.26.460, 41.32.530,
22 41.32.785, 41.32.851, 41.35.220, 41.40.188, (~~((or))~~) 41.40.660, or
23 41.40.845 if the department has been served by registered or certified
24 mail with a dissolution order as defined in RCW 41.50.500 at least
25 thirty days prior to the member's retirement. The department's duty to
26 comply with the dissolution order arises only if the order contains a
27 provision that states in substantially the following form:

28 When (the obligor) applies for retirement the
29 department shall designate (the obligee) as
30 survivor beneficiary with a survivor benefit.

31 The survivor benefit designated in the dissolution order must be
32 consistent with the survivor benefit options authorized by statute or
33 administrative rule.

34 (2) The obligee's entitlement to a survivor benefit pursuant to a
35 dissolution order filed with the department in compliance with
36 subsection (1) of this section shall cease upon the death of the
37 obligee.

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

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

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

9 (iii) Contain a provision clearly identifying the alternate payee
10 or payees; and

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

13 (b) The department will calculate actuarial adjustment for the
14 court-ordered survivor benefit based upon the life of the survivor
15 beneficiary.

16 (c) If the survivor beneficiary dies, the department shall
17 terminate the benefit. If the alternate payee predeceases the survivor
18 beneficiary, all entitlement of the alternate payee to a benefit ceases
19 and the entire benefit will revert to the survivor beneficiary.

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

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

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

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

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

33 (5) If a dissolution order directing designation of a survivor
34 beneficiary has been previously filed with the department in compliance
35 with this section, no additional obligation shall arise on the part of
36 the department upon filing of a subsequent dissolution order unless the
37 subsequent dissolution order:

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

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

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

6 (a) Specifically directs the member or department to make such
7 selection;

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

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

10 NEW SECTION. **Sec. 9.** 2001 2nd sp.s. c 10 s 12 is repealed.

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