Interruptive Military Service Credit
Final Proposal

LEOFF Plan 2 Retirement Board

December 17, 2008

Issue

- Members whose public employment is interrupted by military service are required to pay member contributions in order to purchase service credit.

Background Summary

- Interruptive military service credit purchase exists in all Plan 2/3 Systems
- Proposed legislation failed in 2008 Session
- LEOFF Plan 2 Retirement Board requested continued SCPP coordination

Proposal Summary

- Endorse SCPP Proposal
  - Eliminate member obligation
  - Refund bills already paid

- Will not affect contribution rates in current biennium

Interruptive Military Service Credit

Questions?

LAW ENFORCEMENT OFFICERS' AND FIRE FIGHTERS' PLAN 2 RETIREMENT BOARD

Interruptive Military Service Credit

Final Proposal

December 17, 2008

1. Issue

Members whose public employment is interrupted by military service are required to pay member contributions in order to purchase service credit.

2. Staff

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3. Members Impacted

As of June 30, 2007 there were 16,099 active members. This issue potentially impacts any LEOFF Plan 2 member who is called to active military service and interrupts employment to serve. The number of LEOFF Plan 2 members who have interrupted employment due to being called to active duty is unknown.

4. Current Situation

The requirements for allowing the purchase of military service credit are governed by federal law, but may be expanded by state law.

LEOFF Plan 2 members have the option to purchase up to five years of service credit for periods of military service which interrupt their employment if the member returns to employment and pays the appropriate contributions.

A member who cannot return to public employment due to total disability may repay contributions to reinstate interruptive military service credit. In the case of military death, a survivor may pay the member cost when applying for interruptive military service credit.

The Select Committee on Pension Policy (SCPP) and LEOFF Plan 2 Retirement Board recommended joint legislation to the 2008 legislature which would have eliminated the member obligation to pay for interruptive military service credit if the member served during a period of war. The Legislature did not pass the measure.

5. Background Information and Policy Issues

Interruptive Military Service

Interruptive military service credit is available to those who interrupt public employment to serve in the uniformed military branches of the United States. This type of service is governed federally by the Uniformed Services Employment and Re-employment Rights Act (USERRA[1]). At a minimum, public employers must provide the protections specified in USERRA. However, states have the discretion to go beyond USERRA and grant benefits for interruptive service that are more generous than those available under the act.

Interruptive service is handled the same in LEOFF Plan 2 as it is in all of the other Plan 2 systems in Washington. A LEOFF Plan 2 member who meets certain requirements may purchase up to five years of service credit for a leave of absence to serve in the military.

Currently, to reinstate service credit for interruptive military service completed on or after October 6, 1994, a member must pay employee contributions (no interest). If the service was completed on or after March 31, 1992, and before October 6, 1994, the member must pay the employee contributions plus interest. For interruptive military service completed on or after October 1, 1977, and before March 31, 1992, the member must pay both the employer and employee contributions plus interest.

This means that the state may reward active duty by paying all or part of the contributions that the member would have paid during the period of active duty. Enhanced benefits of this nature can be limited to wars and armed conflicts as long as the basic USERRA protections remain intact for all interruptive military service in the uniformed services.[1]

Eligibility Requirements

Three general requirements must be met in order for a member to be eligible to purchase interruptive military service credit.

- The member must leave LEOFF Plan 2 covered employment to render military service in one of the armed or uniformed services of the United States.
- Upon termination of military service, the member must initiate reemployment covered by the member's original retirement system within certain defined time limits.
- The member must fully pay the required contributions within an appropriate payment timeframe.

Each of these requirements is discussed in further detail below.

[1] In October 1994 the Uniform Services Employment and Reemployment Rights Act (USERRA) became effective replacing the Veterans' Reemployment Rights Act (VRRA).

Qualified Military Service

Nearly all types of military service qualify as service in either an armed force or in a uniformed service for the purposes of interruptive military service credit. The following types of military service qualify[2]:

- Service in the army, navy, air force, marine corps, or their reserve units (including two-week annual training for reservists);
- Full-time service in the United States Coast Guard;
- Service in the Public Health Service; and
- Service in the Army or Air National Guard provided to the federal government, but not including service provided to a state.

Initiation of Reemployment

Upon termination of military service, a member must initiate reemployment within certain defined time limits. The member must also be reemployed in a position covered by the retirement system the member was participating in at the time of interruption.

USERRA provides varying reemployment timeframes which are determined by the duration or type of military service that the person was engaged in. However, the state law generally is longer than the provisions in USERRA. State law provides that a member must initiate reemployment within ninety days to qualify for interruptive military service credit.

There are two notable exceptions to the ninety day reemployment requirement that would allow a member to still purchase service credit. The state law provides that if a person fails to initiate reemployment within the required timeframe, that person can still purchase the service credit by paying the full actuarial value of the increase to their benefit from the additional service credit.[3]

USERRA provides that the timeframe for initiation of reemployment can be extended for up to two years for a person who is hospitalized or convalescing because of a disability incurred or aggravated during the period of military service. The two year period can be further extended by the minimum time required to accommodate a circumstance beyond an individual's control that would make reporting within the two-year period impossible or unreasonable.[4] Employers are required under USERRA to make reasonable efforts to accommodate reemployment of a person with a disability incurred or aggravated while in Military Service.[5] However, employers are exempt from such efforts if such accommodation would be of such difficulty or expenses as to cause "undue hardship".[6]

Required Contributions

The member and employer contributions that would have been made to the plan if the member had not been on military leave must be paid in order for a member to purchase service credit for the period of military leave.

Currently, to reinstate service credit for interruptive military service completed on or after October 6, 1994, a member must pay employee contributions (no interest)[7] and the employer pays the employer contribution. If the service was completed on or after March 31, 1992, and before October 6, 1994, the member must pay the employee contributions plus interest and the employer pays the employer contribution plus interest. For interruptive military service completed on or after October 1, 1977, and before March 31, 1992, the member must pay both the employer and employee contributions plus interest.

Payment Timeframe

The appropriate contribution must be made within five years of initiation of reemployment or prior to retirement, whichever comes first. If a person fails to make the required contribution within five years then that person can purchase service credit at any time before retirement by paying the full actuarial value of the resulting increase to their benefit from the additional service credit. [8]

Maximum Service Credit

USERRA provides for a maximum of five years of interruptive military service credit. The state law matches this maximum providing for a maximum of five years of interruptive military service. There are some exceptions to the five-year maximum that are provided by USERRA as describe in 38 USC, 4312. These exceptions include:

- Obligated services incurred beyond five years, usually by individuals with special skills, (such as an electronics expert)
- Inability to obtain release (needs to be documented on a case by case basis)
- Training requirements
- Specific active duty provisions
- War or a declared national emergency
- Certain operational missions
- Critical missions or requirements (such as Grenada or Panama in the 1980's, when provisions for involuntary activation of Reserves were not exercised)
- Specific National Guard provisions

If a member has over five years of interruptive military service and the excess falls into one of these exceptions then the member may be entitled to this additional military service credit.

Comparison to Other Washington State Plan 2 Systems

All of the plans listed below allow members to purchase retirement service credit for interruptive military service in the same manner as allowed for LEOFF Plan 2:

- Washington State Patrol Retirement System (WSPRS) Plan 2,
- Public Employees' Retirement System (PERS) Plan 2,
- School Employees' Retirement System (SERS) Plan 2, and
- Teachers' Retirement System (TRS) Plan 2.

While the **Plan 1** systems allow interruptive military service credit, the members in PERS Plan 1, LEOFF Plan 1, and WSPRS Plan 1 are not required to pay any cost for the service credit. A TRS Plan 1 member is required to pay the contributions that would have been paid had the member not gone on a military leave of absence.

Legislative History[9]

The SCPP and L2B most recently studied interruptive military service credit in the 2007 interim. As a result, the SCPP and L2B recommended joint legislation that would have eliminated the Plan 2 and Plan 3 member obligation to pay for interruptive military service credit if the member served during a period of war. Employers still would have been required to pay the employer contributions related to the period of service credit. The 2008 Legislature did not pass the bill.

The SCPP and the LEOFF Plan 2 Retirement Board (L2B) first jointly studied interruptive military service credit in the 2004 interim. As a result, the SCPP and L2B recommended joint legislation in the 2005 Legislative session that would provide interruptive military service credit for those who are not re-employed due to death or total disability while serving in the uniformed services. Chapter 64, Laws of 2005 provided that service credit may be purchased by a totally disabled member or a survivor of a deceased member for interruptive military service up to the date of death or disability. The law requires repayment of member contributions to reinstate service credit for the period of interruptive military service.

Prior to the 2005 joint legislation by the SCPP and L2B, only two JCPP bills on military service credit passed in the legislature since 1996, and both were to conform Washington law to federal law (USERRA). At least twenty other bills outside of the pension committees have been introduced to expand opportunities to acquire military service credit, but none have passed.

Issues

There are two key issues related to the recovery of interruptive military service credit:
(1) cost of recovery and (2) recoverable periods included in a change.

Currently a member must pay the appropriate amount of contributions to recover service credit for a period of employment interrupted for military service. The key question is whether or not there should be a cost to the member for recovering this type of service. There are policy arguments on both sides of this policy question.

Arguments for eliminating the cost to the member include encouraging military service, supporting the ability to recruit military personnel into state/local government service, benefits (direct and indirect) to the State from military service rendered by public employees, recognition and support for plan members serving the public at large in a high risk situation, and supplementing federal benefits which may be viewed as inadequate.

Arguments against providing no cost benefits include that the military service is voluntary so it is not compulsory to interrupt service, additional cost of the benefits must be absorbed by the plan and the membership, favorable terms for recovery of military service already provided by federal law (no interest, 5 years to recover), and the military service is unrelated to any service provided directly to the public employer.

If a change is made to the recovery cost policy, such as eliminating the member cost, consideration must be given to whom, or what periods, will be eligible to recover military service under the new provision. Recovery periods could be limited to specific conflicts or as broad as any period of military service.

Concerns have also been raised previously that creating a no-cost provision for interruptive military service credit may be unfair to members who already paid for equivalent periods of service credit.

SCPP Proposal

The SCPP considered four options during the 2008 Interim for providing free interruptive military service credit. The SCPP Executive Committee requested to have Option 3 brought to the full Committee for Public Hearing at their December 16, 2008 meeting.

Option 1 – Prospective Service Only
Under this option, only interruptive military service after the effective date of the bill would be free and credited to members without repayment of member contributions. This approach is the least generous to members of the four options described but is also the least costly. It is the more common approach to benefit improvements, as it allows for contributions to be adjusted along with the implementation of the benefit improvement. This approach is also consistent with principles of intergenerational equity (meaning that each generation of taxpayers should pay only for the benefits associated with the services rendered to that generation of tax payers). One possible concern with this approach is that service within the same conflict is treated differently – some is free and some is not.

Option 2 – Past and Prospective Service with No Refunds
Under this option, free interruptive military service credit would be available to members who apply for the service credit after the effective date of the bill. Members can apply for interruptive military service credit any time up to their retirement. Thus, active members who have not yet retired could pick up free service credit for all periods of interruptive military service in their careers that were not already restored by repaying contributions – even those periods that were prior to the effective date of the bill. This option corresponds to last year's legislation which did not provide for refunds. A concern with this approach has been that persons who already paid for their interruptive military service credit may feel that they are being treated unfairly.

Option 3 – Past and Prospective Service with Refunds for Recent Service
This option seeks to provide the same free service as in Option 2, but would also pay refunds to those who already reinstated service credit for the following periods of war: Operation

Iraqi Freedom (Persian Gulf) and/or Operation Enduring Freedom (southern or central Asia, including Afghanistan).

Refunding member contributions creates administrative burdens and increases cost. ON the other hand, this approach may provide consistent benefits for all members participating in ongoing periods of war.

Option 4 - Past and Prospective Service with Refunds for All Service
This option would provide the same free service as in Option 2, but would also pay refunds to those who already reinstated service credit for any period of war during their career. More refunds would be paid from plan funds under this option than under Option 3. This option would be the most generous to members but would also be the most costly and difficult to administer.

6. Policy Options

Option 1: Endorse SCPP Proposal

Under this option the Board would support the SCPP proposal. This bill affects LEOFF Plan 2 by providing free interruptive military service applied to all service – past, present, and future – with refunds for all service previous purchased for ongoing designated conflicts (Operation Iraqi Freedom and Operation Enduring Freedom, including Afghanistan).

Option 2: Consider Alternative Proposal

Under this option, the Board would consider an alternative LEOFF Plan 2 only proposal.

7. Supporting Information

Endnotes

1 Laura Harper, “Interruptive Military Service Credit”, Select Committee on Pension Policy, December 18, 2007.

2 Department of Retirement Systems, “Military Service Credit for LEOFF Plan 2, WSPRS Plan 2,PERS Plan 2 & 3,TRS Plans 2 & 3, and SERS Plans 2 & 3”, n.d., <http://www.drs.wa.gov/member/militsc/plan23mil.htm> (July 14, 2004)

3 Department of Retirement Systems, “Military Service Credit for LEOFF Plan 2, WSPRS Plan 2,PERS Plan 2 & 3,TRS Plans 2 & 3, and SERS Plans 2 & 3”, n.d., <http://www.drs.wa.gov/member/militsc/plan23mil.htm> (July 14, 2004)

4 “A Non-Technical Resource Guide to the Uniformed Services Employment and Reemployment Rights Act (USERRA)”, The U.S. Department of Labor Veterans Employment and Training Service, March 2003, p.5.

5 Ibid., p.8.

6 Ibid., p.9.

7 USERRA prohibits the state from charging interest on the outstanding employee contributions.

8 Department of Retirement Systems, "Military Service Credit for LEOFF Plan 2, WSPRS Plan 2, PERS Plan 2 & 3, TRS Plans 2 & 3, and SERS Plans 2 & 3", n.d., <http://www.drs.wa.gov/member/militsc/plan23mil.htm> (July 14, 2004). Also see RCW 41.50.165(2).

9 Laura Harper, "Military Service Credit", Select Committee on Pension Policy, June 15, 2004.

DRAFT
ACTUARY'S FISCAL NOTE

RESPONDING AGENCY:	CODE:	DATE:	PROPOSAL [NAME or Z-NUMBER]:
Office of the State Actuary	**035**	**12/03/08**	**Interruptive Mil. Service Credit**

WHAT THE READER SHOULD KNOW

The Office of the State Actuary ("we") prepared this draft fiscal note based on our understanding of the proposal as of the date shown above. We intend this draft fiscal note to be used by the Select Committee on Pension Policy and Law Enforcement Officers' and Fire Fighters' (LEOFF) Retirement System Plan 2 throughout the 2008 Interim only. If a legislator introduces this proposal as a bill during the next legislative session, we will prepare a final fiscal note based on that bill language. The actuarial results shown in this draft fiscal note may change when we prepare our final version for the Legislature.

We advise readers of this draft fiscal note to seek professional guidance as to its content and interpretation, and not to rely upon this communication without such guidance. Please read the analysis shown in this draft fiscal note as a whole. Distribution of, or reliance on, only parts of this draft fiscal note could result in its misuse, and may mislead others.

SUMMARY OF RESULTS

This proposal would allow up to five years free retirement system service credit for members whose interruptive military service is during a period of war as defined in RCW 41.04.005. It would also provide refunds to members who have already made payments for service during Operation Enduring Freedom and Operation Iraqi Freedom.

Impact on Pension Liability

(Dollars in Millions)	Current	Increase	Total
Today's Value of All Future Pensions	$67,081	$1.3	$67,082
Earned Pensions Not Covered by Today's Assets	$4,957	$0.0	$4,957

Impact on Contribution Rates: (Effective 9/1/2009)

2009-2011 State Budget	PERS	TRS	SERS	PSERS	LEOFF	WSPRS
Employee (Plan 2)	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Employer:						
Current Annual Cost	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Plan 1 Past Cost	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Total	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
State					0.00%	

Budget Impacts

(Dollars in Millions)	2009-2011	2011-2013	25-Year
General Fund-State	$0.0	$0.0	$1.1
Total Employer	$0.0	$0.2	$3.8

See the Actuarial Results section of this draft fiscal note for additional detail.

WHAT IS THE PROPOSED CHANGE?

Summary Of Benefit Improvement/Change

This proposal impacts the following systems:

- Public Employees' Retirement System (PERS) Plans 2, 3
- Teachers' Retirement System (TRS) Plans 2, 3
- School Employees' Retirement System (SERS) Plans 2, 3
- Public Safety Employees' Retirement System (PSERS)
- Law Enforcement Officers' and Fire Fighters' Retirement System (LEOFF) Plan 2
- Washington State Patrol Retirement System (WSPRS) Plan 2

The proposal would eliminate the member obligation to repay member contributions in order to receive up to five years of service credit for interruptive military service during a period of war. In the case of a military death, the survivor would also be relieved of paying the member cost for interruptive military service credit during a period of war. "Period of war" is defined in RCW 41.04.005.

The proposal also provides for refunds of member payments made for up to five years of interruptive military service credit during Operation Enduring Freedom or Operation Iraqi Freedom.

Assumed Effective Date: 90 days after session.

What Is The Current Situation?

Currently, for interruptive military service completed on or after October 6, 1994, a member must pay the missed employee contributions (no interest) to receive service credit. For interruptive military service completed on or after March 31, 1992, and before October 6, 1994, the member must pay the missed contributions plus interest to receive service credit. For interruptive military service completed on or after October 1, 1977, and before March 31, 1992, the member must pay both the missed employer and employee contributions plus interest to receive service credit.

Members must make the required contributions within five years of resuming service with their employer, or prior to retirement, whichever comes first. Members who fail to make timely payment have the option of purchasing the service credit by paying the actuarial cost of the resulting increase in their benefits. In the case of a military death, a survivor who applies for the member's interruptive military service credit must pay the member cost within five years of the member's death or prior to receiving a benefit, whichever comes first.

Who Is Impacted And How?

We estimate that all 120,625 active members of PERS Plan 2, all 24,422 active members of PERS Plan 3, all 6,752 active members of TRS Plan 2, all 51,856 active members of TRS Plan 3, all 17,767 active members of SERS Plan 2, all 33,058 active members of SERS Plan 3, all 2,755 active members of PSERS Plan 2, all 16,099 active members of LEOFF Plan 2, and all 152 active members of WSP Plan 2 could be affected by this bill through improved benefits. However, we only expect approximately 1 out of 4,000 to be impacted in a given year.

We estimate that for a typical Plan 2 member impacted by this bill, the increase in benefits would be free interruptive military service credit versus the choice to pay for interruptive military service credit. For example, a 36 year old male in PERS 2 with 7 years of service and a $46,600 salary would receive free interruptive military service credit valued at approximately $2,500 per year of military service, whereas without this benefit the member could choose to purchase interruptive military service credit for that same amount.

The benefit for a typical Plan 3 member is the removal of the required contribution to their defined contribution account upon purchase of military service.

Additionally, Plan 2 members would be affected by this proposal through increased contribution rates in future biennia.

WHY THIS PROPOSAL HAS A COST AND WHO PAYS FOR IT

Why This Proposal Has A Cost

This bill has a cost because the system will now absorb the value of the portion of interruptive military service credit that is free to the affected members.

Who Will Pay For These Costs?

This bill does not allow for an alternate funding method. The individual plans will subsidize the increase in liability that results from this bill in the usual way. The result may be an increase in future contribution rates for members and employers of the respective systems.

HOW WE VALUED THESE COSTS

Assumptions We Made

We valued two pieces separately – future purchases of service credit and refunds of past purchases of service credit.

For the future purchases of service credit we assumed a certain number of members would purchase service in a given year. We adjusted this number based on which plan the member was in. For example, we assumed that more members in public safety plans would purchase interruptive military service than members in TRS.

Next, we assumed how much service they would buy. We based this assumption on past data. Lastly, based on the same data, we assumed when the service would be purchased. The time when the service is purchased is important because it costs a lot more if it is purchased at retirement rather than within five years of the interruptive military service.

For the refunds of past purchases we used data provided by the Department of Retirement Systems (DRS) to determine how many members will get refunds. Based on the date of interruptive military service we assumed that all military service beginning in 2001 or later would qualify for this proposal.

For more detail please see Appendix A.

How We Applied These Assumptions

We valued two pieces separately – future purchases of service credit and refunds of past purchases of service credit.

For the future purchases of service credit we gathered grouped data for the members of each system. We ran the grouped data through a spreadsheet which models the likelihood of purchasing service credit and the associated cost of the service credit purchase.

For the refunds of past purchases we used the data provided by DRS. We started with the amount of the purchase and added interest until the effective date of this proposal. We then discounted the amount back to 6/30/2007 to be consistent with the future purchases portion.

For more detail please see Appendix B.

Special Data Needed

DRS sent us a file containing all past purchases that have been made for interruptive military service credit. The file contained the member's system, payment date, death date (if applicable), months of service credit purchased, begin date of interruptive service, end date of interruptive service, and payment amount. We relied on all the information provided as complete and accurate.

Otherwise, we developed these costs using the same assets and data as disclosed in the 2007 Actuarial Valuation Report (AVR).

ACTUARIAL RESULTS

How The Liabilities Changed

This proposal will impact the actuarial funding of the systems by increasing the present value of future benefits payable under the systems as shown below.

Impact on Pension Liability

(Dollars in Millions)	Current	Increase	Total
Actuarial Present Value of Projected Benefits			
(The Value of the Total Commitment to all Current Members)			
PERS 1	$14,061	$0.0	$14,061
PERS 2/3	20,634	0.5	20,635
PERS Total	**$34,695**	**$0.5**	**$34,696**
TRS 1	11,021	0.0	11,021
TRS 2/3	7,078	0.0	7,078
TRS Total	**$18,099**	**$0.0**	**$18,099**
SERS 2/3	**$2,698**	**$0.0**	**$2,698**
PSERS 2	**$225**	**$0.0**	**$225**
LEOFF 1	4,358	0.0	4,358
LEOFF 2	6,149	0.7	6,150
LEOFF Total	**$10,507**	**$0.7**	**$10,508**
WSPRS 1/2	**$856**	**$0.0**	**$856**
Unfunded Actuarial Accrued Liability			
(The Portion of the Plan 1 Liability that is Amortized to 2024)			
PERS 1	**$3,609**	**$0.0**	**$3,609**
TRS 1	**2,288**	**0.0**	**2,288**
LEOFF 1	**($939)**	**$0.0**	**($939)**
Unfunded PUC Liability			
(The Value of the Total Commitment to all Current Members Attributable to Past Service that is not covered by current assets)			
PERS 1	$3,990	$0.0	$3,990
PERS 2/3	(2,470)	0.3	(2,469)
PERS Total	**$1,520**	**$0.3**	**$1,521**
TRS 1	2,552	0.0	2,552
TRS 2/3	(1,229)	0.0	(1,229)
TRS Total	**$1,323**	**$0.0**	**$1,323**
SERS 2/3	**($443)**	**$0.0**	**($443)**
PSERS 2	**($2)**	**$0.0**	**($2)**
LEOFF 1	(975)	0.0	(975)
LEOFF 2	(974)	0.4	(973)
LEOFF Total	**($1,949)**	**$0.4**	**($1,948)**
WSPRS 1/2	**($121)**	**$0.0**	**($121)**

Note: Totals may not agree due to rounding.

How Contribution Rates Changed

The increase in the required actuarial contribution rate does not round up to the minimum supplemental contribution rate of 0.01 percent; therefore, the proposal will not affect contribution rates in the current biennium. However, we will use the un-rounded rate increase to measure the fiscal budget changes in future biennia.

Impact on Contribution Rates: (Effective 9/1/2009)						
System/Plan	**PERS**	**TRS**	**SERS**	**PSERS**	**LEOFF**	**WSPRS**
Current Members						
Employee (Plan 2)	0.000%	0.000%	0.000%	0.001%	0.002%	0.000%
Employer:						
Normal Cost	0.000%	0.000%	0.000%	0.001%	0.001%	0.000%
Plan 1 UAAL	0.000%	0.000%	0.000%	0.000%	0.000%	0.000%
Total	0.000%	0.000%	0.000%	0.001%	0.001%	0.000%
State					0.001%	
New Entrants*						
Employee (Plan 2)	0.000%	0.000%	0.000%	0.001%	0.002%	0.000%
Employer:						
Normal Cost	0.000%	0.000%	0.000%	0.001%	0.001%	0.000%
Plan 1 UAAL	0.000%	0.000%	0.000%	0.000%	0.000%	0.000%
Total	0.000%	0.000%	0.000%	0.001%	0.001%	0.000%
State					0.001%	

**Rate change applied to future new entrant payroll and used to determine budget impacts only. Current members and new entrants pay the same contribution rate.*

How This Impacts Budgets And Employees

(Dollars in Millions)	PERS	TRS	SERS	PSERS	LEOFF	WSPRS	Total
2009-2011							
General Fund	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
Non-General Fund	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total State	**$0.0**	**$0.0**	**$0.0**	**$0.0**	**$0.0**	**$0.0**	**$0.0**
Local Government	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total Employer	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Total Employee	**$0.0**	**$0.0**	**$0.0**	**$0.0**	**$0.0**	**$0.0**	**$0.0**
2011-2013							
General Fund	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
Non-General Fund	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total State	**$0.0**	**$0.0**	**$0.0**	**$0.0**	**$0.0**	**$0.0**	**$0.1**
Local Government	0.1	0.0	0.0	0.0	0.0	0.0	0.1
Total Employer	**$0.1**	**$0.0**	**$0.0**	**$0.0**	**$0.1**	**$0.0**	**$0.2**
Total Employee	**$0.1**	**$0.0**	**$0.0**	**$0.0**	**$0.1**	**$0.0**	**$0.1**
2009-2034							
General Fund	$0.3	$0.0	$0.0	$0.0	$0.7	$0.0	$1.1
Non-General Fund	0.4	0.0	0.0	0.0	0.0	0.0	0.4
Total State	**0.7**	**0.0**	**0.0**	**0.0**	**0.7**	**0.0**	**1.5**
Local Government	1.1	0.0	0.0	0.0	1.1	0.0	2.3
Total Employer	**1.8**	**0.1**	**0.1**	**0.0**	**1.8**	**0.0**	**3.8**
Total Employee	**$1.3**	**$0.0**	**$0.0**	**$0.0**	**$1.8**	**$0.0**	**$3.2**

Note: Totals may not agree due to rounding.

The analysis of this proposal does not consider any other proposed changes to the systems. The combined effect of several changes to the systems could exceed the sum of each proposed change considered individually.

As with the costs developed in the actuarial valuation, the emerging costs of the systems will vary from those presented in the AVR or this draft fiscal note to the extent that actual experience differs from the actuarial assumptions.

HOW THE RESULTS CHANGE WHEN THE ASSUMPTIONS CHANGE

To determine the sensitivity of the actuarial results to the best-estimate assumptions or methods selected for this pricing we varied the following assumption:

- The number of members expected to purchase free interruptive military service credit in the future.

The number of members expected to purchase free interruptive military service credit in the future would have to increase dramatically for this proposal to impact contribution rates in the current biennium. The table below shows the multiple of how many more members would need to receive free military service credit before the rate impact would reach 0.005% for each system. For example, in LEOFF 2, the employee rate impact would reach 0.005% if three times as many members as expected receive free interruptive military service credit in the future.

System	Multiple
PERS	16
TRS	175
SERS	67
PSERS	8
LEOFF	3
WSP	35

ACTUARY'S CERTIFICATION

The undersigned hereby certifies that:

1. The actuarial cost methods are appropriate for the purposes of this pricing exercise.
2. The actuarial assumptions used are appropriate for the purposes of this pricing exercise.
3. The data on which this draft fiscal note is based are sufficient and reliable for the purposes of this pricing exercise.
4. Use of another set of methods, assumptions, and data may also be reasonable, and might produce different results.
5. This draft fiscal note has been prepared for the Select Committee on Pension Policy and Law Enforcement Officers' and Fire Fighters' Retirement System Plan 2 Board.
6. This draft fiscal note has been prepared, and opinions given, in accordance with Washington State law and accepted actuarial standards of practice as of the date shown on page 1 of this draft fiscal note.

This draft fiscal note is a preliminary actuarial communication and the results shown may change. While this draft fiscal note is meant to be complete, the undersigned is available to provide extra advice and explanations as needed.

Matthew M. Smith, FCA, EA, MAAA
State Actuary

APPENDIX A – ASSUMPTIONS WE MADE

We valued two pieces separately – future purchases of service credit and refunds of past purchases of service credit.

For the future purchases of service credit we assumed a certain number of members would purchase service in a given year. We used data from a DRS service credit report dated September 30, 2006 to estimate the number of members who would purchase future service. We used the average number of members from PERS over the 5-year period, which resulted in an assumption of 0.000214, or 1 in every 4,700 per year. We adjusted this number based on which plan the member was in. For example, we assumed that more members in public safety plans would purchase interruptive military service than members in TRS. More specifically, TRS and SERS were assumed to be at half of the assumed rate, whereas PSERS was assumed to be 1.5 times the assumed rate, and LEOFF and WSPRS were assumed to be at twice the assumed rate.

Next, we assumed how much service they would buy. We based this assumption on the same service credit report mentioned above. The average amount of service credit purchased was 10.6 months, which we used as the assumption in this pricing.

Lastly, based on the same data, we assumed when the service would be purchased. The time when the service is purchased is important because it costs a lot more if it is purchased at retirement rather than within five years of the interruptive military service. 209 of the 214 purchases were made within five years of the interruptive military service, while 5 of the 214 purchases were made at retirement. We used this data for our assumption of future purchases.

For simplicity, we assumed the population affected would be 100 percent male.

For the refunds of past purchases we used data provided by the DRS to determine how many members will get refunds. We assumed that all military service beginning in 2001 or later would qualify for refunds.

Otherwise, we developed these costs using the same assumptions as disclosed in the AVR.

APPENDIX B – HOW WE APPLIED THESE ASSUMPTIONS

We valued two pieces separately – future purchases of service credit and refunds of past purchases of service credit.

For the future purchases of service credit we gathered average salary, average years of service, and total count for each age group of each system. We ran the grouped data through a spreadsheet which models the likelihood of purchasing service credit and the associated cost of the service credit purchase for each year of their future service. The likelihood of purchasing credit was based on the assumed rate of 0.000214, adjusted by system. The cost of the service credit purchase was the probability of purchasing the service within five years times the missed contributions times the assumed 10.6 months of service purchased plus the probability of purchasing the service at retirement times the actuarial value. This formula is shown below:

[209/214 * average of last 5 year's contribution rates * salary *10.6/12 months + 5/214 * Early Retirement Factor (ERF) * annuity factor * 0.02 * 10.6/12 months * final average salary]

Within the formula, future contribution rates must be assumed. Future contribution rates are consistent with contribution rates found on our website. Future contribution rates beyond 2013 are equal to the 2013 contribution rates.

The result for each grouping was multiplied by survivorship and discounted with 8 percent annual interest to determine the present value of future benefits. The sum of the present value of future benefits for each group was added up to determine the liability for each system.

For the refunds of past purchases we used the data provided by DRS. We started with the amount of the purchase and added 5.5 percent annual interest until the effective date of this proposal September 1, 2009. We then discounted, at 8 percent, the amount back to June 30, 2007, to be consistent with the future purchases portion.

Otherwise, we developed these costs using the same methods as disclosed in the June 30, 2007 AVR.

We used the Entry Age Normal Cost Method to determine the fiscal budget changes for future new entrants. We used the Aggregate actuarial funding method to determine the fiscal budget changes for current plan members.

GLOSSARY OF ACTUARIAL TERMS

Actuarial Accrued Liability: Computed differently under different funding methods, the actuarial accrued liability generally represents the portion of the present value of fully projected benefits attributable to service credit that has been earned (or accrued) as of the valuation date.

Actuarial Present Value: The value of an amount or series of amounts payable or receivable at various times, determined as of a given date by the application of a particular set of actuarial assumptions (i.e. interest rate, rate of salary increases, mortality, etc.).

Aggregate Funding Method: The Aggregate Funding Method is a standard actuarial funding method. The annual cost of benefits under the Aggregate Method is equal to the normal cost. The method does not produce an unfunded liability. The normal cost is determined for the entire group rather than on an individual basis.

Entry Age Normal Cost Method (EANC): The EANC method is a standard actuarial funding method. The annual cost of benefits under EANC is comprised of two components:

- Normal cost.
- Amortization of the unfunded liability.

The normal cost is determined on an individual basis, from a member's age at plan entry, and is designed to be a level percentage of pay throughout a member's career.

Normal Cost: Computed differently under different funding methods, the normal cost generally represents the portion of the cost of projected benefits allocated to the current plan year.

Projected Unit Credit (PUC) Liability: The portion of the Actuarial Present Value of future benefits attributable to service credit that has been earned to date (past service).

Projected Benefits: Pension benefit amounts which are expected to be paid in the future taking into account such items as the effect of advancement in age as well as past and anticipated future compensation and service credits.

Unfunded PUC Liability: The excess, if any, of the Present Value of Benefits calculated under the PUC cost method over the Valuation Assets. This is the portion of all benefits earned to date that are not covered by plan assets.

Unfunded Actuarial Accrued Liability (UAAL): The excess, if any, of the actuarial accrued liability over the actuarial value of assets. In other words, the present value of benefits earned to date that are not covered by plan assets.