



RULE-MAKING ORDER

CR-103P (May 2009)
(Implements RCW 34.05.360)

Agency: Department of Retirement Systems

Permanent Rule Only

Effective date of rule:

Permanent Rules

- 31 days after filing.
- Other (specify) _____ (If less than 31 days after filing, a specific finding under RCW 34.05.380(3) is required and should be stated below)

Any other findings required by other provisions of law as precondition to adoption or effectiveness of rule?

- Yes
 - No
- If Yes, explain:

Purpose: To define, document and clarify how the agency administers statutes that provide for the purchase of additional annuities and service credits in certain retirement systems.

Citation of existing rules affected by this order:

Repealed:
 Amended: WAC 415-02-177 May I purchase additional service credit?
 Suspended:

Statutory authority for adoption: 41.50.050 (5)

Other authority :

PERMANENT RULE (Including Expedited Rule Making)

Adopted under notice filed as WSR 16-01-199 on December 23, 2015 (date).
 Describe any changes other than editing from proposed to adopted version:

The text being adopted is identical to the text as proposed.

If a preliminary cost-benefit analysis was prepared under RCW 34.05.328, a final cost-benefit analysis is available by contacting:

Name: _____ phone () _____
 Address: _____ fax () _____
 e-mail _____

Date adopted:

January 27, 2016

NAME (TYPE OR PRINT)

Marcie Frost

SIGNATURE

TITLE

Director

CODE REVISER USE ONLY

OFFICE OF THE CODE REVISER
STATE OF WASHINGTON
FILED

DATE: January 27, 2016

TIME: 3:10 PM

WSR 16-04-048

**Note: If any category is left blank, it will be calculated as zero.
No descriptive text.**

**Count by whole WAC sections only, from the WAC number through the history note.
A section may be counted in more than one category.**

The number of sections adopted in order to comply with:

Federal statute:	New	<u>0</u>	Amended	<u>0</u>	Repealed	<u>0</u>
Federal rules or standards:	New	<u>0</u>	Amended	<u>0</u>	Repealed	<u>0</u>
Recently enacted state statutes:	New	<u>1</u>	Amended	<u>1</u>	Repealed	<u>0</u>

The number of sections adopted at the request of a nongovernmental entity:

	New	<u>0</u>	Amended	<u>0</u>	Repealed	<u>0</u>
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The number of sections adopted in the agency's own initiative:

	New	<u>1</u>	Amended	<u>1</u>	Repealed	<u>0</u>
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The number of sections adopted in order to clarify, streamline, or reform agency procedures:

	New	<u>1</u>	Amended	<u>1</u>	Repealed	<u>0</u>
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The number of sections adopted using:

Negotiated rule making:	New	<u>0</u>	Amended	<u>0</u>	Repealed	<u>0</u>
Pilot rule making:	New	<u>0</u>	Amended	<u>0</u>	Repealed	<u>0</u>
Other alternative rule making:	New	<u>0</u>	Amended	<u>0</u>	Repealed	<u>0</u>

WAC 415-02-177 May I purchase additional service credit? (1)
What is the option for purchasing additional service credit? The following statutes provide an option for eligible members to purchase additional service credit that provides a guaranteed, lifetime increase to their monthly retirement benefit:

- (a) RCW 41.26.199 for LEOFF Plan 1 members;
- (b) RCW 41.26.432 for LEOFF Plan 2 members;
- (c) RCW 41.40.034 for PERS Plan 1, 2, and 3 members;
- (d) RCW 41.37.265 for PSERS Plan 2 members;
- (e) RCW 41.35.183 for SERS Plan 2 and 3 members;
- (f) RCW 41.32.066 for TRS Plan 1, 2, and 3 members; and
- (g) RCW 43.43.233 for WSPRS Plan 1 and 2 members.

(2) Am I eligible to purchase additional service credit?

(a) You may purchase additional service credit if you are eligible to retire from one or more of the following plans and you elect a monthly benefit rather than a lump sum payment:

- (i) LEOFF Plan 1 or 2 under RCW 41.26.090 or 41.26.430;
- (ii) PERS Plan 1, 2, or 3 under RCW 41.40.180, 41.40.630, or 41.40.820;
- (iii) PSERS Plan 2 under RCW 41.37.210;
- (iv) SERS Plan 2 or 3 under RCW 41.35.420 or 41.35.680;
- (v) TRS Plan 1, 2, or 3 under RCW 41.32.480, 41.32.765, or 41.32.875; or
- (vi) WSPRS Plan 1 or 2 under RCW 43.43.250.

(b) If you retire as a result of a disability, you may purchase additional service credit if you meet the requirements in (a) of this section.

(3) How much additional service credit may I purchase? If you are eligible, you may purchase from one to sixty months of additional service credit in whole month increments.

(4) May I use the additional purchased service credit to qualify for normal retirement or an early retirement? No. You may not use the purchased service credit to qualify for normal retirement or to qualify for an early retirement.

(5) When must I apply to purchase additional service credit? You must submit your request to purchase additional service credit to the department at the same time you submit your application for retirement.

(6) How much will my monthly retirement benefit increase if I purchase additional service credit? The increase in your monthly retirement benefit will be calculated using the benefit formula for your system and plan, with a reduction for early retirement, if applicable.

Example 1 (PERS Plan 2): John is a member of PERS Plan 2. He applies for retirement, effective the first month after his 62nd birthday and chooses to purchase an additional sixty months (five years) of service credit. His average final compensation (AFC) is \$4000 per month. For illustration purposes in this example only, we will use .7240000 as the corresponding early retirement factor (ERF) for retiring three years early (actuarial factors change periodically). As a result, John's monthly benefit will increase by \$289.60 per month, calculated as follows:

$$\text{Amount of increase} = 2\% \times \text{additional service credit years} \times \text{AFC} \times \text{ERF}$$

$$\begin{aligned}
&= 2\% \times 5 \text{ years} \times \$4000 \times .7240000 \\
&= \$289.60
\end{aligned}$$

Example 2 (TRS Plan 3): Jane is a member of TRS Plan 3. She applies for retirement, effective the first month after her 62nd birthday and chooses to purchase an additional sixty months (five years) of service credit. Her AFC is \$4000 per month. For illustration purposes in this example only, we will use .7240000 as the corresponding ERF for retiring three years early (actuarial factors change periodically). As a result, Jane's monthly retirement benefit will increase by \$144.80 per month, calculated as follows:

$$\begin{aligned}
\text{Amount of increase} &= 1\% \times \text{additional service credit years} \times \text{AFC} \times \text{ERF} \\
&= 1\% \times 5 \text{ years} \times \$4000 \times .7240000 \\
&= \$144.80
\end{aligned}$$

Example 3 (LEOFF Plan 2): Jim is a member of LEOFF Plan 2. He applies for retirement, effective the first month after his 53rd birthday and chooses to purchase an additional sixty months (five years) of service credit. His final average salary (FAS) is \$4000 per month. No ERF is needed for this calculation as Jim has already reached normal retirement age for LEOFF Plan 2. Jim's monthly retirement benefit will increase by \$400 per month, calculated as follows:

$$\begin{aligned}
\text{Amount of increase} &= 2\% \times \text{additional service credit years} \times \text{FAS} \\
&= 2\% \times 5 \text{ years} \times \$4000 \\
&= \$400
\end{aligned}$$

(7) **How is the cost of the additional purchased service credit calculated?** The cost to purchase additional service credit is calculated by dividing the amount of the increase in subsection (6) of this section by the age-based annuity factor in effect at the time of retirement. (See WAC 415-02-340 for more information.)

Example. In subsection (6) of this section, Example 1, it was determined that John's retirement benefit would increase by \$289.60 per month. For illustration purposes in this example only, we will use .0065016 as the annuity factor for John's retirement date (actuarial factors change periodically). As a result, John's cost to purchase the five years of additional service credit would be \$44,542.88, calculated as follows:

$$\begin{aligned}
\text{Cost} &= \text{Amount of increase} \div \text{age-based annuity factor} \\
&= \$289.60 \div .0065016 \\
&= \$44,542.88
\end{aligned}$$

(8) **How and when do I pay for the additional service credit?** The department will generate a bill to you for the cost of the additional service credit.

(a) Payment may be made with an eligible rollover, a direct rollover or a trustee-to-trustee transfer, if allowed by the transferring plan. Payment may also be made with after-tax dollars, such as money from a personal savings account. However, IRS regulations limit the amount of after-tax dollars you may use to purchase additional service credit.

(b) Payment must be made in full within ninety days after the bill issue date.

(9) **If I choose a benefit option with a survivor feature, will my ((survivor beneficiary's)) survivor's monthly benefit reflect the additional purchased service credit?** Yes. Depending upon the rules for

your retirement system and plan and the benefit option you choose at retirement, your ~~((survivor beneficiary's))~~ survivor's monthly benefit will be a percentage of the gross monthly retirement benefit you were receiving at the time of your death. Since the additional service you purchased is included in the calculation of your monthly benefit, the survivor option you designate for your monthly benefit will also be applied to the benefit from the purchased service credit. You cannot choose a different survivor. If you choose a benefit option with a survivor feature and your survivor ~~((beneficiary))~~ dies before you, your monthly retirement benefit will increase to the amount it would have been had you not selected a survivor option.

(10) Will I receive a cost of living adjustment (COLA) on the portion of my benefit that is based on the additional purchased service credit?

(a) For all systems and plans, except as noted in (b) of this subsection, your COLA will be based on your gross monthly retirement benefit, including the increase due to the purchased service credit.

(b) If you retire from PERS Plan 1 or TRS Plan 1 and you do not elect the optional auto COLA, you will not receive a COLA on the additional purchased service credit amount.

(11) If I purchase additional service credit and then return to work, how will my retirement benefit be affected? Your entire retirement benefit, including the amount attributable to purchased service credit, is subject to the return to work provisions of your system and plan. The following rules describe the impact on your benefit if you return to work as a retiree of the referenced systems and plans:

PERS Plans 1, 2, and 3:	WAC 415-108-710
TRS Plan 1:	WAC 415-112-541
TRS Plans 2 and 3:	WAC 415-112-542
SERS Plans 2 and 3:	WAC 415-110-710
PSERS Plan 2:	WAC 415-106-700
LEOFF Plan 2:	WAC 415-104-111

(12) If I retire and purchase less than sixty months of additional service credit, may I purchase more at a later time? No. You may not purchase additional months of service credit from the same plan unless you return to membership and retire again from the same system and plan. You must meet the eligibility requirements provided in subsection (2) of this section at the time you retire again. You may not purchase more than a total of sixty months of service credit regardless of how many times you retire again from the same system and plan.

(13) May I purchase service credit from more than one retirement plan?

(a) If you are a dual member under chapter 415-113 WAC, Portability of public employment benefits, and you combine service credit to retire as a dual member, you may purchase up to sixty months of additional service credit from each of your dual member plans.

(b) If you retire from more than one plan, but are not a dual member under chapter 415-113 WAC, you may purchase up to sixty months of additional service credit from each plan in which you meet the eligibility requirements in subsection (2) of this section.

(14) How are the funds I paid to purchase the additional service credit treated upon my death (and the death of my survivor ~~((beneficiary))~~, if applicable)?

(a) Plans 1 and 2. The amount paid to purchase the additional service credit is credited to your individual account as part of your accumulated contributions. Distribution of accumulated contributions after your death (and the death of your survivor (~~beneficiary~~)), if any) is governed by the statutes and rules applicable to your plan. See:

- (i) WAC 415-108-326 for PERS Plan 1 and 2;
- (ii) WAC 415-112-504(9) for TRS Plan 1;
- (iii) WAC 415-112-505(7) for TRS Plan 2;
- (iv) WAC 415-110-610(7) for SERS Plan 2;
- (v) WAC 415-106-600(7) for PSERS Plan 2;
- (vi) WAC 415-103-215 for WSPRS Plan 1;
- (vii) WAC 415-103-225(7) for WSPRS Plan 2;
- (viii) WAC 415-104-202 for LEOFF Plan 1; or
- (ix) WAC 415-104-215(7) for LEOFF Plan 2.

(b) Plan 3. (~~The amount paid to purchase the additional service credit is credited to the Plan 3 trust fund and not to your member account. There are no circumstances under which the amount will be distributed upon your death.~~) If you and your survivor (if you selected a survivor option) die before the amount of your purchased service credit has been paid back to you in your monthly retirement benefit, the difference will be refunded to your designated beneficiary.

NEW SECTION

WAC 415-02-178 May I purchase an annuity? (1) **Am I eligible to purchase an annuity?** You are eligible to purchase an annuity at the time of retirement from your defined benefit for either service or disability if you are a member of TRS (RCW 41.32.067), WSPRS (RCW 43.43.315), or LEOFF Plan 2 (RCW 41.26.463). This annuity provides a lifetime increase to your monthly benefit. (For purchasing an annuity from your Plan 3 defined contribution account, refer to WAC 415-111-320.)

(2) **Can I purchase an annuity if I take a lump sum payment?** No, you may not purchase an annuity if you elect a lump sum payment instead of a monthly benefit.

(3) **Are there limits to the annuity amount I may purchase?** There is no maximum limit on the purchase amount. If you are a LEOFF Plan 2 member or WSPRS member the minimum amount you may purchase is \$25,000. There is no minimum required for TRS members.

(4) **When can I apply to purchase an annuity?** You must submit your request to purchase an annuity to the department at the time you apply for retirement.

(5) **How much will my monthly benefit increase if I purchase an annuity?** The increase in your monthly benefit will be calculated using the following formula:

Purchase Annuity Amount x Annuity Factor = Increase to Monthly Benefit

The annuity factor is determined by your age on the later of your retirement date or the date your retirement application is submitted to the department.

Example: John is a member of LEOFF Plan 2. He applies for retirement and requests to purchase an annuity for \$45,000. For illustration purposes in this example only, we will use .0051025 as the correspond-

ing annuity factor (factors change periodically). John's monthly benefit will increase by \$229.61 per month, calculated as follows:

$$\begin{aligned} \text{Purchase Annuity Amount} \times \text{Annuity Factor} &= \text{Increase to Monthly Benefit} \\ \$45,000 \times .0051025 &= 229.61 \end{aligned}$$

(6) **How and when do I pay for the annuity?** The department will generate a bill to you for the cost of the annuity after we receive your request to purchase.

(a) For all TRS members, payment may be made by making a one-time cash, check, or electronic fund transfer; or you may roll over funds from another tax-deferred retirement account.

(b) For LEOFF Plan 2 and WSPRS members, the annuity must be purchased by rolling over funds from an "eligible retirement plan" which is a tax qualified plan offered by a governmental employer (like the state of Washington's deferred compensation program).

(c) Payment must be made in full by ninety days after the later of your retirement date or bill issue date. Your annuity will begin once your payment is received and your retirement is processed. The effective date for the start of this benefit is the later of your retirement date or the payment in full date plus one day.

(7) **Are there benefit options that allow me to choose a survivor to receive a continuing payment after my death?** Yes. The survivor option you designate for your monthly benefit must also be used for your purchase of annuity.

Depending upon the rules for your retirement system and plan and the benefit option you choose at retirement, your survivor's monthly benefit will be a percentage of the gross monthly benefit you were receiving. If you choose a benefit option with a survivor feature and your survivor dies before you, your monthly benefit will increase to the amount it would have been had you not selected a survivor option.

(8) **Will I receive a cost of living adjustment (COLA) on the portion of my benefit that is based on the purchased annuity?**

(a) If you are eligible for an annual COLA adjustment on your monthly benefit, you will receive the same COLA percentage on this annuity.

(b) If you retire from TRS Plan 1 you must elect the optional auto COLA in order to receive a COLA on the annuity amount.

(9) **If I purchase an annuity and then return to work, how will the annuity portion of my benefit be affected?** You will continue to receive the annuity portion of your monthly benefit payment even if you return to work, or return to membership.

(10) **If I retire then return to membership and rerehire, may I purchase another annuity?** Yes. You may purchase another annuity when you rerehire provided you are rerehiring from an eligible plan that allows an annuity purchase.

(11) **May I purchase an annuity from more than one retirement plan?**

(a) If you are a dual member under chapter 415-113 WAC, Portability of public employment benefits, and you combine service credit to retire as a dual member, you may purchase an annuity from each dual member plan that allows an annuity purchase.

(b) If you are not a dual member and retire separately from more than one plan you may purchase an annuity from each eligible plan that allows an annuity purchase.

(12) How are the funds I paid to purchase the annuity treated upon my death (and the death of my survivor beneficiary, if applicable)?

(a) Plans 1 and 2. The amount paid to purchase the annuity is credited to your individual account as part of your accumulated contributions. Distribution of accumulated contributions after your death (and the death of your survivor beneficiary, if any) is governed by the statutes and rules applicable to your plan. See:

- (i) WAC 415-112-504(9) for TRS Plan 1;
- (ii) WAC 415-112-505(7) for TRS Plan 2;
- (iii) WAC 415-104-215(7) for LEOFF Plan 2;
- (iv) WAC 415-103-215 for WSPRS Plan 1;
- (v) WAC 415-103-225(7) for WSPRS Plan 2.

(b) TRS Plan 3. If you and your survivor (if you selected a survivor option) die before the amount of your purchased annuity has been paid back to you in your monthly benefit, the difference will be refunded to your designated beneficiary.