STATE OF WASHINGTON
DEPARTMENT OF RETIREMENT SYSTEMS
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October 28, 2004

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Office of
The State Actuary

The Honorable Karen Fraser, Chair
The Honorable Steve Conway, Vice-Chair
Select Committee on Pension Policy
Post Office Box 40914
Olympia, Washington 98504-0914

Dear Senator Fraser and Representative Conway:

Subject: Purchase of Interruptive Military Service Credit

At the October 19, 2004 Select Committee on Pension Policy (SCPP) meeting, the Department of Retirement Systems (DRS) was asked to provide input on the proposal to allow the purchase of retirement service credit for service men and women on interruptive military leave. DRS supports the death and disability provisions of the proposal, but has concerns about the third provision which would allow employers to report as earnable compensation any offset salary being paid to the employee.

Current Federal and State law on interruptive military service is consistent in two areas:

- It requires that service be designated as honorable.
- It requires the employee to return to covered service if he or she is able.

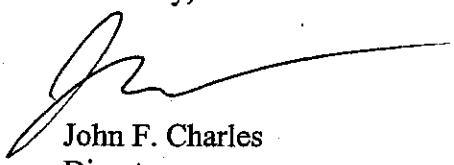
The death and disability proposals also require the military service to be deemed as honorable. If however, employers are allowed to report a salary offset to DRS (the third provision), a situation exists where the member may earn partial or total service credit for periods where the nature of the military service could be dishonorable, and where a return to employment is not required or does not occur. This creates an inequity in the treatment of those members not receiving the pay offset who must serve honorably and return to covered employment in order to purchase their missing service.

As I mentioned at the October 19th meeting, the current process for purchasing service for interruptive leave is both easy and efficient. With an average cost of approximately $1,700 for nine months of service credit, a member can initiate the purchase with a simple phone call and can take up to five years to pay with no interest. Members may pay in installments or with a lump sum at anytime during the five years. This same process would be utilized to implement the death and disability proposals. While reporting an offset salary creates no additional cost by itself, there would be increased administrative cost if DRS is required to begin tracking offset pay and related service credit.

As noted above, the death and disability proposals are in alignment with Federal and State law and the existing policy and process for purchasing interruptive military service. However, allowing service to be earned due to reporting offset pay goes beyond the current policy and creates inequity in the treatment of members. Based on this information I encourage the removal of the reporting of offset salary from the proposal.

Please contact me at 664-7312 if you would like to discuss this issue.

Sincerely,



John F. Charles
Director