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TERMINATION OF SOCIAL SECURITY COVERAGE: THE IMPACT ON STATE AND LOCAL GOVERNMENT EMPLOYEES

A WORKING PAPER

PREPARED BY THE

SPECIAL COMMITTEE ON AGING
UNITED STATES SENATE

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PREFACE

During the past 2 years, many local governments have opted to pull out of the social security system. Others are now giving consideration to terminating coverage for their employees.

But at the same time, more governmental workers' jobs are covered under social security than at any time in history. Nearly 8.7 million governmental employees now pay into the social security system. In return, they are building credits toward retirement, disability, survivor, and hospital protection for themselves and their families.

The committee is concerned, however, about the increased number of governmental units electing to terminate coverage, particularly in terms of the financial effect on the system. And the committee is especially concerned about the impact of this decision upon individual workers and their families.

Social security is clearly the economic mainstay for the vast majority of older Americans. In all likelihood, it will continue to be for the foreseeable future. Quite clearly then, termination of social security coverage can be a risky decision for government employees.[1]

To obtain more in-depth information about the effect of these actions, the committee has called upon its staff to prepare this working paper.[2] In addition, technical assistance and other information was provided by Mr. Gary Good, an Executive Development Fellow with the Social Security Administration. In this assignment, Mr. Good displayed the highest degree of impartiality, fairness, and professionalism in examining relevant issues related to local government termination of social security coverage. The committee extends its heartfelt thanks to Mr. Good for his assistance.

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[1] The June 1976 edition of the National Retired Teachers Association-American Association of Retired Persons legislative report said:

"Termination of social security participation can be risky for certain current and future public employees. Failure to continue social security contributions could result in a loss of insured status for disability benefits and could also impair currently insured status for certain survivor benefits, lump sum death payments and chronic renal disease protection under the hospital insurance program.

"Furthermore, due to inflationary pressures, considerable doubt exists as to the future financial ability of public employee retirement systems to provide retirement income security comparable to that provided under the social security system. Many public employee retirement systems would probably not be financially strong enough to bear the costs of providing benefits liberalized and extended to an equivalent degree as that of social security and medicare."

[2] The sample: The committee obtained a copy of all State and local government groups that have filed notice to terminate social security coverage through December 31, 1977. A 10-percent random sample of the groups terminating coverage effective during 1977 (15 out of 154) was selected. Each group was then contacted by telephone. The groups selected were:

California: (1) City of Dixon, (2) Tracy Rural County Fire Protection District, (3) Marina Fire Protection District, (4) City of Rolling Hill Estates, (5) Elk Grove Fire Protection District, (6) Sonoma County Water District, (7) City of Fountain Valley, (8) Sonoma Valley County Sanitation District, (9) Big Bear Valley Recreation and Park District.

Georgia: (10) Murray County Board of Education.

Louisiana: (11) Town of Haynesville, (12) Town of Marimguin, (13) City of Plaquemine.

Missouri: (14) City of Northwoods.

Texas: (15) Red River County Schools.

The document provides clear and convincing evidence that the important decision—whether to continue or terminate social security coverage—is oftentimes made in a haphazard manner. The decision-making process is frequently based upon incomplete, inaccurate, or questionable information. Many workers and local government officials have failed to take into account the total impact—both immediate and in the future—of their actions. In a very real sense, some workers are playing a dangerous game of Russian roulette with their future economic security as well as their families' well-being. The decision to maximize take-home pay now may be at the cost of losing future retirement, disability, survivor, and hospital protection.

Unfortunately, information about social security's future protection has not been readily available. A precise explanation about present benefits is ordinarily fairly easy to obtain. But projections about future benefits were even difficult for the staff to obtain. One of the recommendations in part 7 is directed specifically at this problem.

The working paper makes an important contribution in other ways by: analyzing the reasons for the increased pullouts from social security; identifying major considerations in deciding whether to terminate coverage; providing examples of the scope and value of social security protection; recommending administrative and legislative actions to improve social security.

Finally, this working paper can serve as a useful checklist for government workers and officials in giving appropriate consideration to relevant factors in determining whether they should continue social security coverage.

FRANK CHURCH, *Chairman*,
Special Commission on Aging.

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INTRODUCTION

NEW YORK WILL QUIT SOCIAL SECURITY[1]

NEW YORK, March 22 (UPI)—New York City formally notified the Federal Government today it intends to pull most municipal employees out of the Social Security System in 2 years in what would be the largest withdrawal from the system in its history.

In making the required 2 years' notification, Mayor Abraham D. Beame noted that the city could change its mind during that period and remain in the system.

The pullout, if made, would substantially reduce social security benefits for about 150,000 current city employees and make new employees ineligible. Retired city workers would not be affected.

Several municipalities have withdrawn their employees from the system in recent years, but none as large as New York.

In negotiations with the city, Federal officials reportedly vigorously opposed a New York pullout. A withdrawal by New York would mean a loss to the system of more than $400 million annually. The system already has an estimated benefit deficit of $1.6 billion this year.

Beame gave March 31, 1978, as the tentative termination date.

With a pullout, the city would save an estimated $200 million in annual contributions, Beame said. However, several municipal union leaders have indicated they would demand increased contributions to existing pension programs in the event of an end to social security.

Employees would end their contributions, too, under a pullout. Each would find his paycheck fattened by about $900 yearly.

"I would like to emphasize that termination of coverage would not affect vested rights of city employees under the social security program," Beame said.

The decision to withdraw would be irrevocable. Once a municipality withdraws from the system, it is prohibited from returning.

The mayor's notification affects only mayoral agencies. Beame said he has asked the heads of the nonmayoral agencies, such as the board of education, to make similar notifications.

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[1] Newspaper article, the Washington Post, Tuesday, Mar. 23, 1976.

> If all six of these nonmayoral agencies complied, the number of affected city workers would be about 230,000.
>
> "The notice filed today does not constitute actual termination of coverage," Beame said. "That decision will be made following the most rigorous and thorough analysis of this matter, as well as the question of alternate means of providing disability insurance, during the next 2 years."

All of New York City's moves to pull itself out of financial straits is national news. But on the same day that the Washington Post reported Mayor Beame's announcement, CBS Evening News reported that other local governments have already dropped out of social security. Their decisions received far less attention than New York's, but the two news stories on March 23 illustrate that more and more local governments are electing to terminate social security coverage.

As of June 1975 there were 12.39 million employees of State and local governments; 70 percent of these employees—8.67 million—were covered by social security. Of the employees not covered, only about .045 million are not covered because their social security coverage has been terminated.

Nearly 40 percent of all notices to drop social security coverage have been filed in the past 2 years. Despite this upsurge, the proportion of State and local government employees covered by social security is growing; 68 percent were covered as of June 1973. The 2-percent increase as of June 1975 represents 1.12 million employees.

Some of the employees whose coverage would be terminated are looking forward to more take-home pay. Some local government administrators are looking forward to less payroll expense. For employees whose social security will be replaced with a new staff pension plan, many are looking forward to an earlier retirement age for benefits.

Yet, the voluntary termination of social security is causing concern. As the Washington Post article indicates, part of the concern is about the loss of revenue to the social security system. But the principal concern of the Senate Committee on Aging flows from its primary responsibility: to examine all matters pertaining to problems and opportunities of older Americans. Specifically, this working paper addresses the concern that voluntary termination of social security will reduce the employees' overall benefit protection and lead to increased dependency on others in the future.

Part 1

BACKGROUND

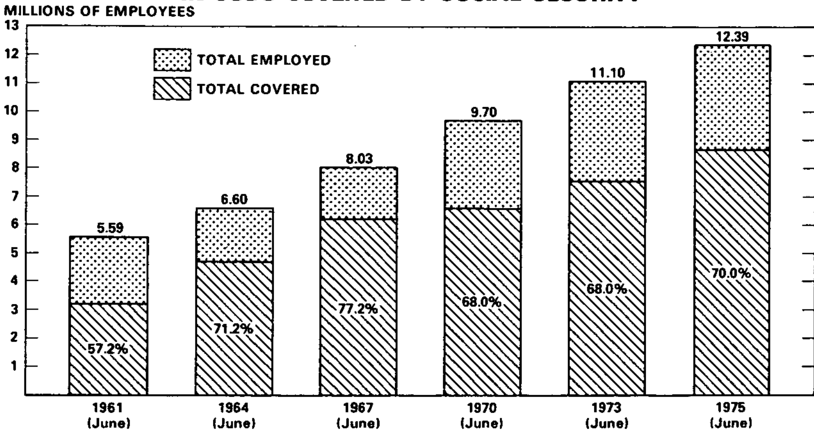
Most State and local government employees now work in jobs covered by social security. From June 1961 to June 1975 the number of State and local government employees with social security coverage more than doubled, increasing from approximately 3 million to almost 8.7 million.

Seven out of ten State and local government employees are covered under social security. This is down slightly from the 1967 high when 77.2 percent of all such employees had social security coverage.

The following graph shows that the majority of State and local government employees are in jobs covered by social security. The numbers within the bars show the proportion of employees in covered jobs.

The drop between June 1967 and June 1970 was because of increases in employment in several very populous States which have relatively few of their governmental entities under social security.

NUMBER OF STATE AND LOCAL EMPLOYEES IN JOBS COVERED BY SOCIAL SECURITY



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A. The Law: Termination of Social Security Coverage

The Social Security Act permits termination of coverage for employees of State and local governments. The State must give 2 years' advance notice of its desire to terminate social security coverage of the employees of a political subdivision. Such notice cannot be given until after the coverage has been in effect for at least 5 years. Once coverage has been terminated it can never again be provided for any present or future employee of that political subdivision.

Employees cannot individually terminate coverage. That action must be taken by the State. No employee vote or referendum is required.

Coverage was not made compulsory for these employees because of the constitutional problems that were foreseen if the social security law were to require the employer tax on the States and political subdivisions. Therefore, coverage was extended on a group voluntary basis, with provision for termination.

B. Terminations on the Upswing

In recent years there has been a substantial increase in the number of government employees in units filing notices of termination. Nearly 31,000 State and local government employees had their coverage terminated by June 30, 1975. Latest figures reveal that potentially 469,000 employees may terminate their social security coverage from July 1, 1975, to April 1, 1978. This represents a fifteenfold increase, compared with the terminations before June 30, 1975.

Virtually all of the terminations have been concentrated in four States: New York, California, Louisiana, and Alaska. In New York alone, 362,000 employees are affected—the vast majority of whom work for New York City. About 90 percent of the employees in New York City are now covered by social security.

NUMBER OF STATE AND LOCAL GOVERNMENT EMPLOYEES WHOSE SOCIAL SECURITY COVERAGE WILL HAVE BEEN TERMINATED BY APR. 1, 1978, COMPARED WITH NUMBER OF COVERED EMPLOYEES IN CALENDAR QUARTER ENDING IN JUNE 30, 1975—BY STATE

State	Number of employees for whom coverage was terminated prior to June 30, 1975	Total number of covered employees in calendar quarter ending June 30, 1975 [1]	Number of employees for whom coverage will have been terminated from July 1, 1975 to Apr. 1, 1978 [2]
Alabama	0	222,553	0
Alaska	0	28,101	12,649
Arizona	0	140,257	0
Arkansas	0	107,266	0
California	13,124	567,050	61,634
Colorado	848	43,972	239
Connecticut	0	98,760	0
Delaware	0	34,753	0
Florida	0	394,172	0
Georgia	563	268,776	2,840
Hawaii	0	38,421	0
Idaho	0	61,637	0
Illinois	1	242,012	0
Indiana	270	274,372	0
Iowa	0	186,206	0
Kansas	0	149,134	0
Kentucky	4	129,846	0
Louisiana	9,699	87,391	24,718
Maine	31	25,016	439
Maryland	3	253,419	0
Massachusetts	31	114	0
Michigan	0	506,616	3
Minnesota	0	173,853	0
Mississippi	0	139,457	0
Missouri	0	212,323	68
Montana	0	53,690	0
Nebraska	0	115,947	0
Nevada	347	2,547	6
New Hampshire	0	48,924	0
New Jersey	0	435,513	0
New Mexico	0	69,629	0
New York	0	1,126,381	362,000
North Carolina	0	325,457	0
North Dakota	0	44,147	0
Ohio	0	3,250	0
Oklahoma	0	153,331	0
Oregon	0	153,125	17
Pennsylvania	0	695,556	0
Puerto Rico	0	233,385	0
Rhode Island	0	40,074	0
South Carolina	0	172,898	0
South Dakota	0	35,041	0
Tennessee	153	203,029	0
Texas	4,420	425,538	3,853
Utah	2	79,860	0
Vermont	0	29,562	0
Virginia	0	306,586	0
Virgin Islands	0	11,878	0
Washington	1,036	247,820	526
West Virginia	0	107,756	0
Wisconsin	0	272,539	0
Wyoming	0	31,768	0
Total	30,532	9,810,708	468,992

[1] Takes account of all covered employees in the calendar quarter. When an employee leaves his job and another employee fills the vacancy both employees are counted. A representative number of employees in State and local employment at one point in time during this calendar quarter would be about 8,670,000.

[2] Takes account of notices of termination that were filed between Apr. 1, 1973 and Mar. 31, 1976.

Source: Social Security Administration.

Part 2

WHY TERMINATIONS HAVE INCREASED

The number of State and local governments electing to terminate social security coverage is clearly on the upswing. Perhaps the most notable example occurred in March when New York City—the Nation's largest local unit of government—filed a notice with the Department of Health, Education, and Welfare to terminate coverage. This would represent the largest withdrawal in the entire history of the program.

To obtain more detailed information about the terminations throughout the Nation, the committee staff has conducted an in-depth analysis of the reasons influencing the decisionmaking process. Among the major reasons cited:

A. Employees' Desire for More Take-Home Pay

Pressure to drop social security coverage is quite often initiated by employees. They typically want more take-home pay to cope with inflation. In addition, many younger employees are more concerned with meeting current living expenses than with retirement income in the later years. Some localities' pay increases have not kept pace with inflation. Thus, younger workers opt for a raise in their take-home pay by reducing their payroll deductions.

B. Finances of Local Governments

Employees are not the only ones caught in a money squeeze. Many State and local governments are financially hard pressed. Some—such as New York City—have been on the verge of bankruptcy. This situation influenced New York City's decision to file a notice of intent to terminate social security coverage. Inflation is also intensifying the budgetary squeeze for other State and local governments. The cost of furnishing governmental services has increased dramatically. This is frequently accompanied by a demand for more services. Virtually all groups hastened to point out that, while the cost of government is up, taxpayers are more and more reluctant to pay additional taxes.

As a result, several local government administrators believed it is essential to consider all alternatives to cut costs—including dropping their social security coverage.

C. "Social Security Is Going Broke"

News accounts about the financial condition of social security have provided a catalyst for many employees to consider terminating their coverage. Widespread reports of the projected exhaustion of social security trust funds in the 1980's have been translated to mean benefits will cease at that time.

As a result, a vote for termination of coverage has been viewed as calling a halt to throwing good money away on a bankrupt system.

D. Social Security Taxes Will Continue To Rise

Few administrators shared the pessimism of some employees that social security would go broke. They—along with many employees, upon reflection—realized that our Nation would not allow social security checks to stop. But they also realized that, to correct the financial problem of greater outgo than income to the program, social security taxes may be increased. Or, some other alternative would be approved which would increase their payroll costs.

One of the most difficult budgetary problems at the local level, administrators reported, is unscheduled rising expenses. Because social security tax levels are beyond local control, dropping social security was seen as a way to achieve more static and budgetable expenditures. [See subsection B for additional discussion of finances of local governments.]

E. "Employees Will Be Eligible for Social Security, Regardless"

Many older employees had found that they already met the requirements for "fully insured status" [1] under social security, which entitles them to at least some retirement, survivors, and hospital insurances. (The amount of monthly retirement or survivors' benefits, however, will be reduced because years of no creditable earnings will be averaged into these workers' lifetime average earnings.)

Many older workers, however, vote for termination of coverage because they will receive at least some benefits.

Younger employees often were reported to be highly optimistic that they would gain enough social security work credits for eventual eligibility through moonlighting or work after retirement. Some will also leave the Government and obtain sufficient quarters of coverage to qualify for benefits. Indeed, the literature from several staff retirement systems also banked on employees being eligible for minimum social security benefits.

The formula for computing monthly social security benefits also provides an incentive for some Government workers to opt for terminating coverage. Benefits are weighted to the advantage of people with low lifetime earnings covered under social security. In some cases this occurs because a worker may have an in-and-out pattern of covered employment, or because he or she may have worked in noncovered employment.

Some groups took care to explain to committee staff that employees were unswayed by the fact that they already were fully insured under social security. Others said this was a major factor in the voting. All groups seemed well aware of the fully insured status rule in the social security law.

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[1] To be fully insured a worker must have covered earnings in a sufficient number of quarters equal to the number of calendar years after 1950 (or the year the worker reached 21, if later) up to the full year in which he or she became disabled, died, or reached retirement age. However, a worker cannot be fully insured with fewer than six quarters of coverage. No worker, though, will need more than 40 quarters of coverage.

F. "Replacement Plans Will Pay More"

Almost all of the groups planned to replace the social security benefits with a different plan. Retirement benefits under the replacement plans generally were higher than social security amounts. Typically, though, the replacement plans paid less survivors and disability benefits and offered no prepaid hospital insurance for retired and disabled workers and family members 65 and over.

Only a few of the plans tied their benefit amounts to the cost of living. Many had no cost-of-living adjustment. Others had special limitations, such as an annual 2-percent limit on the increase. Other plans allowed cost-of-living increases only if fund reserves were sufficient. Still other plans made the increases available only to employees who retired after a specified recent date.

G. "These People Don't Know What They're Voting For"

This quotation from a local government administrator illustrates a sentiment voiced by many. Before the votes, employees did not have any independently prepared evaluations of social security or the proposed replacement plan. Information necessary for informed judgments was therefore lacking.

Part 3

VALUE OF SOCIAL SECURITY

Central to the issue of local government termination of social security is the value of social security protection. As stated in part 2, many Government employees are deciding to drop social security coverage based upon incomplete—and oftentimes inaccurate—information.

Today many Americans view social security as a retirement program for older workers. But it is much more. Social security is also family security, protecting workers and their families from loss of earnings because of death, retirement, or disability. In addition, today's workers are building hospital insurance protection under medicare for themselves and their spouses. About 61 percent of all people getting monthly cash benefits are retired workers and their spouses.

To provide more detailed information about the value and scope of social security protection, this working paper incorporates Senator Dick Clark's May 11, 1976, statement in the Congressional Record on this subject:

VALUE OF SOCIAL SECURITY PROTECTION

Mr. CLARK. Mr. President, the social security program is one of the Nation's most valued institutions. One out of every seven Americans receives a monthly social security check. These benefits replace, in part, the earnings that have been lost because of retirement, death, or disability. In addition, medicare protection is provided when people reach 65 or have been disabled for 2 years, or suffer from end-stage renal disease.

In all, social security currently pays more than $7.3 billion in benefits each month.

That fact is difficult to put into proper context. This amount—$7.3 billion a month—is useful in measuring social security's overall impact on the economy, but it does not fully illustrate the value of the protection provided for individual families. A few key facts, it seems to me, would make this point.

SURVIVORS INSURANCE PROTECTION

Survivors protection, for example, is an important part of social security. Social security monthly benefits are paid to a deceased worker's:

Unmarried children under 18—under 22 if full-time students.

Unmarried son or daughter 18 or over who was severely disabled before 22 and continues to be disabled.

Widow or dependent widower 60 or older.

Widow, widower, or divorced wife if caring for the worker's child under 18—or disabled—who receives a child's insurance benefit.

Widow or dependent widower 50 or older who becomes disabled not later than 7 years after the worker's death or, in the case of a widow, within 7 years after she stops receiving checks as a widow caring for the worker's children.

Dependent parents 62 and older.

Divorced wife 60 or older if the marriage lasted 20 consecutive years or more.

Disabled divorced wife 50 or older if the marriage lasted at least 20 consecutive years and if she becomes disabled within the 7-year period described for disabled widows.

Grandchildren who were living with and dependent on the worker and whose parents are disabled or deceased.

Ninety-five out of every one hundred children under 18 and their mothers have survivorship protection if the father were to die.

The value of social security survivors protection for a family with young children depends largely on: First, the number and age of the children; and second, the earnings of the worker. For example, in the case of a young worker with average monthly earnings of $600 who dies in mid-1976 leaving a wife aged 32 and two children aged 3 and 5, the present value of social security benefits that will be paid to that family over the years—assuming that the children attend school until they reach age 22—is $113,520. And, it is guaranteed inflation-proof.

DISABILITY INSURANCE PROTECTION

Disability protection is another important part of social security. Monthly social security disability benefits are paid to disabled workers and the worker's:

Unmarried children 18—or under 22 if full-time student.

Unmarried children 18 or over who were severely disabled before 22 and who continue to be disabled.

Wives or dependent husbands 62 or over.

Wives under 62 who care for a covered worker's child under 18—or disabled—who received a benefit based on the retired or disabled worker's earnings.

Divorced wives 62 or older if the marriage lasted 20 consecutive years or more.

Grandchildren who are living with and dependent on the worker and whose parents are disabled or deceased.

Four out of five adults have disability protection under social security in the event of the breadwinner's long-term disability, either as insured workers or as dependents of insured workers.

The present value of the social security survivors and disability protection is about $116,380 for a man who:

Becomes disabled in mid-1976 at age 35;

Has a wife 32 and two children aged 3 and 5;

Has average monthly earnings of $600; and
Dies after being disabled for 5 years.
These benefits are also inflation-proof.
If the disabled worker in this example dies after being disabled for 20 rather than 5 years, the present value is about $137,140.

MEDICARE HOSPITAL INSURANCE PROTECTION

At age 65, medicare hospital insurance protection automatically goes with eligibility to social security or railroad retirement benefits for workers, dependents, or survivors. Also eligible for hospital insurance are disabled people under 65 who have been continually entitled to social security or railroad retirement benefits on the basis of a disability for 2 years. Insured workers and their dependents who have end-stage renal disease are eligible also. Finally, people 65 and over who are not eligible under any of these provisions can buy medicare hospital insurance protection, currently for $40 a month. It will go up to $45 this July.

Three types of care provided by participating organizations are covered: inpatient hospital care, posthospital extended care, and posthospital home health services.

Inpatient hospital care is covered for up to 90 days in a benefit period. A benefit period starts when a person enters a hospital and ends when the patient has been out of a hospital or skilled nursing home for 60 consecutive days. Medicare now pays all but the first $104 of the cost of covered services for the first 60 days. If hospitalization lasts longer than 60 days, the medicare beneficiary pays a $26 daily coinsurance charge for the next 30 days. In addition, a lifetime reserve of 60 days of inpatient hospital benefits is available to beneficiaries who have used up the 90 days of benefits in a benefit period. Here again, the patient must pay a $52 daily coinsurance charge.

The second, posthospital extended care, is covered for up to 100 days in a benefit period if the care is begun shortly—generally within 14 days—after a hospital stay of at least 3 days. Medicare pays all covered costs for the first 20 days and, after the 20th day, pays all but $13 a day. The services covered are the skilled nursing or rehabilitation services provided daily to inpatients of skilled nursing homes.

The third type of care covered by hospital insurance is posthospital home health services. Medicare pays for covered services in full. Up to 100 visits by nurses, physical therapists, and other health personnel are covered if furnished within a year after discharge from a hospital—after at least a 3-day stay—or from a covered stay in a skilled nursing facility. A plan of home health care must be provided by a doctor.

The value of hospital insurance protection depends, of course, on a person's state of health. A person who enjoys continuing good health will stand to receive less benefits than the average. A person who is not that fortunate, on the other

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hand, could receive substantially more than the average. For fiscal year 1975 covered inpatient care in short-stay hospitals accounted for 95 percent of the total hospital insurance benefits paid. The average short-stay hospital benefit was $1,062. The average number of covered days of care for these stays was 10.7. The average lifetime value of hospital insurance benefits that can be expected to be paid for a couple, both reaching 65 now, is $24,000.

Here is another way to illustrate the value of medicare's hospital insurance protection: 12 percent of aged beneficiaries are expected to receive benefits for hospital services in excess of $1,000 in fiscal year 1976. Four percent are expected to receive more than $3,000 in benefits. The following chart shows additional examples.

Reimbursement greater than—	*Percentage of aged beneficiaries*
$0	23
$250	20
$500	16
$750	14
$1, 000	12
$2, 000	7
$3, 000	4
$5, 000	2

Thus, medicare hospital insurance is there when you really need it.

MEDICARE SUPPLEMENTARY MEDICAL INSURANCE PROTECTION

Medicare's supplementary medical insurance plan operates somewhat differently. Unlike the rest of social security, workers do not contribute toward medical insurance protection during their working years. People 65 and over—and people under 65 who are eligible for hospital insurance—who sign up for medical insurance pay monthly premiums for this protection. The current premium is $6.70 a month; it will increase to $7.20 this July. The Government more than matches the amount of premium to meet the full cost of the program. Now, the Government's monthly share is $8.30. This July it will be $14.20, about twice what each beneficiary will pay.

There is an annual deductible of $60. After the deductible is met, the plan pays 80 percent of the reasonable charge for covered services. Special limitations apply to psychiatric care and services of independently practicing physical therapists.

Physicians' and surgeons' services are covered in the house, office, clinic, and hospital. Outpatient hospital services are covered if furnished by participating hospitals—or by nonparticipating hospitals for emergency outpatient services.

Home health services—the same as covered in medicare's hospital insurance—are also covered under the medical insurance plan, for up to 100 visits in a calendar year. The plan

pays the full amount, rather than 80 percent of reasonable cost, of home health services. No prior hospitalization is required.

Examples of other covered health services include outpatient physical therapy and speech pathology services, diagnostic tests, rental and purchase of durable medical equipment, and certain ambulance services.

The value of medical insurance protection also depends on a person's state of health. The average benefit paid per bill was $48 in fiscal year 1975. Over three-fourths of the medical insurance bills are paid for doctors' services. Over 1 in 10 bills is for outpatient hospital services.

Here is another way to illustrate the value of medicare's medical insurance protection: 10 percent of aged beneficiaries are expected to receive medical insurance benefits in excess of $500 in fiscal year 1976; 5 percent are expected to receive more than $1,000 in benefits. The following chart shows additional examples.

PERCENTAGE OF AGED ENROLLEES

Reimbursement greater than—	*Percent*
$0	54
$100	31
$200	21
$300	16
$400	12
$500	10
$750	6
$1, 000	5

Thus, medicare medical insurance is also there when you really need it.

RETIREMENT INSURANCE PROTECTION

I have purposely left until last the illustration of the value of social security retirement benefits. Many people think of social security as only a retirement plan, but it is much more. It is also family security. In fact, only about 61 percent of all people getting monthly cash benefits are retired workers and their spouses.

Social security retirement benefits are paid to retired workers at 62 or older, and their dependents. The same rules apply for dependents under both the disability and retirement programs.

Nine out of 10 people aged 65 or over either receive social security retirement benefits or would receive them if they or their spouses were not working. By 1985, about 94 percent of the aged population will be eligible for benefits; the proportion is expected to be 96 to 98 percent by the year 2000.

The value of social security protection is $85,200 in the case of a worker who—

Reaches age 65 upon retiring in January 1976;

Has a wife who reaches 62 in the same month; and

Has average monthly earnings of $585.

This figure includes the value of some survivor's protection for the wife, since the probability is that the worker will die before her. Once again, this protection is inflation-proof.

For people reaching 65 and retiring in the future, the value is, of course, much higher. Let me again use the example of the worker and his wife who are now aged 35 and 32. In the year 2005, they will be 65 and 62. Assuming the worker retires then, the value of their social security retirement protection including the wife's survivor protection will be about $159,700 in 1976 dollars.

This valuation is based on the actuarial assumptions included in the report of the 1975 board of trustees of the social security trust funds. It assumes the same proportion of wage replacement as exists under present law in January 1976. It further assumes that the worker will earn the maximum salary counted toward social security. That amount is $15,300 this year and is expected to be about $26,500 in 2005, using constant dollars.

Constant dollars—that is, 1976 dollars—are used because the number of 2005 dollars is expected to be significantly higher because of inflation. I want to keep all the illustrations as consistent as possible for comparison purposes; using 1976 dollars helps do that.

WORK CREDITS REQUIRED

Before workers and their families can get retirement, survivors, disability, or hospital insurance protection, the workers must earn a certain amount of social security work credits. For each 3-month calendar quarter that a worker is paid $50 or more in a job covered by social security, he or she receives one work credit. Self-employed workers get four credits for each year they have a net profit of $400 or more.

The amount of work credit needed depends on the worker's age. For retirement and hospital insurance protection, a worker reaching age 62 in 1976 needs 25 credits. He or she will need 28 credits if 62 in 1979, 32 credits if 62 in 1983, and 40 credits if 62 in 1991 or later.

For survivors protection, a worker born after 1929 will need 13 credits if he or she dies at age 35, 20 credits if at age 42, and 28 credits if at age 50.

For disability protection, workers who become disabled at age 31 or later need as many credits as they would need if they reached 62 in the year they become disabled. In addition, though, they need 20 credits in the 10-year period just before they become disabled. The additional credits are not needed if the worker becomes blind.

Having enough credits means only that workers and their families can become eligible for checks. But the amount of the checks depends on the worker's average earnings over a period of years from jobs covered by social security. The higher the earnings, the higher the benefits.

NEED FOR ADDITIONAL PROTECTION

A final important point: Most people believe it is wise to supplement their social security protection with other insurance or pensions. We must remember that prices will rise in the future. Although social security benefits will increase with the cost of living, it is not too likely—in my opinion—that there will be any sizable future increase in the proportion of earnings replaced by social security benefits. So planning for some supplement seems to me to be prudent.

Finally, it should be emphasized that social security was never intended to be the sole source for replacing lost earnings because of death, retirement, or disability.

It, of course, provides valuable protection. And for most older Americans, social security is their primary source of support. But quite clearly, social security benefits should be supplemented by private pensions, insurance, savings, or other forms of protection.

The above statement by Senator Dick Clark appeared in the *Congressional Record* of May 11, 1976, page S6866.

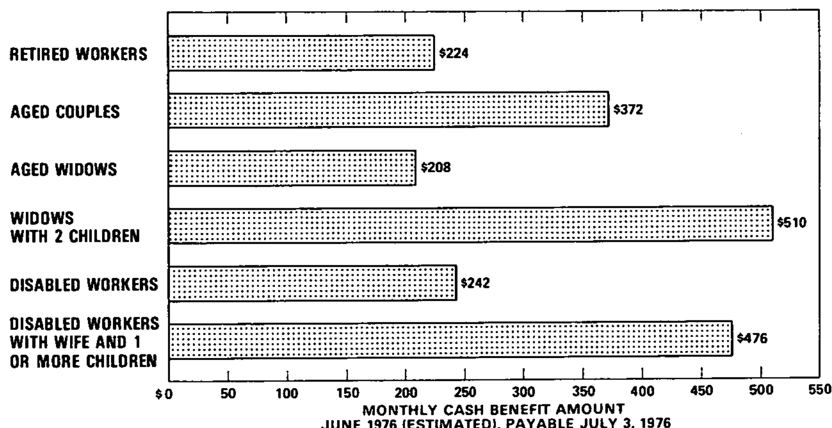
Chart 1 shows average monthly benefits for some selected family groups.

The benefits paid to disabled workers do not ordinarily include reduced benefits, and a higher percentage of disabled workers than retired workers have their benefits computed on more recent, and therefore higher, average earnings. These facts explain, at least in part, why the average benefit for disabled workers is higher than the average for retired workers—$242 as compared with $224 for June 1976.

A wife's benefit beginning at or after age 65 is equal to one-half of the amount her husband would get if he retired at age 65. The average benefit for a worker and his wife is $372.

CHART 1

AVERAGE CASH BENEFITS



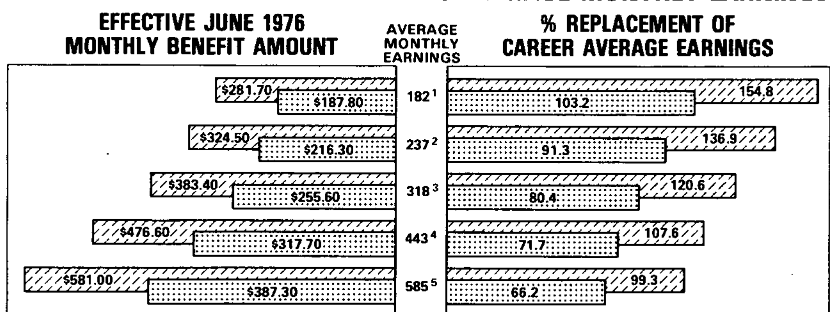
An aged widow's benefit beginning at or after age 65 is 100 percent of the benefit her husband was getting or would have gotten if he retired at age 65. The amount of a widow's benefit depends on her age at the time she starts getting benefits and whether her husband got reduced retirement benefits. The benefit for a widow who starts getting benefits at or after age 65 and whose husband did not get reduced benefits is 100 percent of her husband's unreduced benefit amount. All other widows—those who start getting benefits before age 65 (benefits payable as early as age 60) or whose husband got reduced benefits—get less than 100 percent. The average benefit for aged widows is $208.

Several factors affect the amount of benefits for family groups consisting of several people. A child's benefit is 50 percent of the worker's unreduced benefit if the worker is alive, and 75 percent if the worker is dead. Also, there is a limit on the monthly family benefit payable on the basis of an insured worker's earnings record. The maximum family benefits range in amount from 150 percent of the minimum unreduced benefit for a worker to 175 percent of the maximum unreduced benefit under the law. Under the automatic provisions in the law, the family maximums will be increased by the same percentage as benefits are increased.

The benefit for a dependent parent of a deceased worker is 82½ percent of the worker's benefit if there is one parent, and 75 percent each if there are two parents.

CHART 2

BENEFIT AMOUNTS ARE RELATED TO AVERAGE MONTHLY EARNINGS



RETIRED WORKERS AGE 65 IN 1976 — COUPLES AGED 65 IN 1976 — JUNE 1976

[1] EARNINGS EQUAL TO $3,438 IN 1975 WITH INCREASES PARALLELING INCREASES IN AVERAGE 1ST QUARTER WAGES 1951-75
[2] EARNINGS EQUAL TO THE FEDERAL MINIMUM WAGE, 1951-75
[3] EARNINGS EQUAL TO AVERAGE TAXABLE WAGES UNDER SOCIAL SECURITY, 1951-75
[4] EARNINGS EQUAL TO MALE MEDIAN EARNINGS UNDER SOCIAL SECURITY, 1951-75
[5] EARNINGS EQUAL TO THE CONTRIBUTION AND BENEFIT BASE UNDER SOCIAL SECURITY, 1951-75

Part 4

EXAMPLES OF BENEFITS OF STAFF RETIREMENT PLANS

Government employees should consider several factors in determining whether to vote for the termination or continuation of social security coverage. A major consideration, of course, is the present and future value of retirement benefits under various plans. But there are many other factors that must also be appropriately weighed, including:

How does the disability coverage of the alternative plan compare with social security's coverage?

Is there provision for survivor benefits for the worker's wife or family?

Is there an automatic cost-of-living adjustment mechanism to make retirement benefits inflation-proof?

What type of provision is made for medical protection for the retiree?

A. Parochial Employees' Retirement System of Louisiana

There are two basic versions of this plan. The "regular" plan is coordinated with social security. The more liberal "supplemental" plan is designed to replace social security benefit protection.

The plan's publication "Summary of Principal Features" is reprinted in appendix 1, p. 34.

B. California Public Employees' Retirement System—1/50 at Age 60

This plan also has two versions—one coordinated with social security, the other not coordinated.

The plan's "Questions and Answers" pamphlet is reprinted in appendix 2, p. 40.

C. Highlights of Other Plans

The committee has also examined a number of other representative plans. Among the major features:

(a) Retirement age is well below 65. Most plans studied provided for reduced benefits at either age 50 or 55. The lower retirement ages applied to police and fire employees, and their benefits were relatively more liberal.

(b) Restricted cost-of-living increases. Most plans studied did not automatically increase benefits with rises in the cost of living. For those that did, a 2-percent a year ceiling on the increases was common.

(c) Survivorship protection for young families is meager. What

most plans term survivors benefits applies only to surviving spouses of workers who have already retired. Typically, the retiring worker is given several options regarding how benefits are to be computed. The two major options are (1) benefits payable only while the worker lives and (2) benefits at a reduced rate payable to the worker with benefits to continue to the surviving spouse. Employee contributions with interest are paid to designated beneficiaries in case of death before retirement age. Many local governments provide a group life insurance policy for employees. Ten thousand dollars is a typical amount.

(d) Health insurance after retirement is nonexistent. No plan studied provided prepaid hospital or medical insurance after retirement. Most local governments did provide group health policies for active employees.

(e) Earnings limitations apply only to work covered by the plan. All plans studied had provisions that reduce or stop benefits if the retiree works in employment covered by the plan. Other work, however, does not affect the benefits.

(f) Disability benefits vary widely. Disability benefits for fire and police employees were quite liberal in the plans studied. On the other hand, these benefits were very restrictive in other plans, all of which covered nonfire and police employees.

Part 5

HOW SOME TERMINATION DECISIONS WERE REACHED

Local governmental termination of social security coverage has increased markedly during the past year. To provide insight concerning how these decisions were reached by employees and Government officials, this part focuses on four case studies.

A. Dixon, Calif.

The city of Dixon has 25 employees covered by social security. Its coverage will terminate March 31, 1977, unless the notice of termination is withdrawn.

The idea of terminating social security coverage originated with the employees. Ten of the employees are over 40 years old, with the average age between 20 and 35. There is very little turnover. Only three employees have terminated employment in the past 2 years. The vote was 24 for termination with 1 abstention.

The basic concern of the employees was the 5.85-percent payroll tax deduction. Other concerns centered on future increases in the tax rate and whether the system would go broke.

The director of finance for the city assured the employees that the social security system would not go broke. Because he did not have information about future benefit rates for social security, he himself estimated the future benefits under social security, and the proposed replacement plan, assuming a 5-percent-per-year inflation rate.

Current and future cost was the primary employee consideration. Under the replacement plan, the employer contribution will be considerably more than the employees' share. The employer share will be 23 percent for safety employees and 21 percent for all others.

B. Murray County Board of Education, Georgia

The board of education has between 200 and 220 employees. Many of the teachers had been asking school board officials about social security's financial strength. During meetings the possibility of terminating social security coverage also was mentioned. Many of the employees have worked for 15 to 20 years under social security. Turnover is relatively low since four out of every five employees are hometown people.

In addition to social security, teachers are covered under a State teachers pension plan. Because of the 6-percent payroll deduction for the State plan and income tax withholding, the 5.85-percent social security deduction seemed too burdensome to most of the employees.

Several straw votes were taken. About 95 percent voted to terminate social security.

Present plans are to return the employer's portion of the social security tax to the employees, thus increasing take home pay by 11.70 percent.

Local bond referendums do not pass and practically everyone is opposed to more taxes, according to the school superintendent.

Employees believe their benefits under the State pension plan are adequate. Retirement benefits are 80 percent of the employees' highest 5 years' earnings. Disability benefits are provided after 10 years of work credit. Each employee is provided a $10,000 life insurance policy and group health insurance benefits while employed.

The superintendent believed the social security law should provide an option whereby employees who want to retain social security coverage could do so regardless of the wishes of the majority. He also thought it would be desirable for the State to have a plan that would take social security benefits into account and provide additional benefits on top of social security.

C. Plaquemine, La.

None of the 120 employees of the city voiced objections when the city, after several meetings with them, decided to terminate social security coverage. The city will change to a more liberal version of the Municipal Employees Retirement System of Louisiana. Employees believe they will get more benefits under that plan than from social security.

Some employees had read about social security going broke, and that helped them make their decision. But social security was dropped primarily because the replacement plan provided greater benefits. Except for the young employees, almost all are fully insured under social security.

The mayor pointed out that there is tremendous mobility among city employees. Except for the "old heads," employees work about 7 or 8 years and then accept new, nonmunicipal jobs. The city's pay scale used to be significantly lower than that in the nearby construction industry. Although city salaries have increased, the new retirement system, with the years of service requirements and higher benefits, will be an incentive for employees to remain on the city payroll.

D. Haynesville, La.

The 26 employees of the town gave their approval to drop social security coverage and replace it with the more liberal version of the Municipal Employees Retirement System of Louisiana. A relatively small number of the employees will be covered by the Municipal Police Employees Retirement System of Louisiana.

At a roundtable discussion meeting of the Louisiana Municipal Association, the idea of dropping social security was raised. Many other towns in Louisiana had already done that.

The town clerk described the financial situation of the town and the reasons for dropping social security very clearly and forcefully:

(*a*) Social security costs will rise in the future. The town will find it difficult to budget for these expenditures. Haynesville needs a level cost retirement system that town planners can project and count on.

(*b*) Citizens want more and more town services but don't want to increase taxes. People must realize that they must pay for the services they want.

(*c*) The town can't change social security's cost and has no influence over it. Rising costs have been forced on the town by Washington. Social security is just one example of Federal interference with people's money. The rising cost of social security is going to break the country.

(*d*) The replacement plans will give more in benefits.

(*e*) There was some concern that social security is going broke.

(*f*) The town was not directly covered by social security. The social security tax invoices must be paid to the public employees' board. The town was an unwanted stepchild from the beginning.

Part 6

CONSIDERATIONS OF STATE AND LOCAL GOVERNMENTS

In deciding whether to withdraw from social security, State or local governments should consider several factors, such as:

What are the advantages and disadvantages of social security coverage compared with other types of plans?

What is the likelihood of future improvements for social security, in contrast to other forms of retirement, disability, survivor, or hospital protection?

How does the cost of social security protection compare with similar forms of retirement, disability, survivor, and medical protection?

Governmental employees should give appropriate consideration to these factors, as well as others.

A. Basic Choices

When a State or local government elects to continue in or withdraw from the social security system, it has essentially four basic choices:

(1) Coordinate social security protection with a staff retirement plan;

(2) Replace social security with a new staff pension;

(3) Rely entirely on a staff pension plan; or

(4) Have no plan.

1. *Coordinate.*—Some groups have coordinated the benefits of their staff retirement plan with the benefits of social security. Under this method, the staff plan agrees to pay benefits in addition to social security, up to a predetermined level. For example, that level could be 80 percent of the employees' average salary during their high 5 years of earnings, with additional provision that social security's cost-of-living increases be passed through to the disabled or retired employees and their families.

Additional provisions could be made to provide an earlier retirement age, a retirement age different for police and fire employees than for other employees, and supplemental hospital and medical benefits.

2. *Replace.*—Other groups have decided to replace social security benefits with a new staff pension plan. Under this method, a local government can establish a staff plan with benefits comparable to social security, but under local control and direction.

3. *Retain the existing staff plan.*—Some groups have dropped social security and, rather than replacing it, rely on a preexisting noncoordinated staff plan. This is usually done because of financial pressures on employers and local groups, and because the existing plan benefits are thought to be sufficient protection.

4. *Have no plan.*—This is rarely a choice, although it's sometimes an unintended result when some employees are not eligible for membership in the staff plan and social security coverage is dropped.

B. Benefit Comparability of Replacement Plans

Almost all of the replacement plans studied offer higher benefits at retirement. Most have lower retirement age than the age 65 (62 for reduced benefits) for social security. The replacement plans typically do not reduce benefits because of work after retirement, unless the work is covered by the staff retirement plan. (Social security retirement benefits are reduced $1 for each $2 of earnings over $2,760, except that full benefits are paid for every month earnings are $230 or less, regardless of the yearly total.)

However, the replacement plans studied are significantly weaker than social security in hospital insurance protection, survivors protection, and disability protection. A major exception is disability protection for police and fire employees. Their disability benefits are awarded under rules that have been criticized as too generous.

None of the plans studied has prepaid hospital insurance for people 65 and over or disabled. Social security has such protection as a part of medicare.

Very few of the plans offer comparable benefits for survivors. Particularly weak are benefits for young families in the event of the death of the worker before retirement age.

C. Cost-of-Living Increases

Most of the replacement plans do not tie their benefits to the cost of living. Those that have an escalator clause limit the percentage increase in benefits to an annual level that is low compared to anticipated inflation rates. A 2-percent-per-year limitation is common.

The result is that, while retirement benefits are higher than social security benefits initially, replacement benefit amounts will erode over time. Assuming an annual 5-percent rate of inflation, social security would increase about 63 percent by the end of a 10-year period. A 2-percent limitation would reduce the increase to about 22 percent—a 41-percent loss in the purchasing power of the benefits.

D. Vesting

Vesting is the pension-related term used to identify the permanent right to benefits. The period for vesting is the length of time an employee must work before obtaining the right to benefits. The period for vesting usually was 5 years in the replacement plans studied. If employment terminates before vesting, all plans studied pay back the contributions of the employee, plus interest. No benefits are paid unless vesting occurs.

For short-term employees, then, the staff plan becomes nothing more than a forced savings account. No extra benefit will be paid upon premature death, disability, or retirement. Because few people invest their refunds in insurance or annuities, the result can be complete dependency on others if one of these events occurs.

Social security vesting is $1\frac{1}{2}$ years for survivor benefits, 5 years of covered work in the last 10 years for disability benefits, and no more than 10 years for retirement benefits. [See part 3 for a more detailed description of social security vesting.]

See appendix 3 for discussion of this and other issues by Mr. David H. Doty, city manager, Bellaire, Tex.

E. Portability

Portability is the term used to describe the situation where work credits for pension vesting under one job can be carried to other jobs. If work credits are portable, a worker can move from job to job and build credits toward benefits from one—or coordinated—staff plans. Work in a job for 3 years, itself not enough for vesting, could be carried over to work in another job for 2 more years, resulting in vesting under a 5-year arrangement.

As could be expected, portability of staff plan work credits is very limited. Some common limitations were found. They include portability of credit from one plan to another only for other staff plans listed in the provisions of the first plan, or within a certain time limit, or only upon approval of the plan covering the new job.

Social security work credits are fully portable, which means that work in any job covered by social security counts toward vesting; 9 out of 10 jobs in the country are covered by social security.

F. Desirability of Local Government Employment

Once a local government terminates its social security coverage, it cannot go back into the system.

Over the years, prospective employees who do not want their social security protection reduced by noncovered earnings may choose employment with local governments that have their jobs covered by social security. Conversely, employees who have worked in local government jobs not covered by social security may wish to limit their employment to governments with similarly noncovered jobs. Thus, the free mobility of labor could be impaired—with 9 out of 10 job hunters seeking employment in social security-covered jobs, and 1 out of 10 seeking employment in noncovered jobs.

G. Effect of Terminating Social Security Coverage on Present Employees

Present employees can be divided into two groups: those with vested social security rights and those without.

The employees with vested rights will be eligible for social security retirement, hospital, and survivors benefits. Disability benefit protection will cease after 5 years of termination.

But even with vested rights, the amount of monthly benefits will constantly decrease after termination. This is because the benefit amount is computed on covered earnings over a person's working lifetime.

Social security pamphlet 76–10065, "Your Stake in Social Security as a Public Employee," January 1976, illustrates it this way:

> Take John M., for example, who was 50 in January 1975, when his State coverage group's termination of social security became effective. At that time, John had more than 10 years of coverage so he'll be permanently insured for retirement and survivors benefits and medicare.
>
> John has maximum covered earnings each year through 1974, but not from 1975 up to 1990, when he'll retire at 65. So his social security check will be $507 a month (under current estimates). If he had kept his social security coverage, he would have gotten about $1,023 a month in social security benefits.

The other group of present employees—those without enough work credit for vesting—will not be eligible for benefits without additional work under social security. While it is common to hear that these workers—usually younger ones—will moonlight and work after retirement to gain work credits, family obligations, the labor market, and the employee's health or stamina may work against these ambitions and assumptions.

If employees without vested social security eligibility in fact gain enough work credit for vesting, the amount of their benefits will suffer from a reduction similar to the one described for employees who already have vested rights.

H. Effect on Future Employees

Future employees will not be represented in any referendum by employees to terminate social security coverage. But they definitely will be affected by the outcome. If a State or local government's coverage is terminated, future employees' work will not count toward social security protection.

As a result, the pension rights of these employees will be seriously impaired (1) if they do not work under the State or local plan long enough for vested rights, (2) if the staff plan does not provide comparable benefits, or (3) if they withdraw their contributions to the staff plan when they leave the State or local employment.

I. Financial Strength of Other Plans

The Employee Retirement Income Security Act of 1974 (ERISA), which protects the rights of participants and beneficiaries of private pension plans, does not cover State or local government employees. ERISA contains, instead, a mandate to engage in an in-depth study of governmental pension systems.

The Pension Task Force of the Subcommittee on Labor Standards of the House Education and Labor Committee has released its interim staff report. It reached these tentative conclusions:

(1) Because public pension plans are not subject to the qualification provisions of the Internal Revenue Code, or the protection of other Federal law, many public plans lack the participation, nondiscrimination, disqualified person, and other safeguards that are inherent in private plans.

(2) The absence of any external independent review of public pension plans has permitted the existence of a high degree of employer control of plan assets, which carries an attendant potential for abuse.

(3) In general, public pension plans do not appear to be operated within the generally accepted financial and accounting procedures applicable to private plans.

(4) As a general policy, the practice of using the assets of municipal and State retirement funds to finance local government operations significantly impairs the stability of public pension plans.

(5) Given the nature of public pension plans themselves, plus conflicting and confusing State statutes, constitutional provisions, and court interpretations, a great deal of legal uncertainty exists as to the rights of plan participants, the standards governing the conduct of plan officials, and the remedies available to aggrieved participants.

(6) Public retirement systems in general suffer from serious deficiencies in the area of plan disclosures to participants and beneficiaries of information central to a full understanding of the provisions and operation of the plan. This absence of disclosure has produced a situation where participants and beneficiaries seldom know with any accuracy exactly what their pension entitlements are, and how they can object to any practices of the plan involving the management of the assets of their pension fund.

J. Tax-Free Benefits

Social security benefits are not subject to Federal income tax. Benefits from other plans are taxable once the amount of employee contributions is repaid. Retired Government pensioners, though, may qualify for tax relief under the retirement income credit.[1] For some people, the tax-exempt status of social security can be an important consideration.

K. Likelihood of Future Improvements in Social Security

The social security system has been improved numerous times since its enactment in 1935. It undoubtedly will continue to be improved in the future. Increased benefit protection can be of great importance to beneficiaries in the future, as a hedge against inflation.

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[1] The retirement income credit was enacted in 1954 to provide Government pensioners or annuitants with comparable tax relief as social security beneficiaries who are not taxed on their benefits. Persons with little or no social security coverage can claim a 15-percent credit on their qualifying retirement income: pensions, annuities, interest, dividends, or rent.

The credit is 15 percent of the lesser of: (1) A taxpayer's qualifying retirement income. or (2) $1,524 ($2,286 for a joint return where both taxpayers are 65 or older) minus the total of nontaxable pensions (such as social security benefits or railroad retirement annuities) and earned income (depending upon the taxpayer's age and if the taxpayer is under 62, the $1,524 figure is reduced by the amount of earned income in excess of $900. For persons at least 62 years old but less than 72, this amount is reduced by one-half of the earned income in excess of $1,200 up to $1,700, plus the total amount over $1,700. Persons 72 and over are not subject to the earned income limitation).

Under the Tax Reform Act of 1976—which the House and Senate had passed as of this writing—the retirement income credit would be replaced by a 15-percent elderly credit for persons 65 or older. This 15-pecent credit can be claimed on up to $2,500 income for single persons aged 65 or older and for a married couple filing jointly if only one spouse is 65 or older. In the case of a married couple filing jointly with both spouses 65 or older, the maximum amount for applying the credit would be $3,750. These maximum amounts, however, would be reduced by tax-exempt pension income (e.g., social security). In addition, the maximum amounts for application of the credit would be reduced by $1 for each $2 of adjusted gross income in excess of $7,500 for a single person and $10,000 for a married couple filing jointly. The new elderly credit would be applicable for earned income. The requirement of earning $600 over 10 years would be eliminated.

It is also possible that changes will be made to restrict in some fashion the benefits protection of people with very limited work coverage under social security. The modification in the minimum benefit, described in part 7 of this report, is an example.

L. Possibility of General Tax Revenue Financing

There is more and more discussion about using the income tax to collect part of the social security funds needed in the future.

Under present law, employers and employees each pay 5.85 percent on the first $15,300 of annual earnings. Self-employed people pay 7.90 percent on the first $15,300 of net income. Only people working in jobs covered by social security pay into the system.

Under the proposals, all people with taxable income would pay into social security through the income tax. If a person were not working in covered employment, no benefit rights would accrue because of this payment of taxes.

Supporters of such proposals point out that the present social security tax rate could be reduced if all jobs were covered by the program. This is because some people with noncovered jobs collect benefits as a result of moonlighting or working after their retirement. Since many of these people collect artificially high benefits, the supporters contend that general revenue financing would make the system more equitable for all.

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Part 7

ADMINISTRATIVE AND LEGISLATIVE RECOMMENDATIONS AND CONSIDERATIONS

In most cases, no actuarial evaluation is made to compare the employees' future benefit protection under a replacement plan with that provided by social security. When an evaluation is made, it oftentimes fails to examine many of the considerations described in part 6 of this report. Typically, the evaluations have not been made by independent actuaries.

Quite frequently, this causes two significant deficiencies:

(1) A failure to consider survivors, disability, and hospital insurance protection; and

(2) A failure to consider future effects of automatic increases in benefits, other automatic provisions of social security, and the probability of future legislative improvements in social security.

A. Independent Evaluation of Replacement Plans

A comprehensive actuarial comparison seems essential before informed judgments can be made. And at the least, it seems to be prudent public policy to have those comparisons made by qualified actuaries who are not employed by or otherwise associated with an insurance company, a staff pension plan, or other organization that has a material interest in the outcome.

Therefore, it is recommended that a resolution be introduced to express the sense of the Congress that State and local governments contemplating termination of social security coverage:

(1) Require an actuarial evaluation of any such replacement plan;

(2) Provide that the evaluation be conducted by an "enrolled actuary," as that testing and qualification program is established under the Employee Retirement Income Security Act of 1974 (ERISA);

(3) Restrict the evaluation to those enrolled actuaries who are not employed or otherwise associated with organizations with a material interest in the outcome; and

(4) Require evaluation of benefit structure, entitlement factors, vesting, portability; evaluation of present and future benefit amounts, cost, funding, replacement ratios; comparison of essential benefit protection; and evaluation of other factors.

B. Actuarial Evaluation of Social Security

A similar evaluation of the social security program also would be necessary before informed judgments could be made. It would be duplicative and wasteful, however, to require each State and local government to contract for an evaluation of the same nationwide program.

Therefore, this proposed resolution would:

(1) Invite the Secretaries of Treasury, Labor, and Health, Education, and Welfare to have prepared an actuarial evaluation of social security, covering the same factors as are required for the replacement plans;

(2) Update the evaluation report whenever appropriate, but at least annually; and

(3) Furnish copies of the report to State and local government officials, employees, and interested members of the public, upon request.

C. Notice of Results of Evaluation

Informed judgment also requires notice. Therefore, this proposed resolution would call for:

(1) Copies of both evaluations be given to all employees involved; and

(2) A copy of the replacement plan evaluation be furnished to a person designated by the Secretary of Health, Education, and Welfare.

D. Employee Referendum

In most cases, the State and local government groups which have filed notice to terminate social security coverage have conducted employee referendums. But, as in New York City's case, there have been notable exceptions. The matter of economic security in old age, after a worker's disablement, and after a worker's death, is fundamental to the Nation's welfare.

Therefore, the proposed resolution would:

(1) Provide that termination of coverage would not be effective unless approved by a majority of employees affected; and

(2) Provide that the referendum be held only after adequate time has been provided for employees to study and compare the actuarial evaluations, including time for clarifying meetings, but not less than 60 days after employees have received both evaluations.

E. Certification of Benefit Protection Comparability

It would be a hollow gain indeed for employees to replace their social security protection with a plan which initially offers benefits comparable to or greater than social security, but which erode by comparison in the future. Similarly, it would be detrimental to replace social security with a plan that offers retirement benefits equal to or greater than social security, but has limited—or no—survivors, disability, or hospital insurance protection.

The public welfare would be ill served to have large numbers of people dependent on others in old age or after death or disablement. Yet, this would be the inescapable result for many, if large numbers of employees had only meager pension protection.

Essential benefit protection must be maintained for State and local government employees. Otherwise, society will eventually experience even greater welfare costs. That is a far bleaker alternative than assuring that employees are gaining essential protection during their working careers.

Therefore, the proposed resolution would encourage State and local governments to:

(1) Specify that social security coverage could be terminated only if the Governor of the State or the chief executive of the local governmental group certifies that essential benefit protection under the replacement plan would be at least equal to the entire social security benefit protection;

(2) Specify that, for purposes of the certification, the benefit protection be compared: At the onset of the replacement plan; 5 years after the onset; and 30 years after the onset.

For these periods, the benefit comparisons will be made for earnings levels, with work during ages 25 through 64, at: The Federal minimum wage; the nationwide median earnings level; and the maximum contribution base under social security.

The proposed resolution would also define "essential benefit protection" by illustrating the total benefits which would be expected to be paid under the following circumstances:

Retirement benefits for (*a*) a worker at age 65; (*b*) a worker 62, a wife 59, and an unmarried child aged 15; and (*c*) a worker 65 and a wife 62.

Disability benefits for (*a*) a worker at age 35; (*b*) a worker age 35 with a wife 32 and two children ages 3 and 5, and (*c*) a worker age 50 with a wife 47 and two unmarried children aged 15 and 17.

Survivors benefits for (*a*) a widow age 32 with two children ages 3 and 5; (*b*) dependent parents ages 65 and 62, and (*c*) a widow age 45 with three unmarried children ages 11, 16, and 18.

Hospital benefits for (*a*) a disabled worker age 35; (*b*) a worker at age 65, and (*c*) a worker 65 and wife 62.

F. Modification of Minimum Benefits Under Social Security

The present minimum social security benefit paid to a worker at 65 is $107.90. It is paid to workers with average yearly earnings after 1950 of $923 or less. Originally intended in the law to provide reasonably adequate benefits to workers with extremely low lifetime earnings, the provision has operated more and more to the advantage of people who have relied primarily on employment not covered by social security for their livelihood.

As a result of moonlighting or work after retirement, many State and local government employees have become entitled to the artificially high minimum benefits. There has been considerable concern about the windfall this represents.

Eleven percent of all beneficiaries receive benefits based on this minimum.

In the 1972 amendments to social security, a "special" minimum benefit was introduced into the system. The special minimum is designed to help people who had low earnings for many years. Workers who reach 65 in 1976 and qualify for a special minimum benefit receive $153 a month with 27 years of coverage, or $180 a month with 30

or more years of coverage.[1] The special minimum benefit, however, is not tied to the cost of living. S. 650, introduced by Senator Frank Church on February 11, 1975, would provide this automatic adjustment.

If the regular minimum benefit were "frozen" at $107.90, over time the artificially high portion of the benefits would wash out. In the future, then, the benefits could be computed strictly according to the benefit formula, and would be increased as the cost-of-living increases.

At the same time, the careful attention—which has been paid in past years to the regular minimum benefit—could be shifted to the special minimum benefit. It, then, would become the primary vehicle within the social security system for assuring reasonably adequate benefits for people with low lifetime earnings. The benefit structure, thus, would be tuned more finely to accomplish what has, in fact, always been the purpose of a "minimum benefit" under social security.

At the same time, the supplemental security income program could operate more as it was intended—to backstop efficiently the social security system with needs-related payments to those people whose attachment to the labor force has truly been extremely casual or intermittent.

G. Modification of Social Security Financing

Social security is now financed by a payroll tax on the first $15,300 of earnings. The maximum amount of earnings taxed (called the tax base) increases automatically as wages increase. Employees and employers each pay 5.85 percent of earnings within the tax base toward social security. Self-employed people pay 7.90 percent.

The tax rate is scheduled to increase in 1978 for employees and employers each and for the self-employed to 6.05 percent and 8.10 percent, respectively; in 1981 to 6.30 percent and 8.35 percent, respectively; in 1986 to 6.45 percent and 8.50 percent, respectively, and in 2011 to 7.45 percent and 8.50 percent, respectively.

The 1976 annual reports of the board of trustees of the social security trust funds identify a need for additional financing. In the 1990's the payroll tax necessary to finance monthly cash and hospital insurance benefits will increase dramatically. The percent of payroll needed in addition to the increases in the rates already scheduled in the law will be 2.77 percent in 1990 and 5.51 percent in 2000. These figures are based on the reports' intermediate cost assumptions. They assume no change is made in the taxable base beyond the automatic increases already a part of the law.

[1] The special minimum benefit is computed by multiplying $9 by a worker's number of years in covered employment in excess of 10 years up to 30 years. This produces a special minimum benefit of $180 a month for a worker retiring at age 65 (or disabled) who has been employed for 30 years under social security coverage. This benefit is paid as an alternative to the regular benefits in cases where a higher benefit would result. Only a small proportion of social security beneficiaries now receive the special minimum monthly benefit. In almost all cases, an individual's regular social security benefit is greater than the special minimum. In order to qualify for a year's coverage under the special minimum, a person must have earnings equal to at least one-fourth of the maximum wage base for that year. In almost all cases the regular benefit based on these earnings would be greater than the special minimum benefit.

The additional tax rate needed—2.77 percent in 1990 and 5.51 percent in 2000—would be divided among employees, employers, and the self-employed. In 1990 employees and employers each could expect to pay about 7.85 percent. In 2000 they could expect a social security tax rate of about 9.20 percent.

Many questions are being asked in light of these projected costs. The debate on this issue focuses on whether general revenues should be used at some future time to help defray the costs of social security.

Those who support general revenue financing cite the regressive tax structure of social security (that is, the tax hits people with low income the hardest), the inequity of some people in jobs not covered by the system receiving artificially high benefits nonetheless, and the precedents in other countries where worker-employer-government contributions finance social insurance. Opponents believe general revenue financing would lead to examinations into individual's personal financial worth, thereby changing social security to a system paying benefits based on need. In addition, they cite the inequity of having higher paid and noncovered workers contributing to a system from which they would derive only an indirect benefit.

The general revenue financing debate is certain to grow in intensity as future social security costs increase. There are about 145 cosponsors to H.R. 33, introduced by Mr. James A. Burke, chairman of the Social Security Subcommittee of the House Ways and Means Committee. H.R. 33 would finance social security partially through general revenues.

H. Modification of Coverage Agreements

The resolution suggested earlier in this part would cover points A through E and would not modify the existing coverage agreements between the States and the Federal Government.

There are a number of additional possibilities if agreements are to be modified.

Independent actuarial evaluation of proposed replacement plans could be mandated.

Results of evaluations of social security and proposed replacement plans could be required to be given to all affected employees and other interested groups.

Certification of benefit protection comparability could be mandated.

The current provision for termination of coverage after a 2-year notice could be eliminated.

All of these raise questions concerning whether the Federal Government has the legal right to alter unilaterally the State agreements. Elimination of the termination provision also raises the constitutional question of Federal taxation of States. Given the scope and nature of these questions, the probability of devising ways to change State agreements seems slim indeed.

I. Administrative Possibilities

Because so many decisions to terminate coverage seem to be based on shortsighted, incorrect, and incomplete considerations of the implications of termination, additional administrative steps are needed.

The Social Security Administration (SSA) has withheld taking

an aggressive—perhaps even an active—role in the termination of coverage issue. Its field personnel are trained to process claims rather than to discuss considerations about termination. But SSA is now training selected field employees in the termination of coverage issue. Both steps seem appropriate.

Without legislative action and remaining completely objective, SSA could tighten its ties with State and local governments so it would learn of groups in the early stage of consideration. SSA could identify the key points for those groups and assist them in obtaining relevant data. It could provide the information called for in points B and E of this part.

Those, and any additional steps to assist State and local governments in arriving at informed decisions, appear to be totally appropriate actions for SSA to take.

APPENDIXES

Appendix 1

PAROCHIAL EMPLOYEES' RETIREMENT SYSTEM OF LOUISIANA

Summary of Principal Features

ACT 205 OF 1952

Amended by acts 508 and 708 of 1954, act 448 of 1956, act 216 of 1958, act 417 of 1960, act 392 of 1962, act 83 of 1964, act 83 of 1965, act 212 of 1966, act 184, act 538, and act 525 of 1968, act 65, act 363, act 36 of 1970, act 115 of 1971, act 169 of 1971, act 172 of 1971, act 46 of 1972, act 47 of 1972, and act 183 of 1973, act 441, act 302, and act 644 of 1974, act 396, act 618, and act 548 of 1975.

ADMINISTRATION

This retirement system is operated by a board of trustees, a secretary-manager, an actuary, and a legal advisor, the latter being the attorney general. The secretary-manager is an ex officio member of the board, as is the president of the Police Jury Association of Louisiana. The four other members are elected by members of the retirement system for 4-year staggered terms, so that one member is elected each year. Each member is required to take an oath of office like other public officials. Meetings are held quarterly.

The cost of operation, including salaries, printing, telephone, travel, and so forth, is borne by the parishes or boards participating. This administrative fee is assessed annually in January as follows: $11 per member for the first 10 members; $8.50 per member for the next 90 members; $4 per member for the next 100 members; and $2 per member for all over 200 members.

MEMBERSHIP

All employees of parishes as of January 1, 1953, who did not sign a nonmembership form by April 1, 1953, are members. This also applies to police jurors. All employees hired by any parish or board subject to this law after January 1, 1953, shall become members on date of employment without choice, providing they earn over $100 per month, and are not over 50 years of age. This includes former employees who have returned to service, whether or not they have taken a refund of contributions. No prior service is allowed employees rehired after taking a refund until 5 years of continuous service is completed. The refund amount, plus interest, must be paid into the system to claim

this prior service. Police jurors elected since January 1, 1953, cannot exceed age 50, and enroll in the system. Employees of special taxing districts may enroll under special agreement with the board.

CANCELLATION OF MEMBERSHIP

Membership in this system is canceled only by death, resignation, or retirement. Those leaving the system who have less than 10 years of service may leave their money on deposit for 5 years. A refund is mandatory after 5 years. Those with 10 or more years of service should leave their money in the system and draw deferred benefits.

EMPLOYEE PAYMENTS

The secretary-treasurer or other payroll officers shall deduct 4 percent of all wages in excess of $100 per month. Employees, at their option, may pay on total wages—not skipping the first $100—or may make a lump-sum payment or regular periodic payments over and above the 4 percent outlined above. These payments, however, are not matched. A separate schedule of benefits is provided for these unmatched contributions.

All employee deductions are reported by the 10th of the month following the close of the quarter. Quarterly reports and remittances, therefore, are delinquent after April 10, July 10, October 10, and January 10. Each member has a separate account to which his payments are credited.

EMPLOYER PAYMENTS

The sheriff in each and every parish except the parishes of East Baton Rouge and Orleans shall remit one-quarter of 1 percent of total taxes collected as a matching fund. This money goes into the Pension Accumulation Fund, and is never refunded. A pro-rata share may be transferred to other systems under our reciprocity agreement with them to cover employees changing jobs.

REGULAR RETIREMENT

At least 10 years of service is required to qualify for any type of retirement benefits. Normal retirement age is 62, although one may retire at age 55 with 30 or more years of service. Early retirement is permissible at age 60, but unless the member has over 30 years of service, a penalty of 3 percent per year is assessed for each year under age 62.

One may retire on the maximum payable during life, which makes no provision for the survivors, or he may take a reduced allowance, which will provide monthly benefits at his death to his survivors.

Two factors govern the amount of benefits: (1) number of years of service, and (2) amount of average salary for the best 36 consecutive months.

Example: A member age 62 with 32 years of service applies for maximum retirement benefits. During the best 36 consecutive months the member earned $21,125. This amounts to $7,041.67 per year, but we must deduct $1,200 which we skipped in salary. This leaves a net

annual income for retirement purposes of $5,841.67. By multiplying .02 times 32 we find that the member is entitled to 64 percent of $5,841.67, or $3,738.66 per year. This amounts to $311.55 per month, plus social security benefits.

This same formula is used to figure all retirements with two exceptions: (1) act 65 of 1970 placed a ceiling on benefits of $30 per month for each year of service, and (2) when figuring disability benefits, you do not deduct $1,200 from average annual salary for the best 36 consecutive months.

DISABILITY RETIREMENT

If one becomes totally disabled, and it seems to be permanent, he may apply for disability benefits up to age 60. After age 60, he must take regular retirement. The disability benefits are more liberal than the regular service retirements, since we do not deduct $1,200 from average annual salary before applying the percentage of wages. Credit is given for years up to age 60, just as though the employee had reached that age, regardless of his age at time of disability. The biggest disadvantage, however, is that no options are available and at death, all benefits cease. Our medical board certifies those eligible for disability.

SOCIAL SECURITY

All benefits described in this booklet are over and above any social security benefits. We urge you to contact your closest social security office for details of that coverage.

SUPPLEMENTAL RETIREMENT BENEFITS

Act 538 of 1968 allows parishes and boards to stop paying social security taxes after giving 2 years notice to Public Employees' Board. Act 441 of 1974 provides for additional benefits and contributions from both the employer and the employee for those members who are covered by the supplemental retirement plan. Police juries and boards agree to make employer contributions equal to 5.85 percent of all salary of each employee up to age 70, and it agrees to collect from the employees and remit to this retirement system an amount equal to 5.85 percent of all salary of each employee quarterly. All employees covered under this agreement receive an additional annuity of 1 percent of average compensation for each year of creditable service earned, plus $36 for each such year. Benefits under this agreement when combined with the benefits under the regular plan shall not exceed 100 percent of the average of this highest 3 consecutive years salary. This act guarantees that employees under the supplemental system will not receive less than they would have had they continued under social security. It further provides that any employee covered under this supplemental retirement plan may, under certain conditions, be entitled to earlier retirement, as follows: Any employee who has 30 years of creditable service, regardless of age, or any employee who has attained age 55 with 25 years of creditable service, shall be entitled to retirement without any reduction for such earlier retirement.

MILITARY SERVICE

Any person who has been a member of the system for at least 2 years any time subsequent to August 1, 1953, who served on active duty in the Armed Forces of the United States, shall be entitled to service, excluding that duty under the Reserve Forces Act, not to exceed 4 years, provided that he pays into the retirement system an amount equal to the contributions which would have been required based on his current salary, plus interest thereon of 2 percent compounded annually from date of membership until date paid. The amount to be so paid may be paid in one lump sum or installments provided all such installments shall be paid not later than 4 years after becoming a member.

COST-OF-LIVING ALLOWANCE

A cost-of-living allowance is provided for those members retired prior to July 1, 1973. The benefit is paid from interest earnings on investments of the system in excess of normal requirements, in an amount not to exceed 2 percent of the original benefit for each year of retirement, and is paid annually.

SUMMARY OF AMENDMENTS

Act 508 of 1954 made coroners and their assistants eligible for membership in this retirement system.

Act 448 of 1956 allows full retirement benefits (no penalty) for those age 60 with 30 or more years of service, with penalty of 3 percent to apply for each year under age 60, also provides option No. 2 benefits for widows of those who die with 20 or more years of service, and such widow is not eligible for social security.

Act 216 of 1958 reduces disability benefits by the amount of social security payments when he or she becomes eligible for social security (this becomes the same as a service retirement); also requires employees returning to service who have taken a refund of contributions to remain on the job for 5 years before becoming eligible to repay this amount, and claim credit for service period forfeited by said refund; also provides for the purchase of an additional annuity by covering the first $1,200 of wages.

Act 417 of 1960 allows up to 10 years prior service credit with State of Louisiana (see act 115 of 1971); provides option No. 2 benefits for widows regardless of their eligibility for social security benefits for rest of her life, if her husband has 20 or more years service.

Act 83 of 1964 eliminated the Pension Reserve Fund from our system. This leaves five funds for accounting purposes: Annuity savings fund, annuity reserve, pension accumulation fund, disability reserve, and expense fund.

Act 83 of 1965 provides retired employees may be retained on 25 percent of wages or $1,200 per year, whichever is greater, on a temporary basis; also provides for membership of employees of other taxing districts such as hospital districts, and allows one member of the board of trustees to be retired.

Act 212 of 1966 increases benefits by one-third by raising the rate from 1½ to 2 percent for each year of creditable service, with an annuity equal to 2 percent of $1,200 for each year of creditable service, this amount to be paid only if the parish where the member is employed pays to the retirement system, either in a lump-sum or in annual contributions, an amount determined by the system's actuary to be necessary to provide this additional benefit (optional basis).

Act 184 of 1968 allows up to 2 percent cost-of-living adjustment for each year one has been retired prior to July 27, 1966.

Act 538 of 1968 provides parish with power to cancel social security by 1970, and to come under supplementary benefits in Parochial Employees' Retirement System.

Act 525 of 1968 provides for dual memberships in actuarially funded, public-supported retirement systems, whereby any employee, after 10 years of service in a system, may transfer his credits to another system on approval of both boards of trustees. At retirement time, the last system will retire him, and each system will pay its pro-rata share. (State Employee's Retirement System, Teachers' Retirement System, and School Employees' Retirement System excluded at their request).

Act 65 of 1970 raises the ceiling on benefits from $25 to $30 per month for each year of creditable service.

Act 363 of 1970 allows a member who has not withdrawn his contributions, and who has become an employee of the Supreme Court, Court of Appeals, or any other court, to continue as a member of Parochial Employees' Retirement System, providing the court, through its clerk, undertake the obligation of employer as defined by act 205 of 1952.

Act 36 of 1970 permits transfer of credits only between State, municipal, or parochial employees' retirement systems for which he meets eligibility requirements, upon approval of both boards of trustees; at retirement time, the system to which he last belongs will compute his benefits, and ask the first system also to compute his benefits, and the former system will pay its pro-rata share annually to the system under which he retires. (Our board disapproves.)

Act 115 of 1971 increased maximum State service credit to 12 years.

Act 169 of 1971 provides change in membership of board of trustees: to make the maximum benefit retroactive to persons already retired; to increase the expense fund: to limit membership to those employees earning more than $1,200 per year, and to provide for retirement at age 55 with 30 years service.

Act 172 of 1971 provides that any parish may provide supplementary retirement benefits which shall be in addition to those provided by the parochial employees' retirement system and membership in such a supplementary retirement plan shall not affect their membership in this system.

Act 46 and act 47 of 1972 provides for transfer between State, municipal, or parochial retirement systems.

Act 183 of 1973 provides for retirement at age 62 computed on earnings for best consecutive 36 months; discontinues interest on member's contributions; exempts retirement benefits from State income tax; admitted to membership certain elected officials previously ineligible because of age, and changed procedures for electing members of board of trustees.

Act 441 of 1974 to provide for the purchase of military service credit; immediate membership in the system at date of employment; to provide that no retired member shall receive in retirement benefits an amount less than the amount of his contributions; defines an employee of the parish; provides for a cost-of-living adjustment for those persons who retired before July 1, 1973; additional assessments for administrative purposes; and to provide for additional benefits for contributions from employer and employee for those members in the supplemental retirement plan.

Act 302 of 1974 to allow certain members to convert accrued annual and sick leave to retirement credit.

Act 644 of 1974 to include any coroner, his assistants and employees as eligible for entrance into the retirement system.

Act 396 of 1975 to provide for retirement and membership under certain conditions; to provide for expense contributions to the supplemental system; to provide for vesting after 10 years of creditable service; to provide for payment of interest on back contributions; to provide for a limit on disability benefits; to provide for retirement under the supplemental plan with less than 10 years of creditable service; and to provide a termination date for agreements to participate in the supplemental plan.

Act 618 of 1975 authorizes purchase of credit in this system for certain elected officials.

Act 548 of 1975 to permit transfer between public retirement systems.

Appendix 2

CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM

QUESTIONS AND ANSWERS

about the
PUBLIC EMPLOYEES' RETIREMENT SYSTEM
for
LOCAL MISCELLANEOUS MEMBERS
under
THE $\frac{1}{50}$th at age 60 FORMULA

October 1975

PERS-ADM-DO-2A

INTRODUCTION

This pamphlet is meant to familiarize you with the Public Employees' Retirement System. We cannot hope to answer all of your questions in a short booklet, but we do have Area Offices set up just for that purpose with trained personnel to answer many of your retirement questions. Don't hesitate to get in touch with them if you have a problem. You will find their addresses listed at the back of the booklet.

These people will also be traveling to your area periodically to hold interviews. We recommend that you have an interview before retiring, to help you with some of the important choices which you will have to make. So, if you are nearing retirement age, or if you just want to know more about the System, contact your personnel office and they will arrange an appointment for you. Or, write directly to the Area Office nearest you and we will let you know when we will be in your area and can give you an interview.

While reading this material, remember that we are governed by the "Public Employees' Retirement Law" and it is the basis of all of our decisions. The statements in this booklet are general and simplified as much as possible while still being accurate. The Retirement Law is sometimes very complex, but when there is a conflict, any decision will have to be based on the law and not this booklet.

GETTING FAMILIAR WITH PERS

What Is PERS And Who Belongs To It?

PERS stands for the Public Employees' Retirement System. Your employer has made a contract with the System to provide you with a package of benefits. For example, if you become injured or sick so that you cannot continue working at your job, you may be able to collect disability retirement. Or, if you die, this System may help to provide for your family. This applies whether you are still working or already retired at the time of death. In addition, this System helps you to build up a fund from which you may receive monthly payments after your retirement.

Some specific benefits are optional—meaning that your employer may or may not have chosen to provide them. Optional benefits are clearly marked in this booklet. If you have a question about whether a particular benefit applies to you, just check with your Personnel Office.

The fact that you are called a "local miscellaneous member" tells us two things. First, you are employed by a public agency such as a city, county, special district or other local agency rather than the State of California. Second, most members are called "miscellaneous". This merely means that

you are *not* a "safety member", a special classification for those involved in law enforcement or the protection of public safety or in a position designated by law as a "safety member" position.

How Does Social Security Figure In?

Many members under this formula are also contributing part of their paychecks to Social Security. If you are, you need to know whether this will affect your PERS contributions. If your PERS service is "coordinated" with Social Security, you will contribute less to the Retirement System than those members not covered by Social Security and your allowance from us will be correspondingly less. But your PERS coverage may be "supplemental" to your Social Security. This means that you will pay the full amount of Retirement System contributions and you will receive the full benefit, just as though you had not been paying into Social Security. You will, of course, still be eligible for your Social Security benefits. Check with your Personnel Office if you are not sure which situation applies to you.

Who Pays For These Benefits?

1. YOUR CONTRIBUTIONS—As a member of PERS, a portion of your monthly pay will be deducted to put into the Retirement Fund. If you are *not* coordinated with Social Security (either you do not pay into Social Security or your PERS contributions are supplemental to your Social Security), each month 7% of your earnings will be contributed to PERS. If you are coordinated with Social Security, you will contribute 7% of your monthly salary in excess of $133.33. This does not include overtime. The money which you contribute earns interest for you, currently 5¾ percent compounded annually.
2. YOUR EMPLOYER'S CONTRIBUTIONS—To guarantee the payment of your benefits, your employer will pay for you at least as much as you do.
3. INVESTMENTS—PERS invests the money it receives from you and your employer. The income from these investments helps to pay for your benefits.

Do I Lose My Contributions If I Leave My Job Before I Retire?

1. REFUNDS—The money you contribute and the interest credited on it are yours. If you permanently leave your job and do *not* take a position with another agency covered by PERS, you may request a refund of your money from the System. To avoid confusion, this should be referred to as a refund and not just "retirement money" when communicating with our offices. When you leave your job, for any reason, you will be given a Report of Separation to fill out. On this form is a place to indicate whether or not you want a refund. If you have less than 5 years of service and your separation from employment covered by PERS is permanent, you must accept a refund. You will receive interest through the last June 30th that PERS has your contributions. Normal contributions made by the employer on your behalf are not refundable.

2. LEAVING YOUR CONTRIBUTIONS—If you have at least five years of PERS credited service, you may choose *not* to withdraw your money, even though you are leaving your job. It will continue to earn interest and you may withdraw it at any later date. Or, if you leave the money in until you reach retirement age, you may apply for a monthly retirement allowance.

What If I Later Rejoin PERS?

After you have withdrawn your contributions, if you return to your old job or take a new job covered by PERS, you will again become a member. Then you have the option of putting back, with interest, any money you withdrew. If you do this, you will again get credit for those years of service. If you *do not* pay back the contributions, you will start fresh under the System as a new member. For more information on how to redeposit your money, see our separate pamphlet called "Service Credit".

Can I Remain A Member Of PERS If I Move To Another Job?

Under certain circumstances you can continue your membership in PERS even if you leave your job. Almost all jobs for the State are covered by PERS. Many cities, counties and other public agencies have contracts with PERS which make their employees members. In addition to this, PERS has an agreement with many counties and other public agencies with local independent retirement systems so that you would not lose your PERS credit if you go to work for them and you leave your money with PERS. This is commonly called "Reciprocity".

LET'S TALK MORE SPECIFICALLY ABOUT THESE BENEFITS

RETIREMENT

When May I Retire?

To be eligible for service retirement anytime before age 67, you must have at least 5 years of PERS credited service. You may retire as early as age 50, effective January 1, 1976, with a discount in your allowance. The amount of your monthly allowance will continue to increase the later you retire. You must retire no later than the first of the month following your 67th birthday, even though you may have less than 5 years credited service.

How Much Will My Retirement Allowance Be?

1. FINAL COMPENSATION—To figure out how much your retirement allowance will be, you need to know your "final compensation". This usually means the average monthly pay rate during your last three years of work. If you think there was another period of three consecutive years when your average pay rate was higher, you should note this on your Retirement Application. Then we will use whichever "final compensation" is higher. For some agencies a one year period, instead of three, is used to figure the final compensation.

2. BASIC FORMULA—There is a basic formula for figuring how much your retirement allowance will be. These are the things you need to know to do the figuring:

a) The number of your years of PERS credited service (see your PERS annual statement).

b) The percent of pay you are entitled to for each year of service. This is determined by your age at retirement. See Table A below for the amount that applies to you.

c) Your "final compensation".

TABLE A

Age of retirement		Percent per year of service	
		Male	Female
*Effective January 1, 1976	50	1.026	1.092
	51	1.092	1.156
	52	1.162	1.224
	53	1.238	1.296
	54	1.322	1.376
	55	1.412	1.460
	56	1.510	1.552
	57	1.616	1.650
	58	1.734	1.758
	59	1.862	1.874
	60	2.000	2.000
	61	2.134	2.128
	62	2.272	2.262
	63–67	2.418	2.400

We have rounded these figures off for your convenience. The percentages actually increase for each quarter year of age. Therefore, it may be to your advantage to retire either on your birthday, 3 months later, 6 months later, or 9 months later, to get the full benefit of your age.

WORKING THE FORMULA—With this information, you too can work the retirement formula.

Number of years of service × % per year (from Table A) = % of final compensation which you are eligible for as an allowance

First Let's Take An Example And See How It Works

Pete Peers has been working under PERS for 26 years. He wants to retire at age 56 and Table A tells us that this entitles him to 1.510% per year. Using our formula, we can figure out what Pete's retirement allowance will be.

STEP #1

26 (Years service) × 1.51% (Per year) = 39.26% (Percent of final compensation payable)

Pete's agency uses a three year period to figure final compensation.

During the last three years before retirement, these are Pete's earnings. One year his salary was $900 a month. The next year he got a raise to $1,000. The year before his retirement his salary was $1,100. If we take the average of these three figures, we can see that Pete's final compensation was $1,000. He may receive 39.26% of this as a retirement allowance.

STEP #2

$1,000 (Final compensation)	×	39.26% (Percent of final compensation)	=	$392.60 (Monthly retirement allowance)

But, if Pete's retirement had been coordinated with Social Security, he would have contributed a little less to PERS. Therefore, we will figure his retirement differently.

$866.67 (Final compensation) (−$133.33)	×	39.26% (Percent of final compensation)	=	$340.25 (Monthly retirement allowance)

NOW YOU WORK THE FORMULA

STEP #1

______________ × ______________ = ______________

Number of years of service × % per year which you are entitled to—(find this in Table A) = % of your final compensation which you may receive as a retirement allowance

For your convenience, Tables B (Male) and C (Female) in the back of this pamphlet (see pages 17–18) provides the answer to Step 1 for most members.

STEP #2

If you are *Not* coordinated with Social Security, figure

______________ × ______________ = $______________

Your final compensation × % of final compensation (the answer from Step #1) = Your monthly retirement allowance

If you *are* coordinated with Social Security, you paid less in PERS contributions so you must reduce your final compensation by $133.33 before you figure Step #2. Your formula becomes:

______________ × ______________ = $______________

Your final compensation − $133.33 × % of final compensation (the answer from Step #1) = Your monthly retirement allowance

If you have a combination of service, that is, some of your PERS credited service was coordinated with Social Security coverage and some of it was

not, then your retirement allowance will be figured taking this into account.
PERS can do a calculation for you if you are considering retirement. This will tell you approximately what your retirement allowance will be and what options are available to you. Just write to Public Employees' Retirement System, Benefits Division, P.O. Box 1953, Sacramento, California 95809, and include this information: Name, Social Security Number, prospective Retirement Date, mailing address, your beneficiary's Date of Birth and his/her relationship (for example, spouse).
We try to provide this information as promptly as possible. However, at times our workload is so great that some delay occurs, so we hope you will bear with us. Priority in giving estimates always goes to those who are close to retirement.

What Is "Service Credit"?

In calculating your retirement allowance, you had to use the number of years of service. Basically, this is just the number of years that you are credited with under PERS. However, you may be entitled to extra service credit to figure into your retirement formula. For example, Military Service may sometimes give you credit. If you have unused sick leave when you retire, this may be credited as service if your agency provides this benefit. There are other possible additions which are explained in a separate pamphlet on "Service Credit".
Any credit that you receive for service before the date on which your agency came under PERS is called "prior service". Credit given for work after that date is "current service".

What Is A "Temporary Annuity"?

A "temporary annuity" is aimed at making early retirement possible for those who could not otherwise do so. This plan provides a temporary monthly payment to add to your retirement allowance until you reach the age when you can begin receiving Social Security benefits. For more information on who qualifies and the cost and benefits under this plan, see our separate pamphlet called "Temporary Annuity".

What About The Rising Cost of Living?

With rising prices, it is sometimes difficult to get by on a fixed income. That is why a special provision has been built into your retirement plan to allow for a cost of living increase. This is a yearly adjustment you do not have to apply for. It will automatically be applied to your account if appropriate. The first adjustment will be made in the second calendar year following your retirement. Currently, these increases are limited to a maximum annual adjustment of 2% for most agencies. Some agencies have amended their contracts to make the maximum annual adjustment 5%.

DISABILITY

What If I Cannot Work Because Of Injury Or Illness?

You must have at least five years of service to qualify for disability retire-

ment. If you are considering applying for disability, you should request a copy of our separate pamphlet called "Ordinary Disability".

DEATH BENEFITS

Who Is My "Beneficiary"?

For some of the death benefits, you have a right to name anyone you choose as your beneficiary. If you name a beneficiary and then marry, annul or dissolve your marriage, have a child or adopt a child, you should check with PERS about updating your beneficiary designation. Otherwise, the beneficiary you named may no longer be eligible. If you do not choose another beneficiary, the law provides that death benefits payable will go to

1) Your spouse.
2) Your children (if no spouse).
3) Your parents (if none of the above). In some cases, parents must be financially dependent to qualify.
4) Your estate (if none of the above).

For some death benefits only specific family members are eligible.

What If I Die Before I Retire?

If you should die before you retire, PERS provides several benefits for your family or a beneficiary named by you. Since there may be choices to make, you should discuss these with your beneficiary.

1. *Basic Death Benefit*

Under this benefit your contributions, with interest, will be returned to your beneficiary. Your beneficiary will also receive one month of your average salary for each year of credited current service which you have. There is a maximum payment of six months' salary.

2. *1959 Survivor Benefit*—(Monthly Allowance) (Not all agencies offer this benefit)

Only members *not* covered under Social Security may have this coverage. If you are covered under the 1959 Survivor Benefit, you will notice a $2 deduction from your monthly paycheck or a lesser amount if you are paid more than once a month. This benefit consists of a monthly allowance which may be paid to your surviving spouse and children.

a) A *spouse* is eligible if he/she has not remarried and has eligible children, or has reached age 62 if female, or 65 if male.
b) Your *children* are eligible if they are under age 18 and unmarried, or under 22, unmarried and full-time students.

If you are covered, your survivors may receive one of these monthly allowances:

1. An eligible surviving spouse, until remarriage, with two or more eligible children $430

2. *Or* three eligible children only $430
3. An eligible surviving spouse with one eligible child $360
4. *Or* two eligible children only. $360
5. One eligible child only $180
6. A surviving widow at age 62 *or* widower at age 65, until remarriage $180
7. Dependent parents may also be eligible if there are none of the above .... $180 each

This benefit may be paid along with the Basic Death Benefit previously described.

3. *1957 Survivor Benefit*—(Monthly Allowance)

This applies only if you are *eligible for retirement* at the time of death (have reached age 50, effective January 1, 1976, with at least 5 years of service). It is a monthly allowance equal to one-half of what your unmodified retirement allowance would have been if you had retired on the date of your death.

The beneficiaries eligible to receive this after your death are:

a) Your surviving spouse, if you were married at least one year before death. Your spouse cannot receive this benefit if remarried.
b) If you do not have an eligible spouse, your unmarried children may collect this benefit until the youngest reaches age 18.

If your beneficiary is eligible for this benefit and the Basic Death Benefit, only one of them will be paid. However, either of them may be paid with the 1959 Survivor Benefit.

What Could My Beneficiary Receive If I Die Before Retirement?

If you are *not* eligible for retirement at the time of death (under the minimum retirement age or less than 5 years of credited service):

1) Refund of Contributions 2) Up to six months pay	Basic Death Benefit
3) Monthly allowance for spouse and children ($180 to $430)	If you are covered by the 1959 Survivor Benefit

or

If you *are* eligible for retirement at the time of death (have reached the minimum retirement age and have at least 5 years of credited service), your eligible beneficiary may receive the benefits listed above *or* this combination:

1) Monthly payment of one-half unmodified retirement allowance to spouse and children	1957 Survivor Benefit
2) Monthly allowance for spouse and children ($180 to $430)	If you are covered by the 1959 Survivor Benefit

Is My Family Protected If I Die After Retirement?

There is a $500 Retired Member Death Benefit (see page 14). If your employer provides it in the PERS contract, you will also be covered by the Survivor Continuance. In addition, you may choose to provide one of the optional settlements which are explained later in this section.

Survivor Continuance (Monthly Allowance)

Not all agencies offer this benefit. This benefit provides that part of your monthly retirement allowance will be continued to your eligible survivor. Your spouse will be eligible if you were married to each other at least one year before retirement. Your spouse may receive this monthly allowance until death or remarriage. If there is no eligible spouse, this benefit may go to your unmarried children under age 18. The allowance will continue until the youngest unmarried child reaches 18. If there is no eligible surviving spouse or children, the benefit will be paid to qualifying dependent parents. These are the only people eligible to receive the Survivor Continuance. If you are *not* coordinated with Social Security, the Continuance will amount to ½ of your unmodified retirement allowance. If you *are* coordinated with Social Security, the Continuance will be ¼ of your unmodified allowance. If you have a combination of service under PERS with the State or local public agency or some time covered and some time not covered by Social Security, special consideration will have to be given to figure the amount of your Survivor Continuance.

Optional Settlements

When you retire with an allowance, you may, of course, take the highest unmodified amount for which you are eligible. On the other hand, you may want to take a smaller allowance and provide some additional security for your family or other beneficiary. If you have survivors who may receive the Survivor Continuance described above, you will only be dealing with part of your allowance in figuring options 2, 3 and 4 below. If you are coordinated with Social Security, you would be able to modify ¾ of your allowance since ¼ is set aside for the Survivor Continuance. If you are *not* coordinated with Social Security, have eligible survivors, and your agency offers the Survivor Continuance, you may modify ½ of your allowance. If you do not have any eligible survivors and you retire, or if your agency does not offer the Survivor Continuance, you may modify your full allowance to provide for anyone you choose. In figuring Options 2, 3 and 4, the sex and age of you and your beneficiary will have to be taken into consideration. You should keep in mind that your beneficiary under these options may be anyone, not necessarily a family member. This does not have to be the same person who will receive your other benefits.

OPTION #1

Under this option you take a reduction in your retirement allowance. In return for this, your surviving beneficiary will receive whatever is left of your contributions at the time of your death. How much is left will depend mainly on how long you have been retired. Each month when you receive

your retirement allowance, a portion of it comes directly from your contributions. So the lump sum which you have on account gets smaller each month. Under Option # 1, whatever you have left at the time of your death is payable to your surviving beneficiary.

OPTION #2

This option requires the largest monthly reduction in your allowance. But, in return, when you die your surviving beneficiary will receive the same modified amount you were getting for his/her life.

Example #1: Without Survivor Continuance—

Pete Peers is retiring at age 60 with a $350 unmodified allowance. His agency does not offer the Survivor Continuance, so he will modify the whole amount to provide for his 55 year old wife. He takes a reduction of $94.50, which makes his modified retirement allowance $255.50. His wife will be eligible for this same amount each month after his death, if she survives him.

Example #2: With a ½ Survivor Continuance—
(Not covered by Social Security)

Sid Service is retiring at age 55 with a $300 unmodified allowance. His agency offers the Survivor Continuance and, since Sid is not coordinated with Social Security, this will be ½ of his unmodified allowance, or $150. To provide more security for his 57 year old wife, Sid chooses Option #2. He takes a reduction of $28.80 on his remaining $150. This makes the modified part of his allowance $121.20.

For his life he will now be receiving:

$150.00	Ear-marked for future Survivor Continuance
+121.20	Modified portion for life
$271.20	TOTAL MONTHLY ALLOWANCE

He has now guaranteed that his wife, if she survives him, will receive the same modified amount of $121.20. She will also receive the Survivor Continuance of $150.00 until she remarries.

After his death, Sid's wife will receive:

$150.00	Survivor Continuance, until remarriage
+121.20	Modified portion for life
$271.20	TOTAL MONTHLY ALLOWANCE

This means that both Sid and his wife are entitled to $271.20. He will receive it until his death and at that time his wife will become eligible.

Example #3: With a ¼ Survivor Continuance—
(All service covered by Social Security)

Joe Benefits is retiring at age 58 with a $400 unmodified allowance. His

wife, who he wants to provide for, is age 54. She may receive a Survivor Continuance of 1/4 of Joe's unmodified allowance, or $100. Therefore, Joe can modify the remaining 3/4 of his allowance, which is $300. On this amount he takes a reduction of $75.00, making it $225.00.

For his life he will now receive:

$100.00	Ear-marked for future Survivor Continuance
+225.00	Modified portion for life
$325.00	TOTAL MONTHLY ALLOWANCE

He has now guaranteed that his wife, if she survives him, will receive the same modified amount of $225 upon his death. She will also receive the Survivor Continuance of $100 until she remarries.

After his death, Joe's wife will receive:

$100.00	Survivor Continuance until remarriage
+225.00	Modified portion for life
$325.00	TOTAL MONTHLY ALLOWANCE

OPTION #3

This requires less of a reduction than Option #2, but it provides less for the beneficiary. The payment to the beneficiary will be one-half of the modified part of the monthly retirement allowance.

Example #1: Without Survivor Continuance

Pete Peers is retiring at age 60 with a $350 unmodified allowance. His agency does not offer the Survivor Continuance, so he will modify the whole amount to provide for his 55 year old wife. He takes a reduction of $54.60, which makes his modified retirement allowance $295.40. His wife will be eligible for half of this amount, or $147.70 each month after his death, if she survives him.

Example #2: With a 1/2 Survivor Continuance—
(Not covered by Social Security)

Sid is retiring at age 55 with a $300 unmodified allowance. His agency offers the Survivor Continuance and, since Sid is not coordinated with Social Security, this will be 1/2 of his unmodified allowance, or $150. To provide more security for his 57 year old wife, Sid chooses Option #3. He takes a reduction of $15.90 on his remaining $150. This makes the modified part of his allowance $134.10.

For his life he will now be receiving:

$150.00	Ear-marked for future Survivor Continuance
+134.10	Modified portion for life
$284.10	TOTAL MONTHLY ALLOWANCE

He has now guaranteed that his wife, if she survives him, will receive 1/2

of the modified amount, or $67.05. She will also receive the Survivor Continuance of $150 until she remarries.

After his death, Sid's wife will receive:

$150.00	Survivor Continuance until remarriage
+67.05	½ of modified portion for life
$217.05	TOTAL MONTHLY ALLOWANCE

Example #3: With a ¼ Survivor Continuance—
(All service coordinated with Social Security)

Joe Benefits is retiring at age 58, with a $400 unmodified allowance. His wife, who he wants to provide for, is age 54. She may receive a Survivor Continuance of ¼ of Joe's unmodified allowance, or $100. Therefore, Joe can modify the remaining ¾ of his allowance, which is $300. On this amount, he takes a reduction of $42.90, making it $257.10.

For his life he will now receive:

$100.00	Ear-marked for future Survivor Continuance
+257.10	Modified portion for life
$357.10	TOTAL MONTHLY ALLOWANCE

He has now guaranteed that his wife, if she survives him, will receive ½ of the $257.10 modified portion, or $128.55.

After his death, Joe's wife will receive:

$100.00	Survivor Continuance, until remarriage
+128.55	½ of modified portion for life
$228.55	TOTAL MONTHLY ALLOWANCE

OPTION #4

This option can be tailor made to fit your special needs. It lets you leave a certain amount for the beneficiary of your choice. The plan must be equal to the other options in cost to your employer. This takes into account many elements, such as the life expectancy of you and your beneficiary. If you are considering an Option #4, contact PERS for assistance in setting up an acceptable plan. All Option 4's must be approved by the PERS Board of Administration.

Retired Member Death Benefit

Regardless of what allowance you choose, you are covered by this benefit. Upon your death after retirement, $500 will be paid to your beneficiary.

HOW DO I APPLY FOR THESE BENEFITS?

Retirement

1. Get a copy of Form 369 from your Personnel Office. This is the Ap-

plication For Retirement you need to complete and mail to the System. To ensure timely processing, it should be received by the Retirement System at least 90 days before you intend to retire.

2. If you intend to select either Options 2, 3 or 4, you may need to present proof of your beneficiary's date of birth. If your beneficiary is your spouse, you will need to provide your marriage license.

3. About one month before your retirement date, you should receive Form 898, Election of Retirement and Beneficiary Designation. Read this form carefully and fill it out completely. You will be asked to choose whether you want one of the four Optional Settlements. Then sign it, have it notarized and return it promptly through the mail to PERS headquarters in Sacramento.

DEATH BENEFITS

1. If you die while still working, your employer will notify PERS. If you are retired at the time of death, a family member or a friend should notify PERS by a letter or a phone call.

2. Your beneficiary will receive an affidavit from PERS with a request for a certified copy of the death certificate and a newspaper clipping announcing the death.

THINGS TO REMEMBER WHEN YOU GET READY TO RETIRE

1. HEALTH INSURANCE—Before you retire, check into the possibility of keeping your present health insurance or getting a new plan. It is important that you do this *before* your retirement date, since retired people sometimes find it difficult to get health insurance.

2. TAXES—Make an appointment with an IRS Agent and a representative of the State Franchise Tax Board, or your private tax consultant. They can explain the situation regarding the taxability of your retirement allowance.

3. SOCIAL SECURITY—If you have been contributing to Social Security, you should check with your local Social Security office and see what your benefits may be.

WHAT ABOUT WORKING AFTER RETIREMENT?

It is sometimes possible to come back to your old job or to take a new State or Public Agency position after retirement. PERS must agree to reinstate you before you begin work with any agency covered by the System. You will have to meet health, age, and other requirements to be reinstated. When you return to work, you will stop receiving your retirement allowance until you retire again. Then we will re-figure your allowance, adding your new years of service. There is also a provision which allows you to work up to 90 days in a calendar year (effective January 1, 1976) without it affecting your retirement.

LET'S EXPLAIN SOME OF THE TERMS

BASIC FORMULA—This is the formula we use to figure your unmodified (highest) retirement allowance. You will find it explained on Page 6.

BENEFICIARY—A beneficiary is a person who will receive PERS benefits in case of your death. See Page 9.

DISABILITY—You are unable to perform the duties of your job due to an illness or injury. See Page 8.

FINAL COMPENSATION—This is an important figure used in calculating your retirement allowance. It means the highest average monthly pay earnable by you during a certain period of time. For employees of some agencies we use a twelve month period to figure final compensation, and for others a 36 month period.

MODIFIED—You may modify (reduce) your retirement allowance to provide extra security for your beneficiary. This means that you receive a smaller allowance for the rest of your life. See "Optional Settlements", Page 11.

RECIPROCITY—This is an agreement between PERS, many counties and other public agencies with local independent retirement systems. It provides that if you go to work under any of them and leave your money with PERS, you will not lose your PERS credit.

SERVICE CREDIT—Basically, this is credit for the number of years you have worked under PERS. See Page 8. There are some additional types of service credit which are explained in a separate pamphlet on that subject.

UNMODIFIED RETIREMENT ALLOWANCE—This is the maximum retirement allowance payable to you by the System without taking into account the effect of any option you might choose.

Table B—MALE MEMBERS—PERCENTAGE OF FINAL COMPENSATION PAYABLE—AGE AT RETIREMENT

Years of service	50	51	52	53	54	55	56	57	58	59	60	61	62	63 & older
10	10.26	10.92	11.62	12.38	13.22	14.12	15.10	16.16	17.34	18.62	20.00	21.34	22.72	24.18
11	11.28	12.01	12.78	13.61	14.54	15.53	16.61	17.77	19.07	20.48	22.00	23.47	24.99	26.59
12	12.31	13.10	13.94	14.85	15.86	16.94	18.12	19.39	20.80	22.34	24.00	25.60	27.26	29.01
13	13.33	14.19	15.10	16.09	17.18	18.35	19.63	21.00	22.54	24.20	26.00	27.74	29.53	31.43
14	14.36	15.28	16.26	17.33	18.50	19.76	21.14	22.62	24.27	26.06	28.00	29.87	31.80	33.85
15	15.39	16.38	17.43	18.57	19.83	21.18	22.65	24.24	26.01	27.93	30.00	32.01	34.08	36.27
16	16.41	17.47	18.59	19.80	21.15	22.59	24.16	25.88	27.74	29.79	32.00	34.14	36.35	38.68
17	17.44	18.36	19.75	21.04	22.47	24.00	25.67	27.47	29.47	31.63	34.00	36.27	38.62	41.10
18	18.46	19.65	20.91	22.28	23.79	25.41	27.18	29.08	31.21	33.51	36.00	38.41	40.89	43.52
19	19.49	20.74	22.07	23.52	25.11	26.82	28.69	30.70	32.94	35.37	38.00	40.54	43.16	45.94
20	20.52	21.84	23.24	24.76	26.44	28.24	30.20	32.32	34.68	37.24	40.00	42.68	45.44	48.36
21	21.54	22.93	24.40	25.99	27.76	29.65	31.71	33.93	36.41	39.10	42.00	44.81	47.71	50.77
22	22.57	24.02	25.56	27.23	29.08	31.06	33.22	35.55	38.14	40.96	44.00	46.94	49.98	53.19
23	23.59	25.10	26.72	28.47	30.40	32.47	34.73	37.16	39.88	42.82	46.00	49.08	52.25	55.61
24	24.62	26.20	27.88	29.71	31.72	33.90	36.24	38.78	41.61	44.68	48.00	51.21	54.52	58.03
25	25.65	27.30	29.05	30.95	33.05	35.30	37.75	40.40	43.35	46.55	50.00	53.35	56.80	60.45
26	26.67	28.39	30.21	32.18	34.37	36.71	39.26	42.01	45.08	48.41	52.00	55.48	59.07	62.86
27	27.70	29.48	31.37	33.42	35.69	38.12	40.77	43.63	46.81	50.27	54.00	57.61	61.34	65.28
28	28.72	30.57	32.53	34.66	37.01	39.53	42.28	45.24	48.55	52.13	56.00	59.75	63.61	67.70
29	29.75	31.66	33.69	35.90	38.35	40.94	43.79	46.86	50.28	53.99	58.00	61.88	65.88	70.12
30	30.78	32.76	34.86	37.14	39.66	42.36	45.30	48.48	52.02	55.86	60.00	64.02	68.16	72.54
31	31.80	33.85	36.02	38.37	40.99	43.77	46.81	50.09	53.75	57.72	62.00	66.15	70.43	74.95
32		34.94	37.18	39.61	42.30	45.18	48.32	51.71	55.48	59.58	64.00	68.28	72.70	77.87
33			38.34	40.85	43.62	46.59	49.83	53.32	57.22	61.44	66.00	70.42	74.97	79.79
34				42.09	44.94	48.00	51.34	54.94	58.95	63.30	68.00	72.55	77.24	82.21
35					46.27	49.42	52.85	56.56	60.69	65.17	70.00	74.69	79.52	84.63

Table C—FEMALE MEMBERS—PERCENTAGE OF FINAL COMPENSATION PAYABLE—AGE AT RETIREMENT

Years of service	50	51	52	53	54	55	56	57	58	59	60	61	62	63 & older
10	10.92	11.56	12.24	12.96	13.76	14.60	15.52	16.50	17.58	18.74	20.00	21.28	22.62	24.00
11	12.01	12.71	13.46	14.25	15.13	16.06	17.07	18.15	19.33	20.61	22.00	23.40	24.88	26.40
12	13.10	13.87	14.68	15.55	16.51	17.52	18.62	19.80	21.09	22.48	24.00	25.53	27.14	28.80
13	14.19	15.02	15.91	16.84	17.88	18.98	20.17	21.45	22.85	24.36	26.00	27.66	29.40	31.20
14	15.28	16.18	17.13	18.14	19.26	20.44	21.72	23.10	24.61	26.23	28.00	29.79	31.66	33.60
15	16.38	17.34	18.36	19.44	20.64	21.90	23.28	24.25	26.37	28.11	30.00	31.92	33.93	36.00
16	17.47	18.49	19.58	20.73	22.01	23.36	24.83	26.40	28.12	29.98	32.00	34.04	36.19	38.40
17	18.56	19.65	20.80	22.03	23.39	24.82	26.38	28.05	29.88	31.85	34.00	36.17	38.45	40.80
18	19.65	20.80	22.03	23.32	24.76	26.28	27.93	29.70	31.64	33.73	36.00	38.30	40.71	43.20
19	20.74	21.96	23.25	24.62	26.14	27.74	29.48	31.35	33.40	35.60	38.00	40.43	42.97	45.60
20	21.84	23.12	24.48	25.92	27.53	29.20	31.04	33.00	35.16	37.48	40.00	42.56	45.24	48.00
21	22.93	24.27	25.70	27.21	28.89	30.66	32.59	34.65	36.91	39.35	42.00	44.68	47.50	50.40
22	24.02	25.43	26.92	28.51	30.27	32.12	34.14	36.30	38.67	41.22	44.00	46.81	49.76	52.80
23	25.11	26.58	28.15	29.80	31.64	33.58	35.69	37.95	40.43	43.10	46.00	48.94	52.02	55.20
24	26.20	27.74	29.37	31.10	33.02	35.04	37.24	39.60	42.19	44.97	48.00	51.09	54.28	57.60
25	27.30	28.90	30.60	32.40	34.40	36.50	38.80	41.25	43.95	46.85	50.00	53.20	56.55	60.00
26	28.39	30.05	31.82	33.69	35.77	37.96	40.35	42.90	45.70	48.72	52.00	55.32	58.84	62.40
27	29.48	31.21	33.04	34.99	37.15	39.42	41.90	44.55	47.44	50.59	54.00	57.45	61.07	64.80
28	30.57	32.36	34.27	36.28	38.52	40.88	43.45	46.20	49.22	52.47	56.00	59.58	63.33	67.00
29	31.66	33.52	35.49	37.58	39.90	42.34	45.00	47.85	50.98	54.34	58.00	61.71	65.59	69.60
30	32.76	34.68	36.72	38.88	41.28	43.80	46.56	49.80	52.74	56.22	60.00	63.84	67.86	72.00
31	33.85	35.83	37.94	40.76	42.65	45.26	48.11	51.15	54.49	58.09	62.00	65.96	70.12	74.40
32		36.99	39.16	41.47	44.03	46.72	49.66	52.80	56.25	59.96	64.00	68.10	72.88	76.80
33			40.39	42.76	45.40	48.18	51.21	54.45	58.01	61.84	66.00	70.22	74.64	79.20
34				44.06	46.78	49.64	52.76	56.10	59.77	63.71	68.00	72.35	76.90	81.60
35					48.16	51.10	54.32	57.75	61.53	65.59	70.00	74.48	79.17	84.00

Whom Do I Contact If I Have Further Questions?

You may write directly to these addresses, or you may arrange an interview with Area Office Representatives who travel to your area regularly. To set up an interview, contact your Personnel Office, or write to the Area Office nearest you.

ADDRESSES OF AREA OFFICES

Los Angeles Area Office
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107 South Broadway
Los Angeles, CA 90012
Telephone: (213) 620-4430

San Francisco Area Office
11th Floor
100 Van Ness Avenue
San Francisco, CA 94102
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Sacramento Area Office
P.O. Box 1953
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Telephone: (916) 322-5180

San Bernardino Office
Room 446, State Building
303 West Third Street
San Bernardino, CA 92401
Telephone: (714) 383-4431

San Diego Office
Room 5068, State Building
1350 Front Street
San Diego, CA 92101
Telephone: (714) 236-7653

PERS HEADQUARTERS is located at:
1416 9th Street
Sacramento, CA 95814

Mailing Address:
P.O. Box 1953
Sacramento, CA 95809

Appendix 3

LETTER FROM DAVID H. DOTY, CITY MANAGER, BELLAIRE, TEX.; TO GARY GOOD, SENATE SPECIAL COMMITTEE ON AGING, DATED APRIL 13, 1976

DEAR MR. GOOD: There are two primary reasons for the city of Bellaire's interest in seeking to resume social security coverage for its employees.

First, we participate in the Texas Municipal Retirement System which has a relatively long-term vesting period and is transferable only to other participating agencies. An employee who comes to us from private industry or a municipality which does not participate in the Texas Municipal Retirement System cannot transfer retirement benefits. Likewise, an employee leaving our service, going to private industry, or a nonparticipating city, will lose retirement benefits.

The second reason that we attempted to reestablish social security coverage is a firm staff belief that somewhere in the future—probably not too distant—taxes assessed by the National Government will be used to support social security retirement benefits; thus, employees of agencies that do not participate will be excluded from the benefits their tax dollars are helping to provide.

Should you wish more information with regard to these matters, please contact me.

Sincerely yours,

DAVID H. DOTY, *City Manager.*