

Did you know that your retirement benefit will provide you with guaranteed lifetime payments and is based on a variety of factors? It's important for you to understand how your benefit works so that you can plan for your future.

As you prepare to retire from public service, think about the many options you have to choose from and the decisions you make. DRS is here to answer questions you might have along the way.

**The Plan 3 section includes information on the following systems:**

- » Public Employees' (PERS), Teachers' (TRS) and School Employees' (SERS)
  - › How does Plan 3 work?
  - › How is my benefit calculated?
  - › What is service credit?
  - › What is dual membership?
  - › When can I retire?
  - › When is my retirement effective?
  - › Benefit option selection
  - › How can I maximize my retirement benefit?
  - › Cost-of-living adjustment (COLA)
  - › What will happen if I work after retirement?
  - › Preparing for retirement
  - › Defined contribution component
  - › Payment of defined contributions

This plan overview is a summary. It is not a complete description of your retirement benefits under Plan 3 of the Washington State Public Employees' Retirement System, School Employees' Retirement System and Teachers' Retirement System. State retirement laws govern your benefits. If there are any conflicts between the information shown in this overview and what is contained in current law, the law will govern.

## How does Plan 3 work?

**Plan 3 is a Defined Benefit plan with a Defined Contribution component.**

- **Defined benefit**
  - » Monthly benefit – guaranteed for your lifetime
  - » Funded by employer contributions
  - » Benefit options – single life or joint survivor
- **Defined contribution**
  - » Investment programs
  - » Funded by member contributions and investment earnings
  - » Accessible when you separate from employment

## How is my benefit calculated?

### Defined benefit

The following is used to calculate your base defined benefit:

- A factor of one percent
- Your Service Credit Years (SCY)
- Your Average Final Compensation (AFC), which is based on your highest salary for 60 consecutive service credit months, no matter when your service occurred. AFC does not include payments for any type of severance pay, such as lump-sum payments for deferred sick leave, vacation or annual leave

Here is the formula used to calculate your benefit: *1% x service credit years x Average Final Compensation = lifetime monthly benefit*

**For example:** If you have 25 service credit years and your Average Final Compensation is \$4,000.00, the formula would be:  $0.01 \times 25 \times \$4,000.00 = \$1,000.00$  (monthly benefit)

### Practice here:

$$1\% \times \frac{\text{SCY}}{\text{SCY}} \times \$ \frac{\text{AFC}}{\text{AFC}} = \$ \frac{\text{Monthly Benefit}}{\text{Monthly Benefit}}$$

The amount you receive each month may also depend on indexing and the choices you make at retirement such as the benefit option you select and/or purchasing additional service credit.

## What is service credit?

Service credit is based on the hours of compensated employment reported by your employer. You earn one service credit month for any calendar month in which you receive earnable compensation for at least 90 hours. The 90 hours may be earned with one or more employers.

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Beginning in September 1991, you earn one half of a service credit month for any calendar month in which you receive compensation for fewer than 90, but at least 70 hours. You earn one-quarter service credit for each month in which compensation is earned for less than 70 hours.

You may be able to increase your service credit total if you:

- Had military service interrupt your retirement plan membership
- Taught outside the state for a public education employer (TRS only)
- Worked as a substitute (TRS/SERS only)
- Were on temporary duty disability
- Took an authorized unpaid leave of absence
- Restore withdrawn Plan 2 contributions

For more information, review the DRS publications on these specific topics relevant to your retirement plan on the DRS website at [www.drs.wa.gov](http://www.drs.wa.gov).

### Public education employees

Only *public education* service credit is based on a 12 for 9 rule, which allows you to earn 12 service credit months for each school year (September 1 through August 31) in which you:

- Begin working in September;
- Work nine months; and
- Receive earnable compensation for 810 or more hours.

You earn six service credit months for each school year in which you:

- Begin working in September;
- Work nine months; and
- Receive earnable compensation for at least 630 hours, but fewer than 810 hours.

As of the 2008–2009 school year, TRS and SERS Plan 3 members can earn six months of service credit when they meet the following criteria:

- Employed for at least five months of a six-month period, from September through August; and
- Earned 630 hours or more within that six-month period.

## What is dual membership?

If you are a member of more than one Washington State retirement plan or system, or a member of a First Class City plan (see the glossary in the Resources section), you may be able to combine your service credit to become eligible for retirement. Provisions of each plan determine the amount of the benefit and when it is payable.

If your combined service makes you eligible to retire under any one dual member system, you may elect to retire from all dual member systems to which you belong. If a system's laws would not allow retirement because you are younger than the minimum retirement age, you may:

- Defer receiving a benefit until you reach full retirement age under the plan; or
- Begin receiving a reduced benefit before you reach normal retirement age.

Although you can combine service from all systems to become eligible for retirement, the amount of the benefit you will receive and when you may begin receiving it is determined by the rules of each individual system. Please call DRS to discuss your circumstances.

## When can I retire?

### Vesting

You have a right to a retirement benefit after becoming vested (based on your eligibility as defined below) even if your covered employment ends. Your retirement date will be different from the date you leave your job (separate from employment). You are eligible to receive your defined benefit at:

- Age 65, with at least 10 service credit years
- Age 65, with at least five service credit years, including 12 service credit months that were earned after age 44
- Age 65, with at least five service credit years that were earned under Plan 2 before:
  - » June 1, 2003 for PERS Plan 3 members; or
  - » September 1, 2000 for SERS Plan 3 members.
  - » July 1, 1996 for TRS Plan 3 members; or
- You can retire as early as age 55 with a reduced benefit if you have at least 10 service credit years. With at least 30 service credit years you can retire as early as age 62 with an unreduced benefit. Retirement before age 65 is considered an early retirement.

## What is the impact on my benefit if I retire early?

While you are able to begin receiving a retirement benefit when you retire early, your benefit is affected because you will begin receiving it before age 65. The amount of the impact depends on your service credit, the date you retire, your age and the early retirement factor used.

If you retire with at least 10 but less than 30 service credit years:

- Your benefit is reduced by a factor that is based on your average life expectancy. The reduction is greater than if you retire with at least 30 service credit years.

If you retire on or after July 1, 2008 (PERS) or September 1, 2008 (TRS and SERS) and have 30 years or more of service credit, you can choose either:

- The three percent ERF, which reduces your benefit by an early retirement factor of three percent for each year before age 65 that you retire; OR
- The 2008 ERF which provides a smaller benefit reduction but imposes stricter return to work rules. See the table on the right.

Early retirement rules will be different for members who are first hired into eligible positions on or after May 1, 2013. At age 55 with 30 years of service credit, your benefit will be reduced by five percent for each year before age 65.

### What reductions apply if I retire early?

If you retire before age 65, your benefit is reduced to reflect the fact that you will receive it over a longer period of time. The amount of the reduction depends on how much younger than age 65 you are when you retire and the amount of service credit you have. The table below shows the early retirement factors used.

#### Examples

**Plan 3 is based on the benefit formula:**

$$1\% \times \text{service credit years} \times \text{Average Final Compensation} \times \text{ERF} = \text{Monthly Benefit}$$

**You retire at age 62 with 30 years of service credit.** Your Average Final Compensation is \$4,000. If you choose the three percent ERF, your monthly benefit is calculated as follows:

$$\text{Monthly Benefit} = 1\% \times 30 \text{ years} \times \$4,000 \times 91\% \text{ or } .01 \times 30 \times \$4,000 \times .91 = \$1,092$$

If you choose to retire under the 2008 ERF, your benefit is unreduced but you have stricter return to work rules. Your retirement benefit will be suspended immediately if you return to work before age 65. Your monthly benefit is calculated as follows:

$$\text{Monthly Benefit} = 1\% \times 30 \text{ years} \times \$4,000 \times 100\% \text{ or } .01 \times 30 \times \$4,000 \times 1.00 = \$1,200$$

| Table 1: Early Retirement Factors |                            |                          |            |           |
|-----------------------------------|----------------------------|--------------------------|------------|-----------|
| Retirement age                    | At least 10 years service* | 30 years or more service |            |           |
|                                   |                            | 3% ERF                   | 2008 ERF** | 5% ERF*** |
| 55                                | 0.365                      | 0.70                     | 0.80       | 0.50      |
| 56                                | 0.401                      | 0.73                     | 0.83       | 0.55      |
| 57                                | 0.442                      | 0.76                     | 0.86       | 0.60      |
| 58                                | 0.487                      | 0.79                     | 0.89       | 0.65      |
| 59                                | 0.537                      | 0.82                     | 0.92       | 0.70      |
| 60                                | 0.594                      | 0.85                     | 0.95       | 0.75      |
| 61                                | 0.657                      | 0.88                     | 0.98       | 0.80      |
| 62                                | 0.728                      | 0.91                     | 1.00       | 0.85      |
| 63                                | 0.808                      | 0.94                     | 1.00       | 0.90      |
| 64                                | 0.898                      | 0.97                     | 1.00       | 0.95      |

\*\* These factors are available beginning 7/1/2008 (PERS), 9/1/2008 (SERS and TRS), and were established by legislation which ended gain sharing. If a court of law decides the repeal of gain sharing is invalid, the factors and return to work rules in place before passage of the law will apply.

\*\*\* If you were hired on or after May 1, 2013, have 30 years of service credit and are age 55 or older, your ERF reduces your benefit by 5% for each year before age 65.

## When is my retirement effective?

Your retirement is effective on the first of the month after your last day of employment. For example, if you separate from employment on June 15, your retirement date is July 1, which means you receive your first benefit check on or about July 31.

If you are not currently employed in a covered position (see the glossary in the Resources section), your effective date is the first day of the month after you become eligible for retirement. For example, if you left service at age 52 but waited until age 65 to retire, your retirement date would be the first day of the month following your 65th birthday. It's important to remember that your retirement date is not the same as your last day of work.

## What is the impact on my benefit if I defer retirement?

### Inflation Protection for Inactive Members

If you have at least 20 service credit years when you separate from employment, your benefit increases approximately three percent every year that you delay receiving benefits (until age 65). This is called indexing or inflation protection.

#### Example:

**Member works until 55 and separates from service.**

**Member defers retirement until age 65.**

**AFC** = \$4,000

**Service Credit** = 25 years

$1\% \times 25 \times \$4,000 = \$1,000$

\$1,000 increases to \$1,349.40 between age 55 & age 65.

Use your online account access on the DRS web site at [www.drs.wa.gov/oaa](http://www.drs.wa.gov/oaa) to estimate your retirement benefit if inflation protection for inactive members may apply to you.

## Benefit option selection

When you apply for a service or disability retirement, you must select a benefit option. Your selection is irrevocable as of your retirement date, except under the circumstances identified on page 8. Use the examples below to assist in your option selection.

### Benefit option examples (examples represent a PERS Plan 3 member)

|   |
|---|
| <p><b>Pat (member):</b> Age 65<br/> <b>Chris (beneficiary):</b> Age 61<br/> <b>Average Final Compensation:</b> \$4,000.00<br/> <b>Service credit:</b> 25 years<br/> <b>1% x 25 x \$4,000.00 = \$1,000.00 Monthly Benefit</b></p>  |
| <p><b>Option 1 – Single Life Benefit.</b> Provides the maximum benefit for your lifetime. Beneficiaries receive a final payment, but do NOT receive a monthly benefit.</p>  |
| <p>1% x 25 x \$4,000.00 = \$1,000.00 monthly benefit. Upon Pat’s death, Chris will receive the final prorated benefit payment.</p>  |
| <p><b>Option 2 – Joint and 100% Survivor.</b> Provides a reduced benefit during your lifetime. After you die, your designated survivor will receive the same amount during his or her lifetime.</p>   |
| <p>\$1,000.00 (monthly benefit) x .773 = \$773.00 monthly benefit<br/>                 Upon Pat’s death, Chris will receive the same continuing monthly benefit Pat received: \$773.00.</p>   |
| <p><b>Option 3 – Joint and 50% Survivor.</b> Provides a reduced benefit during your lifetime. After you die, your designated survivor will receive 50% of the benefit during his or her lifetime.</p>   |
| <p>\$1,000.00 (monthly benefit) x .872 = \$872.00 monthly benefit<br/>                 Survivor benefit = \$436.00<br/>                 Upon Pat’s death, Chris will receive a continuing monthly benefit of \$436.00, half of the monthly benefit Pat received.</p>        |
| <p><b>Option 4 – Joint and 66.67% Survivor.</b> Provides a reduced benefit during your lifetime. After you die, your designated survivor will receive 66.67% of the benefit during his or her lifetime.</p>   |
| <p>\$1,000.00 (monthly benefit) x .836 = \$836.00 monthly benefit<br/>                 Survivor benefit = \$557.36<br/>                 Upon Pat’s death, Chris will receive a continuing monthly benefit of \$557.36, two-thirds (66.67%) of the benefit Pat received.</p> |

Use your online account access on the DRS web site at [www.drs.wa.gov/oaa](http://www.drs.wa.gov/oaa) to estimate your retirement benefit survivor options.

## Changing a benefit option after retirement

Once you retire, you may only change your benefit option or survivor in the following circumstances:

- If you select someone other than a spouse to receive your survivor benefit, you can change to Option 1 any time after retirement by contacting DRS.
- If you chose one of the survivor options (2, 3 or 4), and the person you named as your survivor dies, your retirement benefit can be adjusted to the higher Option 1 benefit level. Be sure to notify DRS if this happens.
- If you marry (or remarry) after retirement and remain married for at least one year, you may change your benefit option and name your new spouse as your survivor. Your benefit will be reduced. To qualify for this opportunity, you must request the option change between your first and second year of marriage. Also, be aware that this opportunity may not be available if your benefit has been impacted by a court-ordered property division that requires you to name an ex-spouse as a survivor.
- Returning to work and contributing to your retirement system again:
  - PERS and SERS – If you complete two or more years as a contributing member, you can retire again and select a new benefit option and/or survivor.
  - TRS – If you re-enter TRS membership, you can retire again and select a new benefit option and/or survivor.

A change to your benefit will be effective the month following your request.

## How can I maximize my retirement benefit?

### Defined benefit

You have the option at retirement to purchase up to 60 months of additional service credit in whole month increments. This service credit is only used to increase the amount of your benefit and cannot be used to qualify for retirement eligibility. **If you decide to purchase service credit, you must make that request at the time you apply for retirement.** You will have up to 90 days to pay the bill for this additional service credit.

For example: Pat has 25 service credit years and is 65, with an AFC of \$4,000.00. She has an additional five service credit years she can choose to purchase.

Pat's standard monthly benefit:  $1\% \times 25 \text{ (SCY)} \times \$4,000.00 = \$1,000$

If she purchases the additional service credit:  $1\% \times 5 \text{ (SCY)} \times \$4,000.00 = \$200$

Total new monthly benefit: \$1,200

Her cost for purchasing the additional service credit:  $\$200 \div 0.0068403 \text{ (PERS annuity factor effective 10/1/2013)} = \$29,238.48.$

For more information, review the DRS publication *Purchasing Additional Service Credit*, available on the DRS website at [www.drs.wa.gov](http://www.drs.wa.gov). You may also estimate the monthly increase and cost by logging on or signing up for *online account access* on the DRS home page.

**TRS 3 Members:** When you apply for retirement, you can supplement your monthly benefit by making a one-time, lump sum payment to purchase an annuity. You may roll over funds from another tax-deferred retirement account to pay for this annuity. Contact DRS to learn more.

## Administrative Factors

DRS uses administrative factors to calculate benefit adjustments. There are several types of benefit adjustments, but the most common are: survivor, early retirement and purchasing service credit.

### Cost-of-living adjustment (COLA)

Your monthly benefit will be adjusted by a yearly Cost-of-living adjustment (COLA). On July 1 of every year following your first full year of retirement, your monthly benefit will be adjusted by the percentage change in the Consumer Price Index, to a maximum of three percent per year.

### What will happen if I work after retirement?

If you return to work for a DRS-covered employer less than 30 days after your effective retirement date:

- For **PERS/SERS**, your benefit will be reduced by 5.5 percent for every eight hours you work in a month, to a maximum of 160 hours.
- For **TRS**, your benefit will be reduced by 5.5 percent for every seven hours you work in a month, to a maximum of 140 hours.
- If the reduction is more than your benefit, the excess is taken from your next month's benefit payment.
- The reduction continues until you leave employment for a full 30 days.

If you return to work for a DRS-covered employer more than 30 days after your effective retirement date:

- You can work up to **867 hours** in a calendar year and continue to receive your monthly benefit. If you work more than the maximum number of hours allowed, your retirement benefit will be suspended for the remainder of the calendar year or until you terminate employment. If you retire under the 2008 ERFs (see pages 4–5) and return to work before age 65, your benefit will be immediately suspended.

For more information, refer to the DRS publication *Thinking about working after retirement?*, available on the DRS website at [www.drs.wa.gov](http://www.drs.wa.gov).

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## Preparing for retirement

As you get closer to retirement, consider the following:

- If you are within a year of your retirement date, request an estimate of your benefit from DRS.
- Evaluate the option to purchase additional service credit when you retire. See *Purchasing Additional Service Credit* available on the DRS website at [www.drs.wa.gov/member](http://www.drs.wa.gov/member).
- Use your online account access on the DRS home page at [www.drs.wa.gov](http://www.drs.wa.gov) to create an estimate of your retirement benefit and to determine how Purchasing Additional Service Credit will increase your benefit. You can also check the accuracy of your service credit (if you find information that you think is incorrect, contact your employer).
- Consider catch-up options for the Deferred Compensation Program or other employer-sponsored programs.
- Review options for health care coverage after retirement. Contact the Health Care Authority (HCA) at 800-200-1004 or visit the HCA website: [www.hca.wa.gov](http://www.hca.wa.gov) for more information.
- Contact the Social Security office periodically to review the accuracy of your file. The toll-free telephone number for Social Security information is 800-772-1213. You can also get valuable information about Social Security and Medicare by visiting the Social Security Administration website: [www.socialsecurity.gov](http://www.socialsecurity.gov).
- Get a copy of IRS Publication 575, *Pension and Annuity Income*, available on the IRS website: [www.irs.gov](http://www.irs.gov).

## Applying for retirement

You can complete the entire retirement process online or through the mail. If you prefer to visit DRS to review your account information and retirement options, Retirement Specialists are available to assist you. Please call for an appointment.

## Defined contribution component

This part of your retirement benefit is based entirely on the amount you contributed and the performance of the investments you chose.

In Plan 3 your contributions are invested in one of two separate investment programs – the Washington State Investment Board (WSIB) Investment Program or the Self-Directed Investment Program.

It is important to periodically review your investment portfolio, investment objectives, and the investment options in Plan 3 to help ensure that your retirement savings will meet your retirement goals. Remember to consider the length of time you have before retirement and your plans during retirement – these are important factors as you determine what funds to invest in.

## WSIB Investment Program

The Washington State Investment Board (WSIB) allows you to invest in the Total Allocation Portfolio (TAP) with an asset allocation that is determined, managed and continuously rebalanced by the WSIB.

## Self-Directed Investment Program

The Self-Directed Investment Program offers you two different approaches to investing and several different fund options.

To determine which approach – One-Step Investing or Build and Monitor – might be right for you, ask yourself these questions:

- Do I have the desire to select my own mix of individual funds?
- Am I comfortable deciding how much to invest in each fund?
- Do I have the time to keep an eye on my investments and make changes as I get closer to retirement?

If the answer to any of these questions is yes, you may be interested in the Build and Monitor approach to investing. If the answer to any of these questions is no, you may be interested in the One-Step Investing approach.

## Build & Monitor

The Build & Monitor approach allows you to create your investment portfolio by selecting from any of the offered funds.

The amount of potential risk and return associated with each fund, as well as your tolerance for risk, is one way to think about which investment(s) you might be interested in. With this in mind, remember that diversification is also important. With the Build & Monitor approach, you are responsible for monitoring your portfolio and rebalancing the allocation mix as necessary to maintain your investment objectives.

## One Step Investing

If you find you don't have the desire, comfort level and/or time to select your own mix of funds, monitor them and make changes, allocating your investments to a Retirement Strategy Fund may be right for you.

Retirement Strategy Funds (RSF) are diversified asset allocation portfolios designed for people who want to leave ongoing investment decisions to an experienced portfolio management team. You pick the RSF with the date closest to your expected target date for retirement. As you get closer to your target date, and for 15 years beyond, the management team gradually adjusts your RSF to a more conservative asset mix.

## Summary of Investment Approaches

The two different investment approaches described above imply you should choose one approach. However, there is nothing to prevent you from using both approaches if you wish. We recommend you refer to the Plan 3 *Investment Guide* and Fund Fact Sheets for additional details on each of the funds available to you.

Please contact ICMA-RC at 888-711-8773 with any questions or to make changes to your investments. Online resources are also available on the ICMA-RC website, [www.icmarc.org/washingtonstate.html](http://www.icmarc.org/washingtonstate.html), for continued management of your investments.

## Payment of your defined contributions

You can withdraw or roll over funds from your Plan 3 defined contribution account any time you separate from covered employment. You can choose to receive the money in installments, a lump sum, or roll it over to an eligible account. Both the Self-Directed Investment Program and WSIB offer lifetime annuities.

To initiate payments from your defined contribution account, contact ICMA-RC (record keeper for Plan 3) for a *Request for Payment of Defined Contribution Funds* packet.

Note: If you are requesting a payment from the Self-Directed Investment Program, the process can take 3-30 days. If you are requesting a payment from the WSIB Investment Program, the process can take up to 70 days.

### Payment options

- Lump sum or partial cash distribution
- Direct rollover
- Scheduled payments
- Annuity purchase
  - » Self Directed minimum purchase price \$5,000
  - » WSIB (TAP) minimum purchase price \$25,000

### If you die before receiving your defined contributions

If you are survived by a spouse or alternate payee beneficiary and you did not initiate payment of the defined contributions before your death, your beneficiary may choose from any of the distribution options listed above.

If you are survived by a non-spouse beneficiary and you did not initiate payment of the defined contributions before your death, your beneficiary may choose from most of the distribution options.

If your non-spouse beneficiary initiates a direct roll over to an IRA (includes traditional and Roth), it must be properly established as an inherited IRA.

### If you die after you begin receiving your defined contributions

If there is a remaining balance, your spouse or alternate payee beneficiary will have the same distribution options as you.

If you purchased an annuity with your defined contributions, please refer to the terms of your annuity. You can learn more about the annuity options in the Annuity Guide found on the Publications tab of the Plan 3 website.

#### Contacting DRS

##### Mailing address

Department of Retirement Systems  
PO Box 48380  
Olympia, WA 98504-8380

##### Street address

6835 Capitol Boulevard  
Tumwater, WA 98501

##### ICMA-RC

Toll free.....888.711.8773  
Email: [plan3@icmarc.org](mailto:plan3@icmarc.org)

#### Telephone

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Toll free.....800.547.6657  
TTY.....711

Email: [recep@drs.wa.gov](mailto:recep@drs.wa.gov)

It may be possible for other people to read messages sent over the Internet. If you contact us by email, please include only the last four digits of your Social Security number

Website: [www.drs.wa.gov](http://www.drs.wa.gov)