



November 17, 2021

Interruptive Military Service Credit

FINAL REPORT

By Jacob White

Senior Research & Policy Manager

360-586-2327

jacob.white@leoff.wa.gov

ISSUE STATEMENT

Eligibility for no-cost interruptive military service credit is limited to service where a campaign medal was earned and does not include service where an expeditionary medal was earned.

OVERVIEW

LEOFF Plan 2 members may establish service credit for military service interrupting their LEOFF service. Member contributions are waived for LEOFF Plan 2 members whose interruptive military service was: 1) during a period of war; or 2) during a specified conflict for which they earned a campaign badge or medal.

BACKGROUND AND POLICY ISSUES

General Background

Interruptive military service credit applies to all Washington State retirement systems, including LEOFF Plan 2. A member qualifies for this benefit when they take a leave of absence from a DRS covered position to serve in the United States military, and the member returns to employment with their employer within 90 days of being honorably discharged. When this occurs, membership in the retirement system is considered to be interrupted.

There are two types of pension benefits for interruptive military service: fully subsidized ("no-cost interruptive military service credit") and partially subsidized ("reduced-cost interruptive military service credit").

No-cost interruptive military service credit is awarded if the service took place during a period of war, or certain armed conflicts in which an approved campaign medal or badge was obtained. A member can qualify for up to five years of no-cost interruptive military service credit. The employer and state pay their contributions plus interest and the system subsidizes the member contributions and interest.

Partially subsidized interruptive military service credit is awarded if the service did not take place during a period of war, or an armed conflict in which an approved campaign medal was

obtained.¹ In order to receive partially subsidized credit, a member must have been honorably discharged from their service and unable to qualify for no-cost credit. A member can qualify for up to five years of partially subsidized military service credit. The member must pay the member contribution cost; however, the interest on the member contributions is subsidized by the Plan. The member has five years from when they return to work to pay their contributions or they must pay those contributions prior to retirement, whichever occurs first. After the member pays their contributions, the employer and state are billed for the employer contributions plus interest.

A member may receive a total of 10 years of interruptive military service credit (up to 5 years no-cost interruptive military service credit and up to 5 years of partially subsidized). The member must fully pay the required contributions within 5 years of reemployment.

Qualifying for No-Cost Interruptive Military Service Credit

To qualify for no-cost interruptive military service credit the member's service must have been during a "period of war", as defined in RCW 41.04.005(2). "Period of war" is defined under this statute as:

World War I; World War II; The Korean conflict; The Vietnam era²; The Persian Gulf War³; The period beginning on the date of any future declaration of war by the congress and ending on the date prescribed by presidential proclamation or concurrent resolution of the congress; and

Any armed conflicts, if the participant was awarded the respective campaign badge or medal, or if the service was such that a campaign badge or medal would have been awarded, except that the member already received a campaign badge or medal for a prior deployment during that same conflict.

The DoD awards a campaign badge or medal to service members who served during a specified conflict and were stationed in a designated war zone.⁴

Campaign medals, as defined by the DoD manual 1348.33 Volume 2, are medals which:

¹ Responsibility for payment varies by the dates of service. If the military service was completed: Between October 1, 1977, and March 31, 1992, the member pays both the employer and member contributions plus interest; After March 31, 1992, and before October 6, 1994, the member pays the member contributions plus interest and the employer and state pay their contributions plus interest; After October 6, 1994, a member pays the member contributions (no interest) and the employer and state pays their contribution plus interest.

² Which means: The period beginning on February 28, 1961, and ending on May 7, 1975, in the case of a veteran who served in the Republic of Vietnam during that period; the period beginning August 5, 1964, and ending on May 7, 1975.

³ Which was the period beginning August 2, 1990, and ending on February 28, 1991, or ending on November 30, 1995, if the participant was awarded a campaign badge or medal for such period.

⁴ Defined conflicts include: the crisis in Lebanon, the invasion of Grenada, Operation Just Cause in Panama, Operation Restore Hope in Somalia, Operation Uphold Democracy in Haiti, Operation Joint Endeavor in Bosnia, Operation Noble Eagle, Operation Enduring Freedom in Southern or Central Asia, Operation Iraqi Freedom; Iraq and Syria, Operation Inherent Resolve; and Afghanistan, Operation Freedom's Sentinel.

“recognize service members who are deployed to the geographic area where the combat is actually occurring. Members awarded campaign medals have the highest degree of personal risk and hardship as they are conducting the combat operations and are deployed to the area where the combat is actually occurring.”

Interruptive military service that does not meet the definition of “period of war” does not qualify for no-cost interruptive military service credit. However, it does qualify for partially subsidized interruptive military service credit.

Legislative History

No-cost interruptive military service credit was created in 2009, with the passage of HB 1548. HB 1548 was endorsed by the SCPP and the LEOFF Plan 2 Board. The legislative history of HB 1548 does not explicitly state the policy goals of the legislature in creating a no-cost interruptive military service credit benefit, or the reasons for placing the lines of demarcation between partially subsidized and no-cost interruptive military service credit at receiving a campaign badge.

In 2009, the LEOFF Plan 2 Board report⁵ on this proposed benefit stated:

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.

Some of the policy pros and cons of providing special or increased benefits to members based on military service, identified in presentations to the LEOFF Plan 2 Board and the SCPP in 2008 and 2009, included:

No Additional Benefits	Additional Benefits
Members serve voluntarily; no draft requires them to leave employment	Encourage military service; help avoid need for a draft
Members already receive adequate federal compensation and benefits for military service	Support ability to recruit more military personnel into state service and more state personnel into military service
Other members and employers would not have to absorb extra costs for these members	Support view that all WA citizens benefit, directly or indirectly, from military service rendered by public employees

⁵ http://leoff.wa.gov/wp-content/uploads/2015/06/121708.6_Interruptive-Military-Service-Credit.pdf

More favorable service credit treatment is already given to these members (partially subsidized service credit)	Recognize that members who serve in conflicts are at higher risk for injury or death; pension Plans typically offer extra support for high-risk occupations that serve the public at large
Military service is unrelated to the service rewarded by state pension Plans	Supplement federal benefits, which may not be viewed as adequate

During the 2017 legislative session, SB 5661 required the LEOFF Plan 2 Board to study interruptive military service credit for members not awarded a campaign badge or medal. The LEOFF Plan 2 Board completed that study during the 2017 interim and submitted the report to the legislature on January 1, 2018.

As a result of that study the LEOFF Plan 2 Board endorsed legislation (HB 2701) in 2018. This legislation added a provision to ensure eligibility for no-cost interruptive military service credit for multiple deployments to the same conflict; added an end date in statute for the end of the Gulf War; and made two additional combat operations (Inherent Resolve, Iraq and Syria; and Freedom’s Sentinel, Afghanistan) eligible for no-cost interruptive military service credit. This legislation became effective June 7, 2018.

The statute which defines “period of war”, for purposes of not only receiving interruptive military service credit but also other non-pension benefits, has been amended eleven times since its adoption in 1969. The majority of these amendments have updated the list of periods of war and armed conflicts.

HB 2544 (2020) redefined “period of war” in RCW 41.04.005 to no longer identify specific conflicts and instead recognize all service from which a campaign badge or medal was earned. The LEOFF Plan 2 Board endorsed this legislation because it removes the need to amend “period of war” for each new conflict that qualifies for no-cost interrupt military service credit. HB 2544 (2020) also required the LEOFF Plan 2 Board and the Select Committee on Pension Policy to submit studies to the legislature on expanding the eligibility of no-cost interruptive military service credit. The Board voted to defer until next year making a recommendation to expand the no-cost interruptive military service credit benefit to service where the member earned an expeditionary medal. The Board expressed support of the policy to expand but also expressed concerns regarding the cost of the benefit and the expected state and local budget environment due to unknown revenue impacts from Covid-19.

Department of Defense

Campaign, Expeditionary, and Service (CE&S) medals recognize service members’ participation in military campaigns, expeditions, or other significant military operations, and for otherwise meritorious military service. Eligibility criteria for CE&S medals are based on a service member’s:

- Degree of personal risk (e.g., proximity to the enemy, service in a combat zone, imminent threat of hostilities);
- Degree of personal hardship;
- Participation in designated military operations; and,
- Extent of military service during specified time periods, duration, or types of duty.⁶

There are four categories of CE&S medals:

- **Campaign Medals** - Campaign medals recognize deployed participation in large-scale or long-duration combat operations. Campaign medals are associated with the highest level of personal risk and hardship. They are awarded to members who were deployed to the geographic areas where the combat occurred. Service members deployed to areas where combat is occurring as a result of prolonged or large-scale military combat operations should be recognized with a separate and distinct campaign medal.
- **Expeditionary Medals** - Expeditionary medals recognize deployed participation in small scale and/or short-duration combat operations or military operations where there is an imminent threat of hostilities. Expeditionary medals are also awarded to members deployed in support of combat operations, but who were not in the geographic area where the actual combat occurred. Expeditionary medals are associated with high levels of personal risk and hardship.
- **Deployed Service Medals** - Deployed service medals recognize deployment or assignment to a designated Area of Eligibility (AOE) to participate in, or directly support, a designated military operation where there was no foreign armed opposition or imminent threat of hostile action.
- **Individual Service Medals** - Individual service medals recognize individual merit, direct participation in a DoD approved military activity, undertaking, event or operation, or service during a specified period. Some individual service medals, such as the Prisoner of War (POW) medal, may recognize service involving significant personal risk and hardship, while others only recognize being in active military service during a particular period of time.⁷

Below is a table from the DoD Manual 1348.33, Volume 2, of current and recent CE&S medals:

⁶ DOD MANUAL 1348.33, VOLUME 2,
https://www.esd.whs.mil/Portals/54/Documents/DD/issuances/dodm/1348.33_Vol2.pdf?ver=2018-03-29-102726-900

⁷ DOD MANUAL 1348.33, VOLUME 2,
https://www.esd.whs.mil/Portals/54/Documents/DD/issuances/dodm/1348.33_Vol2.pdf?ver=2018-03-29-102726-900

Table 1: Categories of CE&S Medals

Title of Decoration ¹	Sub-category of CE&S Medals
Southwest Asia Service Medal ²	Campaign Medal
Kosovo Campaign Medal	Campaign Medal
Afghanistan Campaign Medal	Campaign Medal
Iraq Campaign Medal	Campaign Medal
Inherent Resolve Campaign Medal	Campaign Medal
Armed Forces Expeditionary Medal	Expeditionary Medal
Global War on Terrorism Expeditionary Medal	Expeditionary Medal
Antarctic Service Medal	Deployed Service Medal
Armed Forces Service Medal	Deployed Service Medal
Korea Defense Service Medal	Deployed Service Medal
National Defense Service Medal	Individual Service Medal
Armed Forces Reserve Medal	Individual Service Medal
Humanitarian Service Medal	Individual Service Medal
Prisoner of War Medal	Individual Service Medal
Military Outstanding Volunteer Service Medal	Individual Service Medal
Global War on Terrorism Service Medal	Individual Service Medal
<p>Note 1: This list is not all-inclusive. Military Departments also have CE&S medals (e.g., Navy Expeditionary Medal; Air Force Good Conduct Medal; Army Good Conduct Medal). Refer to each Military Department's specific award guidance for additional information.</p> <p>Note 2: Before DoD established comprehensive CE&S medal policy, the naming conventions for DoD CE&S medals were inconsistent. This resulted in several medals with names that do not match the CE&S medal category to which they are assigned.</p>	

LEOFF Plan 2 Interruptive Military Service Credit Data

Between 2009 and 2019, 534 LEOFF Plan 2 members received no-cost interruptive military service credit. Those members received an average of 9.75 months of service credit.

During that same time period, 24 LEOFF Plan 2 members purchased partially subsidized interruptive military service credit. Those members purchased an average of 8.85 months of service credit. 40 LEOFF Plan 2 members requested a bill from DRS to purchase partially subsidized interruptive military service credit, but elected not to purchase the service credit. Those members would have received an average of 11.68 months of service credit.

COST OF EXPANDING ELIGIBILITY

OSA completed a draft fiscal note (Appendix A) for expanding interruptive military service credit to expeditionary medals across all the state's Plan 2 pension systems and the Washington State Patrol Retirement System (WSPRS). For LEOFF Plan 2, OSA's analysis identified a 2 basis point increase to the member contribution rate, and a one basis point increase to the employer and state contribution rates. OSA also identified 25-year budget impacts across all the retirement plans as \$19.6 million.

Impact on Contribution Rates (Effective 09/01/2022)				
Fiscal Year 2023 State Budget	PERS	PSERS	LEOFF	WSPRS
Employee (Plan 2 or WSPRS)	0.00%	0.00%	0.02%	0.12%
Employer	0.00%	0.00%	0.01%	0.12%
State			0.01%	

Budget Impacts			
(Dollars in Millions)	2022-2023	2023-2025	25-Year
General Fund-State	\$0.2	\$0.6	\$6.1
Local Government	\$0.2	\$1.0	\$9.7
Total Employer	\$0.5	\$2.0	\$19.6

Note: We use long-term assumptions to produce our short-term budget impacts. Therefore, our short-term budget impacts will likely vary from estimates produced from other short-term budget models.

OSA further broke down the budget impacts by retirement plan:

Budget Impacts					
(Dollars in Millions)	PERS	PSERS	LEOFF	WSPRS	Total
2022-2023					
General Fund	\$0.0	\$0.0	\$0.2	\$0.0	\$0.2
Non-General Fund	0.0	0.0	0.0	0.1	0.1
Total State	\$0.0	\$0.0	\$0.2	\$0.1	\$0.3
Local Government	0.0	0.0	0.2	0.0	0.2
Total Employer	\$0.0	\$0.0	\$0.4	\$0.1	\$0.5
Total Employee	\$0.0	\$0.0	\$0.4	\$0.1	\$0.5
2023-2025					
General Fund	\$0.1	\$0.0	\$0.4	\$0.0	\$0.6
Non-General Fund	0.2	0.0	0.0	0.2	0.4
Total State	\$0.3	\$0.0	\$0.4	\$0.3	\$1.0
Local Government	0.3	0.0	0.7	0.0	1.0
Total Employer	\$0.7	\$0.0	\$1.1	\$0.3	\$2.0
Total Employee	\$0.5	\$0.0	\$1.1	\$0.3	\$1.9
2022-2047					
General Fund	\$1.1	\$0.1	\$4.7	\$0.2	\$6.1
Non-General Fund	1.6	0.0	0.0	2.2	3.9
Total State	\$2.7	\$0.1	\$4.7	\$2.4	\$9.9
Local Government	2.7	0.1	6.9	0.0	9.7
Total Employer	\$5.4	\$0.3	\$11.6	\$2.4	\$19.6
Total Employee	\$4.1	\$0.3	\$11.6	\$2.4	\$18.3

Note: Totals may not agree due to rounding. We use long-term assumptions to produce our short-term budget impacts. Therefore, our short-term budget impacts will likely vary from estimates produced from other short-term budget models.

For LEOFF Plan 2 the general fund impact for 2022-2023 is \$0.2 million; for 2023-2025 it is \$0.4 million; and the 25 year expect general fund impact is \$4.7 million.

OTHER STATES

LEOFF Plan 2 contacted staff from other state retirement systems for information and data regarding their members' receipt of interruptive military service credit, as well as the requirements for receiving such credit.

Idaho PERS allows their members a maximum of five years of no-cost military service credit, similar to Washington. Wisconsin Retirement Systems allows a maximum of four years of no-cost military service credit, unless the service is involuntary. Minnesota Retirement Systems and Oregon PERS do not offer no-cost interruptive military service credit. Research and communications with staff members from other state retirement systems shows that none of these states require their members to have earned a specific medal, or to have served in a specific conflict to receive no-cost or partially subsidized interruptive military service credit. Among the states that provided information and offer no-cost interruptive military service credit, the requirements for earning no-cost credit are much broader than Washington.

POLICY OPTIONS

Option 1: Expand No-Cost Interruptive Military Service Credit

Expand no-cost interruptive military service credit to include service where a member earns an expeditionary medal.

Option 2: No Action

Continue to limit eligibility for no-cost interruptive military service credit to service where a campaign medal was earned and does not include service where an expeditionary medal was earned.

SUPPORTING INFORMATION

Appendix A: OSA Draft Fiscal Note

Appendix B: Bill Draft

SUMMARY OF RESULTS

BRIEF SUMMARY OF PROPOSAL: Expands the definition of veteran to include individuals who received an Expeditionary medal (or badge) during any armed conflict.

COST SUMMARY

Impact on Contribution Rates (Effective 09/01/2022)				
Fiscal Year 2023 State Budget	PERS	PSERS	LEOFF	WSPRS
Employee (Plan 2 or WSPRS)	0.00%	0.00%	0.02%	0.12%
Employer	0.00%	0.00%	0.01%	0.12%
State			0.01%	

Budget Impacts			
(Dollars in Millions)	2022-2023	2023-2025	25-Year
General Fund-State	\$0.2	\$0.6	\$6.1
Local Government	\$0.2	\$1.0	\$9.7
Total Employer	\$0.5	\$2.0	\$19.6

Note: We use long-term assumptions to produce our short-term budget impacts. Therefore, our short-term budget impacts will likely vary from estimates produced from other short-term budget models.

HIGHLIGHTS OF ACTUARIAL ANALYSIS

- ❖ We estimate this proposal will have a cost to the impacted plans because more members are expected to receive fully subsidized IMSC and consequently larger pension benefits.
 - We expect the impacts of this proposal are immaterial to all plans in TRS and SERS, as well as PERS 1 and LEOFF 1.
- ❖ To estimate the cost of this proposal, we primarily relied on data from DRS regarding IMSC granted in the past for Campaign medals.
 - Based upon data from the DoD, we assumed IMSC for Expeditionary medals will be granted at a rate approximately 25 percent lower relative to Campaign medals.
- ❖ The actual amount of IMSC granted under this proposal is heavily dependent on the levels of troop engagement and medals awarded. This includes both (1) future unknown conflicts, and (2) members who earned an Expeditionary medal in the past but did not purchase partially subsidized IMSC upon return. As a result, the cost of this proposal could be significantly higher (or lower) than assumed.
 - This proposal is not expected to materially increase the affordability and solvency risks of the plans.

The analysis presented in this draft fiscal note does not include the changes to economic assumptions as adopted by the Pension Funding Council during their October meeting. If this proposal is submitted during the 2022 Legislative Session, we expect an increase in costs due to these assumption changes.

See the remainder of this draft fiscal note for additional details on the summary and highlights presented here.

WHAT IS THE PROPOSED CHANGE?

Summary of Proposal

This proposal impacts the following systems:

- ❖ Public Employees' Retirement System (PERS).
- ❖ Teachers' Retirement System (TRS).
- ❖ School Employees' Retirement System (SERS).
- ❖ Public Safety Employees' Retirement System (PSERS).
- ❖ Law Enforcement Officers' and Fire Fighters' Retirement System (LEOFF).
- ❖ Washington State Patrol Retirement System (WSPRS).

This proposal expands the definition of veteran in subsection (2)(g) of the [Revised Code of Washington \(RCW\) 41.04.005](#) to include any participant who was awarded the respective Expeditionary medal (or badge). This change expands the eligibility criteria for certain retirement system benefits (e.g., Interruptive Military Service Credit [IMSC]).

Based on their administrative interpretation of the proposal, the Department of Retirement Systems (DRS) has determined this proposal would apply as follows:

- ❖ Members who purchased partially subsidized service credit and whose service meets the new eligibility requirements would receive a refund of their member contributions for any prior payment.
- ❖ Increase in Pension Benefit Prospectively:
 - Fully subsidized IMSC will be provided to eligible members who were awarded an Expeditionary medal (or badge); however, did not purchase partially subsidized military service upon returning to their DRS-covered position.
 - Fully subsidized IMSC will be provided to eligible members awarded Expeditionary medals (or badges) in the future.

Assumed Effective Date: 90 days after session.

What Is the Current Situation?

The definition of "veteran" in RCW 41.04.005 is used to determine eligibility for pension benefits related to military service credit for all plans. This definition is also used for other purposes, but only the impacts to pension benefits are covered in this draft fiscal note.

To qualify as a veteran under this statute, a member must have either:

Actuary's Draft Fiscal Note for IMSC for Expeditionary Medals

- ❖ Served during one of the wars listed (e.g., World War II);
or
- ❖ Been awarded the respective Campaign medal (or badge) for any armed conflicts (e.g., the invasions of Grenada or Panama, etc.).

Campaign and Expeditionary medals recognize service members for participation in military campaigns and expeditions, and significant military operations. Eligibility and criteria are based on a service member's degree of personal risk and hardship, participation in designated military operations, and the extent of service during specified time periods.

- ❖ Campaign medals are associated with the highest level of personal risk and hardship. These medals recognize deployed participation in large-scale or long-duration combat operations and are awarded to service members who are deployed to the geographic areas where combat is occurring.
- ❖ Expeditionary medals are associated with high levels of personal risk and hardship. These medals recognize deployed participation in small scale and/or short duration combat operations or military operations where there is an imminent threat of hostilities. These medals are also awarded to members deployed in support of combat operations, but who are not in the geographic area where combat is occurring.

Interruptive Military Service Credit

Members of PERS, TRS, SERS, PSERS, LEOFF, and WSPRS qualify for IMSC when they take a leave of absence from their DRS-covered position to serve in the United States military and return to work within 90 days of honorable discharge.

Members can receive up to ten years of IMSC of which:

- ❖ Up to five years at no cost to the member (i.e., fully subsidized) if the member's service took place during a period of war or an armed conflict during which a Campaign medal (or badge) was earned.
- ❖ Up to five years can be purchased by the member (i.e., partially subsidized) if their military service did not take place during a period of war. In this scenario, the member pays the member contribution cost for those years.

Additionally, in the event a member dies while honorably serving in the national guard or military reserves during a period of war, the member's beneficiary or estate is entitled to the following:

- ❖ For PERS, TRS, SERS, or PSERS: Retirement allowance is not subject to actuarial reduction.

Actuary's Draft Fiscal Note for IMSC for Expeditionary Medals

- ❖ For LEOFF or WSPRS: Duty-related death benefits provided in the respective plan.

Non-Interruptive Military Service Credit

PERS 1 and WSPRS 1 also have provisions for non-interruptive military service credit. After completing 25 Years of Service (YOS) credit in these plans, members with service in the armed forces (as defined in RCW 41.04.005) may be credited up to five years of military service whether or not they left the employment of a participating employer to serve.

Who Is Impacted and How?

This proposal could affect all current and future members of the impacted plans through improved benefits by changing the definition of veteran for fully subsidized IMSC. In other words, the definition of veteran is expanded to cover all members who were awarded an Expeditionary medal.

The benefits of eligible members can be improved in two ways:

1. **Increase in Pension Benefit:** This proposal will increase the pension benefits by providing additional service credit to members who were awarded an Expeditionary medal in the past or are awarded this medal in the future.

For example, a Plan 2 member who retires with an average final salary of \$100,000 and 25 YOS under current law will receive an initial annual benefit of \$50,000 per year at retirement. If the same member had six months of fully subsidized IMSC, then their annual benefit would be 2.0 percent larger (i.e., \$51,000).

Members who were awarded an Expeditionary medal and purchased IMSC will not see a pension benefit increase; see bullet 2 below for how they'll be impacted.

2. **Return of Contributions:** Impacted members who already purchased IMSC will have their past payment(s) reimbursed by DRS.

This proposal impacts all employers and Plan 2 members through increased contribution rates. With the exception of WSPRS members¹, this proposal will not affect member contribution rates in Plan 1 since they are fixed in statute. Additionally, this proposal will not affect member contribution rates in Plans 3 since they do not contribute to their employer-provided defined benefit.

There could be a limited number of impacted members currently in PERS 1, TRS 1, and LEOFF 1 that may receive increased benefits. Any increase in costs to these plans would be funded according to the plan's funding policy.

¹WSPRS 1 members have the same contribution rate as Plan 2 members.

WHY THIS PROPOSAL HAS A COST AND WHO PAYS FOR IT

Why This Proposal Has a Cost

This proposal allows members to receive fully subsidized IMSC for military service not covered under current law. As a result, an eligible member who applies for, and receives, IMSC will have a larger benefit upon retirement.

In addition, eligible members who already purchased IMSC will have their past payment(s) reimbursed by DRS. Any reimbursement of past payments would decrease assets of the plan which ultimately results in a cost.

Who Will Pay for These Costs?

PERS, TRS, SERS Plans 2/3 and PSERS Plan 2

Where applicable, the costs that result from this proposal will be divided between members and employers according to standard funding methods that vary by plan:

- ❖ Plan 1: 100 percent employer.
- ❖ Plan 2: 50 percent member and 50 percent employer.
- ❖ Plan 3: 100 percent employer.

LEOFF 2

Any costs that arise from this proposal will be divided according to the standard funding method for LEOFF Plan 2: 50 percent member, 30 percent employer, and 20 percent state.

WSPRS Plans 1/2

This proposal constitutes a benefit improvement. As a result, any unfunded costs that arise from this proposal will be divided according to the standard funding method of 50 percent member and 50 percent employer. The statutory maximum member contribution rate will correspondingly increase as well. The current maximum member rate is 8.61 percent. A supplemental rate, due to this proposal, would increase the maximum by 0.12 percent.

Plan 1 (PERS, TRS, LEOFF)

PERS, SERS, and PSERS employers will realize any impacts on the PERS 1 Unfunded Actuarial Accrued Liability (UAAL) payments, whereas TRS employers will realize any impacts on the TRS 1 UAAL payments. We expect no impact to contribution rates in LEOFF 1 given the small number of active members and the current funded status in LEOFF 1.

HOW WE VALUED THESE COSTS

Special Data Needed

We relied on data from DRS and the Department of Defense (DoD) to help inform the assumptions we selected. The DRS data was used to identify the number of Washington State retirement system members that are annually awarded fully subsidized IMSC for Campaign medals. While the DoD data was used to compare the number of Expeditionary medals awarded relative to Campaign medals at the national level.

We reviewed this historical data and found it reasonable for the purposes of this proposal, but we did not audit the data. We assumed the data was accurate and complete. Please see **Appendix A** for more details.

Otherwise, we developed these costs using the same assets and data as disclosed in the [*June 30, 2019, Actuarial Valuation Report*](#) (AVR).

Assumptions We Made

Separate assumptions were made to value the service credit expected to be earned in the future as well as service credit earned in the past.

These two sets of costs (for future and historical service credit) were combined to form the overall expected cost of this proposal.

Assumptions for Future Service Credit

We set a “load” to value our expectations for IMSC, via Expeditionary medals, to be earned in the future. The load represents a percentage increase that is intended to capture the impact of granting fully subsidized IMSC that is not captured under current law. In order to model the increase in expected costs from this proposal, we applied a load to the active retirement benefits within our valuation software; we think this is appropriate given that approximately 90 percent of our active member plan obligations are attributable to retirement.

To begin setting this load for future service credit, we reviewed the data provided by DRS on historical fully subsidized IMSC granted to eligible members who earned a Campaign medal over a ten-year period (2010-2019). We believe it's reasonable to expect these average levels of IMSC granted in the past to continue in the future. For this reason, we relied on this experience to help develop our load assumption for Expeditionary Medals.

The following bullet points outline the calculation of our method for developing a best estimate load, followed by a table with by-plan data and the results of those calculations.

1. Annual Percent of Population Receiving Fully Subsidized IMSC (a / b).
 - a. Average Number of Members who Received IMSC Annually.
 - b. Average Number of Active Members in the Plan.

Actuary's Draft Fiscal Note for IMSC for Expeditionary Medals

2. Adjustment for Estimated Average Future Years of Service.
3. Percent of Current Actives Expected to Receive IMSC over the Career (Step 1 x Step 2).
4. Average IMSC Granted Per Eligible Member.
5. Average Expected YOS at Retirement.
6. Preliminary Assumed Load (Step 3 x Step 4 / Step 5).
7. Adjustment for Expected Frequency of Expeditionary vs. Campaign medals.
8. Final Assumed Load (Step 6 x Step 7).

Calculation of Best Estimate Load: Future IMSC (Expeditionary Medals)					
Observed DRS Data from 2010-2019	PERS 2/3	PSERS	LEOFF 2	WSPRS 1	WSPRS 2
1) Annual Percent of Population Impacted (a / b)	0.0%	0.0%	0.2%	0.9%	0.2%
a. Average Impacted Member Count*	34	2	32	6	1
b. Average Count of Actives	150,743	5,243	17,235	591	453
2) Adjustment for Estimated Future Service (In Years)**	5	8	8	2	13
3) Percent Expected to Receive IMSC (1 x 2)	0.1%	0.3%	1.5%	1.9%	2.3%
4) Average IMSC Granted	1.0	0.6	0.8	0.8	0.8
5) Average Expected YOS at Retirement	23	19	28	28	25
6) Preliminary Assumed Load (3 x 4 / 5)	0.0010%	0.0013%	0.0053%	0.0256%	0.0061%
7) Adjustment for Expected Frequency***	-25%	-25%	-25%	-25%	-25%
8) Final Assumed Load (6 x 7)	0.0038%	0.0077%	0.0320%	0.0385%	0.0594%

*DRS members given fully subsidized IMSC for Campaign medals.

**See Adjustment for Estimated Future Service, below, for details.

***See Adjustment for Expected Frequency, below, for details.

Two adjustments were made to the load assumption:

1. **Adjustment for Estimated Future Service:** The Annual Percent of Population Impacted only captures the number of members expected to be awarded IMSC, via Campaign medals, in the next year. Given this, an adjustment was made reflecting the average number of years we expect the current active population to continue earning IMSC in the future, but limited to age 50.
 - a. For this analysis, we selected age 50 as the cut off because as members approach retirement, we think it's unlikely that they will interrupt their careers to temporarily join the military. Given that the youngest retirement-eligible age is 50 for LEOFF 2, we decided that could be an appropriate upper end for all systems when estimating the average number of future years the current active population would continue to accrue IMSC. This assumption is supported by the following linked study by the [PEW Research Center](#) which indicates that only about one-in-ten active military are older than age 40.
2. **Adjustment for Expected Frequency:** We expect Expeditionary medals will be awarded at a pace approximately 25 percent lower than Campaign medals. This downward adjustment was set based on DoD

Actuary's Draft Fiscal Note for IMSC for Expeditionary Medals

data summarized in **Appendix A** which shows an Expeditionary to Campaign medal ratio of 0.75 over approximately the last 20 years.

Assumptions for Historical Service Credit

Members who were awarded an Expeditionary medal in the past are also impacted under this proposal. These members will receive either a return of contributions by virtue of paying for partially subsidized IMSC or an increase in future pension benefits. The assumptions within this section focus on the costs of the population who will have an increase in future pension benefits (since so few partially subsidized members exist within the DRS data). These members were previously eligible to purchase IMSC; however, they may have elected to not do so and consequently we do not have any data on them.

We used the following methods to estimate their cost under this proposal:

- ❖ We began by estimating the value of the fully subsidized IMSC for Campaign medals over this period.
 - We calculated a liability per year of service by taking the total active Present Value of Future Benefits (PVFB) for each plan (from the 2019 AVR) and dividing by the expected YOS at retirement for future retirees (i.e., the same as number 5 in the Calculation of Best Estimate Load table above). This amount was then multiplied by the fully subsidized IMSC granted for the observed time period of 2010 through 2019. Our understanding is that Expeditionary medals have primarily been granted since 2001, so we doubled this cost for most systems (except PSERS, given its plan maturity).
- ❖ Similar to the Assumptions for Future Service Credit section, we relied on data for Campaign medals but applied a 25 percent downward adjustment to reflect Expeditionary medals being awarded at a slower rate.
- ❖ Based on this methodology, we estimate the following fully accrued costs are attributable to historical IMSC for Expeditionary medals.

Cost Attributable to Historical Service				
<i>Dollars in Millions</i>	PERS 2/3	PSERS	LEOFF 2	WSPRS
PVFB	\$4.6	\$0.1	\$8.1	\$2.3

While this estimate for historical service costs is being applied based upon the average active member, we recognize that some recipients may already be retired. That said, they won't receive retroactive payments back to the date of their retirement, so we believe this approach is reasonable.

Other Assumptions

Our analysis does not include any contributions for fully subsidized IMSC that would be made by impacted employers. These payments would reduce the overall cost to the system (at the expense of the contributing employer), so we do not believe it is material to the overall budget impact of this proposal.

We anticipate the impact to duty-related death benefits under this proposal is not material to this pricing exercise, and as a result we have not captured any associated cost in this draft fiscal note. Similarly, we do not expect refund of past payments for eligible members who purchased partially subsidized IMSC will materially impact this draft fiscal note.

We assume the impact to all plans in TRS and SERS, as well as PERS 1 and LEOFF 1, are immaterial under this proposal. Few members of these plans, relative to active membership, have qualified for IMSC in the past, so we assume that will continue under this proposal.

Otherwise, we developed these costs using the same assumptions as disclosed in the AVR, [Projection Disclosures](#), and the [2016 Risk Assessment Assumptions Study](#) (RAAS) available on our website.

How We Applied These Assumptions

The fiscal impact of this proposal represents the change in projected contributions. To estimate the fiscal impact of this proposal, we compared projected pension contributions under current law to the projected contributions we expect under this proposal. The projected pension contributions reflect contributions from the current members as well as future hires. For more detail, please see **Appendix B**.

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

ACTUARIAL RESULTS

How the Liabilities Changed

This proposal will impact the actuarial funding of the affected plans by increasing the PVFB. The impact of the increasing liabilities payable for current members is shown in the following table.

Actuary's Draft Fiscal Note for IMSC for Expeditionary Medals

Impact on Pension Liability			
(Dollars in Millions)	Current	Increase	Total
Actuarial Present Value of Projected Benefits			
<i>(The Value of the Total Commitment to All Current Members)</i>			
PERS 2/3	\$51,593	\$5.7	\$51,599
PSERS 2	\$1,391	\$0.2	\$1,391
LEOFF 2	\$16,096	\$11.3	\$16,107
WSPRS 1/2	\$1,589	\$2.6	\$1,592
Unfunded Entry Age Accrued Liability			
<i>(The Value of the Total Commitment to All Current Members Attributable to Past Service that is Not Covered by Current Assets)</i>			
PERS 2/3	\$1,833	\$5.4	\$1,839
PSERS 2	(\$6)	\$0.1	(\$5)
LEOFF 2	(\$1,302)	\$10.2	(\$1,292)
WSPRS 1/2	\$70	\$2.5	\$72

Note: Totals may not agree due to rounding.

How the Assets Changed

This proposal would result in a change in assets, but the impact was not captured in this analysis. Assets will decrease as a result of any refunds of past payments for partially subsidized IMSC; at the same time, the assets will increase due to employer payments for future fully subsidized IMSC. Please see the Other Assumptions section above for details.

How the Present Value of Future Salaries (PVFS) Changed

This proposal does not change the PVFS, so there is no impact on the actuarial funding of the affected plans due to PVFS changes.

How Contribution Rates Changed

During Fiscal Year 2023, a supplemental contribution rate is collected for LEOFF 2 and WSPRS 1/2 to fund the cost of this proposal; that cost is shared equally between members and employers. Further, this proposal is a benefit improvement so an increase in WSPRS member maximum contribution rate would also occur.

The increase in the required actuarial contribution rate does not round up to the minimum supplemental contribution rate of 0.01 percent for PERS 2/3 and PSERS 2. Therefore, this proposal will not affect contribution rates in the current biennium for these plans.

We will use the unrounded rate increase shown in the following table to measure the budget changes in future biennia for all impacted plans.

Actuary's Draft Fiscal Note for IMSC for Expeditionary Medals

Impact on Contribution Rates				
System/Plan	PERS	PSERS	LEOFF	WSPRS
Current Members				
Employee (Plan 2 or WSPRS)	0.0033%	0.0016%	0.0235%	0.1202%
Employer	0.0033%	0.0016%	0.0141%	0.1202%
State			0.0094%	
New Entrants*				
Employee (Plan 2 or WSPRS)	0.0002%	0.0004%	0.0023%	0.0054%
Employer	0.0002%	0.0004%	0.0014%	0.0054%
State			0.0009%	

*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

Budget Impacts					
(Dollars in Millions)	PERS	PSERS	LEOFF	WSPRS	Total
2022-2023					
General Fund	\$0.0	\$0.0	\$0.2	\$0.0	\$0.2
Non-General Fund	0.0	0.0	0.0	0.1	0.1
Total State	\$0.0	\$0.0	\$0.2	\$0.1	\$0.3
Local Government	0.0	0.0	0.2	0.0	0.2
Total Employer	\$0.0	\$0.0	\$0.4	\$0.1	\$0.5
Total Employee	\$0.0	\$0.0	\$0.4	\$0.1	\$0.5
2023-2025					
General Fund	\$0.1	\$0.0	\$0.4	\$0.0	\$0.6
Non-General Fund	0.2	0.0	0.0	0.2	0.4
Total State	\$0.3	\$0.0	\$0.4	\$0.3	\$1.0
Local Government	0.3	0.0	0.7	0.0	1.0
Total Employer	\$0.7	\$0.0	\$1.1	\$0.3	\$2.0
Total Employee	\$0.5	\$0.0	\$1.1	\$0.3	\$1.9
2022-2047					
General Fund	\$1.1	\$0.1	\$4.7	\$0.2	\$6.1
Non-General Fund	1.6	0.0	0.0	2.2	3.9
Total State	\$2.7	\$0.1	\$4.7	\$2.4	\$9.9
Local Government	2.7	0.1	6.9	0.0	9.7
Total Employer	\$5.4	\$0.3	\$11.6	\$2.4	\$19.6
Total Employee	\$4.1	\$0.3	\$11.6	\$2.4	\$18.3

Note: Totals may not agree due to rounding. We use long-term assumptions to produce our short-term budget impacts. Therefore, our short-term budget impacts will likely vary from estimates produced from other short-term budget models.

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.

Comments on Risk

Our office performs annual risk assessments to help us demonstrate and assess the effect of unexpected experience on pension plans. The risk assessment allows us to measure how affordability and funded status can change if investment experience, expected state revenue growth, and inflation do not match our long-

term assumptions. Our annual risk assessment also considers past practices, for funding and benefit enhancements, and their impact on pension plan risk if those practices continue. For more information, please see our [Risk Assessment](#) and [Commentary on Risk](#) webpages. Additional information on the assumptions used to produce the risk measures can be found in the RAAS.

We would not expect a significant increase to current total plan membership service and consequently the overall risk measures as a result of this proposal. However, an unexpected and significant number of members could earn fully subsidized IMSC if (1) a large-scale and lengthy future conflict were to occur, or (2) if more members earned Expeditionary medals in the past than anticipated.

HOW THE RESULTS CHANGE WHEN THE ASSUMPTIONS CHANGE

The best estimate results can vary under a different set of assumptions. The actual amount of fully subsidized IMSC added as a result of this proposal could be higher (or lower) than we assume. In this section, we summarize some of the reasons why the costs could be more (or less) than what is presented in this draft fiscal note.

- ❖ **Future Service:** The actual amount of fully subsidized IMSC granted in the future is heavily dependent on the levels of troop engagement in, and medals awarded for, unknown conflicts down the road. In general, we assumed future annual IMSC will be granted at a frequency similar to what was observed in the DRS data between 2010 and 2019. Actual levels of service granted for future IMSC through Expeditionary medals may be higher (or lower) than our best estimate assumptions and will increase (or decrease) the cost of this proposal.

For context, we estimate future service is approximately one-third of the cost of this proposal.

- ❖ **Historical Service:** We did not have data on members who earned an Expeditionary medal but elected to not purchase partially subsidized IMSC between 2001 and 2019. For this reason, we relied on experience for Campaign medals to help inform our assumptions. Actual levels of service granted for past IMSC through Expeditionary medals may be higher (or lower) than our best estimate assumptions and will increase (or decrease) the cost of this proposal.

For context, we estimate historical service is approximately two-thirds of the cost of this proposal.

- ❖ **Ratio of Expeditionary to Campaign Medals:** We relied on Campaign medal data to help set our assumptions since we expect Expeditionary medals will occur at similar, but 25 percent lower, frequency. This

Actuary's Draft Fiscal Note for IMSC for Expeditionary Medals

expectation is based on total DoD data over the period from 2001 through 2019. We feel this approach is reasonable but will note that this relationship displayed some volatility over the observed time period. For example, 2006-2014 data displayed four Expeditionary medals for every ten Campaign medals; however, 2015-2019 data displayed fourteen Expeditionary medals for every ten Campaign medals. More (or less) Expeditionary medals relative to Campaign medals would increase (or decrease) the cost of this proposal.

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 in the footer. We intend this draft fiscal note to be used by the LEOFF 2 Board and SCPP during the 2021 Interim for purposes of making recommendations to the 2022 Legislature on this proposal.

We performed this analysis using ProVal® software developed by Winklevoss Technologies. We believe the use of this software is appropriate for purposes of this pricing. Please see page 22 of our [2020 AVR](#) for details.

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.

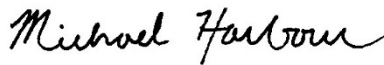
ACTUARY'S CERTIFICATION

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. The risk analysis summarized in this draft fiscal note involves the interpretation of many factors and the application of professional judgment.
6. We prepared this draft fiscal note for the LEOFF 2 Board and SCPP during the 2021 Interim.
7. We prepared this draft fiscal note and provided opinions in accordance with Washington State law and accepted actuarial standards of practice as of the date shown in the footer of this draft fiscal note.

The undersigned, with actuarial credentials, meets the Qualification Standards of the American Academy of Actuaries to render the actuarial opinions contained herein.

While this draft fiscal note is meant to be complete, the undersigned is available to provide extra advice and explanations as needed.



Michael T. Harbour, ASA, MAAA
Actuary

O:\Fiscal Notes\2022\Draft FNs\IMSC.for.Expeditionary.Medals.docx

APPENDIX A – SPECIAL DATA NEEDED

Data from DRS and DoD was used to help inform the assumptions we selected for this pricing exercise. We summarized the information we relied on within this section.

Data from DRS

We reviewed recent historical data from DRS on fully subsidized IMSC granted for Campaign medals. The following table provides an annual summary of the data provided by DRS, as well as the average over the 2010-2019 time period.

IMSC Granted for Campaign Medals											
PERS 2/3	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Avg
Count	37	37	23	74	49	46	20	25	19	14	34
Avg Service	1.0	1.0	1.2	1.0	1.1	0.7	0.9	0.9	1.2	0.9	1.0
PSERS	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Avg
Count	1	2	1	8	0	0	4	2	0	3	2
Avg Service	0.8	0.6	1.5	0.5	N/A	N/A	0.3	0.9	N/A	0.9	0.6
LEOFF 2	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Avg
Count	51	54	22	36	42	47	28	19	7	14	32
Avg Service	0.9	0.7	1.0	0.8	0.8	0.8	0.7	0.8	0.9	0.8	0.8
WSPRS 1	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Avg
Count	5	4	4	10	9	4	4	3	4	9	6
Avg Service	0.7	0.7	0.8	1.0	0.7	0.5	1.1	1.0	0.5	0.6	0.8
WSPRS 2	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Avg
Count	1	3	0	0	2	0	1	0	0	1	1
Avg Service	0.1	0.4	N/A	N/A	1.1	N/A	1.0	N/A	N/A	1.7	0.8

We reviewed the data for TRS and SERS Plans 2/3 but did not include it in the above table. On average, three members (or less) received IMSC annually, which is less than 0.005 percent of their respective active populations.

Data for PERS 1, TRS 1, and LEOFF 1 was also excluded from the above table. These plans closed to new hires in 1977, so the remaining active members would have a least 24 YOS by 2001. Given the accrued service of these plan members, we do not expect a significant number of members would temporarily leave their careers and earn IMSC since they are at, or near, eligibility for retirement.

This data was received from DRS on July 14, 2020, and was initially used for the 2020 Interim [IMSC Study](#) that was submitted to the Select Committee on Pension Policy as part of [SHB 2544](#). We believe this data remains reasonable for purposes of pricing this proposal. If this proposal becomes a law, then we may request new data to set assumptions for our actuarial valuation.

Actuary's Draft Fiscal Note for IMSC for Expeditionary Medals

Data from DoD

The DoD data in the following table was used to compare the number of Expeditionary medals awarded relative to Campaign medals at the national level. This information was received late 2020 and compiled as part of the *IMSC Study*.

Department of Defense			
	Expeditionary Medals	Campaign Medals	Ratio
2001	4,275	1,276	3.35
2002	3,386	1,306	2.59
2003	7,187	4,463	1.61
2004	19,683	7,001	2.81
2005	31,256	15,652	2.00
2006	9,328	17,255	0.54
2007	7,285	17,002	0.43
2008	8,145	42,847	0.19
2009	9,390	36,791	0.26
2010	10,580	46,362	0.23
2011	16,091	46,305	0.35
2012	16,746	43,674	0.38
2013	19,635	40,020	0.49
2014	21,745	31,825	0.68
2015	36,737	24,108	1.52
2016	27,801	24,704	1.13
2017	48,596	22,478	2.16
2018	31,886	27,797	1.15
2019	23,899	18,793	1.27
Total	353,651	469,659	0.75

APPENDIX B – HOW WE APPLIED THESE ASSUMPTIONS

We estimated the fiscal impact of this proposal by comparing projected pension contributions under this proposal to contributions under current law. The projected pension contributions reflect contributions from the current members as well as future hires.

To determine the projected contributions under current law, or the “base”, we relied on the AVR. For current members, contribution rates from the AVR are multiplied by future payroll. For future hires, contribution rates under the Entry Age Normal Cost method are multiplied by future new entrant payroll.

To determine the projected costs under this proposal, we modified the base as described above to reflect the provisions of the proposal, the assumptions, and data noted in the body of this draft fiscal note. We then multiplied the respective new contribution rates reflecting these changes by future payroll.

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. Under this method, all plan costs (for past and future service credit) are included under the normal cost. Therefore, the method does not produce an unfunded actuarial accrued liability outside the normal cost. It's most common for the normal cost to be determined for the entire group rather than on an individual basis for this method.

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 actuarial accrued liability.

The normal cost is most commonly 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 Benefits: Pension benefit amounts that 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 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.

Unfunded EAN Liability: The excess, if any, of the present value of benefits calculated under the EAN cost method over the valuation assets. This is the portion of all benefits earned to date that are not covered by plan assets.

Appendix B

BILL REQUEST - CODE REVISER'S OFFICE

BILL REQ. #: Z-0372.1/22

ATTY/TYPIST: KS:eab

BRIEF DESCRIPTION: Concerning interruptive military service credit
for members of the state retirement systems.

1 AN ACT Relating to interruptive military service credit for
2 members of the state retirement systems; and amending RCW 41.04.005.

3 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF WASHINGTON:

4 **Sec. 1.** RCW 41.04.005 and 2020 c 178 s 1 are each amended to
5 read as follows:

6 (1) As used in this section and RCW 41.16.220, 41.20.050, and
7 41.40.170 "veteran" includes every person, who at the time he or she
8 seeks the benefits of this section and RCW 41.16.220, 41.20.050, or
9 41.40.170 has received an honorable discharge, is actively serving
10 honorably, or received a discharge for physical reasons with an
11 honorable record and who meets at least one of the following
12 criteria:

13 (a) The person has served between World War I and World War II or
14 during any period of war, as defined in subsection (2) of this
15 section, as either:

16 (i) A member in any branch of the armed forces of the United
17 States;

18 (ii) A member of the women's air forces service pilots;

19 (iii) A U.S. documented merchant mariner with service aboard an
20 oceangoing vessel operated by the war shipping administration, the

1 office of defense transportation, or their agents, from December 7,
2 1941, through December 31, 1946; or

3 (iv) A civil service crewmember with service aboard a U.S. army
4 transport service or U.S. naval transportation service vessel in
5 oceangoing service from December 7, 1941, through December 31, 1946;
6 or

7 (b) The person has received the armed forces expeditionary medal,
8 or marine corps and navy expeditionary medal, for opposed action on
9 foreign soil, for service:

10 (i) In any branch of the armed forces of the United States; or

11 (ii) As a member of the women's air forces service pilots.

12 (2) A "period of war" includes:

13 (a) World War I;

14 (b) World War II;

15 (c) The Korean conflict;

16 (d) The Vietnam era, which means:

17 (i) The period beginning on February 28, 1961, and ending on May
18 7, 1975, in the case of a veteran who served in the Republic of
19 Vietnam during that period;

20 (ii) The period beginning August 5, 1964, and ending on May 7,
21 1975;

22 (e) The Persian Gulf War, which was the period beginning August
23 2, 1990, and ending on February 28, 1991, or ending on November 30,
24 1995, if the participant was awarded a campaign badge or medal for
25 such period;

26 (f) The period beginning on the date of any future declaration of
27 war by the congress and ending on the date prescribed by presidential
28 proclamation or concurrent resolution of the congress; and

29 (g) Any armed conflicts, if the participant was awarded the
30 respective campaign or expeditionary badge or medal, or if the
31 service was such that a campaign or expeditionary badge or medal
32 would have been awarded, except that the member already received a
33 campaign or expeditionary badge or medal for a prior deployment
34 during that same conflict.

--- END ---



Interruptive Military Service Credit

Final Report
November 17, 2021

Issue

- Should eligibility for no-cost interruptive military service credit be expanded from those who earned campaign medals to also include those who earned expeditionary medals?

LEOFF 2 Board 2020 Recommendation

- In 2020 the Legislature required the LEOFF 2 Board and the SSCP to submit studies with recommendations on whether to expand eligibility for no-cost interruptive military service credit
- The Board voted to defer until next year making a recommendation to expand the no-cost interruptive military service credit benefit to service where the member earned an expeditionary medal
 - The Board expressed support of the policy to expand
 - The Board also expressed concerns regarding the cost of the benefit and the expected state and local budget environment due to revenue impacts from Covid-19

Background

- A member qualifies for this benefit when they take a leave of absence from a DRS covered position to serve in the United States military and the member returns to their employer after their military service is complete
- Two types:
 - Fully subsidized (no-cost interruptive military service credit)
 - Partially subsidized (reduced-cost interruptive military service credit)

Eligibility

- To receive no-cost service credit, a DRS member must meet the definition of “veteran” under RCW 41.04.005 meaning the member:
 - Served during World War I, World War II, the Korean conflict, the Vietnam era, the Persian Gulf War, and any future period of war declared by Congress, or
 - Earned a campaign badge or medal

Department of Defense Categories of Medals

- **Campaign Medal**
 - Recognize the highest level of personal risk and hardship for members who are deployed to the geographic areas where the combat is actually occurring
- **Expeditionary Medal**
 - Recognize high levels of personal risk and hardship for members deployed in support of combat operations, but who are not in the geographic area where the actual combat is occurring

Example 1 – Active members

- An active LEOFF 2 member takes leave from their LEOFF position for military service, earns an expeditionary medal for their military service, and returns to their LEOFF position
- Under this proposal this member would earn no-cost interruptive military service credit, up to 5 years, for their military service
- Active members who have already purchased subsidized interruptive military service credit for service where they earned an expeditionary medal would receive a refund

Example 2 – Retiree purchased service credit

- A retired law enforcement officer earned an expeditionary medal during interruptive military service from their DRS covered position. When retiring they choose to purchase partially subsidized service credit for this interruptive service
- Under the proposal, this retiree would receive a refund from DRS for the payment they made to purchase the partially subsidized service credit and they would continue to receive the same monthly pension payment

Example 3 – Retiree did not purchase service credit

- A retired fire fighter earned an expeditionary medal during interruptive military service from their DRS covered position. When retiring they choose not to purchase partially subsidized service credit for this interruptive service
- Under the proposal, this member would have their benefit recalculated prospectively to include the additional no-cost interruptive military service credit they are now eligible for
- This member would not receive a retroactive payment adjusting their benefit from their retirement date

2021 Actuarial Fiscal Note

Impact on Contribution Rates <i>(Effective 09/01/2022)</i>				
Fiscal Year 2023 State Budget	PERS	PSERS	LEOFF	WSPRS
Employee (Plan 2 or WSPRS)	0.00%	0.00%	0.02%	0.12%
Employer	0.00%	0.00%	0.01%	0.12%
State			0.01%	

Budget Impacts			
<i>(Dollars in Millions)</i>	2022-2023	2023-2025	25-Year
General Fund-State	\$0.2	\$0.6	\$6.1
Local Government	\$0.2	\$1.0	\$9.7
Total Employer	\$0.5	\$2.0	\$19.6

Note: We use long-term assumptions to produce our short-term budget impacts. Therefore, our short-term budget impacts will likely vary from estimates produced from other short-term budget models.

SCPP Update

- SCPP received an initial briefing in October
- SCPP is scheduled to receive another briefing in November, and possibly December

Policy Options

- **Option 1: Expand No-Cost Interruptive Military Service Credit**

- Expand no-cost interruptive military service credit to include service where a member earns an expeditionary medal

- **Option 2: No Action**

- Continue to limit eligibility for no-cost interruptive military service credit to service where a campaign medal was earned and does not include service where an expeditionary medal was earned



Thank You

Jacob White

Senior Research & Policy Manager

(360) 586-2327

jacob.white@leoff.wa.gov