

# TRS 3 Member Rate Flexibility

## Issue

Does the SCPP want to recommend legislation to remove Teachers' Retirement System Plan 3 (TRS 3) member rate flexibility?

## Background

The Internal Revenue Service (IRS) re-qualified TRS 3 on the condition that the Legislature removes the statutory provision that allows members to change their rate option every January. The Department of Retirement Systems (DRS) asked the SCPP to recommend legislation to remove this provision.

## Highlights of Analysis

- ❖ Retirement plans must remain qualified by the IRS in order to retain favorable tax status.
  - ◇ The full extent of impacts from disqualification is not known, but likely involves taxation of contributions and plan earnings.
  - ◇ The IRS views TRS 2 and TRS 3 as one plan with two tiers. If one is disqualified, the other is likely to be disqualified too.
- ❖ Voluntary member rate flexibility is prohibited by the Internal Revenue Code in 401(a) plans.
- ❖ Member rate flexibility is in statute for PERS 3, SERS 3, and TRS 3, but only TRS 3 members have been able to utilize it.
- ❖ The IRS allows supplemental savings plans like deferred compensation (457 plans) and tax-sheltered annuities (403(b) plans) to have voluntary member rate flexibility. Many public employees have access to these options already.

## Committee Activity

The SCPP studied the issue at its September meeting. At the October meeting, the SCPP voted to recommend legislation as detailed below.

## **Recommendation to 2014 Legislature**

Remove the member rate flexibility provision from statute for PERS 3, TRS 3, and SERS 3.

### **Staff Contact**

Aaron Gutierrez  
Policy Analyst  
360.786.6152  
[aaron.gutierrez@leg.wa.gov](mailto:aaron.gutierrez@leg.wa.gov)

O:\SCPP\2013\Recommendations\TRS3.docx