

TRS 1 Survivor Benefit Payment Options

Issue

Teachers' Retirement System (TRS) 1 members may withdraw any portion of their contributions at retirement and receive an actuarially reduced pension. This is referred to as a partial lump-sum option, or PLOP. Survivors of members who die prior to retirement do not have access to a PLOP. Instead, qualified survivors must choose between a full refund of the member's contributions or a survivor pension. Fewer than ten survivors a year are likely impacted by this issue.

Stakeholders have proposed providing survivors of retirement-eligible members the same PLOP provided to members.

This issue raises two key questions for policy makers:

- ❖ Should TRS 1 survivors be provided a PLOP?
- ❖ If so, should it be provided to all qualified survivors or only survivors of retirement-eligible members?

Policy Highlights

- ❖ PLOPs do not impact the expected financial value of the benefit.
- ❖ This may be viewed as an issue of member/survivor flexibility at member/survivor cost, or as an issue of benefit consistency.
- ❖ Policy makers will likely consider to what extent survivors are similarly situated with members, and whether they should have the same benefit payment flexibility as members.
- ❖ PLOPs may increase the risk that future retirement income will become inadequate for some survivors.
- ❖ The stakeholder proposal increases benefit flexibility for survivors and benefit consistency between members and survivors. However, under the stakeholder proposal, not all survivors who qualify for a pension will have access to a PLOP.

What Is The Next Step?

A work session on this issue is scheduled for the October meeting.

In Brief

Issue

TRS 1 members may withdraw their contributions at retirement and receive an actuarially reduced pension. This is referred to as a partial lump-sum option, or PLOP. Survivors of members who die prior to retirement do not have access to a PLOP.

Stakeholders have proposed providing survivors of retirement-eligible members the same PLOP provided to members.

This issue raises two key questions for policy makers. Should TRS 1 survivors be provided a PLOP? If so, should it be provided to all qualified survivors or only survivors of retirement-eligible members?

Member Impact

Fewer than ten survivors a year are likely impacted by this issue.

Darren Painter
Senior Policy Analyst
360.786.6155
painter.darren@leg.wa.gov

TRS 1 Survivor Benefit Payment Options

Current Situation

Teachers' Retirement System (TRS) 1 members have the option to withdraw their contributions at retirement and receive a reduced pension. This option, however, is not available to survivors of members who die prior to retirement.

Upon retirement, TRS 1 members may withdraw* all or part of their accumulated member contributions with interest and receive an actuarially reduced pension. The reduction is designed to offset the amount of the pension that would have otherwise been financed by the withdrawn contributions. The reduction is based on the amount withdrawn—the greater the withdrawal, the greater the reduction. This type of option is often referred to as partial lump-sum option, or PLOP.

In contrast to members, survivors do not have access to a PLOP. The options provided to survivors depend on whether or not the survivor qualifies to receive a pension from the plan. To qualify for a survivor pension, the member must be eligible for retirement or have ten or more years of service at the time of death.

Qualified survivors of active TRS 1 members who die prior to retirement may generally choose *between*:

- a) A full refund of the member's accumulated contributions with interest, or
- b) A survivor pension.

Qualified survivors choosing a refund forfeit the survivor pension. Survivors who do not qualify for a pension receive a refund of the member's accumulated contributions with interest.

Based on past experience, fewer than ten TRS 1 members a year are expected to die and leave a qualified survivor.

**Withdrawn contributions may be paid in cash to the member or rolled into a qualifying retirement account. In some cases, withdrawn contributions are subject to a twenty percent withholding tax.*

Example

Jim is a TRS 1 member who plans to retire at age 60 after 30 years of service with an expected final average salary of \$75,000. Jim expects

to have \$150,000 in accumulated contributions and interest in his member account.

The following table illustrates the impact of the PLOP on Jim's pension.

Impact of PLOP on TRS 1 Monthly Pension		
Contributions Withdrawn	Monthly Pension*	Percent Reduction In Monthly Pension
\$0	\$3,750	0%
\$75,000	\$3,155	16%
\$150,000	\$2,560	32%

* Excluding other optional adjustments or COLAs. Assumes a PLOP reduction factor of .007931.

If Jim dies after 30 years of service and before retiring, his survivor could not withdraw any of Jim's contributions and still receive a survivor pension. Instead, Jim's survivor can choose one of the following:

- a) A refund of all \$150,000 of Jim's contributions, or
- b) A survivor pension based on Jim's base pension of \$3,750/month**.

**Additional reductions apply for a joint-life payment form and if the member was not eligible to retire.

Other Washington Plans

TRS 1 is unique among Washington's Defined Benefit (DB) plans in providing members a PLOP. In Washington's other DB plans (the Plans 1 and Plans 2), members who withdraw their contributions forfeit their pension.

TRS 1 is unique among Washington's defined benefit plans in providing members a PLOP.

Washington's Plans 3 do allow members to withdraw their contributions at retirement and still receive a pension—similar to a PLOP. This is due to the Plan 3 hybrid design. The Plan 3 design features a DB funded by the employer and a Defined Contribution (DC) funded by the member. Plan 3 members may withdraw their contributions and investment earnings from their DC account upon retirement without impacting their DB pension. However, the DB pension provided in Plan 3 accrues at half the rate of a Plan 1 or Plan 2 pension.

Other States/Peer Systems*

The majority of Washington's peer states do not provide a PLOP in their systems covering teachers. Those that do are divided on the issue of providing survivors with a PLOP. Seven peer states (CA, CO, FL, ID, IA, MN, and WI) do not provide PLOP at all. Missouri and

Other states are divided on the issue of providing PLOPs to survivors.

Oregon provide a PLOP to members only. Ohio provides a PLOP to members and qualified survivors of retirement-eligible members.

Though not covering teachers, the city of Seattle's retirement system provides a PLOP to members and all qualified survivors.

**Based on information obtained from plan administrator web sites on 10/08/2010.*

Policy Analysis

This issue raises two key questions for policy makers:

- ❖ Should TRS 1 survivors be provided a PLOP?
- ❖ If so, should it be provided to all qualified survivors or only survivors of retirement-eligible members?

Policy makers may view this as an issue of flexibility or consistency. However viewed, policy makers will likely consider to what extent survivors are similarly situated with members, and whether survivors should have the same benefit payment flexibility as members. Policy makers may also consider impacts on retirement planning, benefit adequacy, and benefit value.

A discussion of how PLOPs impact the value of benefits from the plan will help put this issue in context and lay the foundation for discussions of other policy considerations.

PLOPs do not impact the expected value of benefits paid.

PLOPs are designed to be actuarially equivalent. This means PLOPs do not increase or decrease the expected financial value of the benefits paid by the plan. A PLOP does impact the timing of when those benefits are paid. Survivors who do not have access to a PLOP will still receive the full value of their survivor pension. However, they do not have the option of receiving what is essentially a cash-advance on the pension. The value added by a PLOP is flexibility.

Policy makers may view this as an issue of flexibility.

A PLOP provides increased flexibility to recipients in the way they draw their benefits. This may be viewed as a policy of providing increased member flexibility at member cost. Such a policy allows members more choices in the amount and form of their benefits—as long as individual members pay the full cost of their optional benefits. Some policy makers may feel this policy should apply to survivors as well. These policy makers would likely see providing a PLOP to survivors as a logical extension of the policy. Other policy makers may distinguish between members and survivors in this area of policy. These policy makers may feel that survivors are not members and do not need the same benefit payment flexibility provided to members.

This may be viewed as providing increased member flexibility at member cost.

Survivors are generally given less benefit flexibility than members.

Washington's plan designs differentiate between members and survivors in the area of benefits flexibility. Survivors are generally given less benefit flexibility than members. For example, survivors are not allowed to designate their own survivor or make certain optional purchases of additional benefits* provided to members.

**Examples include the extra annuity or enhanced COLA available in Plan 1.*

Legislative policy is to provide similar retirement benefits wherever possible.

Policy makers may view this as an issue of consistency.

The Legislature has set forth as retirement policy and intent that "The retirement systems of the state shall provide similar benefits wherever possible." (RCW 41.50.005). Some policy makers may apply this to benefits *within* plans as well as benefits *between* plans. They may feel that members and survivors within a plan should be treated the same where practical. They may not see a compelling reason to provide a PLOP to members and not survivors. Other policy makers may feel that survivors are different from members and that consistency between the two is not an issue.

The Legislature and the SCPP have taken recent action to address the issue of benefit consistency. In 2007 & 2008, the SCPP recommended that survivors of Public Employees' Retirement System Plan 1 inactive members be given the same survivor annuity provided to survivors of active members. The Legislature enacted this recommendation in 2009.

This raises two questions for policy makers viewing this issue with an eye towards consistency.

These actions suggest a desire on the part of policy makers to provide similarly situated individuals with similar benefits. This raises two questions for policy makers viewing this issue with an eye towards consistency:

- ❖ Are survivors similarly situated with members for purposes of this benefit?
- ❖ If so, are all qualified survivors similarly situated or only survivors of retirement-eligible members?

Policy makers who answer yes to the above questions would likely prefer that a PLOP be provided to *all* qualified survivors in TRS 1—whether or not the member was eligible to retire at the time of death.

PLOPs can impact individual's retirement planning.

Whether policy makers approach this issue with a view towards flexibility or consistency, they may take into account potential impacts on individual retirement planning. Members may use funds obtained from a PLOP however they wish. This could include paying down debt, investing for future income, or personal consumption. Retirement plans may be disrupted if a couple had planned on withdrawing the

members' contributions at retirement, but the member dies and the survivor is not given access to those funds.

PLOPs may raise concerns about benefit adequacy.

Some policy makers may have reservations about providing an option that has the potential to adversely impact adequacy of benefits.

Policy makers may also have concerns about the potential impact of PLOPs on survivors' pensions. In some cases, a PLOP can reduce monthly pensions by nearly half—before factoring in other reductions that apply to survivor pensions. Significant reductions in monthly pensions may increase the risk that survivors' future retirement income will not meet their future financial needs. This may lead survivors to feel their benefit has become inadequate and seek additional benefits from the plan. Some policy makers—even those favoring increased flexibility or consistency—may have reservations about providing an option that has the potential to adversely impact adequacy of benefits down the road.

On the other hand, some policy makers may not have reservations if benefit adequacy concerns are driven by individual choices. They may feel that individuals are in the best position to determine their own income needs and the amount of financial risk they can take. Policy makers with this view may feel comfortable allowing individuals to live with the consequences of choosing a reduced lifetime payment in exchange for up-front cash.

Stakeholder Proposal

Stakeholders have proposed providing survivors of TRS 1 retirement-eligible members the same PLOP provided to TRS 1 members. The stakeholder proposal gives survivors increased benefit flexibility at their own cost and increases benefit consistency between members and their survivors. The trade-off for this increased flexibility and consistency is increased risk that future retirement income may become inadequate for some survivors.

Under the stakeholder proposal, some TRS 1 survivors who qualify for a survivor pension will not have access to a PLOP.

The stakeholder proposal raises a different issue around benefit consistency. Under the stakeholder proposal, some TRS 1 survivors who qualify for a survivor pension will not have access to a PLOP. The stakeholder proposal would provide a PLOP only to survivors of retirement-eligible members. However, survivors of non-retirement-eligible members will qualify for a survivor pension if the member had at least ten years of service at the time of death. While the majority of active TRS 1 members are retirement-eligible, it is still likely that some non-retirement-eligible members will die and leave a qualified survivor over the next few years.

In considering this proposal, policy makers may weigh which is more important: consistency between a member and his or her survivor, or

consistency between survivors. Some policy makers may feel that survivors should only have an annuity withdrawal option if the member would have had one. Other policy makers may feel that all survivors who qualify for a survivor pension are similarly situated and should be provided with a PLOP.

Conclusion

TRS Plan 1 members have the option to withdraw their contributions at retirement and receive a reduced pension—referred to as a PLOP. This option is not available to survivors of members who die prior to retirement. Stakeholders have proposed making the PLOP provided to TRS 1 members available to survivors of TRS 1 retirement-eligible members.

This issue raises two key questions for policy makers.

- ❖ Should TRS 1 survivors be provided a PLOP?
- ❖ If so, should it be provided to all qualified survivors or only survivors of retirement-eligible members?

Stakeholder Input

*Correspondence from:
John Kvamme, WASA &
AWSP, May 20, 2010 & July 8,
2010.*

In responding to these questions, policy makers will likely consider to what extent survivors are similarly situated with members, and whether survivors should have the same benefit payment flexibility as members. Policy makers may also consider impacts on retirement planning, benefit adequacy, and benefit value.

O:\SCPP\2010\10-19-10_Full\5. TRS1_Surv_Ben_Pay_Options_Issues_Paper.docx

RECEIVED

JUL 08 2010

Office of
The State Actuary

TO: Select Committee on Pension Policy members

FROM: John Kvamme, WASA and AWSP Consultant

DATE: July 8, 2010

RE: Survivor Access to Plan 1 TRS Annuity

I am requesting that the SCPP board or executive committee consider having the State Actuary Office do a review and then a board work study presentation on the "Survivor Access to Plan 1 TRS Annuity" issue at one of the next SCPP meetings. The issue does not appear to be complex and there should be little or no cost to implement this change.

There are member survivors that have been negatively impacted by the present Plan 1 survivor statute. This especially happens in instances where the member and his or her spouse had specific plans for the use of the annuity at retirement such as paying off mortgages, etc.

Your consideration of this request is appreciated.

Wallis, Keri

From: john kvamme [jekvamme@yahoo.com]
Sent: Thursday, May 20, 2010 12:01 PM
To: Smith, Matt
Cc: Conway, Rep. Steve
Subject: WASA & AWSP 2010 Interim Pension Issues
Attachments: 2010 Interim proposed issues.doc

Matt

Attached is a listing of pension issues that are a priority to WASA & AWSP. Please include this in the list of correspondence for the June SCPP meeting. Thank you!

John Kvamme

WASA and AWSP
Retirement and Health Benefits
2010 Interim Proposed Legislative Issues

Plan 2/3 Administrator ERRF Retirement Solution: Due to the administrator contract year, by statute going from July 1 to June 30, almost all administrators will be short two service months if they were to retire July 1 of their 30th service year. These administrators can take advantage of early retirement if they wait till September 1 to begin their retirement, however without a new contract they would have no salary or pension and need COBRA health coverage for that July and August. A possible solution is to allow these administrators that complete their 30th administrative fiscal year to begin their pension on July 1 of that year.

Survivor Access to Plan 1 TRS Annuity: Allow the survivor of an active Plan 1 TRS member that is qualified to retire under RCW 41.32.480 at the time of death, the option to withdraw the member's account balance and receive an actuarially adjusted pension benefit as provided to retiring members under RCW 41.32.497.

Change Plans 2/3 Default: New employees hired into TRS, SERS or PERS eligible positions must make a choice between being a member of Plan 2 or of Plan 3. If a choice is not made the new member is defaulted into Plan 3. We recommend the default be to Plan 2 rather than to Plan 3.

Indexed \$150,000 Death Benefit: Automatically adjust the \$150,000 death benefit for inflation by indexing the benefit to changes in the Consumer Price Index with a maximum change of 3 percent per year. Such a death benefit would be provided to survivors of public employees who die as a result of duty-related injury or illness.

Future Pension Issues: A number of important issues that impact our members that have been submitted to the Select Committee on Pension Policy (SCPP) in the past that are probably inappropriate for attention at this time due to their cost and the economic conditions within the state and nation are: **Plan 3 Vesting, Plan 2 Access to the PEBB and Plan 2/3 Postretirement Employment Related to Early Retirement.**

1 AN ACT Relating to calculating service credit for school
2 administrators for alternate early retirement eligibility; and amending
3 RCW 41.32.765, 41.35.680, 41.32.875, and 41.35.420.

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

5 **Sec. 1.** RCW 41.32.765 and 2007 c 491 s 2 are each amended to read
6 as follows:

7 (1) NORMAL RETIREMENT. Any member with at least five service
8 credit years of service who has attained at least age sixty-five shall
9 be eligible to retire and to receive a retirement allowance computed
10 according to the provisions of RCW 41.32.760.

11 (2) EARLY RETIREMENT. Any member who has completed at least twenty
12 service credit years of service who has attained at least age fifty-
13 five shall be eligible to retire and to receive a retirement allowance
14 computed according to the provisions of RCW 41.32.760, except that a
15 member retiring pursuant to this subsection shall have the retirement
16 allowance actuarially reduced to reflect the difference in the number
17 of years between age at retirement and the attainment of age sixty-
18 five.

19 (3) ALTERNATE EARLY RETIREMENT.

1 (a) Any member who has completed at least thirty service credit
2 years and has attained age fifty-five shall be eligible to retire and
3 to receive a retirement allowance computed according to the provisions
4 of RCW 41.32.760, except that a member retiring pursuant to this
5 subsection (3)(a) shall have the retirement allowance reduced by three
6 percent per year to reflect the difference in the number of years
7 between age at retirement and the attainment of age sixty-five.

8 (b) On or after September 1, 2008, any member who has completed at
9 least thirty service credit years and has attained age fifty-five shall
10 be eligible to retire and to receive a retirement allowance computed
11 according to the provisions of RCW 41.32.760, except that a member
12 retiring pursuant to this subsection (3)(b) shall have the retirement
13 allowance reduced as follows:

Retirement	Percent
Age	Reduction
55	20%
56	17%
57	14%
58	11%
59	8%
60	5%
61	2%
62	0%
63	0%
64	0%

14
15
16
17
18
19
20
21
22
23
24
25
26 (c) (i) An active school administrator is eligible to retire under
27 (a) or (b) of this subsection (3) if the member meets the following
28 requirements:

29 (A) Has completed twenty-nine service credit years, plus ten
30 additional service credit months through June 30th of the school
31 administrator's thirtieth service credit year; and

32 (B) Has attained age fifty-five.

33 (ii) For the purposes of this subsection (3)(c), "school
34 administrator" means a member who serves in a managerial role relating
35 to the administration of a public school or who is involved in the

1 exercise of direction over employees of the public school. This
2 includes, but is not limited to, service as: Principal, assistant
3 principal, superintendent, assistant superintendent, directors and
4 coordinators, such as those persons covered under RCW 28A.150.203(2)
5 and 28A.410.120; and both classified and certificated employees serving
6 in positions such as business manager and personnel manager.

7 (d) Any member who retires under the provisions of (b) or (c) of
8 this subsection (3) is ineligible for the postretirement employment
9 provisions of RCW 41.32.802(2) until the retired member has reached
10 sixty-five years of age. For purposes of (b) or (c) of this subsection
11 (3), employment with an employer also includes any personal service
12 contract, service by an employer as a temporary or project employee, or
13 any other similar compensated relationship with any employer included
14 under the provisions of RCW 41.32.800(1).

15 (e) Except for (a) of this subsection (3), the subsidized
16 reductions for alternate early retirement in (b) of this subsection (3)
17 as set forth in section 2, chapter 491, Laws of 2007 and (c) of this
18 subsection (3) as set forth in section 1, chapter . . . (this act),
19 Laws of 2010 were intended by the legislature as replacement benefits
20 for gain-sharing. Until there is legal certainty with respect to the
21 repeal of chapter 41.31A RCW, the right to retire under (b) or (c) of
22 this subsection (3) is noncontractual, and the legislature reserves the
23 right to amend or repeal (b) or (c) of this subsection (3). Legal
24 certainty includes, but is not limited to, the expiration of any:
25 Applicable limitations on actions; and periods of time for seeking
26 appellate review, up to and including reconsideration by the Washington
27 supreme court and the supreme court of the United States. Until that
28 time, eligible members may still retire under (b) or (c) of this
29 subsection (3), and upon receipt of the first installment of a
30 retirement allowance computed under (b) or (c) of this subsection (3),
31 the resulting benefit becomes contractual for the recipient. If the
32 repeal of chapter 41.31A RCW is held to be invalid in a final
33 determination of a court of law, and the court orders reinstatement of
34 gain-sharing or other alternate benefits as a remedy, then retirement
35 benefits for any member who has completed at least thirty service
36 credit years and has attained age fifty-five but has not yet received
37 the first installment of a retirement allowance under (b) or (c) of

1 this subsection (3) shall be computed using the reductions in (a) of
2 this subsection (3).

3 **Sec. 2.** RCW 41.35.680 and 2007 c 491 s 8 are each amended to read
4 as follows:

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

7 (a) Completed ten service credit years; or

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

10 (c) Completed five service credit years by September 1, 2000, under
11 the public employees' retirement system plan 2 and who transferred to
12 plan 3 under RCW 41.35.510;

13 shall be eligible to retire and to receive a retirement allowance
14 computed according to the provisions of RCW 41.35.620.

15 (2) EARLY RETIREMENT. Any member who has attained at least age
16 fifty-five and has completed at least ten years of service shall be
17 eligible to retire and to receive a retirement allowance computed
18 according to the provisions of RCW 41.35.620, except that a member
19 retiring pursuant to this subsection shall have the retirement
20 allowance actuarially reduced to reflect the difference in the number
21 of years between age at retirement and the attainment of age sixty-
22 five.

23 (3) ALTERNATE EARLY RETIREMENT.

24 (a) Any member who has completed at least thirty service credit
25 years and has attained age fifty-five shall be eligible to retire and
26 to receive a retirement allowance computed according to the provisions
27 of RCW 41.35.620, except that a member retiring pursuant to this
28 subsection (3)(a) shall have the retirement allowance reduced by three
29 percent per year to reflect the difference in the number of years
30 between age at retirement and the attainment of age sixty-five.

31 (b) On or after September 1, 2008, any member who has completed at
32 least thirty service credit years and has attained age fifty-five shall
33 be eligible to retire and to receive a retirement allowance computed
34 according to the provisions of RCW 41.35.620, except that a member
35 retiring pursuant to this subsection (3)(b) shall have the retirement
36 allowance reduced as follows:

	Retirement	Percent
	Age	Reduction
1		
2		
3	55	20%
4	56	17%
5	57	14%
6	58	11%
7	59	8%
8	60	5%
9	61	2%
10	62	0%
11	63	0%
12	64	0%

13 (c) (i) An active school administrator is eligible to retire under
14 (a) or (b) of this subsection (3) if the member meets the following
15 requirements:

16 (A) Has completed twenty-nine service credit years, plus ten
17 additional service credit months through June 30th of the school
18 administrator's thirtieth service credit year; and

19 (B) Has attained age fifty-five.

20 (ii) For the purposes of this subsection (3)(c), "school
21 administrator" means a member who serves in a managerial role relating
22 to the administration of a public school or who is involved in the
23 exercise of direction over employees of the public school. This
24 includes, but is not limited to, service as: Principal, assistant
25 principal, superintendent, assistant superintendent, directors and
26 coordinators, such as those persons covered under RCW 28A.150.203(2)
27 and 28A.410.120; and both classified and certificated employees serving
28 in positions such as business manager and personnel manager.

29 (d) Any member who retires under the provisions of (b) or (c) of
30 this subsection (3) is ineligible for the postretirement employment
31 provisions of RCW 41.35.060(2) until the retired member has reached
32 sixty-five years of age. For purposes of (b) or (c) of this subsection
33 (3), employment with an employer also includes any personal service
34 contract, service by an employer as a temporary or project employee, or

1 any other similar compensated relationship with any employer included
2 under the provisions of RCW 41.35.230(1).

3 (e) Except for (a) of this subsection (3), the subsidized
4 reductions for alternate early retirement in (b) of this subsection (3)
5 as set forth in section 8, chapter 491, Laws of 2007 and (c) of this
6 subsection (3) as set forth in section 2, chapter . . . (this act),
7 Laws of 2010 were intended by the legislature as replacement benefits
8 for gain-sharing. Until there is legal certainty with respect to the
9 repeal of chapter 41.31A RCW, the right to retire under (b) or (c) of
10 this subsection (3) is noncontractual, and the legislature reserves the
11 right to amend or repeal (b) or (c) of this subsection (3). Legal
12 certainty includes, but is not limited to, the expiration of any:
13 Applicable limitations on actions; and periods of time for seeking
14 appellate review, up to and including reconsideration by the Washington
15 supreme court and the supreme court of the United States. Until that
16 time, eligible members may still retire under (b) or (c) of this
17 subsection (3), and upon receipt of the first installment of a
18 retirement allowance computed under (b) or (c) of this subsection (3),
19 the resulting benefit becomes contractual for the recipient. If the
20 repeal of chapter 41.31A RCW is held to be invalid in a final
21 determination of a court of law, and the court orders reinstatement of
22 gain-sharing or other alternate benefits as a remedy, then retirement
23 benefits for any member who has completed at least thirty service
24 credit years and has attained age fifty-five but has not yet received
25 the first installment of a retirement allowance under (b) or (c) of
26 this subsection (3) shall be computed using the reductions in (a) of
27 this subsection (3).

28 **Sec. 3.** RCW 41.32.875 and 2007 c 491 s 4 are each amended to read
29 as follows:

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

- 32 (a) Completed ten service credit years; or
33 (b) Completed five service credit years, including twelve service
34 credit months after attaining age forty-four; or
35 (c) Completed five service credit years by July 1, 1996, under plan
36 2 and who transferred to plan 3 under RCW 41.32.817;

1 shall be eligible to retire and to receive a retirement allowance
2 computed according to the provisions of RCW 41.32.840.

3 (2) EARLY RETIREMENT. Any member who has attained at least age
4 fifty-five and has completed at least ten years of service shall be
5 eligible to retire and to receive a retirement allowance computed
6 according to the provisions of RCW 41.32.840, except that a member
7 retiring pursuant to this subsection shall have the retirement
8 allowance actuarially reduced to reflect the difference in the number
9 of years between age at retirement and the attainment of age sixty-
10 five.

11 (3) ALTERNATE EARLY RETIREMENT.

12 (a) Any member who has completed at least thirty service credit
13 years and has attained age fifty-five shall be eligible to retire and
14 to receive a retirement allowance computed according to the provisions
15 of RCW 41.32.840, except that a member retiring pursuant to this
16 subsection (3) (a) shall have the retirement allowance reduced by three
17 percent per year to reflect the difference in the number of years
18 between age at retirement and the attainment of age sixty-five.

19 (b) On or after September 1, 2008, any member who has completed at
20 least thirty service credit years and has attained age fifty-five shall
21 be eligible to retire and to receive a retirement allowance computed
22 according to the provisions of RCW 41.32.840, except that a member
23 retiring pursuant to this subsection (3) (b) shall have the retirement
24 allowance reduced as follows:

25	Retirement	Percent
26	Age	Reduction
27	55	20%
28	56	17%
29	57	14%
30	58	11%
31	59	8%
32	60	5%
33	61	2%
34	62	0%
35	63	0%
36	64	0%

1 (c)(i) An active school administrator is eligible to retire under
2 (a) or (b) of this subsection (3) if the member meets the following
3 requirements:

4 (A) Has completed twenty-nine service credit years, plus ten
5 additional service credit months through June 30th of the school
6 administrator's thirtieth service credit year; and

7 (B) Has attained age fifty-five.

8 (ii) For the purposes of this subsection (3)(c), "school
9 administrator" means a member who serves in a managerial role relating
10 to the administration of a public school or who is involved in the
11 exercise of direction over employees of the public school. This
12 includes, but is not limited to, service as: Principal, assistant
13 principal, superintendent, assistant superintendent, directors and
14 coordinators, such as those persons covered under RCW 28A.150.203(2)
15 and 28A.410.120; and both classified and certificated employees serving
16 in positions such as business manager and personnel manager.

17 (d) Any member who retires under the provisions of (b) or (c) of
18 this subsection (3) is ineligible for the postretirement employment
19 provisions of RCW 41.32.862(2) until the retired member has reached
20 sixty-five years of age. For purposes of (b) or (c) of this subsection
21 (3), employment with an employer also includes any personal service
22 contract, service by an employer as a temporary or project employee, or
23 any other similar compensated relationship with any employer included
24 under the provisions of RCW 41.32.860(1).

25 (e) Except for (a) of this subsection (3), the subsidized
26 reductions for alternate early retirement in (b) of this subsection (3)
27 as set forth in section 4, chapter 491, Laws of 2007 and (c) of this
28 subsection (3) as set forth in section 3, chapter . . . (this act),
29 Laws of 2010 were intended by the legislature as replacement benefits
30 for gain-sharing. Until there is legal certainty with respect to the
31 repeal of chapter 41.31A RCW, the right to retire under (b) or (c) of
32 this subsection (3) is noncontractual, and the legislature reserves the
33 right to amend or repeal (b) or (c) of this subsection (3). Legal
34 certainty includes, but is not limited to, the expiration of any:
35 Applicable limitations on actions; and periods of time for seeking
36 appellate review, up to and including reconsideration by the Washington
37 supreme court and the supreme court of the United States. Until that
38 time, eligible members may still retire under (b) or (c) of this

1 subsection (3), and upon receipt of the first installment of a
2 retirement allowance computed under (b) or (c) of this subsection (3),
3 the resulting benefit becomes contractual for the recipient. If the
4 repeal of chapter 41.31A RCW is held to be invalid in a final
5 determination of a court of law, and the court orders reinstatement of
6 gain-sharing or other alternate benefits as a remedy, then retirement
7 benefits for any member who has completed at least thirty service
8 credit years and has attained age fifty-five but has not yet received
9 the first installment of a retirement allowance under (b) or (c) of
10 this subsection (3) shall be computed using the reductions in (a) of
11 this subsection (3).

12 **Sec. 4.** RCW 41.35.420 and 2007 c 491 s 6 are each amended to read
13 as follows:

14 (1) NORMAL RETIREMENT. Any member with at least five service
15 credit years who has attained at least age sixty-five shall be eligible
16 to retire and to receive a retirement allowance computed according to
17 the provisions of RCW 41.35.400.

18 (2) EARLY RETIREMENT. Any member who has completed at least twenty
19 service credit years and has attained age fifty-five shall be eligible
20 to retire and to receive a retirement allowance computed according to
21 the provisions of RCW 41.35.400, except that a member retiring pursuant
22 to this subsection shall have the retirement allowance actuarially
23 reduced to reflect the difference in the number of years between age at
24 retirement and the attainment of age sixty-five.

25 (3) ALTERNATE EARLY RETIREMENT.

26 (a) Any member who has completed at least thirty service credit
27 years and has attained age fifty-five shall be eligible to retire and
28 to receive a retirement allowance computed according to the provisions
29 of RCW 41.35.400, except that a member retiring pursuant to this
30 subsection (3)(a) shall have the retirement allowance reduced by three
31 percent per year to reflect the difference in the number of years
32 between age at retirement and the attainment of age sixty-five.

33 (b) On or after September 1, 2008, any member who has completed at
34 least thirty service credit years and has attained age fifty-five shall
35 be eligible to retire and to receive a retirement allowance computed
36 according to the provisions of RCW 41.35.400, except that a member

1 retiring pursuant to this subsection (3)(b) shall have the retirement
2 allowance reduced as follows:

3	Retirement	Percent
4	Age	Reduction
5	55	20%
6	56	17%
7	57	14%
8	58	11%
9	59	8%
10	60	5%
11	61	2%
12	62	0%
13	63	0%
14	64	0%

15 (c)(i) An active school administrator is eligible to retire under
16 (a) or (b) of this subsection (3) if the member meets the following
17 requirements:

18 (A) Has completed twenty-nine service credit years, plus ten
19 additional service credit months through June 30th of the school
20 administrator's thirtieth service credit year; and

21 (B) Has attained age fifty-five.

22 (ii) For the purposes of this subsection (3)(c), "school
23 administrator" means a member who serves in a managerial role relating
24 to the administration of a public school or who is involved in the
25 exercise of direction over employees of the public school. This
26 includes, but is not limited to, service as: Principal, assistant
27 principal, superintendent, assistant superintendent, directors and
28 coordinators, such as those persons covered under RCW 28A.150.203(2)
29 and 28A.410.120; and both classified and certificated employees serving
30 in positions such as business manager and personnel manager.

31 (d) Any member who retires under the provisions of (b) or (c) of
32 this subsection (3) is ineligible for the postretirement employment
33 provisions of RCW 41.35.060(2) until the retired member has reached
34 sixty-five years of age. For purposes of (b) or (c) of this subsection
35 (3), employment with an employer also includes any personal service

1 contract, service by an employer as a temporary or project employee, or
2 any other similar compensated relationship with any employer included
3 under the provisions of RCW 41.35.230(1).

4 (e) Except for (a) of this subsection, the subsidized reductions
5 for alternate early retirement in (b) of this subsection (3) as set
6 forth in section 6, chapter 491, Laws of 2007 and (c) of this
7 subsection (3) as set forth in section 4, chapter . . . (this act),
8 Laws of 2010 were intended by the legislature as replacement benefits
9 for gain-sharing. Until there is legal certainty with respect to the
10 repeal of chapter 41.31A RCW, the right to retire under (b) or (c) of
11 this subsection (3) is noncontractual, and the legislature reserves the
12 right to amend or repeal (b) or (c) of this subsection (3). Legal
13 certainty includes, but is not limited to, the expiration of any:
14 Applicable limitations on actions; and periods of time for seeking
15 appellate review, up to and including reconsideration by the Washington
16 supreme court and the supreme court of the United States. Until that
17 time, eligible members may still retire under (b) or (c) of this
18 subsection (3), and upon receipt of the first installment of a
19 retirement allowance computed under (b) or (c) of this subsection (3),
20 the resulting benefit becomes contractual for the recipient. If the
21 repeal of chapter 41.31A RCW is held to be invalid in a final
22 determination of a court of law, and the court orders reinstatement of
23 gain-sharing or other alternate benefits as a remedy, then retirement
24 benefits for any member who has completed at least thirty service
25 credit years and has attained age fifty-five but has not yet received
26 the first installment of a retirement allowance under (b) or (c) of
27 this subsection (3) shall be computed using the reductions in (a) of
28 this subsection (3).

--- END ---

1 AN ACT Relating to the beneficiary's options when a member of the
2 teachers' retirement system plan 1 dies before retirement; and amending
3 RCW 41.32.520.

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

5 **Sec. 1.** RCW 41.32.520 and 2009 c 226 s 5 are each amended to read
6 as follows:

7 (1) Except as specified in subsection (3) of this section, upon
8 receipt of proper proofs of death of any member before retirement or
9 before the first installment of his or her retirement allowance shall
10 become due his or her accumulated contributions, less any amount
11 identified as owing to an obligee upon withdrawal of accumulated
12 contributions pursuant to a court order filed under RCW 41.50.670,
13 and/or other benefits payable upon his or her death shall be paid to
14 his or her estate or to such persons, trust, or organization as he or
15 she shall have nominated by written designation duly executed and filed
16 with the department. If a member fails to file a new beneficiary
17 designation subsequent to marriage, divorce, or reestablishment of
18 membership following termination by withdrawal, lapsation, or
19 retirement, payment of his or her accumulated contributions, less any

1 amount identified as owing to an obligee upon withdrawal of accumulated
2 contributions pursuant to a court order filed under RCW 41.50.670,
3 and/or other benefits upon death before retirement shall be made to the
4 surviving spouse, if any; otherwise, to his or her estate. If a member
5 had established ten or more years of Washington membership service
6 credit or was eligible for retirement, the beneficiary or the surviving
7 spouse if otherwise eligible may elect, in lieu of a cash refund of the
8 member's accumulated contributions, the following survivor benefit plan
9 actuarially reduced, except under subsection (4) of this section, by
10 the amount of any lump sum benefit identified as owing to an obligee
11 upon withdrawal of accumulated contributions pursuant to a court order
12 filed under RCW 41.50.670:

13 (a) A widow or widower, without a child or children under eighteen
14 years of age, may elect a monthly payment of fifty dollars to become
15 effective at age fifty, provided the member had fifteen or more years
16 of Washington membership service credit. A benefit paid under this
17 subsection (1) (a) shall terminate at the marriage of the beneficiary.

18 (b) The beneficiary, if a surviving spouse or a dependent (as that
19 term is used in computing the dependent exemption for federal internal
20 revenue purposes) may elect to receive a joint and one hundred percent
21 retirement allowance under RCW 41.32.530.

22 (i) In the case of a dependent child the allowance shall continue
23 until attainment of majority or so long as the department judges that
24 the circumstances which created his or her dependent status continue to
25 exist. In any case, if at the time dependent status ceases, an amount
26 equal to the amount of accumulated contributions of the deceased member
27 has not been paid to the beneficiary, the remainder shall then be paid
28 in a lump sum to the beneficiary.

29 (ii) If at the time of death, the member was not then qualified for
30 a service retirement allowance, the benefit shall be based upon the
31 actuarial equivalent of the sum necessary to pay the accrued regular
32 retirement allowance commencing when the deceased member would have
33 first qualified for a service retirement allowance.

34 (c) The eligible beneficiary under RCW 41.32.530(1) (b), of a member
35 who was qualified to retire under RCW 41.32.480 at the time of death,
36 has the option to withdraw the member's account balance and receive an
37 actuarially adjusted pension benefit as provided to retiring members
38 under RCW 41.32.497.

1 (2) If no qualified beneficiary survives a member, at his or her
2 death his or her accumulated contributions, less any amount identified
3 as owing to an obligee upon withdrawal of accumulated contributions
4 pursuant to a court order filed under RCW 41.50.670, shall be paid to
5 his or her estate, or his or her dependents may qualify for survivor
6 benefits under benefit plan (1)(b) in lieu of a cash refund of the
7 members accumulated contributions in the following order: Widow or
8 widower, guardian of a dependent child or children under age eighteen,
9 or dependent parent or parents.

10 (3) If a member dies within sixty days following application for
11 disability retirement under RCW 41.32.550, the beneficiary named in the
12 application may elect to receive the benefit provided by:

13 (a) This section; or

14 (b) RCW 41.32.550, according to the option chosen under RCW
15 41.32.530 in the disability application.

16 (4) The retirement allowance of a member who is killed in the
17 course of employment, as determined by the director of the department
18 of labor and industries, or the retirement allowance of a member who
19 has left the employ of an employer due to service in the national guard
20 or military reserves and dies while honorably serving in the national
21 guard or military reserves during a period of war as defined in RCW
22 41.04.005, is not subject to an actuarial reduction. The member's
23 retirement allowance is computed under RCW 41.32.480.

--- END ---