

Journey to Retirement Transfer Decision Booklet

Introduction	2
PERS Plan 2	4
PERS Plan 3	5
Defined Contribution Component	7
Transfer Information and Defined Contribution Account Funding	11
Deciding on a PERS Plan	14
Resources	15
Keep in Mind	17
Comparison Chart of PERS Plan 2 and PERS Plan 3	18
Glossary	20

© 2001 State of Washington Department of Retirement Systems, Inc. All rights reserved.
This booklet is intended as an educational tool. It is not intended to advise or recommend specific investment strategies. Members making this decision may wish to seek professional financial assistance. All cover photos except photo on right © 2001 EyeWire, Inc. Cover photo on right © 2001 PhotoDisk, Inc.

This publication is not a substitute for reading the full plan materials. It is a brief outline intended to give you an overview of some of the features of PERS Plans 2 and 3. It is not a legal document. The operations of the Plan are governed by the Plan documents, which contain all of the technical provisions that govern the Plan. If there is any conflict between this document and the provisions of the Plan documents, the Plan documents will prevail.



Journey to Retirement



"As a PERS Plan 2 member, you will soon reach a pivotal crossroad in your journey to retirement. You will need to choose whether you want to remain in PERS Plan 2 or transfer to the new PERS Plan 3."

Dual Benefit Structure

PERS Plan 3 has a dual benefit structure. It retains pension benefit features similar to PERS Plan 2 and adds a component in which members choose the level of their contributions and how they are invested.

Defined Benefit is a guaranteed retirement benefit based on service credit and average final compensation. The amount you or your employer contributes does not determine your retirement benefit.

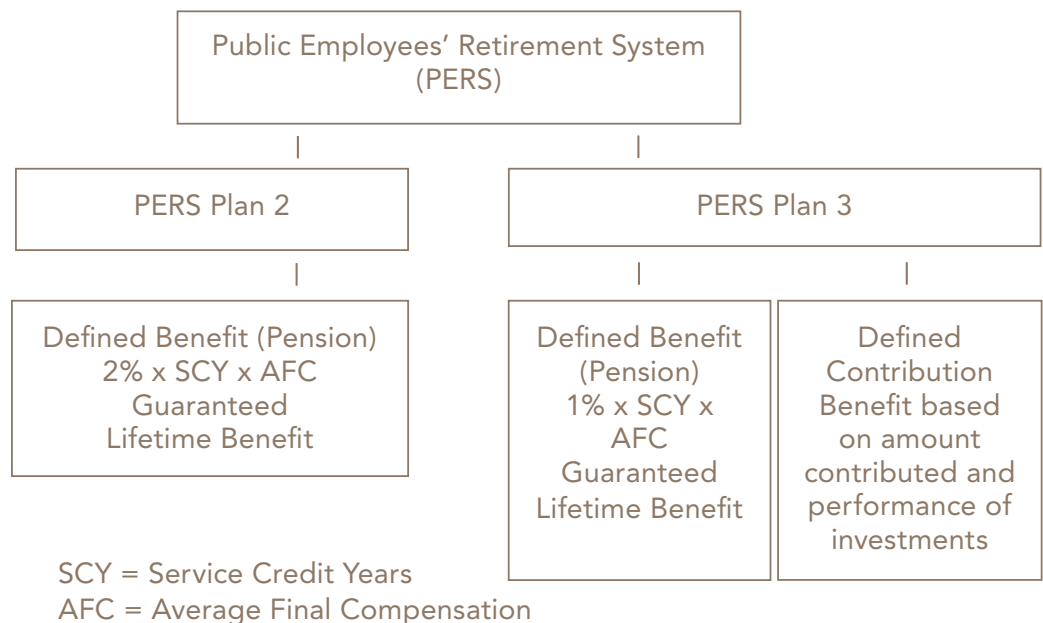
Defined Contribution is a retirement benefit based on the amount contributed and the performance of the investments. Investment returns (both gains and losses) are credited to your Defined Contribution account.

PERS Plan 3 was created by the Washington State Legislature to provide employees increased flexibility in their retirement planning. With this increased flexibility comes additional responsibility. Your individual circumstances and goals for retirement will determine which is more beneficial — for you to remain in PERS Plan 2, or transfer to PERS Plan 3. At the Department of Retirement Systems, our goal is to provide you with information and tools so you can make a choice that will best benefit you and your family.

Use this booklet as your road map to guide you through the decision-making process, to provide key information and help you arrive at your retirement destination.

This booklet does not contain all information about PERS Plan 2 and PERS Plan 3. Please refer to your member handbooks if you need more information.

It is important to have a thorough understanding of the differences between the two PERS Plans before deciding. We will begin with a brief overview of PERS Plan 2 and PERS Plan 3:



Things to consider

There are a number of factors to consider when making your decision, including your length of employment, how much you are earning, how much you have saved and how comfortable you are assuming the risk for your own investment decisions.

Resources available

Several resources, including this booklet, are available to help you evaluate your individual situation and make the choice that is best for you. In addition to written materials, there will be seminars, a video, a Web site, financial modeling software and a phone support center. More information about these resources can be found on pages 15 and 16.

Initial transfer window

State agency and higher education employees

If you are a state agency or higher education employee, your initial transfer window will last from March 1, 2002 through August 31, 2002.

Local government employees

If you are a local government employee, your initial transfer window will last from September 1, 2002 through May 31, 2003.

If you do not choose to transfer during the initial transfer window, you will automatically remain in PERS Plan 2. After the initial transfer window, you will have an annual opportunity to transfer from PERS Plan 2 to PERS Plan 3 in January of each year. However, you will not receive the transfer payment and possible retroactive gain sharing. Transfer payments and retroactive gain sharing are explained in more detail on pages 11-13.

Irrevocable decision

If you decide to transfer from PERS Plan 2 to PERS Plan 3, you will not be able to transfer back to PERS Plan 2 at a later date. The decision to transfer to PERS Plan 3 is irrevocable, so it's important to be sure that you have weighed all of your options carefully.

Transfer Payment

A transfer payment is the payment made to the Defined Contribution account of eligible PERS Plan 2 members who transfer to PERS Plan 3 during their initial transfer window. This payment is in addition to their accumulated account balance (contributions and interest) and a possible retroactive gain sharing payment.

The transfer payment is provided because the defined benefit under PERS Plan 3 is one-half of that under PERS Plan 2. Because of this, the state Legislature provided this one-time transfer payment to compensate PERS Plan 2 members for the change in their defined benefit amount.

"I've been a member of PERS Plan 2 for years now, but I don't really know much about it. I guess I never looked into it. Now that I'm faced with a decision about whether to remain in PERS Plan 2, or transfer to PERS Plan 3, I'm looking forward to learning more about how PERS Plan 2 works."



PERS PLAN 2

What benefits does PERS Plan 2 provide?

PERS Plan 2 is a defined benefit plan that provides a guaranteed lifetime monthly retirement benefit based on your years of service credit and your compensation, provided you meet age and service requirements. The guarantee in PERS Plan 2 is two-fold. PERS Plan 2 members are guaranteed to receive a benefit based on the formula given below, and PERS Plan 2 funds are guaranteed by the state of Washington. A benefit like PERS Plan 2 is often referred to as a pension benefit. The formula for computing your benefit at retirement is:

$2 \text{ percent} \times \text{Service Credit Years (SCY)} \times \text{Average Final Compensation (AFC)}$

For example, if you worked a total of 15 years, working every month, with an average salary over the last five years of \$30,000, your benefit would be:

$2 \text{ percent} \times 15 \times \$30,000 = \$9,000 \text{ annually} = \750 a month

Once you begin receiving benefits, your monthly benefit amount is increased each year, based on cost of living increases, up to a maximum of 3 percent per year.

Who contributes to PERS Plan 2?

PERS Plan 2 is funded by employer contributions, which are currently equal to 1.54 percent of your salary, and mandatory member contributions, which are currently 0.88 percent of your salary.

These contribution rates vary over time. Below is a history of some member contribution rates and a 20-year weighted average.

September 1, 1988	4.90%
September 1, 1991	4.70%
September 1, 1994	5.00%
September 1, 1997	4.65%
September 1, 2000	2.43%
Currently	.65%
20-Year Weighted Average	4.35%

(as of January 2003)

"I would like to know how working longer or retiring early would affect my monthly benefit amount at retirement.

I'm planning to use the financial modeling software so I can figure this out."

Service Credit Years

You receive one service credit month for each calendar month in which you are compensated for 90 or more hours. Service credit years are calculated by dividing your total service credit months by 12.

Average Final Compensation

Average Final Compensation is the monthly average of your 60 consecutive highest-paid service credit months.

Note:

PERS Plan 2 member contribution rates vary over time.

When am I eligible for retirement under PERS Plan 2?

Under PERS Plan 2, you are eligible to retire at age 65 with at least five service credit years or at age 55 with at least 20 service credit years and a reduced benefit. (See the PERS Plan 2 and PERS Plan 3 Early Retirement Reduction Factors Table on page 6.)

Can I withdraw my Defined Benefit contributions?

In PERS Plan 2, you may withdraw your contributions and earnings if you separate from service. However, doing so cancels all rights and benefits you may have earned in PERS. If you return to PERS-covered service, you may be eligible to purchase your service credit. See *Can I Recover Withdrawn or Optional Service Credit?* on the Web site or call 360-664-7000 or toll-free at 800-547-6657 to request a copy.

Note:

In PERS Plan 2 you may withdraw your contributions and earnings if you separate from service. However, doing so cancels all rights and benefits you may have earned in PERS.

PERS PLAN 3

PERS Plan 3 has two components:

- 1) A *Defined Benefit* component like PERS Plan 2, which provides a guaranteed lifetime monthly retirement benefit based on your years of service and compensation, provided you meet the age and service requirements.
- 2) A *Defined Contribution* component in which you choose the level of your contributions and how they are invested.



"Making a decision about which plan to choose is an opportunity to make some important retirement planning decisions for myself."

Defined Benefit Component

What does the Defined Benefit component of PERS Plan 3 provide?

The Defined Benefit component of PERS Plan 3 is similar to PERS Plan 2. It provides a guaranteed lifetime monthly retirement benefit based on your years of service and your compensation. However, the percentage used for computing your benefit at retirement in PERS Plan 3 is 1 percent instead of the 2 percent in PERS Plan 2:

1 percent x Service Credit Years (SCY) x Average Final Compensation (AFC)

Like PERS Plan 2, once you begin receiving benefits, your monthly benefit amount is increased every July 1, after one year, based on the increase in the cost of living, up to a maximum of 3 percent per year. PERS Plan 3 also provides an additional benefit if you have 20 service credit years. See page 6 for details.

Who contributes to the Defined Benefit component of PERS Plan 3?

The Defined Benefit component of PERS Plan 3 is funded entirely by employer contributions, which are currently equal to 1.54 percent of your salary (the same as for PERS Plan 2).

Note:

In both PERS Plan 2 and PERS Plan 3 Defined Benefit, if you retire at age 55, your monthly benefit will be less than if you retire at age 65. (See the Early Retirement Reduction Factors Table to the right.)

Benefit Increases

PERS Plan 3 provides a feature that is not available in PERS Plan 2. If you have at least 20 service credit years and separate from service, your pension benefit will be increased 0.25 percent per month, or approximately 3 percent for each year you delay receiving benefits until age 65.

This feature is in addition to the annual cost of living adjustment that will start when you begin collecting benefits. (You can also delay receiving your benefit under PERS Plan 2. However, your pension benefit will not increase during that time.)

When am I eligible for retirement under the Defined Benefit component of PERS Plan 3?

The retirement eligibility requirements for PERS Plan 3 differ from PERS Plan 2. Under PERS Plan 2, you are eligible to retire at age 65 with at least five service credit years. Under PERS Plan 3:

- You are eligible to retire at age 65 with at least 5 service credit years (including 12 service credit months after reaching age 54).
–or–
- You are eligible to retire at age 65 with at least 5 service credit years by June 1, 2003, under PERS Plan 2 and transferred to PERS Plan 3. –or–
- You are eligible to retire at age 65 with at least 10 service credit years if you don't meet the above criteria.

Under PERS Plan 3, you are eligible to retire at age 55 with at least 10 service credit years; under PERS Plan 2 you are eligible to retire at age 55 with at least 20 service credit years.

PERS Plan 2 and PERS Plan 3 Early Retirement Reduction Factors for Starting Benefit Before Age 65

Eligible Member Retirement Age	Members with less than 30 service credit years*	Members with more than 30 service credit years*
55	0.37	0.70
56	0.40	0.73
57	0.43	0.76
58	0.49	0.79
59	0.55	0.82
60	0.61	0.85
61	0.67	0.88
62	0.73	0.91
63	0.82	0.94
64	0.91	0.97

*Multiply your retirement benefit by the reduction factor next to the age at which you would like to retire to show your reduced early retirement benefit. Reduction factors may vary over time. Please use the DRS Web site for the latest information.

DEFINED CONTRIBUTION COMPONENT

What does the Defined Contribution component of PERS Plan 3 provide?

The ultimate value of the Defined Contribution benefit is based on the amount you contributed and the performance of the investments chosen. Investment returns (both gains and losses) are credited to the Defined Contribution account. The choice of funds will determine the investment risk and return members can expect. Defined Contribution accounts can also be funded with gain sharing. See page 12 for more information.

Who contributes to the Defined Contribution component of PERS Plan 3?

The Defined Contribution component of PERS Plan 3 is funded entirely by member contributions. As with PERS Plan 2, member contributions are mandatory. Unlike PERS Plan 2, which has a single contribution rate (which is currently 0.88 percent), with PERS Plan 3 you choose how much to contribute from one of six rate options:

- 1) Option A: 5% fixed rate at all ages
- 2) Option B: 5% up to age 35
6% ages 35 through 44
7.5% age 45 and older
- 3) Option C: 6% up to age 35
7.5% ages 35 through 44
8.5% age 45 and older
- 4) Option D: 7% fixed rate at all ages
- 5) Option E: 10% fixed rate at all ages
- 6) Option F: 15% fixed rate at all ages

Your contribution rate choice is irrevocable unless you change employers.



"I'm interested in knowing about the difference in contribution rates between the two plans. How much I contribute out of my paycheck will factor into my decision about which plan to choose."

Note:

Once selected, your contribution rate can be changed only if you change employers. Changing employers means working for a different employer not just working for a different division or department of your current employer.

"I don't know that much about investing. I understand that PERS Plan 3 allows you to make some of your own investment choices. How much do I need to learn about investing in order to make an informed decision?"



Program Flexibility

Although you can contribute to only one of the investment programs at a time, you can have assets in both programs; you can also move any portion of your account from one program to the other.

WSIB

The Washington State Investment Board, which invests employer and employee contributions for all state retirement plans, manages the WSIB Investment Program. Assets in the Total Allocation Portfolio are pooled with assets of the Washington State Defined Benefit Plans and valued monthly based on the performance of all the investments in the portfolio.

What factors influence my investment choices?

Both your risk tolerance and your retirement goals will play a significant role in your investment choices. As a PERS Plan 3 member, it is your responsibility to manage your investment choices to meet your retirement goals. PERS Plan 3 investment education materials are described on page 10.

What investment choices do I have?

The Defined Contribution component of PERS Plan 3 offers members the choice between two investment programs.

1) The WSIB Investment Program

If you choose to have your contributions directed to the WSIB Investment Program, they will be invested basically the same way the PERS Plan 2 money and the PERS Plan 3 Defined Benefit component money is invested. Contributions will be placed into the WSIB's Total Allocation Portfolio (TAP). The Total Allocation Portfolio is a diversified portfolio of U.S. and international stocks, bonds, private equity and real estate investments and is a monthly valued fund.

If you do not select an investment program, your contributions will automatically be directed to this program.

2) The Self-Directed Investment Program

The Self-Directed Investment Program allows you to choose from a menu of professionally managed funds. You can choose from any or all of six investment funds and/or from among three pre-set portfolios, which are composed of various mixed funds.

The six investment funds, which have risk/return profiles that range from low risk/low return to higher risk/higher return, allow you to create your own investment mix:

- **Money Market Fund**
- **Washington State Bond Market Fund**
- **U.S. Large Stock Index Fund**
- **U.S. Stock Market Index Fund**
- **U.S. Small Stock Index Fund**
- **International Stock Index Fund**

If you choose from the six investment funds as part of the Self-Directed Investment Program, you will be responsible for monitoring your account balances and periodically rebalancing if necessary to maintain your investment objectives.

The three pre-set portfolios, called Horizon Funds, are designed for investors with various risk profiles and time horizons, who want a diversified portfolio with the convenience of a single investment. The funds are automatically rebalanced so that they remain consistent with their stated investment objectives:

- The **Short-Horizon Fund** is designed for investors who desire relatively low risk with corresponding lower potential return.
- The **Mid-Horizon Fund** is designed for investors who can tolerate moderate risk with corresponding potential moderate long-term return.
- The **Long-Horizon Fund** is designed for investors who can tolerate a relatively high level of risk with corresponding potential higher long-term return.

Funds Valued Daily

In the Self-Directed Investment Program, each member's account is valued daily, based on the number of shares and current selling price for each investment in each member's account.

Default Fund

If you select the Self-Directed Investment Program and do not make an investment choice, your contributions will be invested in the Money Market Fund.



"I think I'll go to one of the investment seminars offered by DRS. That would help me understand the risks and possible rewards associated with making my own investment decisions."

Plan Withdrawal Differences

Withdrawing money from your Defined Contribution component of PERS Plan 3 has no effect on your Defined Benefit component. Once you meet PERS Plan 3's service credit and age requirements, you are eligible for a monthly benefit payment when you reach retirement age, regardless of whether or not you have withdrawn money from your Defined Contribution account.

How can I learn more about the investment options available in PERS Plan 3?

The Department of Retirement Systems will provide more information about PERS Plan 3 investment choices once the transfer window has begun, including:

- Investment education packet
- Investment education seminars
- Investment education video
- Web site at www.wa.gov/DRS/member/pers/2or3 (click on *Plan 3 Investment Education* site)

These materials will be available from your employer.

When can I withdraw my Defined Contribution money?

You may withdraw your Defined Contribution money when you separate from service, or you can leave it in the Plan. Remember that your Defined Contribution account is a major component of your retirement benefit. If you withdraw that portion before retirement, it will not be available as part of your PERS benefit when you retire. Several payment options are available including lump sum cash distribution, direct rollover, scheduled payments or a personalized payment schedule. The Self-Directed Investment Program also allows an annuity purchase option (fixed monthly payments based on your life expectancy). To learn more about your withdrawal options, obtain the *PERS Plan 3 Request for Withdrawal of Defined Contribution Funds* brochure from your employer, visit the Web site or call 888-711-8773.

Withdrawing money from your Defined Contribution component of PERS Plan 3 has no effect on your Defined Benefit component. Once you meet PERS Plan 3's service credit and age requirements, you are eligible for a monthly benefit payment regardless of whether or not you have withdrawn money from your Defined Contribution account.

TRANSFER INFORMATION AND DEFINED CONTRIBUTION ACCOUNT FUNDING

If you transfer to PERS Plan 3, your Defined Contribution account will be funded by:

- 1) Your PERS Plan 2 account balance at the date of transfer
- 2) A transfer payment if you qualify
- 3) Gain sharing if you qualify
- 4) Retroactive gain sharing payment if you qualify
- 5) Monthly employee contributions (5 percent - 15 percent)
- 6) Investment earnings

Account balance

Your account balance includes the total of your contributions and earnings under PERS Plan 2 at the time you transfer to PERS Plan 3.

Transfer payment

If you are a state agency or higher education employee who transfers to PERS Plan 3 during the initial transfer window from March 1, 2002 through August 31, 2002, and have earned service credit in February 2003, you will receive a transfer payment equivalent to 110 percent of your account balance. The transfer payment will be credited to your Defined Contribution account in June 2003.

If you are a local government employee who transfers to PERS Plan 3 during the initial transfer window from September 1, 2002 through May 31, 2003, and have earned service credit in February 2003, you will receive a transfer payment equivalent to 111 percent of your account balance. The transfer payment will be added to your Defined Contribution account in June 2003.

The transfer payment is in addition to your account balance or a possible retroactive gain sharing payment.

Example: You are a state agency employee who has accumulated \$10,000 in member contributions and interest in your account on March 1, 2002, and transfers to PERS Plan 3 in July 2002. The \$10,000 would go into your Defined Contribution account at the time you transfer. If you earn service credit in February 2003, an additional \$11,000 (110 percent of \$10,000) will be added to your Defined Contribution account, for a total of \$21,000.

Transfer Information Letter

This packet contains a transfer information letter which includes estimates of both your transfer payment and your retroactive gain sharing payment. If you do not have a copy of your transfer information letter, you can contact DRS to obtain these estimates.



"You must meet certain criteria to be eligible for gain sharing. Gain sharing is not guaranteed because it depends upon market conditions."

Gain sharing

Gain sharing is the payment made to a Defined Contribution account if the earnings on the WSIB retirement system assets average more than 10 percent over a four-year period. Half of the amount over 10 percent will be passed on to PERS Plan 3 members' Defined Contribution accounts based on each member's number of service credit years.

If gain sharing payments occur, they are made in January of even-numbered years.

To be eligible for an ongoing gain sharing payment, you must meet one of the following criteria:

- You must have earned service credit during the 12-month window from September 1 to August 31 of the year immediately preceding the distribution, and had a balance of at least \$1,000 in your member account on August 31 of the year immediately preceding the distribution, -or-
- Be in receipt of the Defined Benefit component of PERS Plan 3, -or-
- Be in receipt of the Defined Contribution component of PERS Plan 3, and you must
 - have completed 10 service credit years, -or-
 - have completed five service credit years, including 12 service months after attaining age 54, -or-
- You must have begun accruing a retirement allowance or other benefit in the Defined Benefit component of PERS Plan 3, and completed five service credit years by March 1, 2002, and transferred to PERS Plan 3, -or-
- You must have had a balance of at least \$1,000 in your member account on August 31 of the year immediately preceding the distribution, and
 - have completed 10 service credit years, -or-
 - have completed 5 service credit years, including 12 service credit months after age 54, -or-
- You must have had a balance of at least \$1,000 in your member account on August 31 of the year immediately preceding the distribution, and have completed five service credit years by March 1, 2002, and transferred to PERS Plan 3.

Retroactive gain sharing payment

In addition to the transfer payment, PERS Plan 2 members who transfer to PERS Plan 3 and meet the requirements may receive a retroactive gain sharing payment which will be applied in June 2003.

To be eligible for retroactive gain sharing, you must meet one of the following criteria:

- You must have earned service credit during the 12-month period from September 1 to August 31 immediately preceding the distribution and transferred to PERS Plan 3, -or-
- You must be in receipt of a Defined Benefit component of PERS Plan 3 and completed five service credit years by September 1, 2002, and transferred to PERS Plan 3, -or-
- You must be in receipt of the Defined Contribution component of PERS Plan 3 and completed five service credit years by September 1, 2002, and transferred to PERS Plan 3, -or-
- You must have had a balance of at least \$1,000 in your member account on June 1, 2003, and have completed five service credit years by September 1, 2002, and transferred to PERS Plan 3.

Retroactive Gain Sharing Payments

A retroactive gain sharing payment is the payment that may be made to the Defined Contribution account of eligible PERS Plan 2 members who transfer to PERS Plan 3 during their initial transfer window. This payment is in addition to their accumulated account balance and transfer payment.

DECIDING ON A PERS PLAN

There are several tools available to help you decide whether to remain in PERS Plan 2 or transfer to PERS Plan 3. These include financial modeling software, seminars, phone line representatives, a video, worksheets and a detailed comparison chart on page 18.

Following are suggestions for using some of these resources, as well as a discussion of other factors to consider when making your decision.

Evaluating your personal situation

Risk

What type of investor are you? Are you comfortable with taking investment risk or do you prefer a guaranteed benefit? PERS Plan 2 provides a guaranteed lifetime monthly pension benefit based on your years of service and compensation, provided you meet the age and service requirements. The Defined Benefit component of PERS Plan 3 also provides a guaranteed lifetime monthly pension benefit based on your years of service and compensation. However, the investing of the Defined Contribution component of PERS Plan 3 is the responsibility of the member. Your choices will determine the risk your account is exposed to.

Flexibility

Are you interested in putting together your own investment mix? The Defined Contribution component of PERS Plan 3 provides a range of investment programs and choices.

Retirement income needs

Do your retirement income needs exceed the benefit provided under PERS Plan 2? If you qualify for Social Security benefits, what is the projected monthly benefit? Do you have savings in other retirement plans or accounts, such as a deferred compensation 457 plan, a 403(b) plan or an IRA?

Your retirement income may come from a variety of sources, including Social Security, retirement savings plans and other accounts owned by you or your spouse.

Time horizon

How long have you been a PERS-covered employee? Have you accumulated a substantial benefit under PERS Plan 2?

How long do you have until retirement? Do you have time to accumulate considerable additional savings by increasing your contribution level under PERS Plan 3 and earning at market rates that compound over time?



"I don't know which plan will be the best one for me, PERS Plan 2 or PERS Plan 3. I'd like to learn more about some of the factors that could influence my decision."

Risk

Risk is the chance that your original investment will not grow as much as you expected or that it could decline in value.

"The benefits provided by other retirement plans and the amount of savings in other accounts should be considered when deciding whether or not to transfer to PERS Plan 3."



RESOURCES

Financial modeling software

Financial modeling software has been developed that factors in multiple variables for PERS Plan 2 and PERS Plan 3 and performs the complex calculations needed to project your future benefit in each plan. It allows you to compare the projected benefits for both plans based on your personal situation, including variables such as your:

- Contribution level
- Expected rate of return
- Life expectancy
- Payout method
- Amount of transfer payment
- Current age
- Expected years of additional service
- Anticipated date when defined contribution payments will begin
- Ongoing and retroactive gain sharing

There are a number of ways you can use the financial modeling software to compare PERS Plan 2 to PERS Plan 3. For example, you can compare the projected benefits available at retirement for PERS Plan 2 and PERS Plan 3 with various Defined Contribution rate options and expected rates of return. You can also try out multiple scenarios using factors such as early retirement, delayed benefits and different survivorship distribution options.

The software is compatible with Macintosh and Windows and can be downloaded or used interactively at www.wa.gov/DRS/member/pers/2or3. If you do not have access to a computer, you can call the phone support center at 888-711-8773 and one of the customer service representatives can create projections for you.

Comparison Chart

On pages 18-19 you will find a detailed chart with a side-by-side comparison of the benefits, retirement eligibility, contribution rates and other features of both PERS Plan 2 and PERS Plan 3.

Phone support center and e-mail

You can call 888-711-8773 at any time. Representatives will be available to help you between 5:30 a.m. and 6:00 p.m. Monday through Friday. If you call at other times, you can leave a message and a representative will return your call on the following business day.

If you prefer, you can e-mail your questions or requests to pershelp@icmarc.org. You will receive a response within one business day.



"With the software, I can enter different amounts for my expected years of service or my expected rate of return and see how it affects the outcome. The software shows me a comparison of what my benefits would be in each plan according to my situation. It would be really hard to figure out which would be best without the financial modeling software."

Retirement Income Needs

A retirement income needs calculator is available on the Web site; you can use it to determine how much monthly income you will need at retirement.

Tax Consequences

It is important to remember that, regardless of which PERS Plan you choose, there may be tax consequences when you begin withdrawing your retirement benefit because some contributions may have been made before federal taxes were taken out and earnings on your contributions grow tax-deferred.

If you are under age 59½, there may be additional penalty taxes for withdrawing money from the PERS Plan. You may want to consult a financial planner or tax advisor to help you analyze the tax consequences.

Video

A short video is available that provides an overview of PERS Plan 2 and PERS Plan 3, and discusses factors to consider when making your transfer decision. Your employer has copies of the video.

Seminars

Transfer education and investment education seminars are sponsored by DRS. You can obtain information about upcoming seminars from your employer or by visiting the transfer education Web site.

Web site

A Web site at www.wa.gov/DRS/member/pers/2or3 has been designed to help you with your transfer decision. There you can:

- Review informational materials
- Find out more about transfer and investment education seminars
- Input data into financial modeling software, save scenarios and print the results
- Download materials and financial modeling software

Department of Retirement Systems

The Department of Retirement Systems (DRS) provides member handbooks and additional information on PERS Plan 2 and PERS Plan 3, as well as other services.

Most questions can be answered by calling the phone support center at 888-711-8773. However if you have a question regarding your service credit or existing account you can contact DRS directly at 360-664-7000 or toll free at 800-547-6657.

Other Factors to Consider

Transfer provisions

If you transfer to PERS Plan 3 during the initial transfer window and meet certain other qualifications (see page 12), your Defined Contribution account will be funded with a transfer payment and a possible retroactive gain sharing payment in addition to your account balance at the time of transfer.

Consider whether these funding payments, along with anticipated future savings and earnings, will be more beneficial than remaining in PERS Plan 2.

Member contribution level

The member contribution level of PERS Plan 2 is currently 0.88 percent. PERS Plan 3 offers a choice of six contribution rate options, ranging from a fixed 5 percent, to options with contribution levels that increase as you get older, to a fixed 15 percent option.

With PERS Plan 3, you choose your contribution level. This allows (and currently requires) a higher level of contribution on your part.

Will the PERS Plan 2 Defined Benefit provide enough income to meet your retirement income needs? Will you need additional savings?

Also consider whether you can afford to make the higher level of contributions that may be required under PERS Plan 3 and still meet your other financial obligations.

Investment choices

If you decide to transfer to PERS Plan 3, the investment choices you make will have a major impact on the savings you will accumulate in your Defined Contribution account.

Consider that investment earnings are not guaranteed in the Defined Contribution component of PERS Plan 3. Depending on your investment choices, your Defined Contribution account may fluctuate considerably in value, perhaps even declining at times.

Gain sharing

During periods of strong investment market performance, the gain sharing feature of PERS Plan 3 will provide extra savings for the Defined Contribution component, based on your length of employment. (More information about gain sharing can be found on page 12.)

Consider whether the gain sharing feature will add significantly to your Defined Contribution account savings. You can include this calculation in the financial modeling software.

Inflation

Since 1926, inflation has averaged about 3 percent per year; 3 percent is also the maximum annual cost of living increase in PERS Plan 2 and the Defined Benefit component of PERS Plan 3.

Consider the possible impact of inflation on the Defined Contribution component of PERS Plan 3, especially if you are a conservative investor.

KEEP IN MIND

- If you do not actively choose to transfer from PERS Plan 2 to PERS Plan 3 during the initial transfer window, you will automatically remain in PERS Plan 2.
- If you do not transfer from PERS Plan 2 to PERS Plan 3 during the initial transfer window, you will lose the opportunity to fund your Defined Contribution account with the transfer payment and possible retroactive gain sharing should you decide to transfer to PERS Plan 3 during a later January open window.
- The decision to transfer to PERS Plan 3 is irrevocable; once you transfer, you will not be able to transfer back to PERS Plan 2 at a later date.
- If you choose PERS Plan 3 and do not select a contribution rate, you default to rate option A, 5 percent.
- If you choose to transfer to PERS Plan 3 and do not select an investment program, your contributions will be invested in the WSIB Investment Program.

Inflation

Inflation can have a corrosive effect on savings. Inflation can actually slow or stop the growth of retirement savings when income grows at a slower rate than inflation or when investment returns are lower than, or just staying even with, inflation.

	PERS Plan 2	PERS Plan 3	
	Defined Benefit (DB) Plan	Defined Benefit (DB) Component	Defined Contribution (DC) Component
Plan Structures and Funding			
Formula for Pension Benefit	2% x SCY x AFC	1% x SCY x AFC	The value of the benefit is based on the amount contributed and the performance of the investments.
Member Contributions	Currently 0.65% of salary Contributions are automatic, mandatory and may change in the future to cover the costs of the Plan. Below is a history of some member contribution rates dating back to 1988: September 1, 1998 4.90% September 1, 1991 4.70% September 1, 1994 5.00% September 1, 1997 4.65% September 1, 2000 2.43% Currently 0.65% 20-Year Weighted Average 4.35% (as of January 2003)	Not applicable	Six rate options: Option A: 5% fixed at all ages Option B: 5% up to age 35 6% ages 35 to 44 7.5% age 45 and up Option C: 6% up to age 35 7.5% ages 35 to 44 8.5% age 45 and up Option D: 7% fixed at all ages Option E: 10% fixed at all ages Option F: 15% fixed at all ages
Employer Contributions	Currently 1.10% of salary. This percentage may fluctuate.	Currently 1.10% of salary. This percentage may fluctuate.	Not applicable
Gain Sharing	Not applicable	Not applicable	Payments made if the earnings from the PERS Plan 2/3 combined trust fund average more than 10% over a four-year period. See page 7 for more information.
Receiving Benefits			
Eligibility for Normal Retirement with Full Pension Retirement Benefits	Age 65 or older with at least 5 SCY	Age 65 or older with at least 10 SCY -or- 5 SCY including 12 Service Credit Months after reaching age 54	You may request withdrawal of your contributions and earning at any time after you separate from PERS-covered employment.
Eligibility for Reduced Early Retirement Benefits	Age 55 or older with at least 20 SCY (reduced benefit)	Age 55 or older with at least 10 SCY (reduced benefit)	The value of your Defined Contribution account is based on your contributions, plus the performance of the investments you choose.
Separation from Service (and Delaying Receiving Defined Benefits)	You may stop working and delay receiving benefits until age 65.	You may stop working and delay receiving benefits until a later date. For members with at least 20 SCY separating from PERS-covered employment, pension is increased by approximately 3% for each year benefit is delayed up to age 65.	You may stop working and delay receiving benefits until a later date. The value of your account will be based on contributions and accumulated investment earnings.
Cost-of -Living Increases	On July 1 of every year following your first year of retirement, your monthly pension benefit will be adjusted by the percentage change in the Consumer Price Index (CPI-U, Seattle) - up to a maximum of 3% per year.	On July 1 of every year following your first year of retirement, your monthly pension benefit will be adjusted by the percentage change in the Consumer Price Index (CPI-U, Seattle) - up to a maximum of 3% per year.	Not applicable

	PERS Plan 2 Defined Benefit (DB) Plan	PERS Plan 3	
		Defined Benefit (DB) Component	Defined Contribution (DC) Component
Separation from Service (and Taking Withdrawals)	<p>If PERS-covered employment ends, you request withdrawal of member contributions and earnings.</p> <p>If you withdraw your member contributions and earnings, you forfeit all pension benefits available under the Plan.</p> <p>You can leave member contributions in the Plan if you leave a PERS-eligible position; contributions currently earn 5.5%.</p> <p>Employer contributions are not refundable.</p> <p>If you return to PERS-covered employment after withdrawing contributions, refer to Can I Recover Withdrawn or Optional Service Credit?</p>	<p>Withdrawing money from your Defined Contribution account of Plan 3 does not affect your eligibility to receive a monthly pension benefit under the Defined Benefit component of Plan 3.</p> <p>Employer contributions are not refundable.</p>	<p>If PERS-covered employment ends, you may request a distribution of accumulated contributions.</p> <p>You can also leave your contributions invested until you retire.</p>
Payment Options	<p>Option 1: Standard</p> <p>Option 2: 100% survivorship</p> <p>Option 3: 50% survivorship</p> <p>Option 4: 662/3% survivorship</p> <p>For more information on survivor benefits, see your member handbook.</p>	<p>Option 1: Standard</p> <p>Option 2: 100% survivorship</p> <p>Option 3: 50% survivorship</p> <p>Option 4: 662/3% survivorship</p> <p>For more information on survivor benefits, see your member handbook.</p>	<p>Distributions may be deferred until minimum required distribution date.</p> <p>Two investment programs:</p> <p>WSIB Total Allocation Portfolio (TAP): lump sum cash distribution, direct rollover, scheduled payments and a personalized payment schedule.</p> <p>Self-Directed: lump sum cash distribution, direct rollover, scheduled payments, annuity purchase and a personalized payment schedule.</p> <p>For more information on distribution options see the Request for Payment of Defined contribution funds.</p>
Rollovers	<p>Member contributions and earning can be rolled into other retirement plans and IRAs.</p> <p>If contributions and earnings from PERS Plan 2 are withdrawn and rolled over into another retirement plan or IRA; rights to pension benefits are forfeited.</p>	<p>Not applicable</p>	<p>Defined Contribution account proceeds can be rolled into other retirement plans and IRAs.</p>
Plan Investment			
Investment Options	<p>Investments are a diversified portfolio selected and managed by the Washington State Investment Board (WSIB)</p> <p>Investment risk is assumed by WSIB. There is no investment risk to members.</p>	<p>Investments are a diversified portfolio identical to PERS Plan 2, selected and managed by the Washington State Investment Board.</p> <p>Investment risk is assumed by WSIB. There is no investment risk to members.</p>	<p>Investments are chosen by members from options available through two investment programs:</p> <p>The Washington State Investment Board (WSIB Investment Program which offers the Total Allocation Portfolio (TAP).</p> <p>The Self-Directed Investment Program offers a choice of fixed income, market index and pre-mixed portfolio funds. Investment risk is assumed by members.</p>
Other Features			
PEBB Retiree Health Care Coverage Contact PEBB at: 1-800-700-1555, or www.pebb.hca/wa.gov	<p>PEBB health care coverage is available to qualified members. The Health Care Authority can assist you in determining if you are qualified. If qualified, you must:</p> <p>Elect PEBB coverage upon separation from employment; and</p> <p>Begin receiving your retirement benefit immediately after separation from employment. If you delay receiving your retirement benefit upon separation, you are not eligible for coverage.</p>	<p>PEBB health care coverage is available to qualified members. The Health Care Authority can assist you in determining if you are qualified. If qualified, you must:</p> <p>Elect PEBB coverage upon separation from employment; and</p> <p>You must be 55 years of age and have 10 years of service credit.</p>	<p>Not applicable</p>

GLOSSARY

Annuitized payments: A series of periodic payments that typically continue over the lifetime of the recipient.

Average final compensation (AFC): The monthly average of a member's 60 highest paid consecutive service credit months.

COLA (Cost of Living Adjustment): In PERS Plan 2 and the Defined Benefit portion of PERS Plan 3, on July 1 of every year following the first full year of retirement, the monthly benefit is adjusted by the percentage change in the Consumer Price Index (CPI-U, Seattle), to a maximum of 3 percent per year.

Defined benefit: A retirement plan in which the benefit is predetermined, also called a pension plan. For PERS Plan 2, the defined benefit equals $2 \text{ percent} \times \text{SCY} \times \text{AFC}$. For PERS Plan 3, the defined benefit equals $1 \text{ percent} \times \text{SCY} \times \text{AFC}$.

Defined contribution: A defined contribution plan benefit is based on the amount contributed and the performance of the investments chosen. Investment returns (both gains and losses) are credited to the account.

DRS: Washington State Department of Retirement Systems.

Gain sharing: If the Washington State Investment Board's (WSIB) earnings on the PERS Plan 2 and PERS Plan 3 combined trust fund assets average more than 10 percent over a four-year period, half of the amount over 10 percent will be passed on to qualifying PERS Plan 3 members' Defined Contribution accounts based on each member's number of years of service.

Initial transfer window: The initial period during which members may transfer from PERS Plan 2 to PERS Plan 3, if they so choose. The initial transfer window for state agency and higher education employees is from March 1, 2002 through August 31, 2002. The initial transfer window for local government employees is from September 1, 2002 through May 31, 2003.

Inflation: The general rise in the price of goods and services. Since 1926, inflation has averaged about 3 percent per year.

Pension plan: A retirement plan with a predetermined benefit, the same as a defined benefit plan.

PERS: Washington State Public Employees' Retirement System.

Portfolio: A collection of investments.

Return: A measure of investment performance that consists of interest, dividends and gains or losses in the value of the principal. Returns can be positive or negative.

Risk: The uncertainty that your original investment will not grow as much as expected, or that it could decline in value.

Risk tolerance: Your willingness to accept declines in the value of your investments with the goal of achieving gains over a longer time period.

Service credit months: Members earn one service credit month for each calendar month in which they are compensated for 90 or more hours in an eligible PERS position. Members cannot earn more than one service credit month during one calendar month.

Service credit years (SCY): Service credit years are calculated by dividing total service credit months by 12.

Transfer payment: State agency or higher education employees who transfer from PERS Plan 2 to PERS Plan 3 during the initial transfer window and have earned service credit in February of 2003, will receive a transfer payment equivalent to 110 percent of their PERS Plan 2 account balance. Local government employees who transfer during the initial transfer window and have earned service credit in February of 2003, will receive a transfer payment equivalent to 111 percent of their PERS Plan 2 account balance. Transfer payments will be made in June 2003.

Weighted average: This average takes account of how long each rate was in effect by multiplying each historical rate by the number of days it was in effect, then dividing by the total number of days for which the average is being calculated.

WSIB: Washington State Investment Board.

State of Washington

Department of Retirement Systems

Member Information Form

For plan, contribution rate and investment program selection

Return completed form to your employer

New PERS members*

Choosing Plan 2 - Complete Sections 1 and 2A

Choosing Plan 3 - Complete Sections 1, 2A, 3 and 4

PERS, SERS or TRS members transferring from Plan 2 to Plan 3

Complete Sections 1, 2B, 3 and 4

New SERS, TRS or returning Plan 3 members

Complete Sections 1, 3 and 4

Check One:

PERS = Public Employees' Retirement System

SERS = School Employees' Retirement System

TRS = Teachers' Retirement System

Section 1: Personal Data - To Be Completed by All Members

____ - ____ - ____
Social Security Number (See back of form)

Last Name

First Name

Middle Name

Maiden Name

Section 2: Retirement Plan Selection

Complete either A or B below.

A) To be completed by new PERS members.*

Choose One:

PERS Plan 2

PERS Plan 3
(requires completing Sections 3 and 4 on back)

I certify that I have chosen the retirement plan marked above.
I understand that my retirement plan selection is **irrevocable**.

Member Signature (required)

Date

Please sign and date this form on the day that you **submit it to your employer**. Note: You will be assigned to Plan 3 if your employer has not received your plan selection within 90 calendar days from your date of hire.

**New PERS member - Anyone who first becomes employed in an eligible position on or after March 1, 2002, at a higher education or state agency employer; or who first becomes employed in an eligible position on or after September 1, 2002, at a local government employer.*

B) To be completed by any Plan 2 member eligible to transfer to Plan 3.

I certify that I have chosen to transfer from Plan 2 to Plan 3. I understand that my selection of Plan 3 is **irrevocable**. I have provided the information requested in Sections 3 and 4 on the back of this form.

Member Signature (required)

Date

Please sign and date this form on the day that you **submit it to your employer**.

Continued on back

Section 3: Selection of Contribution Rate - To Be Completed by All Plan 3 Members

Place a check mark in the box next to the contribution rate option you choose:

- Option A:** 5 percent of pay at all ages
- Option B:** 5 percent of pay until age 35; 6 percent from age 35 until 45; and 7.5 percent from age 45 and above
- Option C:** 6 percent of pay until age 35; 7.5 percent from age 35 until 45; and 8.5 percent from age 45 and above
- Option D:** 7 percent of pay at all ages
- Option E:** 10 percent of pay at all ages
- Option F:** 15 percent of pay at all ages

Once selected, a contribution rate cannot be changed as long as the member remains with the same employer. If a rate option is not selected, your employer must report Option A.

Member Signature (required)

Date

Section 4: Selection of Investment Program - To Be Completed by All Plan 3 Members

Place a check mark in the box next to the investment program you choose:

- Washington State Investment Board (WSIB) Investment Program.**
- Self-Directed Investment Program.** Call 1-888-711-8773 or go online at <http://www.icmarc.org/plan3> to set up your investment allocation.

You can obtain information about both investment programs by contacting ICMA-RC toll-free at 1-888-711-8773. If you do not choose a program, your contributions will be reported into WSIB.

Member Signature (required)

Date

Return completed form to your employer.

Section 5: To Be Completed by Employer

Print or type employer name and mailing address below:

--	--	--	--	--	--	--

Reporting Group

Employers:

Mail the original of this document to DRS only if Section 2 was required.

Department of Retirement Systems
P.O. Box 48380
Olympia, WA 98504-8380
Toll Free: 1-800-547-6657
Local: 360-664-7000

26 U.S.C. 6047(D), 6041(A), and 6109(A)(3) authorize DRS to solicit your Social Security Number.

- DRS uses your Social Security Number to ensure that any amounts disbursed under your account are properly reported to the Internal Revenue Service and as a reference number for tracking all data with regard to your retirement account.
- Routinely, DRS uses the Social Security Number as the identifying number for the member file.
- If you do not provide your Social Security Number, DRS cannot guarantee that the information you are providing on this form will be properly matched with your member records. This is a particular risk if your name is a fairly common one. Failure to provide your Social Security Number may also result in misreporting to the Internal Revenue Service any disbursements you receive, which may result in adverse tax consequences for you.
- Because this form affects how DRS reports your disbursements to the IRS, the disclosure of your Social Security Number to DRS is mandatory.
- DRS will not disclose your Social Security Number to any party unless required by law.

Note to Retirees: This form **cannot** be used to designate a new beneficiary to receive a monthly survivor option (retirement benefit payment options 2, 3 and 4). Beneficiary(ies) who receive survivor options are named on the retirement application form.

Instructions: Use this form to designate or change your beneficiary(ies) with the retirement system you indicated in Section One. The designated beneficiary(ies) will receive any monies in your account at the time of your death. If you have money in more than one retirement system, you must complete a separate form for each system.

Your designated primary and contingent beneficiary or beneficiaries may be a person, persons, your estate, a trust, or an organization. If a trust is named, the legal documentation must be submitted with this form. Primary beneficiaries will receive any monies in your account when you die. If no primary beneficiary is alive at the time of your death, the contingent beneficiary(ies) will receive the money in your account.

To make your designation:

1. Complete Section One.
2. Complete Section Two and check the appropriate box to indicate whether you wish to make that person or entity a primary or contingent beneficiary.

When naming a person, always show given names. For example:
MARY K. DOE (not Mrs. Robert Doe)

You may designate more than one primary beneficiary. If you do, the funds will be divided equally among all named primary beneficiaries unless otherwise specified or required by law.

After naming your primary beneficiary(ies), you may name one or more contingent beneficiaries. If the primary beneficiaries are no longer living, the funds will be divided equally among all contingent beneficiaries unless otherwise specified or required by law.

3. Complete and sign Section Three.
4. To protect members from fraudulent claims, it is required that another person witness the member's signature on this document and complete and sign Section Four. A beneficiary cannot sign as a witness.

Sign and date the form. If the signature can only be made by mark, it must be witnessed by two persons who sign the form. The two witnesses must sign in the witness section and initial in Section Three if marked with an "X."

5. The form must be returned to DRS, PO Box 48380, Olympia WA 98504-8380.

Important: Your beneficiary designation may be invalidated by marriage, or divorce or reestablishment of membership following withdrawal or retirement. Make a copy of your beneficiary designation and review it periodically to ensure that it is still valid.

26 U.S.C. 6047(D), 6041(A), and 6109(A)(3) authorize DRS to solicit your Social Security Number.

- DRS uses your Social Security Number to ensure that any amounts disbursed under your account are properly reported to the Internal Revenue Service and as a reference number for tracking all data with regard to your retirement account.
- Routinely, DRS uses the Social Security Number as the identifying number for the member file.
- If you do not provide your Social Security Number, DRS cannot guarantee that the information you are providing on this form will be properly matched with your member records. This is a particular risk if your name is a fairly common one. Failure to provide your Social Security Number may also result in misreporting to the Internal Revenue Service any disbursements you receive, which may result in adverse tax consequences for you.
- Because this form affects how DRS reports your disbursements to the IRS, the disclosure of your Social Security Number to DRS is mandatory.
- DRS will not disclose your Social Security Number to any party unless required by law.