M A I N E

L E G I S L A T I V E   R E S E A R C H

C O M M I T T E E

SECOND REPORT

to

ONE HUNDRED AND THIRD LEGISLATURE

JANUARY, 1967

LEGISLATIVE RESEARCH COMMITTEE

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STATE RETIREMENT SYSTEM

ORDERED, the House concurring, that the Legislative Research Committee is directed to study the Maine State Retirement System Law but not be limited to the application of the system to all covered members, to authorize and supervise an examination of the plan by an outside independent actuary, study the application or the possible application of the benefits of the Federal Social Security Act to the members of the Maine State Retirement System and particularly to study the feasibility of integration or supplementation of the Maine State Retirement System law with Federal Social Security; to study the possibility and practicality of an improvement, or improvements, in the benefit formulae, including the survivor's benefit program; to study the possibility and practicality of providing adjustments in all benefit payments to compensate for changing economic conditions not only to those persons currently receiving benefits but also for those who will retire in the future; to study the financial and investment phases of the system and to study any proposals that may be advanced for the more efficient achievement of the purposes for which the system was created; and be it further

ORDERED, that the committee shall have the authority to employ professional and clerical assistance within the limits of funds provided; and be it further

ORDERED, that the committee shall make a written report of its findings and recommendations to a special session of the 102nd Legislature and in the event there is no such special session to the 103rd Legislature.

LETTER OF TRANSMITTAL

June 29, 1966

To the Members of the 103rd Legislature:

The Legislative Research Committee is pleased to submit this study on the Maine State Retirement System pursuant to the foregoing order of the 102nd Legislature.

This report which was contractually studied for the Committee, under authority of the Legislature, contains the findings and recommendations of the Legislative Research Committee as developed by the consultant firm of Bowles, Andrews and Towne, Inc., actuaries and management consultants, Portland, Maine.

The Committee sincerely hopes that the information herein contained will prove of benefit to the members of the Legislature and the people of the State of Maine.

Respectfully submitted,

LOUIS JALBERT, Chairman
Legislative Research Committee

1 9 6 6 R E P O R T

TO

LEGISLATIVE RESEARCH COMMITTEE

ON

MAINE STATE RETIREMENT SYSTEM

BOWLES, ANDREWS & TOWNE
Inc.
Actuaries
Management Consultants

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Portland, Maine
(207) 774-5747

New York, New York 10017

May 31, 1966

Honorable Louis Jalbert, Chairman
Legislative Research Committee
State of Maine
Augusta, Maine   04330

Dear Mr. Jalbert:

Enclosed is our report on the actuarial study we have made of the Maine State Retirement System as requested by your Committee.

This report includes an analysis of the benefit provisions, review of the administrative procedures, and examination of the financial condition of the System. In addition, the advantages and disadvantages of the possible adoption of Federal Social Security were assessed in the light of the 1965 Federal Social Security legislation.

Very truly yours,

BOWLES, ANDREWS & TOWNE, INC.

By: (s) Rudolph M. Lohse
Rudolph M. Lohse
Fellow, Society of Actuaries

RML:ka
Encl.

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SUMMARY

PART ONE

SUMMARY

The study on which this report was based consisted of an analysis of the benefit provisions, review of the administrative procedures, and examination of the financial condition of the Maine State Retirement System. In addition, the advantages and disadvantages of the possible adoption of Federal Social Security were assessed in the light of the 1965 Federal Social Security legislation.

This report is composed of the following parts:

PART ONE - Summary

PART TWO - Analysis of Provisions of Retirement System

PART THREE - Administration

PART FOUR - Financial Considerations

PART FIVE - Report on Social Security Coverage

PART SIX - Appendix - Summary of Provisions of Other State Retirement Systems

In this part of the report there is contained a summary of the findings of the several phases of our study and an outline of our general comments thereon. The comments are related primarily to basic principles and do not attempt to set forth all the specific details. The purpose of the comments is to point out areas where the System can be improved, methods of improving the effectiveness of the administration, the nature of the costs involved, and considerations affecting the adoption of Social Security Coverage.

SECTION I

ANALYSIS OF PROVISIONS OF RETIREMENT SYSTEM

The Maine State Retirement System is a well constructed System providing reasonably liberal retirement benefits. The provisions of the System cover practically all of the aspects of a retirement system which are generally considered desirable. An outline of the principal benefit provisions is presented in Part Two, Section II of this Report. Set forth below are our comments concerning certain of these provisions.

1. Membership Considerations

   Consideration should be given to the possibility of including the members of the judiciary in the Maine State Retirement System.

2. Normal Retirement

   (a) Age

   Retirement at the normal retirement age should be permitted regardless of the employee's length of service at that age.

   (b) Benefit

   Consideration should be given to the desirability of determining the normal retirement benefit on the accrual concept for all categories of employees. On this basis, employees would accrue their retirement benefits at a designated rate for each year of service. Such rate would depend on the particular employee category.

   Although this basis is generally followed for all State employees and teachers, other categories of personnel are guaranteed a total retirement allowance of 50% of pay after fulfilling certain conditions as to age and length of service.

It is suggested that the accrual basis per year of service provides more equitable retirement benefits. It would permit employees who have not completed the present service requirement to retire at their normal retirement age with a lesser benefit related to their length of service. This procedure relating benefit accrual to each year's employment would also eliminate the present inequity of an employee contributing for more than 25 years but not receiving any additional benefits for such contributions.

It may be questioned why some categories of employees have benefits related to their current annual pay while the majority of employees have benefits based on final average compensation, i.e., the average of their 5 highest years of compensation during their employment. Uniform salary bases should apply to all employees.

3. Early Retirement

It is suggested that early retirement be allowed after the attainment of a certain age, such as 50 or 55 without regard to a years of service condition, such as the 30 years' service presently required.

4. Disability Retirement

The benefit payable in the event of ordinary total disability should be increased to an adequate level of income. Consideration might be given to accomplishing this by applying the same benefit formula as in the case of normal retirement but crediting the anticipated years of service the employee would have had if he had in fact remained in active employment until his normal retirement age.

Since the need for ordinary disability income exists not only after completion of the present 10 year service requirement but before as well, it is suggested that such service requirement be eliminated and eligibility for such benefit be offered immediately upon employment.

5. Group Life Insurance Benefits

Consideration should be given to removing the $10,000 maximum limitation on both the basic and supplemental life insurance benefits. The similar limit on accidental death and dismemberment coverage should likewise be removed.

SECTION II

ADMINISTRATION

Our recommendations in regard to the administration of the Retirement System are as follows:

1. Board of Trustees

   Since the Board is composed of ex-officio and other members not necessarily qualified by experience and training to function in such trusteeship capacity, it is recommended that the Board membership be increased by the addition of some public members specifically possessing the required qualifications. The addition of three such public members appointed by the Governor should strengthen the Board in carrying out its overall responsibility for the operation of the System.

2. Fund Accounting Procedures

   (a) The discontinuance of the five separate funds presently required by the Retirement System law is recommended. The present practices with respect to fund accounting place a heavy load on administrative personnel. Not only are the five funds maintained but each of these funds is broken down between the State and the various participating local districts. It should be recognized that the balances in these various accounts are relatively meaningless figures. Regardless of the balances shown in any account, the State or participating local district must pay the full retirement allowance and other benefits provided under the System during the lifetimes of the member and his beneficiaries qualifying for such payment. The knowledge of just how much remains in any account is of no real value and a great deal of expense is involved in maintaining the balances. The only necessary individual record to be maintained is a record of each employee's accumulated contributions, so that proper refunds can be effected when required.

(b) Discontinue the practice of separating each employee's retirement allowance into the "prior service" and "membership service" portions. Although such a breakdown is currently presented on the valuation balance sheet, such information is not essential in operating a retirement plan.

3. Utilization of Electronic Data Processing Equipment

Based on our analysis of the administrative operations, it is recommended that electronic machine accounting equipment and procedures be utilized. This would increase efficiency by eliminating duplication of record keeping, maintaining better overall controls, and providing more current information.

The major areas in which electronic accounting equipment should be applied are as follows:

(a) Annual Actuarial Valuations

A great deal of duplication is currently involved in maintaining basic employee data on record cards for valuation purposes. These cards are currently hand sorted to obtain the summarized employee data required for cost calculations.

Electronic accounting equipment would make such information available immediately, rather than several months later.

(b) Experience Studies

The results of such studies, required every 5 years by the Retirement System law, are used to perform more refined valuations in the future as well as to test the validity of the various assumptions used in making previous cost estimates.

(c) Group Life Insurance Coverage

Electronic accounting equipment would eliminate the present duplication of providing information to the insurance carrier for premium determination purposes independently of the data submitted for valuation of the Retirement System.

(d) Statement of Employee Contributions

The annual statement showing the accumulated contributions to the members' credit could easily be obtained as a simple by-product of the electronic valuation procedures recommended in (a) above.

(e) Retirement Allowance Calculations

The coordination between the three divisions of the Department of the Maine State Retirement System presently required for benefit calculations could be eliminated if all data required for the calculation were on electronic machine accounting cards.

(f) <u>Reserve Accounts</u>

To the extent that the present fund accounting is maintained, electronic data processing would simplify the detailed work involved in properly recording account balances.

(g) <u>Social Security Account</u>

The periodic reporting and collection of employer and employee Social Security taxes for the various political subdivisions covered under the Federal program would be readily adaptable to electronic machine accounting procedures.

(h) <u>Investment Accounting</u>

Similar efficiencies could be effected with respect to collection of income and dividends from securities in the investment portfolio. Purchases and sales of securities could also be recorded by electronic accounting methods.

SECTION III

FINANCIAL CONSIDERATIONS

The financial condition of the Maine State Retirement System was reviewed. Our comments are set forth below.

1. Investments

(a) The control of investment practices affecting the State Retirement System should remain vested in the Board of Trustees.

(b) The present Retirement System investment portfolio produced an overall yield of 4.32% for the year ending June 30, 1965. This yield compared favorably with the average return achieved by insurance companies on their entire investment portfolios.

(c) Subject to the limitations of State law, the assets of the System have been invested primarily in bonds, stocks, and mortgages. Such distribution is similar to the investment practices of other pension funds.

(d) There does not appear to be any reason for specific limitation on the purchase of equities, provided the "Prudent Man Rule" is the basis of purchase for investments of the Retirement System.

2. Analysis of Actuarial Experience

The actual experience under the Maine State Retirement System has been reviewed in order to evaluate the adequacy of the actuarial bases in determining the liabilities and costs of the System.

Revised actuarial assumptions were selected to more realistically appraise the maximum likelihood of future events affecting benefit payments. Although the present actuarial bases in some instances are more conservative than the revised assumptions (such as interest rate, withdrawal rate) and in other instances are less conservative (salary scales, mortality rates, retirement age), such "pluses" and "minuses" tend to balance each other out and produce essentially the same costs as the revised set of assumptions.

3. Costs

The financial condition of the Retirement System is satisfactory and liabilities appear to be funded on reasonably adequate actuarial bases. The funding methods in general are providing for a proper accumulation of funds to meet future liabilities in the case of State Employees and MTRA Teachers. With respect to the 1913 Teachers (Non-Contributory Teachers) no such similar funding practices are followed. Rather the State is following the practice of appropriating the amount required in each biennium to provide the retirement allowances on a pay-as-you-go basis.

It might be preferable that the valuation method be changed to the "frozen initial liability method." Under this actuarial funding method, the present unfunded accrued liability could be liquidated by regular annual payments over a given number of years. Under the current funding method, the accrued liability contributions are determined on a basis intended to liquidate the accrued liability by payment of principal and interest, each such payment being at least 3% higher than the preceding year's contribution. Although this method involves an automatically increasing amount of accrued liability contributions from year to year, the amortization of such past service liability becomes a problem, since this liability is itself subject to increase.

SECTION IV

REPORT ON SOCIAL SECURITY COVERAGE

The decision as to whether Social Security coverage should be adopted for members of the Maine State Retirement System will depend on the following considerations.

1. Basic Principles of Federal Social Security System

   The degree to which the basic philosophy of the Federal Social Security System is accepted will influence the State's course of action.

2. Types of Benefits to be Provided

   State employees already possess or are eligible for most types of benefits provided by the 1965 Social Security law. Retirement and survivor benefits have previously been in effect through the State Retirement System. Medical benefits contained in the "medicare" program are already available to all State employees, since such coverage is in no way related to past or future coverage under the Social Security program. Hospitalization benefits contained in the "medicare" program are also available to all individuals who attain age 65 prior to 1968, including those who never came under Social Security. The only major area of benefits provided by the federal programs which is not now generally available to employees of the State of Maine is hospitalization benefits for individuals who attain age 65 in 1968 or later. Thus, to the extent that the State desires to extend such benefits to its employees, it must decide whether to do so by embracing the Social Security System or by providing similar benefits through an additional plan of its own.

3. Control Over Benefit Program

Adopting Social Security coverage means, in effect, that a part of the overall benefit program for State members would no longer be under State control, but would be the responsibility of the Federal government. The continual increase in the scope of Social Security benefits and the attendant increases in cost give rise to some serious thoughts concerning the dangers inherent in relinquishing the State's control over a portion of its employee benefit program.

4. Financial Considerations

In general it can be said that benefits cannot be provided with any less outlay under the Federal Social Security System than under the State's Retirement System. Compared with the funded approach of the State's Retirement System, the costs of benefits under the Federal Social Security System will be greater since the approach to costs is essentially a pay-as-you-go basis and there is no major reduction in direct contributions from investment earnings. From the point of view of an individual state, coverage under the Federal Social Security System may involve a greater or less cost on a pay-as-you-go basis than under a retirement system on a similar pay-as-you-go basis, depending upon the variation from the average of the real cost of the benefits of the individual state.

Again, once State money goes into Social Security, it can never be recovered. On the other hand, State money remains in the State Retirement System to reduce future costs whenever an employee terminates prior to completion of requirements for vesting of his benefit.

5. Retirement Benefits

Even if Social Security is adopted by the State of Maine, State employees at the same salary level would receive widely varying amounts of Social Security benefits depending on the length of their previous coverage under the Federal System. In fact, if they were not covered for a sufficient period of time under the Social Security System, no benefits at all will be received from that source, even though they paid Social Security taxes.

6. Employee Considerations

Many present State employees and teachers already possess varying degrees of coverage under the Social Security System through prior work in covered employment. Such individuals will actually qualify for certain minimum levels of Social Security benefits because of the limited extent of their coverage under the Social Security program.

Female employees whose husbands work in covered employment also qualify for the wife's retirement benefit under Social Security without joining that System. Such individuals do not look with favor on paying taxes to Social Security, since they now receive certain Social Security benefits anyway.

PART TWO

ANALYSIS OF PROVISIONS OF RETIREMENT SYSTEM

SECTION I

PRINCIPAL OBJECTIVES OF RETIREMENT SYSTEMS

In order to evaluate a retirement plan, it is necessary that the basic fundamentals and purposes of retirement programs be understood.

The broad aspects of pension plans include economic and social considerations. These considerations were presented in detail in our firm's 1954 Report to the Legislative Recess Committee on the Maine State Retirement System (See Part II, Section A of that Report).

A. Economic Considerations.

In essence, the fundamental problem which pensions try to solve is the provision for income to aged and disabled individuals during the years in which they have ceased to be economically productive. The basis of providing pensions is one of savings. Since the problem of providing income to aged non-producers involves the question of savings, the key consideration is where will the savings come from.

In theory at least, the individual could provide for his own retirement by investing part of each year's earnings in various investment media such as bonds, stocks, savings plans or insurance. Unfortunately, the reliance on the individual to provide his own retirement income has not worked well in the past. For many people today's needs are much more important than tomorrow's wants and the tendency is to give first preference to expenditures for current consumption. Lower paid employees have been hard put to combat the pressure of the high cost of living. Where individuals have attempted to save they are beset by the problems of investment. They may find their savings lost in depression times, eroded through inflation, or find it necessary to use them for other needs before retirement. Even higher paid employees have seen the high income tax structure reduce the margin of individual earnings available for investment.

If the retired employee had previously saved, he would then have provided for his own maintenance during retirement. If he has not saved, then other employees now active must accept a lesser share of the fruits of their own productivity in order that the retired employee be maintained. However, active employees will support inactive employees only to such a degree that their own standard of living is not affected to any appreciable amount. Federal Social Security represents such basic sharing which people are willing to allow in order that everyone may at least have the essentials required for existence.

As discussed above, employees have been unable and even unwilling on their own to provide for their nonproductive years, and there is a limit to the extent to which active employees will support inactive employees. Therefore, if employees are to receive income in retirement, part of their compensation must be withheld during their active working years. An employer is in a position to create such forced savings for his employees by establishing a retirement plan to which regular contributions are made by the employer and oftentimes by the employees in order to build funds for the employees' old age. In effect, the employer's contributions represent compensation that the employer could otherwise pay his employees but which is withheld and accumulated to be paid out to the employees during their years of retirement.

Since pension payments are primarily in consideration of completed service, the theory that such pensions are in essence deferred compensation appears to logically follow. Under our economic system of private enterprise and free competition, employees' compensation must be geared to their contribution to production. Therefore, if employees are to receive income even after their period of actual production, part of their compensation must be withheld during their active working years.

B. Employer and Employee Advantages.

Retirement systems generally provide benefits to meet the conditions relating to and problems arising from (1) superannuation of employees because they are no longer able to work with reasonable efficiency due to advanced age; (2) disability of employees due to occupational or nonoccupational causes; and (3) death of employees due to occupational hazards or other causes, leaving immediate dependents.

From the standpoint of the employees, the advantages of a retirement plan are obvious. If its provisions are adequate and the plan is properly financed in accordance with sound principles, the employees may look forward to a reasonable income during their old age. If provision is made for disability, and protection is accorded the dependents in the event of death, the employees are assured security for these contingencies as well. Thus, provisions are made to protect against economic insecurity created by three major hazards confronting the average employee, namely superannuation, disability and death.

The advantages of a plan to the employer, however, are not always clearly understood. The objective of a state or municipality, as an employer, is to constantly seek improvement of its personnel. Some mention will be made of the more important considerations involved.

Unless death intervenes, every employee reaches a point when he is no longer capable of performing his best work because of superannuation or disability. In the absence of a retirement plan, action is sometimes taken to discharge the employee. Alternatively, the employee is sometimes permitted to remain on the job. The effect of such a condition is that the employer is paying full salary, or a portion thereof, and is charging the cost to the salary budget. The employer is in essence paying for a retirement plan even though none is actually maintained.

A retirement plan, on the other hand, represents a sound investment to the public as an employer. It constitutes an orderly means of providing for the retirement of employees at the end of their productive period. It helps make public administration a career for the able man or woman who is attracted to it but who hesitates to enter that service because of the lack of a definite prospect for financial independence. This is especially true of persons with special talents and proven ability.

The increasing complexity of governmental functions makes it of utmost importance to secure and hold the best possible types of employees. The retirement plan can be of marked service in achieving that objective by preventing at least a portion of the losses of personnel which occur when trained and efficient employees leave the service because of superior opportunities elsewhere. Thus, positive gains accrue to the public as an employer in that (1) higher grade men and women are attracted to the state and municipal services, (2) younger and more efficient employees replace those who are superannuated or disabled, and (3) economies and increased efficiency are secured for the public service.

A public employees' retirement plan, though concerned with the end objective of financial security after retirement for age, has as its primary aim the furnishing of an indispensable tool in an effective personnel program for employees of government. Through a formula which relates the measure of benefits directly to length of service, age and salary, it constitutes in essence an incentive program. By providing an annuity reasonably related to the average of final earnings it facilitates the retirement of the superannuated employee. Through this orderly system of retirement, the plan affords an opportunity for systematic promotion in salary and rank to the younger employees.

The entire philosophy of the governmental retirement plans, as for private industry plans, is geared to these personnel objectives. In contrast, Federal Social Security is unconcerned with these basic aims since the Federal government is not in the relationship of employer to the vast percentage of employees under, or eligible for, Social Security. Thus the marked distinction that exists between the objectives of Federal Social Security and local retirement plans indicates that they do not operate in areas of mutual concern and that the function of each may separately be justified.

SECTION II

OUTLINE OF PRINCIPAL PROVISIONS

OF

MAINE STATE RETIREMENT SYSTEM

1. Effective Date:

July 1, 1942.

2. Coverage:

Regular employees of the State since the effective date of the Act and all Public School teachers must become members of the Retirement System as a condition of employment.

Membership is optional to members of the legislature, elected and appointed officials, and employees of any county, city, town, or educational institution teaching courses at the secondary or higher level which may become Participating Local Districts.

Some groups are specifically excluded from membership, such as Executive Council, Judges of the Superior or Supreme Judicial Court, and District Courts, or members of the State Police otherwise entitled to retirement benefits under the statutes of 1954.

3. Normal Retirement:

A. State Employees:

(1) Eligibility: Employees are eligible for normal retirement on attaining age 60. Retirement is mandatory at age 70 except for specially approved year-to-year extensions and for elected officials completing their term of office.

(2) Retirement allowance: The annual regular retirement allowance payable for life will be determined as the sum of the following two items:

(a) 1/70 of average final compensation multiplied by years of membership service after July 1, 1942.

(b) 1/50 of average final compensation multiplied by years of credited service, not in excess of 25 years, prior to July 1, 1942.

Note: Average final compensation means the average of the 5 years of highest compensation during employment.

The regular retirement allowance described above will, in no event, be less than 1/2 of average final compensation provided the employee:

(a) retires after age 65 with at least 25 years total service and 13 years "prior service" credit, or

(b) retires after age 70 with at least 20 years total service and 13 years "prior service" credit, or

(c) retires after 25 years total service with at least 22 years "prior service" credit, no minimum age being required for retirement.

B. Teachers:

(1) Eligibility: Teachers are eligible for normal

retirement on attaining age 60. Retirement is mandatory at age 70 except for specially approved year-to-year extensions.

(2) Retirement allowance: The annual regular retirement allowance payable for life will be determined as 1/70 of average final compensation multiplied by total years of credited service to retirement. Such credited service is the sum of "prior service" before July 1, 1947 and membership service subsequent to July 1, 1947.

Any teacher employed in the public schools shall, in no event, receive an annual normal retirement allowance less than the following:

(a) $1,465 for 35 years service

(b) $1,365 for 30 years service

(c) $1,265 for 25 years service

(d) $600 for 20 years service

(e) $480 for 15 years service, provided service commenced before July 1, 1947.

C. State Police:

(1) Eligibility: Members of the State Police who became members of that department subsequent to July 1, 1943 must retire at the later of attained age 50 or completion of 25 years total service as a State Police Officer. Such members who were State Police Officers on September 21, 1963 may retire after 25 years of service regardless of age.

(2) Retirement allowance: The annual retirement allowance payable for life shall be equal to 1/2 of current annual salary.

D. Department of Inland Fisheries and Game, and Department of Sea and Shore Fisheries:

(1) Eligibility: Law enforcement officers in these departments may retire at the later of attained age 50 or completion of 25 years total service in such capacity. Retirement is mandatory at age 60 except that employment may be continued until age 63 in order to obtain the required 25 years service. (Effective September, 1966).

(2) Retirement allowance: The annual retirement allowance payable for life shall be equal to 1/2 current annual salary.

E. Special Personnel (Wardens, Prison Guards, Airplane pilots):

(1) Eligibility: Wardens and prison guards in service on July 1, 1947 and other special personnel may retire at the later of attained age 55 or completion of 25 years total service. Compulsory retirement for this group is age 60.

(2) Retirement allowance: The annual retirement allowance payable for life shall be equal to 1/2 of average final compensation.

F. Liquor Inspectors:

(1) Eligibility: Any liquor inspector may retire at the later of attained age 55 or completion of

25 years total service in such capacity. Compulsory retirement for this group is at age 65.

(2) Retirement allowance: The annual retirement allowance payable for life shall be equal to 1/2 of average final compensation.

Note: Employees in items C, D, E, and F above will receive the regular retirement allowance for State employees, if greater.

G. Participating Local Districts:

(1) Employees who become members through the participation of local districts under this Retirement System shall be entitled to benefits as though they were State employees (item A above).

(2) In addition, any participating local district has the option to provide, in lieu of the retirement allowance cited in the above paragraph, the following retirement allowances:

(a) Retirement allowance equal to 1/2 average final compensation for members attaining age 60 and having at least 30 years service.

(b) Retirement allowance for policemen, firemen and sheriffs, of 1/2 current annual salary after completion of 20 to 25 years of service.

(c) Joint and 50% survivor retirement allowance with unmarried spouse or children under age 18 as contingent annuitants.

(3) Firefighters, in lieu of benefits described in (1) and (2) above, may also retire at the later of attained age 55 or completion of 25 years total service in such capacity at an annual retirement allowance equal to 66 2/3% of current annual compensation.

4. <u>Early Retirement:</u>

A. <u>Eligibility:</u> Any member who has completed 30 or more years of creditable service may retire prior to age 60.

B. <u>Retirement allowance:</u> The annual early retirement allowance shall be the actuarial equivalent of the member's accrued regular normal retirement allowance where the accrued normal retirement allowance is based only on service and salary to the date of early retirement.

5. <u>Disability Retirement:</u>

A. <u>Ordinary disability retirement:</u>

(1) <u>Eligibility:</u> Total and permanent disability, not in line of duty, after 10 years service if under age 60.

(2) <u>Retirement allowance:</u>

(a) <u>Prior to age 60:</u> The annual retirement allowance will be determined as 90% of 1/70 times average final compensation times years of creditable service, if such retirement allowance exceeds 25% of average final compensation; otherwise, 90% of 1/70 times average final compensation times anticipated total years of creditable service, including future service to attainment of age 60, subject to maximum of 25% of average final compensation.

(b) After age 60: Retirement allowance shall be recomputed as for normal retirement, if greater than (a) above.

B. Occupational disability retirement:

(1) Eligibility: Total and permanent disability, in line of duty.

(2) Retirement allowance: The annual retirement allowance will be 66 2/3% of average final compensation.

Note: Any amounts paid under Workmen's Compensation or similar law shall be offset against any disability allowances above.

6. Death Benefits:

A. Ordinary Death Benefits:

(1) Before eligibility for retirement: Refund of Members Contribution Fund will be made. In lieu of such lump sum refund, however, the beneficiary may elect survivor payments described below providing the member prior to his death met certain conditions of eligibility.

(a) Non-service connected death:

(i) Eligibility: If 18 months creditable service within 42 months prior to death, or if under age 60 and receiving ordinary disability allowance at death.

(ii) Survivor Payments: Monthly payments of designated amounts to unmarried spouse, unmarried children under 18 years of age or disabled, or to parents.

(b) Service-connected death:

(i) Eligibility: Death as a result of illness or injury received in line of duty, regardless of creditable years of service.

(ii) Benefit: Certain survivor payments will be paid and a refund of the Members Contribution Fund will be made.

(2) After eligibility for retirement but prior to retirement: Joint and 100% survivor benefit is payable to beneficiary on assumption retirement had occurred at date of death.

B. Accidental Death Benefits:

(1) Eligibility: Death in line of duty.

(2) Benefit: Percentage of average final compensation or current annual compensation will be paid to employee's widow or children under 18 until death or remarriage. Refund of employee contributions with interest will be made in some instances.

Note: Death benefits, in addition to the above, are available to eligible employees through the basic and supplemental group insurance programs.

The basic program provides, for each active employee, life insurance in an amount approximately equal to 1 year's pay, but limited to a $10,000 maximum. A similar amount of accidental death and dismemberment coverage is provided. At retirement, the latter coverage ceases but life insurance stays in effect, gradually reducing to an amount which then remains level for life.

The supplemental program is optional, providing the same benefits as the basic program, except that all benefits cease at retirement.

7. Benefits on Termination of Service:

   A. Prior to 10 years service: Lump sum refund of employee contributions with interest will be paid.

   B. After 10 years service: Accrued normal retirement benefit will be paid for life commencing at age 60 in lieu of lump sum refund in (A) above.

8. Optional Methods of Payment:

A member may elect to receive his retirement allowance normally payable only during his lifetime under one of the following methods of payment:

   A. Cash refund annuity option.

   B. Joint and 100% survivor option.

   C. Joint and 50% survivor option.

D. Other option mutually agreed between member and Board of Trustees.

9. Cost of Living Adjustments for Retired Employees:

On any and all general adjustments in salary levels the same percentage increase or decrease shall be applied to all retired State employees, teachers or beneficiaries.

10. Financing:

A. Employee Contributions: Employees will make the following contributions to the retirement system and Survivors Benefit Fund.

(1) Retirement System: Most State employees and teachers will contribute 5% of earnable compensation.

State Police, Wardens of Department of Inland Fisheries and Game and Wardens of Department of Sea and Shore Fisheries will contribute 7 1/2% of earnable compensation.

Fire fighters will contribute 8% of earnable compensation. To the extent that members contribute more than the required contribution here described, an additional amount of retirement allowance will be payable.

(2) Survivors Benefit Fund: Each member will contribute 1/4% of earnable compensation.

(3) Retirement Allowance Adjustment Fund: Each member will contribute 1/2% of earnable compensation.

(4) Group Life Insurance: Each active member will contribute not more than $7.80 per year for each $1,000 of coverage.

B. Employer contributions: The State and each Participating Local District will contribute the balance of the cost not provided by employee contributions. Required contributions are determined separately for the retirement system and the Survivors Benefit Fund.

SECTION III

COMMENTS RE BENEFIT PROVISIONS OF MAINE STATE RETIREMENT SYSTEM

Set forth below are our comments concerning certain principal Retirement System provisions:

A. Membership Considerations.

Consideration should be given to the possibility of including the members of the judiciary in the Maine State Retirement System. For reasons of personnel administration and individual equity, it is desirable that all occupational groups of employees regardless of classification be included under one retirement plan. Coverage of all occupational groups of employees can be accomplished in a satisfactory manner by fixing the basic provisions such as rates of contribution, the amounts and types of benefits, retirement ages and the conditions to be fulfilled for the receipt of benefits, according to the occupational requirements of the different classes of employees. Such an arrangement makes for greater efficiency in the operation and administration of the retirement plan. It ideally serves the purpose of providing retirement and disability benefits for all classes of employees.

Elective officials are frequently excluded from membership in the plan on the ground that their tenure of office is not permanent. Appointive officials, such as city managers and others whose tenure of office is dependent upon approval by the legislative body, and department or division heads whose continuity of service depends upon approval by a mayor or city manager or city council, often are designated as ineligible for membership. Yet the experience of states, provinces and municipalities reveals that a number of elected and appointed officials spend practically a lifetime in the public service. The trend in recent years toward career service in government seems to indicate that persons holding appointive or elective positions should also be covered by the retirement plan. The old concept that the officeholder or appointive official is receiving an honorarium and holding a sinecure has undergone revision. Such an official is now looked upon as performing work for the state or municipality in the same manner as any other employee. Any distinction between employees serving the public is in direct conflict with the underlying principles of the retirement plan. The practice is to grant these officials an option and not to require compulsory participation.

B. Normal Retirement

The fundamental purpose of a retirement plan is to provide reasonable benefits upon superannuation of employees. Thus the accomplishment of this basic purpose involves the determination of both (1) the age at which such benefits should normally become available and (2) appropriate benefit levels.

1. Normal Retirement Age

The determination of an age at which employees should normally be permitted to retire offers a problem.

The time when employees become inefficient because of old age varies with different occupations so that the establishment of a standard provision is impracticable. For instance, certain categories of personnel, whose work involves greater physical demands than other occupations in public employment, may pass the stage of reasonable efficiency for their work at an earlier age than for other types of employees. Normal retirement for them should be fixed at a slightly earlier age than for other occupations.

Retirement at the normal retirement age should be permitted, regardless of the employee's length of service at that age. A service requirement is objectionable because it defeats the fundamental purpose of a retirement plan which is to provide benefits upon superannuation of employees. The use of a minimum years of service requirement for retirement is also relatively unimportant from the cost point of view if benefits are geared to years of service by a reasonable formula and hence are small for short periods of service.

Even more objectionable than requiring the completion of a years of service requirement in addition to the attainment of a certain age in establishing eligibility for normal retirement is permitting full normal retirement benefits upon completion of a years of service requirement independent of any age requirement. This latter procedure ignores the concept that retirement benefits should make provision for old age and not be a bonus or reward for services rendered. Moreover making full normal retirement benefits available, as for State Police Officers in service on September 21, 1963, on completion of a designated period of service, such as 25 years but prior to the attainment of their normal retirement age of 50 has a substantial cost effect. For example the cost of providing full normal retirement benefits to an employee at age 45, assuming completion of the required 25 years service at that age, is about 70% greater than providing the same benefit to commence at age 50. There are two reasons for this tremendous cost impact. First of all, the employee who retires at age 45 will receive benefits for a five year longer period of time than the employee who retired at age 50. Secondly, the funding for pension benefits must occur over a 5 year shorter period of time, in the case of the employee who retires at age 45 than if such employee continued in service until age 50.

2. <u>Benefit Level.</u>

The level of benefits provided by the Maine State Retirement System compares favorably with the amounts provided under other State Systems (See Appendix of this Report summarizing normal retirement provisions of other State Retirement Systems). Such retirement benefit is normally available at age 60 (or at even earlier ages such as 55 or 50 for certain categories of personnel). Again, the fact that benefits are based on the employee's average of his 5 highest years of compensation rather than on the lower earnings such employee may have received in the earlier years of his career preserves a reasonable relationship with the standard of living attained by the employee immediately prior to his retirement. Protection against the impact of inflation which tends to erode the value of the employee's pension subsequent to retirement is provided by the cost of living adjustment provision enacted by the 1965 legislature. Considering the reduced living expenses after retirement and the more favorable tax treatment of retired employees, the benefits at normal retirement under the present programs provide a reasonable benefit level.

The level of pensions that may be considered as a proper objective will be affected by people's wants and standard of living and the extent to which the additional wage cost represented by the pensions can be borne by the economy. Any particular level is more or less arbitrary, but the purpose is to secure retirement allowances less than full earnings, assuming that the needs of people will be reduced after retirement and that in many cases, individuals will have other additional income.

Naturally there are various opinions as to what constitutes an adequate retirement income but it is generally felt that an employee who spends the major part of his working career with an employer (from about age 25 to normal retirement age) should receive a total retirement allowance of about 45% to 60% of his pre-retirement earnings.

It may be noted that this criterion is generally satisfied with respect to the State employees and teachers covered by the Maine State Retirement System. Under the present benefit provisions providing a total of 1/70 of average final compensation for each year of membership service, their retirement allowance will be 50% of such pre-retirement compensation for 35 years of credited service, viz. from employment age 25 to normal retirement age 60.

For other categories of personnel requiring a somewhat lower normal retirement age, the benefit standard cited in the preceding paragraph suggests that the 50% of pay retirement allowance should be available for a career employee commencing at such lower normal retirement age. State Police officers and law enforcement officers of the Department of Inland Fisheries and Game and of the Department of Sea and Shore Fisheries have a normal retirement age of 50. Based on the accrual concept they may be considered to have accrued the total normal retirement benefit at a rate of 1/50 of pay for each year of service, if they have been in employment since age 25. From the viewpoint of equity, it might even be desirable to permit continuous accrual at such 1/50 benefit rate for each additional year of such employee's service beyond age 50. Thus if the employee hired at age 25 remained in service until age 55, he would receive a retirement allowance of 60% of pay (1/50 per year x 30 years service) commencing at age 55. This procedure relating benefit accrual to each year's employment would also eliminate the present inequity of an employee's contributing for more than 25 years but not receiving any additional benefits for such contributions.

Categories of employees such as prison guards, liquor inspectors, etc., whose normal retirement age is 55 would be assumed to have accrued their 50% total retirement allowance over the 30 year period from age 25 at the rate of 1/60 per year. Therefore, additional service due to continued employment beyond such age, could also be credited at the same 1/60 benefit rate.

In this connection, it appears desirable to require compulsory retirement for all employees at an age not more than 10 years older than their normal retirement age. At that time, benefits would cease to accrue and retirement would become obligatory.

As discussed earlier, retirement should be permitted at the designated normal retirement age regardless of the employee's length of service at that time. The benefit accrual basis just described would provide a sound basis for determining the amount of benefit payable. For example, an employee whose normal retirement age is 55 and who has 15 years service at that time would be permitted immediate normal retirement with a benefit of 25% of pay (1/60 per year x 15 years service).

It may be questioned why some categories of employees have benefits related to their current annual pay while the majority of employees have benefits based on average final compensation, i.e., the average of their 5 highest years of compensation during their employment. Uniform salary bases should apply to all employees.

C. Early Retirement.

If the theory of deferred compensation is adhered to, there is no reason for limitations as to early retirement provided benefits are related to accumulated funds. It is customary to provide that an employee may retire earlier than the time at which he fulfills the conditions for normal retirement. The benefit usually granted to an employee at early retirement is based on the funds accumulated on his behalf during his years of participation, and is known as an "actuarial equivalent" benefit. This is the type of benefit payable under the Federal Social Security System if an individual retires prior to age 65.

This concept of actuarial equivalence means that an amount of early retirement benefit is determined payable for life commencing at the employee's date of early retirement which has the same value as the amount of normal retirement benefit that would be payable for life commencing at the employee's normal retirement date. In effect, the value of the smaller benefit payable for a longer period of time is equal to the larger benefit payable for a shorter period of time. This actuarial equivalence is determined on the basis of the anticipated life expectancies of the employees and the anticipated interest yield of the pension trust fund. Thus, if a realistic actuarial equivalent benefit is granted at early retirement the trust fund, as a whole, does not incur any significant extra cost, although a particular employee might gain or lose in value of the benefits he will ultimately receive, depending on whether he decides to elect early retirement or defers leaving active employment until normal retirement. For example, it is true that an employee who dies after receiving early retirement benefits but before attaining his normal retirement age has received more in benefits than if no early retirement provision were contained in the plan. However, such losses to the pension fund are correspondingly offset by the employee who retires early and then receives the same reduced monthly pension for life, even after he has outlived his normal life expectancy. Such an employee ultimately receives less in value of total benefits than he would have received had he elected normal retirement. The loss to this employee is the trust fund's gain and, based on the actuarial assumptions, will on the average offset the losses incurred in the case of the first employee described above. Thus, it is important to understand that while each individual employee may either win or lose in value of total benefits by electing early retirement, the trust fund essentially balances out these gains and losses and incurs no losses based on whether a particular employee lives or dies.

There is, therefore, no financial reason to prevent an employee electing early retirement provided the benefit he receives is actuarially reduced as described above. However, liberal early retirement benefits without due consideration of the basic theory may allow the payment of substantial benefits which are economically unsound. Consideration should be given to allow early retirement after the attainment of a certain age, such as 50 or 55 without regard to years of service requirements.

D. Disability Retirement.

A permanent loss of income because of total disability is one of the catastrophes against which individuals would most like to guard. There has been increasing recognition that disability is, in a real sense, premature old age. This is the concept adopted by the Federal Social Security System, which pays full primary benefits to an eligible disabled employee, regardless of his attained age at onset of disability. This is the same amount of benefit that the employee would receive if he had in fact reached age 65, the normal retirement age of the Social Security System, at the time of his disablement. Thus this viewpoint of total disability as premature old age recognizes that the same needs for an adequate level of income exist in both cases. The disabled employee's financial needs are indeed similar to those of the employee who retires normally.

Based on this viewpoint, it is logical to provide a disabled employee with the same level of income he would have received, if he were retiring normally, by applying the same benefit formula as in the case of normal retirement but crediting not only accrued service credits but also crediting the anticipated years of service the employee would have had if he had in fact remained in active employment until his normal retirement age. This is a reasonable procedure, since the employee's disabled condition is involuntary and it may be presumed that he would have continued in employment if his health permitted.

Since the same need for an adequate benefit exists in both cases, it may be desirable to eliminate the distinction between ordinary disability retirement and occupational disability retirement. In fact, it may be preferable from the administrative standpoint to provide the same annual retirement allowance of 66 2/3% of average final compensation in each case. Such an arrangement would also provide the necessary adequate benefit level.

Funding for the disability income benefit might be provided through an insured group program, such as the present group life insurance program, or it could be provided in part or entirely through the Retirement System alone.

Since the need for ordinary disability income exists not only after completion of the present 10 year service requirement, but before as well, consideration should be given to eliminating such service requirement and providing eligibility for such benefit immediately upon employment. The additional cost for this liberalization will be relatively small, since the incidence of disability is extremely low at the younger ages.

E. <u>Group Life Insurance Benefits</u>.

Consideration should be given to removing the maximum limitation on both the basic and supplemental life insurance benefits. At present, both the basic and supplemental plans provide death benefit coverage in an amount approximately equal to one year's pay, but limited to a maximum of $10,000 in each case. Such a limit is artificial. There is no financial reason that higher paid employees should not be eligible to receive death benefit coverage which is the same multiple of their compensation, as in the case of lower paid employees.

The limit on accidental death and dismemberment coverage, under the basic and supplemental plans, should similarly be removed. At every pay level, it would appear preferable to provide a benefit which bears the same relationship to each employee's pay. This would restore equity and eliminate the discrimination against the higher paid employee.

SECTION IV

RECOMMENDED CHANGES IN RETIREMENT SYSTEM LAW

The law covering the provisions of the Maine State Retirement System is to an extent written on a broad basis which leaves open to interpretation certain technical details. As a result, the Board of Trustees, who are empowered to make the determining decisions in all such matters open to various interpretations, have from time to time resolved possible ambiguities and brought to light certain anomalies in administering the law.

Their more important current decisions and observations are discussed below. In such cases it may be desirable to change the law to remove the possibility of a different construction than taken by the Board of Trustees, to spell out a different interpretation if it appears warranted, or to remove the anomaly.

1. Vested Retirement Allowance:

Section 1121 paragraph 1A of the Retirement System law provides that any member not in service may retire at age 60 or thereafter on a service retirement allowance provided he has at least 10 years of creditable service, any part of which service must have been rendered when he was, or could have been under the then existing law, a contributing member to the Maine State Retirement System.

Such language appears unintentially restrictive in that it excludes from entitlement to the vested allowance certain employees who have had 10 years of creditable service prior to becoming members of the Retirement System. During their 10 years of prior creditable service, such employees made no contributions since they were not, nor could have been under the then existing law, contributing members of the Retirement System.

Employees affected by the interpretation of this Section of the law include legislators who were permitted optional membership in the Retirement System by the 1965 amendments. Optional membership was previously permitted to participating local districts. It appears that these employees or former employees should be able to obtain a vested benefit based on their previous creditable employment provided they arrange to pay into the Retirement System the accumulated contributions (with appropriate interest thereon) which would have been due had they been contributing members at that time.

It is recommended that the language be clarified to properly state the specific intent of the law.

2. Retirement Allowance On Restoration to Service:

Section 1123 of the Retirement System law concerns the continued payment of the retirement allowance to a retired employee in the event that he returns to active service. The same provisions apply whether the employee was previously retired on account of disability or service retirement.

If a disabled employee is restored to service, or any other retired employee is restored to service, his retirement allowance ceases if the earnable compensation of the employee is equal to or greater than his average final compensation at retirement. This is as it should be. However, if his earnable compensation at reemployment is less than his average final compensation at retirement, the full retirement allowance is continued. This creates a certain inconsistency in the law in that the employee might receive more total income by returning to State employment at lower pay, since he would then receive both his present salary and his retirement allowance. The total of these two amounts might well exceed the employee's average final compensation prior to his previous retirement.

It is recommended, therefore, that provision be made in the law for adjusting such an employee's retirement allowance upon his restoration to active employment. This adjustment would provide that the retirement allowance during the employee's subsequent service be reduced to an amount equal to the difference between his average final compensation at his prior retirement and his present earnable compensation.

3. Military Service Credit:

The 1966 Special Session of the State Legislature added a new paragraph 13 to Section 1094 of the Retirement System Law. The language of this new paragraph appears quite general and open to various interpretations as to the applications of such military service credits in determining entitlement to benefits as well as benefit amounts.

The above cited Section includes the following statement: "A state employee shall be entitled to this credit only if at point of retirement he shall have at least 15 years of membership service in the State Retirement System."

The above language has been interpreted by the Board of Trustees of the Retirement System to mean that such military service credits count for benefit purposes, but not for eligibility purposes. Thus, for example, in satisfying the 30 years creditable service eligibility requirement for early retirement such credit cannot be applied. However, in determining the actual benefit for such a member, otherwise eligible for early retirement, such military service credit would be included.

Similarly under the present interpretation, service requirements for normal retirement benefits must be satisfied independent of this military credit. Nevertheless, normal retirement allowances will be based on the inclusion of such military service credit.

It is our understanding that the Board of Trustees has referred the interpretation of this Section to the Attorney General for his legal opinion.

It is desirable that the language of this Section be changed so that the specific intent of the law is clear, as to the extent to which such military service credit should be used in determining eligibility conditions and benefit amounts.

PART THREE

ADMINISTRATION

SECTION I

ADMINISTRATIVE ORGANIZATION

The Maine State Retirement System Law was first enacted by a special session of the Legislature in 1942 and became effective as of July 1 that year.

The System is administered under the law by a seven man Board of Trustees comprised as follows:

1. State Bank Commissioner
2. State Comptroller
3. State Treasurer
4. Chairman of the State Personnel Board
5. Member elected by the Maine Teachers Association
6. Member elected by the State Employees Association
7. Member appointed by the Governor

The terms of office of the Board members vary. Since the first 4 individuals cited above are ex-officio Board members, their terms of office run concurrently with their terms in their State positions. The remaining 3 Board members serve 2 year terms.

Since this is, for all practical purposes, a part-time Board the actual day-to-day administration is conducted by the Executive Secretary and his staff. The Board also receives certain additional professional assistance and advice, as provided by the law, as follows:

(a) <u>Medical Board</u>, consisting of 3 non-members of the Retirement System, makes determinations with respect to disability retirement cases.

(b) Consulting Actuary makes all computations required with respect to allocation of benefits provided under the law and determines what appropriation requests shall be made of the Legislature to keep the System operating in a solvent manner.

(c) Attorney General functions as the legal advisor of the Board of Trustees.

(d) Investment Counsel shall be employed by the Board of Trustees.

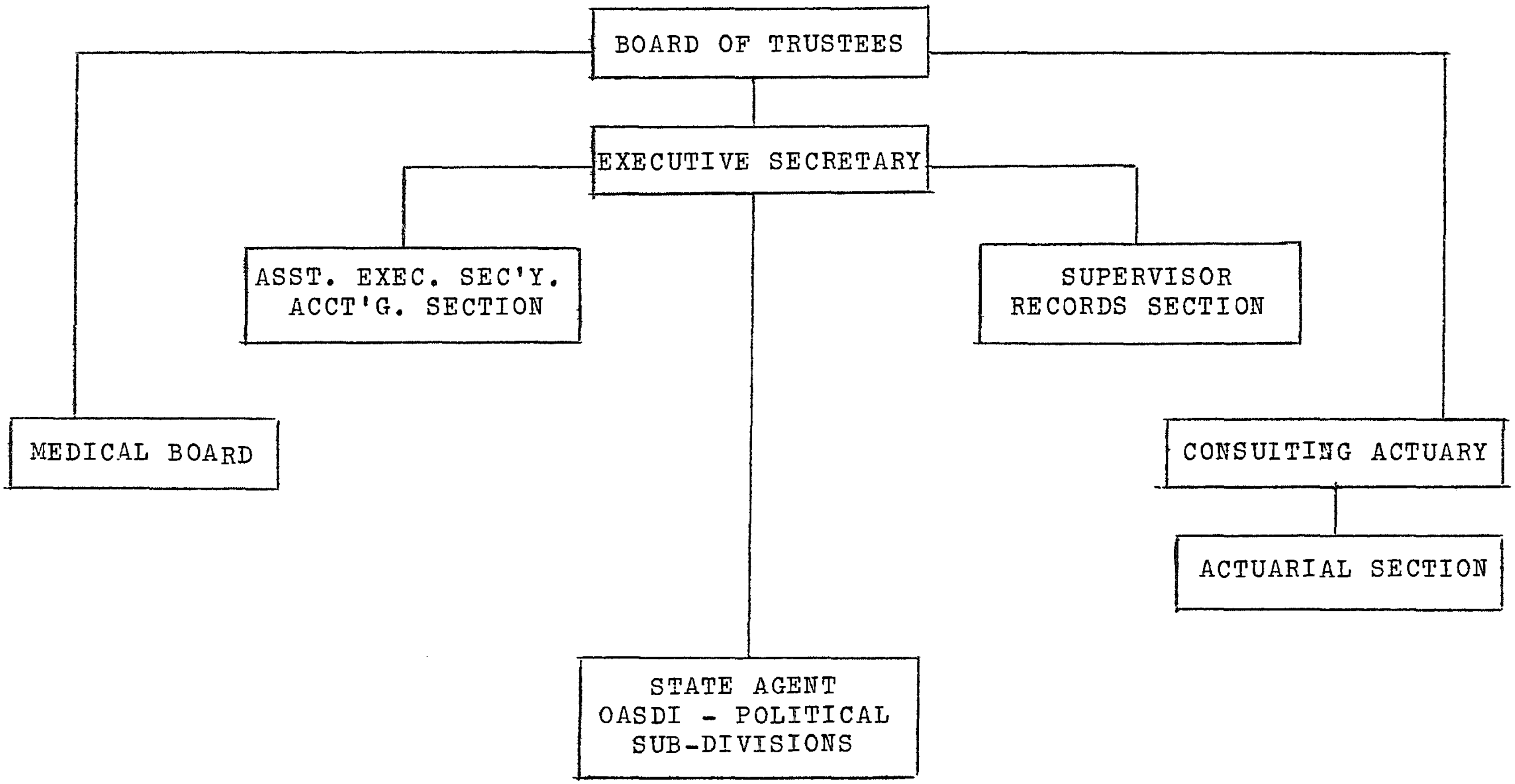
Comments

Since the Board is composed of ex-officio and other members not necessarily qualified by experience and training to function in such trusteeship capacity, it is recommended that the Board membership be increased by the addition of some public members possessing the required qualifications.

The addition of three such public members appointed by the Governor should strengthen the Board in carrying out its over-all responsibility for the operation of the System.

MAINE STATE RETIREMENT SYSTEM

ORGANIZATION CHART



SECTION II

FUND ACCOUNTING PROCEDURES

Section 1062 of the Maine State Retirement System law provides that all the assets of the Retirement System shall be credited, according to the purpose for which they are held, among 5 funds, as follows:

A. Members' Contribution Fund

B. Retirement Allowance Fund

C. Expense Fund

D. Survivors' Benefit Fund

E. Cost of Living Adjustment Fund

A. Members' Contribution Fund

The accounting of this fund includes the following primary income and outgo items:

1. Income items:

(a) Employee's required 5% (or higher for some personnel categories) of compensation contribution rate toward regular retirement allowance.

(b) Voluntary employee contributions to purchase additional amounts of retirement allowance.

(c) Employee contributions made prior to July 1, 1955 in excess of the minimum employee contribution then required and now available to purchase additional amounts of retirement allowance.

2. Outgo items:

(a) Refund of accumulated contributions to employee at termination, or to beneficiary in the event of his death.

(b) Transfer of accumulated contributions at employee's retirement to the Retirement Allowance Fund to provide his retirement allowance.

(c) Transfer of employee's accumulated contributions to the Survivors' Benefit Fund in the event his beneficiaries become entitled to payments from that source.

B. Retirement Allowance Fund

The accounting of this fund includes the following primary income and outgo items:

1. Income items:

(a) State contributions to fund benefits provided by the retirement system. This includes the "normal contribution" plus the accrued liability contribution determined by actuarial valuation.

(b) Employee accumulated contributions transferred from the Members' Contribution Fund at the employee's retirement.

2. Outgo items:

Retirement allowance payments and other benefits provided by the retirement system other than directly from the Members' Contribution Account, Survivors' Benefit Fund, or Cost of Living Adjustment Fund.

C. Expense Fund

The accounting of this fund includes the following primary income and outgo items:

1. Income items:

State appropriations to pay administration expenses of the retirement system and payments of pro-rata share from participating districts.

2. Outgo items:

Expenses necessary in connection with the administration and operation of the system.

D. Survivors' Benefit Fund

The accounting of this fund includes the following primary income and outgo items:

1. Income items:

(a) Employee contributions of 1/4% of earnings which are not refundable.

(b) Employee accumulated contributions transferred from the Members' Contribution Fund in the event his beneficiaries become entitled to survivor benefits.

(c) State "survivors' contribution" determined by actuarial valuation to pay the balance of the cost not provided by (a) and (b).

2. Outgo items:

All survivor benefits payable to members' beneficiaries.

E. Cost of Living Adjustment Fund

The accounting of this fund includes the following primary income and outgo items:

1. Income items:

(a) Employee contribution of 1/2% of earnings which are not refundable.

(b) State "cost of living adjustment contribution" determined by actuarial valuation to pay the balance of the cost not provided by (a).

2. Outgo items:

All adjustments in amounts of retirement allowance provided by the "cost of living" benefit.

The present practices with respect to fund accounting procedures described above place a heavy load on administrative personnel. Not only are the above five funds maintained, but each of these funds is broken down between the State and the various participating local districts. It should be recognized that the balances in these various accounts are relatively meaningless figures. Regardless of the balances shown in any account, the State or participating local district must pay the full retirement allowance and other benefits provided under the System during the lifetimes of the member and his beneficiaries qualifying for such payment. The knowledge of just how much remains in any account is of no real value and a great deal of expense is involved in maintaining the balances.

The discontinuance of all such accounts is recommended. The only significant item to be maintained is a record of each employee's accumulated contributions. This is needed to effect proper refunds when required. This is certainly the simplest and most economical of the various accounting systems that might be used. Any other accounts which are proposed for use should have their value carefully examined in relation to the time and expense of maintaining them.

Along the same lines, it is also recommended that the administrative practice, for valuation balance sheet purposes, of separating each employee's retirement allowance into the "prior service" and "membership service" portions, be discontinued. As in the case of fund accounting discussed above, such additional breakdowns provide information which is not strictly essential in operating a retirement plan.

SECTION III

EXPENSES OF ADMINISTERING BENEFIT PROGRAMS

The day-to-day administration of the various benefit programs is under the supervision of the Executive Secretary of the Maine State Retirement System and his staff. This department administers the following benefit programs:

A. Retirement System, including Survivor Benefit Plan.

B. Group Life Insurance Program, including both the basic and supplemental plans.

C. Social Security Program for political subdivisions of the State covered by this Federal Program.

The total annual expenses in administering the above programs for the fiscal year ending June 30, 1965 are summarized on Table A at the end of this Section. These expenses include the direct expenses incurred by the State department such as salaries, supplies, equipment and professional fees to outside consultants for medical, investment and actuarial advice. It should be noted, however, that the above cited expense summary does not include expenses for rent, light, heat and other such general overhead expenses of the State department administering these various programs, nor does it include the home office administrative expenses of the insurance company in administering the group life insurance programs.

The costs of the incurred expenses of the State department are provided as follows:

A. Retirement System, including Survivor Benefit Plan.

The administrative cost of this primary program for the fiscal year July 1, 1964 to June 30, 1965 was $128,700. This represents about 1-1/2% of the total (State plus participating local districts) employer and employee contributions of about $8,000,000 made to the Retirement System during this period. Such an expense level compares very favorably with that of other state systems. However, in making any such comparisons it must be remembered that general overhead items are excluded from these figures and that the pay scales of personnel administering this System are generally somewhat less than prevailing in other jurisdictions.

The State appropriates the funds required to meet these expenses and the participating districts make their own payments. Since these expenses cover the cost of administering the Retirement System not only for State employees and Teachers but also for employees of various political subdivisions of the State participating in the program, the total costs must be equitably allocated against the various participating groups. The basis of such allocation is the proportion of the salaries of members in any revenue classification to the total salaries of all members of the system. The State appropriates its share of expenses and such participating districts pay their share. It may be questioned whether such administrative expenses should not preferably be allocated in proportion to the number of members of the Retirement System in the various revenue groups rather than in proportion to payroll. However, it is noted that the existing allocation basis is promulgated in the Retirement System law. Section 1092, paragraph 7 of the law specifically requires the current procedure for allocating administrative expenses to local districts. The same Section of the law also requires the assessment of valuation costs against the participating subdivisions as follows:

"The expense of making such initial valuation shall be assessed against and paid by the participating local district on whose account it is made. The contributions so computed, together with a pro rata share of the cost of the administration of the retirement system, based upon the payroll of the employees, and the cost of each annual valuation shall be certified by the board of trustees to the chief fiscal officer of the participating local district, and the amounts so certified shall be a charge against the participating local district. The chief fiscal officer of each such participating local district shall pay to the Treasurer of State the amount certified by the board of trustees as payable under this section and the Treasurer of State shall credit such amount to the appropriate funds of the retirement system."

It might be noted that the participating districts enjoy a two-fold advantage over expenses that would be incurred if they operated their own retirement system on an individual basis. First of all, they obtain an advantage by joining a large system since the overall pooling of expenses results in the lower expenses of a large volume operation. Secondly, since overhead expenses are not included in the allocable expenses, they do not pay any share of such general overhead. Rather the State alone thus absorbs this type of expense in total for the districts.

B. <u>Group Life Insurance Programs, including both the basic and supplemental plans.</u>

This program involves both the expenses of the State department in administering these benefits (See Table A) as well as the expenses of the insurance carrier, Union Mutual Insurance Company of Portland, Maine.

The expenses incurred by the State department both with respect to State employees and participating local districts are provided by subtracting them from dividends received, so that only the net dividend, after such expenses, is payable to the particular covered group.

The retention expenses of the insurance company for the year July 1, 1964 to June 30, 1965 are as shown in Table B at the end of this Section.

The basic plan covering State employees and Teachers is now in its tenth year of operation. The supplemental program for such members is now in its fourth policy year.

The insurance carrier maintains separate fund accounting for the following groups:

1. State employees and Teachers (basic plan)
2. State employees and Teachers (supplemental plan)

In addition, those districts having over 300 lives are kept separate as their experience is on an accumulative basis similar to the State case. Only 2 of the 85 presently participating local districts thus qualify for separate fund accounting, viz. the City of Portland and the City of Bangor. The remaining 83 participating districts are pooled for experience purposes.

C. <u>Social Security Program for political subdivisions of the State covered by the Federal program.</u>

Although the State employees are not currently covered under the Federal Social Security program, the provisions of Chapter 101 of the Revised Statutes make the State department administering the Maine State Retirement System responsible for administering the Social Security Plan so far as its application to political subdivisions of the State is concerned. The only function of the State department with respect to the Social Security program is to enter into agreements with political subdivisions of the State of Maine and collect the amount of taxes involved. As of 1964 some 505 reporting units consisting of counties, cities, towns and other quasi-municipal agencies were under agreement for this purpose. Such State administration has nothing whatever to do with the benefit side of the program which is entirely handled by the Social Security Administration.

This function as of 1964 involved the following extent of tax collections:

1.	No. of reporting units	505
2.	No. of employees covered	11,031
3.	Total payroll	$27,668,933
4.	Total Social Security tax	$ 2,005,996

The expense involved in collecting such employer and employee Social Security taxes was about $14,000 for the year ending June 30, 1965. This total is prorated based on the number of employees in the various units as of March 31 of each year, with a minimum allocation of $20 per district up to a maximum allocation of $130 per district. The amounts so determined are directly billed to and collected from the units involved.

TABLE A

EXPENSES OF ADMINISTERING BENEFIT PROGRAMS

Expenditures	Ret. Sys.	Group Life	Social Security	Totals
Salaries	$ 89,183.03	$23,022.70	$11,776.20	$123,981.93
Actuarial Services	15,660.60			15,660.60
Medical Services	1,368.00			1,368.00
Investment Consultant	5,225.00			5,225.00
Telephone & Telegraph	737.71	442.59	295.00	1,475.30
Travel Expenses	1,381.70		252.59	1,634.29
Repairs to Equipment	1,418.18	708.63	234.00	2,360.81
Meter Postage	1,946.64	276.86	354.51	2,578.01
Printing & Binding	571.44	516.56		1,088.00
Office Supplies	2,823.61	1,303.20	228.95	4,355.76
Office Equipment	2,347.87	902.46	361.10	3,611.43
General Operating Expense	463.08		20.65	483.73
Transfer - Retirement Costs	5,574.00	1,487.00	767.00	7,828.00
TOTAL EXPENSE	$128,700.86	$28,660.00	$14,290.00	$171,650.86

TABLE B

GROUP LIFE INSURANCE PROGRAM
RETENTION EXPENSES OF INSURANCE CARRIER FOR
YEAR JULY 1, 1964 TO JUNE 30, 1965

		Basic Plan	Supplemental Plan
A.	State Employees & Teachers		
	a. Retention expenses	$ 40,968	$ 20,095
	b. Earned premium	871,658	427,555
	c. Expenses as percent of earned premium	4.7%	4.7%
B.	City of Portland		
	a. Retention expenses	3,808	-
	b. Manual premium	76,158	-
	c. Expenses as percent of manual premium	5 %	-
C.	City of Bangor		
	a. Retention expenses	1,463	-
	b. Manual premium	29,257	-
	c. Expenses as percent of manual premium	5 %	-
D.	All Other Districts		
	a. Retention expenses	11,173	2,222
	b. Manual premium	186,219	37,034
	c. Expenses as percent of manual premium	6 %	6 %

SECTION IV

UTILIZATION OF ELECTRONIC DATA PROCESSING EQUIPMENT

A. Present Administrative Organization.

At the present time, almost the entire administration in the Department of the Maine State Retirement System is performed without utilization of data processing equipment. The single exception involves the use of several bookkeeping machines in maintaining the Member Contribution Ledger for employees covered under the System.

This State Department is separated into three functional divisions:

1. Records Division (approx. 10 employees):

This Division maintains individual jacket files for all members of the Retirement System. Pertinent correspondence pertaining to each member, such as certificates attesting to prior service credit, are kept in these files. Various other benefit application forms, and separation forms completed in the event of a member's resignation, layoff, death or retirement are also included.

All applications for retirement allowances are sent here.

2. Accounting Division (approx. 15 employees):

This Division maintains the Member Contribution Ledger and is responsible for fund accounting, cost allocations, pension payroll, employees' accumulated contributions and membership service credits.

The general books of the System and investment records are also maintained here.

3. Actuarial Division (approx. 2 employees):

This division maintains records of members and retirees required for determining the anticipated liabilities of the System for the payment of future benefits. In addition files are maintained with respect to employees who were formerly members of the System so that data is available for actuarial experience studies. Benefit calculations are performed here.

Based on our analysis of the administrative operations of this department, it is recommended that electronic machine accounting equipment and procedures be utilized. This would increase efficiency by eliminating duplication of record keeping, maintaining better overall controls, and providing more current information.

B. Utilization of Electronic Accounting Equipment.

The major areas in which electronic accounting equipment should be applied are as follows:

1. Annual Actuarial Valuations:

As of June 30 each year, information must be submitted to the Actuary in order that he may perform the annual actuarial valuation which determines the contribution requirements necessary to keep the Retirement System on a solvent basis.

The personnel information required for this purpose is presently maintained on individual record cards in the Actuarial Division. For each active member, there is a membership service card. For those active members with service before the effective date, there is also a prior service card. Retired members also have their information shown on 2 such cards. Since the basic data appearing on both the membership service card and the prior service card is the same (such as name, sex, date of birth, appropriations group, and salary), a great deal of duplication is involved in maintaining 2 sets of cards. Again, since these cards are manually sorted into the necessary groups for valuation, i.e., by sex, age, and appropriation groups, a period of several months normally elapses before the data is available to the Actuary to perform his cost calculations. Frequently the Actuary may be requested to determine the cost effect of proposed amendments to the Retirement System. To accomplish this, it is often necessary that certain employee data, on which such costs are based, be made available to the Actuary as soon as possible. Under the existing arrangement, additional groupings of data are not available since they require hand sorting and totalling.

On the other hand, electronic accounting equipment would not involve duplicate record keeping and would provide the required information promptly, probably the same day as requested rather than several weeks or months later.

2. <u>Experience Studies:</u>

In addition to the use of electronic accounting machines for maintaining employee data for valuation purposes, procedures could be established to record actual experience data under the plan. The law establishing the Retirement System provides that every 5 years the Actuary shall make an investigation into the mortality, salary, turnover and retirement experience over the particular period. The results of such investigation are used to perform more refined valuations in the future as well as to test the validity of the various assumptions used in making previous estimates of costs.

3. Group Life Insurance Coverage:

The information presently required by the insurance carrier for premium determination purposes under both the basic and supplemental insurance plans is now provided independently of the data submitted for valuation of the Retirement System. This duplication should also be eliminated to the maximum extent.

4. Statements of Employee Contributions:

Section 1062 paragraph 2F of the Retirement System law provides that the Executive Secretary of the System, on or after July 1 of each year, will furnish to each member of the System in service on July 1 of such year a statement showing the accumulated contributions to the member's credit in his individual account in the Members' Contribution Fund.

Such a statement could easily be prepared as a simple by-product of the valuation procedures recommended in 1 above.

5. Retirement Allowance Calculation:

The determination of a member's retirement allowance is mainly dependent on the following data:

(a) prior service credit

(b) Membership service credit

(c) Final 5 year average earnings

(d) Employee contributions in excess of those required for the formula benefit

(e) Optional method of payment elected

At present, the prior service credit is recorded in the individual jacket file maintained by the Records Division of the Department. Membership service credit, final average earnings and employee contribution amounts are maintained by the Accounting Division and this information is forwarded to the Actuarial Division so that the latter section can compute the exact retirement allowance to which the member is entitled.

It would be preferable if the entire calculation were performed without coordination between three Divisions. This could be accomplished if all data required for the calculation were on electronic machine accounting cards, whose information was immediately available to the person making the benefit calculation.

6. Reserve Accounts:

To the extent that the present fund accounting is maintained, electronic data processing would simplify the detailed work involved in properly recording account balances. Present law requires the maintenance of the following accounts, separately for the State and participating local districts:

(a) Members' Contribution Fund

(b) Retirement Allowance Fund

(c) Expense Fund

(d) Survivors' Benefit Fund

(e) Cost of Living Adjustment Fund

7. Social Security Accounts:

The periodic reporting and collection of employer and employee Social Security taxes for the various political subdivisions covered under the Federal Program would be readily adaptable to electronic machine accounting procedures.

Moreover, if the State employees and Teachers were to adopt Social Security in the future, the present administration would become more burdensome unless mechanization is introduced.

8. Investment Accounting:

Similar efficiencies could be effected with respect to collection of income and dividends from securities in the investment portfolio. Purchases and sales of securities could also be recorded by electronic accounting methods.

It is important to recognize that it is probably more efficient to accomplish several of the objectives described above at once rather than tackling them piecemeal. Thus, it is not really practical to key-punch existing employee records into electronic machine accounting cards at any point in time, such as June 30, 1966, the end of the current fiscal year, unless a procedure is set up to establish similar cards for all future entrants and to remove cards for all terminations, deaths, etc. Only if provision is made for such continual updating of the record cards can such a mechanized system serve its purpose. Without such current information, the electronic cards initially established from existing records will become outdated and never justify the substantial initial expense of establishing them.

PART FOUR

FINANCIAL CONSIDERATIONS

SECTION I

FINANCIAL CONSIDERATIONS

The cost of a retirement plan depends upon factors that vary with different occupational groups of employees and different provisions. This cost is controlled largely by the types of benefits prescribed, the amounts of benefits provided and the conditions imposed under the retirement plan for the payment of benefits. Other cost factors relate to the turnover, mortality and disability experience among the group of employees to be covered and distribution as to sex.

1. Accrual Concept of Pension Cost.

Financing pensions on an accrual basis gives effect to the theory that pension cost is a part of compensation for services, the actual disbursement of which is deferred until the time of the employee's retirement. Industry recognizes this cost as a current expense of doing business.

A pension obligation constitutes a long-term commitment maturing many years after it is initiated. The obligation begins when an employee enters service and continues to build up during his period of productive service. Upon maturity, the obligation takes the form of a retirement pension to the employee. The obligation, therefore, is definite and eventually must be paid. This makes it necessary to accumulate funds during the service of the employee to meet the obligation for the retirement pension when it becomes due and payable.

Not all employees will qualify for retirement pensions. Some withdraw after a limited period of service. Others do not survive to the prescribed minimum age of retirement. A certain number, however, will become eligible for pension payments by fulfilling the qualifying conditions. It is for these ultimate survivors that reserves must be accumulated through regular periodic contributions on the part of the employees and employer. Invested at interest, these contributions together with interest bring about the accumulated reserves necessary to pay the pensions to these survivors for their lifetime.

Experience of public employee retirement plans over a long period of years has demonstrated that it is more economical for government to provide for the pension obligation as it is incurred than to begin paying it when the employees retire. The practice of deferring pension cost tends to conceal the true pension obligation. It results in measuring pension cost on a fictitious basis, and thus understates the true pension obligation. Employees are encouraged to seek liberalizing amendments and greater benefits since costs are viewed in terms of the small current cash outlay for the proposed changes rather than the ultimate total burden. No effort is made to evaluate new proposals in relation to their total cost aspects. Instead, representations are made that the cost effect of proposed amendatory legislation is insignificant merely because the initial additional payments may be of relatively small proportions.

To minimize or escape the pension burden through a makeshift method of financing inevitably results in much greater eventual pension cost. There is no short cut method to financing pensions. There is no magic formula for meeting this cost. In the final reckoning, a systematic budgeting of this cost, as it is incurred, is prudently economical and will actually reduce the pension burden for the governmental employer. By the application of certain controls, which apply automatically under this method, a considerably lower pension obligation can be achieved.

In this connection, it may be observed that a contributory pension plan, i.e., a plan in which each employee pays a portion of each year's cost, creates a greater awareness of the ultimate benefit cost involved. This is especially true where liberalizations in benefits are regularly accompanied by an increase in the employee contribution rate. In this way certain checks are established against undue liberalizations which tend to disregard the ultimate costs.

2. Financing.

Retirement plans may be either funded or unfunded. A funded plan is one which considers the deferred obligation as a current cost for the year in which it is incurred. Under such method of financing the cost of the pension is spread over the employee's working lifetime. The current obligation bears a fairly uniform relation to payroll.

An unfunded plan is frequently referred to as "pay-as-you-go" although this is a misnomer. Actually, such a plan does not reflect the "pay-as-you-go" principle since it defers the obligation to future years and results in an inequitable distribution of the cost of the pensions. Since the true cost is not clearly expressed, such a plan encourages demands for liberalizing changes in benefits. To that extent, an unfunded plan involves a larger eventual cost than one which is funded. In addition, the loss of interest income occasioned by the limited amount of reserves very substantially increases the governmental share of the cost.

The benefit payments to be incurred under a plan are not changed in any way by the actuarial assumptions used in financing the plan or by the methods adopted for funding the liabilities for these payments. The obligations for these benefits exist regardless of the procedures followed in its financing. These obligations can best be met through the application of actuarial principles which in essence reflect the process of budgeting for the future payments to be made under the plan.

The ultimate cost of a retirement plan consists of the benefits to be paid plus expenses less interest on invested reserves. The assets accumulated by the retirement system represent the reserve from which the benefit payments will ultimately be made.
A plan of funding the liabilities for

future payments makes it possible to anticipate these liabilities. A funded plan also tends to improve the morale of the employees in the knowledge that adequate reserves will be accumulated to pay the promised benefits.

Actuarial soundness merely means that the future cost requirements of the retirement plan are established and that provisions for meeting this cost by a well-defined method of financing have been made. This is done most effectively under a scientific and orderly program of funding in accordance with actuarial reserve requirements. With such procedure in effect, if the retirement plan is terminated at any time, the annuitants are assured of receiving future pension payments from the accumulated reserves. The active participants will have an equity in the remaining assets which will be reasonably commensurate with the accrued and earned pension credits for services rendered by them to the date of termination of the plan. Thus, all liabilities are covered and the rights and expectancies of the employees for services rendered will be fully secured.

An actuarial reserve plan, therefore, serves the purpose of providing security for the participants in the event the plan ceases operations. If the plan continues to operate, the earnings on the reserve help meet the cost of the benefits and thereby effect a reduction in the contributions due from the employees or employer, or both. Such a plan represents an arrangement for the scientific and orderly funding of the established benefit liabilities in accord with sound principles of finance.

SECTION II

INVESTMENT CONSIDERATIONS

The management of the Maine State Retirement System investments has been reviewed and the composition of the investment portfolio has been analyzed.

The following considerations should be taken into account in preserving and establishing prudent investment policies for the future operation of the Retirement System:

A. Management of State Retirement System Investments.

From the inception of the State Retirement System in 1942 the management of the Retirement System, including investment of its assets, has been the responsibility of the Board of Trustees. This Board has full power to purchase and sell securities within certain legal restrictions and is directed by the Retirement System Law to employ investment counsel as necessary or appropriate to aid in carrying out its functions.

The control of investment practices affecting the State Retirement System should remain vested in the Board of Trustees, since the prudent investment of Retirement System assets requires basic knowledge of the operation of such a retirement system. For example, the following aspects of a retirement system affect the determination of the most desirable investment practices.

1. Cash flow:

The individuals charged with investment responsibility should have reasonable information pertaining to the anticipated total retirement benefits that are projected to be disbursed in future years. Thus, knowledge of the needs for cash to meet pension obligations 5, 10, 15 and more years in the future determines to a large extent the length of time for which current contributions to the retirement system should be invested so that liquidity of assets will be available at the appropriate time.

2. Employee contribution guarantees:

It is common practice that a retirement system will provide for the full refund of an employee's own contributions to the retirement system accumulated with interest credits, in the event the employee leaves the retirement system for any reason. Thus, since the employee is always guaranteed the refund of his own money such funds are frequently completely invested in fixed income securities (bonds, mortgages, etc.) which preserve safety of invested principal. In the case of the Maine Retirement System, employee funds constitute about 44% of the total assets.

3. Retirement benefits related to employee earnings in years just prior to retirement:

Whenever pension benefits are related to an employee's final average pay, (such as is the case in the Maine System) rather than each year's earnings during the employee's entire career, it might be considered desirable that the assets of the retirement system should be more heavily invested in common stocks and equities. The primary reason for this is that since the pension liabilities are subject to inflation (i.e., current annual contributions anticipate only promotional but not inflationary increases in salary levels) the assets should be of a similar kind as the liabilities and subject to change in the same direction. Since it is generally held that common stocks historically tend to appreciate in inflationary periods, the retirement assets might then be expected to grow more or less in the same direction as such liabilities, whereas if such investments were made in fixed obligations there would be potential danger of a large financing deficit resulting from prolonged inflation.

4. Cost of living adjustment:

The law relating to the cost of living adjustment for retirees passed by the 1965 Legislature makes it logical now to consider a greater degree of investment in common stocks. This results from the fact that stock investments over the years have more than adequately reflected the cost of living increase whereas bond investment has not even kept pace with it.

B. Composition of Investment Portfolio.

The composition of the total investment portfolio of the Maine State Retirement System as of June 30, 1965 was as follows:

	Book Value	
	Amount	Percent of Total
Bonds	$68,769,729	70.8%
Stocks	10,191,412	10.5
Mortgages	17,573,170	18.1
Other	575,668	.6
	$97,109,979	100.0%

In reviewing the above distribution of assets, it is significant to note the attention given to common stock investment in the Securities and Exchange Commission report dated June 4, 1965. The results of that report summarizing the asset distribution of all private non-insured funds at the end of 1964 are presented in Table A at the end of this Section. This Table A shows that common stock holdings of such private pension funds represented 40.1% of total assets at book value and 51.8% of total assets at market value. For purposes of comparison, the asset distribution of the investment portfolios of other state retirement systems are presented in Table B following.

Many states are restricted by statute or by the state constitution from investing a greater portion of the retirement system assets in common stocks. There does not appear to be any reason for such specific prohibition or limitation on the purchase of equities, however, provided the "Prudent Man Rule" is the basis of purchase for investments of the retirement systems.

The market value of securities held in the investment portfolio might, of course, increase or decrease from time to time. Although such fluctuations in asset value occur, they are relatively unimportant since they do not affect the ultimate asset value of the fund, which is based only on the actual value realized when such securities are eventually sold or matured. Since retirement benefit obligations are of a long term nature, securities in a retirement fund portfolio are intended to be held for relatively long periods of time. Therefore the current value may thus bear little relation to the value eventually realized.

The present Retirement System investment portfolio produced an overall yield of 4.32% for the year ending June 30, 1965. This yield compared favorably with the 4.6% average return achieved by insurance companies during 1965 on their entire investment portfolios. In making such a comparison, it must be realized that the large insurance companies have extensive facilities for placing mortgage investments which produce substantial yields and which comprise the major portion of their investment portfolios.

TABLE A

DISTRIBUTION OF ASSETS OF PRIVATE NON-INSURED PENSION FUNDS AT END OF 1964

The annual report of the Securities and Exchange Commission released June 4, 1965 presented the following distribution for the total assets (52 billion at book value, 63 billion at market value) held in the investment portfolio of private non-insured pension funds throughout the United States at the end of 1964.

	Book Value		Market Value	
	Amount (millions)	Percent	Amount (millions)	Percent
1. U. S. Government Securities	3,069	5.9%	3,039	4.8%
2. Corporate bonds	21,206	40.9	20,536	32.4
3. Common Stocks	20,836	40.1	32,859	51.8
4. Preferred Stocks	654	1.3	668	1.1
5. Other assets (cash, mortgages, etc.)	6,147	11.8	6,250	9.9
Total (1 through 5)	51,912	100.0%	63,352	100.0%

TABLE B

Investment of State Pension Funds -- 1965

State	Total*	U.S.* Obligations	Municipal Bonds	Corporate Bonds	Mortgages	Stock*	Other*
Alabama	$ 230,015,087	14.6%	1.5%	55.6%	15.3%	10.6%	1.9%
Alaska	20,109,509	6.4%		13.0%	27.5%	26.4%	26.4%
Arizona	151,335,050	20.0%		50.3%	20.1%	8.8%	.6%
Arkansas	74,950,028	20.5%	5.9%	52.7%	19.6%		1.4%
California	3,155,314,000	16.5%	2.3%	77.0%			3.6%
Colorado	191,630,130	33.6%		28.2%	33.3%	.5%	4.2%
Connecticut	329,497,100	32.1%		47.7%	.5%	5.7%	13.7%
Delaware	None						
Florida	420,858,500	68.1%	9.0%	22.8%			
Georgia	346,140,694	3.4%		72.0%	8.8%	15.5%	.1%
Hawaii	223,041,850	3.1%	2.2%	49.3%	20.1%	20.8%	4.2%
Idaho	17,961,999	79.8%		3.3%	4.8%		12.0%
Illinois	303,829,273	8.4%		57.9%	28.7%	4.8%	
Indiana	227,929,539	51.6%	3.9%	26.1%	10.1%	8.0%	
Iowa	197,225,561	19.7%		65.8%			14.3%
Kansas	27,512,172	14.2%		77.3%		7.6%	.7%
Kentucky	188,754,121	10.1%	2.1%	35.5%	25.0%	7.9%	19.0%
Louisiana	489,202,698	56.7%	33.1%	8.6%		1.0%	.3%
Maine	96,930,762	1.8%		68.6%	18.1%	10.5%	.9%
Maryland	413,871,031	28.9%	.2%	45.9%	5.6%	9.5%	9.6%
Massachusetts	315,894,892	34.0%	.4%	62.0%		.7%	2.7%
Michigan	469,018,734	37.3%	7.1%		54.1%		1.2%
Minnesota	564,809,594	31.1%	13.3%	39.8%		15.6%	
Mississippi	74,793,822	45.8%	41.3%		12.8%		
Missouri	200,063,405	.6%		42.6%	49.5%	6.5%	.6%
Montana	70,865,930	15.9%		30.6%	48.9%		4.4%
Nebraska	32,726,000	98.7%	1.2%				
Nevada	53,735,966	13.4%	5.3%	51.7%	29.4%		
New Hampshire	68,537,897	15.1%		51.1%	2.4%	18.7%	12.5%
New Jersey	1,102,100,705	14.5%	2.0%	62.4%	8.3%	.7%	11.9%
New Mexico	92,438,144	4.5%		18.2%	53.9%	15.0%	8.2%
New York	3,718,200,388	25.4%	1.7%	18.0%	29.0%	5.0%	19.9%
No. Carolina	466,395,765	41.9%	1.8%	45.1%		5.0%	6.0%
No. Dakota	21,091,057	12.8%	34.4%	24.1%	28.5%		
Ohio	1,979,160,183	15.7%	2.2%	46.5%	21.6%	9.7%	4.2%
Oklahoma	87,952,707	59.6%		39.8%			.5%
Oregon	193,116,828	31.3%		41.5%	27.0%		.1%
Pennsylvania	1,773,842,994	9.5%	.8%	6.9%	20.6%		
Rhode Island	74,357,236	31.6%	2.8%	27.5%		23.4%	14.5%
South Carolina	216,806,667	33.7%	24.7%	36.7%	1.4%		3.2%
South Dakota	8,238,697	33.4%		55.4%	4.2%		5.8%
Tennessee	205,917,800	10.0%	3.0%	78.1%	1.9%	4.4%	2.2%
Texas	1,028,768,967	47.4%	3.9%	31.1%		15.3%	2.0%
Utah	62,702,877	24.5%	.9%	38.4%	25.1%	.3%	10.4%
Vermont	52,056,889	8.7%	.4%	54.4%	32.5%	.3%	3.3%
Virginia	259,901,914	13.9%	3.4%	73.0%		6.4%	3.1%
Washington	382,979,687	23.3%	19.4%	31.9%	18.7%		6.4%
West Virginia	134,751,601	97.8%	.6%		1.5%		
Wisconsin	570,468,755	.5%	.3%	51.5%	11.7%	8.3%	27.4%
Wyoming	22,166,429	92.9%	.7%		6.2%		
Total	$21,409,971,634						

(Continued on next page)

Table B continued.

*Investments reported are on June 30, 1965, except in a few states where some other date in 1965 is specified. Total of percentages for a state may not equal 100 because of fractions. Total investment and the percentage in each of the classes are the aggregate of the state employees and state teacher retirement fund in each state. Details for the separate funds are given in the report for each state. Obligations of U.S. agencies are not included with U.S. Government obligations unless they were lumped with U.S. Government obligations in the investments reported for a state. Shares in investment companies are included with common stock. Cash, obligations of U.S. agencies, equipment trust obligations and all other investments not included under one of the specific headings are included in "Other" investments.

SECTION III

ANALYSIS OF ACTUARIAL EXPERIENCE

The actual experience under the Maine State Retirement System has been reviewed in order to evaluate the adequacy of the actuarial assumptions on which each year's valuation is based. The last such actuarial investigation was made by the Actuary of the System in 1960. The Retirement System law requires such a review every five years thereafter. Therefore the historical record of such experience has been analyzed again during the course of this study.

Set forth below are our comments with respect to such assumptions currently in use:

1. Mortality:

   (a) Retired members:

   The mortality table currently in use is the Combined Annuitants Table (set back 4 years for females).

   The actual mortality experience among retired State Employees and MTRA Teachers is summarized below:

Year	State Employees		MTRA Teachers	
	Actual Deaths	Aggregate Death Rate	Actual Deaths	*
54 - 55	39	.053	--	
55 - 56	44	.053	2	
56 - 57	44	.047	1	
57 - 58	48	.046	2	
58 - 59	60	.054	--	

Year	State Employees		MTRA Teachers	
	Actual Deaths	Aggregate Death Rate	Actual Deaths	*
59 - 60	59	.048	5	
60 - 61	56	.040	4	
61 - 62	70	.046	2	
62 - 63	74	.045	6	
63 - 64	86	.048	4	
Total	580	.047	26	

* Insufficient data to compute experience rates.

It will be noted from the above chart there has been a very slight trend towards lower mortality over the past 10 years. Since this trend has been so slight, the conclusion reached in the 1960 experience study is still valid at the present time, viz. that the Combined Annuity Mortality Table is representative of current retired mortality.

Therefore it is appropriate to continue this table in use as a valuation standard for such members already retired.

(b) Active members:

The Combined Annuitants Table (set back 4 years for females) is also presently used for active members of the System. However, this table does not properly reflect the increase in life expectancies which has occurred.

In recent decades, the nation has seen a decrease in the probabilities of dying, especially with respect to people at the relatively younger ages. Scientific and economic progress has been a considerable factor in improved medical facilities and improved working conditions have also contributed to decreased mortality. The recent changes in the

Federal Social Security Program and the Medicare programs enacted by Congress in 1965 (although not currently adopted by members of the Maine State Retirement System) also make it unwise to ignore the possibility of longer life expectancies. While it is recognized that any prediction of future improvement is somewhat subjective, nevertheless because of the significant mortality improvement in the nation, it is necessary to recognize the possibility of similar improvements with respect to the active members of the Maine State Retirement System.

For these reasons, it is recommended that future mortality experience among Retirement System members now active be anticipated by the use of the 1951 Group Annuity Table during their entire lifetime, both before and after retirement. The 1951 Group Annuity Mortality Table is more conservative than the Combined Annuitants Table and has gained wide acceptance as a current valuation standard.

2. Interest Yield:

The present assumption with respect to anticipated future earnings of the trust fund is 3% per year compounded annually.

The actual earnings on the Retirement System assets have been in excess of 4% in recent years. The actual rates of return for the most recent years were as follows:

Year Ending June 30	Rate of Investment Return
1963	4.20%
1964	4.21%
1965	4.32%

The rate of earnings realized in pension fund investments is a matter of prime consideration, and is a dominant factor in determining pension costs or benefits. It may be stated that, if all other actuarial assumptions remain the same, an increase of one quarter of one per cent in investment earnings will serve to decrease contributions or else increase benefits by five to six per cent. An increase in earnings by one half of one per cent will result in a comparable differential of approximately ten to twelve per cent.

Of course, the interest rate on which the valuation is based must be the average rate that it is assumed can be earned while the Retirement System is in effect. Thus, it would certainly be unwise to anticipate that the present earned rate of 4.3% will continue indefinitely in all future years. The present rate might even continue to increase for a number of years. However, it is impossible to accurately predict economic conditions existing at some distant future date. Therefore it is recommended that the interest rate used for valuing future liabilities of Retirement System members be changed to 3-1/2% per year. This is an increase from the 3% rate presently in effect yet is still below the present 4.3% rate of earnings so that a "cushion" exists against a possible future drop in the earnings rate. Such 3-1/2% rate is commonly used at the present time in valuing pension fund liabilities.

3. Retirement Age:

The present valuation assumptions provide for retirement occurring, on the average, just before age 64. The impact of the foregoing assumption is of considerable significance. The actual age at which retirement occurs has a very substantial effect on required annual costs, for two reasons:

(a) if retirement, for example, should occur at age 60 rather than age 64, four more years of pension payments are anticipated to be made to each retired member, and

(b) funding for this increased pension liability must be accomplished over a four year shorter period than previously assumed. Where previously funding was accomplished over the member's active working lifetime from employment to age 64, now such period is reduced to the span from employment to age 60.

At the present time, the assumed average retirement age is not out of line with actual experience. Over the years since the inception of the plan, the actual age at which retirement has taken place has been in excess of this assumption for several years. Nevertheless, the trend of ages at which retirements occur will require close observation because of its substantial effect on costs, as described above. In fact, it should be noted that if Social Security were adopted for the Maine State Retirement System, there might be an incentive to collect such Social Security payments at the earliest possible time. Since primary Social Security payments generally commence in reduced amount as early as age 62, retirement might tend to cluster around age 62 where members could obtain pension payments from both sources (Maine State Retirement System and Federal Social Security Program.)

Again, certain State employees, such as Police, Prison Guards, Game Wardens and Airplane pilots, can retire at one-half current salary at age 55 or earlier. Therefore it appears that a downward revision of the current retirement age assumption will eventually become necessary. Thus at this time, it is recommended that a gradual step in that direction be introduced into the current valuation, viz. the present assumption of retirement at close to age 64 be reduced about a year in age, to about age 63.

4. Withdrawal:

The rates for withdrawals, currently used for valuation purposes, were obtained from the experience for the Massachusetts cities and towns. The actual withdrawals from employment have always remained several times higher than anticipated by such tables.

The actual withdrawal experience among State employees and MTRA Teachers is summarized below:

Year	State Employees		MTRA Teachers	
	Withdrawals	Aggregate Withdrawal Rate	Withdrawals	Aggregate Withdrawal Rate
54-55	488	.081	431	.072
55-56	564	.089	475	.075
56-57	578	.086	537	.080
57-58	888	.119	515	.071
58-59	794	.096	515	.065
59-60	903	.104	478	.056
60-61	987	.109	709	.078
61-62	768	.082	500	.052
62-63	1130	.116	793	.077
63-64	943	.093	537	.050
Total	8043	.098	5490	.067

The above chart indicates that the actual withdrawal rates are very high and tend to be several times the current valuation withdrawal rate.

It is recognized that withdrawal rates are subject to relatively wide fluctuations due to changes in the economy, personnel practices, and pay scales. Certainly actual withdrawals would be much less during periods of depressed business activity when competitive employment in industry is more difficult to obtain.

Nevertheless, in view of the very substantial withdrawal rates actually experienced over several years, it appears that a significant argument can be made for assigning some degree of credibility to such actual withdrawal experience. It is recommended, therefore, that future valuations be performed utilizing withdrawal scales about midway between that actually experienced and that anticipated by the tables in current use.

The effect of such a more liberal withdrawal assumption would be to somewhat lower the overall costs of the plan, since fewer employees would be expected to qualify for retirement or other benefits provided by the System. To the extent that employees have a vested right to retirement benefits at the date of their termination of employment, however, no such decrease in costs results. For example, under the present plan, an employee who has completed 10 credited years of service is entitled to receive, commencing at age 60, the full retirement allowance accrued during his period of employment under the System. However, any member with less than 10 years of employment at the time of his termination, is not entitled to a deferred retirement allowance and therefore no State funds need be available on his behalf.

5. <u>Salary Scale:</u>

The present salary scale assumes an increase over active service of about 92% for males and 61% for females. In view of the salary history of members of the Maine State Retirement System, this salary scale has not adequately reflected the average year to year increases in employee compensation. Salaries have actually tended to increase at a rate in excess of that currently provided for in the actuarial calculations.

A prediction of salary increases which will be at all representative for any long period in the future is, of course, directly affected by the overall economy of the country. During any periods of inflation, salaries can change rapidly over a relatively short period of time. An overall adjustment in salaries of various employee classifications, such as currently considered by the Legislature, will have a significant impact on the appropriations required to finance the Retirement System. This results from the fact that prospective pension benefits are increased as a result of such salary raises. The benefit is determined by multiplying the employee's average final pay by a specified fraction for each year of service, past as well as future. Thus each salary increase not only increases the future service cost but gives rise to an increase in the accrued liability which must also be financed by higher future appropriations. To an extent, such increases have been offset in the past by the substantial withdrawals from service of System members as well as the actual interest earnings in excess of the assumed 3% rate.

A general adjustment in salaries of State personnel cannot be anticipated in the salary scales used for valuation purposes. However, in view of the rises in salaries which have continually occurred since the inception of the System to date, it is recommended that the present salary scales be strengthened to a slightly more realistic basis.

6. Disability:

The 1937 Teachers disability experience is the present valuation standard with respect to probabilities of disablement.

A review of the incidence of disabilities in prior years indicates that the present basis has adequately provided for the actual disability experience.

Thus it appears appropriate to continue on this same valuation basis for anticipating disability experience in the future.

SECTION IV

COSTS

The annual costs required to finance the Maine State Retirement System are determined by actuarial valuation.

The State must appropriate the balance of the cost not provided by employee contributions. This annual State cost, in the case of both the State employees and the MTRA Teachers covered by the System, is essentially the sum of the following two items:

1. Normal contribution:

   This amount is intended to provide for the funding of the cost of benefits accruing on account of membership service.

2. Accrued liability contribution:

   This amount is intended to be sufficient to liquidate over a period of years the cost of benefits granted for service prior to the establishment of the System.

With respect to the 1913 Teachers (Non-Contributory Teachers), no such similar funding practices are followed. Rather the State is following the practice of appropriating the amount required in each biennium to provide the retirement allowances on a pay-as-you-go basis.

The actuarial calculations presented herein included the following members:

	State Employees	MTRA Teachers
Active members	10,709	11,116
Retired members	1,865	273
Total members	12,574	11,389

Based on the present valuation funding method and actuarial assumptions, the State appropriations required for each year of the 1965-67 biennium on behalf of State employees and MTRA Teachers are as follows:

Costs Based on Present Funding Method

	1965-66		1966-67	
State Employees	Amount	%*	Amount	%*
a. Normal contribution	$1,680,988	3.79	$1,680,988	3.79
b. Accrued liability contribution	1,760,818	3.97	1,814,043	4.09
c. Total contribution (a + b)	3,441,806	-	3,495,031	-
MTRA Teachers				
a. Normal contribution	$1,946,262	3.79	$1,946,262	3.79
b. Accrued liability contribution	2,038,697	3.97	2,100,320	4.09
c. Total contribution (a + b)	3,984,959	-	4,046,582	-

* These figures represent percentages of total annual salaries at June 30, 1964 ($44,353,241 for State employees; $51,352,565 for MTRA Teachers).

The detailed actuarial balance sheet resulting from the most recent valuation on the present funding basis is shown at the end of this Section. In the case of State employees, the actuarial valuation was performed as of June 30, 1965. For MTRA Teachers, however, the most recent available data was as of June 30, 1964 and thus the valuation results are as of that date.

Although these valuation results are based on the same actuarial assumptions used in prior years, it is significant to note that essentially the same results would have been produced if these valuations were performed using the revised actuarial assumptions recommended in the preceding Section.

Each of the revised actuarial assumptions was selected to more realistically appraise the maximum likelihood of future events affecting benefit payments. Although the present actuarial assumptions in some instances are more conservative than the revised assumptions (such as interest rate, withdrawal rate) and in other instances are less conservative (salary scales, mortality rates, retirement age), such "pluses" and "minuses" tend to balance each other out and produce essentially the same costs as the revised set of assumptions.

Under the current funding methods, the accrued liability contributions are determined on a basis intended to liquidate the accrued liability by payment of principal and interest, each such payment being at least 3% higher than the preceding year's contribution. Although this method involves an automatically increasing amount of accrued liability contributions from year to year, the amortization of such past service liability may be a problem since this liability is itself subject to increase. Plan liberalizations, salary increases, and unfavorable actuarial experience are all factors which operate to increase the past service liability.

In order to liquidate such accrued liability, therefore, it might be preferable that the valuation method be changed to the "frozen initial liability method." Under this actuarial funding method, the present unfunded accrued liability could be liquidated by regular annual payments over a given number of years. All adjustments in the past service liability, except for plan amendments, would then be taken into account in establishing the normal contribution.

ACTUARIAL BALANCE SHEET

	State Employees June 30, 1965	MTRA Teachers June 30, 1964
ASSETS:		
1. Trust Fund Assets		
a) Members Contribution Fund	$17,969,073	$19,460,639
b) Retirement Allowance Fund		
i) Prior Service	3,540,147	10,384,268
ii) Membership Service	15,261,632	11,097,060
c) Total (a + bi + bii)	$36,770,852	$40,941,967
2. Value of Future Contributions		
a) Prior Service	$16,729,570	$ 5,794,108
b) Membership Service	28,585,390	30,602,286
c) Total (a + b)	$45,314,960	$36,396,394
3. Total Assets (1c + 2c)	$82,085,812	$77,338,361
LIABILITIES:		
1. Members Contribution Fund	$17,969,073	$19,460,639
2. Value of Allowances being paid to Retired Members		
a) Prior Service	10,895,640	2,399,374
b) Past Membership Service	10,816,541	2,032,133
c) Total (a + b)	$21,712,181	$ 4,431,507
3. Value of Future Benefits for Present Actives		
a) Prior Service	9,374,077	13,779,002
b) Past Membership Service	14,529,834	15,872,744
c) Future Membership Service	18,500,647	23,794,469
d) Total (a + b + c)	$42,404,558	$53,446,215
4. Total Liabilities (1 + 2c + 3d)	$82,085,812	$77,338,361

PART FIVE

REPORT ON SOCIAL SECURITY COVERAGE

SECTION I

BASIC PRINCIPLES OF FEDERAL SOCIAL SECURITY SYSTEM

Set forth below are certain basic principles of the Federal Social Security System which should be understood in order to properly pass judgment on its value for the employees of the State of Maine.

1. Floor of Protection Concept.

It is generally agreed that Social Security benefits should provide only a minimum floor of protection against the various physical risks such as old age, disability and death. There is, however, a great diversity of opinion as to how far apart the floor and the ceiling should be. At one extreme are those who believe that the floor should be so low as to be virtually non-existent. At the other extreme, some believe that the floor should be high enough to provide a comfortable standard of living disregarding any economic security that private or group plans might provide. The proper concept, perhaps, is the middleground, viz. that the benefits under a social insurance system should, along with other income and assets, be sufficient to yield a reasonably satisfactory minimum standard of living for the great majority of individuals. Then, any small residual group still in need should be taken care of by supplementary social assistance.

2. Proportionately Higher Benefits for Lower Earnings Levels.

Because of the "floor of protection" concept, it seems desirable from a social standpoint that benefits should be relatively larger for those with low earnings than for those with high earnings. Accordingly, the benefit formula under the Social Security System has always been heavily weighted so that a higher benefit rate applied to the lower portion of earnings than to the higher portion. Since contributions (or taxes) are likewise related to earnings there is some appeal to the public in the fact that the higher an individual's earnings (and likewise taxes), the higher his benefits will be.

3. <u>Emphasis on Social Adequacy Rather than Inidividual Equity</u>.

Because of the Social Security System involves contributions from the potential beneficiaries, the question of individual equity versus social adequacy arises. From the viewpoint of individual equity, the contributor should receive benefit protection directly related to the amount of his contributions, or in other words, actuarially equivalent thereto. From the viewpoint of social adequacy, the benefits paid should provide for all contributors a certain standard of living. The two concepts are thus generally in direct conflict, and the Social Security System provides benefits tending more toward social adequacy than individual equity. For example, the social adequacy basis is evident through the provision of relatively high minimum benefits and through the imposition of maximum benefits.

Although the Social Security System emphasizes social adequacy in its benefit structure rather than individual equity, some elements of the latter are, nonetheless, present. Thus, in general, the higher the average wage that the covered individual has and the greater proportion of the period of potential coverage that he is actually in covered employment (and making contributions), the larger will be his benefits. The increase in benefits for higher amounts of earnings or for higher proportions of covered participation are by no means proportionate, but, nonetheless, such increases are present.

Over the years, however, the Social Security benefit structure has shown a trend away from individual equity principles and toward more social adequacy.

4. Financially Self-Supporting System.

In brief, the principle of self-support means that no general revenue appropriations will, over the long-run, be needed to pay the benefits (and the administrative expenses) of the Social Security System. Available for such purposes will be the contributions (taxes) from employees and employers, and also the interest earned on the trust fund resulting from the excess of income over outgo of the system, which is, by law, invested only in United States government securities. Such interest does not represent "contributions" or "financial support" from either the General Treasury or the general taxpayer, since the interest on these investments would have to be paid, regardless of whether the securities were held by the trust fund or by private investors.

The basic financing principle adopted by Congress in 1950, and since maintained, is that the program should be completely self-supporting from contributions of employees and employers. Self-support can be achieved by any number of different contribution schedules, ranging at one extreme from a schedule higher in the early years than in the later and thus producing a "fully funded reserve" to, at the other extreme, a schedule so slowly graded up that "pay-as-you-go" financing would, in effect, result. The actual basis adopted to date has been much closer to "pay-as-you-go" than "fully funded."

In carrying out this principle, the basis has been adopted that the employer and employee should share the cost equally, each paying a percentage tax rate on earnings up to a certain specified maximum amount.

5. <u>Relative Cost of Social Security Versus Private Insurance.</u>

Statements are sometimes made by uninformed proponents of Social Security that such programs are much less expensive than private benefit programs.

One argument of those who state, or imply, that social security systems can do the job so cheaply is the application of the so-called "magic of averages." Under this theory, presumably because social security systems are so large as to number of persons covered and amount of contributions collected, relatively low benefit costs are inevitably expected to result. This belief is, of course, fallacious.

Actually, a social security system is not a magical machine. We cannot put one dollar of contributions into one end and continuously get $10 of benefits out from the other end. It is basic logic that the cost of a system is determined solely by the benefits and the administrative expenses paid. Accordingly, if in the aggregate the relative benefit cost of a social security system is the same as that of a private insurance plan or a group program, the only difference in total cost arises from administrative expenses. Generally, however, administrative expenses represent only a small fraction of benefit costs so that, cost-wise, any advantage that a social security system possesses because of its size arises primarily on this account. Large systems have one other advantage over smaller ones. Since fewer sizable accidental and random fluctuations of experience are likely to occur in a large coverage program, less need exists for providing margins for contingency reserves.

The real reason for having a social security system as against (or rather, in addition to) private insurance coverage is not primarily from a cost standpoint, but rather that social benefits on a social adequacy basis can only in this way be provided to a large sector of the population.

SECTION II

OUTLINE OF BENEFITS PROVIDED BY 1965 SOCIAL SECURITY LAW

The benefits provided by the 1965 Social Security Law are outlined below. These benefits are in 3 main areas, as follows:

A. Old Age, Survivor and Disability Benefits. (OASDI Benefits)

B. Hospitalization Benefits.

C. Medical Benefits.

A. OLD AGE, SURVIVOR AND DISABILITY BENEFITS.

1. Coverage.

Virtually all gainfully employed persons are covered under the program or could be covered by election. The major exceptions are Federal State and local governmental employees with their own retirement systems, low-income self-employed persons, and farm and domestic workers with irregular employment.

2. Requirements for Receipt of Benefits.

There are various types of insured status which are required for receipt of benefits. As can be noted from the chart in item 3 below, "fully insured" qualifies an employee for all benefits. "Currently insured" provides limited eligibility for survivor benefits and is an auxiliary requirement for certain other benefits. "Disability insured" status is an auxiliary requirement for disability benefits.

Each type of insured status is defined in terms of quarters of coverage. A quarter of coverage requires $50 in nonagricultural wages paid in a calendar quarter.

<u>Fully insured status</u> requires that the number of quarters of coverage obtained at any time must equal at least the years elapsed after 1950 (or year of attainment of age 21, if later) and before the year of death, disablement, or attainment of retirement age (65 for men and 62 for women). A minimum of 6 and a maximum of 40 quarters are required.

<u>Currently insured status</u> requires that 6 quarters of coverage are acquired in the 13 quarter period ending with the quarter of death, disablement, attainment of retirement age or subsequent retirement.

<u>Disability insured status</u> generally requires that 20 quarters of coverage are obtained in the 40 quarter period ending with the quarter of disablement.

3. <u>Benefits.</u>

Subject to the maximum limitation on total family benefits, and also subject to the minimum benefit to a sole survivor of $44, a summary of benefits and eligibility requirements is presented on the chart on the next page.

Summary of Benefits and Eligibility Requirements

Type of Benefit	Age Requirement	Insured Status Requirement	Benefit % of Primary Insurance Amount
For insured worker			
Old age	62 or over	Fully	100%*
Disability	Any age	Fully and Disability	100%
For dependents			
Wife, no child	62 or over	Fully	50%*
Wife, with child	Any age	Fully	50%
Child	Under 18 with some extensions	Fully	50%
Dependent husband	62 or over	Fully and Currently	50%*
For survivors			
Widow, no child	62 or over	Fully	82-1/2%**
Widow, with child	Any age	Fully or Currently	75 %
Child	Under 18 with some extensions	Fully or Currently	75 %
Dependent widower	62 or over	Fully and Currently	82-1/2%
Dependent parent	62 or over	Fully	82-1/2%
Lump sum	Any age	Fully or Currently	300 %

* Reduced if benefit claimed before age 65.

** Reduced if benefit claimed before age 62.

4. Benefit Amounts.

The primary insurance amount (PIA) from which all benefits are determined (See preceding chart), is based on the average wage of the insured individual and on a benefit formula.

(a) Average Monthly Wage.

The concept of average monthly wage (AMW) is a "career average" computed over the entire period of potential coverage; however, certain periods of low earnings are excluded. Also, years of high earnings at and after attainment of age 65 for men (age 62 for women) can be substituted for years of low earnings previously, so an incentive exists to defer retirement when there is the possibility of high earnings in the future.

In general, the AMW is computed over a number of years equal to the years after 1955 (or year of attainment of age 26, if later) and before the year of disablement, death, or attainment of age 65 for men (age 62 for women), whichever occurs first. Allowance is thus made in the computation for the drop-out of 5 calendar years after 1950 (or attainment of age 21, if later). The years equal to this number can be selected from those with highest earnings after 1950, including before attainment of age 22, in or after the year of attainment of age 65 for men (age 62 for women), and in the "5-year drop-out period". In addition, under the "disability freeze" provision, established periods of disability are excluded. The AMW may also be computed back to the beginning of the system in 1937, on the same basis, if a larger benefit will result. For retirement cases not involving a disability freeze, the AMW must be computed over at least 5 years. A minimum period of 2 years is prescribed for survivor benefits.

(b) Benefit Formula.

In all acts before the 1958 Amendments, a definite benefit formula for the PIA was prescribed. For example, the benefit formula under the 1954 Act applicable to earnings after 1950 was 55% of the first $110 of AMW, plus 20% of the next $240 of AMW (reflecting the $4,200 earnings base). Under the 1958 Act and under present law, a different procedure is used. A benefit table gives the PIA for various ranges of AMW.

Actually, the benefit table is based on a definite formula and on definite minimum and maximum benefit provisions that are incorporated in the table. Thus, no change has been made in the basic principle that has prevailed in the past. The benefit formula is 62.97% of the first $110 of AMW, plus 22.90% of the next $290 of AMW, plus 21.40% of the next $150 of AMW, with rounding adjustments. These benefit factors have resulted from the 55% and 20% ones of the 1954 Act, by successive increases of 7% (in the 1958 and 1965 Acts).

(c) Minimum and Maximum Benefits.

(1) Primary insurance amount: The minimum PIA is $44; the maximum is $168.

(2) Family benefits: Family benefits are set by a table and range from $66 to $368.

5. Earnings Test.

In general, benefits for retired employees and their dependents are not paid when the retired-employee beneficiary is engaged in substantial employment. This provision also applies to survivor beneficiaries and to dependents of a retired or disabled employee, insofar as the individual's benefit is concerned, when the beneficiary engages in substantial employment. This provision is termed the earnings test (or sometimes the retirement test -- a misnomer in regard to young beneficiaries).

Benefits are payable for all months in a year if the annual earnings from all types of employment are $1,500 or less. In no event are benefits withheld for a month in which the individual has wages of $125 or less and does not render substantial self-employment services (the monthly test). Moreover, the retirement test is not applicable after the individual reaches age 72. If annual earnings exceed $1,500, benefits for months not affected by the monthly-test exemption are reduced by $1 for each $2 of the first $1,200 of "excess earnings" and by $1 for each $1 of subsequent "excess earnings". Under this basis an individual will always have more income from earnings and benefits combined by increasing his earnings beyond $1,500 than if he so limits them.

5. Social Security Taxes.

The schedule of tax rates for both employers and employees required to finance the preceding benefits is set forth below.

Employer and Employee Each Pay

Year	OASDI Tax	Hosp. Ins. Tax*	Total	Employer-Employee Combined Rate
1963 - 65	3.625%	---	3.625%	7.25%
1966	3.85 %	.35%	4.2 %	8.4 %
1967 - 68	3.9 %	.50%	4.4 %	8.8 %
1969 - 72	4.4 %	.50%	4.9 %	9.8 %
1973 - 75	4.85 %	.55%	5.4 %	10.8 %
1976 - 79	4.85 %	.60%	5.45 %	10.9 %
1980 - 86	4.85 %	.70%	5.55 %	11.1 %
1987 et seq.	4.85 %	.80%	5.65 %	11.3 %

* This tax finances hospitalization benefits described at B below.

The employer must pay his share of the tax and must deduct the employee's tax regardless of the employee's age. The fact that an employee is age 65 or age 72 or over is immaterial. The tax must be paid whenever wages are paid to an employee of any age for covered employment.

B. HOSPITALIZATION BENEFITS.

A specific program of hospitalization and related benefits is provided for all persons who are (1) aged 65 and over and (2) "entitled" to monthly benefits. The term "entitled" means that the individual meets all the statutory provisions governing eligibility for monthly benefits (old age, dependent, or survivor and has filed an application therefor (which may be concurrent with application for hospitalization benefits). The term thus includes not only beneficiaries in current-payment status, but also those who are not drawing monthly benefits because they are continuing in substantial employment.

1. Benefits:

The following benefits are provided:

(a) 90 days of semi-private hospital care within a "benefit period", with a flat deductible in an amount which approximates the average daily hospital cost under the program (taken as $40 for 1966-68) and with coinsurance of 25% of the deductible (i.e. $10 initially) for each day beyond the 60th day. In addition, there is a deductible equal to the cost of the first 3 pints of blood used in a spell of illness. The hospital services covered include room and board, operating room, laboratory tests and X-rays, drugs, dressings, general nursing services, and services of interns and residents in training (but no other physician services, even though the doctor is on the hospital staff, or his services are arranged for and billed through the hospital).

(b) 100 days of post-hospital extended care within a "benefit period", when such services are furnished following transfer from a hospital (after at least 3 days of hospitalization) and are necessary for continued treatment of a condition for which the individual was hospitalized. Such care would be furnished in an "extended care facility", which is an institution that has in effect a transfer agreement with a hospital and that is, in essence, a skilled nursing facility. There is coinsurance for each day beyond the 20th day, in an amount equal to 50% of the hospital coinsurance (i.e., $5 initially).

(c) 100 post-hospital home health service visits during the year following his most recent discharge from a hospital (after at least 3 days of hospitalization), or from an extended care facility after such hospitalization, if the plan for such services is established within 2 weeks of such discharge. These services include visiting nurses' services, therapy treatments, and medical supplies (other than drugs) and appliances.

(d) 80% of the cost of outpatient hospital diagnostic services in excess of a deductible equal to 50% of the hospital deductible (i.e., $20 initially) furnished during a 30 day period by a particular hospital.

The term "benefit period" means the period beginning with the first day that an individual receives hospitalization benefits and ending with the 60th consecutive day thereafter during each of which he has not been a patient in a hospital or an extended care facility. The benefits would first be available in July 1966, except for post-hospital extended care benefits, which would first be available in January 1967.

2. <u>Financing of Benefits:</u>

These hospital and related benefits for Social Security beneficiaries would be financed, on a long range basis, by a schedule of contribution rates that is separate from that of the OASDI system, but is applied to the same maximum earnings base (See Section II A 6 - Social Security Taxes preceding.)

It should be noted that this hospital benefit protection is also provided to many persons aged 65 and over on July 1, 1966 who are not eligible as Social Security beneficiaries. Such persons who attain age 65 before 1968 also qualify for the hospital benefits, while those attaining age 65 after 1967 must have some Social Security coverage to qualify. The benefits for this group who are not members of the Social Security System are financed by the General Treasury of the United States.

C. <u>MEDICAL BENEFITS.</u>

This benefit program is to operate on a purely voluntary, individual-election basis generally available to any individual aged 65 or over who chooses to participate.

1. Benefits:

After a $50 calendar-year deductible, 80% of covered medical expenses are reimbursed. When necessary for diagnosis or treatment of a sickness or injury, the following medical services are covered:

(a) Physician and surgeon services (in home, office, and hospital), except for routine physical or eye examinations, etc.

(b) Outpatient psychiatric services with 50% coinsurance and maximum annual reimbursement of $250.

(c) Home health service visits (regardless of hospitalization) for maximum of 100 visits per year.

(d) Other medical services -- diagnostic tests; X-ray and similar therapy; surgical dressings and splints; rental of iron lungs, oxygen tents, hospital beds, and similar equipment; prosthetic devices and artificial limbs and eyes; and ambulance service (under restricted conditions).

Covered physicians' services are limited to those by a licensed doctor of medicine or osteopathy and to certain oral surgical procedures if performed by a doctor of dentistry or oral surgery.

2. Financing of Benefits:

The covered individual will pay a premium that is set initially at a rate of $3 per month, and the General Treasury pays an equal amount. After 1967, the premium rate may be changed every 2 years by the Secretary of Health, Education, and Welfare to reflect the actual past experience and that anticipated in the future. The premium rate will be increased for those who do not enroll in the earliest period in which they could enroll by 10% for each full year of delay.

SECTION III

PROCEDURES REQUIRED TO COVER STATE EMPLOYEES UNDER SOCIAL SECURITY

Service in the employ of a state, or any political subdivision thereof, is excluded from coverage under the Social Security System. However, provision is made for voluntary agreements for coverage of most state and local employees.

Whether or not services in the employ of a state or local government are to be covered depends on the state, which must work out a coverage agreement with the Secretary of Health, Education, and Welfare. The 1954 Amendments to the Social Security Act made it possible for Social Security coverage to be extended to most employees under state or local retirement systems, and subsequent amendments to the Act have made further extensions of coverage possible.

The Social Security Act provides that public employees in a state may be covered pursuant to a federal-state agreement in groups called "coverage groups" rather than individually. Each state decides which groups will be covered in that state.

For example, a state can bring members of a state or local retirement system under its federal-state agreement if a referendum by secret written ballot is held among the members of the retirement system and a simple majority of the members of the system eligible to vote in the referendum vote in favor of coverage. This action can be taken without dissolving the retirement system.

The referendum must meet all the following conditions:

(a) The referendum must be held under supervision of the State.

(b) Not less than 90 days notice of the referendum must be given to all eligible employees.

(c) The referendum must be held within 2 years of a relevant federal-state agreement.

(d) No two referendums with respect to the same retirement system can be held within a year's time.

The basic requirement is that all members of the retirement system must be treated as a single group for purposes of Social Security coverage. This means that all members of the retirement system must be covered if any are covered. The 1956 Social Security Act Amendments permitted certain specified states to divide a state retirement system into 2 parts for purposes of coverage, one part to consist of the positions of members who desire coverage and the other to consist of members who do not desire coverage. Such a split procedure is not, however, permitted in the State of Maine. Nevertheless, when a retirement system covers positions of more than one institution of higher learning, the employees of each such public institution of higher learning will, if the state so desires, be considered as having a separate retirement system with respect to the election of Social Security coverage. Policemen and firemen may also hold a separate referendum and be covered as a separate group.

SECTION IV

SHOULD MAINE ADOPT SOCIAL SECURITY COVERAGE?

In 1952, Virginia became the first state to implement Social Security coverage for the members of a state retirement system. Since that time, most other states have followed suit so that now only a relatively few states do not have Social Security benefits for their employees and teachers.

Set forth below are discussions of the considerations which must be weighed by the State in deciding whether the advantages to the State and the members of the retirement system from adopting Social Security would exceed the disadvantages.

1. Benefits:

   Prior to the 1965 amendments to the Social Security law, the Federal Social Security program primarily provided retirement benefits in the event of old age or disability, as well as a program of survivor benefits. Since the State already had in effect its own program for such types of benefits, the question then was one of coordinating the existing State program with the similar type benefits under the Social Security law, rather than providing another type of benefit to State employees. With the passage of the 1965 Social Security law, however, an entirely new program called "medicare" providing hospitalization and medical benefits for individuals over age 65 was introduced into the Social Security System. Thus, to the extent that the State desires to extend such benefits to its employees, it must decide whether to do so by embracing the Social Security System or to provide similar benefits through an additional plan of its own.

In this connection, it is significant to note that employees of the State of Maine are already entitled to the following coverage under the Federal Government's hospitalization and medical care programs even if Social Security is not adopted by the State.

(a) Hospitalization Coverage.

(1) All individuals who attain age 65 prior to 1968, including those who never came under Social Security, are covered under the Federal System for hospitalization benefits. Such coverage continues for their remaining lifetime and is financed directly by the General Treasury of the United States from its general tax revenues for those individuals who do not possess Social Security coverage. These individuals to whom such free hospital coverage is available, however, form a closed group into which further entrance is excluded.

(2) All individuals who attain age 65 in 1968 or later and have not less than three Social Security quarters of coverage, whenever acquired since the inception of the System in 1936, for each year elapsing after 1965 and before the year in which they reached age 65 are also covered under the Federal System for hospitalization benefits.

These special transitional provisions will cease to apply to women who reach age 65 in 1972 or later and to men who reach age 65 in 1974 or later, since in those years the numbers of quarters of coverage needed to qualify for hospital insurance benefits under these transitional provisions would be the same as, or greater than, the number required for fully insured status under the regular Social Security provisions.

The important effect of these transitional arrangements is that those members of the Maine State Retirement System who have over the years periodically accumulated some quarters of coverage under Social Security, will be able to secure hospitalization coverage for their remaining lifetime under the Federal System without having made specific contributions to finance such hospitalization benefits. This group then will receive the same future hospitalization coverage extended to the closed group described in (1) above, with the only difference being that this group required a limited period of coverage under the Social Security System during their working lifetime. The cost of these benefits is financed directly by the General Treasury of the United States from its general tax revenue.

It is to be expected that a significant number of older State employees might qualify for this coverage, since such minimum requirements could have been fulfilled in various ways such as periods of work in covered industrial employment prior to or subsequent to employment by the State. Teachers might also have received coverage credits under Social Security during summer employment in industry.

(b) Medical Coverage.

Unlike the basic medicare program referred to in (a) above, which is financed by compulsory taxes, this Federal medical benefit program is a voluntary program for individuals 65 years of age or over who elect to enroll under the program. This voluntary program is financed primarily from premium payments by enrollees together with funds appropriated by the Federal Government, outside the framework of the Social Security System.

Since this medical program is not part of Social Security, eligibility requirements for such coverage are in no way related to past or future coverage under the Social Security program. Therefore, all State employees are eligible to enroll in this Federal program, regardless of whether the State adopts Social Security Coverage for its employees. In summary, then, it should be recognized that State employees, at the present time, already possess the following types of benefits:

(i) Program of retirement benefits under State Retirement System.

(ii) Program of survivor benefits under State Retirement System.

(iii) Program of hospitalization benefits for individuals over 65 (available under Federal Program to limited extent cited in (a) above).

(iv) Program of medical benefits for individuals over 65 (available under Federal Program cited in (b) above).

Thus item (iii) above is the only major area of benefits provided under Federal programs which is not now generally available to employees of the State of Maine.

2. Control Over Benefit Program:

Connected with the benefit considerations described in 1 above, is the problem of ultimate control over the benefits to be provided to State employees. A major disadvantage of adopting Social Security coverage is the fact that a part of the overall benefit program for State members would no longer be under State control, but would be the responsibility of the Federal government.

The Social Security system has been amended many times. Many of the changes have been in the nature of liberalizing the benefit provisions as respects the limit on credited wages, disability benefits, and now medicare. The result has been a continual increase in the annual cost. For example, if the State had adopted Social Security coverage in 1954, at the time of our firm's previous study of this issue, the Social Security tax levied on the State as the employer (to be matched by an equal tax on the employee's earnings) for a State employee with annual wages of $6,600 would have increased and will continue to increase over the years as shown in the following table:

1954	$ 72.00
1955 - 56	84.00
1957 - 58	94.50
1959	120.00
1960 - 61	144.00
1962	150.00
1963 - 65	174.00
1966	277.20
1967 - 68	290.40
1969 - 70	323.40
1973 - 75	356.40
1976 - 79	359.70
1980 - 86	366.30
1987 & later	372.90

The amounts of contributions shown for future years are those called for under the 1965 amendment. Based on practices to date, it is hardly likely that these rates will remain unchanged for very many years, let alone until 1987. The continual increase in the scope of Social Security benefits and the attendant increases in cost give rise to some serious thoughts concerning the dangers inherent in relinquishing the State's control over a portion of its employee benefit program.

3. Financial Considerations:

(a) Social Security financing is on a pay-as-you-go basis.

A primary reason motivating many States to adopt Social Security has been the possibility of effecting a reduction in annual cost at least for a few years, by transferring some of the liability for future retirement payments from the State's Retirement System to the Federal Social Security System.

Since the general philosophy of financing used in connection with the Social Security

System differs greatly from that used in pension systems generally, an employer can provide his employees with benefits under Social Security on a lower initial cost basis than under a retirement plan financed by his own efforts. This is because under Social Security there is no attempt to build regular actuarial reserves and therefore there is no accrued liability to be liquidated by the employer. Benefits are provided on an essentially pay-as-you-go method. Thus, at least for some period in the future, an employer can avoid the responsibility for accumulating the reserves of a regularly funded retirement plan in respect to part of the benefits to be provided under a retirement system by shifting the responsibility for such payment to the Social Security System. Ultimately, however, it will be expected that the cost of providing benefits will be larger under Social Security since investment earnings on reserve funds will not be available to reduce future contributions for Social Security benefits to the same extent as under a funded retirement plan.

(b) Social Security financing is based on "averages".

Social Security contribution rates are averaged out to provide the necessary income for the benefits paid out under the program. Thus, to the extent that the cost of the benefits for one particular group such as the members of the State

Retirement System, are determined to be greater than the average, it is to the advantage of the group to buy the benefits under the Social Security system at the "average" rate. On the other hand, if the cost of the benefits for a particular group is determined to be less than the average, it would be preferable for that group to buy such benefits under its own retirement system. It is not possible, however, to precisely determine whether a particular group will vary one way or the other from the average, since not only the present characteristics of the group must be evaluated, but also the probable characteristics of the group as it exists in the future. The future characteristics will be determined by future personnel practices, including the ages at which employees are hired and the extent of employee turnover.

The level cost of the retirement and survivor benefits provided by the 1965 Social Security legislation, as estimated over the next 75 years by the Social Security Administration of the Department of Health, Education and Welfare is as follows:

	Level Premium Cost as Percentage of Taxable Payroll	
	Old Age and Survivors Insurance	Disability Insurance
Primary benefits	6.27%	.53%
Wife's benefits	.51	.04
Widow's benefits	1.11	none
Parent's benefits	.01	none
Child's benefits	.67	.09
Mother's benefits	.15	none
Lump sum death benefits	.11	none
Total benefits	8.83%	.66%

Administrative expenses are estimated at .13% of earnings for the old age and survivors insurance and .03% of earnings for the disability insurance.

With respect to the hospitalization coverage effective in 1966, the estimated level cost of the benefit payments and administrative expenses over the next 25 years is 1.23% of taxable payroll, i.e., payroll up to the $6,600 per year earnings level, determined as follows:

	Level Premium Cost as Percentage of Taxable Payroll
Hospital and extended care facility benefits	1.19%
Home health service benefits	.03%
Outpatient diagnostic benefits	.01%
Total benefits	1.23%

The Social Security Administration observes that this 1.23% of taxable payroll cost estimated for hospitalization benefits might ultimately be less than 1% if Congress continues to increase the Social Security earnings base periodically to reflect current wage levels. In that event about 1% of the higher covered payroll might approximate 1.23% of the present covered payroll.

Should the State decide not to adopt Social Security but rather to fill the single remaining gap as to hospitalization benefits not now available to its employees, it might reasonably anticipate providing such coverage at a cost in the area of 1% of its actual payroll. The cost might even be somewhat lower, since the State need not provide benefits to all employees but only to those not eligible under the Social Security System. Such a decision would round out the State total benefit program for its employees so that each type of benefit available through Social Security would also be available in some form through the State's own systems.

(c) Effect of Social Security Coverage on State Retirement System Benefits.

Several alternative approaches are available to the State with respect to modifying its own Retirement System in the event Social Security coverage is adopted, as follows:

First, it might be decided that, when Social Security is adopted, the State Retirement System should be terminated completely except as to retired employees already receiving benefits. In such event, some arrangement would be made for assuring permanent continuance of benefits to retired lives through purchase of annuities or otherwise. The next step would be to return to each member his accumulated contributions. Any remaining assets would then be prorated among the members.

Comment. This approach is impractical and undesirable for several reasons.

(1) It would cause a severe curtailment of benefits for most members and the elimination of benefits for some members and would thereby create serious employee dissatisfaction.

(2) It would be regarded by the State's employees and citizens as an inexcusable breach of faith by the State.

(3) It would render employment with the State significantly less attractive than employment in private business.

Second, it could be decided to modify the first approach by freezing benefits accrued to date, continuing the State System in existence to the extent of such benefits and confining all further benefit accruals and all regular future contributions to Social Security alone.

<u>Comment</u>. This approach, although it would temper the disadvantages of the first to a degree, would still, especially for the shorter service employees and for prospective employees, be almost as distasteful as the first.

<u>Third</u>, it might be decided to keep the State System in existence without modification and simply make Social Security available as a supplemental plan.

<u>Comment</u>. This approach would produce unduly liberal total benefits and an extremely high level of employee and State contributions. For example, commencing in 1966, the employee and the State would each have to contribute an additional 4.2% of employee earnings up to the $6,600 level to finance these additional benefits.

<u>Fourth</u>, it might be decided to coordinate the State Retirement System with Social Security in some manner that the combination of Social Security with the amended State Retirement System would produce reasonably level total benefits and total costs.

<u>Comments</u>. This approach would appear to be the only reasonable one. This principle of

"coordination with Social Security" is almost universally used in industrial retirement plans which vary benefits by earnings level. It is also frequently used in state and municipal retirement plans where Social Security has been adopted. Assuming then that the State would decide to follow such an approach, the State could amend its plan to reflect the existence of Social Security benefits in either of the following ways:

<u>Offset Method</u>

Precise coordination of State Retirement System benefits with Social Security would call for the deduction of the Social Security benefit to which the employee becomes entitled at retirement from that which the State System formula produces. Commonly, the employee's primary retirement benefit is the only Social Security benefit deducted, i.e., dependent's benefits are ignored. From the viewpoint, however, that the State and the employee share equally in paying for such benefits, it is more logical to reduce retirement benefits otherwise payable to an employee at retirement by only 1/2 the employee's primary Social Security payment. In this connection, it should be noted that while retirement benefits under the State System normally commence at age 60 or earlier, the full primary Social Security benefits only become payable commencing at age 65 and are thus only available as an offset subsequent to that time. This offset method suffers from a serious psychological drawback in that many employees believe that benefits to which they are entitled from the Federal Government are effectively taken from them by this procedure.

Other disadvantages of the offset approach involve the administrative problem of obtaining the actual Social Security benefits payable to the employee from the Social Security Administration or the considerable detail of estimating such benefits on a consistent basis.

Integration Method

Under this method, the employee's benefits accrued under the State Retirement System prior to the date of adoption of Social Security would not be taken away or reduced. With respect to future service, however, the State would reduce its Retirement System benefit accrual rate (presently 1/70 per year of service) with respect to earnings up to the Social Security wage level. The present benefit accrual rate would be continued with respect to earnings in excess of such wage level.

The advantage of this method over the offset method is that once the plan benefit formula were revised, no further reference to Social Security benefits would be necessary. The determination of the retirement benefit actually payable from the State Retirement System would not require knowledge of the actual Social Security payment to any individual. The administration of the plan would be less cumbersome.

The disadvantage, however, is that coordination with Social Security would be less precise. For example, employees retiring under the State System would receive widely varying levels of total benefits (State System plus Social Security). This would occur, since several State employees at the same salary would receive differing amounts of Social Security benefits, or, if not covered for a sufficient period of time under the Social Security System, no benefits at all from that source.

For example, the primary benefits which an employee fully insured under the Social Security program would receive commencing at age 65 depend on the length of the employee's covered employment under the Federal System.

The chart below illustrates the possible range of such primary payments assuming Social Security is first made available to State employees on January 1, 1966, that the employee's pay had remained constant since 1956, and coverage is continuous until age 65.

Average Monthly Earnings	Age of Employee at January 1, 1966					
	Age 55		Age 45		Age 35	
	Min.	Max.	Min.	Max.	Min.	Max.
$200	$ 63	$ 90	$ 75	$ 90	$ 80	$ 90
$300	78	112	90	112	99	112
$400	91	134	105	135	117	135
$500	102	145	120	149	135	152
$550	107	150	128	156	143	161

The minimum benefits assume that the employee had no covered employment under Social Security prior to January 1, 1966. This might be the case of the typical employee who has been in continuous State employment.

The maximum benefits assume that the employee had continuous coverage under the Social Security program since 1956. This might be the case of many employees who enter State employment for the first time in 1966 or subsequent years, who had previously been in continuous industrial employment.

Many employees might actually receive an intermediate level of benefits to the extent that they had varying degrees of Social Security coverage between 1956 and 1966.

Another point to consider is the fact that any male who attains age 61 or over in 1966 cannot qualify for primary insurance benefits until sometime beyond age 65. Similarly any female who attains age 58 or over in 1966 cannot qualify for primary insurance benefits prior to age 62.

The age at which an employee without previous Social Security coverage will become fully insured based on his attained age in 1966, assuming continuation of covered employment, is as follows:

	Age When Fully Insured	
Attained Age in 1966	Male	Female
57	62-3/4	62
58	63-1/2	62-3/4
59	64-1/4	63-1/2
60	65	64-1/4
61	65-3/4	65
62	66-1/2	65-3/4
63	67-1/4	66-1/2
64	68	67-1/4
65	68-3/4	68

Thus some active employees at the older ages who will pay Social Security taxes might never qualify for Social Security benefits. Yet they will receive reduced future benefits from the State under an "Integrated State System".

(d) Employee turnover credits.

A disadvantage to the State of entering Social Security is that once State money goes into Social Security it can never be recovered. On the other hand, State money in the Retirement System with respect to any employee is released when he terminates employment, provided such termination occurs prior to the employee's completion of 10 years service required for complete vesting of his accrued benefits.

4. Employee Considerations:

(a) Hiring Practices.

The lack of Social Security coverage might prove to be a hindrance in hiring and retaining capable employees. Although Federal employees are not covered under Social Security and this does not appear to have much serious effect, it should be remembered that Federal employees have the advantage of relatively high salaries and liberal fringe benefits.

People might be reluctant to go with an employer if such employment would be detrimental to benefits they might receive from the Social Security System upon later transfer to employment covered by that System, or detrimental to such benefits arising from previous employment covered by that System.

To the extent, however, that the Maine State Retirement System provides full vesting of the entire accrued benefit after only 10 years credited service, employees covered for at least that period of time under the State System and spending the balance of their working careers in industrial employment will generally not forfeit benefits. They will receive full vested benefits from the Maine System and most likely also qualify for some benefits under Social Security.

(b) Present Existence of Social Security Coverage.

It must be recognized that many present State employees as well as teachers already possess varying degrees of coverage under the Social Security System. For example, many State employees worked in various industrial and commercial pursuits covered by the Social Security program prior to their entry into public service. Again, many teachers find it possible to work in covered employment during such periods as summer vacations. Some may even work in covered employment after their retirement from the State System at age 60 or earlier. Thus, to some extent, these individuals already possess Social Security coverage, and may actually qualify at least for certain minimum levels of Social Security benefits because of the limited extent of their coverage under the Social Security program.

Female employees of the State whose husbands work in covered industrial employment now get Social Security benefits without joining the Social Security System. Such married females whose retired husbands receive primary Social Security benefits automatically qualify for a wife's benefit, equal to one-half of their husband's primary Social Security benefit, when they reach age 65 (or a reduced amount, commencing at age 62). If the Maine State Retirement System adopted Social Security, such retired females would only be increasing the amount they now receive anyway as a wife's benefit to the level of primary Social Security for which they qualify based on their own employment record.

Such individuals, therefore, do not look with favor on coordinating the State's retirement plan with Social Security, since they now receive Social Security plus the full benefits provided by the Retirement System without reduction.

PART SIX

SUMMARY OF PROVISIONS

OF

OTHER STATE RETIREMENT SYSTEMS

APPENDIX A
SUMMARY OF STATE EMPLOYEE RETIREMENT SYSTEMS

State	Type of Plan	Social Security	Requirements for Retirement Benefits: Normal	Requirements for Retirement Benefits: Early Age	Normal Retirement Benefits for Each Year of Future Service
Alabama	Final Avg. Sal.	Yes	At age 65	60	Minimum of 1-1/8% of Salary
Alaska	Final Avg. Sal.	Yes	10 yrs. and age 65	60 & 15 yrs.	1-1/2% Salary to S.S. level + 2-1/4% excess
Arizona	Money Purchase	Yes	5 yrs. & age 65	60	----
Arkansas	Final Avg. Sal.	Yes	20 yrs.&age 60; or 10 yrs. & age 65	60 & 20 yrs.	1-1/4% of Salary
Calif.	Final Avg. Sal	Yes	After 20 yrs. service or at age 60 or after employee has made $500 contributions	55	1-1/9% Salary to S.S. level + 1-2/3% excess
Colorado	Final Avg. Sal.	No	20 yrs.& age 60	55 & 30 yrs.	2-1/2% of Salary*
* Maximum Benefits=50% Final Salary with 20 years service.					
Conn.	5 Highest Years	Yes	25 yrs.& age 55 for males; 25 yrs.&age 50 for females	60M 55F	1% Salary to S.S. + 2% over excess*
* 50% of Highest 5 Year Average after 25 years and age 55 males; 50 females.					
Delaware	Final Avg. Sal.	Yes	15 yrs. &age 60 or anytime after 30 yrs.	After 30 yrs.	1-2/3% of Salary
Florida	Final Avg. Sal.	Yes	At age 60	55	1-1/2% of Salary
Georgia	Money Purchase	Yes	5 yrs. &age 60; or anytime after 30	60	----
	Final Avg. Sal.	Yes	15 yrs. & age 60	After 30 yrs.	2% of Salary*
* Maximum 45 years credit.					
Hawaii	Final Avg. Sal.	Yes	5 yrs. & age 55	After 25 yrs.	2% of Salary*
* After retirement benefit increased 1-1/2% per year; Minimum benefit $360.					
Illinois	Final Avg. Sal.	No	Age 60or 10 yrs. prior to 55; 8 yrs. after 55	55 & 30	1-2/3% of Salary
Indiana	Final Avg. Sal.*	Yes	10 yrs.& age 65	50 & 15	.6% of first $3,000+ 1.1% over $3,000
* Additional benefits from member contribution.					

SUMMARY OF STATE EMPLOYEE RETIREMENT SYSTEMS
(Continued)

State	Additional Benefits For: Disability	Survivors	Vesting	Employee Contributions	Rate of Interest on Employee Money	Yield on Investment
Alabama	Yes	No	NA	3-1/2% Salary	4%	4.26%
Alaska	Yes	Yes	NA	4-1/2% Salary	3%	2.69%
Arizona	Yes	Yes	After 5 yrs.	3-1/2% Salary	3%	4.34%
Arkansas	Yes	No	After 20 yrs.	4% up to $6000	3%	4.09%
California	Yes	Yes	After age 55 and employee has made $500 contributions	Various	4%	4.10%
Colorado	Yes	Yes	After 5 yrs.	6% Salary	None	4.10%
Conn.	Yes	No	No	2% Salary to S.S+ 5% over S.S.	None	NA
Delaware	Yes	Yes	No	None	None	NA
Florida	Yes	No	No	6% Salary	NA	NA
Georgia	Yes	Yes	After 18 yrs.	5% Salary	3-1/2%	4.23%
	Yes	Yes	18-1/2 yrs.	3% first $4200+ 5% over $4200*	3-1/2%	4.23%

* Additional 1/2 of 1% for survivors benefits.

State	Disability	Survivors	Vesting	Employee Contributions	Rate of Interest on Employee Money	Yield on Investment
Hawaii	Yes	Yes	After 5 yrs.	6% Salary*	4%	4.13%

* Additional 1/2 of 1% for cost of living benefits.

State	Disability	Survivors	Vesting	Employee Contributions	Rate of Interest on Employee Money	Yield on Investment
Illinois	Yes	Yes	No	6% Salary*	2%	3.36%

* Additional 1% for survivors benefits.

State	Disability	Survivors	Vesting	Employee Contributions	Rate of Interest on Employee Money	Yield on Investment
Indiana	Yes	Yes	After 10 yrs.	3% up to $8500	3%	3.40%

SUMMARY OF STATE EMPLOYEE RETIREMENT SYSTEMS (Continued)

State	Type of Plan	Social Security	Requirements for Retirement Benefits: Normal	Requirements for Retirement Benefits: Early Age	Normal Retirement Benefits for Each Year of Future Service
Iowa	Money Purchase	Yes	At age 65	55	---
Kansas	Final Avg. Sal.	Yes	At age 65	60 & 10	1% of Salary
Kentucky	Final Avg. Sal.	Yes	At age 65	55 & 15 yrs.	1% of first $4,800 + 1-1/4% over $4,800
Maryland	Final Avg. Sal.	Yes	After 30 yrs. or age 60	After 30 yrs.	1-3/7% of Salary
Mass.	5 Yr. Avg. Sal.	No	At least 20 yrs. or age 55	50	2-1/2% of Salary*

*Maximum benefit of 80% of final 5 year average salary.

State	Type of Plan	Social Security	Normal	Early Age	Normal Retirement Benefits for Each Year of Future Service
Michigan	Final Avg. Sal.	Yes	10 yrs. & age 60	55 & 15 yrs.	1% first $4,200 + 1-1/2% over $4,200
Minnesota	5 Yr. Avg. Sal. up to $4,800	Yes	Age 65 or age 58 with 20 yrs.	58	1% each 1st 10 years 1% each 2nd 10 yrs. 1-2/3% each 3rd 10 yrs. 1-3/4% over
Mississippi	5 Yr. Avg. Sal.	Yes	Age 65	55 & 30 yrs. or 60+10 yrs.	1-1/4% of Salary over $1,200*

*Average annual salary for 5 highest consecutive years less $1,200.

State	Type of Plan	Social Security	Normal	Early Age	Normal Retirement Benefits for Each Year of Future Service
Missouri	5 Yr. Avg. Sal. up to $7,500	Yes	Age 65	60 & 15	1% of Salary
Montana	Money Purchase	Yes	Age 65	60 & 10	---
Nevada	Final Avg. Sal.	No	Age 60 & 10 yrs. after 30 yrs. and age 55	55	2-1/2% of Salary first 20 yrs. 1-1/2% next 10 yrs.
New Hamp.	Final Avg. Sal.*	Yes	Age 65	--	5/6% first $4,200 + 6/7% over $1,200 up to $4,200; 1-3/7% over $4,200; 1-2/3% over $4,200 for first 30 yrs.*

* 5/12% first $4,200 + 5/6% over $4,200 for service over 30 years.

State	Type of Plan	Social Security	Normal	Early Age	Normal Retirement Benefits for Each Year of Future Service
New Jersey	Final Avg. Sal.	Yes	Age 60	After 25 yrs.	1-2/3% of Salary*

*A special veterans benefit: 1/2 of last years salary at age 60 and 20 years service. Pension reduced at 65 on account ofSocial Security payments.

SUMMARY OF STATE EMPLOYEE RETIREMENT SYSTEMS
(Continued)

State	Additional Benefits For: Disability	Survivors	Vesting	Employee Contributions	Rate of Interest on Employee Money	Yield on Investment
Iowa	No	No	After age 48 & 8 yrs.	3-1/2% up to $4,800	2%	4.00%
Kansas	No	Yes	After 10 yrs.	4% Salary	Various	4.22%
Kentucky	Yes	Yes	NA	3.5% Salary	3%	4.56%
Maryland	Yes	Yes	No	Various	3%	4.09%
Mass.	Yes	Yes	After age 55	5% Salary	3.4%	3.28%
Michigan	Yes	Yes	No	3% first $4,200 + 5% over $4,200	3%	3.72%
Minnesota	Yes	No	After 10 yrs.	3% up to $4,800	None	4.75%
Mississippi	Yes	Yes	No	4% on earnings between $1,200 - $15,000	3%	3.85%
Missouri	Yes	No	After 15 yrs.	4% up to $7,500	3%	4.73%
Montana	Yes	Yes	No	Various	3-1/2%	4.30%
Nevada	Yes	Yes	No	5-3/4% Salary	None	4.27%
New Hamp.	Yes	Yes	No	Various	3%	3.52%
New Jersey	Yes	Yes	After 20 yrs.	Various	3%	3.95%

SUMMARY OF STATE EMPLOYEE RETIREMENT SYSTEMS (Continued)

State	Type of Plan	Social Security	Requirements for Retirement Benefits Normal	Requirements for Retirement Benefits Early Age	Normal Retirement Benefits for Each Year of Future Service
New Mex.	Final Avg. Sal.	Yes	20 yrs.&age 60 5 yrs.& age 65	60	2% of Salary*
* Maximum pension not to exceed 40% of final average salary or $250 after 30 years service.					
New York	Final Avg. Sal.	Yes	Age 55 or 60	55	5/7 of Salary if age 60* or 5/6% Salary if age 55*
* Plus additional benefit provided by members' contributions.					
No. Carol.	Money Purchase	Yes	Any time after 30 yrs. or age 60	60	--- *
* Minimum benefit of $70 per month after 20 years.					
Ohio	5 Highest Yrs.*	No	25 yrs. at age 55 5 yrs. at age 60	55	1-13/20% of Salary
* Average salary must be at least $4,364.					
Oregon	Money Purchase	Yes	Age 65	---	---
R. I.	5 Year Avg.	No	10 yrs.&age 60	---	1-2/3% of Salary
So.Carol.	Money Purchase	Yes	At age 60; anytime after 35 yrs.	---	NA
Tennessee	10 Highest Yrs.	Yes	At age 65	55	7/8% first $4,800 + 1-3/4% over $4,800
Texas	Final Avg. Sal.	Yes	At age 60 with 10 yrs. or anytime after 30 yrs.	After 30 yrs.	1% each 1st 10 yrs. 1-1/4% ea. 2nd 10 yrs. 1-1/2% ea. 3rd 10 yrs. 1-3/4% over 30 yrs.*
* Minimum benefit is $40.00 per month.					
Utah	Career average	Yes	Age 65 or 60 with 10 years	Age 60	1% of Average Wage up to $6,000
Vermont	Final Avg. Sal.	Yes	At age 65 or at 60 with 10 yrs. or After 32 yrs.	55 F 60 M	5/7% of Salary*
* Plus additional benefits provided by members' contributions.					
Virginia	5 Highest Yrs. excess 1st $1,200*	Yes	Age 65	60	1-1/8% of Salary in excess of $1,200*
* Average final salary for 5 highest years less $1,200.					

SUMMARY OF STATE EMPLOYEE RETIREMENT SYSTEMS
(Continued)

State	Additional Benefits For Disability	Survivors	Vesting	Employee Contributions	Rate of Interest on Employee Money	Yield on Investment
New Mex.	Yes	Yes	After 10 yrs.	5% Salary	None	4.91%
New York	Yes	Yes	After 15 yrs.	Various	3.8%	3.90%
No. Carol.	Yes	Yes	After 20 yrs.	3% to S.S. level + 5% of excess	4%	3.94%
Ohio	Yes	Yes	After 5 yrs.	7% up to $18,000	None	3.82%
Oregon	Yes	Yes	After 5 yrs.	Various	NA	4.00%
Rhode I.	Yes	Yes	No	5% Salary	None	NA
So. Carol.	Yes	No	After 20 yrs.	3% to S.S. level + 5% of excess	4%	NA
Tennessee	Yes	No	After 10 yrs.	3% first $4,800 + 5% over $4,800	3-1/2%	3.84%
Texas	Yes	Yes	After 15 yrs.	5% Salary	3%	3.81%
Utah	Yes	No	NA	4% up to $6,000	3%	4.22%
Vermont	Yes	No	After 10 yrs.	Various	3%	3.93%
Virginia	Yes	Yes	After 15 yrs.	4-1/2% over $1,200	2%	4.01%

SUMMARY OF STATE EMPLOYEE RETIREMENT SYSTEM (Continued)

State	Type of Plan	Social Secu- rity	Requirements for Retirement Benefits Normal	Early Age	Normal Retirement Benefits for Each Year of Future Service
Washington	5 Highest Yrs.	Yes	At age 60 with 5 yrs. or after 30 yrs.	After 30 yrs.	5/6% of Salary* + $100 Flat Amount

* Plus additional benefit provided by member contributions.

State	Type of Plan	Social Secu- rity	Requirements for Retirement Benefits Normal	Early Age	Normal Retirement Benefits for Each Year of Future Service
W. Va.	Final Avg. Sal.	Yes	Age 60 with 10 yrs.	---	1% of Salary
Wisconsin	Money Purchase	Yes	At age 65	55	---
Wyoming	Money Purchase	Yes	At age 60 with 5 yrs.	After 25 yrs.	---

(This chart shows the major provisions of individual state retirement systems; it is not meant to be a complete description, but merely to be used as a guide for comparison between systems. The above information is based on currently available data.)

SUMMARY OF STATE EMPLOYEE RETIREMENT SYSTEMS
(Continued)

State	Additional Benefits For: Disability	Survivors	Vesting	Employee Contributions	Rate of Interest on Employee Money	Yield on Investment
Wash.	Yes	Yes	No	5% Salary + $2.50 a year	4%	4.05%
W. Va.	Yes	Yes	After 20 yrs.	3-1/2% Salary	3%	3.95%
Wisconsin	Yes	Yes	NA	4% Salary	5%	4.63%
Wyoming	Yes	No	After 5 yrs.	2% Maximum $7,200	3%	3.20%

(This chart shows the major provisions of individual state retirement systems; it is not meant to be a complete description, but merely to be used as a guide for comparison between systems. The above information is based on currently available data.)

APPENDIX B

SUMMARY OF STATE TEACHERS RETIREMENT SYSTEMS

State	Type of Plan	Social Sec. Bens.	Retirement Benefits: Normal	Retirement Benefits: Early	Normal Retirement Benefits for Each Year of Future Service	Additional Benefits for: Disability	Additional Benefits for: Survivor	Employee Contributions
Alabama	Final Avg.Sal.	Yes	65+10 yrs.	60	1-1/4% Salary*	10 yrs.	No	4% Salary
*Minimum Benefit of $43.20 per year to 25 years or money purchase if higher.								
Arizona	Money Purchase	Yes	65	60	---	5 yrs.	Yes	3-1/2% of Salary
Arkansas	Final Avg.Sal.	Yes	60+10 yrs.	None	1-1/4% Salary to Max. $6,000	10 yrs.	Yes	5% of first $6,000 Salary
California	3 Consecutive Highest Years	No	60+ 5 yrs.	55	1-2/3% of Salary each year	5 yrs.	Yes	Various
Colorado	Final Avg.Sal.	No	60+20 yrs. Or55+35 yrs.	55	2-1/2% Salary to Max. 20 yrs.	5 yrs.	Yes	6% of Salary
Connecticut	Final Avg.Sal.	No	60+20 yrs. or 35 yrs.	After 30 Yrs.	2% of Salary first 20 yrs. 1% of each additional yr.	10 yrs.	Yes	5% of Salary*
*Additional 1% for Survivors Benefits.								
Florida	Final Avg.Sal.	No	60+10 yrs.	55	2% of Salary each yr.	10 yrs.	Yes	6% of Salary*
*Additional 1/4% for Survivors Benefits.								
Georgia	5 Consec. yrs.	Yes	65+10 yrs.	55+35 yrs. 60+10 yrs.	1-3/4% of Salary	15 yrs.	Yes	6% of Salary
Hawaii	Final Avg.Sal.	Yes	55+5 yrs.	After 25 years	2% of Salary each yr.	10 yrs.	Yes	6-1/2% Salary
Idaho	Final Avg.Sal.	Yes	60	None	5/7% of Salary up to $4,800 each year*	10 yrs.	Yes	Various
*Plus additional benefit from member's contributions.								
Illinois	Final Avg. Sal.	No	60+20 yrs.	55+20 yrs.	1-1/2% Salary + $150 or 1-2/3% Salary*	10 yrs.	Yes	6% Salary **
*Maximum Benefit $1,000 per month. **Additional 1% for survivors benefits.								
Indiana	5 Highest Yrs.	Yes	65+10 yrs.	After 15 yrs.	.6% first $3,000 + 1.1% over $3,000	7 yrs	yes	3% of Salary of first $8,500
Iowa	Money Purchase	Yes	65	55	--	None	None	3-1/2% of first $4,800
Kansas	Flat Benefit	Yes	65+10	60	$1 per month for first 10 yrs.+$1.50 next 10 yrs.+$2 per mo. for next 5 yrs.+Benefit from contributions.	15 yrs.	None	4% of first $5,000 Salary
Kentucky	5 Highest yrs.	No	65	After 30 years	1-3/4% of Salary each year	10 yrs.	Yes	6-1/2% Salary*
*Additional 1/2% for Survivors and Medical benefits.								

SUMMARY OF STATE TEACHERS RETIREMENT SYSTEMS (Continued)

State	Type of Plan	Social Sec. Bens.	Requirements For Retirement Benefits: Normal	Requirements For Retirement Benefits: Early	Normal Retirement Benefits for Each Year of Future Service	Additional Benefits for: Disability	Additional Benefits for: Survivor	Employee Contributions
Louisiana	5 Consecutive years	No	60 + 15 yrs. or 55 + 30 yrs.	-	1-1/2% of Salary each year	5 yrs.	Yes	6% of first $16,000 Salary
Maryland	5 Consecutive years	Yes	60	After 30 years	1-3/7% Salary	5 yrs.	Yes	Various
Massa-chusetts	5 Consecutive years	No	65	55	2-1/2% Salary each yr. to 32 years	15 yrs.	Yes	5% Salary
Michigan	5 Consecutive years	Yes	60 +10 yrs.	55 + 30 years	1% of first $4,200 + 1-1/2% Excess Salary each year	10 yrs.	Yes	3% of first $4,200 + 5% Excess
Minne-sota	Money Purchase	Yes	After 30 years	55 + 10	---	10 yrs. or Age 50	Yes	3% of first $7,200 Salary
Missis-sippi	5 Consecutive years	Yes	65 + 10 years	55 + 30 years	1-1/4% on excess over first $1,200 each year	10 yrs.	Yes	4% on excess over $1,200
Missouri	10 Consecutive Years	No	65 + 5 years	After 30 years	1-9/10% + 70¢ each year	8 yrs.	Yes	6% of first $12,600
Montana	3 Consecutive years	Yes	60 + 10 years	No	6/7% Salary each yr.*	10 yrs.	Yes	5% of first $7,000

* Maximum Average Salary $7,000. Additional benefits from members' contributions.

Nebraska	Flat Benefit	Yes	65 + 5 yrs.	After 35	$1.50 for each month*	15 yrs.	No	5% of first $3,600

* Maximum Benefit of $630.00 plus benefits purchased by members' contributions.

Nevada	Final Avg. Sal.	No	60 + 10 yrs.	55 + 30 years	2-1/2% of Salary first 20 yrs., 1-1/2% next 10 years	10 yrs.	Yes	5% Salary *

* Additional 1/4% for cost of living and 1/2% for Survivors Benefits.

New Hamp-shire	Final Avg. Sal.	Yes	60	None	1-3/7% of Salary each year*	10 yrs.	No	Various

* Plan benefit reduced after age 65 when OASDI benefits commence.

New Jersey	Final Avg.Sal.	No	60	After 25	1-2/3% of Salary less Social Security Ben.	10 yrs.	Yes	Various
New Mex.	Final Avg.Sal.	Yes	65 + 10 yrs. or 60 + 15 yrs.	30	1-1/2% first $4,000 + 1% of excess salary each year	10 yrs.	No	4% of Salary

SUMMARY OF STATE TEACHERS RETIREMENT SYSTEMS (Continued)

State	Type of Plan	Social Sec. Bens.	Requirements For Retirement Benefits: Normal	Requirements For Retirement Benefits: Early	Normal Retirement Benefits for Each Year of Future Service	Additional Benefits for: Disability	Additional Benefits for: Survivors	Employee Contributions
New York	Final Avg. Sal.	Yes	65 or 35 yrs. or 60 + 25 yrs.	55 + 20 yrs.	1% of Salary for each of first 25 yrs. + 5/6% for next 10 yrs. + 5/7% for all years over 35*	15 yrs.	Yes	Various
* Plus additional benefit from members' contributions.								
No. Carolina	Final Avg. Sal.	Yes	65	50 + 20 years	1% first $5,600 + 1-1/2% excess $5,600 each year	10 yrs.	Yes	4% of first $5,600 + 6% of excess salary
No. Dakota	Career Avg.	Yes	55 + 25 years	55 + 10 years	2% total earnings during first 25 yrs.* + $60 each year after 25	15 yrs.	No	Various
* Maximum benefit first 25 yrs. $1,200.								
Ohio	Final Avg. Sal.	No	65 + 5 yrs. or after 35 yrs.	55 + 25 years	1-3/4% of Salary each year; Minimum $76 each year	5 yrs.	Yes	7% of first $25,000
Oklahoma	Money Purchase	Yes	62	60 or after 30 years	--- *	9 yrs.	No	4% of first $7,500
* Minimum benefit of $52.80 per year of service.								
Oregon	Money Purchase	Yes	65	50	---	10 yrs.	Yes	Various
Pennsylvania	Final Avg. Sal.	Yes	62 + 5 yrs. or after 35 years	After 25	1-3/7% of Salary each year	10 yrs.	No	Various
Rhode Island	5 Consecutive Years	No	60 + 10 yrs. or 35 yrs.	30	1-2/3% Salary each year. Maximum 45 yrs.	10 yrs.	Yes	6% Salary *
* Additional 1-1/2% Salary to $4,800 for Survivors Benefits.								
South Carolina	Final Avg. Sal.	Yes	65	35	1% of Salary to S.S. + 1-1/2% of excess salary each year	10 yrs.	No	4% Annual Salary to Soc.Sec.Level 6% of excess
So. Dakota	Final Avg. Sal.	Yes	65 + 15 years	60 + 20 years	1% of first $4,800 each year	10 yrs.	No	3-1/2% first $4,800 Salary
Tennessee	Money Purchase	Yes	60	After 30	---	10 yrs.	No	3% of first $4,800 + 5% of excess salary

SUMMARY OF STATE TEACHERS RETIREMENT SYSTEM (Continued)

State	Type of Plan	Social Sec. Bens.	Requirements For Retirement Benefits: Normal	Requirements For Retirement Benefits: Early	Normal Retirement Benefits for Each Year of Future Service	Additional Benefits for: Disability	Additional Benefits for: Survivor	Employee Contributions
Texas	10 Highest years	Yes	60 + 20 yrs. or 65 + 10 years	55 + 15 years	1-1/2% of salary each year	-0-	Yes	6% of first $8,400
Utah	10 Highest years	Yes	65 + 10 years	55 + 30 yrs. or 60 + 20 years	1% of Salary up to $4,800	10 yrs.	Yes	4% on first $4,800
Vermont	5 Highest years	Yes	60	After 35 years	1-3/7% of Salary each year with maximum of 35 years.	15 yrs.	Yes	Various
Virginia	5 Consecutive Years	Yes	65	60	1-1/8% of excess over first $1,200 each year	10 yrs.	Yes	4-1/2% of Salary over $1,200
Washington	Final Avg. Salary	Yes	60 + 5 yrs. or 30 years	After 30 years	5/6% of Salary up to $15,000 each year*	15 yrs.	Yes	5% of Salary to $15,000
* Plus additional benefits from members' contributions.								
West Virginia	Final Avg. Sal.	Yes	60 + 5 yrs.	55 30 yrs.	1% of Salary up to $7,500 each year	10 yrs.	Yes	4-1/2% of first $7,500 Salary
Wisconsin*	Final Avg. Sal.	Yes	65	50	6/7% of first $6,600 Salary + 1-2/7% of excess each year*	5 yrs.	Yes	4-1/2% of first $6,600 Salary + 7% of excess
* Separate plan for employees not covered under Social Security.								
Wyoming	Money Purchase	Yes	60 + 5 yrs.	After 25 yrs.	---	15 yrs.	No	2-1/4% of first $7,200

(This chart shows the major provisions of individual state teachers retirement systems; it is not meant to be a complete description, but merely to be used as a guide for comparison between systems. The above information is based on currently available data.)