

Interruptive Military Service Credit

Background

"Interruptive military service" is defined as follows:

- The member leaves public employment to serve in the uniformed services.
- The service is honorable.
- The member returns to public employment upon completion of the service.

Federal law governs employment practices related to interruptive military service. For pension benefits, at a minimum, public employers must provide their employees with the right to restore retirement plan benefits, such as service credit. Currently, returning members of the Plans 2 and Plans 3 may restore service lost while on interruptive military duty by paying the appropriate member contributions. States can offer more generous benefits than federal law requires.

This is one of four issues being coordinated with the Law Enforcement Officers' and Firefighters' Plan 2 Retirement Board.

Committee Activity

Presentations:

July 17, 2007 - Full Committee

October 16, 2007 - Executive Committee

December 18, 2007 - Full Committee

Proposal:

December 18, 2007 - Full Committee

Recommendation to Legislature

Eliminate the Plan 2 and Plan 3 member obligation to pay for interruptive military service credit if the member served during a period of war. Employers will still be required to pay the employer contributions on the service. In the case of a military death, the survivor would also be relieved of paying the member cost for interruptive military service credit.

Staff Contact

Laura Harper

Policy and Research Services Manager

360.786.6145

harper.laura@osa.leg.wa.gov

In Brief

ISSUE

The issue before the SCPP is whether to relieve certain members from paying the cost of restoring service credit for periods of public employment that have been interrupted by their military service.

MEMBER IMPACT

All active members of the open plans in all systems could potentially be impacted, since all plans provide for interruptive military service credit. Approximately one out of 4,000 would be expected to be impacted in a given year.

Laura Harper
Policy and Research
Services Manager
360.786.6145
harper.laura@leg.wa.gov

Interruptive Military Service Credit

Current Situation

“Interruptive military service” is defined as follows:

- The member leaves public employment to serve in the uniformed services.
- The service is honorable.
- The member returns to public employment upon completion of the service.

Employment practices related to interruptive military service are governed by federal law. At a minimum, public employers must provide their members with the protections specified in the Uniformed Services Employment and Re-employment Rights Act (USERRA). Included in USERRA's re-employment rights is the right to restore retirement plan benefits such as service credit.

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

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

Generally, members must make the required payments within five years of resuming service with their employer, or prior to retirement, whichever comes first. Members who fail to make timely payment have the option of purchasing the service credit by paying the actuarial cost of the resulting increase in their benefits. Survivors must pay the member cost within five years or prior to receiving a benefit.

Public employers can be more generous to members than required by USERRA if they so choose. The bill draft before the SCPP is to allow free interruptive military service credit for members of all the open plans who serve during a "period of war" as defined in RCW 41.04.005. In order to meet that definition, members with honorable interruptive military service in the uniformed services must also serve in a declared war or a designated armed conflict. A copy of RCW 41.04.005 is attached.

Example A

A member voluntarily joins the armed forces during peace time. The member's military service interrupts public employment, and the member serves honorably. The member must reinstate member contributions to receive service credit for the period.

Example B

A member who is also a member of the National Guard Reserves is called to fight in Operation Iraqi Freedom. The member's military service interrupts public employment, and the member serves honorably. Under the proposal before the SCPP, this member would receive free service credit for the time served in Iraq.

History

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

This interim the SCPP is considering a proposal to allow interruptive military service credit at no cost to the members (or the members' survivors). Early this interim, the

Executive Committee requested that the Office of the State Actuary prepare a draft fiscal note to determine the cost to provide **all** interruptive military service credit in the open plans at no member cost. This draft fiscal note is attached.

The draft fiscal note was made available to the Executive Committee at its September 18, 2007, meeting. At that time, the Executive Committee recommended that a bill be prepared for the full SCPP that narrowed the scope of the proposal such that free interruptive military service credit would be available only to members participating in wars and armed conflicts.

Federal law sets minimum standards for interruptive military service credit, but states can be more generous than federal law.

Policy Analysis

Interruptive military service is governed by federal law. At a minimum, public employers must provide the protections specified in the Uniformed Services Employment and Re-employment Rights Act (USERRA). This law provides for the re-employment of individuals who leave employment to serve in the "uniformed services," a term that is federally defined and includes most types of military service. Included in USERRA's re-employment rights is the right to restoration of retirement plan benefits.

For employers, the fundamental requirement of USERRA as it relates to retirement plan benefits is to provide for recovery of the benefits that a re-employed participant did not receive due to qualifying military service. The employee must be treated for vesting and benefit accrual purposes as if he or she had been continuously employed. Thus, the member must pay the contributions that would have been paid during the period of service, and can receive service credit as if there had been no interruption in employment.

USERRA pre-empts state retirement policy in that all public employers must meet the minimum requirements of this federal law. However, states have the discretion to go beyond USERRA and grant benefits for the period of interruptive service that are more generous than those available under the act. Employers who choose to go beyond USERRA may reward active duty by paying all or part of the contributions that the member would have paid during the period of active duty. Employers may also

provide all or part of the member's salary during such periods. Enhanced benefits can be limited to wars and armed conflicts as long as the basic USERRA protections remain intact for all interruptive military service in the uniformed services.

The following table summarizes some of the policy pros and cons of providing special or increased benefits to members based on military service:

Free military service credit has pros and cons.

No Additional Special Benefits	Additional Special 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
More favorable service credit treatment is already given to these members via federal law (no interest, 5 years to repay)	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

Other Washington Plans

Currently, free interruptive military service credit is available to members in most of the closed plans, including Plan 1 of the Public Employees' Retirement System (PERS 1), Plan 1 of the Law Enforcement and Firefighters' Retirement System (LEOFF 1), and Plan 1 of the Washington State Patrol Retirement System. This benefit is not available in Plan 1 of the Teachers' Retirement System (TRS).

Other States

California, Idaho, Iowa, Ohio, and Wisconsin provide free interruptive military service credit. None of these states limit free credit to declared wars or armed conflicts. For the purpose of granting free interruptive military service credit, Ohio's definition of armed forces is restricted to federalized

National Guard and Reserve service. The other states apply the benefit broadly.

Florida is a non-contributory state, meaning members do not contribute to their retirement benefits. Thus, there are no member contributions to repay in order to receive interruptive military service credit under USERRA.

Missouri's plans differ. The State Employees' plan is non-contributory like Florida's. The Public School Plan allows members to purchase service under USERRA. The Local Government Plan provides free interruptive service for USERRA-qualified service.

The remaining states – Colorado, Minnesota, and Oregon – require the member to repay contributions.

Possible Options

Stakeholder Input

None.

1. Allow up to five years of free service credit for all interruptive military service in the uniformed services, regardless of whether the member participates in a period of war or armed conflict. The attached draft fiscal note estimates costs associated with this option for all the open plans.
2. Allow up to five years of free service credit for interruptive military service that is during a "period of war" as defined in RCW 41.04.005. "Period of war" includes declared wars and armed conflicts. This option is narrower than Option 1, which would lessen the fiscal impact somewhat. The attached bill draft is an example of this option. This draft affects only the open plans and is prospective in its application.

Executive Committee Recommendation

At its September 18, 2007, meeting, the Executive Committee directed staff to prepare a bill draft providing a new benefit to members: free interruptive military service credit to those participating in wars or armed conflicts.

Bill Draft

A copy of Code Reviser draft Z-0802.1 is attached.

Draft Fiscal Note

Attached. As noted above in the discussion of options, the draft fiscal note prices a proposal that is broader than the proposal in the bill draft.

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BILL REQUEST - CODE REVISER'S OFFICE

BILL REQ. #: Z-0802.4/08 4th draft

ATTY/TYPIST: LL:rmh

BRIEF DESCRIPTION: Providing interruptive military service credit for members of plans 2 and 3 who provide proof to the director that their interruptive military service was during a period of war defined in RCW 41.04.005.

AN ACT Relating to interruptive military service credit within plans 2 and 3 of the public employees' retirement system, plans 2 and 3 of the teachers' retirement system, plan 2 of the law enforcement officers' and firefighters' retirement system, plan 2 of the Washington state patrol retirement system, and the public safety employees' retirement system; and amending RCW 41.40.710, 41.40.805, 41.35.470, 41.35.650, 41.32.810, 41.32.865, 41.26.520, 43.43.260, and 41.37.260.

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

Sec. 1. RCW 41.40.710 and 2005 c 64 s 2 are each amended to read as follows:

(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 41.40.610 through 41.40.740.

(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 compensation earnable 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 (4) 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. Such credit may be obtained only if:

(a) The member makes both the plan 2 employer and member 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; or

(b) If not within five years of resumption of service but prior to retirement, pay the amount required under RCW 41.50.165(2).

The contributions required under (a) of this subsection shall be based on the average of the member's compensation earnable at both the time the authorized leave of absence was granted and the time the member resumed employment.

(4) 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 41.45.061 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) 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 in order to receive up to five years of free service credit. Qualified members with multiple periods of interruptive military service are subject to a combined total limit of five years of free retirement system service credit for interruptive military service.

(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 for its contribution required under RCW 41.45.060, 41.45.061, and 41.45.067 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 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

(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) 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 in order to receive up to five years of free service credit. Qualified members with multiple periods of interruptive military service are subject to a combined total limit of five years of free retirement system service credit for interruptive military service.

(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) 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 in order to receive up to five years of free service credit. Qualified members with multiple periods of interruptive military service are subject to a combined total limit of five years of free retirement system service credit for interruptive military service.

Sec. 2. RCW 41.40.805 and 2005 c 64 s 3 are each amended to read as follows:

(1) A member who is on a paid leave of absence authorized by a member's employer shall continue to receive service credit.

(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 earnable compensation 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 (4) 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. Such credit may be obtained only if:

(a) The member makes the contribution on behalf of the employer, plus interest, as determined by the department; and

(b) The member makes the employee contribution, plus interest, as determined by the department, to the defined contribution portion.

The contributions required shall be based on the average of the member's earnable compensation at both the time the authorized leave of absence was granted and the time the member resumed employment.

(4) 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 if 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. This subsection shall be administered in a manner consistent with the requirements of the federal uniformed services employment and reemployment rights act.

The department shall establish the member's service credit and shall bill the employer for its contribution required under RCW 41.45.060 and 41.45.067 for the period of military service, plus interest as determined by the department. Service credit under this subsection may be obtained only if the member makes the employee contribution to the defined contribution portion as determined by the department, or 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 in order to receive up to five years of free service credit. Qualified members with multiple periods of interruptive military service are subject to a combined total limit of five years of free retirement system service credit for interruptive military service.

The contributions required 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.

(a) The surviving spouse 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

(iii) Pays the employee contributions required under this subsection within five years of the date of death or prior to the distribution of any benefit, whichever comes first; or

(iv) 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 in order to receive up to five years of free service credit. Qualified members with multiple periods of interruptive military service are subject to a combined total limit of five years of free retirement system service credit for interruptive military service.

(b) 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 this subsection within five years of the director's determination of total disability or prior to the distribution of any benefit, whichever comes first; or

(iv) 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 in order to receive up to five years of free service credit. Qualified members with multiple periods of interruptive military service are subject to a combined total limit of five years

of free retirement system service credit for interruptive military service.

Sec. 3. RCW 41.35.470 and 2005 c 64 s 4 are each amended to read as follows:

(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 41.35.400 through 41.35.599.

(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 compensation earnable 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 (4) 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. Such credit may be obtained only if:

(a) The member makes both the plan 2 employer and member 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; or

(b) If not within five years of resumption of service but prior to retirement, pay the amount required under RCW 41.50.165(2).

The contributions required under (a) of this subsection shall be based on the average of the member's compensation earnable at both the time the authorized leave of absence was granted and the time the member resumed employment.

(4) 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 41.35.430 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) 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 in order to receive up to five years of free service credit. Qualified members with multiple periods of interruptive military service are subject to a combined total limit of five years of free retirement system service credit for interruptive military service.

(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 for its contribution required under RCW 41.35.430 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 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

(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) 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 in order to receive up to five years of free service credit. Qualified members with multiple periods of interruptive military service are subject to a combined total limit of five years of free retirement system service credit for interruptive military service.

(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) 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 in order to receive up to five years of free service credit. Qualified members with multiple periods of interruptive military service are subject to a combined total limit of five years of free retirement system service credit for interruptive military service.

Sec. 4. RCW 41.35.650 and 2005 c 64 s 5 are each amended to read as follows:

(1) A member who is on a paid leave of absence authorized by a

member's employer shall continue to receive service credit.

(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 earnable compensation 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 (4) 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. Such credit may be obtained only if:

(a) The member makes the contribution on behalf of the employer, plus interest, as determined by the department; and

(b) The member makes the employee contribution, plus interest, as determined by the department, to the defined contribution portion.

The contributions required shall be based on the average of the member's earnable compensation at both the time the authorized leave of absence was granted and the time the member resumed employment.

(4) 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 if 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. This subsection shall be administered in a manner consistent with the requirements of the federal uniformed services employment and reemployment rights act.

The department shall establish the member's service credit and shall bill the employer for its contribution required under RCW 41.35.720 for the period of military service, plus interest as determined by the department. Service credit under this subsection may be obtained only if the member makes the employee contribution to the defined contribution portion as determined by the department, or

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 in order to receive up to five years of free service credit. Qualified members with multiple periods of interruptive military service are subject to a combined total limit of five years of free retirement system service credit for interruptive military service.

The contributions required 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.

(a) The surviving spouse 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

(iii) Pays the employee contributions required under this subsection within five years of the date of death or prior to the distribution of any benefit, whichever comes first; or

(iv) 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 in order to receive up to five years of free service credit. Qualified members with multiple periods of interruptive military service are subject to a combined total limit of five years of free retirement system service credit for interruptive military service.

(b) 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 this subsection within five years of the director's determination of total disability or prior to the distribution of any benefit, whichever comes first; or

(iv) 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 in order to receive up to five years of free service credit. Qualified members with multiple periods of interruptive military service are subject to a combined total limit of five years of free retirement system service credit for interruptive military service.

Sec. 5. RCW 41.32.810 and 2005 c 64 s 7 are each amended to read as follows:

(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 41.32.755 through 41.32.825.

(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 earnable compensation 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 (6) 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. Such credit may be obtained only if the member makes both the employer and member 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) If a member fails to meet the time limitations of subsection (3) 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.

(5) For the purpose of subsection (3) of this section, the contribution shall not include the contribution for the unfunded supplemental present value as required by RCW 41.32.775. The contributions required shall be based on the average of the member's earnable compensation at both the time the authorized leave of absence was granted and the time the member resumed employment.

(6) 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 41.32.775 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) 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 in order to receive up to five years of free service credit. Qualified members with multiple periods of interruptive military service are subject to a combined total limit of five years of free retirement system service credit for interruptive military service.

(b) Upon receipt of member contributions under (a)(ii), (d)(iii), or (e)(iii) 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 for its contribution required under RCW 41.32.775 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 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

(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) 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 in order to receive up to five years of free service credit. Qualified members with multiple periods of interruptive military service are subject to a combined total limit of five years of free retirement system service credit for interruptive military service.

(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) 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 in order to receive up to five years of free service credit. Qualified members with multiple periods of interruptive military service are subject to a combined total limit of five years of free retirement system service credit for interruptive military service.

Sec. 6. RCW 41.32.865 and 2005 c 64 s 8 are each amended to read as follows:

(1) A member who is on a paid leave of absence authorized by a member's employer shall continue to receive service credit.

(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 earnable compensation 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 (4) 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. Such credit may be obtained only if:

(a) The member makes the contribution on behalf of the employer, plus interest, as determined by the department; and

(b) The member makes the employee contribution, plus interest, as determined by the department, to the defined contribution portion.

The contributions required shall be based on the average of the

member's earnable compensation at both the time the authorized leave of absence was granted and the time the member resumed employment.

(4) 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 if 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. This subsection shall be administered in a manner consistent with the requirements of the federal uniformed services employment and reemployment rights act.

The department shall establish the member's service credit and shall bill the employer for its contribution required under chapter 239, Laws of 1995 for the period of military service, plus interest as determined by the department. Service credit under this subsection may be obtained only if the member makes the employee contribution to the defined contribution portion as determined by the department, or 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 in order to receive up to five years of free service credit. Qualified members with multiple periods of interruptive military service are subject to a combined total limit of five years of free retirement system service credit for interruptive military service.

The contributions required 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.

(a) The surviving spouse 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

(iii) Pays the employee contributions required under this subsection within five years of the date of death or prior to the distribution of any benefit, whichever comes first; or

(iv) 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 in order to receive up to five years of free service credit. Qualified members with multiple periods of interruptive military service are subject to a combined total limit of five years of free retirement system service credit for interruptive military service.

(b) 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 this subsection within five years of the director's determination of total disability or prior to the distribution of any benefit, whichever comes first; or

(iv) 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 in order to receive up to five years of free service credit. Qualified members with multiple periods of interruptive military service are subject to a combined total limit of five years of free retirement system service credit for interruptive military service.

Sec. 7. RCW 41.26.520 and 2005 c 64 s 9 are each amended to read as follows:

(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. 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.

(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) 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 in order to receive up to five years of free service credit. Qualified members with multiple periods of interruptive military service are subject to a combined total limit of five years of free retirement system service credit for interruptive military service.

(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 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

(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) 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 in order to receive up to five years of free service credit. Qualified members with multiple periods of interruptive military service are subject to a combined total limit of five years of free retirement system service credit for interruptive military service.

(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) 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 in order to receive up to five years of free service credit. Qualified members with multiple periods of interruptive military service are subject to a combined total limit of five years of free retirement system service credit for interruptive military 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.

Sec. 8. RCW 43.43.260 and 2005 c 64 s 10 are each amended to read as follows:

Upon retirement from service as provided in RCW 43.43.250, a member shall be granted a retirement allowance which shall consist of:

(1) A prior service allowance which shall be equal to two percent of the member's average final salary multiplied by the number of years of prior service rendered by the member.

(2) A current service allowance which shall be equal to two percent of the member's average final salary multiplied by the number of years of service rendered while a member of the retirement system.

(3)(a) Any member commissioned prior to January 1, 2003, with twenty-five years service in the Washington state patrol may have the member's service in the uniformed services credited as a member whether or not the individual left the employ of the Washington state patrol to enter such uniformed services: PROVIDED, That in no instance shall military service in excess of five years be credited: AND PROVIDED FURTHER, That in each instance, a member must restore all withdrawn accumulated contributions, which restoration must be completed on the date of the member's retirement, or as provided under RCW 43.43.130, whichever occurs first: AND PROVIDED FURTHER, That this section shall not apply to any individual, not a veteran within the meaning of RCW 41.06.150.

(b) A member who leaves the Washington state patrol 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.

(i) The member qualifies for service credit under this subsection

if:

(A) 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

(B) The member makes the employee contributions required under RCW 41.45.0631 and 41.45.067 within five years of resumption of service or prior to retirement, whichever comes sooner; or

(C) 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

(D) The member was commissioned on or after January 1, 2003, and 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 in order to receive up to five years of free service credit. Qualified members with multiple periods of interruptive military service are subject to a combined total limit of five years of free retirement system service credit for interruptive military service.

(ii) Upon receipt of member contributions under (b)(i)(B), (b)(iv)(C), and (b)(v)(C) of this subsection, or adequate proof under (b)(i)(D), (b)(iv)(D), or (b)(v)(D) of this subsection, the department shall establish the member's service credit and shall bill the employer for its contribution required under RCW 41.45.060 for the period of military service, plus interest as determined by the department.

(iii) The contributions required under (b)(i)(B), (b)(iv)(C), and (b)(v)(C) 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.

(iv) The surviving spouse 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:

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

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

(C) If the member was commissioned on or after January 1, 2003, 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

(D) If the member was commissioned on or after January 1, 2003, 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 in order to receive up to five years of free service credit. Qualified members with multiple periods of interruptive military service are subject to a combined total limit of five years of free retirement system service credit for interruptive military service.

(v) 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:

(A) 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;

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

(C) If the member was commissioned on or after January 1, 2003, 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

(D) If the member was commissioned on or after January 1, 2003, 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 in order to receive up to five years of free service credit. Qualified members with multiple periods of interruptive military service are subject to a combined total limit of five years of free retirement system service credit for interruptive military service.

(4) In no event shall the total retirement benefits from subsections (1), (2), and (3) of this section, of any member exceed

seventy-five percent of the member's average final salary.

(5) Beginning July 1, 2001, and every year thereafter, the department shall determine the following information for each retired member or beneficiary whose retirement allowance has been in effect for at least one year:

(a) The original dollar amount of the retirement allowance;

(b) The index for the calendar year prior to the effective date of the retirement allowance, to be known as "index A";

(c) The index for the calendar year prior to the date of determination, to be known as "index B"; and

(d) The ratio obtained when index B is divided by index A.

The value of the ratio obtained shall be the annual adjustment to the original retirement allowance and shall be applied beginning with the July payment. In no event, however, shall the annual adjustment:

(i) Produce a retirement allowance which is lower than the original retirement allowance;

(ii) Exceed three percent in the initial annual adjustment; or

(iii) Differ from the previous year's annual adjustment by more than three percent.

For the purposes of this section, "index" means, for any calendar year, that year's average consumer price index for the Seattle-Tacoma-Bremerton Washington area for urban wage earners and clerical workers, all items, compiled by the bureau of labor statistics, United States department of labor.

The provisions of this section shall apply to all members presently retired and to all members who shall retire in the future.

Sec. 9. RCW 41.37.260 and 2005 c 64 s 11 are each amended to read as follows:

(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 RCW 41.37.190 through 41.37.290.

(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 compensation earnable 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 (4) 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. This credit may be obtained only if:

(a) The member makes both the employer and member 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; or

(b) If not within five years of resumption of service but prior to retirement, pay the amount required under RCW 41.50.165(2).

The contributions required under (a) of this subsection shall be based on the average of the member's compensation earnable at both the time the authorized leave of absence was granted and the time the member resumed employment.

(4) 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 41.37.220 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) 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 in order to receive up to five years of free service

credit. Qualified members with multiple periods of interruptive military service are subject to a combined total limit of five years of free retirement system service credit for interruptive military service.

(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 for its contribution required under RCW 41.37.220 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 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

(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) 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 in order to receive up to five years of free service credit.
Qualified members with multiple periods of interruptive military service are subject to a combined total limit of five years of free retirement system service credit for interruptive military service.

(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) 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 in order to receive up to five years of free service credit. Qualified members with multiple periods of interruptive military service are subject to a combined total limit of five years of free retirement system service credit for interruptive military service.

DRAFT FISCAL NOTE

RESPONDING AGENCY:	CODE:	DATE:	PROPOSAL NAME:
Office of the State Actuary	035	1/8/08	Z-0802.4

INTENDED USE

This draft actuarial fiscal note was prepared by the Office of the State Actuary. The changes in liability, contribution rates, and fiscal costs are based on our understanding of the proposal as of the date of this draft fiscal note. Liabilities, contribution rates, and fiscal costs presented herein are subject to change should actual bill language for this proposal be introduced as legislation in the upcoming Legislative Session. This draft fiscal note is intended to be used by the Select Committee on Pension Policy during the 2008 Interim only.

Any third party recipient of this draft fiscal note is advised to seek professional guidance concerning its content and interpretation and should not rely upon this communication in the absence of such professional guidance. The analysis presented in this draft fiscal note should be read as a whole. Distributing or relying on only portions of this draft fiscal note could result in misuse and may be misleading to others.

EXECUTIVE SUMMARY

This proposal would allow free retirement system service credit for members whose interruptive military service is during a period of war as defined in RCW 41.04.005.

Increase in Actuarial Liabilities			
<i>(Dollars in Millions)</i>	Current	Increase	Total
Actuarial Present Value of Projected Benefits	\$64,274	1	\$64,275
Unfunded Actuarial Accrued Liability	4,470	0	4,470
Unfunded Liability (PVCPB)	\$960	0	\$960

Total Increase in Contribution Rates						
Current Biennium	PERS	PSERS	TRS	SERS	LEOFF	WSPRS
Employee (Plan 2)	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Employer	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
State					0.00%	

Fiscal Costs			
<i>(Dollars in Millions)</i>	2007-2009	2009-2011	25-Year
General Fund-State	\$0.0	\$0.0	\$0.6
Total Employer	\$0.0	\$0.1	\$2.4

See the Actuarial Determinations section of this Draft Fiscal Note for additional detail.

SUMMARY OF PROPOSAL

This proposal impacts Plans 2 and 3 of the Public Employees' Retirement System (PERS), Plans 2 and 3 of the Teachers' Retirement System (TRS), Plans 2 and 3 of the School Employees' Retirement System (SERS), the Public Safety Employees' Retirement System (PSERS), Plan 2 of the Law Enforcement Officers' and Fire Fighters' Retirement System (LEOFF), and Plan 2 of the Washington State Patrol Retirement System (WSP) by eliminating the member obligation to repay member contributions in order to receive service credit for interruptive military service during a period of war. In the case of a military death, the survivor would also be relieved of paying the member cost for interruptive military service credit during a period of war.

Assumed Effective Date: 90 days after session.

CURRENT SITUATION

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

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

SUMMARY OF MEMBERS IMPACTED

We estimate that all 15,718 active members of LEOFF Plan 2, all 118,341 active members of PERS Plan 2, all 22,473 active members of PERS Plan 3, all 2,073 active members of PSERS Plan 2, all 18,464 active members of SERS Plan 2, all 32,354 active members of SERS Plan 3, all 6,983 active members of TRS Plan 2, all 53,371 active members of TRS Plan 3, and all 116 active members of WSP Plan 2 could be affected by this proposal through improved benefits. However, we only expect approximately 1 out of 4,000 to be impacted in a given year.

We estimate that for a typical Plan 2 member impacted by this proposal, the increase in benefits would be free interruptive military service credit versus the choice to pay for interruptive military service credit. For example, a 36 year old male in PERS 2 with 7 years of service and a \$46,600 salary would receive free interruptive military service

credit valued at approximately \$2,500 per year of military service whereas without this benefit the member could choose to purchase interruptive military service credit for that same amount.

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

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

METHODS

The pricing method utilized in determining the actuarial cost was through the use of a simplified valuation, where members were grouped by age and projected to retirement. For each year, the probability of earning credit for interruptive military service was assumed and directly affected the resulting liability increase for the system. The process for developing these probabilities will be described in the assumptions section.

A calculation involving both merit and general salary increases was utilized to project the member's salary into the future and, at most, five years into the past. The total increased cost of this benefit is calculated by evaluating the average of what the member would have contributed over the previous five years with the associated contribution rates for those years, and applying the probability that a member will have interruptive military service. The ultimate cost of this increased benefit is presented below with all future payments discounted to present day dollars.

Otherwise, costs were developed using the same methods as those disclosed in the 2006 actuarial valuation report (AVR).

The methods chosen are reasonable for the purpose of the actuarial calculations presented in this draft fiscal note. Use of another set of methods may also be reasonable and might produce different results.

ASSUMPTIONS

The primary assumption developed for this pricing was the annual probability of a member earning interruptive military service credit. Utilizing data from a service credit report dated September 30, 2006, an annual average using five years of data was calculated starting with the 2002 valuation year and ending in 2006. Since there was far more data available on the PERS system comparatively, the probability developed for PERS was applied to all other systems as well. This came out to be 0.000214 or 1 in every 4700. We utilized general population experience to set the participation rate and adjusted this assumption by system to reflect more or less military participation. For example, we assumed Public Safety employees would have a higher rate of participation

and Teachers less. More specifically, TRS and SERS were assumed to be at half of the standard rate developed, whereas PSERS was assumed to be 1.5 times this rate, and LEOFF and WSPRS were assumed to be at twice this rate.

This result was developed taking into account the number of military service credits that were previously earned and then purchased between the valuation years of 2002 through 2006. The average number of months purchased for military service credit was 10.6 months and thus was the figure assumed for this pricing. Then a weighted average over the five-year span was calculated utilizing the total number of active members for each year to determine the probability that a member purchases service credit each year. This provided our final set of probabilities that have been applied to all systems affected by this proposal. For simplicity, we also assumed the population affected would be 100% male.

Also, we assumed that all interruptive military service credits would be claimed by the members themselves. If a survivor is claiming the service credit they would get an immediate annuity instead of the deferred annuity otherwise available to the member. We assumed that the number of survivors relative to members claiming interruptive military service would be small and the increased cost would be negligible. We assumed that all interruptive military service credit would be during a period of war as defined in RCW 41.04.005.

The assumptions chosen are reasonable for the purpose of the actuarial calculations presented in this draft fiscal note. Use of another set of assumptions may also be reasonable and might produce different results.

DATA

Costs were developed using the same data and assets as those disclosed in the AVR.

FISCAL IMPACT

Description

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

Actuarial Determinations

The proposal will impact the actuarial funding of the system by increasing the present value of benefits payable under the System and increasing the required actuarial contribution rate as shown below:

<i>(Dollars in Millions)</i>	Current	Increase	Total
Actuarial Present Value of Projected Benefits			
<i>(The Value of the Total Commitment to all Current Members)</i>			
PERS 1	\$13,723	\$0.0	\$13,723
PERS 2/3	<u>18,966</u>	<u>0.4</u>	<u>18,966</u>
PERS Total	\$32,689	\$0.4	\$32,689
TRS 1	10,834	0.0	10,834
TRS 2/3	<u>6,804</u>	<u>0.0</u>	<u>6,804</u>
TRS Total	\$17,638	\$0.0	\$17,638
SERS 2/3	2,610	0.0	2,610
PSERS 2	169	0.0	169
LEOFF 1	4,316	0.0	4,316
LEOFF 2	<u>6,004</u>	<u>0.3</u>	<u>6,004</u>
LEOFF Total	\$10,320	\$0.3	\$10,320
WSPRS 1/2	848	0.0	848
Unfunded Actuarial Accrued Liability			
<i>(The Portion of the Plan 1 Liability that is Amortized at 2024)</i>			
PERS 1	\$3,196	\$0.0	\$3,196
TRS 1	1,976	0.0	1,976
LEOFF 1	(\$702)	\$0.0	(\$702)
Unfunded Liability (PVC PB)			
<i>(The Value of the Total Commitment to all Current Members Attributable to Past Service)</i>			
PERS 1	\$3,750	\$0.0	\$3,750
PERS 2/3	<u>(2,338)</u>	<u>0.2</u>	<u>(2,338)</u>
PERS Total	\$1,412	\$0.2	\$1,412
TRS 1	2,348	0.0	2,348
TRS 2/3	<u>(1,116)</u>	<u>0.0</u>	<u>(1,116)</u>
TRS Total	\$1,232	\$0.0	\$1,232
SERS 2/3	(336)	0.0	(336)
PSERS 2	0	0.0	0
LEOFF 1	(738)	0.0	(738)
LEOFF 2	<u>(521)</u>	<u>0.2</u>	<u>(521)</u>
LEOFF Total	(\$1,259)	\$0.2	(\$1,259)
WSPRS 1/2	(\$89)	\$0.0	(\$89)

The un-rounded increase in the required actuarial contribution rate does not round-up to the minimum supplemental contribution rate of 0.01%; therefore the proposal will not affect contribution rates in the current biennium. However, the un-rounded rate increase shown below is applied to all subsequent biennia.

Increase in Contribution Rates: (Effective 9/1/2008)						
System/Plan	PERS	PSERS	TRS	SERS	LEOFF	WSPRS
Current Members						
Employee (Plan 2)	0.000%	0.001%	0.000%	0.000%	0.001%	0.000%
Employer	0.000%	0.001%	0.000%	0.000%	0.001%	0.000%
State					0.000%	
New Entrants*						
Employee (Plan 2)	0.000%	0.001%	0.000%	0.000%	0.001%	0.000%
Employer	0.000%	0.001%	0.000%	0.000%	0.001%	0.000%
State					0.000%	

**Rate change applied to future new entrant payroll and used for fiscal budget determinations only. A single supplemental rate increase, equal to the increase for current members, would apply initially for all members or employers.*

Fiscal Budget Determinations

<i>(Dollars in Millions)</i>	Fiscal Costs						Total
	PERS	PSERS	TRS	SERS	LEOFF	WSPRS	
2007-2009							
General Fund	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Non-General Fund	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>
Total State	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Local Government	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>
Total Employer	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total Employee	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
2009-2011							
General Fund	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Non-General Fund	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>
Total State	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Local Government	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.1</u>
Total Employer	0.1	0.0	0.0	0.0	0.0	0.0	0.1
Total Employee	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.1
2007-2032							
General Fund	\$0.2	\$0.0	\$0.0	\$0.0	\$0.4	\$0.0	\$0.6
Non-General Fund	<u>0.4</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.4</u>
Total State	0.6	0.0	0.0	0.0	0.4	0.0	1.0
Local Government	<u>0.9</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.5</u>	<u>0.0</u>	<u>1.4</u>
Total Employer	1.4	0.0	0.0	0.0	0.9	0.0	2.4
Total Employee	\$1.0	\$0.0	\$0.0	\$0.0	\$0.9	\$0.0	\$2.0

Note: Totals may not agree due to rounding.

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

Sensitivity Analysis

The number of members expected to earn free interruptive military service credit would have to increase dramatically for this proposal to impact rates in the current biennium. The table below shows the multiple of how many more members would need to receive free military service credit before the rate impact would reach 0.005% for each system. For example, in LEOFF 2, the employee rate impact would reach 0.005% if 4 times as many members as expected receive free interruptive military service credit.

System	Multiple
PERS	16
TRS	176
SERS	60
PSERS	9
LEOFF	4
WSP	48

In general, the results are proportionate to how many members we assumed would earn free interruptive military service credit. If twice or half as many members received free interruptive military service credit, then the cost would either double or be cut in half, respectively.

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

GLOSSARY OF ACTUARIAL TERMS:

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

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

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

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

- Normal cost; plus
- Amortization of the unfunded liability

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

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

Present Value of Credited Projected Benefits (PVCBP): The portion of the Actuarial Present Value of future benefits attributable to service credit that has been earned to date (past service).

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

Unfunded Liability (Unfunded PVCBP): The excess, if any, of the Present Value of Credited Projected Benefits over the Valuation Assets. This is the portion of all benefits earned to date that are not covered by plan assets.

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