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ENGROSSED SUBSTITUTE HOUSE BILL 1206

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State of Washington

54th Legislature

1995 Regular Session

By House Committee on Appropriations (originally sponsored by Representatives Carlson, Sommers, Cooke and Dellwo)

Read first time 03/06/95.

1 AN ACT Relating to creating new retirement systems; amending RCW  
2 41.32.005, 41.32.032, 41.45.010, 41.45.020, 41.45.030, 41.45.050,  
3 41.45.060, 41.45.070, 41.50.075, 41.50.110, 41.50.030, 41.50.050,  
4 41.50.060, 41.54.030, 41.04.440, 41.04.445, and 41.04.450; reenacting  
5 and amending RCW 41.32.010; adding new sections to chapter 41.32 RCW;  
6 adding new sections to chapter 41.50 RCW; adding a new section to  
7 chapter 41.45 RCW; adding a new section to chapter 41.54 RCW; adding a  
8 new section to chapter 43.33A RCW; adding a new chapter to Title 41  
9 RCW; creating new sections; repealing RCW 41.04.250, 41.04.255,  
10 41.04.260, 41.32.775, 41.45.040, 41.45.0601, 41.45.901, 41.50.032, and  
11 41.50.250; and providing an effective date.

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

13 NEW SECTION. **Sec. 1.** The legislature recognizes that teachers,  
14 principals, and district administrators need the ability to make  
15 transitions to other public or private sector careers, and that the  
16 retirement system should not be a barrier to exercise of employee  
17 choice. The legislature also recognizes that teachers, principals, and  
18 district administrators need a secure and viable retirement benefit,

1 not only for their own financial protection, but also that public funds  
2 are spent prudently for their intended purpose.

3 It is the legislative intent to create a new public retirement  
4 system that balances flexibility with stability, provides both  
5 increased employee control of investments and responsible protection of  
6 the public's investment in employee benefits, and encourages the  
7 pursuit of public sector careers without preventing employees from  
8 transitioning into other public or private sector employment.

9 Therefore, the purpose of chapter . . . , Laws of 1995 (this act) is  
10 to continue to provide teachers, principals, and district  
11 administrators with a guaranteed pension at retirement age based on  
12 years of public service with an element of inflation protection. It is  
13 further the purpose of chapter . . . , Laws of 1995 (this act) to create  
14 a parallel retirement plan where employees have options regarding the  
15 investment of their retirement contributions and have the opportunity,  
16 along with the accompanying risk, to receive a full rate of return on  
17 their investments and where employees who leave public employment prior  
18 to retirement receive a fair and reasonable value from the retirement  
19 system.

20 **PART I**

21 **DEFINED BENEFIT--TRS III**

22 **Sec. 101.** RCW 41.32.005 and 1992 c 72 s 4 are each amended to read  
23 as follows:

24 RCW 41.32.010 through 41.32.067 shall apply to members of plan I  
25 (~~and~~), plan II, and plan III.

26 **Sec. 102.** RCW 41.32.010 and 1994 c 298 s 3, 1994 c 247 s 2, and  
27 1994 c 197 s 12 are each reenacted and amended to read as follows:

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

30 (1)(a) "Accumulated contributions" for plan I members, means the  
31 sum of all regular annuity contributions and, except for the purpose of  
32 withdrawal at the time of retirement, any amount paid under RCW  
33 41.50.165(2) with regular interest thereon.

34 (b) "Accumulated contributions" for plan II members, means the sum  
35 of all contributions standing to the credit of a member in the member's

1 individual account, including any amount paid under RCW 41.50.165(2),  
2 together with the regular interest thereon.

3 (2) "Actuarial equivalent" means a benefit of equal value when  
4 computed upon the basis of such mortality tables and regulations as  
5 shall be adopted by the director and regular interest.

6 (3) "Annuity" means the moneys payable per year during life by  
7 reason of accumulated contributions of a member.

8 (4) "Member reserve" means the fund in which all of the accumulated  
9 contributions of members are held.

10 (5)(a) "Beneficiary" for plan I members, means any person in  
11 receipt of a retirement allowance or other benefit provided by this  
12 chapter.

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

17 (6) "Contract" means any agreement for service and compensation  
18 between a member and an employer.

19 (7) "Creditable service" means membership service plus prior  
20 service for which credit is allowable. This subsection shall apply  
21 only to plan I members.

22 (8) "Dependent" means receiving one-half or more of support from a  
23 member.

24 (9) "Disability allowance" means monthly payments during  
25 disability. This subsection shall apply only to plan I members.

26 (10)(a) "Earnable compensation" for plan I members, means:

27 (i) All salaries and wages paid by an employer to an employee  
28 member of the retirement system for personal services rendered during  
29 a fiscal year. In all cases where compensation includes maintenance  
30 the employer shall fix the value of that part of the compensation not  
31 paid in money.

32 (ii) "Earnable compensation" for plan I members also includes the  
33 following actual or imputed payments, which are not paid for personal  
34 services:

35 (A) Retroactive payments to an individual by an employer on  
36 reinstatement of the employee in a position, or payments by an employer  
37 to an individual in lieu of reinstatement in a position which are  
38 awarded or granted as the equivalent of the salary or wages which the  
39 individual would have earned during a payroll period shall be

1 considered earnable compensation and the individual shall receive the  
2 equivalent service credit.

3 (B) If a leave of absence, without pay, is taken by a member for  
4 the purpose of serving as a member of the state legislature, and such  
5 member has served in the legislature five or more years, the salary  
6 which would have been received for the position from which the leave of  
7 absence was taken shall be considered as compensation earnable if the  
8 employee's contribution thereon is paid by the employee. In addition,  
9 where a member has been a member of the state legislature for five or  
10 more years, earnable compensation for the member's two highest  
11 compensated consecutive years of service shall include a sum not to  
12 exceed thirty-six hundred dollars for each of such two consecutive  
13 years, regardless of whether or not legislative service was rendered  
14 during those two years.

15 (iii) For members employed less than full time under written  
16 contract with a school district, or community college district, in an  
17 instructional position, for which the member receives service credit of  
18 less than one year in all of the years used to determine the earnable  
19 compensation used for computing benefits due under RCW 41.32.497,  
20 41.32.498, and 41.32.520, the member may elect to have earnable  
21 compensation defined as provided in RCW 41.32.345. For the purposes of  
22 this subsection, the term "instructional position" means a position in  
23 which more than seventy-five percent of the member's time is spent as  
24 a classroom instructor (including office hours), a librarian, or a  
25 counselor. Earnable compensation shall be so defined only for the  
26 purpose of the calculation of retirement benefits and only as necessary  
27 to insure that members who receive fractional service credit under RCW  
28 41.32.270 receive benefits proportional to those received by members  
29 who have received full-time service credit.

30 (iv) "Earnable compensation" does not include:

31 (A) Remuneration for unused sick leave authorized under RCW  
32 41.04.340, 28A.400.210, or 28A.310.490;

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

35 (b) "Earnable compensation" for plan II and plan III members, means  
36 salaries or wages earned by a member during a payroll period for  
37 personal services, including overtime payments, and shall include wages  
38 and salaries deferred under provisions established pursuant to sections  
39 403(b), 414(h), and 457 of the United States Internal Revenue Code, but

1 shall exclude lump sum payments for deferred annual sick leave, unused  
2 accumulated vacation, unused accumulated annual leave, or any form of  
3 severance pay.

4 "Earnable compensation" for plan II and plan III members also  
5 includes the following actual or imputed payments which, except in the  
6 case of (b)(ii)(B) of this subsection, are not paid for personal  
7 services:

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

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

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

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

26 (11) "Employer" means the state of Washington, the school district,  
27 or any agency of the state of Washington by which the member is paid.

28 (12) "Fiscal year" means a year which begins July 1st and ends June  
29 30th of the following year.

30 (13) "Former state fund" means the state retirement fund in  
31 operation for teachers under chapter 187, Laws of 1923, as amended.

32 (14) "Local fund" means any of the local retirement funds for  
33 teachers operated in any school district in accordance with the  
34 provisions of chapter 163, Laws of 1917 as amended.

35 (15) "Member" means any teacher included in the membership of the  
36 retirement system. Also, any other employee of the public schools who,  
37 on July 1, 1947, had not elected to be exempt from membership and who,  
38 prior to that date, had by an authorized payroll deduction, contributed  
39 to the member reserve.

1 (16) "Membership service" means service rendered subsequent to the  
2 first day of eligibility of a person to membership in the retirement  
3 system: PROVIDED, That where a member is employed by two or more  
4 employers the individual shall receive no more than one service credit  
5 month during any calendar month in which multiple service is rendered.  
6 The provisions of this subsection shall apply only to plan I members.

7 (17) "Pension" means the moneys payable per year during life from  
8 the pension reserve.

9 (18) "Pension reserve" is a fund in which shall be accumulated an  
10 actuarial reserve adequate to meet present and future pension  
11 liabilities of the system and from which all pension obligations are to  
12 be paid.

13 (19) "Prior service" means service rendered prior to the first date  
14 of eligibility to membership in the retirement system for which credit  
15 is allowable. The provisions of this subsection shall apply only to  
16 plan I members.

17 (20) "Prior service contributions" means contributions made by a  
18 member to secure credit for prior service. The provisions of this  
19 subsection shall apply only to plan I members.

20 (21) "Public school" means any institution or activity operated by  
21 the state of Washington or any instrumentality or political subdivision  
22 thereof employing teachers, except the University of Washington and  
23 Washington State University.

24 (22) "Regular contributions" means the amounts required to be  
25 deducted from the compensation of a member and credited to the member's  
26 individual account in the member reserve. This subsection shall apply  
27 only to plan I members.

28 (23) "Regular interest" means such rate as the director may  
29 determine.

30 (24)(a) "Retirement allowance" for plan I members, means monthly  
31 payments based on the sum of annuity and pension, or any optional  
32 benefits payable in lieu thereof.

33 (b) "Retirement allowance" for plan II and plan III members, means  
34 monthly payments to a retiree or beneficiary as provided in this  
35 chapter.

36 (25) "Retirement system" means the Washington state teachers'  
37 retirement system.

38 (26)(a) "Service" for plan I members means the time during which a  
39 member has been employed by an employer for compensation.

1 (i) If a member is employed by two or more employers the individual  
2 shall receive no more than one service credit month during any calendar  
3 month in which multiple service is rendered.

4 (ii) As authorized by RCW 28A.400.300, up to forty-five days of  
5 sick leave may be creditable as service solely for the purpose of  
6 determining eligibility to retire under RCW 41.32.470.

7 (iii) As authorized in RCW 41.32.065, service earned in an out-of-  
8 state retirement system that covers teachers in public schools may be  
9 applied solely for the purpose of determining eligibility to retire  
10 under RCW 41.32.470.

11 (b) "Service" for plan II and plan III members, means periods of  
12 employment by a member for one or more employers for which earnable  
13 compensation is earned subject to the following conditions:

14 (i) A member employed in an eligible position or as a substitute  
15 shall receive one service credit month for each month of September  
16 through August of the following year if he or she earns earnable  
17 compensation for eight hundred ten or more hours during that period and  
18 is employed during nine of those months, except that a member may not  
19 receive credit for any period prior to the member's employment in an  
20 eligible position except as provided in RCW 41.32.812 and 41.50.132;

21 (ii) If a member is employed either in an eligible position or as  
22 a substitute teacher for nine months of the twelve month period between  
23 September through August of the following year but earns earnable  
24 compensation for less than eight hundred ten hours but for at least six  
25 hundred thirty hours, he or she will receive one-half of a service  
26 credit month for each month of the twelve month period;

27 (iii) All other members in an eligible position or as a substitute  
28 teacher shall receive service credit as follows:

29 (A) A service credit month is earned in those calendar months where  
30 earnable compensation is earned for ninety or more hours;

31 (B) A half-service credit month is earned in those calendar months  
32 where earnable compensation is earned for at least seventy hours but  
33 less than ninety hours; and

34 (C) A quarter-service credit month is earned in those calendar  
35 months where earnable compensation is earned for less than seventy  
36 hours.

37 (iv) Any person who is a member of the teachers' retirement system  
38 and who is elected or appointed to a state elective position may  
39 continue to be a member of the retirement system and continue to

1 receive a service credit month for each of the months in a state  
2 elective position by making the required member contributions.

3 (v) When an individual is employed by two or more employers the  
4 individual shall only receive one month's service credit during any  
5 calendar month in which multiple service for ninety or more hours is  
6 rendered.

7 (vi) As authorized by RCW 28A.400.300, up to forty-five days of  
8 sick leave may be creditable as service solely for the purpose of  
9 determining eligibility to retire under RCW 41.32.470. For purposes of  
10 plan II "forty-five days" as used in RCW 28A.400.300 is equal to two  
11 service credit months. Use of less than forty-five days of sick leave  
12 is creditable as allowed under this subsection as follows:

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

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

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

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

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

21 (vii) As authorized in RCW 41.32.065, service earned in an out-of-  
22 state retirement system that covers teachers in public schools may be  
23 applied solely for the purpose of determining eligibility to retire  
24 under RCW 41.32.470.

25 (viii) The department shall adopt rules implementing this  
26 subsection.

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

29 (28) "Service credit month" means a full service credit month or an  
30 accumulation of partial service credit months that are equal to one.

31 (29) "Teacher" means any person qualified to teach who is engaged  
32 by a public school in an instructional, administrative, or supervisory  
33 capacity. The term includes state, educational service district, and  
34 school district superintendents and their assistants and all employees  
35 certificated by the superintendent of public instruction; and in  
36 addition thereto any full time school doctor who is employed by a  
37 public school and renders service of an instructional or educational  
38 nature.

1 (30) "Average final compensation" for plan II and plan III members,  
2 means the member's average earnable compensation of the highest  
3 consecutive sixty service credit months prior to such member's  
4 retirement, termination, or death. Periods constituting authorized  
5 leaves of absence may not be used in the calculation of average final  
6 compensation except under RCW 41.32.810(2).

7 (31) "Retiree" means any person in receipt of a retirement  
8 allowance or other benefit provided by this chapter resulting from  
9 service rendered to an employer while a member. A person is in receipt  
10 of a retirement allowance as defined in subsection (24) of this section  
11 or other benefit as provided by this chapter when the department mails,  
12 causes to be mailed, or otherwise transmits the retirement allowance  
13 warrant.

14 (32) "Department" means the department of retirement systems  
15 created in chapter 41.50 RCW.

16 (33) "Director" means the director of the department.

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

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

22 (36) "Substitute teacher" means:

23 (a) A teacher who is hired by an employer to work as a temporary  
24 teacher, except for teachers who are annual contract employees of an  
25 employer and are guaranteed a minimum number of hours; or

26 (b) Teachers who either (i) work in ineligible positions for more  
27 than one employer or (ii) work in an ineligible position or positions  
28 together with an eligible position.

29 (37)(a) "Eligible position" for plan II members from June 7, 1990,  
30 through September 1, 1991, means a position which normally requires two  
31 or more uninterrupted months of creditable service during September  
32 through August of the following year.

33 (b) "Eligible position" for plan II on and after September 1, 1991,  
34 means a position that, as defined by the employer, normally requires  
35 five or more months of at least seventy hours of earnable compensation  
36 during September through August of the following year.

37 (c) 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 (d) The elected position of the superintendent of public  
2 instruction is an eligible position.

3 (38) "Plan I" means the teachers' retirement system, plan I  
4 providing the benefits and funding provisions covering persons who  
5 first became members of the system prior to October 1, 1977.

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

10 (40) "Plan III" means the teachers' retirement system, plan III  
11 providing the benefits and funding provisions covering persons who  
12 first become members of the system on and after the effective date of  
13 this act or who transfer under section 303 of this act.

14 (41) "Education association" means an association organized to  
15 carry out collective bargaining activities, the majority of whose  
16 members are employees covered by chapter 41.59 RCW or academic  
17 employees covered by chapter 28B.52 RCW.

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

22 ~~((41))~~ (43) "Index A" means the index for the year prior to the  
23 determination of a postretirement adjustment.

24 ~~((42))~~ (44) "Index B" means the index for the year prior to index  
25 A.

26 ~~((43))~~ (45) "Index year" means the earliest calendar year in  
27 which the index is more than sixty percent of index A.

28 ~~((44))~~ (46) "Adjustment ratio" means the value of index A divided  
29 by index B.

30 **Sec. 103.** RCW 41.32.032 and 1992 c 212 s 17 are each amended to  
31 read as follows:

32 (1) Any teacher, as defined under RCW 41.32.010, who is first  
33 employed by a public school on or after June 7, 1984, shall become a  
34 member of the retirement system ~~((as directed under RCW 41.32.780))~~ if  
35 otherwise eligible.

36 (2) Any person who before June 7, 1984, has established service  
37 credit under chapter 41.40 RCW while employed in an educational staff

1 associate position and who is employed in such a position on or after  
2 June 7, 1984 has the following options:

3 (a) To remain a member of the public employees' retirement system  
4 notwithstanding the provisions of RCW 41.32.240 or 41.32.780; or

5 (b) To irrevocably elect to join the retirement system under this  
6 chapter and to receive service credit for previous periods of  
7 employment in any position included under RCW 41.32.010. This service  
8 credit and corresponding employee contribution shall be computed as  
9 though the person had then been a member of the retirement system under  
10 this chapter. All employee contributions credited to a member under  
11 chapter 41.40 RCW for service now to be credited to the retirement  
12 system under this chapter shall be transferred to the system and the  
13 member shall not receive any credit nor enjoy any rights under chapter  
14 41.40 RCW for those periods of service. The member shall pay any  
15 difference between the employee contributions made under chapter 41.40  
16 RCW and transferred under this subsection and what would have been  
17 required under this chapter, including interest as set by the director.  
18 The member shall be given until July 1, 1989, to make the irrevocable  
19 election permitted under this section. The election shall be made by  
20 submitting written notification as required by the department  
21 requesting credit under this section and by remitting any necessary  
22 proof of service or payments within the time set by the department.

23 Any person, not employed as an educational staff associate on June  
24 7, 1984, may, before June 30 of the fifth school year after that  
25 person's return to employment as a teacher, request and establish  
26 membership and credit under this subsection.

27

### PLAN III

28 NEW SECTION. **Sec. 104.** (1) Sections 104 through 117 of this act  
29 shall apply only to plan III members.

30 (2) Plan III shall consist of two separate elements: (a) A defined  
31 benefit portion covered under this subchapter; and (b) a defined  
32 contribution portion covered under chapter 41.-- RCW (sections 201  
33 through 209 of this act). All contributions on behalf of the employer  
34 paid by an employee shall be made to the defined benefit portion of  
35 plan III and shall be nonrefundable when paid to the fund described in  
36 RCW 41.50.075(3).

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

3 NEW SECTION. **Sec. 105.** All teachers who become employed by an  
4 employer in an eligible position on or after the effective date of this  
5 act shall be members of plan III.

6 NEW SECTION. **Sec. 106.** A member of the retirement system shall  
7 receive a retirement allowance equal to one percent of such member's  
8 average final compensation for each service credit year.

9 NEW SECTION. **Sec. 107.** Retirement allowances paid under the  
10 defined benefit portion of plan III shall have a postretirement cost-  
11 of-living allowance calculated and paid as provided in RCW 41.32.770.

12 NEW SECTION. **Sec. 108.** (1) Upon retirement for service as  
13 prescribed in section 113 of this act or retirement for disability  
14 under section 114 of this act, a member shall elect to have the  
15 retirement allowance paid pursuant to one of the following options,  
16 calculated so as to be actuarially equivalent to each other.

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

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

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

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

3 NEW SECTION. **Sec. 109.** Any member or beneficiary eligible to  
4 receive a retirement allowance under the provisions of section 113,  
5 114, or 117 of this act shall be eligible to commence receiving a  
6 retirement allowance after having filed written application with the  
7 department.

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

11 (2) Retirement allowances paid to vested members no longer in  
12 service, but qualifying for such an allowance pursuant to section 112  
13 of this act shall accrue from the first day of the calendar month  
14 immediately following such qualification.

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

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

21 NEW SECTION. **Sec. 110.** (1) No retiree shall be eligible to  
22 receive such retiree's monthly retirement allowance if he or she is  
23 employed in an eligible position as defined in RCW 41.40.010 or  
24 41.32.010, or as a law enforcement officer or fire fighter as defined  
25 in RCW 41.26.030, except that a plan III retiree may work in eligible  
26 positions on a temporary basis for up to five months per calendar year.

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

32 NEW SECTION. **Sec. 111.** (1) A member who is on a paid leave of  
33 absence authorized by a member's employer shall continue to receive  
34 service credit.

35 (2) A member who receives compensation from an employer while on an  
36 authorized leave of absence to serve as an elected official of a labor

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

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

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

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

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

23 (4) A member who leaves the employ of an employer to enter the  
24 armed forces of the United States shall be entitled to retirement  
25 system service credit for up to four years of military service if  
26 within ninety days of the member's honorable discharge from the United  
27 States armed forces, the member applies for reemployment with the  
28 employer who employed the member immediately prior to the member  
29 entering the United States armed forces.

30 The department shall bill the employer for its contribution  
31 required under this act for the period of military service, plus  
32 interest as determined by the department. Service credit under this  
33 subsection may be obtained only if the member makes the employee  
34 contribution plus interest to the defined contribution portion as  
35 determined by the department.

36 The contributions required shall be based on the average of the  
37 member's earnable compensation at both the time the member left the  
38 employ of the employer to enter the armed forces and the time the  
39 member resumed employment.

1        NEW SECTION.    **Sec. 112.**    (1) The director may pay a member eligible  
2 to receive a retirement allowance or the member's beneficiary a lump  
3 sum payment in lieu of a monthly benefit if the initial monthly benefit  
4 would be less than one hundred dollars. The one hundred dollar limit  
5 shall be increased by three percent compounded annually on January 1.  
6 The lump sum payment shall be the actuarial equivalent of the monthly  
7 benefit.

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

16        (3) Any member who receives a settlement under this section shall  
17 be deemed to be retired from this system.

18        NEW SECTION.    **Sec. 113.**    (1) NORMAL RETIREMENT. Any member who has  
19 vested and attained at least age sixty-five shall be eligible to retire  
20 and to receive a retirement allowance computed according to the  
21 provisions of section 106 of this act.

22        (2) EARLY RETIREMENT. Any member who has attained at least age  
23 fifty-five and has completed at least ten years of service shall be  
24 eligible to retire and to receive a retirement allowance computed  
25 according to the provisions of section 106 of this act, except that a  
26 member retiring pursuant to this subsection shall have the retirement  
27 allowance actuarially reduced to reflect the difference in the number  
28 of years between age at retirement and the attainment of age sixty-  
29 five.

30        NEW SECTION.    **Sec. 114.**    (1) A member of the retirement system who  
31 becomes totally incapacitated for continued employment by an employer  
32 as determined by the department shall be eligible to receive an  
33 allowance under the provisions of plan III. The member shall receive  
34 a monthly disability allowance computed as provided for in section 106  
35 of this act and shall have this allowance actuarially reduced to  
36 reflect the difference in the number of years between age at disability  
37 and the attainment of age sixty-five.

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

7 (2) If the recipient of a monthly retirement allowance under this  
8 section dies, any further benefit payments shall be conditioned by the  
9 payment option selected by the retiree as provided in section 108 of  
10 this act.

11 NEW SECTION. **Sec. 115.** (1) An active member shall become vested  
12 in the right to a benefit upon completing ten years of service or upon  
13 completing five years of service and attaining age fifty-five.

14 (2) A vested member who separates or has separated may remain a  
15 member during the period of such member's absence from service for the  
16 exclusive purpose only of receiving a retirement allowance under the  
17 provisions of section 113 of this act.

18 (3) The retirement allowance payable under section 113 of this act  
19 to a member who separates after having completed at least twenty years  
20 of service shall be increased by twenty-five one-hundredths of one  
21 percent, compounded for each month from the date of separation to the  
22 date that the retirement allowance commences.

23 NEW SECTION. **Sec. 116.** A nonvested member who leaves service and  
24 then reenters membership must earn an additional twelve service credit  
25 months to restore past service credit in the defined benefit portion of  
26 plan III.

27 NEW SECTION. **Sec. 117.** If a member who is vested dies prior to  
28 retirement, the surviving spouse or eligible child or children shall  
29 receive a retirement allowance computed as provided in section 108 of  
30 this act actuarially reduced to reflect a joint and one hundred percent  
31 survivor option and if the member was not eligible for normal  
32 retirement at the date of death a further reduction as described in  
33 section 113(2) of this act.

34 If the surviving spouse who is receiving the retirement allowance  
35 dies leaving a child or children under the age of majority, then such  
36 child or children shall continue to receive an allowance in an amount

1 equal to that which was being received by the surviving spouse, share  
2 and share alike, until such child or children reach the age of  
3 majority.

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

9 NEW SECTION. **Sec. 118.** Sections 104 through 117 of this act are  
10 designated as a subchapter within chapter 41.32 RCW with the subchapter  
11 heading "Provisions Applicable to Plan III."

## 12 **PART II**

### 13 **DEFINED CONTRIBUTION PORTION OF PLAN III**

14 NEW SECTION. **Sec. 201.** The purpose of chapter . . . , Laws of 1995  
15 (this act) is to:

16 (1) Provide a fair and reasonable value from the retirement system  
17 for those who leave public employment before retirement;

18 (2) Increase flexibility for such employees to make transitions  
19 into other public or private sector employment;

20 (3) Increase employee options for addressing retirement needs,  
21 personal financial planning, and career transitions; and

22 (4) Continue the legislature's established policy of having  
23 employees contribute toward their retirement benefits.

24 NEW SECTION. **Sec. 202.** As used in this chapter, the following  
25 terms have the meanings indicated:

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

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

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

31 (4) "Compensation" for purposes of this chapter is the same as  
32 "earnable compensation" for plan III in chapter 41.32 RCW.

33 (5) "Member" means any employee included in the membership of a  
34 retirement system as provided for plan III in chapter 41.32 RCW.

1 (6) "Member account" means the sum of the contributions and  
2 earnings on behalf of the member.

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

6 NEW SECTION. Sec. 203. (1) This chapter applies only to members  
7 of plan III retirement systems created under chapters 41.32 and 41.40  
8 RCW.

9 (2) Plan III consists of two separate elements: (a) A defined  
10 benefit portion covered under sections 101 through 117, chapter . . . ,  
11 Laws of 1995 (sections 101 through 117 of this act); and (b) a defined  
12 contribution portion covered under this chapter. Unless specified  
13 otherwise, all references to "plan III" in this chapter refer to the  
14 defined contribution portion of plan III.

15 NEW SECTION. Sec. 204. (1) A member shall contribute from his or  
16 her compensation according to one of the following rate structures:

<u>Option A</u>	<u>Contribution Rate</u>
All Ages	5.0% fixed
<u>Option B</u>	
Up to Age 35	5.0%
Age 35 to 44	6.0%
Age 45 and above	7.5%
<u>Option C</u>	
Up to Age 35	6.0%
Age 35 to 44	7.5%
Age 45 and above	8.5%

27 (2) The board shall have the right to offer contribution rate  
28 options in addition to those listed in subsection (1) of this section,  
29 provided that no significant additional administrative costs are  
30 created. All options offered by the board shall conform to the  
31 requirements stated in subsections (3) and (4) of this section.

32 (3) Within ninety days of the date that an employee becomes a  
33 member of plan III, he or she has an irrevocable option to choose one  
34 of the above contribution rate structures. If the member does not  
35 select an option within this ninety-day period, he or she shall be  
36 assigned option A. Such assignment shall be irrevocable.

1 (4) Contributions shall begin the first day of the month  
2 immediately following the earlier of the selection of an option or the  
3 end of the ninety-day period.

4 NEW SECTION. **Sec. 205.** The legislature may authorize a  
5 contribution to the members' accounts for a biennium through budget  
6 appropriation.

7 NEW SECTION. **Sec. 206.** The member's account shall be invested by  
8 the state investment board unless the member elects to self direct  
9 investments as authorized by the board. Members who make this election  
10 shall pay the expenses for self-directed investment.

11 NEW SECTION. **Sec. 207.** (1) If the member retires, becomes  
12 disabled, or otherwise terminates employment, the balance in the  
13 member's account may be distributed in accordance with an option  
14 selected by the member either as a lump sum or pursuant to other  
15 options authorized by the board.

16 (2) If the member dies while in service, the balance of the  
17 member's account may be distributed in accordance with an option  
18 selected by the member either as a lump sum or pursuant to other  
19 options authorized by the board. The distribution shall be made to  
20 such person or persons as the member shall have nominated by written  
21 designation duly executed and filed with the department. If there be  
22 no such designated person or persons still living at the time of the  
23 member's death, the balance of the member's account in the retirement  
24 system, less any amount identified as owing to an obligee upon  
25 withdrawal of such account balance pursuant to a court order filed  
26 under RCW 41.50.670, shall be paid to the member's surviving spouse as  
27 if in fact such spouse had been nominated by written designation, or if  
28 there is no surviving spouse, then to such person or persons, trust, or  
29 organization as the member shall have nominated by written designation  
30 duly executed and filed with the department.

31 (3) The distribution under subsections (1) or (2) of this section  
32 shall be less any amount identified as owing to an obligee upon  
33 withdrawal pursuant to a court order filed under RCW 41.50.670.

34 NEW SECTION. **Sec. 208.** (1) Subject to subsections (2) and (3) of  
35 this section, the right of a person to a pension, an annuity, a

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

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

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

33 NEW SECTION. **Sec. 209.** (1) The retirement plan created by this  
34 chapter shall be administered so as to comply with the federal Internal  
35 Revenue Code, Title 26 U.S.C., and specifically with plan qualification  
36 requirements imposed on governmental plans by section 401(a) of the  
37 Internal Revenue Code.

1 (2) Any section or provision of this chapter which may be  
2 susceptible to more than one construction shall be interpreted in favor  
3 of the construction most likely to satisfy requirements imposed by  
4 section 401(a) of the Internal Revenue Code.

5 (3) If any section or provision of this chapter is found to be in  
6 conflict with the plan qualification requirements for governmental  
7 plans in section 401(a) of the Internal Revenue Code, the conflicting  
8 part of this chapter is hereby inoperative solely to the extent of the  
9 conflict, and such finding shall not affect the operation of the  
10 remainder of this chapter.

11 NEW SECTION. **Sec. 210.** Sections 201 through 209 of this act shall  
12 constitute a new chapter in Title 41 RCW.

13 **PART III**  
14 **MISCELLANEOUS**

15 NEW SECTION. **Sec. 301.** A new section is added to chapter 41.50  
16 RCW to read as follows:

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

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

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

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

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

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

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

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

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

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

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

15 (8) The state investment board shall provide advice and support to  
16 the board.

17 NEW SECTION. **Sec. 302.** A new section is added to chapter 41.50  
18 RCW to read as follows:

19 The board shall adopt rules as necessary and exercise all the  
20 powers and perform all duties prescribed by law with respect to:

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

25 (2) The selection of optional benefit payment schedules available  
26 to members and survivors of members upon the death, disability,  
27 retirement, or termination of the member. The optional benefit  
28 payments may include but not be limited to: Fixed and participating  
29 annuities, joint and survivor annuities, and payments that bridge to  
30 social security or defined benefit plan payments;

31 (3) Approval of actuarially equivalent annuities that may be  
32 purchased from the combined plan II and plan III funds under RCW  
33 41.50.075 (2) or (3);

34 (4) Determination of the basis for administrative charges to the  
35 self-directed investment fund to offset self-directed account expenses;  
36 and

37 (5) Selection of investment options for the deferred compensation  
38 program.

1        NEW SECTION.    **Sec. 303.**    A new section is added to chapter 41.32  
2    RCW under the subchapter heading "Plan II" to read as follows:

3        (1) Every plan II member employed by an employer in an eligible  
4    position may make an irrevocable option to transfer to plan III. For  
5    those who elect to transfer:

6        (a) All service credit in plan II shall be transferred to the  
7    defined benefit portion of plan III.

8        (b) The accumulated contributions in plan II shall be transferred  
9    to the member's account in the defined contribution portion established  
10   in sections 201 through 209 of this act, pursuant to procedures  
11   developed by the department and subject to section 209 of this act.

12       (c) A member vested on the effective date of this act under plan II  
13   shall be automatically vested in plan III upon transfer.

14       (d) Members employed by an employer in an eligible position on  
15   January 1, 1998, who request to transfer to plan III by January 1,  
16   1998, shall have their account in the defined contribution portion of  
17   plan III, other than those accumulated contributions attributable to  
18   restorations made under RCW 41.50.165(2), increased by twenty percent  
19   of their plan II accumulated contributions as of January 1, 1996. If  
20   the member who requests to transfer dies before January 1, 1998, the  
21   additional payment provided by this subsection shall be paid to the  
22   member's estate, or such person or persons, trust, or organization as  
23   the member shall have nominated by written designation duly executed  
24   and filed with the department.

25       (e) The legislature reserves the right to discontinue the right to  
26   transfer under this section.

27       (2) This subsection shall also apply to dual members as provided in  
28   section 319 of this act.

29       (3) Any member who elects to transfer to plan III and has eligible  
30   unrestored withdrawn contributions in plan II, may subsequently restore  
31   such contributions under the provisions of RCW 41.32.825. The restored  
32   plan II service credit will be automatically transferred to plan III.  
33   Contributions restored will be transferred to the member's account in  
34   plan III.

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

37       **Sec. 304.**    RCW 41.45.010 and 1989 c 273 s 1 are each amended to  
38   read as follows:

1 It is the intent of the legislature to provide a dependable and  
2 systematic process for funding the benefits provided to members and  
3 retirees of the public employees' retirement system, chapter 41.40 RCW;  
4 the teachers' retirement system, chapter 41.32 RCW; the law enforcement  
5 officers' and fire fighters' retirement system, chapter 41.26 RCW; and  
6 the Washington state patrol retirement system, chapter 43.43 RCW.

7 The funding process established by this chapter is intended to  
8 achieve the following goals:

9 (1) To continue to fully fund the public employees' retirement  
10 system plan II, the teachers' retirement system plans II and III, and  
11 the law enforcement officers' and fire fighters' retirement system plan  
12 II as provided by law;

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

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

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

24 **Sec. 305.** RCW 41.45.020 and 1989 c 273 s 2 are each amended to  
25 read as follows:

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

28 (1) "Council" means the economic and revenue forecast council  
29 created in RCW (~~(82.01.130)~~) 82.33.010.

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

31 (3) "Law enforcement officers' and fire fighters' retirement system  
32 plan I," and "law enforcement officers' and fire fighters' retirement  
33 system plan II" mean(~~(s)~~) the benefits and funding provisions  
34 (~~covering persons who first became members of the law enforcement~~  
35 ~~officers' and fire fighters' retirement system prior to October 1,~~  
36 ~~1977.~~

37 (4) ~~"Law enforcement officers' and fire fighters' retirement system~~  
38 ~~plan II"~~ means the benefits and funding provisions covering persons who

1 ~~first became members of the law enforcement officers' and fire~~  
2 ~~fighters' retirement system on or after October 1, 1977))~~ under chapter  
3 41.26 RCW.

4 ~~((+5+))~~ (4) "Public employees' retirement system plan I" means the  
5 benefits and funding provisions covering persons who first became  
6 members of the public employees' retirement system prior to October 1,  
7 1977.

8 ~~((+6+))~~ (5) "Public employees' retirement system plan II" means the  
9 benefits and funding provisions covering persons who first became  
10 members of the public employees' retirement system on or after October  
11 1, 1977.

12 ~~((+7+))~~ (6) "Teachers' retirement system plan I," "teachers'  
13 retirement system plan II," and "teachers' retirement system plan III"  
14 ~~mean((s))~~ the benefits and funding provisions ~~((covering persons who~~  
15 ~~first became members of the teachers' retirement system prior to~~  
16 ~~October 1, 1977.~~

17 ~~(8) "Teachers' retirement system plan II" means the benefits and~~  
18 ~~funding provisions covering persons who first became members of the~~  
19 ~~teachers' retirement system on or after October 1, 1977))~~ under chapter  
20 41.32 RCW.

21 ~~((+9+))~~ (7) "Washington state patrol retirement system" means the  
22 retirement benefits provided under chapter 43.43 RCW.

23 (8) "Unfunded liability" means the unfunded actuarial accrued  
24 liability of a retirement system.

25 ~~((+10+))~~ (9) "Actuary" or "state actuary" means the state actuary  
26 employed under chapter 44.44 RCW.

27 ~~((+11+))~~ (10) "State retirement systems" means the retirement  
28 systems listed in RCW 41.50.030.

29 **Sec. 306.** RCW 41.45.030 and 1993 c 519 s 17 are each amended to  
30 read as follows:

31 (1) Beginning September 1, 1989, and every six years thereafter,  
32 the state actuary shall submit to the council information regarding the  
33 experience and financial condition of each state retirement system.  
34 The council shall review this and such other information as it may  
35 require.

36 (2) ~~((The council shall review the information submitted by the~~  
37 ~~state actuary and))~~ By December 31, 1995, and every six years

1 thereafter, the council, by affirmative vote of five members, shall  
2 adopt the following long-term economic assumptions:

3 (a) Growth in system membership;

4 (b) Growth in salaries, exclusive of merit or longevity increases;

5 (c) Growth in inflation; and

6 (d) Investment rate of return.

7 (3) The assumptions adopted by the council shall be used by the  
8 state actuary in conducting valuation studies of the state retirement  
9 systems.

10 ~~((3) The council may utilize information provided by the state~~  
11 ~~actuary and such other information as it may request.))~~

12 **Sec. 307.** RCW 41.45.050 and 1989 c 273 s 5 are each amended to  
13 read as follows:

14 (1) ~~((Beginning September 1, 1990,))~~ Employers of members of the  
15 public employees' retirement system, the teachers' retirement system,  
16 and the Washington state patrol retirement system shall make  
17 contributions to those systems based on the rates established in RCW  
18 41.45.060 and 41.45.070.

19 (2) ~~((Beginning September 1, 1990,))~~ The state shall make  
20 contributions to the law enforcement officers' and fire fighters'  
21 retirement system based on the rates established in RCW ~~((41.45.060))~~  
22 41.45.030 and 41.45.070. The state treasurer shall transfer the  
23 required contributions each month on the basis of salary data provided  
24 by the department.

25 (3) ~~((Beginning September 1, 1990,))~~ The department shall bill  
26 employers, and the state shall make contributions to the law  
27 enforcement officers' and fire fighters' retirement system, using the  
28 combined rates established in RCW ~~((41.45.060))~~ 41.45.030 and 41.45.070  
29 regardless of the level of pension funding provided in the biennial  
30 budget. Any member of an affected retirement system may, by mandamus  
31 or other appropriate proceeding, require the transfer and payment of  
32 funds as directed in this section.

33 (4) The contributions received for the public employees' retirement  
34 system shall be allocated between the public employees' retirement  
35 system plan I fund and public employees' retirement system plan II fund  
36 as follows: The contributions necessary to fully fund the public  
37 employees' retirement system plan II employer contribution required by  
38 RCW 41.40.650 shall first be deposited in the public employees'

1 retirement system plan II fund. All remaining public employees'  
2 retirement system employer contributions shall be deposited in the  
3 public employees' retirement system plan I fund.

4 (5) The plans II and III employer contributions for the teachers'  
5 retirement system((, and the state contributions for the law  
6 enforcement officers' and fire fighters' retirement system)) shall be  
7 combined and allocated in the same manner as ((the public employees'  
8 retirement system and in accordance with the law enforcement officers'  
9 and fire fighters' retirement system plan II and the teachers'  
10 retirement system plan II contribution rates required by RCW 41.26.450  
11 and 41.32.775 respectively)) subsection (4) of this section.

12 (6) The contributions received under RCW 41.26.450 for the law  
13 enforcement officers' and fire fighters' retirement system shall be  
14 allocated between the law enforcement officers' and fire fighters'  
15 retirement system plan I and the law enforcement officers' and fire  
16 fighters' retirement system plan II fund as follows: The contributions  
17 necessary to fully fund the law enforcement officers' and fire  
18 fighters' retirement system plan II employer contributions shall be  
19 first deposited in the law enforcement officers' and fire fighters'  
20 retirement system plan II fund. All remaining law enforcement  
21 officers' and fire fighters' retirement system employer contributions  
22 shall be deposited in the law enforcement officers' and fire fighters'  
23 retirement system plan I fund.

24 **Sec. 308.** RCW 41.45.060 and 1993 c 519 s 19 are each amended to  
25 read as follows:

26 (1) ~~((For the period of September 1, 1993, through August 31, 1995,~~  
27 ~~the basic state contribution rate for the law enforcement officers' and~~  
28 ~~fire fighters' retirement system, and the basic employer contribution~~  
29 ~~rates for the public employees' retirement system, the teachers'~~  
30 ~~retirement system, and the Washington state patrol retirement system~~  
31 ~~shall be as determined in the 1991 valuations prepared by the office of~~  
32 ~~the state actuary.)) The state actuary shall provide actuarial  
33 valuation results based on the assumptions adopted under RCW 41.45.030.~~

34 (2) Not later than September 30, 1994, and every two years  
35 thereafter(~~+~~

36 ~~(a))~~, consistent with the assumptions adopted under RCW 41.45.030,  
37 the council shall adopt ((the contributions to be used in the ensuing

1 ~~biennial period for the systems specified in subsection (1) of this~~  
2 ~~section.~~

3 ~~(b)) both: (a) A basic state contribution rate for the law~~  
4 ~~enforcement officers' and fire fighters' retirement system; and (b)~~  
5 ~~basic employer contribution rates for the public employees' retirement~~  
6 ~~system and the teachers' retirement system to be used in the ensuing~~  
7 ~~biennial period.~~

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

10 (a) To fully amortize the total costs of the public employees'  
11 retirement system plan I, the teachers' retirement system plan I, the  
12 law enforcement officers' and fire fighters' retirement system plan I, the  
13 and the unfunded liability of the Washington state patrol retirement  
14 system not later than June 30, 2024; and

15 (b) To also continue to fully fund the public employees' retirement  
16 system plan II, the teachers' retirement system plans II and III, and  
17 the law enforcement officers' and fire fighters' retirement system plan  
18 II in accordance with this section.

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

21 (5) The council shall immediately notify the directors of the  
22 office of financial management and department of retirement systems of  
23 the state and employer contribution rates adopted ((under (a) of this  
24 subsection)).

25 ~~((e))~~ (6) The director of the department of retirement systems  
26 shall collect those rates adopted by the council ((under this  
27 chapter)).

28 **Sec. 309.** RCW 41.45.070 and 1990 c 18 s 2 are each amended to read  
29 as follows:

30 ~~(1) ((Beginning September 1, 1991,))~~ In addition to the basic  
31 employer contribution rate established in RCW ((41.45.060)) 41.45.030,  
32 the department shall also charge employers of public employees'  
33 retirement system, teachers' retirement system, or Washington state  
34 patrol retirement system members an additional supplemental rate to pay  
35 for the cost of additional benefits, if any, granted to members of  
36 those systems ((after January 1, 1990)). The supplemental contribution  
37 rates required by this section shall be calculated by the state actuary

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

3 (2) (~~Beginning September 1, 1991,~~) In addition to the basic state  
4 contribution rate established in RCW (~~41.45.060~~) 41.45.030 for the  
5 law enforcement officers' and fire fighters' retirement system the  
6 department shall also establish a supplemental rate to pay for the cost  
7 of additional benefits, if any, granted to members of the law  
8 enforcement officers' and fire fighters' retirement system (~~after~~  
9 ~~January 1, 1990~~). This supplemental rate shall be calculated by the  
10 state actuary and the state treasurer shall transfer the additional  
11 required contributions regardless of language to the contrary contained  
12 in the statute which authorizes the additional benefits.

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

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

1        NEW SECTION.    **Sec. 310.**    A new section is added to chapter 41.45  
2 RCW to read as follows:

3        (1) The required contribution rates for members of the plan II  
4 public employees' retirement system and teachers' retirement system  
5 shall be fixed at the rates in effect on the effective date of this  
6 act, subject to the following:

7        (a) Beginning September 1, 1998, except as provided in (b) of this  
8 subsection, the employee contribution rate shall not exceed the  
9 employer plan II and III rates adopted under RCW 41.45.030 and  
10 41.45.070 for the public employees' retirement system and teachers'  
11 retirement system and shall not exceed the sum of the employer and  
12 state rate in plan II of the law enforcement officers' and fire  
13 fighters' retirement system;

14        (b) In addition, the employee contribution rate for plan II shall  
15 be increased by fifty percent of the contribution rate increase caused  
16 by any plan II benefit increase passed after the effective date of this  
17 act.

18        (2) The required plan II and III contribution rates for employers  
19 shall be adopted in the manner described in RCW 41.45.030.

20        (3) The state shall pay twenty percent of the employer plan II cost  
21 of the law enforcement officers' and fire fighters' retirement system,  
22 except for port districts established under Title 53 RCW, institutions  
23 of higher education as defined in RCW 28B.10.016 and the Washington  
24 state patrol.

25        (4) The employer and employee contributions collected under this  
26 section for the law enforcement officers' and fire fighters' retirement  
27 system plan II shall be deposited in the law enforcement officers' and  
28 fire fighters' retirement system plan II fund.

29        (5) The employer and employee contributions collected under this  
30 section for the public employees' retirement system plan II and  
31 teachers' retirement system plans II and III shall be deposited in  
32 their respective plan II and III funds.

33        **Sec. 311.**    RCW 41.50.075 and 1991 c 35 s 108 are each amended to  
34 read as follows:

35        (1) Two funds are hereby created and established in the state  
36 treasury to be known as the Washington law enforcement officers' and  
37 fire fighters' system plan I retirement fund, and the Washington law  
38 enforcement officers' and fire fighters' system plan II retirement fund

1 which shall consist of all moneys paid into them in accordance with the  
2 provisions of this chapter and chapter 41.26 RCW, whether such moneys  
3 take the form of cash, securities, or other assets. The plan I fund  
4 shall consist of all moneys paid to finance the benefits provided to  
5 members of the law enforcement officers' and fire fighters' retirement  
6 system plan I, and the plan II fund shall consist of all moneys paid to  
7 finance the benefits provided to members of the law enforcement  
8 officers' and fire fighters' retirement system plan II.

9 (2) All of the assets of the Washington state teachers' retirement  
10 system shall be credited according to the purposes for which they are  
11 held, to two funds to be maintained in the state treasury, namely, the  
12 teachers' retirement system plan I fund and the teachers' retirement  
13 system combined plan II and III fund. The plan I fund shall consist of  
14 all moneys paid to finance the benefits provided to members of the  
15 Washington state teachers' retirement system plan I, and the combined  
16 plan II and III fund shall consist of all moneys paid to finance the  
17 benefits provided to members of the Washington state teachers'  
18 retirement system plan II and III.

19 (3) There is hereby established in the state treasury two separate  
20 funds, namely the public employees' retirement system plan I fund and  
21 the public employees' (~~{retirement system}~~) retirement system plan II  
22 fund. The plan I fund shall consist of all moneys paid to finance the  
23 benefits provided to members of the public employees' retirement system  
24 plan I, and the plan II fund shall consist of all moneys paid to  
25 finance the benefits provided to members of the public employees'  
26 retirement system plan II.

27 (4) There is hereby established in the state treasury the plan III  
28 defined contribution fund which shall consist of all contributions and  
29 earnings paid on behalf of members, except as otherwise provided.

30 **Sec. 312.** RCW 41.50.110 and 1990 c 8 s 3 are each amended to read  
31 as follows:

32 (1) Notwithstanding any provision of law to the contrary, the  
33 retirement system expense fund is hereby redesignated as the department  
34 of retirement systems expense fund from which shall be paid the  
35 expenses of the administration of the department and the expenses of  
36 administration of the retirement systems created in chapters 2.10,  
37 2.12, 41.26, 41.32, 41.40, 41.-- (sections 201 through 209 of this  
38 act), and 43.43 RCW.

1       (2) In order to reimburse the department of retirement systems  
2 expense fund on an equitable basis the department shall ascertain and  
3 report to each employer, as defined in RCW 41.26.030, 41.32.010, or  
4 41.40.010, the sum necessary to defray its proportional share of the  
5 entire expense of the administration of the retirement system that the  
6 employer participates in during the ensuing biennium or fiscal year  
7 whichever may be required. Such sum is to be computed in an amount  
8 directly proportional to the estimated entire expense of the  
9 administration as the ratio of monthly salaries of the employer's  
10 members bears to the total salaries of all members in the entire  
11 system. It shall then be the duty of all such employers to include in  
12 their budgets or otherwise provide the amounts so required.

13       (3) The department shall compute and bill each employer, as defined  
14 in RCW 41.26.030, 41.32.010, or 41.40.010, at the end of each month for  
15 the amount due for that month to the department of retirement systems  
16 expense fund and the same shall be paid as are its other obligations.  
17 Such computation as to each employer shall be made on a percentage rate  
18 of salary established by the department. However, the department may  
19 at its discretion establish a system of billing based upon calendar  
20 year quarters in which event the said billing shall be at the end of  
21 each such quarter.

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

25       ~~((3) All employers shall pay a standard fee to the department to~~  
26 ~~cover the cost of administering the system.))~~ (5) An employer who fails  
27 to submit timely and accurate reports to the department may be assessed  
28 an additional fee related to the increased costs incurred by the  
29 department in processing the deficient reports. Fees paid under this  
30 subsection shall be deposited in the retirement system expense fund.

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

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

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

1       (6) Expenses incurred pursuant to section 206 of this act shall be  
2 deducted from the defined contribution fund in accordance with rules  
3 established by the board under section 302 of this act.

4       NEW SECTION. Sec. 313. A new section is added to chapter 41.50  
5 RCW to read as follows:

6       (1) "Employee" as used in this section and section 314 of this act  
7 includes all full-time, part-time, and career seasonal employees of the  
8 state, a county, a municipality, or other political subdivision of the  
9 state, whether or not covered by civil service; elected and appointed  
10 officials of the executive branch of the government, including full-  
11 time members of boards, commissions, or committees; justices of the  
12 supreme court and judges of the court of appeals and of the superior  
13 and district courts; and members of the state legislature or of the  
14 legislative authority of any county, city, or town.

15       (2) The state, through the department, and any county,  
16 municipality, or other political subdivision of the state acting  
17 through its principal supervising official or governing body is  
18 authorized to contract with an employee to defer a portion of that  
19 employee's income, which deferred portion shall in no event exceed the  
20 amount allowable under 26 U.S.C. Sec. 457, and deposit or invest such  
21 deferred portion in a credit union, savings and loan association, bank,  
22 or mutual savings bank or purchase life insurance, shares of an  
23 investment company, or fixed and/or variable annuity contracts from any  
24 insurance company or any investment company licensed to contract  
25 business in this state.

26       (3) The department can provide such plans as the employee  
27 retirement benefits board, established under section 301 of this act,  
28 deems are in the interests of state employees. In addition to the  
29 types of investments described in this section, the department may  
30 invest the deferred portion of an employee's income, without limitation  
31 as to amount, in any of the class of investments described in RCW  
32 43.84.150 as in effect on January 1, 1981. Any income deferred under  
33 such a plan shall continue to be included as regular compensation, for  
34 the purpose of computing the state or local retirement and pension  
35 benefits earned by any employee.

36       (4) Coverage of an employee under a deferred compensation plan  
37 under this section shall not render such employee ineligible for

1 simultaneous membership and participation in any pension system for  
2 public employees.

3 NEW SECTION. **Sec. 314.** A new section is added to chapter 41.50  
4 RCW to read as follows:

5 (1) The deferred compensation principal account is hereby created  
6 in the state treasury. Any deficiency in the deferred compensation  
7 administrative account caused by an excess of administrative expenses  
8 disbursed from that account over earnings of investments of balances  
9 credited to that account shall be eliminated by transferring moneys to  
10 that account from the deferred compensation principal account.

11 (2) The amount of compensation deferred by employees under  
12 agreements entered into under the authority contained in section 313 of  
13 this act shall be paid into the deferred compensation principal account  
14 and shall be sufficient to cover costs of administration and staffing  
15 in addition to such other amounts as determined by the department. The  
16 deferred compensation principal account shall be used to carry out the  
17 purposes of section 313 of this act. All eligible state employees  
18 shall be given the opportunity to participate in agreements entered  
19 into by the department under section 313 of this act. State agencies  
20 shall cooperate with the department in providing employees with the  
21 opportunity to participate.

22 (3) Any county, municipality, or other subdivision of the state may  
23 elect to participate in any agreements entered into by the department  
24 under section 313 of this act, including the making of payments  
25 therefrom to the employees participating in a deferred compensation  
26 plan upon their separation from state or other qualifying service.  
27 Accordingly, the deferred compensation principal account shall be  
28 considered to be a public pension or retirement fund within the meaning  
29 of Article XXIX, section 1 of the state Constitution, for the purpose  
30 of determining eligible investments and deposits of the moneys therein.

31 (4) All moneys in the deferred compensation principal account, all  
32 property and rights purchased therewith, and all income attributable  
33 thereto, shall remain (until made available to the participating  
34 employee or other beneficiary) solely the money, property, and rights  
35 of the state and participating counties, municipalities, and  
36 subdivisions (without being restricted to the provision of benefits  
37 under the plan) subject only to the claims of the state's and

1 participating jurisdictions' general creditors. Participating  
2 jurisdictions shall each retain property rights separately.

3 (5) The state investment board, at the request of the employee  
4 retirement benefits board as established under section 301 of this act,  
5 is authorized to invest moneys in the deferred compensation principal  
6 account in accordance with RCW 43.84.150. Except as provided in RCW  
7 43.33A.160, one hundred percent of all earnings from these investments  
8 shall accrue directly to the deferred compensation principal account.

9 (6) The deferred compensation administrative account is hereby  
10 created in the state treasury. All expenses of the department  
11 pertaining to the deferred compensation plan including staffing and  
12 administrative expenses shall be paid out of the deferred compensation  
13 administrative account. Any excess of earnings of investments of  
14 balances credited to this account over administrative expenses  
15 disbursed from this account shall be transferred to the deferred  
16 compensation principal account. Any deficiency in the deferred  
17 compensation administrative account caused by an excess of  
18 administrative expenses disbursed from this account over earnings of  
19 investments of balances credited to this account shall be transferred  
20 to this account from the deferred compensation principal account.

21 (7) In addition to the duties specified in this section and section  
22 313 of this act, the department shall administer the salary reduction  
23 plan established in RCW 41.04.600 through 41.04.645.

24 (8) The department shall keep or cause to be kept full and adequate  
25 accounts and records of the assets, obligations, transactions, and  
26 affairs of any deferred compensation plans created under section 313 of  
27 this act and this section.

28 (9) The department shall file an annual report of the financial  
29 condition, transactions, and affairs of the deferred compensation plans  
30 under its jurisdiction. A copy of the annual report shall be filed  
31 with the speaker of the house of representatives, the president of the  
32 senate, the governor, and the state auditor.

33 (10) Members of the employee retirement benefits board established  
34 under section 301 of this act shall be deemed to stand in a fiduciary  
35 relationship to the employees participating in the deferred  
36 compensation plans created under section 313 of this act and this  
37 section and shall discharge the duties of their respective positions in  
38 good faith and with that diligence, care, and skill which ordinary

1 prudent persons would exercise under similar circumstances in like  
2 positions.

3 (11) The department may adopt rules necessary to carry out the  
4 purposes of section 313 of this act and this section.

5 **Sec. 315.** RCW 41.50.030 and 1975-'76 2nd ex.s. c 105 s 5 are each  
6 amended to read as follows:

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

11 ~~((1))~~ (a) The Washington public employees' retirement system  
12 ~~((and the retirement board thereof));~~

13 ~~((2))~~ (b) The Washington state teachers' retirement system ~~((and~~  
14 ~~the board of trustees thereof));~~

15 ~~((3))~~ (c) The Washington law enforcement officers' and fire  
16 fighters' retirement system ~~((and the retirement board thereof));~~

17 ~~((4))~~ (d) The Washington state patrol retirement system ~~((and the~~  
18 ~~retirement board thereof));~~

19 ~~((5))~~ (e) The Washington judicial retirement system ~~((and the~~  
20 ~~retirement board thereof));~~ and

21 ~~((6))~~ (f) The state treasurer with respect to the administration  
22 of the judges' retirement fund imposed pursuant to chapter 2.12 RCW.

23 (2) On the effective date of this act there is transferred to the  
24 department all powers, duties, and functions of the deferred  
25 compensation committee.

26 (3) The department shall administer sections 201 through 209 of  
27 this act.

28 **Sec. 316.** RCW 41.50.050 and 1993 c 61 s 1 are each amended to read  
29 as follows:

30 The director shall:

31 (1) Have the authority to organize the department into not more  
32 than ~~((three))~~ four divisions, each headed by an assistant director;

33 (2) Have free access to all files and records of various funds  
34 assigned to the department and inspect and audit the files and records  
35 as deemed necessary;

36 (3) Employ personnel to carry out the general administration of the  
37 department;

1 (4) Submit an annual written report of the activities of the  
2 department to the governor and the chairs of the appropriate  
3 legislative committees with one copy to the staff of each of the  
4 committees, including recommendations for statutory changes the  
5 director believes to be desirable;

6 (5) Adopt such rules and regulations as are necessary to carry out  
7 the powers, duties, and functions of the department pursuant to the  
8 provisions of chapter 34.05 RCW.

9 **Sec. 317.** RCW 41.50.060 and 1975-'76 2nd ex.s. c 105 s 8 are each  
10 amended to read as follows:

11 The director may delegate the performance of such powers, duties,  
12 and functions, other than those relating to rule making, to employees  
13 of the department, but the director shall remain and be responsible for  
14 the official acts of the employees of the department.

15 The director shall be responsible for the public employees'  
16 retirement system, the teachers' retirement system, the judicial  
17 retirement system, the law enforcement officers' and fire fighters'  
18 retirement system, and the Washington state patrol retirement system.  
19 The director shall also be responsible for the deferred compensation  
20 program.

21 **Sec. 318.** RCW 41.54.030 and 1990 c 192 s 2 are each amended to  
22 read as follows:

23 (1) A dual member(~~((s))~~) may combine service in all systems (~~((may be~~  
24 ~~combined))~~) for the (~~((sole))~~) purpose of:

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

27 (b) Qualifying for a benefit under section 115(3) of this act.

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

34 (3) The service retirement allowances from a system which, but for  
35 this section, would not be allowed to be paid at this date based on the  
36 dual member's age shall be either actuarially adjusted from the  
37 earliest age upon which the combined service would have made such dual

1 member eligible in that system, or the dual member may choose to defer  
2 the benefit until fully eligible.

3 NEW SECTION. **Sec. 319.** A new section is added to chapter 41.54  
4 RCW to read as follows:

5 Any dual member who elects to transfer under section 303 of this  
6 act may:

7 (1) Similarly transfer any other prior plan II service credit to  
8 plan III of the same retirement system; or

9 (2) Combine service credit in all systems for purposes of vesting  
10 pursuant to sections 303(1)(c) of this act.

11 NEW SECTION. **Sec. 320.** A new section is added to chapter 43.33A  
12 RCW to read as follows:

13 Pursuant to section 302 of this act, the state investment board, at  
14 the request of the employee retirement benefits board, is authorized to  
15 offer investment options for self-directed investment under plan III.

16 **Sec. 321.** RCW 41.04.440 and 1984 c 227 s 1 are each amended to  
17 read as follows:

18 (1) The sole purpose of RCW 41.04.445 and 41.04.450 is to allow the  
19 members of the retirement systems created in chapters 2.10, 2.12,  
20 41.26, 41.32, 41.40, 41.-- (sections 201 through 209 of this act), and  
21 43.43 RCW to enjoy the tax deferral benefits allowed under 26 USC  
22 414(h). This act does not alter in any manner the provisions of RCW  
23 41.26.450(~~(, 41.32.775)~~) and 41.40.650 which require that the member  
24 contribution rates shall be set so as to provide fifty percent of the  
25 cost(~~(s)~~) of the (~~respective retirement plans~~) law enforcement  
26 officers' and fire fighters' retirement system.

27 (2) Should the legislature revoke any benefit allowed under (~~this~~  
28 ~~act~~) 26 U.S.C. 414(h), no affected employee shall be entitled  
29 thereafter to receive such benefit as a matter of contractual right.

30 **Sec. 322.** RCW 41.04.445 and 1992 c 212 s 15 are each amended to  
31 read as follows:

32 (1) This section applies to all members who are:

33 (a) Judges under the retirement system established under chapter  
34 2.10, 2.12, or 2.14 RCW;

1 (b) Employees of the state under the retirement system established  
2 by chapter 41.32, 41.40, or 43.43 RCW;

3 (c) Employees of school districts under the retirement system  
4 established by chapter 41.32 or 41.40 RCW, except for substitute  
5 teachers as defined by RCW 41.32.010;

6 (d) Employees of educational service districts under the retirement  
7 system established by chapter 41.32 or 41.40 RCW; or

8 (e) Employees of community college districts under the retirement  
9 system established by chapter 41.32 or 41.40 RCW.

10 (2) Only for compensation earned after the effective date of the  
11 implementation of this section and as provided by section 414(h) of the  
12 federal internal revenue code, the employer of all the members  
13 specified in subsection (1) of this section shall pick up only those  
14 member contributions as required under:

15 (a) RCW 2.10.090(1);

16 (b) RCW 2.12.060;

17 (c) RCW 2.14.090;

18 (d) RCW 41.32.263;

19 (e) RCW 41.32.350;

20 (f) ~~((RCW 41.32.775;~~

21 ~~(g))~~ RCW 41.40.330 (1) and (3);

22 ~~((h))~~ (g) RCW 41.40.650; ~~(and~~

23 ~~(i))~~ (h) Section 207 of this act;

24 (i) RCW 43.43.300; and

25 (j) Section 204 of this act.

26 (3) Only for the purposes of federal income taxation, the gross  
27 income of the member shall be reduced by the amount of the contribution  
28 to the respective retirement system picked up by the employer.

29 (4) All member contributions to the respective retirement system  
30 picked up by the employer as provided by this section, plus the accrued  
31 interest earned thereon, shall be paid to the member upon the  
32 withdrawal of funds or lump-sum payment of accumulated contributions as  
33 provided under the provisions of the retirement systems.

34 (5) At least forty-five days prior to implementing this section,  
35 the employer shall provide:

36 (a) A complete explanation of the effects of this section to all  
37 members; and

38 (b) Notification of such implementation to the director of the  
39 department of retirement systems.

1       **Sec. 323.** RCW 41.04.450 and 1985 c 13 s 3 are each amended to read  
2 as follows:

3       (1) Employers of those members under chapters 41.26 (~~and~~), 41.40,  
4 and 41.-- (sections 201 through 209 of this act) RCW who are not  
5 specified in RCW 41.04.445 may choose to implement the employer pick up  
6 of all member contributions without exception under RCW 41.26.080(1),  
7 41.26.450, 41.40.330(1), (~~and~~) 41.40.650, and chapter 41.-- RCW  
8 (sections 201 through 209 of this act). If the employer does so  
9 choose, the employer and members shall be subject to the conditions and  
10 limitations of RCW 41.04.445 (3), (4), and (5) and RCW 41.04.455.

11       (2) An employer exercising the option under this section may later  
12 choose to withdraw from and/or reestablish the employer pick up of  
13 member contributions only once in a calendar year following forty-five  
14 days prior notice to the director of the department of retirement  
15 systems.

16       NEW SECTION.   **Sec. 324.** The following acts or parts of acts are  
17 each repealed:

18       (1) RCW 41.04.250 and 1981 c 256 s 2, 1975 1st ex.s. c 274 s 2,  
19 1973 1st ex.s. c 99 s 1, 1972 ex.s. c 19 s 1, & 1971 ex.s. c 264 s 1;

20       (2) RCW 41.04.255 and 1991 c 249 s 2 & 1982 c 107 s 2;

21       (3) RCW 41.04.260 and 1993 c 34 s 2 & 1991 sp.s. c 13 s 101;

22       (4) RCW 41.32.775 and 1990 c 274 s 9, 1989 c 273 s 19, 1986 c 268  
23 s 2, 1984 c 184 s 11, & 1977 ex.s. c 293 s 6;

24       (5) RCW 41.45.040 and 1993 c 519 s 18 & 1989 c 273 s 4;

25       (6) RCW 41.45.0601 and 1993 c 519 s 20 & 1992 c 239 s 1;

26       (7) RCW 41.45.901 and 1989 c 273 s 33;

27       (8) RCW 41.50.032 and 1984 c 184 s 15 & 1982 c 163 s 9; and

28       (9) RCW 41.50.250 and 1991 c 35 s 72, 1989 c 273 s 21, 1981 c 3 s  
29 32, 1969 c 128 s 4, 1963 c 174 s 6, 1955 c 220 s 2, 1953 c 200 s 3,  
30 1949 c 240 s 5, & 1947 c 274 s 9.

31       NEW SECTION.   **Sec. 325.** This act shall take effect July 1, 1996.

32       NEW SECTION.   **Sec. 326.** Part headings and subchapter headings as  
33 used in this act constitute no part of the law.

--- END ---