

# State and Local Government Retirement Systems, 1966: Provisions for Employees Not Under OASDHI

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*The development of State and local government retirement systems in the last half of the nineteenth century represented one of the first efforts in this country to protect the worker against the major economic hazards of our modern society. The Social Security Administration, as part of its continuing concern with methods of providing protection against economic insecurity, has long included studies of State and local systems among its research activities. This article summarizes the findings of the 1966 survey of the State and local government retirement systems whose members are not covered under the Federal old-age, survivors, disability, and health insurance (OASDHI) program. The full findings of the survey are to be published as a research report in the coming months.*

SURVEYS of the State and local government retirement systems whose members are also covered under the Federal program of old-age, survivors, disability, and health insurance (OASDHI) have been made in recent years, and the findings of these surveys have been reported by the Social Security Administration.<sup>1</sup>

The present study of retirement systems not under the Federal program fills out the information on the protection afforded by these systems. The report, based on the study of 87 retirement systems with 1,000 or more members, includes discussion of the systems' provisions governing retirement for age and service, disability retirement, and death benefits. Special emphasis is given to the recent developments in providing survivor protection, and information is included on such matters of current interest as early retire-

ment, vesting of benefit rights, and provision for increases in benefits for retired persons.

## SURVEY METHODOLOGY

The Social Security Amendments of 1954 made coverage under OASDHI available, at the option of the State, for most employees under State and local government retirement systems if the employees involved vote in favor of coverage. As a result, some OASDHI coverage of retirement system members has been implemented in nearly all States.

The survey included all retirement systems with 1,000 or more members who were not covered under OASDHI, according to the 1962 Census of Governments.<sup>2</sup> Systems with incomplete OASDHI coverage resulting from a "divided retirement system" election were omitted from the survey, since eventually all the members will be covered. Systems with incomplete OASDHI coverage on a permanent basis, which is permitted under certain other provisions, were generally included.<sup>3</sup> Excluded were (1) closed systems, which do not accept new employees, (2) supplementary systems, covering employees receiving substantial protection under another public retirement system, and (3) systems covering unsalaried employees such as volunteer firemen.

The systems selected were limited to those with 1,000 or more members. Though there is a relatively great concentration of small systems among those whose members are not covered under

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<sup>1</sup> Joseph Krislov, *State and Local Government Retirement Systems, 1965* (Research Report No. 15), Social Security Administration, Office of Research and Statistics, 1966, and Joseph Krislov, *A Survey of State and Local Government Retirement Systems . . . 1961*, Social Security Administration, Bureau of Old-Age and Survivors Insurance, 1962.

<sup>2</sup> Bureau of the Census, *1962 Census of Governments: Topical Studies, No. 1, Employee-Retirement Systems of State and Local Governments*.

<sup>3</sup> Under the "divided retirement system" provision, applicable in States specified in the Social Security Act, only those members who elect to be covered are brought under OASDHI, with all new members automatically covered on a compulsory basis. Under other provisions of the law, coverage may be arranged for only certain groups of members—the employees of various local governments who are members of a statewide system, for example—and the noncovered groups are permanently excluded, unless additional arrangements are made.

OASDHI, only an estimated 10 percent of employees were excluded for this reason.

The final listing of systems to be surveyed included exactly 100 retirement systems with an estimated 1.5 million members in January 1966 or about one-fourth of all State and local government employees under staff retirement systems. A questionnaire was mailed to the administrator of each system by the Bureau of the Census, acting as agent for the Social Security Administration. Sixty-three of the 75 general systems, with an estimated 94 percent of the members, responded to the survey. Only one of the 25 systems for policemen and firemen—a small one—failed to respond.

The systems for policemen and firemen are analyzed separately because their provisions tend to differ considerably from those of the general systems, though for the most part they are homogeneous among themselves. The term "general system" is used here to refer to all systems other than those for policemen and firemen (unlike the term as used by the Census Bureau). The terms "members" or "membership" refer to active members and are used synonymously with "employees."

## GENERAL SYSTEMS

### Characteristics

Only 20 States were represented in the survey of general systems (table 1), since in many States the members of all systems, or at least all those

TABLE 1.—General systems in survey, by State, January 1966

State (ranked by membership)	Number of systems	Number of members (in thousands)
Total.....	63	1,302.8
Ohio.....	4	332.8
California.....	6	260.7
Illinois.....	9	216.8
Massachusetts.....	18	94.6
Louisiana.....	3	81.1
Florida.....	3	63.9
Colorado.....	2	59.2
Missouri.....	1	35.0
Maine.....	1	34.2
Connecticut.....	2	33.0
Kentucky.....	1	30.0
Nevada.....	1	18.2
Georgia.....	1	12.8
Minnesota.....	3	10.4
Texas.....	2	9.1
Alaska.....	1	3.2
Tennessee.....	1	2.7
New Jersey.....	2	2.4
Virginia.....	1	1.5
Nebraska.....	1	1.1

TABLE 2.—General systems in survey, by size of membership, January 1966

Size of membership	Systems		Members	
	Number	Percentage distribution	Number (in thousands)	Percentage distribution
Total.....	63	100.0	1,302.8	100.0
Less than 2,000.....	18	28.6	25.7	2.0
2,000-4,999.....	14	22.2	41.8	3.2
5,000-9,999.....	6	9.5	39.1	3.0
10,000-24,999.....	9	14.3	153.2	11.8
25,000-49,999.....	8	12.7	277.0	21.3
50,000-99,999.....	6	9.5	399.0	30.6
100,000 or more.....	2	3.2	367.0	28.2

with 1,000 or more members, have been brought under OASDHI. Measured by the number of employees, the survey is dominated by three States (Ohio, California, and Illinois) that together included 62 percent of all employees in the systems surveyed. Massachusetts contributed the largest number of systems—18 of the 63 systems—followed by Illinois with nine systems and California with six systems. The fact that the retirement systems within a State tend to have similar provisions has a significant effect on the results of the survey. The Massachusetts systems, for example are virtually identical, and most of the Illinois and California systems are closely similar.

The two largest systems in the survey (one California system and one Ohio system) include 28 percent of the total membership represented in the survey and the eight largest have almost 60 percent of the total membership. About half the systems had fewer than 5,000 members, and this group included 5 percent of all employees in the survey (table 2).

### Major Findings

The survey findings indicate that, during the postwar years, the retirement systems have considerably strengthened the protection they provide for their members. The greatest improvements have been in provisions for monthly benefits for disability and death—types of protection offered by nearly all the systems in the survey.<sup>4</sup>

<sup>4</sup> For a description of the retirement systems in the early 1940's, see Dorothy F. McCamman, *The Scope of Protection Under State and Local Government Retirement Systems*, Social Security Board, 1944. Although information is not available from that study on the specific systems in the survey, the improvements have been so widespread as to indicate revision of the great majority of systems.

TABLE 3.—Summary of provisions, by type, January 1966

Type of provision	General systems		Systems for police-men and firemen	
	Number	Percent of members covered	Number	Percent of members covered
Total.....	63	100.0	24	100.0
Retirement for age and service.....	63	100.0	24	100.0
Involuntary retirement.....	54	79.0	19	79.5
Early retirement.....	53	98.6	6	48.8
Automatic adjustment of benefits..	10	12.3	7	26.1
Health plan after retirement.....	51	67.6	23	93.7
Vesting.....	39	92.0	6	36.5
Retirement for disability, nonservice-connected.....	62	99.9	22	96.5
Monthly survivor benefits, nonservice-connected:				
Widow of active member, with children.....	60	99.5	24	100.0
Widow of active member, without children.....	58	99.1	24	100.0
Widow of retired member <sup>1</sup> .....	21	20.7	22	69.5

<sup>1</sup> Benefit specified in the law (excluding joint-and-survivor option).

The type of protection offered by OASDHI has been one of the factors influencing the direction of improvements of those systems whose members have not come under the Federal program (as well as the systems whose members were brought under coverage<sup>5</sup>). The influence on non-covered systems is most apparent in new provisions for monthly benefits to widows and children that resemble the provisions for survivors in the OASDHI program.

The study also reveals an apparent modification of the principle of individual equity (under which benefits are based solely on the contributions or credits of the member) that has been an important element of the benefit provisions of many systems. Relatively few systems in the survey, for example, still use the money purchase method of computing benefits, under which benefits are actuarially based on the contributions credited to the member's account. Modification of this principle is revealed too in the growing tendency toward providing full or substantial benefits, without regard to contributions or length of service, to disabled members and, especially, to the survivors of deceased members.

### Retirement for Age and Service

*Eligibility.*—The “normal retirement age” is considered here as the youngest age at which an

<sup>5</sup> See Joseph Krislov, *State and Local Government Retirement Systems, 1965*.

employee may retire on his own volition and receive the full amount of retirement benefits to which he is entitled on the basis of his earnings and length of service. Similarly, where retirement based on length of service alone is possible, “normal” retirement is retirement at the earliest time full benefits become available. The earliest age at which retirement for age and service is possible, but with benefits reduced because of age, is defined as the “early retirement age.”

To qualify for normal retirement, the member usually has to meet both an age and length-of-service requirement, typically age 60 with 10–20 years' service, but many systems permit retirement on the basis of age alone (at age 60–65) and a few on the basis of service alone (with 30–35 years). Many systems offer alternative eligibility requirements for normal retirement. They may, for example, permit members with long service to retire at an earlier age or to retire on the basis of service alone, without meeting any age requirement (table 4).

The normal retirement age specified under the age or age-and-service provisions is usually 60, but age 65 is also frequently found. Many employees continue to work beyond the age that normal retirement first becomes available.<sup>6</sup>

*Involuntary retirement.*—Although employees usually may continue to work beyond normal retirement age, under most systems they may be required, at the discretion of the employer, to retire at a specified age—commonly at age 70 and to a lesser extent at age 65. This type of provision is called a compulsory retirement provision. Some systems require the “automatic” retirement of their members, typically at age 70, with neither the employee or employer having any discretion (table 4).

*Benefit amounts.*—Except for one system with a money-purchase formula, the amount of the retirement benefit is always based on the member's average salary and length of service. The benefit amount is usually determined by com-

<sup>6</sup> The survey questionnaire requested information on the number of retirees who were under age 62 (an age when employees of most systems could take normal retirement). The 42 systems that reported on the subject indicated that only 20 percent of the men and 28 percent of the women were under age 62 at the time of retirement in the fiscal year 1965.

TABLE 4.—General systems: Provisions for age-and-service retirement and involuntary retirement, January 1966

Type of provision	Number of systems	Number of members (in thousands)
Total.....	63	1,303
Requirements for normal retirement: <sup>1</sup>		
Age requirement only.....	35	313
Service requirement only.....	9	309
Age-and-service requirement.....	32	1,028
Normal retirement age: <sup>2</sup>		
55.....	6	91
60.....	30	708
62.....	1	6
65.....	26	498
With provisions for early retirement.....	53	1,220
Requirement for eligibility: <sup>1</sup>		
Age requirement only.....	25	141
Service requirement only.....	26	296
Age-and-service requirement.....	24	880
With provisions for involuntary retirement.....	54	1,029
Compulsory provision only.....	33	707
Age 65-68.....	8	321
Age 70-73.....	25	386
Automatic provision only.....	16	237
Age 65-68.....	8	54
Age 70.....	8	183
Compulsory and automatic provision.....	5	84

<sup>1</sup> Systems that provide alternative requirements are counted more than once.

<sup>2</sup> Earliest age required for normal retirement under the age or age-and-service provisions.

puting a percentage of average salary for each year of service, commonly  $1\frac{2}{3}$  to  $2\frac{1}{2}$  percent.<sup>7</sup> The "final" average salary of the member is based usually on the 5 highest years of earnings, and many systems require that the years be consecutive or years during a specified period (usually the last 10 years) of employment (table 5). Some systems provide a minimum benefit amount, usually \$30-\$70 monthly or \$6-\$7 monthly for each year of service, payable for members who meet certain eligibility requirements, commonly 10-15 years' service.

Illustrative median benefits<sup>8</sup> payable to members aged 65 with 10, 20, and 30 years of service would replace about 21, 40, and 54 percent of salary, respectively. Based on the actual experience of the system, the average benefit amount awarded to men in the fiscal year 1965 was about \$235 monthly, for the 44 systems that supplied benefit data.

<sup>7</sup> Some retirement systems reported the benefit as a specified percentage of salary (say, 40 percent) payable upon completion of a certain period of service. Percentages have been converted to a percent-per-year formula, where possible, in this analysis.

<sup>8</sup> The illustrative median benefits used throughout the article are based on a distribution of employees by the benefit amounts payable at specified ages and length of service, as indicated, and an assumed monthly salary of \$400 and \$600.

*Early retirement.*—Most systems permit employees to choose early retirement at a reduced benefit amount. The early retirement age is almost always age 55, and usually 20-30 years of service is needed to qualify (but several large systems require 5 years). Retirement for service alone (20-35 years) is offered, usually as an alternative requirement, by many systems (table 4). Several methods are used to reduce the benefit amount, but usually the reduction is, in effect, roughly actuarial.

*Adjustment of benefits.*—In recent years, there has been increasing interest in the problem of protecting the purchasing power of pension benefits after retirement. The laws of a few of the systems surveyed provide for an automatic increase in benefits to persons on the retirement rolls (usually annually) without requiring additional legislation. The automatic increase is usually specified as 1 percent or  $1\frac{1}{2}$  percent annually. For almost one-half the systems in the survey, additional legislation was enacted that provided an across-the-board increase in benefits during the 3 years 1963-65.

*Health plan.*—Participation after retirement in a group health plan established by the former employer provides a means of obtaining health

TABLE 5.—General systems: Calculation of normal retirement benefits, January 1966

Method of calculation	Number of systems	Number of members (in thousands)
Total with benefits based on average salary.....	62	1,295
Determination of final average salary, based on average salary in highest—		
3 years.....	8	299
5 years.....	51	900
10 years.....	3	96
Determination of benefit amount:		
Percent of salary for each year of service:		
Less than 1.67.....	5	78
1.67-1.70.....	21	479
1.75-1.90.....	4	362
2.00-2.17.....	6	157
2.50.....	20	149
Two percentage factors.....	4	28
Other.....	2	68
Provision for minimum benefit.....	19	716
Monthly benefit amount:		
Less than \$30.....	1	3
\$30-70.....	6	103
\$70-100.....	3	28
Monthly benefit amount per year of service:		
Less than \$4.00.....	2	36
\$6.33-6.67.....	4	527
\$7.50-7.80.....	2	13
Other.....	1	8

TABLE 6.—General systems: Provisions for vesting of benefit rights, January 1966

Vesting requirement	Number of systems	Number of members (in thousands)
Total.....	63	1,303
With provision for vesting of benefits.....	39	1,198
Service requirement only.....	36	1,139
1-5 years.....	8	633
10-15 years.....	17	320
20-25 years.....	11	185
Other requirements.....	3	60
Without vesting provisions.....	24	105

insurance protection at a lower cost than is usually available on an individual basis, especially of course if part of the premium is paid by the employer. Most systems in the survey reported that a group health plan is available for retired employees and that the employer contributes to the cost. The plans with employer contributions, however, include only about one-fourth of the employees in the survey.

*Vesting.*—Unless a retirement plan has a provision for vesting of credits, a worker who leaves employment before retirement age loses any rights to a pension at retirement age. Vesting refers to the right of members to “all or part of their accrued pension benefits at retirement age, regardless of their employment status at that time.”<sup>9</sup> Vesting provisions usually require that the employee leave his contributions in the fund when he leaves his job. Systems with nine-tenths of the membership had provisions for vesting. Eligibility for a vested right is dependent usually on completion of 10–20 years of service, but several of the large systems require 5 years (table 6).

### Retirement for Disability

*Eligibility.*—Disability retirement was among the first types of protection provided by State and local government retirement systems. The 1944 report of the Social Security Board<sup>10</sup> indicated, however, that many systems did not provide for non-service-connected disability, and benefits were often limited to members with long

<sup>9</sup> President's Committee on Corporate Pension Funds, *Public Policy and Private Pension Programs*, January 1965.

<sup>10</sup> Dorothy McCamman, *op. cit.*

periods of service. Sometimes the provisions were designed mainly to facilitate the premature retirement of older employees.

The present survey indicates a broadening of the scope of protection. Non-service-connected disability retirement, provided by all but one system, depends usually on meeting a length-of-service requirement of 5–10 years with the larger systems usually requiring 5 years; many small systems, however, require 15 years (table 7). Most systems use an occupational definition of disability under which the member must be unable to perform his usual job. The others generally require a determination that the member be unable to perform any type of work.

*Benefit amounts.*—Most systems compute the benefit in the same manner as for age-and-service retirement, often using, however, a smaller percent of salary for each year of service. There is somewhat greater diversity in the computation methods (table 7). Some systems use a modified formula or other method of computation under which the benefit amount is figured without regard to length of service or they provide a minimum benefit to all eligible members. This type of computation is used by 15 systems that include two-thirds of the employees.<sup>11</sup> An illustrative median benefit for a member aged 50 with 20 years of service would replace 39 percent of the member's salary. The actual benefit amount awarded, in the fiscal year 1965 (for non-service-connected and service-connected disability combined) averaged about \$185 monthly, based on data for 37 systems reporting on disability benefits.

### Survivor Benefits

Monthly payments for survivors of active members who died from non-service-connected causes, now provided by nearly all systems in the survey, have been introduced comparatively recently into

<sup>11</sup> This analysis was made by selecting those systems in which the length of service does not substantially affect the benefit amount, including systems (1) providing a percentage of the member's salary for each year of service but basing this calculation on assumed service to or near retirement age; (2) providing a benefit amount based on that payable at normal retirement; (3) providing a specified percent of salary—and by selecting those systems with a minimum benefit amount that is not based on length of service.

TABLE 7.—General systems: Provisions for non-service-connected disability retirement, January 1966

Eligibility requirement and benefit formula	Number of systems	Number of members (in thousands)
Total with provision for disability retirement.....	62	1,302
Eligibility requirements for benefits:		
No requirement.....	8	64
Service requirement only.....	54	1,237
2-3 years.....	3	47
5 years.....	14	646
8-10 years.....	17	395
15 years.....	20	150
Formula for calculating benefits:		
Percent of salary for each year of service.....	44	949
Specified percent of salary.....	4	119
Based on benefit payable at normal retirement age.....	4	108
Money-purchase arrangement.....	9	125
Information not furnished.....	1	2

State and local government retirement systems. Many systems had long offered some type of death benefits, but the protection often was limited to service-connected death, was dependent on accepting a reduced annuity, or was confined to survivors of retired members. The benefit was often a lump-sum payment.<sup>12</sup>

*Widows and children of active members.*—All but three small systems provide monthly benefits to the widow with children of an active member who died from non-service-connected causes. Many of the provisions dealing with eligibility and the amount of benefits were modeled, when they were adopted, on those under OASDHI. Eligibility for benefits is usually acquired with 2

<sup>12</sup> Dorothy McCamman, *op. cit.*

TABLE 8.—General systems: Provisions for monthly survivor benefits for widows with children, non-service-connected death, January 1966

Eligibility requirement and benefit formula	Number of systems	Number of members (in thousands)
Total with provision for benefits for widow with children.....	60	1,297
Eligibility requirements for benefits:		
No requirement.....	12	188
Service requirement only.....	45	1,103
1-2 years.....	32	904
3-5 years.....	9	178
10-20 years.....	4	21
Age-and-service requirement.....	2	5
Information not furnished.....	1	1
Formula for calculating benefits:		
Flat-rate benefit amount or specified percent of member's salary.....	44	1,209
Maximum family benefit:		
\$150-200.....	24	241
\$236-255.....	14	770
\$275-330.....	5	197
Information not furnished.....	1	2
Based on accrued credits or contributions.....	16	87

TABLE 9.—General systems: Provisions for monthly survivor benefits for widows without children, non-service-connected death, January 1966

Eligibility requirement and benefit formula	Number of systems	Number of members (in thousands)
Total with provision for benefits for widow without children <sup>1</sup> .....	58	1,291
Eligibility requirements:		
No age requirement for widow.....	42	420
Service requirement of 15 years.....	3	126
Age requirement for widow.....	16	871
50.....	6	399
Service requirement of 15 years <sup>2</sup> .....	5	339
55.....	4	169
60.....	2	43
Service requirement of 15 years.....	1	8
62.....	3	242
Age not furnished.....	1	18
Formula for calculating benefits:		
Flat-rate benefit amount or specified percent of member's salary.....	42	1,193
Flat rate or maximum benefit:		
\$65-96.....	7	538
\$100-130.....	30	480
\$200.....	4	169
No maximum.....	1	6
Based on accrued credits or contributions.....	16	98

<sup>1</sup> Generally, the deceased member must have met the same requirements as shown in table 8 for benefits for widowed mothers and children. The additional requirements imposed by some systems are indicated below.

<sup>2</sup> Benefits payable at age 62 if member had less than 15 years' service.

or fewer years of service (table 8). The typical benefit is a flat-rate amount of \$150-\$200 monthly for a widow with one child, \$50-\$75 for the second child, and a maximum family benefit of \$235-\$255 (or the amount is computed as a percentage of salary, with similar maximum family benefits).

*Widows of active members without children.*—Almost all of the retirement systems in the survey also provide benefits to the widow without children of a member who died in active service from non-service-connected causes (table 9). These benefits are usually limited to widows aged 50-62 or to the widows of members with at least 15 years' service.<sup>13</sup> The benefit commonly is a flat-rate amount of \$90 to \$125 monthly but can sometimes be based, alternatively, on the member's accumulated credits. An illustrative median benefit for a widow, aged 55, of a member with 20 years' service would replace 22-24 percent of the member's salary.

<sup>13</sup> Thirty-nine systems with about one-fourth of the members, provide benefits with neither an age requirement nor a 15-year service requirement, but except for Massachusetts they usually base the benefit on the members' accrued credit or contributions and thus, in effect, provide substantial benefits only for long service.

TABLE 10.—General systems: Monthly benefits for widows of members who died after retirement, January 1966

Provision for benefits	Number of systems	Number of members (in thousands)
Total.....	63	1,303
With provision for specified benefits for widows.....	21	270
Based on percent of member's retirement benefit.....	11	97
50.....	6	81
60-75.....	3	12
100.....	2	4
Based on accrued contributions or service.....	7	54
Based on percent of member's salary.....	3	119
Without provision for specified benefits.....	42	1,033
Joint-and-survivor option.....	39	1,015
No joint-and-survivor option.....	3	18

<sup>1</sup> Includes 15 systems that also provide joint-and-survivor option.

*Widows of retired members.*—About one-third of the systems in the survey provide specified benefits to the widow of a retired member. These benefits are usually computed as 50-75 percent of the member's retirement pension (table 10).

Most systems (including many of those with specified benefits) permit a member who is retiring to elect to take a reduced retirement benefit in order to provide a benefit for his widow. Under this joint-and-survivor option, the reduction in the benefit is usually actuarial, according to the age and life expectancy of the member and his wife. The experience of the systems, however, indicates that relatively few retirees elect this option.<sup>14</sup> That finding is consistent with those of other studies.<sup>15</sup>

### Contributions

Joint contributions from both employees and the employing government were reported by all the systems in the survey. With a few exceptions, the amount of contributions from employees is based on the employee's total salary. The employee contribution rate is usually a single rate of 5-7 percent of total salary, but a few systems vary the rate according to age of entry into the system or type of work performed.

<sup>14</sup> Of the 39 systems with a joint-and-survivor option and without specified benefits, 25 reported the percent of newly retired members electing a joint-and-survivor option. About one-half of these 25 systems indicated that less than 20 percent of the retirees elected the option.

<sup>15</sup> See, for example, James A. Hamilton and Dorrance C. Bronson, *Pensions*, McGraw-Hill Book Co., 1958; State of Ohio, Governor's Commission on Aging, *Industrial Pensions and Insurance Plans*, 1961; and Joseph Krislov, *State and Local Government Retirement Systems*, 1965.

The employer rate, which was reported by about half the systems in the survey, is concentrated between 6 percent and 9 percent of total payroll. A system-by-system comparison of employee and employer rates indicates that the employer rate is typically larger than the employee rate.

### SYSTEMS FOR POLICEMEN AND FIREMEN

Retirement systems for policemen and firemen were among the first State and local government systems established in the United States. Special considerations were believed to be involved in providing protection for uniformed policemen and firemen, including the hazards of disability and death connected with such service and the policy of many police and fire departments of maintaining a force of young and vigorous personnel. As a result, these systems generally provide normal retirement at a relatively young age and liberal benefits for service-connected disability and death. Information was obtained in the survey on such service-connected benefits.

Policemen and firemen were excluded from provisions of the Social Security Amendments of 1954, which made coverage under the Federal program available to most members of State and local government retirement systems. Federal legislation enacted in 1956 and later years, however, permitted coverage in States specified in the law. As of September 1967, 19 States, with about one-half of all policemen and firemen, had the authority to obtain OASDHI protection for their police and fire departments, and most of these States have implemented coverage for at least some systems.

### Characteristics of the Systems

Policemen and firemen are usually covered under special retirement systems limited to personnel of uniformed services, although the two groups are often included in the same system. The systems are predominantly locally administered and most of them are small. The 1962 Census of Governments counted a total of 1,651 systems for policemen and firemen exclusively (70 percent of all retirement systems), and they had 225,300 active members.

The 24 systems for policemen and firemen responding to the survey reported membership of 69,400 in January 1966. Many large systems, such as those covering the New York City policemen and firemen, were excluded from the survey because the members are covered under OASDHI. The exclusion of systems with less than 1,000 members means that only relatively large cities are represented, and the survey data are dominated by such cities as Chicago, Los Angeles, Detroit, Cleveland, New Orleans, St. Louis, and Dallas (table 11). Four State-administered systems were included—three of them systems covering State police. Generally speaking, the results of this survey thus refer to the larger systems not covered by OASDHI.

Twelve States are represented in the survey, and no State has more than four systems. The two largest systems include 36 percent of the total membership, and the 17 systems with less than 2,000 members account for 30 percent. This group includes five systems with slightly less than 1,000 members.

### Retirement for Age and Service

*Eligibility.*—Most systems require the member to meet both an age (50–55 years) and length-of-service requirement (20–25 years) for normal retirement, but many permit retirement for service alone after 20 or 25 years of service. Systems for policemen and firemen generally do not offer alternative requirements for eligibility (table 12). The automatic retirement of the member, usually at age 63–65, is generally required.

*Benefit amounts.*—For all these systems, benefits are based on the member's average salary and length of service. The "final" average is usually based on the highest 3–5 years of earnings, but some systems use the salary currently payable at a specified rank. The benefit formula (either a specified percentage of salary or a percentage of the member's salary for each year of service) usually provides 40–50 percent of the member's salary upon completion of the 20–25 year eligibility period (table 12). Many use "split" formulas under which the benefits for service after the completion of the eligibility period are less generous than those for earlier years. Such

TABLE 11.—Systems for policemen and firemen in survey, by number of members, January 1966

Retirement system	Number of members
Total, 24 systems.....	69,400
California:	
Los Angeles Fire and Police Pension System.....	8,600
Oakland Police and Fire Retirement System.....	1,300
Illinois:	
Chicago Policemen's Annuity Benefit Fund.....	10,000
Chicago Firemen's Annuity and Benefit Fund.....	4,400
Indiana State Police Pension Fund.....	900
Louisiana:	
New Orleans Firemen's Pension and Relief Fund.....	900
New Orleans Police Pension Fund.....	1,100
Michigan:	
Michigan State Police Pension, Accident and Disability Fund.....	1,400
Detroit Policeman and Fireman Retirement System.....	6,200
Missouri:	
St. Louis Firemen's Retirement System.....	1,100
St. Louis Police Retirement System.....	2,000
New Jersey Police and Firemen's Retirement System.....	15,000
Ohio:	
Cleveland Firemen's Relief and Pension Fund.....	1,400
Cleveland Police Relief and Pension Fund.....	2,000
State Highway Patrol Retirement System.....	900
Oregon: Portland Fire and Police Disability Retirement Fund.....	1,400
Pennsylvania:	
Pittsburgh Firemen's Relief and Pension Fund.....	1,100
Pittsburgh Policemen's Relief and Pension Fund.....	1,600
Texas:	
Dallas Police, Fire, and Fire Alarm Operators Pension Fund.....	2,600
Houston Firemen's Relief and Pension Fund.....	1,300
San Antonio Police, Fire and Alarms Operators Pension Fund.....	1,200
Houston Police Officers Pension System.....	1,300
Washington:	
Firemen's Pension Fund of Seattle.....	900
Police Relief and Pension Fund of Seattle.....	900

formulas are apparently designed to discourage continued employment beyond the time of eligibility for retirement. Illustrative median benefits for a member retiring at age 55 would replace 42–43 percent of the member's salary for 20 years' service and 56–57 percent for 30 years' service. The actual benefit awarded to men in the fiscal year 1965 averaged \$334 a month for the 21 systems reporting benefit data.

*Adjustment of benefits after retirement.*—Because policemen and firemen are usually eligible for retirement at relatively younger ages, their benefits are especially subject to erosion because of rising price levels. A provision for automatic increases in the benefits of retirees is included in the laws of about one-third of the systems. The adjustment is usually based on the increases granted active employees. This method would, of course, tend to provide substantial benefit increases. Only a few systems increased benefits under ad hoc legislation in the past 3 years.

*Other provisions.*—Comparatively few systems for policemen and firemen permit early retirement—a reflection of the fact that normal retirement is available at relatively young ages (table



TABLE 12.—Systems for policemen and firemen: Provisions for age-and-service retirement, January 1966

Type of provision and method of calculation	Number of systems	Number of members (in thousands)
Total.....	24	69.4
Requirement for normal retirement: <sup>1</sup>		
Age requirement only.....	2	17.0
Service requirement only.....	10	24.0
Age-and-service requirement.....	13	29.8
Retirement age: <sup>2</sup>		
45.....	1	.9
50-53.....	9	16.4
55.....	3	26.3
60.....	2	3.1
Service only (no age requirement).....	9	22.7
Determination of benefit amount:		
Percent of salary for each year of service: <sup>3</sup>		
1.67.....	2	3.1
2.00.....	7	37.2
2.50.....	1	1.1
Specified percent of salary when eligible for retirement: <sup>3</sup>		
30-42.5.....	3	11.2
50.....	11	17.0

<sup>1</sup> Includes the requirements of the one system that provides alternative requirements.

<sup>2</sup> Earliest age required for normal retirement under the age or age-and-service provisions.

<sup>3</sup> Two systems with a percentage-factor formula and 9 systems with a specified-percent formula provide an additional benefit, usually calculated as 1-1.67 percent of salary, after completion of the 20-25 years of service required for eligibility.

3). Where retirement before the normal time is permitted, 50 is specified as the early retirement age or retirement is offered on the basis of service alone (20-25 years).

Vesting of benefit rights is provided by only six systems, and 10 or 20 years of service is required in order to qualify. Nearly all systems permit retired members to participate in a group health plan, but few contribute to the cost.

### Retirement for Disability

*Non-service-connected disability.*—Most retirement systems for policemen and firemen provide for retirement of members disabled from causes not connected with their work. Generally, there are no eligibility requirements or only a service requirement of 5 years or less, and most systems use an occupational definition of disability. The benefit is generally a specified percentage of the member's salary (usually 50 percent) or is computed as a percentage of salary for each year of service (1.5-2.0 percent) with a minimum benefit provision. An illustrative median benefit for a member aged 30, with either 5 or 10 years of service, would replace 41 percent of the member's salary.

*Service-connected disability.*—All the systems provide benefits in case of service-connected disability, without any age or service requirements for eligibility. Most use an occupational definition of disability. The benefits are usually calculated as 50-75 percent of the member's salary. An illustrative median benefit for a member aged 30, for either 5 or 10 years' service, would replace 67 percent of the member's salary.

The actual benefit amount for men in the fiscal year 1965 (for non-service-connected and service-connected disability combined) averaged \$348 monthly, based on data for 16 reporting systems.

### Survivor Benefits

*Non-service-connected death.*—All the systems pay benefits to a widow without children, at any age, and most provide additional benefits for children. Usually, there are no or only nominal eligibility requirements, but one-third of the systems require 5-20 years of service. The benefit for the widow is commonly computed as 20-40 percent of the member's salary; for a widow with two children it is 45-50 percent. Some systems, however, provide flat-rate benefits or base the basic benefit on the member's accrued credits and provide additional benefits for the children. An illustrative median benefit for a young widow and two children would replace, depending on the member's salary, 37-45 percent of salary; for a widow aged 50, it would replace 32-37 percent.

*Service-connected death.*—All systems provide benefits, generally with no eligibility requirements. For the widow alone the benefit was usually 50 percent of the member's salary, and it was 60-70 percent of the member's salary for the widow with two children. In some systems, the benefit was a flat-rate benefit amount. An illustrative median benefit for a young widow would replace 47-51 percent of the member's salary; for a widow with two children, it would replace 51-65 percent.

*Widows of retired members.*—Most systems pay specified benefits to the widow of a member who died after retirement, ranging from 25 percent to

(Continued on page 43)

TABLE M-27.—Gross national product and personal income, by type, 1940-67

[Amounts in billions. Before 1960, data are for the 48 States and the District of Columbia, except where otherwise noted. Beginning 1960, includes Alaska and Hawaii]

Period	Gross national product	Personal income								
		Total	Wage and salary disbursements <sup>1</sup>	Social insurance and related payments <sup>2</sup>		Public assistance payments <sup>3</sup>		Other income <sup>4</sup>	Less: personal contributions for social insurance <sup>5</sup>	
				Amount	Percent of personal income	Amount	Percent of personal income			
1940.....	\$99.7	\$78.3	\$48.2	\$1.7	2.1	\$2.7	3.4	\$26.4	\$0.7	
1945.....	212.0	171.1	117.5	2.9	1.7	1.0	.6	52.1	2.3	
1950.....	284.8	227.6	146.7	6.7	3.0	2.3	1.0	74.7	2.9	
1955.....	398.0	310.9	211.3	12.7	4.1	2.5	.8	89.7	5.2	
1960.....	503.8	401.0	270.8	23.3	5.8	3.2	.8	112.9	9.3	
1961.....	520.1	416.8	278.1	26.8	6.4	3.4	.8	118.2	9.6	
1962.....	560.3	442.6	296.1	27.8	6.3	3.5	.8	125.5	10.3	
1963.....	590.5	465.5	311.1	29.4	6.3	3.6	.8	133.2	11.8	
1964.....	632.4	497.5	333.7	30.5	6.1	3.8	.8	142.0	12.5	
1965.....	683.9	537.8	359.1	33.1	6.2	4.0	.7	155.1	13.4	
1966 <sup>6</sup> .....	743.3	584.0	394.6	36.3	6.2	4.3	.7	166.7	17.9	
1966 <sup>7</sup>										
June.....	736.7	581.1	393.9	34.4	5.9	4.2	.7	166.1	17.5	
July.....	748.8	584.7	397.1	34.8	6.0	4.3	.7	166.8	18.3	
August.....	748.8	589.1	399.8	36.0	6.1	4.3	.7	167.4	18.4	
September.....	748.8	594.1	401.9	37.8	6.4	4.4	.7	168.4	18.4	
October.....	748.8	597.5	404.8	38.6	6.5	4.5	.8	168.2	18.6	
November.....	748.8	602.1	407.6	39.1	6.5	4.5	.7	169.6	18.7	
December.....	748.8	605.0	410.0	40.1	6.6	4.6	.8	169.1	18.8	
1967 <sup>7</sup>										
January.....	775.3	610.4	413.8	40.9	6.7	4.6	.7	171.1	20.0	
February.....	775.3	612.6	414.2	41.4	6.8	4.7	.8	172.3	20.0	
March.....	775.3	615.6	416.2	42.1	6.8	4.8	.8	172.6	20.1	
April.....	775.3	616.5	416.7	42.4	6.9	4.8	.8	172.7	20.1	
May <sup>8</sup> .....	775.3	618.2	417.2	42.8	6.9	4.8	.8	173.5	20.1	
June <sup>8</sup> .....	775.3	621.9	420.0	43.1	6.9	4.8	.8	174.2	20.2	

<sup>1</sup> Includes payments in kind; includes pay of Federal civilian and military personnel in all areas. Excludes earnings under work-relief programs in effect during 1935-43.

<sup>2</sup> Includes government transfer payments to beneficiaries under OASDHI, railroad retirement, public employee retirement, unemployment insurance, and veterans' pensions and compensation programs; cash and medical payments under workmen's compensation and temporary disability insurance; and court-awarded benefits for work injuries sustained by railroad, maritime, and other workers under Federal employer liability acts.

<sup>3</sup> Includes government transfer payments to recipients of direct relief under programs of old-age assistance, aid to families with dependent children, aid to the blind, aid to the permanently and totally disabled, and general assistance; includes, during 1935-43, earnings under work-relief programs and the value of surplus food stamps. Excludes payments made in behalf of recip-

ients to suppliers of medical care (vendor payments).

<sup>4</sup> Includes proprietors' income, dividends, personal interest, and rental income; other transfer payments not enumerated in footnotes 2 and 3 (such as Government life insurance payments, World War bonus payments, mustering-out pay and terminal-leave benefits to discharged servicemen, subsistence allowances to veterans at school); and employer contributions to private pension and welfare funds and other labor income (except compensation for injuries).

<sup>5</sup> Includes life insurance premium payments for veterans.

<sup>6</sup> Preliminary.

<sup>7</sup> Seasonally adjusted annual rates, except public assistance and part of the "social insurance and related payments" category.

Source: Department of Commerce, Office of Business Economics. Data regrouped to highlight items of special interest to the social security program.

## STATE AND LOCAL SYSTEMS

(Continued from page 11)

100 percent of the member's retirement benefits but often 25-50 percent of the member's salary or a flat-rate benefit of \$60-90. A joint-and-survivor option is generally available only in those systems without specified benefits. These provisions differ from those in the general systems, which make limited use of specified benefits.

## Contributions

Employee contributions are mostly in the range of 5-8 percent of total salary; employer contributions (reported by 17 systems) are considerably higher, usually 9-18 percent. For the general systems, the employer's contributions are also generally larger, but the differential between employee and employer contributions is much larger for the systems for policemen and firemen.