



December 18, 2024

Authorized Leave of Absence Service Credit

COMPREHENSIVE REPORT

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ISSUE STATEMENT

Some LEOFF 2 members are unable to purchase service credit when they are out on temporary non-duty disability leave because of the definition of basic salary and the requirements of purchasing service credit.

OVERVIEW

There was a concern brought to the Board that the Department of Retirement Systems (DRS) may be treating basic salary differently based on whether a member was out on temporary duty disability versus temporary non-duty leave. Specifically, in instances where a member was injured, took paid leave, and then utilized the employer's "buy-back" program by providing their disability or worker's compensation check to the employer in exchange for having their annual leave backed out of the system and put back into their leave bank.

After researching the concern further, DRS is treating member's basic salary the same in both situations. The service credit and basic salary for the leave that has been "bought back" is not reportable compensation in either situation. The confusion stems from how DRS is applying the Temporary Duty Disability (TDD) purchase service credit versus the Authorized Leave of Absence (ALOA) purchase service credit. One of the options that DRS provides to employers for TDD purchase service credit gives the impression that the member's service credit and basic salary for the personal leave they bought back is being reported. Instead, what has occurred is the member has purchased service credit with their workers-compensation or disability insurance money, not bought-back their annual leave.

Nonetheless, there remains a scenario where LEOFF 2 members are unable to purchase service credit when they are out on temporary non-duty disability. After being presented this issue at the December 2023 board meeting the Board voted to further study the issue during the 2024 interim. The Board received an initial briefing in September 2024.

BACKGROUND AND POLICY ISSUES

In 2023, SB 5625, Concerning public employee retirees, was proposed but did not pass. Section 18 of that bill sought to address a concern that DRS was treating basic salary different based on whether the member was out on temporary duty versus temporary non-duty leave. The law does not differentiate between duty and non-duty in this respect, so the bill sought to clarify that basic salary should be treated the same for purposes of sick leave or vacation leave used by the member.

Although DRS treats basic salary the same for temporary duty and non-duty disability, the procedure to purchase service for a break in service is different for temporary duty and non-duty disability. This procedural difference is due to differences between the type of purchase service credit that members on duty disability are eligible for purchasing, versus the type that members on non-duty disability are eligible for purchasing.

Temporary Duty Disability (TDD)

In 1989, SB 5353 was enacted into law. This allowed for members of LEOFF 2 to purchase up to six consecutive months of service credit for periods of temporary duty-related disability without paying interest. The member was responsible for paying the member contributions and the employer paying the employer contributions.

In 2007, SHB 1261 was enacted into law. This allowed for members of LEOFF 2 (and other DRS administered retirement plans) to purchase up to 24 consecutive months of service credit for periods of temporary duty-related disability with interest. The member was responsible for paying the member contributions plus any interest incurred and the employer paying the employer contributions. DRS issued an Employer Notice (see Appendix A) providing two methods for employers to report to DRS member's purchasing TDD service credit.

Method 1 allowed the employer to report to DRS the regular compensation the member would have earned if not on TDD. Under method 2 the employer reports the leave used, then makes adjustments to back-out and restore the member's leave and allows the member to contact DRS directly to purchase TDD service credit. After the member contacted DRS, DRS would create an invoice of contributions and interest for the employer, compounded monthly until the employee purchases their share of the service credit.

In developing "Method 1" it appears DRS sought to simplify the process for members, employers, and DRS, while also limiting the amount of interest members would potentially incur. This method does not increase costs for the retirement systems because the

contributions would be the same under either method. “Method 1” helps prevent lost investment earnings from occurring due to delayed contribution payments.

Authorized Leave of Absence (ALOA)

Members who have a break in service due to temporary non-duty disability are not eligible for TDD Purchase Service Credit. Instead, they are eligible for Authorized Leave of Absence (ALOA) Purchase Service Credit. ALOA purchase service credit is paid for completely by the member to DRS, both the member and employer contributions plus interest. If the member does not purchase the service credit within 5 years, they may pay the full actuarial value of the service credit. ALOA may apply to different situations that could result in a member having a break in service, not just temporary non-duty disability. For example, it is commonly used for maternity or paternity leave.

The issue for members with using ALOA Purchase Service Credit occurs if the member retires directly after being out on ALOA instead of returning to work. Existing law does not explicitly require a member to return to work to be eligible to purchase ALOA service credit:

“[...] a member shall be eligible to receive a maximum of two years service credit during a member's entire working career for those periods when a member is on an unpaid leave of absence authorized by an employer. Such credit may be obtained only if the member makes the employer, member, and state contributions plus interest as determined by the department for the period of the authorized leave of absence within five years of resumption of service or prior to retirement whichever comes sooner.”¹

However, the law states that for DRS to determine the amount of contributions owed by the member they must “be based on the average of the member's basic salary at both the time the authorized leave of absence was granted and the time the member resumed employment” (Emphasis added).²

Through rule-making³ DRS has interpreted this to mean that a member must return to work to be eligible to purchase ALOA service credit, since DRS would be unable to otherwise bill the member based on their salary when “the member resumed employment”.

¹ [RCW 41.26.520: Service credit for paid leave of absence, officers of labor organizations, unpaid leave of absence, military service, death or disability while providing emergency management services.](#)

² Id.

³ <https://app.leg.wa.gov/WAC/default.aspx?cite=415-02-175>

LEOFF 2 Board staff requested that DRS consider changing their existing rule to allow member's retiring to be eligible for ALOA Purchase Service Credit and to determine a method for calculating what their salary would have been had they resumed employment. DRS declined to do so, stating their position is that the changes being suggested go beyond what is currently in law so they believe a law change is necessary, but that they are in support of the additional clarification and language of the bill draft provided by LEOFF 2 Board staff.

Member's who are retiring instead of returning to their position would still have the option to utilize the Purchase Service Credit⁴ and/or the Purchase of Additional Annuity⁵ benefit at the time of retirement. These benefits would allow the member to purchase an annuity; however, it would cost the member more and the annuity purchase through these benefits does not count towards the qualifying for service credit based LEOFF 2 benefits, such as early retirement or the tiered multiplier benefit enhancement. Purchase Service Credit and the Purchase of Additional Annuity benefits require the member to pay the full actuarial value, while the service credit purchased through ALOA costs the member only the member and employer contributions (so long as it is purchased within 5 years of the member returning to work).

Basic Salary

A member who is injured and unable to work may choose to use paid leave instead of purchasing service credit. Since paid leave is considered basic salary, a member would earn service credit for that time. Workers' compensation or disability payments are not considered basic salary. Below is a chart from DRS identifying what types of payments are or are not basic salary and the corresponding WAC for each type of payment.

⁴ [RCW 41.26.432: Additional service credit purchase—Rules. \(wa.gov\)](#)

⁵ [RCW 41.26.463: Optional actuarially equivalent life annuity benefit—Rules—Definition. \(wa.gov\)](#)

Type of Payment	LEOFF 1 Basic Salary?	LEOFF 2 Basic Salary?
Additional Duty Pay	Yes - WAC 415-104-3205	Yes - WAC 415-104-360
Allowances (i.e. uniform)	No - WAC 415-104-3404	No - WAC 415-104-390
Basic Monthly Rate	Yes - WAC 415-104-3200	Yes - WAC 415-104-360
Cafeteria Plans	No - WAC 415-104-3303	Yes - WAC 415-104-367
Deferred Wages Attached to Position	Yes - WAC 415-104-3201(1)	Yes - WAC 415-104-363(1)
Deferred Wages not attached to a Position	No - WAC 415-104-3306	No - WAC 415-104-363(2)
Disability Payments	No - WAC 415-104-340	No - WAC 415-104-380
Education Attainment Pay	No - WAC 415-104-3301	Yes - WAC 415-104-375
Employer taxes/contributions	No - WAC 415-104-3401	No - WAC 415-104-383
Fringe Benefits, including insurance	No - WAC 415-104-3402	No - WAC 415-104-385
Illegal Payments	No - WAC 415-104-3403	No - WAC 415-104-387
Leave Cash Outs/Severance	No - WAC 415-104-3304	No - WAC 415-104-401
Longevity	Yes - WAC 415-104-311	Yes - WAC 415-104-375
Overtime	No - WAC 415-104-3305	Yes - WAC 415-104-370
Paid Leave	Yes - WAC 415-104-3203	Yes - WAC 415-104-373
Payments in Lieu of Excluded Items	No - WAC 415-104-350	No - WAC 415-104-405
Performance Bonuses	No - WAC 415-104-3302	Yes - WAC 415-104-377
Retroactive Salary Increase	Yes - WAC 415-104-3202	Yes - WAC 415-104-365
Reimbursements	No - WAC 415-104-3404	No - WAC 415-104-390
Retirement or Termination Bonuses	No - WAC 415-104-3406	No - WAC 415-104-395
Shift Differential	Yes - WAC 415-104-3204	Yes - WAC 415-104-379
Special Salary or Wages	No - WAC 415-104-330	Yes - WAC 415-104-375
Standby Pay	No - WAC 415-104-3405	No - WAC 415-104-393
Tuition/Fee Reimbursement	No - WAC 415-104-3404	No - WAC 415-104-390
Workers' Compensation	Not Applicable	No - WAC 415-104-380

The potential issue initially raised was regarding the treatment of the salary and service credit for a member out on temporary duty or non-duty disability who used paid leave, but through their employer “buy-back” program had that paid leave backed out of the system in exchange for providing their employer with their worker’s compensation or disability insurance payment.

In this situation DRS does not consider whether the member was out on duty or non-duty disability, in either instance the time would not be reportable as basic salary because the member no longer used paid leave for that period.

The scenario that results in a member being unable to receive service credit for the time they were out on temporary duty disability occurs when the member has a CBA that requires them to utilize the buy-back program, and the member retires instead of returning to work.

If the member’s CBA made the buy-back optional they could choose to not utilize that and instead use paid leave. However, since they are required to use the buy-back program and because they are ineligible for ALOA purchase service credit because they never returned to work, they cannot receive service credit for this time.

Office of the State Actuary Pricing

Board staff provided the Office of the State Actuary (OSA) with a bill draft (See Appendix B) to provide a preliminary pricing of the proposal (See Appendix C). OSA anticipates no expected impact to LEOFF 2 contribution rates from this proposal. However, they do expect an indeterminate cost from changes in the plan liabilities and assets. This cost is caused by ALOA Purchase Service Credit being a benefit where the member does not pay the full actuarial value of the service credit. Instead, the member pays member contributions, employer contributions, and interest as determined by DRS. To illustrate the potential impact of paying contributions plus interest versus paying full actuarial value OSA provided the following example:

6-Month Service Credit Purchase Example	
(A) Contributions	\$11,500
(B) Estimated Interest*	\$400
Total Purchase Amount (A)+(B)	\$11,900
Present Value of Service Credit	\$20,000

**Assumed 7 percent annual interest charged on contributions for purchased service amount.*

POLICY OPTIONS

Option 1: Clarify existing law to allow for member’s who retire instead of returning to work to be eligible for ALOA Purchase Service Credit

- Pros – Resolves an issue for members who were unable to receive service credit due to unintended confluence of the definition of basic salary, buy-back programs, and DRS interpretation of ALOA Purchase Service Credit law; the cost is not expected to impact plan rates
- Cons – Indeterminate cost to the plan because member does not pay the full actuarial value of the service credit (they pay member and employer contributions plus interest)

SUPPORTING INFORMATION

Appendix A: DRS Employer Notice 17-007, Employer Reporting Related to Workers' Compensation/Temporary Duty Disability.

Appendix B: Bill Draft

Appendix C: Email from OSA, "Authorized Leave of Absence Purchase Service Credit Pricing Request", December 11, 2024.

DRS Email 17-007, Employer Reporting Related to Workers' Compensation/Temporary Duty Disability

Posted on March 28, 2017

Notice No.: 17-007

Date: March 28, 2017

Applies to: All Employers Except WSPRS

Subject: Employer Reporting Related to Workers' Compensation/Temporary Duty Disability

Workers' compensation, also known as temporary duty disability (TDD), can be a complex payroll issue. This notice provides information on reporting data to DRS for members in TDD status.

Some employers may allow employees to:

- use accrued leave while waiting for workers' compensation/TDD determinations
- use accrued leave to supplement their workers' compensation/TDD payments
- use their worker's compensation/TDD payments to restore leave balances through a buy-back program
- use shared leave while on TDD
- be made whole without using accrued leave

There are two methods for reporting data to DRS for members in TDD status.

Method 1 – Employer reports the regular compensation the employee would have earned if not on TDD.

Steps to complete:

Appendix A

1. Employers should enter into a written agreement with the employee regarding the obligation to repay the member contributions to the employer.
2. Employers must report the regular compensation the employee would have earned. This must be reported on the current transmittal and cannot be reported retroactively.

Note: Buy back/restoration of accrued leave remains an internal accounting function and does not affect retirement reporting.

Method 2 – Employer reports the leave used, and makes adjustments to reverse leave restored and allows employee to contact DRS directly to purchase service, creating an invoice of contributions and interest for the employer and compounded monthly until the employee purchases their share of the service credit.

Steps to complete:

1. Employer reports leave used to DRS, if reportable compensation (shared leave is not reportable for some plans).
2. Employee turns in worker's compensation check to employer to restore (buy back) some or all leave used.
3. Employer credits the employee's leave balance based on the amount of hours of leave the workers' compensation check will restore.
4. Employer uses the retirement transmittal to back out the restored leave previously reported to DRS in Step 1.
5. Employee applies directly to DRS to purchase service credit for each period of absence due to TDD status.
6. Employee will receive an Optional Bill for the member contributions from DRS.
7. Employers will receive an invoice for employer contributions only if and when the employee pays the optional bill amount. Payments are subject to interest (currently 7.8%) compounded monthly from the time of the disability.

Appendix A

Relevant statutes:

- PERS: **RCW 41.40.038**
- SERS: **RCW 41.35.070**
- PSERS: **RCW 41.37.060**
- TRS: **RCW 41.32.0641**
- LEOFF: **RCW 41.26.470 (3)**

Prior notices:

- E07-020** (All Employers)
- 94-006** (PERS)
- 89-004** (LEOFF)
- 86-011** (PERS)

If you have any questions regarding this DRS Notice, please contact Employer Support Services at 360-664-7200, option 2, or 800-547-6657, option 6, option 2; or **email us**.

Appendix B

A bill related to Authorized Leave of Absence Purchase Service Credit

RCW [41.26.520](#) is amended to read:

(1) A member who is on a paid leave of absence authorized by a member's employer shall continue to receive service credit as provided for under the provisions of RCW [41.26.410](#) through [41.26.550](#).

(2) A member who receives compensation from an employer while on an authorized leave of absence to serve as an elected official of a labor organization, and whose employer is reimbursed by the labor organization for the compensation paid to the member during the period of absence, may also be considered to be on a paid leave of absence. This subsection shall only apply if the member's leave of absence is authorized by a collective bargaining agreement that provides that the member retains seniority rights with the employer during the period of leave. The basic salary reported for a member who establishes service credit under this subsection may not be greater than the salary paid to the highest paid job class covered by the collective bargaining agreement.

(3) Except as specified in subsection (7) of this section, a member shall be eligible to receive a maximum of two years service credit during a member's entire working career for those periods when a member is on an unpaid leave of absence authorized by an employer. If the member retires instead of returning to work, they are also eligible for this credit. Such credit may be obtained only if the member makes the employer, member, and state contributions plus interest as determined by the department for the period of the authorized leave of absence within five years of resumption of service or prior to retirement whichever comes sooner.

(4) A law enforcement member may be authorized by an employer to work part time and to go on a part-time leave of absence. During a part-time leave of absence a member is prohibited from any other employment with their employer. A member is eligible to receive credit for any portion of service credit not earned during a month of part-time leave of absence if the member makes the employer, member, and state contributions, plus interest, as determined by the department for the period of the authorized leave within five years of resumption of full-time service or prior to retirement whichever comes sooner. Any service credit purchased for a part-time leave of absence is included in the two-year maximum provided in subsection (3) of this section.

(5) If a member fails to meet the time limitations of subsection (3) or (4) of this section, the member may receive a maximum of two years of service credit during a member's working career for those periods when a member is on unpaid leave of absence authorized by an employer. This may be done by paying the amount required under RCW [41.50.165](#)(2) prior to retirement.

(6) For the purpose of subsection (3) or (4) of this section the contribution shall not include the contribution for the unfunded supplemental present value as required by RCW [41.45.060](#), [41.45.061](#), and [41.45.067](#). The contributions required shall be based on the average of the member's basic salary at both the time the authorized leave of absence was granted and the time the member resumed employment. If the member retires instead of returning to work the contributions required shall be based on the member's basic salary at the time the authorized leave of absence was granted adjusted for any cost-of-living or other pay increases provided to similar jobs or job classes during the leave period.

Appendix B

(7) A member who leaves the employ of an employer to enter the uniformed services of the United States shall be entitled to retirement system service credit for up to five years of military service. This subsection shall be administered in a manner consistent with the requirements of the federal uniformed services employment and reemployment rights act.

(a) The member qualifies for service credit under this subsection if:

(i) Within ninety days of the member's honorable discharge from the uniformed services of the United States, the member applies for reemployment with the employer who employed the member immediately prior to the member entering the uniformed services; and

(ii) The member makes the employee contributions required under RCW [41.45.060](#), [41.45.061](#), and [41.45.067](#) within five years of resumption of service or prior to retirement, whichever comes sooner; or

(iii) Prior to retirement and not within ninety days of the member's honorable discharge or five years of resumption of service the member pays the amount required under RCW [41.50.165](#)(2); or

(iv) Prior to retirement the member provides to the director proof that the member's interruptive military service was during a period of war as defined in RCW [41.04.005](#). Any member who made payments for service credit for interruptive military service during a period of war as defined in RCW [41.04.005](#) may, prior to retirement and on a form provided by the department, request a refund of the funds standing to his or her credit for up to five years of such service, and this amount shall be paid to him or her. Members with one or more periods of interruptive military service credit during a period of war may receive no more than five years of free retirement system service credit under this subsection.

(b) Upon receipt of member contributions under (a)(ii), (d)(iii), or (e)(iii) of this subsection, or adequate proof under (a)(iv), (d)(iv), or (e)(iv) of this subsection, the department shall establish the member's service credit and shall bill the employer and the state for their respective contributions required under RCW [41.26.450](#) for the period of military service, plus interest as determined by the department.

(c) The contributions required under (a)(ii), (d)(iii), or (e)(iii) of this subsection shall be based on the compensation the member would have earned if not on leave, or if that cannot be estimated with reasonable certainty, the compensation reported for the member in the year prior to when the member went on military leave.

(d) The surviving spouse, domestic partner, or eligible child or children of a member who left the employ of an employer to enter the uniformed services of the United States and died while serving in the uniformed services may, on behalf of the deceased member, apply for retirement system service credit under this subsection up to the date of the member's death in the uniformed services. The department shall establish the deceased member's service credit if the surviving spouse or eligible child or children:

(i) Provides to the director proof of the member's death while serving in the uniformed services;

(ii) Provides to the director proof of the member's honorable service in the uniformed services prior to the date of death; and

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(iii) Pays the employee contributions required under chapter [41.45](#) RCW within five years of the date of death or prior to the distribution of any benefit, whichever comes first; or

(iv) Prior to the distribution of any benefit, provides to the director proof that the member's interruptive military service was during a period of war as defined in RCW [41.04.005](#). If the deceased member made payments for service credit for interruptive military service during a period of war as defined in RCW [41.04.005](#), the surviving spouse or eligible child or children may, prior to the distribution of any benefit and on a form provided by the department, request a refund of the funds standing to the deceased member's credit for up to five years of such service, and this amount shall be paid to the surviving spouse or children. Members with one or more periods of interruptive military service during a period of war may receive no more than five years of free retirement system service credit under this subsection.

(e) A member who leaves the employ of an employer to enter the uniformed services of the United States and becomes totally incapacitated for continued employment by an employer while serving in the uniformed services is entitled to retirement system service credit under this subsection up to the date of discharge from the uniformed services if:

(i) The member obtains a determination from the director that he or she is totally incapacitated for continued employment due to conditions or events that occurred while serving in the uniformed services;

(ii) The member provides to the director proof of honorable discharge from the uniformed services; and

(iii) The member pays the employee contributions required under chapter [41.45](#) RCW within five years of the director's determination of total disability or prior to the distribution of any benefit, whichever comes first; or

(iv) Prior to retirement the member provides to the director proof that the member's interruptive military service was during a period of war as defined in RCW [41.04.005](#). Any member who made payments for service credit for interruptive military service during a period of war as defined in RCW [41.04.005](#) may, prior to retirement and on a form provided by the department, request a refund of the funds standing to his or her credit for up to five years of such service, and this amount shall be paid to him or her. Members with one or more periods of interruptive military service credit during a period of war may receive no more than five years of free retirement system service credit under this subsection.

(f) The surviving spouse, domestic partner, or eligible child or children of a member who left the employ of an employer to enter the uniformed services of the United States, federal emergency management agency, or national disaster medical system of the United States department of health and human services and died while performing service in response to a disaster, major emergency, special event, federal exercise, or official training on or after March 22, 2014, may, on behalf of the deceased member, apply for retirement system service credit under this subsection up to the date of the member's death in such service. The department shall establish the deceased member's service credit if the surviving spouse or eligible child or children provides to the director proof of the member's death while in such service.

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(g) A member who leaves the employ of an employer to enter the uniformed services of the United States, federal emergency management agency, or national disaster medical system of the United States department of health and human services and becomes totally incapacitated for continued employment by an employer while providing such service is entitled to retirement system service credit under this subsection up to the date of separation from such service if the member obtains a determination from the director that he or she is totally incapacitated for continued employment due to conditions or events that occurred while performing such service.

(8) A member receiving benefits under Title [51](#) RCW who is not receiving benefits under this chapter shall be deemed to be on unpaid, authorized leave of absence.

Appendix C

From: [DeCamp, Mitch](#)
To: [White, Jacob \(LEOFF\)](#)
Cc: [Nelsen, Steve \(LEOFF\)](#); [Won, Lisa](#); [Harbour, Michael](#)
Subject: Authorized Leave of Absence Purchase Service Credit Pricing Request
Date: Wednesday, December 11, 2024 8:46:05 AM
Attachments: [A bill related to Authorized Leave of Absence Purchase Service Credit - new.docx](#)

External Email

Hello Jacob,

As requested, please find below a summary of the proposal as well as our preliminary actuarial analysis; we do not expect these takeaways to change if this proposal moves forward as currently drafted. This email is intended to support deliberations by the LEOFF 2 Board during their December 2024 meeting.

Summary of Proposal

Under current law, members of LEOFF 2 must return to active employment for the option to purchase pension service credit while on authorized unpaid leave. Members immediately retiring from an authorized unpaid leave without returning to active employment are not provided this option.

LEOFF 2 staff provided OSA with draft bill language that amends RCW [41.26.520](#). We understand the proposal will do the following:

- Allow members on authorized unpaid leave to purchase a maximum of two years of authorized unpaid leave as service credit when transitioning directly to retirement.
- Service credit is purchased by making the member, employer, and state contributions plus interest as determined by the Department of Retirement Systems (DRS).
- The salary for calculating contributions is based on what the member would have earned if working during the authorized leave of absence.

Highlights of Analysis

We anticipate this proposal will have **No Expected Impact** to rounded LEOFF 2 contribution rates; however, there will be an indeterminate cost from changes in the plan liabilities and assets. The additional service credit purchased under these circumstances will increase lifetime benefits for eligible members, but this cost is partially offset by the contributions and any interest paid into the system. LEOFF 2 will absorb any difference between the contributions paid (including any interest collected) and the ultimate cost of providing the larger annuity.

We were not able to identify a determinate cost for this proposal because data is unavailable for members that may purchase service credit under this proposal. Based on discussions with LEOFF 2 Board staff, it's our understanding authorized unpaid leave immediately preceding retirement occurs when members enter temporary non-duty disability status. We anticipate limited occurrences of temporary non-duty disability based on our assumptions for [disability retirement rates](#) and the

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probability of disabilities being duty-related of 90 percent. Service credit purchases for temporary duty disability without reentering active service is already available under current law RCW [41.26.470](#).

Costs under this proposal could emerge in the following ways:

- DRS is responsible for calculating and charging interest on the contributions for service credit purchases under this proposal. Regular contribution rates for the plan are calculated using a 7% annual investment return assumption. Costs will arise to the extent that DRS calculated interest differs from the assumed investment return.
- Contribution rates for LEOFF 2 are generally calculated to fund active member benefits earning service credit throughout a career. The value of service credit for a retiring member tends to be more expensive because they begin receiving benefits immediately. Therefore, paying just the adopted contribution rate may not fully fund the increase in liability attributable to the additional service credit purchases provided under this proposal. The plan will subsidize any unfunded obligations that arise from these purchases.

To illustrate the potential impact of these costs, we considered an example member purchasing 6 months of service credit at age 55 with \$135,000 in salary for calculating contributions. This example demonstrates the majority of the cost under this proposal stems from the value of the service relative to the purchase amount. Whereas, the impact of the interest DRS charges is limited by comparison.

6-Month Service Credit Purchase Example	
(A) Contributions	\$11,500
(B) Estimated Interest*	\$400
Total Purchase Amount (A)+(B)	\$11,900
Present Value of Service Credit	\$20,000

**Assumed 7 percent annual interest charged on contributions for purchased service amount.*

In terms of risk, the purchase amounts may ultimately be more or less than the actual cost of providing a larger annuity; for example, if the member lives shorter or longer than expected, respectively. However, we do not anticipate any significant exposure to the retirement system since (1) the service credit purchase is capped at 2 years, and (2) we assume this circumstance where a temporary non-duty disability turns into a retirement is fairly infrequent.

Actuarial Disclosures

We prepared this analysis consistent with the data, assumptions, and methods disclosed in our [2023 Actuarial Valuation Report](#). The undersigned served as the reviewing and responsible actuary, and is qualified to render these actuarial opinions.

If this proposal becomes a bill during the 2025 Legislative Session, we will prepare an actuarial fiscal note based on that bill language. Our analysis may vary to the extent that the final concept varies

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from the proposal noted above or our understanding of how DRS will administer the bill changes.

Please let us know if you have any questions. I am available to provide further assistance as needed.

Mitch DeCamp, ASA, MAAA | *Actuary*

Office of the State Actuary

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[OSA website](#)

"Supporting financial security for generations."



Authorized Leave of Absence Service Credit

Comprehensive Report
December 18, 2024

Issue

- **Some LEOFF 2 members are unable to purchase service credit when they are out on temporary non-duty disability leave because of the definition of basic salary and the requirements of purchasing service credit**

ALOA Purchase Service Credit

- Existing law does not explicitly require a member to return to work to be eligible to purchase ALOA service credit
- “[...] a member shall be eligible to receive a maximum of two years service credit during a member's entire working career for those periods when a member is on an unpaid leave of absence authorized by an employer. Such credit may be obtained only if the member makes the employer, member, and state contributions plus interest as determined by the department for the period of the authorized leave of absence within five years of resumption of service or prior to retirement whichever comes sooner.”

DRS Rule

- For determining the bill to the member, the law states:
 - “The contributions required shall be based on the average of the member's basic salary at both the time the authorized leave of absence was granted and the time the member resumed employment.”
- Through rule-making DRS interpreted this to mean that members must return to work to be eligible for the benefit, since DRS would be unable to otherwise bill the member based on their salary when “the member resumed employment”

Annuity Options at Retirement

- **Purchase Service Credit or Purchase of Additional Annuity**
- **More expensive for member than Authorized Leave of Absence Purchase Service Credit**
 - Member pays full actuarial costs
- **These are annuity options and are not actual service credit for purposes of qualifying for service credit-based plan benefits**
 - i.e. Benefit enhancement (tiered multiplier and lump sum benefit), early retirement

Policy Option

- 1. Clarify existing law to allow for members who retire, instead of returning to work, to be eligible for ALOA Purchase Service Credit**
 - **Pros – Resolves an issue for members who were unable to receive service credit due to unintended confluence of the definition of basic salary, buy-back programs, and DRS interpretation of ALOA Purchase Service Credit law; the cost is not expected to impact plan rates**
 - **Cons – Indeterminate cost to the plan because member does not pay the full actuarial value of the service credit (they pay member and employer contributions plus interest)**

Bill Draft

- **Determining cost to the member if they retire:**
- **“If the member retires instead of returning to work the contributions required shall be based on the member’s basic salary at the time the authorized leave of absence was granted adjusted for any cost-of-living or other pay increases provided to similar jobs or job classes during the leave period.”**

Pricing for Option 1

- No expected rate impact
- Cost to the plan because member does not pay full actuarial value of the service credit

DRS Administrative Review for Option 1

- Bill draft incorporates their concerns about how to best determine the bill for a member who retires instead of returning to work
- No other administrative concerns identified
- DRS told Board staff they are in support of the additional clarification and language of the bill draft

Board Action

1. Endorse bill to allow member's who retire instead of returning to work to be eligible for ALOA Purchase Service Credit
2. No action



Thank You

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