

Multiple Agency Fiscal Note Summary

Bill Number: 6000 SB	Title: Military service credit
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Estimated Cash Receipts

NONE

Estimated Operating Expenditures

Agency Name	2023-25				2025-27				2027-29			
	FTEs	GF-State	NGF-Outlook	Total	FTEs	GF-State	NGF-Outlook	Total	FTEs	GF-State	NGF-Outlook	Total
Department of Retirement Systems	.7	0	0	198,000	.0	0	0	0	.0	0	0	0
Actuarial Fiscal Note - State Actuary	.0	700,000	700,000	1,100,000	.0	1,200,000	1,200,000	1,800,000	.0	1,200,000	1,200,000	1,800,000
Total \$	0.7	700,000	700,000	1,298,000	0.0	1,200,000	1,200,000	1,800,000	0.0	1,200,000	1,200,000	1,800,000

Estimated Capital Budget Expenditures

Agency Name	2023-25			2025-27			2027-29		
	FTEs	Bonds	Total	FTEs	Bonds	Total	FTEs	Bonds	Total
Department of Retirement Systems	.0	0	0	.0	0	0	.0	0	0
Actuarial Fiscal Note - State Actuary	.0	0	0	.0	0	0	.0	0	0
Total \$	0.0	0	0	0.0	0	0	0.0	0	0

Estimated Capital Budget Breakout

NONE

Prepared by: Marcus Ehrlander, OFM	Phone: (360) 489-4327	Date Published: Final 1/14/2024
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Individual State Agency Fiscal Note

Bill Number: 6000 SB	Title: Military service credit	Agency: 124-Department of Retirement Systems
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Part I: Estimates

No Fiscal Impact

Estimated Cash Receipts to:

NONE

Estimated Operating Expenditures from:

	FY 2024	FY 2025	2023-25	2025-27	2027-29
FTE Staff Years	0.0	1.4	0.7	0.0	0.0
Account					
Department of Retirement Systems	0	198,000	198,000	0	0
Expense Account-State 600-1					
Total \$	0	198,000	198,000	0	0

Estimated Capital Budget Impact:

NONE

The cash receipts and expenditure estimates on this page represent the most likely fiscal impact. Factors impacting the precision of these estimates, and alternate ranges (if appropriate), are explained in Part II.

Check applicable boxes and follow corresponding instructions:

- If fiscal impact is greater than \$50,000 per fiscal year in the current biennium or in subsequent biennia, complete entire fiscal note form Parts I-V.
- If fiscal impact is less than \$50,000 per fiscal year in the current biennium or in subsequent biennia, complete this page only (Part I).
- Capital budget impact, complete Part IV.
- Requires new rule making, complete Part V.

Legislative Contact: Amanda Cecil	Phone: 360-786-7460	Date: 01/09/2024
Agency Preparation: Candice Myrum	Phone: 360-664-7124	Date: 01/12/2024
Agency Approval: Mark Feldhausen	Phone: 360-664-7194	Date: 01/12/2024
OFM Review: Marcus Ehrlander	Phone: (360) 489-4327	Date: 01/13/2024

Part II: Narrative Explanation

II. A - Brief Description Of What The Measure Does That Has Fiscal Impact

Significant provisions of the bill and any related workload or policy assumptions that have revenue or expenditure impact on the responding agency by section number.

The bill relates to interruptive military service credit for members of the following state retirement systems:

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

Sections 1 through 6 amend RCWs 41.26.520, 41.32.810, 41.35.470, 41.37.260, 41.40.710, and 43.43.260 to remove the references to the period of war as defined in RCW 41.05.005. This would allow members who have been awarded a campaign, expeditionary, or service badge or medal for interruptive military service to request up to five years of interruptive military service credit at no-cost, or to request a refund of contributions previously paid to purchase that service credit.

Section 7 makes the expansion of no-cost military service credit in sections 1 through 6 retroactive for members of the retirement systems listed in RCW 41.50.030 who retired prior to the effective date of this bill, and requires that their retirement benefits be recalculated, and contributions adjusted.

II. B - Cash receipts Impact

Cash receipts impact of the legislation on the responding agency with the cash receipts provisions identified by section number and when appropriate, the detail of the revenue sources. Description of the factual basis of the assumptions and the method by which the cash receipts impact is derived. Explanation of how workload assumptions translate into estimates. Distinguished between one time and ongoing functions.

No impact.

II. C - Expenditures

Agency expenditures necessary to implement this legislation (or savings resulting from this legislation), with the provisions of the legislation that result in the expenditures (or savings) identified by section number. Description of the factual basis of the assumptions and the method by which the expenditure impact is derived. Explanation of how workload assumptions translate into cost estimates. Distinguished between one time and ongoing functions.

ADMINISTRATIVE ASSUMPTIONS:

- The bill only amends the RCWs for LEOFF Plan 2, TRS Plan 2, SERS Plan 2, PSERS Plan 2, PERS Plan 2, and WSPRS Plan 2, but DRS assumes that the bill will be amended to include the RCWs for TRS Plan 3 (41.32.865), SERS Plan 3 (41.35.650), and PERS Plan 3 (41.40.805).
- Due to previous legislation (SHB 1007), DRS has reviewed accounts with existing military optional bills from 2009 forward to refund or adjust for eligible no-cost interruptive military service credit and will review those accounts again for eligible service credit due to this bill.
 - o Members, survivors, or retirees with interruptive military service prior to 2009 must contact DRS for eligibility determination.
- DRS estimates that there are approximately 4,500 accounts to review for eligibility.
- Members who purchased partially subsidized service credit and whose service meets the new eligibility requirements would receive a refund of their prior payment.
- Retirees whose service meets the new eligibility requirements would:
 - o Receive a refund of their prior payment made for eligible service credit, and
 - o Have their pension benefit recalculated prospectively only (no retroactive pension benefit payments) as of the

effective date of the bill.

- For members that are eligible for a refund, only the original purchase cost of the service credit will be refunded. No interest is applied.

To implement this legislation DRS will:

- Update agency reference materials,
- Confirm project scope and tasks for the Retirement Specialists,
- Identify impacted members,
- Research accounts to determine refund eligibility,
- Program a repeatable automated process for refunding any retiree overpayments without affecting service credit,
- Manually create refunds for eligible accounts that cannot be processed automatically,
- Communicate to affected members through letters,
- Communicate to potentially eligible members, survivors, and retirees via the DRS website and other media (e.g., newsletter, employer notice, etc.), and
- Update member plan guides on the DRS website

To support this implementation, DRS will form a project team that will include a project manager, communication consultant, web programmer, Linux programmer, retirement specialist, and fiscal analyst.

Part III: Expenditure Detail

III. A - Operating Budget Expenditures

Account	Account Title	Type	FY 2024	FY 2025	2023-25	2025-27	2027-29
600-1	Department of Retirement Systems Expense Account	State	0	198,000	198,000	0	0
Total \$			0	198,000	198,000	0	0

III. B - Expenditures by Object Or Purpose

	FY 2024	FY 2025	2023-25	2025-27	2027-29
FTE Staff Years		1.4	0.7		
A-Salaries and Wages		124,000	124,000		
B-Employee Benefits		41,000	41,000		
C-Professional Service Contracts		33,000	33,000		
E-Goods and Other Services					
G-Travel					
J-Capital Outlays					
M-Inter Agency/Fund Transfers					
N-Grants, Benefits & Client Services					
P-Debt Service					
S-Interagency Reimbursements					
T-Intra-Agency Reimbursements					
9-					
Total \$	0	198,000	198,000	0	0

III. C - Operating FTE Detail: *List FTEs by classification and corresponding annual compensation. Totals need to agree with total FTEs in Part I and Part IIIA*

Job Classification	Salary	FY 2024	FY 2025	2023-25	2025-27	2027-29
Communications Consultant 5	84,396		0.1	0.0		
Fiscal Analyst 2	54,108		0.1	0.1		
IT Applications Develop - Snr/Spec	112,176		0.0	0.0		
IT Applications Develop -Journey	96,888		0.1	0.1		
IT Business Analyst - Journey	96,888		0.3	0.2		
IT Project Manager - Mgr	123,636		0.2	0.1		
Management Analyst 3	69,264		0.1	0.1		
Retirement Specialist 3	61,224		0.5	0.3		
Total FTEs			1.4	0.7		0.0

III. D - Expenditures By Program (optional)

NONE

Part IV: Capital Budget Impact

IV. A - Capital Budget Expenditures

NONE

IV. B - Expenditures by Object Or Purpose

NONE

IV. C - Capital Budget Breakout

Acquisition and construction costs not reflected elsewhere on the fiscal note and description of potential financing methods.

NONE

IV. D - Capital FTE Detail: *FTEs listed by classification and corresponding annual compensation. Totals agree with total FTEs in Part IVB.*

NONE

Part V: New Rule Making Required

Provisions of the bill that require the agency to adopt new administrative rules or repeal/revise existing rules.

Individual State Agency Fiscal Note

Bill Number: 6000 SB	Title: Military service credit	Agency: AFN-Actuarial Fiscal Note - State Actuary
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Part I: Estimates

No Fiscal Impact

Estimated Cash Receipts to:

NONE

Estimated Operating Expenditures from:

	FY 2024	FY 2025	2023-25	2025-27	2027-29
Account					
All Other Funds-State 000-1	0	400,000	400,000	600,000	600,000
General Fund-State 001-1	0	700,000	700,000	1,200,000	1,200,000
Total \$	0	1,100,000	1,100,000	1,800,000	1,800,000

Estimated Capital Budget Impact:

NONE

The cash receipts and expenditure estimates on this page represent the most likely fiscal impact. Factors impacting the precision of these estimates, and alternate ranges (if appropriate), are explained in Part II.

Check applicable boxes and follow corresponding instructions:

- If fiscal impact is greater than \$50,000 per fiscal year in the current biennium or in subsequent biennia, complete entire fiscal note form Parts I-V.
- If fiscal impact is less than \$50,000 per fiscal year in the current biennium or in subsequent biennia, complete this page only (Part I).
- Capital budget impact, complete Part IV.
- Requires new rule making, complete Part V.

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OFM Review: Marcus Ehrlander	Phone: (360) 489-4327	Date: 01/14/2024

Part II: Narrative Explanation

II. A - Brief Description Of What The Measure Does That Has Fiscal Impact

Significant provisions of the bill and any related workload or policy assumptions that have revenue or expenditure impact on the responding agency by section number.

II. B - Cash receipts Impact

Cash receipts impact of the legislation on the responding agency with the cash receipts provisions identified by section number and when appropriate, the detail of the revenue sources. Description of the factual basis of the assumptions and the method by which the cash receipts impact is derived. Explanation of how workload assumptions translate into estimates. Distinguished between one time and ongoing functions.

II. C - Expenditures

Agency expenditures necessary to implement this legislation (or savings resulting from this legislation), with the provisions of the legislation that result in the expenditures (or savings) identified by section number. Description of the factual basis of the assumptions and the method by which the expenditure impact is derived. Explanation of how workload assumptions translate into cost estimates. Distinguished between one time and ongoing functions.

Part III: Expenditure Detail

III. A - Operating Budget Expenditures

Account	Account Title	Type	FY 2024	FY 2025	2023-25	2025-27	2027-29
000-1	All Other Funds	State	0	400,000	400,000	600,000	600,000
001-1	General Fund	State	0	700,000	700,000	1,200,000	1,200,000
Total \$			0	1,100,000	1,100,000	1,800,000	1,800,000

III. B - Expenditures by Object Or Purpose

	FY 2024	FY 2025	2023-25	2025-27	2027-29
FTE Staff Years					
A-Salaries and Wages					
B-Employee Benefits		1,100,000	1,100,000	1,800,000	1,800,000
C-Professional Service Contracts					
E-Goods and Other Services					
G-Travel					
J-Capital Outlays					
M-Inter Agency/Fund Transfers					
N-Grants, Benefits & Client Services					
P-Debt Service					
S-Interagency Reimbursements					
T-Intra-Agency Reimbursements					
9-					
Total \$	0	1,100,000	1,100,000	1,800,000	1,800,000

III. C - Operating FTE Detail: FTEs listed by classification and corresponding annual compensation. Totals agree with total FTEs in Part I and Part IIIA.

NONE

III. D - Expenditures By Program (optional)

NONE

Part IV: Capital Budget Impact

IV. A - Capital Budget Expenditures

NONE

IV. B - Expenditures by Object Or Purpose

NONE

IV. C - Capital Budget Breakout

Acquisition and construction costs not reflected elsewhere on the fiscal note and description of potential financing methods.

NONE

IV. D - Capital FTE Detail: *FTEs listed by classification and corresponding annual compensation. Totals agree with total FTEs in Part IVB.*

NONE

Part V: New Rule Making Required

Provisions of the bill that require the agency to adopt new administrative rules or repeal/revise existing rules.

SUMMARY OF RESULTS

BRIEF SUMMARY OF BILL: Modifies pension statutes to provide fully subsidized Interruptive Military Service Credit (IMSC) to recipients of a Service medal.

COST SUMMARY: We estimate this bill will result in the following supplemental contribution rates and budget impacts. However, the cost could be significantly lower or higher as discussed in our **How Results Change When Assumptions Change** section. As an example, the Total Employer cost over 25 years ranged from \$20 million to \$80 million under a different set of assumptions.

Impact on Contribution Rates (Effective 09/01/2024)				
FY 2025 State Budget	PERS	PSERS	LEOFF	WSPRS
Employee (Plan 2 or WSPRS)	0.01%	0.00%	0.04%	0.09%
Employer	0.01%	0.00%	0.02%	0.09%
State			0.02%	

Budget Impacts			
(Dollars in Millions)	2024-25	2025-27	25-Year
General Fund-State	\$0.7	\$1.2	\$13.2
Local Government	\$1.0	\$2.1	\$21.5
Total Employer	\$2.2	\$3.9	\$40.4

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

HIGHLIGHTS OF ACTUARIAL ANALYSIS

- ❖ We estimate this bill will have a cost to the impacted plans because more members are expected to receive fully subsidized IMSC and consequently larger pension benefits. The eligible IMSC is free to the member and the costs are socialized among Plan 2 members and employers of the impacted plan.
 - We expect the impacts of this bill are immaterial to all plans in TRS and SERS, as well as PERS 1 and LEOFF 1.
- ❖ To estimate the cost of this bill, we relied on data from DRS regarding IMSC granted in the past for Campaign medals as well as data on members who requested a cost estimate for purchasing IMSC for Service medals. Some data was limited and simplifying assumptions were made that both increase and decrease the costs displayed in this AFN.
 - Using this data, we assumed IMSC for Service medals will be granted at a rate approximately 25 percent higher relative to Campaign medals for all systems except WSPRS. For WSPRS, we assumed IMSC for Service medals will be granted at a rate approximately 50 percent lower relative to Campaign medals.
 - We expect our best estimate assumption is still reasonable even if the limited data became available to us.
- ❖ The current bill provisions exclude Plan 3, but we included Plan 3 in our analysis based on our understanding of the intention of the bill.
- ❖ The actual amount of IMSC granted under this bill is heavily dependent on the number of members who engage in qualified military service and the length of time for each occurrence. This includes both (1) future unknown service, and (2) members who earned a Service medal in the past. As a result, the cost of this bill could be significantly higher (or lower) than assumed.
 - This bill is not expected to materially increase plan affordability or solvency risks.

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

WHAT IS THE PROPOSED CHANGE?

Summary of Bill

This bill impacts the following systems:

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

This bill expands fully subsidized pension benefits for IMSC if the member is the recipient of a Service medal and strikes reference to the definition of "veteran" and period of war for purposes of IMSC.

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

- ❖ Members who purchased partially subsidized service credit and whose service meets the new eligibility requirements would receive a refund of their member contributions for any prior payment.
- ❖ Increase in Pension Benefit:
 - Fully subsidized IMSC will be provided to eligible members who were awarded a Service medal (or badge); however, did not purchase partially subsidized military service upon returning to their DRS-covered position. This means an eligible retiree could receive a lump sum payment for the difference in pension payments from their date of retirement to enactment of the bill and an increase in pension benefits prospectively.
 - Fully subsidized IMSC will be provided to eligible members awarded Service medals (or badges) in the future.

In this summary, we only include changes pertinent to our Actuarial Fiscal Note (AFN). See the legislative bill report for a complete summary of the bill.

Assumed Effective Date: 90 days after session.

What Is the Current Situation?

The definition of "veteran" in the [Revised Code of Washington \(RCW\) 41.04.005](#) is used to determine eligibility for pension benefits related to military service credit for all plans. This definition is also used for other purposes, but only the impacts to pension benefits are covered in this fiscal note.

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

- ❖ Served during one of the wars listed (e.g., World War II); or

- ❖ Been awarded the respective Campaign or Expeditionary medal (or badge) for any armed conflicts (e.g., the invasions of Grenada or Panama, etc.).

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

- ❖ Campaign medals are associated with the highest level of personal risk and hardship. These medals recognize deployed participation in large-scale or long-duration combat operations and are awarded to service members who are deployed to the geographic areas where combat is occurring.
- ❖ Expeditionary medals are associated with high levels of personal risk and hardship. These medals recognize deployed participation in small-scale and/or short-duration combat operations or military operations where there is an imminent threat of hostilities. These medals are also awarded to members deployed in support of combat operations, but who are not in the geographic area where combat is occurring.
- ❖ Service medals recognize participation in military operations not involving conflict with an armed enemy, or military service meeting specific criteria (e.g., honorable service while a POW), prolonged military presence, peacekeeping and humanitarian relief, are examples of military actions that warrant consideration for a Service medal.

Interruptive Military Service Credit

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

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

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

- ❖ For PERS, TRS, SERS, or PSERS: Retirement allowance is not subject to actuarial reduction.
- ❖ For LEOFF or WSPRS: Duty-related death benefits provided in the respective plan.

Non-Interruptive Military Service Credit

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

Who Is Impacted and How?

This bill could affect all current and future members of the impacted plans through improved benefits by expanding fully subsidized IMSC. In other words, the eligibility for fully subsidized IMSC is expanded to cover members who were awarded a Service medal.

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

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

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

Members who were awarded a Service medal and purchased IMSC will not see a pension benefit increase; see the following bullet for how they'll be impacted.

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

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

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

WHY THIS BILL HAS A COST AND WHO PAYS FOR IT

Why This Bill Has a Cost

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

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

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

Who Will Pay for These Costs?

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

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

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

LEOFF 2

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

WSPRS Plans 1/2

Any costs that arise from this bill will be divided according to the standard funding method of 50 percent member and 50 percent employer. The statutory maximum member contribution rate will correspondingly increase since this bill is a benefit improvement. The current maximum member rate is 8.74 percent. We estimate this bill will increase the maximum by 0.09 percent.

Plan 1 (PERS, TRS, LEOFF)

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

HOW WE VALUED THESE COSTS

We modeled the current law cost of the retirement systems using our most recent Actuarial Valuation Report (AVR) – the [June 30, 2022, AVR](#) – as well as the assumptions and methods found on our [Projections](#) webpage. To analyze the impact of this bill, we then adjusted the following data, assumptions, and methods.

Special Data Needed

We relied on data from DRS to help inform the assumptions we selected. The DRS data identified the number of Washington State retirement system members that are annually awarded fully subsidized IMSC for Campaign medals along with the length of service credit awarded. This data served as a baseline for setting our assumption for Service medals awarded to Washington State retirement system members.

For Service medal data, we relied on DRS for two pieces of information to help identify potential recipients of Service medals:

1. **In Receipt of Partially Subsidized IMSC:** All members currently in receipt of partially subsidized IMSC are assumed to be Service medal recipients following passage of [Substitute House Bill \(SHB\) 1007](#) (Chapter 18, Laws of 2023).
2. **Requested Partially Subsidized IMSC but Did Not Purchase:** These members returned to the retirement systems and requested a bill for partially subsidized IMSC but ultimately did not elect to purchase the credit. Similar to the prior bullet, we assume all these members are Service medal recipients.

We compared the number of potential recipients of Service medals relative to the known population of Campaign medal recipients. We note that there is a potential group missing that never requested a bill from DRS to purchase their military service.

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

Assumptions We Made

Separate assumptions were made to value the service credit expected to be earned in the future as well as service credit earned in the past. These two sets of costs (for future and historical service credit) were combined to form the overall expected cost of this bill.

Assumptions for Future Service Credit

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

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

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

1. Annual Percent of Population Receiving Fully Subsidized IMSC for Campaign medals (a / b). Note that for WSPRS we used membership data for the entire plan but then developed the load separately for Plan 1 and Plan 2.
 - a. Average Number of Members who Received IMSC Annually.
 - b. Average Number of Active Members in the Plan.

2. Adjustment for Estimated Average Future Years of Service. This is used to estimate the future amount of IMSC granted for current members.
3. Percent of Current Actives Expected to Receive IMSC over their Career (Step 1 x Step 2).
4. Average IMSC Granted Per Eligible Member. This is the average amount of service credit received based on the time the member was serving in the military operation.
5. Average Expected YOS at Retirement. We use this data point because pension benefits are based on service and the IMSC increases the amount of service a member will have included in their pension benefit calculation.
6. Preliminary Assumed Load (Step 3 x Step 4 / Step 5).
7. Adjustment for Expected Frequency of Service vs. Campaign medals.
8. Final Assumed Load (Step 6 x Step 7).

Calculation of Best Estimate Load: Future IMSC (Service Medals)					
Observed DRS Data from 2010-2019	PERS 2/3	PSERS	LEOFF 2	WSPRS 1	WSPRS 2
1) Annual Percent of Population Impacted (a / b)	0.0%	0.0%	0.2%	0.6%	0.6%
a. Average Impacted Member Count*	34	2	32	6	6
b. Average Count of Actives	150,743	5,243	17,235	1,044	1,044
2) Adjustment for Estimated Future Service (In Years)**	5.2	7.1	8.4	1.3	12.8
3) Percent Expected to Receive IMSC (1 x 2)	0.1%	0.3%	1.6%	0.8%	7.9%
4) Average IMSC Granted	1.0	0.6	0.8	0.8	0.8
5) Average Expected YOS at Retirement	22.3	19.0	27.5	28.3	24.9
6) Preliminary Assumed Load (3 x 4 / 5)	0.0053%	0.0089%	0.0462%	0.0241%	0.2680%
7) Adjustment for Expected Frequency***	125%	125%	125%	50%	50%
8) Final Assumed Load (6 x 7)	0.0066%	0.0112%	0.0577%	0.0120%	0.1340%

*DRS members given fully subsidized IMSC for Campaign medals.

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

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

Two adjustments were made to the load assumption:

1. **Adjustment for Estimated Future Service:** The Annual Percent of Population Impacted only captures the number of members expected to be awarded IMSC, via Campaign medals, in the next year. Given this, an adjustment was made reflecting the average number of years we expect the current active population to continue earning IMSC in the future but limited to age 50.
 - a. For this analysis, we selected age 50 as the cut off because as members approach retirement, we think it's unlikely that they will interrupt their careers to temporarily join the military. Given that the youngest retirement-eligible age is 50 for LEOFF 2, we decided that could be an appropriate upper end for all systems when estimating the average number of future years the current active population would continue to accrue IMSC.
 - i. This assumption is supported by the following linked study by the [PEW Research Center](#) which indicates that less than one in ten active military are older than age 40 and also a 2021 demographics publication by [Military](#)

[OneSource](#), a Department of Defense funded program, on active duty members.

2. **Adjustment for Expected Frequency:** For all systems except WSPRS, we expect Service medals will be awarded at a pace approximately 25 percent higher than Campaign medals. For WSPRS, we expect Service medals will be awarded at a pace approximately 50 percent lower than Campaign medals.

These adjustments are based on data summarized in **Appendix A** which shows that, for most plans, the estimated population in the Washington State retirement systems who earned Service medals exceeds the number that earned Campaign medals. WSPRS is the only plan where Campaign medal experience significantly outpaces our estimates for Service medals.

Assumptions for Historical Service Credit

Members who were awarded a Service medal in the past are also impacted under this bill. These members will receive either a return of contributions if they already paid for partially subsidized IMSC or an increase in future pension benefits. As displayed in **Appendix A**, the group who purchased the service credit (labeled “Number Who Asked and Did Purchase IMSC”) and will receive a return of contributions is smaller than the population who didn’t purchase IMSC (labeled “Number Who Asked but Didn’t Purchase IMSC”) and will receive an increase in future pension benefits. It’s difficult to value each benefit separately so for simplicity, we applied one assumption for past service that includes all members with Service medals.

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

- ❖ We began by estimating the value of the fully subsidized IMSC for Campaign medals over this period.
 - We calculated a liability per YOS by taking the total active Present Value of Future Benefits (PVFB) for each plan and dividing by the expected YOS at retirement for future retirees (i.e., the same as step number 5 in the Calculation of Best Estimate Load: Future IMSC table above). This amount was then multiplied by the fully subsidized IMSC granted for the observed time period of 2010 through 2019. Service medals have been awarded historically for several decades but we expect that Service medals have primarily been granted since 2001, so we doubled this cost for most systems (except PSERS, given it first opened in 2006). The year 2001 aligns with the creation of the Global War on Terrorism Service Medal, which appears to be one of the more significant operations to generate awarded Service medals. In addition, based on data we received from DRS found in **Appendix A**, we assumed the length of service awarded for Service medals is generally the same as the service years awarded for Campaign medals.
- ❖ Similar to the **Assumptions for Future Service Credit** section, we relied on data for Campaign medals but applied either an upwards or downwards adjustment to reflect Service medals being awarded at a different rate than Campaign medals.
- ❖ Based on this methodology, we estimate the following fully accrued costs are attributable to historical IMSC for Service medals.

Cost Attributable to Historical Service			
PERS 2/3	PSERS	LEOFF 2	WSPRS
\$9.2	\$0.2	\$17.7	\$1.4

Note: Dollars in Millions.

Our methodology for estimating the accrued costs for historical IMSC can be low (or high) dependent on the status of the member (active or retired) and if they purchased partially subsidized IMSC. This methodology under-estimates the liability for retired members who receive an immediate increase in pension benefits and, according to DRS’s interpretation, they receive pension benefit increases retroactive to their retirement date. The liabilities for retired members are larger than the liabilities for active members because their benefits are payable immediately versus active member’s benefits being deferred (discounted with interest) to a future retirement data.

Our methodology overstates the liability for members who purchased IMSC because it assumes they would receive an increase in pension benefits; however, they would receive a return of contributions which has a lower pension obligation.

Other Assumptions

The current bill provisions exclude Plan 3, but we included Plan 3 in our analysis based on our understanding of the intention of the bill.

Based on our understanding of current law, DRS will collect employer contributions for IMSC, which may include interest. We did not confirm with DRS if that is their current practice and did not value these potential employer contributions for this analysis. Any contributions from the employer would lower the overall cost of this bill.

We anticipate the impact to duty-related death benefits under this bill is not material to this pricing exercise, and as a result we have not captured any associated cost in this fiscal note.

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

How We Applied These Assumptions

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

ACTUARIAL RESULTS

This bill is not expected to materially impact the actuarial funding of all plans in TRS and SERS, PERS 1, and LEOFF 1. We show the impacts to the remaining plans below.

How the Liabilities Changed

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

Impact on Pension Liability (As of 6/30/2022)			
<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 2/3	\$67,129	\$11.5	\$67,140
PSERS 2	\$2,302	\$0.4	\$2,302
LEOFF 2	\$23,018	\$25.2	\$23,043
WSPRS 1/2	\$1,909	\$2.0	\$1,911
Unfunded Entry Age Accrued Liability			
<i>(The Value of the Total Commitment to All Current Members Attributable to Past Service that is Not Covered by Current Assets)</i>			
PERS 2/3	\$1,384	\$10.9	\$1,395
PSERS 2	(\$7)	\$0.3	(\$7)
LEOFF 2	(\$648)	\$22.4	(\$626)
WSPRS 1/2	\$93	\$1.7	\$95

Note: Totals may not agree due to rounding.

How the Assets Changed

Our analysis does not contain any change in assets as discussed in the Assumptions We Made section.

How the Present Value of Future Salaries (PVFS) Changed

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

How Contribution Rates Changed

For Fiscal Year (FY) 2025, a supplemental contribution rate is collected for PERS 2/3, LEOFF 2, and WSPRS 1/2 to fund the cost of this bill. Additionally, this bill is a benefit improvement so an increase to the WSPRS member maximum contribution rate would also occur.

The increase in the required actuarial contribution rate does not round up to the minimum supplemental contribution rate of 0.01 percent for PSERS 2. Therefore, this bill will not affect contribution rates in FY 2025 for this plan.

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

Impact on Contribution Rates				
System/Plan	PERS	PSERS	LEOFF	WSPRS
Current Members				
Employee (Plan 2 or WSPRS)	0.0056%	0.0028%	0.0440%	0.0895%
Employer	0.0056%	0.0028%	0.0264%	0.0895%
State			0.0176%	
New Entrants*				
Employee (Plan 2 or WSPRS)	0.0003%	0.0007%	0.0049%	0.0135%
Employer	0.0003%	0.0007%	0.0029%	0.0135%
State			0.0020%	

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

How This Impacts Budgets and Employees

Budget Impacts					
(Dollars in Millions)	PERS	PSERS	LEOFF	WSPRS	Total
2024-2025					
General Fund	\$0.2	\$0.0	\$0.5	\$0.0	\$0.7
Non-General Fund	0.4	0.0	0.0	0.1	0.4
Total State	\$0.6	\$0.0	\$0.5	\$0.1	\$1.1
Local Government	0.6	0.0	0.5	0.0	1.0
Total Employer	\$1.2	\$0.0	\$0.9	\$0.1	\$2.2
Total Employee	\$0.9	\$0.0	\$0.9	\$0.1	\$1.9
2025-2027					
General Fund	\$0.3	\$0.0	\$0.9	\$0.0	\$1.2
Non-General Fund	0.4	0.0	0.0	0.2	0.6
Total State	\$0.7	\$0.0	\$0.9	\$0.2	\$1.8
Local Government	0.7	0.0	1.4	0.0	2.1
Total Employer	\$1.3	\$0.0	\$2.3	\$0.2	\$3.9
Total Employee	\$1.0	\$0.0	\$2.3	\$0.2	\$3.6
2024-2049					
General Fund	\$2.5	\$0.3	\$10.3	\$0.2	\$13.2
Non-General Fund	3.7	0.0	0.0	1.9	5.7
Total State	\$6.1	\$0.4	\$10.3	\$2.1	\$18.9
Local Government	6.1	0.2	15.2	0.0	21.5
Total Employer	\$12.3	\$0.5	\$25.5	\$2.1	\$40.4
Total Employee	\$9.4	\$0.5	\$25.5	\$2.1	\$37.5

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

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

Comments on Risk

Our office performs risk assessments to help us demonstrate and assess the effect of unexpected experience on pension plans. The risk assessment allows us to measure how affordability and funded status can change if investment experience, expected state revenue growth, and inflation do not match our long-term assumptions. Our risk assessment also considers past practices, for funding and benefit enhancements, and their impact on pension plan risk if those practices continue.

The following table displays our risk measurements as of June 30, 2021. The figures in this table were not reproduced for the 2022 valuation or for this bill, as we are in the process of revisiting how we convey these risk metrics. For more information, please see our [Risk Assessment](#), [Commentary on Risk](#), and [Glossary](#) webpages.

Select Measures of Pension Risk (As of 6/30/2021)*		
	FY 2022-41	FY 2042-71
Affordability Measures		
Chance of Pensions Double their Current Share of GF-S**	1%	2%
Chance of Pensions Half their Current Share of GF-S**	44%	42%
Solvency Measures		
Chance of PERS 1, TRS 1, in Pay-Go***	<1%	2%
Chance of Open Plan in Pay-Go***	<1%	1%
Chance of PERS 1, TRS 1, Total Funded Status Below 60%	5%	1%
Chance of Open Plans Total Funded Status Below 60%	20%	31%

*Prior to law changes from the 2023 Legislative Session.

**Pensions approximately 4.9% of current General Fund-State (GF-S) budget; does not include higher education.

***When today's value of annual pay-go cost exceeds \$50 million.

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

HOW THE RESULTS CHANGE WHEN THE ASSUMPTIONS CHANGE

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

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

Future service costs are approximately one-third of the cost of this bill.

- ❖ **Historical Service:** We relied on Campaign medal data to help set our assumptions since we expect Service medals will generally occur at similar, but 25 percent higher, frequency. This expectation is based on DRS data for partially subsidized IMSC which assumes any remaining purchased partially subsidized IMSC or requests for partially subsidized IMSC will become fully subsidized IMSC under this bill. If all these members are not eligible for this fully subsidized IMSC then the cost of the bill, relative to the best estimate, will

decrease. However, if the unknown population, or members that earned a Service medal but did not request partially subsidized IMSC, is material then the cost of the bill, relative to the best estimate, will increase.

Historical service costs are approximately two-thirds of the cost of this bill.

Given the uncertainty around the best estimate, we performed sensitivity analysis on the number of Service medals granted for both past and future military service. For this sensitivity, we estimated the impact if half the number of Service medals were awarded relative to our best estimate as well as double the number of Service medals. Under these two scenarios the Total Employer cost over 25 years ranged from approximately \$20 million to \$80 million. For context, the lower cost sensitivity has a similar 25-year budget impact as our analysis for the Expeditionary medals fiscal note from the 2023 Legislative Session (SHB 1007, C 18, L 2023), which is now current law.

ACTUARY'S CERTIFICATION

The undersigned certifies that:

1. The actuarial assumptions, methods, and data used are reasonable for the purposes of this pricing exercise. The use of another set of assumptions, methods, and data may also be reasonable and might produce different results.
2. The risk analysis summarized in this AFN involves the interpretation of many factors and the application of professional judgment. We believe that the assumptions, methods, and data used in our risk assessment model are reasonable for the purposes of this pricing exercise. However, the use of another set of assumptions, methods, and data could also be reasonable and could produce different results.
3. The models used are appropriate for the purpose of this pricing. We are not aware of any known weaknesses or limitations of the models that have a material impact on the results.
4. We prepared this AFN based on our current understanding of the bill as of the date shown in the footer. If the bill or our understanding of the bill changes, the results of a future AFN based on those changes may vary. Additionally, the results presented here may change after our next annual update of the underlying actuarial measurements.
5. We prepared this AFN and provided opinions in accordance with Washington State law and accepted Actuarial Standards of Practice as of the date shown in the footer.

We prepared this AFN to support legislative deliberations during the 2024 Legislative Session, and it may not be appropriate for other purposes.

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

The undersigned, with actuarial credentials, meets the Qualification Standards of the American Academy of Actuaries to render the actuarial opinions contained herein. While this AFN is meant to be complete, the undersigned is available to provide extra advice and explanations as needed.



Lisa A. Won, ASA, FCA, MAAA
Deputy State Actuary

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APPENDIX A

Special Data Needed

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

Fully Subsidized IMSC for Campaign Medals

We reviewed historical data from DRS on fully subsidized IMSC granted for Campaign medals. This data was received from DRS on July 14, 2020, and was initially used for the 2020 Interim [IMSC Study](#) that was submitted to the Select Committee on Pension Policy. This data was initially used to help our assumption setting process related to IMSC for Expeditionary medal recipients; however, we believe this data remains reasonable for purposes of pricing this bill.

The following table provides an annual summary of the data provided by DRS, as well as the average over the 2010-2019 time period.

IMSC Granted for Campaign Medals												
PERS 2/3	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Avg	Total
Count	37	37	23	74	49	46	20	25	19	14	34	344
Avg Service	1	1	1.2	1	1.1	0.7	0.9	0.9	1.2	0.9	1	
PSERS	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Avg	Total
Count	1	2	1	8	0	0	4	2	0	3	2	21
Avg Service	0.8	0.6	1.5	0.5	N/A	N/A	0.3	0.9	N/A	0.9	0.6	
LEOFF 2	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Avg	Total
Count	51	54	22	36	42	47	28	19	7	14	32	320
Avg Service	0.9	0.7	1	0.8	0.8	0.8	0.7	0.8	0.9	0.8	0.8	
WSPRS 1/2	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Avg	Total
Count	6	7	4	10	11	4	5	3	4	10	6	64
Avg Service	0.6	0.6	0.8	1.0	0.8	0.5	1.1	1.0	0.5	0.7	0.8	

We reviewed the data for TRS, SERS, PERS 1, and LEOFF 1 but did not include it in the above table. On average, three members (or less) received IMSC annually, which is less than 0.005 percent of their respective active populations.

Partially Subsidized IMSC for Service Medals

For this analysis, we received data from DRS on two subsets of the population we expect will be impacted under this bill. We received information on counts, by system, of members who are currently receiving partially subsidized IMSC as well as members who asked DRS for the cost of purchasing partially subsidized IMSC but ultimately did not purchase it. We expect both of these subgroups of members will receive a benefit improvement, either via increase in pension benefit or a refund of contributions.

Ratio of Estimated Service Medal Recipients to Campaign Medals				
	PERS 2/3	PSERS	LEOFF 2	WSPRS 1/2
Campaign Medals (2010 - 2019)	344	21	320	64
Number Who Asked but Didn't Purchase IMSC	270	17	264	10
Number Who Asked and Did Purchase IMSC	126	3	106	7
Number Who Didn't Ask For IMSC Bill	?	?	?	?
Estimated Service Medal Recipients Impacted under Bill	396	20	370	17
Ratio	115%	95%	116%	27%

DRS does not have data on the third sub-group who earned a Service medal but did not ask DRS for the cost of purchasing IMSC. We expect the number of members impacted in this sub-group to be non-zero but can't speak to the size of this population. As such, we expect the number of Service medal recipients to be higher than what is shown in the above table.

Based on the data provided, and using our professional judgment, we assumed Service medals would occur at a frequency 25 percent higher relative to Campaign medals for non-WSPRS plans but at a frequency 50 percent lower for WSPRS.

Data on the average years of service added for members who purchased the partially subsidized IMSC was not available, but DRS was able to provide the average member payment made. We used this information, along with the most recent salary and employee contribution rates, to estimate years of service added for purchased partially subsidized IMSC.

Estimated Years of IMSC – Service Medals				
	Average Contributions Paid	Average Salary	Contribution Rate	Estimated Service Added
	a	(As of 6/30/2022) b	(As of 9/1/2023) c	= a / (b*c)
LEOFF 2	\$4,912	\$129,107	8.53%	0.4
PERS 2	\$2,394	\$77,844	6.36%	0.5
PERS 3	\$4,910	\$75,924	6.36%	1.0
PSERS 2	\$621	\$79,452	6.73%	0.1
WSPRS 1	\$597	\$129,205	8.74%	0.1
WSPRS 2	\$3,321	\$104,758	8.74%	0.4

The above service estimates are low because they rely on more recent salary and contribution rates versus the salary and contribution rates in effect at the time the service was purchased. The data also excludes all members who didn't request a bill or those that requested a bill and elected not to purchase the service. Given the limitations, we determined it is reasonable to rely on the service levels for Campaign medals to estimate the impacts of this bill.

APPENDIX B

How We Applied These Assumptions

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

To determine the projected contributions under current law, we relied on our base model described in the **How We Valued These Costs** section. For current members, contribution rates from the base model are multiplied by future payroll. For future hires, contribution rates under the Entry Age Normal Cost method are multiplied by future new entrant payroll.

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