

LOWERING THE RETIREMENT AGE FOR MILITARY RESERVISTS

BY

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USAWC PROGRAM RESEARCH PROJECT

LOWERING THE RETIREMENT AGE FOR MILITARY RESERVISTS

by

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Topic Approved By
Commander Joe Andreatti

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ABSTRACT

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This research paper will examine the issue of retirement pay for military reservists. The research reveals that lowering the age at which military reservists are eligible to receive retirement pay will improve the overall readiness of our reserve forces. Recommendations are provided to suggest changing the age that a military reservist should be eligible to start receiving retirement pay.

LOWERING THE RETIREMENT AGE FOR MILITARY RESERVISTS

Generally, active duty retired military persons can start receiving retirement pay once they have completed 20 years of active military service. This means a person who enters the military at the age of 18 could conceivably retire from active military service and begin receiving full retirement pay at the age of 38. However, a military reservist must reach the age of 60 and complete a minimum of 20 years of creditable military service before the reservist can start receiving military retirement pay. A year of creditable military service is when a member earns 50 or more retirement points. This mandatory required age of 60 along with the 20 years of creditable service in order to receive military retirement pay has been a contentious issue for military reservists for a very long time. More importantly, this issue has gained national attention because of the perceived unfairness and negative impact on the readiness of reserve forces. This paper will present the argument that lowering the retirement age for military reservists to receive retirement pay will improve the overall readiness of the reserve forces.

The focus of this research paper is to 1) present facts about the military reserve forces and analyze the differences between the active duty and reserve retirement pay systems, 2) present facts and analyze the effects that military retirement benefits have on the overall readiness of the reserve force structure, and 3) provide recommendations to changes to the current reserve retirement system that will have a positive impact on the overall readiness of our reserve forces.

The issue of lowering the retirement age for military reservists has become a more significant topic in recent years because of the transition of reserve forces from a strategic reserve to an operational reserve force. Military reservists in reserve

component units are routinely and actively engaged in programmed roles in stateside and overseas contingency operations. The mission requirements and the composition of military organizations has dictated that some military reservists and reserve units be deployed as much, or more than, their active component counterparts. Military reservists have witnessed their operational tempos steadily increase since the events of September 11, 2001. Many reserve components and political leaders argue that the increased operational tempo warrants an increase in military compensation, especially retirement benefits. Lowering the retirement age for military reservists to receive retirement pay should positively impact recruiting and retention, which will have a corresponding positive impact on the overall readiness of the reserve forces.

Military and political leaders recognize the fact that providing for and maintaining a fair and adequate compensation and benefit system is the key to maintaining an experienced, qualified reserve force structure. Unless some additional changes are made to the reserve retirement system due to the rise in military reservist's mission requirements, operational tempo, and deployments to overseas contingency operations, the Department of Defense can expect the readiness level of the reserve forces to decline. One solution to offsetting this expected decline in the end strength of the reserve forces is to lower the retirement age for military reservists to receive retirement pay. This should have a significant positive impact on the overall strength and readiness of the reserve forces.

Composition of Reserve Forces

The reserve component forces of the United States under the authority of the Department of Defense include the Army National Guard, Army Reserves, Air National Guard, Air Force Reserves, Navy Reserves, and the Marine Reserves. The Army National Guard and Air National Guard also have a state role: in addition to the role of providing trained units and personnel to the armed forces of the United States, they also assist the states in responding to various emergencies, such as disasters and civil disorders.¹

Within each of these six reserve component forces are three different categories of military reservists: the Ready Reserve, the Standby Reserve, and the Retired Reserve. The Ready Reserve is broken down into additional categories called the Selected Reserve, the Individual Ready Reserve, and the Inactive National Guard. Each of these categories of military reservists is comprised of different types of personnel, but the primary personnel affected by changes to the reserve retirement system are members of the Selected Reserve. Members of the Selected Reserve are generally required to perform a minimum of one weekend of training each month and two weeks of training each year for which they receive pay and benefits.²

Out of the nearly 1.1 million people in the Ready Reserve, there are approximately 850,000 personnel in the Selected Reserve, the primary manpower pool of the reserve components.³ Between September 11, 2001 and February 4, 2009, a total of 691,086 military reservists (which includes the National Guard) have served under voluntary or involuntary federal orders for Operation Noble Eagle, Operation Enduring Freedom, and Operation Iraqi Freedom.⁴

Historically, only about 24 percent of those who join the reserves will ultimately receive retirement benefits.⁵ Officers make up a disproportionate share of the retiree population.⁶ Some 30-40 percent of officers stay in the military until they are eligible for retirement, while only 10–15 percent of enlisted personnel stay more than 20 years.⁷

Personnel Strength of Ready Reserve as of September 30, 2008⁸

Component	Selected Reserve	Individual Ready Reserve/ Inactive National Guard	Total Ready Reserve
Army National Guard	360,351	2,677	363,028
Army Reserve	197,024	66,840	263,864
Navy Reserve	68,136	55,023	123,159
Marine Corps Reserve	37,523	0	95,748
Air National Guard	107,679	49,301	107,679
Air Force Reserve	67,565	2,303	116,866
Total	838,278	232,066	1,080,617

Source: Data provided by the Department of Defense

Regular Military Retirement System

Military retirement pay for a regular or active full-time member of the armed forces is calculated by means of one of three systems, depending on when the service member entered active military service. The service member must complete 20 years of active service to qualify for retirement benefits. One of the primary advantages of the regular military retirement system is that the active full-time service member can immediately start receiving their military retirement after separated from military service.

The three systems for computing regular, non-disability pay are called the Final Basic Pay, High-Three, and the Military Retirement Reform Act (REDUX).⁹ The three systems are similar in that the retired or retainer pay entitlements of members of the uniformed services are, under each of the three systems, determined by applying a percentage multiplier to a number that is in some way related to a member's basic pay at the time of retirement.¹⁰ The percentage multiplier for a particular member of a uniformed service is, in turn, determined by reference to the number of years of service with which the member may be credited in computing retired or retainer pay.¹¹

A regular member who enters active service prior to September 8, 1980 is under the Final Basic Pay systems and receives 50 percent of final basic pay after 20 years of military service plus 2.5 percent for each additional year up to the 75 percent maximum for 30 years of service.¹² Currently, a service member in this category will have over 28 years of service; consequently very few active service members are now currently in this category of retirement.

A regular member who enters service between September 8, 1980 and July 31, 1986 retires under the High-Three system.¹³ Retired pay is computed as 50 percent of the average of the "High-Three years" (36 months) of basic pay for 20 years of service plus 2.5 percent for each additional year up to the 75 percent maximum for 30 years of service.¹⁴ Most of the current retirees should fall within this category.

The final and most complicated system is the REDUX system. Under this system the member must make a choice during their 15th year of service to retire under the High-Three system or receive a \$30,000 career retention bonus and retire under the REDUX system.¹⁵ REDUX retirement is computed as 40 percent of the High-Three

years (36 months) of basic pay for 20 years of service plus an additional 3.5 percent for each additional year up to the 75 percent maximum for 30 years of service.¹⁶

Additionally, members electing to retire under the REDUX system receive Cost of Living Adjustments (COLA) as determined by the increase in the Consumer Price Index minus one percentage point.¹⁷

Reserve Retirement System

Title III of the Army and Air Force Vitalization and Retirement Equalization Act of 1948, chapter 708 [Public Law 819, 80th Congress], Title III, §§ 301-313, 62 Statute 1081, 1087-1091 (1948), created a non-disability retirement program for reserve personnel.¹⁸ This law directed that entitlement to reserved retired pay begins at age 60. Entitlement evidently was set at this age because, at the time the pay was established by this law, age 60 was the minimum age at which federal civil service employees could voluntarily retire, although there is no explicit expression of Congressional intent in this regard.¹⁹ At the age of 60, Reserves and National Guard officers, warrant officers and enlisted members who complete a minimum of 20 years of qualified service (creditable retirement years) become eligible for retired pay.²⁰

Under the reserve retirement system, a member must complete a creditable retirement year in order to receive credit for a year of service towards retirement. The performance of monthly and annual training duty for pay and benefits allows for Selected Reserve members to receive credit (i.e. points) for retirement purposes. A creditable retirement year is a year in which the reservist or member of the National Guard earns at least 50 retirement points.²¹ Reservists earn 15 retirement points per year simply for being a member of the Selected Reserve, one point for each unit training

assembly (UTA), one point for each day of annual training (AT), and one point for each day of active duty. If a reservist participates in all scheduled training for the year, the member should earn at least 75 retirement points without performing any active duty requirements. Retirement points earned in one year do not roll over to the next year.

Retirement points are very important to reservists, because they are used to determine if a reservist has a creditable year toward retirement and also used to calculate retirement pay. In addition to the minimum allowable points a reservist can earn to receive a creditable year of service, there is a limit on the maximum allowable points a reservist can earn while performing inactive duty. Excluding points earned while in an active duty status, a reservists could not earn more than: 60 points in any one year or service before the year of service that includes September 23, 1996; 75 points in the year of service that includes September 23, 1996, and in any subsequent year of service before the year of service that includes October 30, 2000; 90 points in the year of service that includes October 30, 2000 and in any subsequent year of service before the year of service that includes October 30, 2007; and 130 points in the year of service that includes October 30, 2007, and subsequent years.²² Although there are no limits on the number of points a reservist can earn while on active duty, there is a limitation on the amount of retirement points a reservist can earn while on inactive duty which in effect reduces the amount of retirement pay a reservist can receive.

There are currently two Reserve retirement systems that parallel the systems for active duty: the Final Basic Pay system and the High-Three system.²³ Similar to the regular retirement systems, the reserve retirement systems use the service member's date of entry into military service to determine and calculate a reservist's retirement pay.

A reservist who entered military service prior to September 8, 1980 will fall under the Final Basic Pay system. To calculate a reservist's retirement pay under this system, the years of satisfactory (equivalent) service (total creditable retirement points divided by 360) will be multiplied by 2.5 percent up to a maximum of 75%.²⁴ The resulting percentage will be applied to the basic pay in effect for the reservist (based on retired pay grade and years of service) on the date retired pay starts to determine monthly retired pay.²⁵ This reserve retirement pay system will not affect many reservists currently still in the reserve force.

The High-Three System is used for military reservist who enters military service after September 8, 1980. This system is similar to the Final Pay System whereby the reservist's years of satisfactory (equivalent) service will be multiplied by 2.5 percent up to a maximum of 75%; however, the resulting percentage will be applied to the average of the highest 36 months of basic pay in effect for the soldier to determine monthly retired pay.²⁶ Normally, the highest 36 months of basic pay for the soldier is their last 36 months of service. The vast majority of military reservists who will qualify for retirement pay will fall under the High-Three System.

For example, if a reservist who had served a minimum of 20 years and accumulated 2,000 points would have an equivalent active service time of 5.6 years (2,000 points divided by 360 days). The equivalent service time would then be multiplied by 2.5% for a resulting percentage of 14% (5.6 x 2.5%). The resulting percentage would then be multiplied by an average of the highest 36 months of the base pay of a regular service member (assuming \$5,000 x 14%) in order to calculate the reservist monthly retirement entitlement. Based on this example, a retired military

reservist would be entitled to \$700.00 per month for retirement pay, after 20 years of non-regular military service.

Regular versus Reserve Retirement Pay

Military Reservists are aware of the disparity in retirement benefits between the regular and reserve forces. This disparity is greatly highlighted when comparing the two systems based on similar retirement scenarios. This example assumes that both service members are the same age, rank, years of service, enter active duty on the same day and retire on the same day.

Example of a typical Active Duty and Guard/Reserve Retirement²⁷

Scenario A – Joe Active	Scenario B – Joe Guard
Joe Active joins the Army at age 18 and serves on active duty for 20 years. He retires as an E-7	Joe Guard joins the Army at age 18 and serves on active duty for 3 years. Joe completes his enlistment and is discharged from active duty and joins the Guard. Joe gets recalled (mobilized) to active duty after a few years and is sent to Iraq for a year. He then finishes his guard duty with a total of 4 years active duty and 16 years in the guard for a total of 20 years. He retires as an E-7.
Joe Active serves a total of 7300 days in uniform. Joe Active will draw retirement pay from age 38 until the current life expectancy of age 77 – or for 38 years . Joe Active will receive a total of \$761,907 in retirement pay during this 38 year period or \$104.37 for every day he served on active duty.	Joe Guard serves a total of 2,068 days in uniform. Joe Guard will draw retirement pay from age 60 until the current life expectancy of age 77 – or for 17 years . Joe Guard will receive a total of \$123,454 in retirement pay during this 17 year period or \$59.70 for every day he served on active duty.
\$59.70 is 57% of \$104.37. This would imply that the Guard/Reserve men and women fighting in Iraq, along side their active counterparts, are only work half as much when it comes to retirement.	
In this example: Guard/Reserve serve 28% as much time as an Active Duty member. (2,068 vs. 7300 days) Guard/Reserve receives 16% as much in retirement. (\$123,454 vs. \$761,907) If Guard/Reserve would receive equip pay (28%) they would receive \$215,837 in retirement.	
Lowering the Guard/Reserve retirement pay age to 55 would not bring them to the same level, or equal pay, but it would provide a slightly more equitable treatment than the current age 60 rule. By drawing retirement pay at age 55 they would receive \$77.26 per day served compared to active duty receiving \$104.37 per day served. \$77.26 is 74% of \$104.37. Still not equal, but more equitable.	

Source: Information provided Tri-State Veterans

Effects on Military Readiness

The recruiting and retention of qualified service members has a direct impact on military readiness. The purpose of the military compensation system –retirement is one part – is to attract, retain, and motivate the number of quality personnel needed to maintain the desired level of national security.²⁸ The Department of Defense has said that the military retirement systems, both active duty and reserve, should support and complement force management requirements (e.g., youth, vigor, and career development opportunities); be integrated into the military compensation system, and be structured to replace and maintain income for retirees.²⁹ The purpose of the active duty retirement system was originally intended to provide for the separation of older officers with over 40 years of service to obtain a youthful and vigorous officer force, and improve promotion opportunities for younger officers.³⁰ However, the purpose of the reserve retirement system when created in 1948 had an opposite goal in mind. The purpose of the reserve retirement system was to improve retention, as opposed to encouraging attrition, by providing a financial incentive for qualified personnel to maintain their reserve affiliation and continue training in the reserves.³¹

The retirement age of 60 for military reservists coincided with that mandated for federal civilian employees when the law was first enacted. Since the reserve retirement law was enacted, changes have been made to the federal civilian employee retirement system reducing the age for retirement to 55. The current retirement age was set in 1948, when the reserves were “a much different force.”³² The reserve retirement system assumed short, infrequent service by service members pursuing full-time civilian careers with full civilian retirement.³³ Today’s “operational reserve” requires reservists

to serve one of every five years on active duty, with many activated even more frequently.³⁴ Regardless of statutory protections, periodic long-term absences from the civilian workplace only can limit the service members' upward mobility and employability, as well as their personal financial security.³⁵ No substantial changes have been made to reduce the age that military reservists will be able to qualify for retirement. Many people do not realize that National Guard and Reserve members are the only federal retirees who must wait until age 60 to collect retirement pay.³⁶ The difference in retirement age for federal civilian employees and military reservists, as well as the lack of action to modify the age requirement, has definitely affected morale within the reserve's ranks.

Military leaders recognize the importance of retirement pay in the overall readiness of our armed forces. In the debate over legislation to change the military retirement system, Lt. Gen. John A. Shaud testified to a Senate committee that the changes in the retirement pay may have an affect on military readiness.

No other element of the military compensation system is more important to our career personnel. Our studies and surveys consistently reaffirm that the military retirement system is the number one career incentive; and cutting this system is the one thing that would most readily cause the loss of our talented and experienced careerists. Our people view this entitlement as the stable and unifying element in an otherwise volatile compensation system, and as deferred compensation for the many sacrifices we call on them to make. I am concerned that this cost savings agenda could undermine the morale of our men and women in uniform. They might perceive that Congress no longer values their sacrifices as much, while the sacrifices we ask them to make have not changed.³⁷

Historically, retention decreases when overall compensation decreases, and retirement is part of the overall military compensation package.³⁸ Although the U.S. is not enjoying

a thriving economy currently, a stagnated or decreasing overall military compensation package will eventually lead to retention problems.

The Department of Defense still faces significant challenges in maintaining readiness in all components, active and reserve.³⁹ For example, the significant use of Army National Guard forces for overseas and homeland security missions since September 11, 2001, has resulted in declining readiness, weakening the Army National Guard's preparedness for future missions.⁴⁰ In addition, the Department of Defense faces the long-term challenge of determining how it will recognize its forces and identify the capabilities it will need to protect the country from current, emerging, and future conventional and unconventional security threats.⁴¹ Specific issues that will need to be addressed while the Department of Defense meets these long-term challenges include weapons modernization, force transformation, and military pay and benefits.⁴²

Concerns about the most efficient and effective allocation of compensation to meet recruiting and retention goals are increasingly important given the recent recruiting and retention challenges the services have faced.⁴³ The Commission on the National Guard and Reserves reported that polling data of young people suggest that the future for recruitment remains problematic, as the propensity of youth to join the military declined from 15 percent in 2005 to 10 percent in 2006.⁴⁴ In addition to a decline in propensity to join the military, according to the Department of Defense, fewer soldiers leaving active duty are transitioning to the reserves.⁴⁵ A Pentagon survey of Army Reservists indicated that they have increasing doubts about their units' war readiness and less enthusiasm for re-upping.⁴⁶ The survey showed the desire of National Guard and Reservists to stay in is diminishing, with only about 59 percent of Army Reservists

and 62 percent of Army National Guard soldiers saying they intended to stay in the military, down ten percent from an earlier survey.⁴⁷ The Army Research Institute projects that only 27 percent of Guard and Reserve soldiers intend to re-enlist, which would be an all-time low.⁴⁸

The vast majority of new enlistees and young officers do not look at military retirement as a key element when they enter into military service. Retirement policies provide the primary financial incentive available to those senior personnel most likely to be affected by retirement policies.⁴⁹ According to the Department of Defense's Sixth Quadrennial Review of Military Compensation, reserve retirement provisions begin to shape the retention decisions of military personnel with as little as 5 to 7 years of service, and the effect of these provisions on retention decisions gradually increases as service members approach 20 years of service.⁵⁰ This can be attributed, in part, to the fact that the Department of Defense's retirement systems do not provide reduced annuities to members who serve less than 20 years.⁵¹ The Department of Defense officials have observed that the retirement incentive has a noticeable retention effect that begins at the 12th to 14th year of service.⁵² The Department of Defense assumes that most personnel who have more than 14 years of service have decided to make a career out of the military and will stay until they are eligible for retirement, and the Department of Defense data show that attrition rates decline as service members approach 20 years of service.⁵³

The possibility of a service member receiving retirement is recognized as a very important incentive later in the service member's military career. Once service members realize military retirement is a viable and valuable alternative in their career,

they recognize several crucial factors. First, the service members are more likely to select better assignments and duty positions as their service continues. Secondly, the service member's job performance may improve as he/she realizes the incentive to performance may be noticed by others for better assignments in the future. Thirdly, the service members are less likely to engage in bad behavior or to perform actions that may jeopardize their careers. Many of these incentives are weighed by the service members normally when they are in the middle of their careers. The estimated value of military retirement benefits has to be taken in consideration to reflect the likelihood that a member will stay in uniform long enough to become eligible for the benefit.⁵⁴

Summary

Members of the 108th Congress introduced five legislative proposals that would reduce the age at which retired reservists can receive their annuities from age 60 to something lower.⁵⁵ The rationale often given for these proposals is that reserve benefits, such as retirement, should be enhanced in light of the frequency and duration of deployments that many reservists are experiencing.⁵⁶ Additionally, if retention and readiness levels are important in the reserve components as touted by senior military and political leaders, further changes to the reserve retirement system are warranted, otherwise readiness levels will suffer because of the long delay in receiving retirement pay from the date the reservist qualifies to the date of receipt.

One of these proposals would allow reservists who meet their retirement benefit eligibility to receive their annuities immediately, at any age.⁵⁷ A second proposal would allow reservists who served 20 years to leave the service and receive their annuities beginning at age 55.⁵⁸ A third proposal would reduce the age of receipt from 60 to as

low as age 53 – on a sliding scale – by 1 year for every 2 additional years served beyond 20 years of service.⁵⁹ For example, reservists who served 22 years would be eligible to receive their annuities at age 59, and reservists who served 24 years would be eligible to receive their annuities at age 58, so on and so forth.⁶⁰ Under this proposal, reservists would have to serve 34 years to be eligible to receive annuities at age 53.⁶¹ A fourth proposal follows the same model but establishes 55 as the minimum age at which reservists could begin to receive annuities.⁶² Finally a fifth proposal would retain eligibility of receipts at age 60 but allow reservists to apply for receipt of reduced annuities at younger ages whereby the annuities of reservists who applied to receive their annuities at age 55 would be reduced by 12.5 percent.⁶³

The new law reduces the age for receipt of retired pay for members of the Ready Reserve by three months for each aggregate of 90 days of specified duty performed in any fiscal year after January 28, 2008 (the date of enactment of the FY2008 National Defense Authorization Act).⁶⁴ Although this is a change from the 50 year old system, many reserve organizations does not see this law as benefiting a significant number of the current reservists. Many organizations are gathering their forces to change this new law and to at least make the effective date of duty retroactive to September 11, 2001.

The primary issue in making any changes to the reserve retirement system is cost. The lowering of the age requirement to receive retirement pay will place an immediate cost burden of the Department of Defense's budget and will have long term budgetary consequences for reserve appropriations. Based on the data provided by the Department of Defense's Office of Actuary, the estimate for lowering the age would cost DOD an additional \$2.88 billion to \$20.45 billion in appropriated dollars, depending on

the proposal, over the next 10 years.⁶⁵ More importantly, these costs are even more substantial, given the fact that all reservists who qualify for retirement – and not just the minority of reservists who have been called to active duty for recent contingency operations – would be covered under any change to the reserve component retirement system.⁶⁶

Recommendations

The reserve retirement system should be changed to lower the retirement age of military reservists to 55. This would be consistent with the current retirement age for federal civilian employees and in line with the original intent of the reserve retirement system when it was created in 1948. Additionally, the limitation for inactive retirement points should be removed and allow for all earned retirement points, inactive and active, be credited to the reservist for retirement pay purposes.

Conclusion

The reserve components continue to face many challenges in trying to maintain an adequate force to meet all of the requirements in today's global environment. While some short term recruiting and retention goals are being met the long term readiness requirements for the reserve components appear to be uncertain. Lowering the military retirement age for reservists to age 55 from age 60 will improve overall readiness by allowing more mid-career service members to decide to remain in service by decreasing their delay in receiving retirement benefits.

Endnotes

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¹⁰ U.S. Department of Defense, Office of the Under Secretary of Defense (Personnel and Readiness). *Military Compensation Background Papers*. (Washington, D.C.: U.S. Government Printing Office, May 2005) 712.

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¹⁶ *Ibid.*

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²⁰ Hunter.

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²² Kapp., 13.

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²⁴ U.S. Army Human Resources Command, *Retirement Information: A Compendium of Information*. (St. Louis, MO.: July 2004)

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³⁰ Ibid.

³¹ Ibid.

³² Rick Maze, "Outgoing DoD official backs reserve retirement change," *Army Times*, April 6, 2009: 24.

³³ "Active and Reserve Force Issues: Guard and Reserve retirement," *Military Officer*, 7, No. 1 (January 2009): 44.

³⁴ Ibid.

³⁵ Ibid.

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⁵⁰ Ibid.

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⁶⁴ Kapp., 25.

⁶⁵ GAO-04-1005, 27.

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