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STATE OF MAINE

90th Legislature

Report on a Proposed Retirement System For State Employees of Maine

Submitted by the

Recess Committee on State Contributory Pension System
1941

Ordered printed by the House

RECESS COMMITTEE

ON

STATE CONTRIBUTORY PENSION SYSTEM

JOHN BLANCHARD

ROBERT B. DOW

ARTHUR G. SPEAR

GEORGE J. WENTWORTH

W. MAYO PAYSON

H. P. 1659 January 22, 1941.

To the Honorable Senate and
House of Representatives
of the Ninetieth Legislature.

Gentlemen:

The Recess Committee on State Contributory Pension System appointed for the purpose of making a study of a retirement system for employees of the State, has the honor to submit herewith its report.

Briefly described, the investigation of the Committee indicates that it is to the advantage of the taxpayers of the State as well as of the employees of the State that a sound jointly contributory retirement system be adopted for State employees. The Committee has accordingly developed the provisions of a retirement plan which it recommends for adoption. The details of the proposed retirement plan are presented in this report together with a statement of the appropriation required of the State to support the system, as prepared by the Committee's actuary.

The Committee trusts that the proposed retirement system will be found acceptable to the members of the Legislature, and that its adoption will result in a permanent and satisfactory basis for the retirement of State employees.

Respectfully submitted,

RECESS COMMITTEE ON STATE
CONTRIBUTORY PENSION SYSTEM

By W. Mayo Payson, Clerk.

CONTENTS

	Page
Introduction	7
Summary of the Main Provisions of the Proposed Retirement System	11
The Cost of the Plan to Employees and to the State	15
Basis for Recommendations of Committee	19
Illustrations of Benefits	28

REPORT ON A PROPOSED RETIREMENT SYSTEM FOR STATE EMPLOYEES IN MAINE

In this report the Recess Committee on State Contributory Pension System recommends the establishment of a jointly contributory retirement system for State employees. Before the Committee presents the plan recommended, it wishes to describe briefly the existing retirement provisions for State employees, and the reasons for its recommendation of a new retirement plan for State employees in the form proposed.

At the present time the principal retirement acts for State employees are as follows:

1. To approximately 2,396 teachers who were in service on or prior to July 1, 1924, a non-contributory retirement plan applies which provides pensions of $500 per annum after 35 years of service. This plan will eventually become ineffective as the number of teachers included under its provisions are retired.

2. To approximately 2,665 teachers who entered the service after July 1, 1924 a jointly contributory plan applies whereby the teachers contribute 5 per cent of salary towards retirement annuities payable at age 60 after 30 years of service. The teacher's annuity is matched at retirement by a pension of equal amount provided by the State. This plan will eventually apply to all teachers in the State.

3. To approximately 3,648 State employees non-contributory retirement provisions apply which provide half salary pensions after 25 years of service or at age 70 with 20 years of service, with minor exceptions with respect to prison officials.

4. To small groups of special employees such as the State highway police and judges, special retirement legislation applies.

With the exception of the jointly contributory retirement system applying to teachers, the retirement provisions for State employees are operated on a non-contributory basis, that is, they are supported entirely by appropriations by the State. No reserves are accumulated under the plans. The State appropriates each year sufficient amounts to meet

the maturing pension payments but makes no provision for the accumulation of reserves to meet its future maturing pension obligations.

This Committee does not raise the question of the necessity of pension benefits for State employees. The State itself has recognized this necessity and as a result adopted the existing retirement laws. The Committee has concerned itself rather with the method of financing retirement benefits and particularly with the matter of having employees contribute towards their benefits.

Retirement allowances should not be gratuities. State employees should not be placed in a class to be favored in their old age over the man in private business or professional life. The primary reason for the State operating a retirement system is to benefit taxpayers. This becomes clear if we consider what would be the result if the State were to operate without a retirement system. With no retirement provisions, as employees reached old age, the State would have the choice of dismissing them or of allowing them to continue on the active payroll. Some employees are naturally thrifty and could be dismissed, but many are not, and if they were dismissed the State would have to support them in some way or another. But experience shows that executive officers will not dismiss an old employee who has no means of support. Rather than face adverse public opinion, executive officers will generally keep old employees on in service even though they cannot earn full salaries. Gradually a hidden pension roll develops of the amount paid in unearned salaries. While this is not recognized as a pension roll, this practice results in a charge on the taxpayers that may be very much greater than would be required for the support of a formal retirement plan.

Before the Federal Government adopted its retirement plan, a survey was made showing that hundreds of employees in their eighties and nineties were being continued on the payroll at full salaries and that the value of the work that they were producing represented less than half of the salaries that were being paid to them. The Federal Government finally adopted a retirement system as an economy and efficiency measure.

Under a jointly contributory retirement system a young

employee entering service is compelled to be thrifty, because he is forced to save part of his compensation during his active service. Consequently when he reaches old age he can be retired from service, and his own savings plus a reasonable allowance from the employer provide an adequate retirement income. The cost to the employer under the jointly contributory plan is considerably less than the amount the employer would lose in unearned salaries if no such system existed, so that the taxpayers are given better service and pay less money than if no retirement system were in operation. In order to protect the taxpayers, the benefits which are paid for by the public must be kept down to conservative limits, but this is accomplished automatically by having both the employee and the public contribute concurrently towards the accumulation of retirement reserves, because this means that any liberalization of benefits is immediately reflected in an increase in the contributions of both employees and the employers. This increase in immediate contributions required acts as a brake on unreasonable increases in benefit.

A jointly contributory plan of this type, with provision for the accumulation of proper reserves during the active service of employees, is the plan recommended by the Committee to replace the present retirement provisions under which the State contributes the entire cost as the pension payments fall due. The general consensus seems to be that this basis results in the safest and most economical type of retirement system from the viewpoint of both the employees and the taxpayers. In New York State, largely due to the efforts of the State Pension Commission, systems of this type have superseded the old non-reserve systems for state employees. New York State now has two main retirement systems on the jointly contributory reserve basis, one for teachers and one for other state employees. Similarly New Jersey has two systems operating on a jointly contributory reserve basis and covering, respectively, teachers and other state employees. The states of Rhode Island, Pennsylvania and Massachusetts have similar systems for their employees. The recommendation of this Committee follows the precedents set by these states in providing soundly financed retirement benefits.

The proposed retirement plan may be supported by the State by a contribution of 4.05 per cent of the payroll of State employees or for $203,545 per annum on the basis of the payroll of $5,025,800 covering the 3,648 employees included in the Committee's investigation. The Committee finds that the State will reduce its pension costs very materially if it adopts the proposed plan for these employees and discontinues the existing provisions. The existing provisions are now requiring the appropriation of only the amount required to cover the pension roll of slightly less than $50,000 per annum. However, this is not the true cost of the existing pension provisions. If the State financed the existing provisions on a reserve basis, a contribution of approximately 7 per cent of the payroll or $352,309 per annum would be required during the next thirty years as compared with 4.05 per cent of payroll or $203,545 per annum, the corresponding contribution for the proposed system. Therefore, the adoption of the new system would represent a saving of approximately $148,764 per annum during the next thirty years. After that time, there would be a saving of approximately $108,000 per annum. The saving to the State results from the fact that the plan calls for contributions of employees which will take care of half the cost of benefits for future service and from the fact that retirement is permitted on a less liberal basis than the existing law would permit.

Within the scope of this report the Committee has been unable to deal with the retirement plans of the State now applying to other than the principal group of general State employees. The Committee hopes, however, that eventually the State may place the jointly contributory system for teachers also on a reserve basis.

The retirement plan proposed for State employees is in a form that may be easily adapted to meet the needs of the cities and towns of the State if the State should wish to make it possible for the smaller governmental units to have their employees participate in the system. Other states with similar plans have arranged to permit smaller governmental units to participate in the State systems, with the employees making the same contributions as State employees and the municipalities or other units making a con-

tribution corresponding to the State contribution. This arrangement has been advantageous to the smaller units inasmuch as it has given them the opportunity to participate in a larger system at less cost than would be involved in the operation of a small plan applying only to its own employees.

This report gives a detailed description of the plan recommended by the Committee. Following the main provisions of the plan is given a statement of the contributions required of the employees and the State for the support of the plan. A discussion of the plan together with illustrations of the benefits is then given. The report prepared by the actuary giving the basis used in the calculations is given in the appendix to this report.

SUMMARY OF THE MAIN PROVISIONS OF THE PROPOSED RETIREMENT SYSTEM

The following summary gives in brief form the main provisions of the proposed retirement system.

MEMBERSHIP OF SYSTEM

In general, the proposed retirement plan is designed to cover the classes of State employees who are now included under the existing non-contributory retirement provisions of Sections 231-233 and Sections 227-230 of Chapter 1 of the Laws of 1933. These provisions cover all general State employees, including officers of State prisons and teachers in State normal schools and the Madawaska Training School. Teachers who are covered by the existing teachers' acts will not be eligible for membership in the system. Membership will be determined as follows:

(a) All general State employees who enter the service of the State after the establishment of the system will be required to become members as a condition of their employment.

(b) All general State employees who are in service on the date the new system is established and who are eligible for membership will be included in the membership unless within the thirty days next following they elect to waive membership.

ADMINISTRATION

The retirement system will be administered by a Board of Trustees which may consist of State officials who will serve ex officio, and representatives of the membership of the system who will be elected by the members. The general duties of the Board will consist of:

(1) Keeping the system actuarially sound.

(2) Investing and managing the reserve funds of the system.

(3) Granting retirement allowances as provided by the retirement act.

PROVISION FOR SAFEGUARDING THE SYSTEM AND INSURING ITS PERMANENCY

(a) Definite restriction will be placed upon the investments to insure a conservative investment policy. The restrictions on the investment of the funds will be those imposed by the State upon life insurance companies in the making and disposing of their investments.

(b) Provision will be made in the retirement act to provide that the combined contributions by State and employees shall be adequate to cover the cost of the benefits proposed.

(c) Provision will be included for guaranteeing the maintenance of proper reserves.

(d) Provision will be included for periodic actuarial revaluations and investigations.

BENEFITS

The proposed plan will provide for the payment of retirement allowances to employees retiring on account of service or disability. Provision will be included for a return of the employee's contributions with certain interest credits in the event of withdrawal or death before retirement. Described in greater detail, the proposed benefits will be as follows:

Service Retirement Allowance

Condition for Allowance. Upon the demand of any employee who has attained the age of 65, a retirement allowance will be payable. Retirement will be compulsory at age 70.

Amount of Allowance. The retirement allowance will be approximately 1/70 of the average final compensation*

*The average annual compensation of the last 10 years of service is hereafter referred to as the "average final compensation".

of the employee multiplied by the number of years of service rendered prior to the date of retirement.

The retirement allowance will consist of two parts, an annuity provided by the contributions of the employee on the "savings bank basis", and a pension provided by the State.

The annuity provided by the employee will be exactly equal in value to his contributions with interest at the time of his retirement. The rates will be set to provide an annuity at age 65 of approximately 1/140 of the average final compensation of the employee multiplied by his years of membership.

The pension will be 1/140 of the average final compensation of the employee multiplied by his years of membership, i.e., approximately equal to his annuity.

In addition, if an employee receives credit for service rendered before the establishment of the system, the State will provide an additional pension of 1/70 of his average final compensation multiplied by the number of years of service rendered prior to the establishment of the system for which he receives credit.

Disability Retirement

Allowance

Condition for Allowance. Upon the occurrence of total and permanent disability an employee who has completed ten or more years of service will receive a disability retirement allowance.

Amount of Allowance. In the event of disability, an employee will receive a total retirement allowance of 9/10 of 1/70 of his average final compensation multiplied by the number of years of his creditable service. The minimum allowance payable will be 25% of the average final compensation except in the case of employees entering the service after age 45. In the latter case, the minimum rate of allowance will be 9/10 of the rate of allowance which would have been payable at age 65.

The accumulated contributions of the employee will be used to purchase an annuity, and the State will provide a pension which, with this annuity, will be sufficient to provide the total allowance.

Any Workmen's Compensation benefit payable on account of the same disability will be offset against the disability benefit payable from the retirement system, so that only the difference between the retirement system benefit and the Workmen's Compensation benefit will be payable by the retirement system.

Return of Contributions. Upon the withdrawal of an employee from service prior to retirement, the entire amount of his contributions, with not less than ¾ of the interest accumulations thereon, will be returned to him; or upon death prior to retirement, such amount will be paid to his estate or beneficiary.

Special Privileges upon Retirement. Upon retirement an employee may elect to receive his retirement allowance in any one of the following forms, which are computed to be equivalent in value.

(a) Full amount payable in monthly instalments throughout the life of the employee, all payments ceasing at death.

(b) Option 1—Reduced annuity payments during life, with a provision that in case of death before such annuity payments have equalled the value of the employee's accumulated contributions at the date of retirement, the balance shall be paid to his estate or designated beneficiary.

(c) Option 2—Reduced retirement allowance, with the provision that at the death of the retired employee, the amount of his allowance shall be continued throughout the life of such other person as he shall have designated at the time of his retirement.

(d) Option 3—Reduced retirement allowance, with the provision that at the death of the retired employee, one half of the amount of his benefit shall be continued throughout the life of such other person as he shall have designated at the time of his retirement.

CONTRIBUTIONS

By Members. (a) Each employee is to contribute a definite percentage of his salary determined by sex and age at the time of becoming a member. Table 1 on page 16 gives the rates. . For men they range from 3.70% to 5.83%, while for women they range from 4.22% to 6.65%.

(b) The initial rate payable by the employee is computed to remain unchanged to retirement.

(c) At retirement, employees are to receive the exact annuities which the contributions credited to their account with interest will provide. In case of withdrawal or death before reaching the retirement age, the amount so credited with not less than ¾ of the interest thereon will be returned. Upon disability before attaining age 65, the disabled employee's contributions will be used towards the provisions of an annuity.

By State. (a) The State will make annual contributions on account of each member of the retirement system sufficient to provide for the service and disability pensions payable by the State on account of service rendered while the employee is a member. For employees in service when the system is established the State will make additional contributions to provide the additional pensions allowable on account of their prior service.

(b) The contributions on account of membership service, or the normal contributions, will be approximately 2.13% of the payroll.

(c) The contributions on account of past service, or the accrued liability contributions, will be approximately 1.92% of the payroll. The accrued liability contribution will be discontinued in about 30 years.

FINANCIAL PROVISIONS

It is proposed that the retirement system follow the usual financial provisions of the governmental retirement systems operated on the reserve basis, and maintain four accounts or funds into which contributions on account of annuities and pensions are made and from which benefits are paid, and one fund from which the administrative expenses are paid. The five funds are proposed solely for the purposes of simplifying the operation of the system and making it possible to locate immediately the source from which any surplus or deficit indicated by an actuarial valuation has developed. The following chart indicates in a general way the operation of the funds.

THE COST OF THE PLAN TO EMPLOYEES AND TO THE STATE

In preparing the plan, the Committee endeavored to consider no benefit provision without knowledge of the full cost, both to employees and to the public, which would be involved in adopting the provision. This knowledge has been an important factor in deciding what the recommendations of the Committee should be. The detailed cost figures for the benefits finally adopted are given below.

CONTRIBUTIONS PAYABLE BY EMPLOYEES

It is proposed that each employee contribute a certain percentage of salary fixed according to age at becoming a mem-

ber of the retirement system, and according to sex. The percentage will provide in the average case one half of the total retirement allowance payable on account of service rendered by the employee after he becomes a member of the system.

An account will be opened for the employee to which his contributions with interest will be credited. At the time of retirement the total amount in his account will be used to provide an annuity, and in the average case this annuity will be approximately equal to the amount of the pension provided by the State. If the employee leaves the service without a retirement allowance, the full amount of his contributions, with not less than three-quarters of the interest credits thereon, will be returned to him; or in the case of death, to his estate or a beneficiary named by him. Therefore, the employee's contributions will be used for his sole benefit in every contingency.

The following table gives the rates of contribution proposed for employees. Separate rates are shown for men and women employees. The rates for women are slightly higher than the rates for men, principally because of the difference in the rates of mortality after retirement as they apply to men and women.

TABLE 1

RATES OF CONTRIBUTION PAYABLE BY EMPLOYEES EXPRESSED AS PERCENTAGES OF SALARY

Age When Contributions Begin	Rates For Men	Rates For Women
20	3.70%	4.22%
21	3.70	4.23
22	3.71	4.24
23	3.72	4.25
24	3.73	4.26
25	3.74	4.27
26	3.76	4.29
27	3.78	4.31
28	3.80	4.34
29	3.83	4.37
30	3.86	4.40

TABLE 1 (Continued)

Age When Contributions Begin	Rates For Men	Women
31	3.89	4.44
32	3.92	4.48
33	3.96	4.52
34	4.00	4.56
35	4.04	4.61
36	4.08	4.66
37	4.12	4.71
38	4.16	4.76
39	4.21	4.81
40	4.26	4.86
41	4.31	4.92
42	4.36	4.98
43	4.41	5.04
44	4.46	5.10
45	4.52	5.16
46	4.58	5.22
47	4.64	5.29
48	4.70	5.36
49	4.76	5.43
50	4.82	5.50
51	4.88	5.57
52	4.95	5.65
53	5.02	5.73
54	5.09	5.81
55	5.16	5.89
56	5.23	5.97
57	5.30	6.05
58	5.37	6.13
59	5.44	6.21
60	5.51	6.29
61	5.59	6.38
62	5.67	6.47
63	5.75	6.56
64	5.83	6.65

The age at which the employee begins to make contributions is shown in the first column, and then the rates for men and women, respectively, are given. The table shows, for example, that a male employee entering the proposed plan at age 25 would contribute to the fund 3.74 per cent of his salary or wages. His contributions would continue at the initial rate until age 65. At age 65 he would be eligible

for retirement, and on retirement the total amount of his accumulated contributions would be used to purchase an annuity. Although the percentage rate of contribution of an employee remains constant throughout, the actual amount contributed from year to year does not remain constant, but changes as the compensation of the employee changes. For example, the male employee referred to above who begins contributing at age 25 at 3.74 per cent of his salary would pay, if his salary at the time of entering the system is $90 a month, a monthly contribution of $3.37 the first year. If in the next year his salary should be increased to $100 per month, his contribution would still be 3.74 per cent of the salary, but the amount would be $3.74 per month.

CONTRIBUTIONS PAYABLE BY THE STATE

Since there is no benefit provided by the State on account of the employee who leaves the service before retirement, a slightly different method of contribution is proposed for the State's payments. The State needs to make only sufficient contributions to provide the desired pensions for those employees who become eligible for benefits, without matching the contributions of employees who will withdraw from the service or die before retirement. The contribution which will be payable by the State for benefits on account of service rendered after the establishment of the plan may be termed the "normal contribution" of the State.

Normal Cost of Plan

Under the proposed plan of financing, the State will contribute annually to the retirement plan an amount equivalent to a certain proportion of the compensation of each employee entering the service of the State. This contribution will be computed to provide the share of the total retirement allowances of all new employees for which the State will be responsible. On the assumption that in the future employees will enter the State service at the average cost age of the present active force, the contributions payable for new employees will average approximately 2.13 per cent of payroll.

The plan proposed provides that the State will set aside a normal contribution of 2.13 per cent of the payroll of the

present membership. Since, however, the employees in service on the date the system is established are given full credit for back service, this normal contribution will not be sufficient to provide their entire pensions. The contribution required in addition to the normal contribution in order to take care of prior service is considered below.

Accrued Liability

In order to determine the amount of contributions due on account of past service, a valuation was made of the total benefits which will be paid to present employees by the State should employees receive full allowances on account of prior service and the existing pension roll be continued. Then the present value of the normal contributions on account of such present employees was computed and subtracted from the value of the total benefits which would be payable to present active and retired employees, leaving as the accrued liability the amount of the contributions required on account of prior service. The results of the valuation show that the benefits which will be paid to present employees and pensioners from the contributions of the State if the proposed system is adopted have a total present value of $3,547,972. The normal contributions of the State have a total present value of $1,137,637. If we subtract from the total liabilities of $3,547,972 the present value of future normal contributions amounting to $1,137,637, there remains a balance of $2,410,335, which is the amount of the accrued liability that must be taken care of if the fund is going to provide the proposed retirement benefits and continue to operate on a sound financial basis.

When a new retirement system is established or an unsound system reorganized, the accrued liability is generally liquidated by a series of payments spread over a number of years in the future rather than by a lump sum payment. The most usual method employed by sound governmental and industrial retirement plans is to set the accrued liability contribution at the outset as the percentage of payroll which will meet the interest on the accrued liability. If this percentage payment is continued and the payroll increases, the accrued liability will be gradually liquidated. Usually under

this basis the accrued liability contribution is continued for approximately thirty years. This period of years is based on the assumption that the payroll will increase by 3 per cent of itself each year. If the payroll increases by a greater or lesser percentage, the period required to liquidate the accrued liability will vary accordingly. This method of liquidating the accrued liability is recommended by the Committee, as it gives the lowest annual payment which will keep the accrued liability from increasing. On this basis of liquidating the accrued liability, an accrued liability contribution of 1.92 per cent of payroll is required.

Briefly, then, to support the plan, the contributions required in addition to those of the members would be a normal contribution of 2.13 per cent, and an accrued liability contribution of 1.92 per cent, making a total annual contribution payable by the State of 4.05 per cent of the payroll.

On this basis, the total annual payment from the State to the retirement system, based on the payroll of the prospective membership, would be as follows:

TABLE 2

FIRST YEAR'S APPROPRIATION PAYABLE BY STATE TO SUPPORT THE PROPOSED NEW RETIREMENT SYSTEM

Payment	As Percentage of Payroll	Amount Based on Payroll
Normal	2.13%	$107,050
Accrued Liability	1.92	96,495
Total	4.05%	$203,545

The foregoing appropriation represents the estimated first year's cost to the State, provided all present employees included in the valuation elect to be included in the new system. The number and payroll of active and retired employees included in the valuation are as follows:

TABLE 3

TOTAL NUMBER AND ANNUAL COMPENSATION OF ACTIVE AND RETIRED EMPLOYEES PREPARED AS OF JUNE 1, 1940

	In Active Service		On Retired List	
Group	Number	Salaries	Number	Annual Pensions
Men	2,114	$3,321,188	34	$23,634
Women	1,534	1,704,612	30	22,939
Total	3,648	$5,025,800	64	$46,573

BASIS FOR RECOMMENDATIONS OF COMMITTEE

Before reaching a decision in regard to the type of retirement system and the detailed form of the benefits to recommend for general State employees, the Committee considered the various types of retirement plans in the State and in operation for governmental employees outside the State. Below are given some of the reasons leading to the final recommendations of the Committee.

RESERVE BASIS RECOMMENDED RATHER THAN CASH DISBURSEMENT BASIS

The Committee, at the outset, considered the advisability of continuing the type of pension provisions now provided for State employees because they seemed very simple to operate and apparently required comparatively small appropriations. However, upon analysis the Committee decided that this viewpoint might prove shortsighted.

In the first place, the cost of benefits now effective is provided on the so-called "cash disbursement" basis. This means that no provision is made in advance for the payment of pensions that will become due in the future. The State simply appropriates each biennium enough to meet the pension payrolls for the biennium. In any pension fund the pension roll in the early years of the operation of the fund is small in comparison with the ultimate roll because the immediate pension roll consists of the survivors of a group in service many years ago, when presumably the number of employees was much smaller than it is at present. For ex-

ample, it is fair to assume that persons now retiring from the State service entered the State service possibly thirty or more years ago. At that time there were not so many State employees, and those who have survived from the group in service at that time and who have now retired are smaller in number than those who will retire some thirty or more years hence and who will be the survivors of the present larger groups. Therefore, if only the present outlay required under the existing laws is taken as a measure of its ultimate cost, the figures are misleading, because it is fair to suppose that the ultimate pension roll will represent a very much larger amount.

Under a retirement system financed on a reserve basis, the appropriation is set on a basis to accumulate during the active service of employees the reserves required, to provide their retirement benefits. Each year the State makes a contribution of a percentage of the payroll. This contribution is sufficient to cover the currently accruing liability for pension payments for which the State is responsible. The contributions not required for immediate benefit payments are set aside in a reserve fund and invested. When the pension rolls increase beyond the amount of the appropriation, no increase is required in the State's appropriation, since the money is available from the reserves to meet the increased pension rolls. Over a period of years the State will not have to contribute as much to a system on a reserve basis as to a system on a cash disbursement basis, because the interest earnings on the contributions collected in advance go to reduce the amounts required of the State.

The Committee found that the cash disbursement plan of financing exemplified by the existing laws has been discarded by many states and cities because it has not proved satisfactory over a period of years. Under the old cash disbursement funds, the usual course has been that the appropriations have increased year by year until they have become a burden to the taxpayers. Then either the taxpayers have had to continue to meet obligations which they would not have assumed if they had known in advance what the cost of the benefits was to be, or they have had to make drastic reductions in benefits, which course has caused disappointment and hardship among employees. Therefore,

from the viewpoint of both the taxpayers and employees, the Committee believes that a plan operated on a reserve basis will prove more satisfactory than the continuation of a plan like the existing cash disbursement basis.

JOINTLY CONTRIBUTORY BASIS

The Committee recommends that a jointly contributory system, that is, a system supported by the joint contributions of the employees and the public, be adopted for State employees rather than a system supported entirely by the State. In this respect, therefore, the Committee favors a plan like the teachers' retirement system, rather than the existing provisions for general employees. Jointly contributory plans have been favored by the commissions in New York City, New York State, California, Connecticut, New Jersey and in other states where special attention has been given in recent years to the development of sound governmental retirement plans.

The Committee found that at the outset it could recommend a more liberal retirement plan if employees share in the cost. The normal cost of the plan of benefits under the present laws for general employees is 4.28 per cent of payroll, whereas the proposed plan permitting retirement at a minimum retirement age of 65 regardless of years of service, and providing a regular disability benefit, would cost the State only 2.13 per cent of the payroll as the corresponding normal cost.

There were also considerations other than those of cost which influenced the Committee in its final decision. Practically all of the recently adopted sound governmental retirement systems are on a jointly contributory basis. Industrial plans and bank plans are tending more and more to adopt the jointly contributory method. The states of New York, Rhode Island, New Jersey, Pennsylvania, and Massachusetts are among the states which are operating sound retirement systems for their employees on a jointly contributory basis. The United States Government Civil Service Retirement and Disability Fund is operating on that basis, as are the sound city systems of Baltimore, Boston, Providence, New York City, St. Louis, San Diego and San

Francisco, and the state wide teachers' systems operating in Maryland, Louisiana, Pennsylvania, Ohio, Connecticut, Massachusetts, New York and New Jersey. It seemed to the Committee, therefore, that there were more precedents for a jointly contributory plan than for a non-contributory plan.

FORM OF BENEFITS RECOMMENDED

The following points in regard to the benefits may be of interest.

Service Benefit

The service benefit is the most important of the benefits in a retirement system. This is the benefit on which the majority of employees will retire. Under the proposed plan any employee reaching age 65 may retire upon his own request. The amount of retirement allowance consists of two parts: the annuity, which the amount of contributions which the employee has to his credit will provide, and the pension, which is provided by the State.

Under the proposed plan each employee contributes a percentage of his salary which is computed to provide an annuity of 1/140 of his average final compensation for each year of membership. At retirement the State provides a pension equal to 1/140 of the average final compensation of the member for each year of membership service, and in addition a pension on account of prior service equal to 1/70 of his average final compensation for each year of creditable prior service.

The Committee considered a benefit of 1/80 of average final compensation for each year of service, but it selected the 1/70 rate of allowance as the one for which the cost would be reasonable for employees and the State, and which would at the same time provide more adequate incomes after retirement.

The Committee also considered the cost of permitting service retirement at an earlier retirement age than 65. While the teachers have a minimum retirement age of 60 for teachers with 30 or more years of service, the Committee finally decided on the retirement age of 65 as the minimum age it

would reocmmend on the basis of the figures of cost to the State, since the cost is then less than would be the cost for a minimum retirement age of 60.

The use of the average annual compensation of the last ten years of service is a usual provision, as it gives a stable salary basis for determining the amount of allowance, and at the same time results in a retirement allowance related to the employee's average income and standard of living at retirement.

The plan provides that retirement be made compulsory at age 70 in the general case. A compulsory retirement provision is usually considered desirable from the standpoint of the employer, because the service then will be relieved automatically of employees who have reached such an advanced age that in general they are no longer able to give efficient service.

Disability Benefit

The plan provides disability retirement allowances to employees disabled after ten or more years of service. The Committee found that there is an advantage to the State in being able to free the service of a disabled employee without the necessity of leaving him with little or no income. Furthermore, the cost of the service benefit would probably be higher without a provision for disability retirement, so that the net increase in cost due to the addition of the disability benefit was not heavy. From the standpoint of employees, disability benefits appear highly desirable, because disability, whether from an accident in the performance of duty or from other causes, is probably the danger which is viewed with the greatest concern by the employees and the one against which they ordinarily find the most difficulty in protecting themselves.

The proposed system requires that the employee shall have completed ten years of service in order to be eligible for the disability benefit. The service limitation somewhat reduces the cost to the State and protects the system against an adverse selection due to the possible attempt of partially disabled persons to enter the State service with the expectation of being provided with disability allowances shortly

after their entry. From five to fifteen years of service is the usual requirement. A ten year requirement is found in the retirement system for state employees in New Jersey and Rhode Island and in municipal retirement systems in New York City, St. Louis, San Francisco and Providence. In the Boston municipal system and in the New York State Employees' Retirement System the limitation is fifteen years.

Both members of the system and the State share in the cost of the disability benefit. When a member is disabled, the total of his accumulated contributions are used to provide part of the allowance, and the State provides the balance. The total disability retirement allowance is figured at 9/10 of the rate of allowance provided for service retirement, so that it will be slightly lower than the benefit payable at service retirement for the same period of service. The Committee found that this is usually considered desirable, as it furnishes an incentive for members who have nearly reached the service retirement age to remain in service to that age.

A minimum allowance of 25 per cent of average final compensation has been included, because if a member is disabled after a short period of service, his allowance figured at nine-tenths of the rate of allowance for service retirement would be very small. For example, a member disabled after exactly ten years of service would be entitled to an allowance of less than 13 per cent of average final compensation if no minimum should be included. Ordinarily, a man disabled early in life requires as much assistance as a man disabled thereafter, and inasmuch as his benefit would be very low if figured at the rate of nine-tenths of one-seventieth for each year of service, the Committee has included a minimum allowance of 25 per cent of average final compensation. This minimum will apply in all cases except when it would result in a higher disability benefit than a member would receive on service retirement. This would be true in the case of entrants into the service at advanced ages. In their case the minimum equals nine-tenths of the rate of allowance set for service retirement, multiplied by the number of years of service which they would have had at the minimum retirement age of 65.

Benefits Payable Upon Death of Retired Members

The plan does not provide for any benefit at the expense of the State to be paid in case of death after retirement. It does provide, however, that any member at the time of retirement may elect to provide for his dependents by taking a lesser retirement allowance, with the provision that some payment shall be made upon his death. There are three options proposed.

Under Option 1 the member may take a lesser annuity, and if at his death after retirement he has not received in his annuity payments an aggregate amount equal to the value of his accumulated contributions at the time of retirement, the excess of the value of his accumulated contributions over the amounts received in his annuity payments will be paid to his estate or beneficiary.

Option 2 provides that the member may take a lesser retirement allowance, and upon his death the lesser retirement allowance will be continued to the beneficiary he designated at the time of his retirement; while Option 3 provides that he may take a lesser retirement allowance and at his death one half of his lesser retirement allowance will be payable to his beneficiary.

Special Provision for Present Employees

The plan makes special provision for present employees on account of service rendered prior to the establishment of the retirement system. It proposes that the State make additional or accrued liability contributions for these employees so that they will receive approximately the same benefits that they would have received had the retirement system been in operation at the time when they entered the service of the State.

The Committee found that, as a general rule, in the sound retirement plans in operation provision is made so far as possible to place present employees in the same position in which they would have been, had the system been in operation when they first entered the system.

ILLUSTRATIONS OF BENEFITS

In order to illustrate the benefits which would be payable under the proposed plan, a number of specific cases have been listed below.

Case I: A man or woman employee now in service whose age is 65, whose total creditable prior service is 35 years, and whose salary has averaged about $1,800 during his last 10 years of service.

This employee will be eligible to retire immediately. The proposed plan provides that in the case of employees now in service, pensions at service retirement will be allowed equal to 1/70 of average final compensation for each year of creditable prior service. Therefore, in the case described the employee will be entitled to an allowance of 1/70 x $1,800 x 35, or $900 per annum for the remainder of his lifetime.

Case II: A woman now in service whose age is 45 and whose creditable prior service is 20 years.

This employee will be eligible to retire upon reaching age 65. We may assume that at that time her average final compensation at age 65 will be $1,500. Her retirement allowance at age 65 will consist of three parts as follows:

(1) An annuity on account of the contributions that she will have made during her period of membership service from age 45 to age 65. If, for example, they amount to $2,152.66 they would provide an annuity of $2,152.66 divided by 10.046, or	$214.28
(2) She will receive a pension on account of her 20 years of membership service equal to her annuity	214.28
(3) In addition, she will receive a pension on account of her prior service, equal to 1/70 of average final compensation for each year of creditable prior service. The pension on account of prior service would be 1/70 x $1,500 x 20, or . .	428.57
Total allowance	$857.13

Case III: A man now in service whose age is 35 and who has had 10 years of service. Assume that he joins the system and begins contributing thereunder and that at age

55 he becomes disabled. His contributions with interest might amount to $1,633.49 at age 55, and his average final compensation might, for example, be $1,500.

The total allowance of this employee would amount to 9/10 of 1/70 of $1,500 for each of his thirty years of service, or $578.57. The allowance would consist of the annuity that his contributions at age 55 would provide, or $184.28, plus a pension which would make up the difference between the total allowance due him and the amount provided by his contributions, that is, $578.57 minus $184.28, which is $394.29.

This allowance takes into account his prior service of 10 years and assumes normal salary increases to age 55.

Case IV: A man is age 65 and entitled to a regular service retirement allowance of $1,000 per annum. He wishes to provide for his wife in case he dies before she does. He, therefore, considers the three optional benefits, any one of which he might select instead of his regular retirement allowance.

He first considers Option 1. In this case, instead of receiving $1,000 per annum, of which $500 might be the annuity on account of his own contributions and $500 is the pension provided by the State, he would receive $873.20 per annum, of which $373.20 would be provided by his own contributions and $500 would be his pension. In case he died before receiving in annuity payments a total amount equal to $4,402 (the amount of his accumulated contributions at retirement), the balance of this amount over the total amount received by him in annuity payments would be paid to his estate. If he elected Option 1 and died after 3 years, he would have received $1,119.60 in annuity payments, so that $4,402 minus $1,119.60, or $3,282.40, would be payable to his estate or beneficiary.

Instead of electing Option 1, he might wish to have his retirement allowance continued to his wife at his death under the provisions either of Option 2 or of Option 3. The amount which would be payable under these options would depend on his wife's age as well as on his age. If his wife were also age 65, he would receive $690 per annum under Option 2, instead of his full allowance of $1,000 per annum, and if his wife survived him $690 per annum would be pay-

able to her so long as she lived after his death. If he selected Option 3, $816.50 per annum would be payable to him during his lifetime and one half of this amount, or $408.25 would be payable each year to his wife so long as she survived him.

The Committee hopes that its proposal may prove acceptable. It believes that the adoption of a jointly contributory retirement system along the lines proposed will be a forward step for the State to take. The State should benefit as a result of the lower costs of the proposed plan over that of the existing plan. At the same time the system should prove more effective than the existing plan in taking care of the superannuated and disabled employees of the State. Employees should feel better protected with benefits provided in advance of their retirement on a reserve basis.