Social Security Withdrawal - Alaska

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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

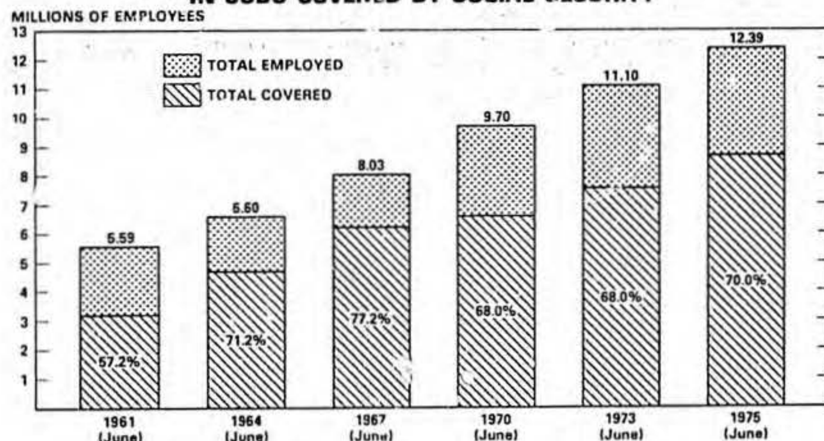
Most State and local government employees now work in jobs covered by social security. From June 1961 to June 1975 the number of State and local government employees with social security coverage more than doubled, increasing from approximately 3 million to almost 8.7 million.

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	5
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 montnly 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.

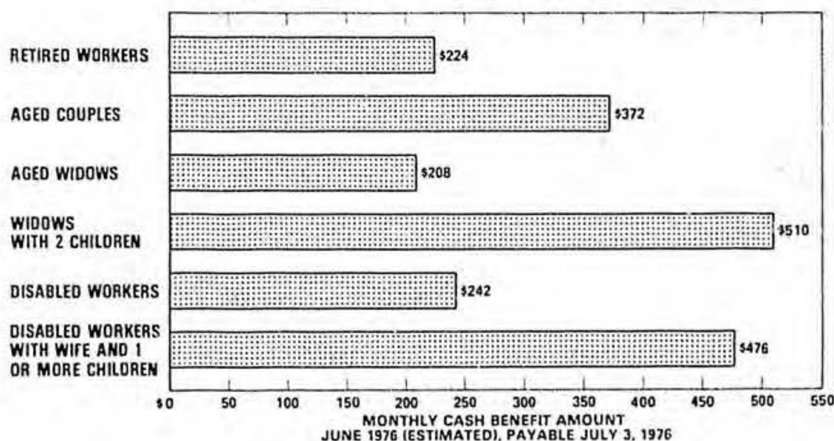
Chart 1 shows average monthly benefits for some selected family groups.

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



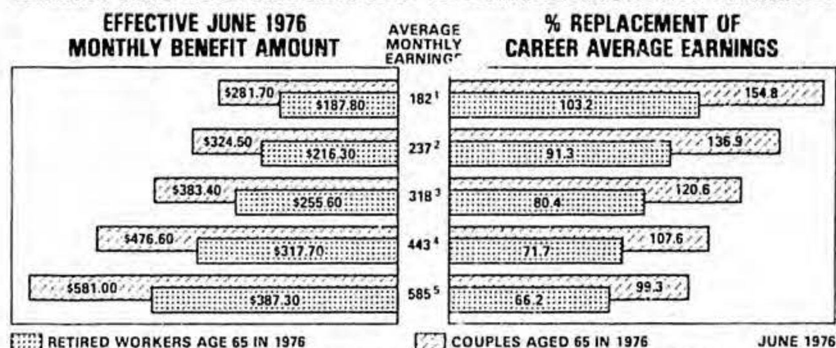
An aged widow's benefit beginning at or after age 65 is 100 percent of the benefit her husband was getting or would have gotten if he retired at age 65. The amount of a widow's benefit depends on her age at the time she starts getting benefits and whether her husband got reduced retirement benefits. 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



[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.

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[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; ex mpts 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 5¼ 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	×	39.26%	=	$392.60
(Final compensation)		(Percent of final compensation)		(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	×	39.26%	=	$340.25
(Final compensation) (−$133.33)		(Percent of final compensation)		(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 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 $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 ½ 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 ½ 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 ½

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

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
Room 4005
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
Telephone: (415) 557-0582

Sacramento Area Office
P.O. Box 1953
Sacramento, CA 95809
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.*

O

SOCIAL SECURITY WITHDRAWAL

A REPORT TO

ALASKA PUBLIC EMPLOYEES

PREPARED BY:

ALASKA PUBLIC EMPLOYEES ASSOCIATION
COMMITTEE ON SOCIAL SECURITY WITHDRAWAL
MIKE MURRAY, CHAIRMAN

ALASKA PUBLIC EMPLOYEES ASSOCIATION

STATE HEADQUARTERS: 130 SEWARD STREET, SUITE 508, JUNEAU, ALASKA 99801 • TELEPHONE: (907) 586-2334

March 1977

Dear State Employee:

Enclosed is a report prepared by the Alaska Public Employees Association regarding an issue of vital interest to all state employees. With the help of concerned members across the state, APEA has intensively reviewed the question of the State of Alaska's withdrawal from the Social Security system. After eight months of study, it is our conclusion that state employees will greatly benefit from Social Security withdrawal if the funds which are currently contributed to that system are re-invested elsewhere.

This report contains a comparison of Social Security benefits with those of the Public Employees' Retirement System as well as a list of recommended improvements to the P.E.R.S. made possible through the investment of former Social Security contributions. Most of the questions you may have regarding the future of Social Security, its funding problems, and the real worth of the benefits it promises, are answered in this study. We feel confident that when you have read this report and studied the issues you will agree that withdrawal from Social Security is a wise decision.

At the request of APEA, legislation has been introduced requiring that the decision concerning continued participation in the Social Security system be left to state employees. If it is successful, that legislation will establish an employee referendum to determine the issue and will secure all contributions to the Social Security system, both the employer's and the employees', for future investment in other retirement systems.

The advisory ballot included at the beginning of this report is designed to demonstrate the concern of state employees regarding this issue. When you have reviewed the facts, please mark your ballot, tear out, and drop in the nearest mailbox. No postage is necessary. Recommendations corresponding to the questions on the ballot are contained on pages 15-17, 24-25, 30, 34-38, 39-40.

Please do not delay. The option to withdraw from Social Security is a once-in-a-lifetime opportunity to provide substantial security for your retirement years. If you would like more information on the subject or would like to organize a special meeting to discuss the issue, contact APEA Headquarters.

Sincerely,

Michael J. Murray, Jr.
Chairman
APEA Committee on Social Security Withdrawal

ANCHORAGE FIELD OFFICE
909 W 9TH STREET SUITE 120
ANCHORAGE ALASKA 99501
TELEPHONE (907) 274 1688

FAIRBANKS FIELD OFFICE
1514 CUSHMAN SUITE 206
FAIRBANKS ALASKA 99701
TELEPHONE (907) 456 5412

JUNEAU FIELD OFFICE
130 SEWARD STREET SUITE 509
JUNEAU ALASKA 99801
TELEPHONE (907) 586 2334

ALASKA PUBLIC EMPLOYEES ASSOCIATION

REPORT

TO ALL EMPLOYEES OF THE STATE OF ALASKA CONCERNING THE DESIRABILITY OF WITHDRAWAL FROM THE SOCIAL SECURITY SYSTEM;

AND

A BALLOT WHEREBY EMPLOYEES OF THE STATE OF ALASKA MAY ADVISE THE ALASKA PUBLIC EMPLOYEES ASSOCIATION:

A. WHETHER PUBLIC EMPLOYEES WANT TO OPT-OUT OF THE SOCIAL SECURITY SYSTEM;

B. WHAT BENEFITS, IF ANY, SHOULD BE IMPROVED WHICH MAY BE LOST TO SOME EMPLOYEES BECAUSE OF WITHDRAWAL FROM THE SOCIAL SECURITY SYSTEM.

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PLEASE TEAR OUT, FOLD, AND MAIL.

ADVISORY BALLOT

Check One

( ) Member of General Government Unit

( ) Supervisory Unit

( ) Other Bargaining Unit

( ) Not Organized

Do you favor withdrawal from the Social Security System. yes ( ) no ( )

If you voted yes to the first question; is your vote based on the condition that the money which the State of Alaska and the employees of the State of Alaska are contributing to Social Security be used to improve the benefits of the Public Employees Retirement System. yes ( ) no ( )

Please indicate order of priority: First priority mark #1; second priority mark #2; third priority mark #3, etc. If you are opposed to any item mark no, note additional comments on back of ballot.

( ) Increase retirement compensation to 2½% for each year of credited service.

( ) All state employees become eligible for retirement after 20 years credited service.

( ) Equal benefits for occupational/non-occupational death & disability.

( ) Increase death & disability benefits to 50% of monthly earnings.

( ) Extend death & disability benefits to employees who leave state service.

( ) Provide death and disability insurance for temporary employees.

PLEASE TEAR OUT, FOLD, AND MAIL.

COMMENTS:

Postage Will Be Paid By—

ALASKA PUBLIC EMPLOYEES ASSOCIATION

130 Seward Street, Suite 508

Juneau, Alaska 99801

HISTORY

Being the representative of the largest group of state employees, APEA has over the years received considerable input from these employees and others expressing their desire to withdraw from the Social Security system. With this in mind, APEA negotiators entered into an agreement with the State of Alaska to jointly conduct a study to determine the desireability of terminating participation in the Social Security system for employees of the State of Alaska. The result of this agreement is the report prepared by William M. Mercer, and is referred to hereafter as the Mercer Report.

The federal law which establishes the Social Security system provides that a public employer may withdraw from the Social Security system after two years advance notification of withdrawal is given. The State of Alaska gave such notification in December, 1975 and, unless the State advises the Social Security Administration otherwise, the employees of the State of Alaska will not make contributions to that system after December, 1977.

This report is not intended to be an in-depth study of the Social Security system but, rather, to make recommendations based on the Mercer Report, a report prepared by the professional staff of APEA, information published by the Social Security Administration, the Public Employees Retirement System, the U.S. Senate Subcommittee on Aging, and other information gathered concerning other public employers who have withdrawn from the Social Security system. More importantly, however, this report also contains a ballot which gives the employees of the State of Alaska what may very well be a once-in-a-lifetime opportunity to express their wants

and needs concerning their future security and retirement.

The information collected from this ballot will be used, as much as is practical, to formulate a list of priorities for the purpose of drafting legislation that will effectuate those priorities. APEA's main lobbying effort during the 1977 session of the legislature will be the passage of this legislation. If the employees of the State of Alaska actually do opt-out of the Social Security system, assuming that they vote to withdraw, the benefit they may derive from that action will depend greatly on the success or failure of this legislation.

FOREWORD

Why do so many employees want to withdraw from the Social Security system? A recent survey conducted by APEA showed that 2/3 of the approximately 1500 employees who responded to that survey wanted to "opt-out" of Social Security. Why is this? Is the system really that bad? There is no question that some employees want to opt-out because they think that the system is "going broke." Others want to opt-out because they think that after they have established their 40 quarter eligibility they will be eligible for the maximum benefits provided by Social Security; for those employees there is no point to pouring more money into the system since they think they will not get any more out of it.

Both of these groups of employees are mistaken. In the first place, the system can never go broke. It is, quite literally, as strong as the U.S. Government itself. Or, to put it another way, it is as strong as the government's ability to collect taxes. What this means is that the government will simply raise Social Security taxes whenever the system needs more money to fund the programs it provides. As for the second group of employees who think they need only "40 quarters in," this report should clarify many of their misconceptions. However, it is safe to assume that the majority of employees who want to opt-out of Social Security do so because they feel they would receive greater benefits at retirement if the money that both they and the State are presently contributing to Social Security was invested, instead, in the Public Employees Retirement System.

There is no question that Social Security taxes are certain to increase dramatically in the future now that the taxable wage base is tied to the Consumer Price

Index. The tax (currently 5.85%) on the taxable wage base is also certain to increase. Although benefits are also tied to the Consumer Price Index, what these benefits will cost in the way of Social Security taxes to individuals cannot now be accurately predicted. With this "double indexing" of the Social Security benefit formula, some actuaries have projected Social Security benefit costs under the current system will reach as high as 30% to 50% of taxable pay in the years 2020 to 2050. That is, for many of us, eight to twelve times what we are now paying. Mr. A.H. Robertson, Chief Actuary of the Social Security Administration, in a speech he gave in October, 1975, said that, "Based on current projections of income to the Social Security system and benefit payouts, the current Social Security tax rates are insufficient to the extent that the Social Security Trust Fund could be depleted by 1982."

THE MAXIMUM BENEFIT PAYABLE TO AN INDIVIDUAL WHO RETIRED AT AGE 65 IN 1976 WAS $364 PER MONTH. THE SPOUSE OF THAT INDIVIDUAL WOULD RECEIVE 50% OF THAT BENEFIT, ALSO AT AGE 65.

It is difficult to imagine how anyone could live on this amount of money today. Nevertheless, many do, although it is common knowledge that the standard of living among retired persons, living entirely on Social Security, is one of the lowest in the United States. The monthly check from Social Security is barely enough to provide shelter for these individuals, let alone food or any luxuries. So it is little wonder many of them end up living out their lives in some old-age home or turning their Social Security checks over to some other institution so they can survive. It is a national disgrace that we, a nation of incredible wealth, systematically do this to our parents and grandparents. Perhaps, consciously or subconsciously, this is why many people want to get out of Social

Security. As most workers are unable to accumulate enough wealth during their working years to enable them to maintain their standard of living after retirement, it would be prudent indeed for any worker to take advantage of an opportunity that will assist him in providing security for his retirement.

Such an opportunity is now at hand. If the employees of the State of Alaska withdraw from the Social Security system and, if the money that both the employees and the State are now paying into Social Security is reinvested in the Public Employees Retirement system, retirement benefits from P.E.R.S. can be substantially improved.

AN EMPLOYEE WHO RETIRED FROM STATE SERVICE AFTER 30 YEARS WOULD RECEIVE 75% OF THE AVERAGE OF HIS THREE HIGH YEARS' EARNINGS IF THE BENEFIT FORMULA WERE INCREASED TO 2-1/2%. AN EMPLOYEE WHO RETIRED AFTER 20 YEARS' SERVICE WOULD RECEIVE 50%.

What may be even more important, especially to young employees, is that under the P.E.R.S. they are eligible for a pension while they are still relatively young. An increased benefit formula could provide the means for these employees to advance their education or to pursue other careers. In any case, it would provide any career employee a benefit which would allow him to retire with the confidence of knowing that his future is secure.

COMPARISON OF FUTURE RETIREMENT BENEFITS

PUBLIC EMPLOYEES RETIREMENT SYSTEM/SOCIAL SECURITY SYSTEM

We do not get a realistic picture of what retirement benefits are worth if we compare future Social Security benefits with future P.E.R.S. benefits. The numbers that these kind of projections produce are so inflated, few are able to recognize their relative value. Nevertheless, because the Mercer Report contains a table (see page 10 of this report) showing "estimated future monthly Social Security retirement benefits at age 65", it is necessary when considering withdrawal from Social Security, that employees be able to make a comparison between those benefits and what benefits they could receive from the P.E.R.S. in the future in the event of withdrawal from Social Security.

With this in mind, the Committee has included in this report a table (shown on page 7) showing estimated future monthly P.E.R.S. retirement benefits at age 55.

However, it must be noted that these benefits are based on a 2-1/2% benefit formula, (the present benefit formula is 2%) and that these benefits would apply only to those "hypothetical employees" listed in the two columns to the left of the table. Also, it should be noted that these benefits are based on the assumption that salaries will increase at the annual rate of 6%. The 6% figure was used to parallel the assumption made in the Mercer Report, i.e. that future increases in the taxable wage base would be at the annual rate of 6%. (As explained elsewhere in this report the taxable wage base is the maximum amount of annual earnings subject to Social Security tax. How much that amount will be increased is determined by the average increase in wages of workers from one year to the next.)

EXPLANATION OF FUTURE RETIREMENT BENEFITS

When first examining the table showing "Estimated Future Monthly P.E.R.S. Retirement Benefits at Age 55", most people find it difficult to accept the fact that these numbers represent a realistic projection of what it will cost for employees who retire in the future to maintain the same level of retirement benefits as employees who are retiring now. Although these numbers are based on an increased benefit formula, it must be emphasized that most workers who receive these benefits in the future will not be eligible to receive Social Security benefits based on state service. That is, of course, assuming that the State of Alaska withdraws from the Social Security system. It must also be noted that the cost of providing the increased benefit formula will be paid for with the money that is presently going into the Social Security system, and will not be an additional cost to either the employees or the State of Alaska. In view of the fact that neither the employees or the Sate of Alaska have any control over what future Social Security costs will be, withdrawal from that system should result in a savings to both the employees and employer.

When examining future retirement benefits of the P.E.R.S., it may be useful to show what those benefits are worth in 1977 dollars. Page 6 of this report shows estimated monthly P.E.R.S. retirement benefits at age 55, with a 2-1/2% benefit formula, for employees who are eligible for retirement now. It can be assumed that these benefits have a relative value equal to the future P.E.R.S. benefits shown on page 7.

ESTIMATED CURRENT MONTHLY P.E.R.S. RETIREMENT BENEFIT

AT AGE 55 WITH 2-1/2% BENEFIT FORMULA

Years of Service at age 55	Est. P.E.R.S. Retirement benefit 3 high yr. average $15,300/yr	Est. P.E.R.S. Retirement benefit 3 high yr. average $20,000/yr	Est. P.E.R.S Retirement benefit 3 high yr. average $25,000/yr	Est. P.E.R.S. Retirement benefit 3 high yr. average $30,000/yr
5	$159.38	$208.33	$260.42	$312.50
10	$318.75	$416.67	$520.83	$625.00
15	$478.13	$625.00	$781.25	$937.50
20	$637.50	$833.33	$1041.67	$1250.00
25	$796.88	$1041.67	$1302.08	$1562.50
30	$956.25	$1250.00	$1562.50	$1875.00

Assumptions:

(1) 2-1/2% benefit formula "X" 3 high year average

(2) Employee does not elect survivor option

ESTIMATED FUTURE MONTHLY P.E.R.S. RETIREMENT BENEFIT

AT AGE 55

Current Age	Years of Service at age 55	Est. P.E.R.S. Retirement benefit Current salary $15,300/yr	Est. P.E.R.S. Retirement benefit Current salary $20,000/yr	Est. P.E.R.S. Retirement benefit Current salary $25,000/yr	Est. P.E.R.S. Retirement benefit Current salary $30,000/yr	Year Employee becomes age 55
50	5	$201.21	$263.02	$328.77	$394.52	1982
45	10	$538.52	$703.95	$879.94	$1055.93	1987
40	15	$1081.00	$1413.07	$1766.33	$2119.60	1992
35	20	$1928.82	$2521.33	$3151.67	$3782.00	1997
30	25	$3226.50	$4217.65	$5272.06	$6326.47	2002
25	30	$5181.35	$6773.00	$8466.25	$10,159.50	2007

Assumptions:

(1) Future salary increases at annual rate of 6%.

(2) 2-1/2% benefit formula "X" 3 high year average

(3) Employee becomes age 55 while in : te service.

(4) Employee does not elect survivor option.

Note: When comparing P.E.R.S. retirement benefits to those of Social Security, it should be noted:

(1) That full Social Security retirement benefits do not begin until age 65.

(2) That most employees will receive a Social Security retirement benefit at age 65 at some level, in addition to the P.E.R.S. benefit.

(3) That Social Security benefits are not subject to federal tax.

(4) That P.E.R.S. benefits are not subject to state and local taxes in Alaska.

(5) That P.E.R.S. benefits are not subject to federal tax until after retirement benefits paid to an individual exceed the individual's

(5) contributions to the P.E.R.S. system.

(6) That many employees will be in higher salary ranges before retirement age because of promotions.

(7) Employees who retire at age 55 under P.E.R.S. will receive payments from that system for 10 years (120 months) before Social Security benefits begin. That is, for employees with 30 years' service whose current salary is $15,300: $5181.35 x 120 months = $621,762.00 before Social Security benefits begin. For employees whose current salary is $30,000: $10,159.50 x 120 months = $1,219,140.00 before Social Security benefits begin. With a 4% annual cost of living adjustment, these 10 year totals would be increased by 148%. An employee whose current age is 25 and who is currently earning $15,300 annually, and who retires from the P.E.R.S. at age 55 at $5181.35 per month, would be receiving $7670 per month at age 65 if a 4% annual, post-retirement, cost of living adjustment were in effect when he retired.

Included in this report is a table from the Mercer Report showing estimated monthly Social Security retirement benefits at age 65. Although it is safe to assume that the Social Security benefits shown in that table are correct, based on the assumptions made, it would have been helpful if more information had been provided concerning Assumption #5, ie. "All workers remain eligible for Social Security benefit at some level." For instance: Line 1, Current age 30, in the column showing "Estimated Social Security Retirement Benefit -- Termination from OASDI ($400, to an individual/ $600 with spouse benefit).

The table shows that the worker terminated from Social Security at age 30. At that time he could have had as many as 10 or 12 years in the Social Security system while working for the state. He could then have continued working for the

state, after termination from Social Security, for another 20 years and retired under the P.E.R.S. at age 50. The question is: did that employee then go to work for an employer who was in the Social Security system? If he did, he would gain 15 more years of Social Security credits. The next logical question is: how many years did this worker contribute to the Social Security system and when, during his career, did he make the contributions which entitled him to a $400.00 retirement benefit?

WILLIAM M.
MERCER

Table 1

Estimated Monthly Social Security Retirement Benefit
At Age 65

Current Age	Estimated Social Security Retirement Benefit - Continuation in OASDI	Estimated Social Security Retirement Benefit - Termination From OASDI	Social Security Retirement Benefit Lost in Termination	Social Security Retirement Benefit Lost - With Spouse Benefit
30	$ 3,824	$ 400/$600*	$ 3,424	$ 5,136
35	$ 2,793	$ 578/$867*	$ 2,215	$ 3,323
40	$ 1,968	$ 595/$892*	$ 1,373	$ 2,050
45	$ 1,423	$ 545/$817*	$ 878	$ 1,317
50	$ 1,068	$ 499/$748*	$ 569	$ 854

*with spouse's benefit

Assumptions

(1) Future increases in wage base at the annual rate of 6%.

(2) Future increases in the cost of living at the annual rate of 4%.

(3) Spouse is same age as worker.

(4) Worker's earnings in all years equal or exceed the wage base.

(5) All workers remain eligible for Social Security benefit at some level.

NOTE: In comparing the benefits of the alternative programs to those of Social Security, the column headed "Social Security Retirement Benefit Lost - With Spouse Benefit" should be used.

When considering withdrawal from the Social Security system, the question of portability invariably arises. That is, that benefit accrual is fully portable for employees who go from one employer to another, so long as those employers participate in the Social Security system. Whereas, under the P.E.R.S., when employees leave state service benefit accrual stops, although they still may be eligible to receive retirement and death benefits. It should be noted that, currently under the P.E.R.S., any employee who leaves state service before reaching retirement age and who has at least 5 years of credited service will still be eligible for a retirement pension at age 50 or 55 if he has not withdrawn his contributions from the system (i.e. a deferred, vested member). His retirement benefit will be based on his years of credited service.

It should also be noted that, should this same employee die before retirement and after leaving state service, the surviving spouse may, at his or her discretion, receive either the lump sum death benefit or the 50% joint and survivor option, based upon the deceased employee's credited service. In addition, any person who is receiving a retirement benefit from the P.E.R.S. is also entitled to major medical insurance coverage. But they do not accrue credited service when they leave state employment and they are not eligible for any disability benefit after leaving state service.

However, under the latest revisions in the P.E.R.S., the death and disability benefits for employees who either die or become disabled while in state service and whose death or disability resulted from occupational causes, are not based on credited service. In the case of death, the surviving spouse will receive 40% of the deceased employee's monthly earnings at the time of death, until such time, if the deceased spouse had lived, he would have been eligible to retire. At that time the surviving spouse will receive the normal retirement pension

based on the deceased employee's three high-year earnings, with service credit up to his retirement age, had he lived.

In the case of disability, the disabled employee also receives 40% of his current monthly salary until he is eligible for retirement. AT that time, he receives the normal retirement benefit based on his earnings at the time of disablement. The period of disability constitutes credited service.

It is the opinion of this committee that if the State of Alaska withdraws from the Social Security system and if the recommendations described elsewhere in this report concerning death and disability benefits affecting employees who leave state service are implemented, employees who leave state service will have adequate death and disability protection if they are not covered by Social Security and until such time as they may be eligible to receive these benefits from Social Security.

Another area of concern for some people is that the Federal Government will change the law which allows public employers to withdraw from Social Security or they will use general fund revenues to support the benefits of the Social Security system. The reason the Federal Government allows public employers a choice in participating in Social Security is due to the fact that it is questionable whether it is constitutional for the Federal Government to force public employers to belong. Even if the law is changed, it is doubtful whether it would apply to public employers who had already withdrawn.

As to the question of using general fund revenues to support Social Security benefits; this is quite possible. If this occurred after the State of Alaska withdrew from the Social Security system, public employees would, in fact, be

paying for some Social Security benefits by virtue of the fact that they pay federal taxes. If this were to happen, it is fairly safe to assume that Congress would, at the same time, make some benefits available to individuals who are not in the system, especially when one considers that there are so many federal employees, and they are not in the Social Security system.

As previously noted in this report, Social Security benefits are now tied to the Consumer Price Index. This was done, of course, to prevent inflation from reducing the buying power of retired workers living on Social Security. Now that this feature has been in effect for several years, there has been considerable concern expressed in the U.S. Congress about the cost of maintaining that provision. Thus, there is some possibility that Congress might put a limit on how much Social Security benefits will be increased due to inflation.

The fact that there is no automatic cost of living allowance built into P.E.R.S. benefits after retirement must be considered in regard to withdrawal from Social Security. It should be noted, however, that there is a provision in the P.E.R.S. whereby the Commissioner of Administration may authorize a cost of living adjustment for persons receiving benefits from the P.E.R.S., provided the financial condition of the retirement fund can permit it.

There is no question but that the cost of Social Security is going to increase substantially from now on, and it should not have to be pointed out that both the employee and the employer will pay the cost. In the event of withdrawal from the Social Security system, it would not be too optimistic to assume that any savings to both the employees and the State would be used to provide cost of living adjustments to retired employees.

THE BOTTOM LINE

STRUCTURE OF THE SOCIAL SECURITY BENEFIT FORMULA:

It is almost impossible to read anything about the Social Security system which doesn't express grave concern about the future of that system. There is no question but that the basic cause of this concern is the Social Security benefit formula. For many years it has been apparent that retired workers living on Social Security were one of the poorest classes of people in the United States. These people living on "fixed incomes" were going from bad to worse as each year went by because of increases in the cost of living. Finally, in 1972, Congress revised the Social Security law and established an automatic cost of living adjustment on Social Security retirement benefits by tying those benefits to the Consumer Price Index which reflects rises in the cost of living. At the same time, they also tied the taxable wage base to the benefit increases; that is, whenever retirement benefits are raised due to inflation, the taxable wage base is automatically increased by the same percentage that the average wages of the workers who are contributing to the system have increased, since the last increase in the taxable wage base.

Coincidentally, whenever the taxable wage base increases, the "average monthly wage" also increases and since the monthly benefits payable to an individual at retirement age is determined from a "schedule" based on "the average monthly wage", it also follows that as the average monthly wage increases, retirement benefits also increase. This is what is meant by "double indexing" of the benefit formula. That is, both the taxable wage base and the benefit are indexed. Or to put it another way, they are already scheduled.

However, neither the method of increasing the wage base, or the amount that retirement benefits are scheduled (indexed) to increase are integrated into any formula that will generate the revenue required to pay for these benefits.

Although the tax rate which is currently 5.85% is scheduled to increase to 6.05% in 1978, 6.30% in 1981, 6.45% in 1986 and to 7.45% in 2011, the Social Security Administration has stated that the tax rates are insufficient to fund the benefits.

Another concern is the fact that the taxable wage base is increasing at a greater rate than are the wages of many of the workers who are contributing to the system, and that every year more and more workers are not earning the maximum wage subject to Social Security tax.

Of course, if the tax rates increase as scheduled and double-indexing of the benefit formula continues, the inequities which already exist in the system will be greatly increased. That is, that workers who earn the maximum wages subject to Social Security taxes will be paying for an even greater share of the benefits paid to workers who do not earn the maximum amount subject to Social Security tax. By comparison, the retirement benefits paid to a worker under the P.E.R.S. are directly proportional to what that worker pays into the system.

In view of the fact that a worker may retire from the P.E.R.S. as early as age 50, or even earlier in many cases; and

---because that worker will almost certainly return to work for an employer who is in the Social Security system; and

---because retirement benefits for career employees are substantially greater

from the P.E.R.S. and will be even more so if the benefit formula is increased to replace any retirement benefit that may be lost to state employees after withdrawal from the Social Security system; and

---because short term staff employees would lose little, if any, Social Security retirement benefit; and

---because the Social Security retirement system contains numerous inequities which are discriminatory; and

---more importantly, because the cost of Social Security is certain to increase at a greater rate than benefits will be improved;

THIS COMMITTEE CAN FIND NO REASON OF SUFFICIENT CONCERN TO CAUSE STATE EMPLOYEES TO VOTE AGAINST WITHDRAWAL FROM THE SOCIAL SECURITY SYSTEM.

RECOMMENDATIONS IN GENERAL

I. It is recommended that the employees of the State of Alaska vote "yes" to the question "Should the employees of the State of Alaska terminate their participation in the Social Security system?", on the condition that the State of Alaska contribute a sum of money to the Public Employees Retirement System equal to, or greater than, the sum that the State is currently contributing to the Social Security system on behalf of its employees.

Such money shall be used, as much as is practical, to improve and/or replace those benefits which may be lost to employees because of their non-participation in the Social Security system, or as otherwise determined by the tally of the Advisory Ballot accompanying this report.

II. It is also recommended that the employees of the State contribute to the Public Employees Retirement system at least part of the money they are currently contributing to the Social Security system. Such amount shall be determined, as much as is practical, by the tally of the Advisory Ballot.

FACTORS WHICH MUST BE CONSIDERED BEFORE VOTING TO WITHDRAW FROM THE SOCIAL SECURITY SYSTEM

BENEFITS:
- (A) RETIREMENT
- (B) SURVIVORS' BENEFIT
- (C) DEATH & DISABILITY BENEFITS
- (D) MEDICAL BENEFIT

The following discussion describes what benefits are provided by Social Security and how withdrawal from the Social Security system may affect state employees' eligibility for these benefits This discussion also describes what benefits these employees may be eligible to receive from the P.E.R.S. Also included here are recommendations for improvement and/or replacement of benefits which may either be lost or decreased for some employees because of withdrawal from the Social Security system.

(A) RETIREMENT

1. SOCIAL SECURITY

---The normal retirement age for workers covered by Social Security is 65 years. A worker may retire at age 62 with a penalty of 5/9 of 1% for each month that he retires before his 65th birthday.

---To be "fully insured," a worker must have one "quarter of coverage" for each year after 1950 (or, if later, the year he reaches age 21) or before the year death occurs or, if earlier, the year he reached age 62.

---The maximum number of "quarters of coverage" required is 40. The minimum number required is 6. A quarter of coverage is a calendar quarter in which a worker has earned at least $50 in wages for employment covered under this law.

---The "taxable wage base" is the maximum amount of annual earnings subject to Social Security tax and used to calculate the average monthly wage. The taxable wage base in 1976 was $15,300. The Social Security tax in 1976 was 5.85% x $15,300 = $895.

---The monthly retirement benefit payable to an individual at full retirement age is determined from a "schedule" based on the "average monthly wage."

---The "average monthly wage" is the average wage subject to Social Security tax earned by a worker over his career after 1950.

---The "Primary Insurance Amount" is the monthly benefit payable to an individual at full retirement age before application of any delayed retirement credit. Such amount is determined from a schedule based on the Average Monthly Wage.

This means that an employee's earnings (up to the maximum taxable wage) for each year after 1950 or, if later, the year he reaches 21, up to the year he is 62, are totaled and then divided by that number of years. (If an employee becomes 21 years of age after 1950, that is 41 years until he becomes 62. It is also 164 quarters of coverage: 41 x 4 = 164.) There is a provision in the law to drop from this total the five lowest earning years, which means that the average monthly wage is based on 36 years of employment That may be important, especially if, in those years, the contribution to Social Security was $0. The result of all the addition, subtraction and division is (when the total is divided by 12 months) the "average monthly wage."

The maximum average monthly wage possible up to 1976 was $585. The maximum retirement benefit, payable to an individual who retired before June 1976, was $364.

(i.e. primary insurance amount.) If the average monthly wage was one-half of the maximum possible (1/2 of $585) or approximately $293, the benefit from Social Security would be $22[illegible]. That is 78% of the average monthly wage, whereas $364, the maximum benefit, is only 62% of $585. In this way, Social Security retirement benefits are far more profitable for those workers who do not earn the maximum amount subject to Social Security tax.

WIFE'S BENEFIT

A wife or dependent husband of a retired worker receives 50% of the spouse's benefit at age 65. A wife may receive this benefit at age 62, but her benefit will be reduced by 25/36 of 1% for each month before she is 65 years old that she receives the benefit. A wife may receive her benefit at any age if she is caring for a child entitled to a child's benefit. Payments cease when either spouse dies, or when they are divorced after less than 20 years of marriage, or there is no child entitled to a child's benefit and the wife is under age 62.

CHILD'S BENEFIT

Every child of a worker who is entitled to a retirement benefit will receive 50% of the worker's benefit until age 18, or age 22 if the child is a full-time student. Payments cease when the child either dies, is married, or is no longer a student. If the child's benefit is based on his being disabled, the benefit stops the third month following the month he ceases to be disabled.

There is also a maximum limit that Social Security will pay to any family. That limit is approximately 180% of the retirement benefit. For 1976 that figure was 180% x $364 = $655.

REDUCED BENEFITS BASED ON EARNINGS

Social Security retirement benefits are reduced $1.00 for every $2.00 earned in excess of $2760 in any year. However, benefits are not reduced in any month in which earnings are less than $230. The maximum earnings limit is subject to possible increase every year based on increases in the taxable wage base.

Income earned from stock dividends, interest on savings, other pensions, annuities, gain or loss from the sale of capitol assets, gifts or inheritances, or rental income, unless you are a real estate dealer, are not counted as earned income.

TO SUMMARIZE

A worker needs at least six (6) quarters of coverage, but not more than 40 quarters of coverage, to be eligible for a Social Security retirement benefit. The amount of that benefit is determined by the employee's "average monthly wage."

Because the taxable wage base is much greater during the worker's later years, his average monthly wage will be higher if he earns quarters of coverage just before reaching age 65.

The Social Security retirement benefit formula favors workers in the lowest income bracket; that is, those workers get a higher return on their money than do workers in higher income brackets. The taxable wage base on which Social Security contributions are based is currently $15,300. By 1980, based on assumptions regarding wage increases, it is scheduled to climb to $21,600. There is also a bill under consideration by the U.S. House Social Security Subcommittee which will further increase the taxable wage base to $25,000 without any guarantee that benefits will be raised proportionately. This trend will have a greater impact on Alaskans than on workers in other states since wages are higher here.

Many employees in state service are either already vested in Social Security or will become vested in that system in the future, regardless of Alaska's withdrawal from the program, because a high percentage of state employees work for the State for less than four years. However, some employees, because of their long-term employment with the State of Alaska after withdrawal from the Social Security system, will lose some Social Security retirement benefit.

This may happen to an employee who is vested in Social Security before the State withdraws from that system but who continues in state employment for some time (possibly 10 or 20 years) after withdrawal from Social Security, and who does not contribute to Social Security after leaving state service.

If an employee retires under P.E.R.S., the Social Security retirement benefit that he would receive would be based on the "average monthly wage" he earned while he was contributing to the Social Security system. It follows, then, that the employee would receive a smaller Social Security retirement benefit at age 65 than he would have received had he remained in that system until his retirement age. This is true since the "average monthly wage" would have been higher if the employee had contributed to Social Security during his highest-earning years of employment.

However, if that employee left state service at age 40 or 50 or even 55 years of age (regardless of whether he received a retirement benefit from P.E.R.S.), and if he then went to work for an employer covered by the Social Security system, that worker would then add quarters of coverage to his Social Security earnings which would increase his average monthly wage. This is especially true at this time because the taxable wage base will normally be much higher during a worker's later years of employment. Consequently, an employee who leaves the Social Security system and later returns to it may receive, on retirement, a benefit only slightly reduced.

Also, it must be pointed out that single workers and married working women pay into the Social Security system for retirement benefits they may never receive.

That is, single workers pay for spouse and child benefits that they cannot possibly collect because they are not married. Also, a married working woman pays for full benefits but she can only receive 50% of her husband's benefit unless he dies. At that time she receives her own, or his full benefit, whichever is greater.

(A) RETIREMENT

2. P.E.R.S.

Unlike the Social Security system, the retirement benefit that an employee receives from the Public Employees Retirement System is directly proportional to what that employee pays into the system. State employees are currently contributing four and one-quarter percent of their earnings to the P.E.R.S. An employee is vested in this system after five years service. The benefit formula is. 2% X number of years of service X the average of three consecutive high year earnings. Normal retirement age after vesting is 55 years, with an option for retirement at age 50. An employee who elects to retire before his 55th birthday will lose 1/2 of 1% of his normal benefit for each month that he retires before his 55th birthday. That is to say, a 6% penalty for each year of early retirement. Also, it should be noted that any employee may retire without penalty after 30 years of service regardless of age, except that peace officers, firemen, correctional officers, and Fish and Game field biologists and technicians may retire after 20 years of service without penalty, regardless of age.

It is also worth noting that teachers and other employees who are required to hold a teaching certificate have their own retirement system. This system is the "Teachers Retirement System" and these employees may retire without penalty after 20 years of service regardless of age.

Employees who retire from state service under the P.E.R.S. may elect, at their at their own option, any one of three survivor options. Ordinarily, upon death after retirement, there will be no continuing benefit for the spouse unless the employee applies for it 30 days prior to retirement. Under each of these options, normal retirement benefits are actuarially reduced, with the spouse continuing to receive payment after the employee's death in accordance with the plan that is chosen.

An employee who retires and wants to provide a continuing benefit to the spouse in the event of his own death may elect:

A. 75% joint and survivor option; or

B. 50% joint and survivor option; or

C. 66 and 2/3% last survivor option.

An employee who elects either (A) or (B) above will have his normal retirement benefit actuarially reduced based on the age of the spouse at the time of the employee's retirement. Upon the employee's death, the spouse will receive either 75% or 50% of his reduced pension for life, whichever was chosen before retirement.

An employee who elects (C) above will have his normal retirement reduced also but, upon the death of either employee or spouse, the survivor receives 66 and 2/3% of the reduced benefit for life.

The difference between (C) and either (A) or (B) is that retirement benefits under (A) and (B) will not change on the death of the spouse. However, under option (C), either survivor receives 66 and 2/3% of the reduced benefit.

In selecting any of these options, an employee should keep two general principles in mind: (a) the lower the age of the spouse at the time the employee retires, the greater the reduction in the normal retirement benefit; and (b) the lower the continuing payments to the spouse, the smaller the reduction will be to normal retirement benefits.

Another option is also available under the P.E.R.S. called the "level income option," whereby employees who retire under the P.E.R.S. before they are eligible for Social Security retirement benefits, may have their P.E.R.S. benefit increased until their Social Security benefit payments begin. At that point, the P.E.R.S. benefit will be reduced proportionately. The result is a more "level income" throughout the retirement years.

It should be noted that any employee who leaves state service may withdraw all of his contribution plus interest from the system. Of course, if he does this he will not be eligible for any benefits. Additionally, there is a provision in the P.E.R.S. regulations whereby any employee who leaves state service and withdraws his contributions may be reinstated in the system at a later date without penalty, if he pays back his contributions plus interest.

(B) SOCIAL SECURITY SURVIVORS' BENEFIT

1. DEATH BENEFIT

A widow or dependent widower (who received at least half of his support from his wife) will receive at age 65 100% of the "primary insurance amount" the deceased spouse would have received at normal retirement age had he lived. The survivor may receive this benefit at age 60 with a penalty reduction of approximately 1/2 of 1% for each month that the survivor receives the benefit before she or he attains age 65. This benefit stops when the surviving spouse dies.

A widow not entitled to a widow's benefit may be entitled to a mother's benefit. (A widow must be at least 60 years old to receive a widow's benefit or 50 years of age if disabled.) A mother's benefit is payable to the widow of a worker who dies while fully insured (40 quarters of coverage) or currently insured (6 quarters of coverage in the 13 quarters period ending with the quarter in which the death of the worker occurred) provided the widow is:

(a) not married

(b) not entitled to widow's benefit

(c) has in her care a child of her deceased husband entitled to a child's benefit.

A woman need not be age 60 to qualify for a mother's benefit. The mother's benefit is equal to 3/4 of the "primary insurance amount" the deceased spouse would have received at normal retirement, had he lived. The mother's benefit ceases when she dies or remarries, or becomes entitled to a widow's benefit, or no longer has a child who is entitled to a child's benefit.

Social Security also provides a child's benefit for children under 18 years of age or 22 years of age, if the child is a student. Eligibility requirements and benefits are similar to a mother's benefit. That is the worker who dies must be fully or currently insured.

Parents are also eligible for a Social Security benefit if they are dependent (receive 1/2 of their support) on a worker who dies. For the parent to be eligible, the worker who dies must be fully insured.

In addition to the benefits already mentioned, Social Security pays a one-time lump sum benefit of $255.00 to the widow or widower of a worker who dies while fully or currently insured.

MAXIMUM LIMIT OF FAMILY BENEFITS

The total monthly benefit payable to any family from Social Security is approximately 180% of the primary insurance amount.

(B) P.E.R.S. SURVIVOR BENEFITS

DEATH BENEFIT

If an employee's death is the result of non-occupational causes, and if he has at least five years of service, his beneficiary may elect a lump sum death benefit or the 50% joint and survivor option, based on credited service. If death occurs before he has one year of service, his beneficiary will receive a refund of his contribution, plus interest.

LUMP SUM DEATH BENEFIT (Non-occupational Cause)

After one year of service, but less than five years of service, an employee's beneficiary will receive $1000.00 plus $100.00 for each year of service up to the time of his death, plus the balance of his contributions to the fund.

50% JOINT SURVIVOR OPTION (Non-occupational Cause)

After five years of service, an employee's beneficiary will receive 50% of: 2% X the average of his three high consecutive years' earnings X the number of years service he had until the time of his death. This amount is subject to actuarial reduction which is based on the age of the beneficiary or beneficiaries.

Additional death benefits are payable to beneficiaries of employees in the P.E.R.S. who are covered by medical insurance and/or collective bargaining agreements. In most cases, these benefits are lump sum payments.

P.E.R.S. DEATH BENEFIT BEFORE RETIREMENT

If death is a result of occupational causes in the performance of an employee's duties while in state service, the surviving spouse will receive 40% of the deceased employee's monthly compensation at the time of death, until such time, if the deceased employee had lived, he would have been eligible to retire. At that time the surviving spouse will receive the normal retirement pension based on the deceased employee's 3 high year earnings, with service credit up to his retirement age, had he lived. If there is no surviving spouse, the pension will be paid to surviving children who are under 19 years of age or 23 years of age if full-time students. Payments cease when there is no surviving spouse or child.

To be eligible to receive any death benefit from Social Security, a widow must be at least 60 years old unless she has a child who is entitled to a child's benefit. Even then her deceased spouse must have died while "fully" or "currently" insured.

In the event the State of Alaska withdraws from the Social Security system, the employees most likely to lose this benefit are employees who are not vested under Social Security and who die while in state service. These employees may often be young people who may very well have children. Unless these employees have been in state service for a considerable number of years, their benefit under the P.E.R.S. would be less than what they could receive from Social Security had they been covered by that system. It is assumed the employee dies from non-occupational causes.

RECOMMENDATION:

It is recommended that should the State of Alaska withdraw from the Social Security system, the following revision be made in the P.E.R.S.:

Beneficiaries of employees who have five years or more of credited service, who die while in state service before retirement, and whose death results from non-occupational causes, shall be provided the same death benefit as provided when death is a result of occupational causes.

The above recommendations will certainly provide greater benefits to beneficiaries of employees who die while in state service than are provided from Social Security. This is especially true when one considers that under Social Security the surviving wife must be 65 years old to get a full benefit unless

she has dependent children. Also, the husband will get nothing from Social Security if his working wife dies and he was not dependent on her while she was alive.

Under the P.E.R.S. a spouse will receive a pension regardless of his or her age and whether or not he or she was dependent.

It should be noted that under P.E.R.S., if there is no surviving spouse, this same pension will go to a surviving minor or minors (equally divided) until they are age 19 or 23, if full time students.

(C) SOCIAL SECURITY DISABILITY BENEFIT

To be eligible to receive any disability benefit from Social Security an individual must be unable to engage in any substantial gainful activity by reason of medically determined physical or mental impairment which can be expected to result in death, or has lasted, or can be expected to last, for a continuous period of not less than 12 months. In addition, a worker must be "fully insured", that is, have 40 quarters of coverage (ten years) and also have had not less than 20 quarters of coverage (5 years) during the ten years prior to becoming disabled. However, special exceptions apply in the case of individuals who become disabled prior to age 31 and in the case of the blind. Individuals who become disabled before age 24 need 6 quarters of coverage in the 13 quarter period ending with the quarter disability occurs. Individuals who become disabled between age 24 and age 30 need credit for half the period between age 21 and the time disability occurs.

The disability benefit payable from Social Security is based on average earnings subject to Social Security tax after 1950 with provisions for excluding lowest earning years based on age. The monthly benefit is approximately equal to the normal retirement benefit computed as though the worker had attained retirement age. A worker must wait 5 months before he receives any disability payment.

The wife or dependent husband of a disabled worker receives 50% of the spouse's benefit at age 62. A wife may receive a 50% benefit at any age if she is caring for a child entitled to a child's benefit. A child of a disabled worker is entitled to a 50% benefit also, if he is under 18 years old or 23 years old, if he is a student.

Maximum family benefit is approximately 175% of the disabled worker's normal retirement benefit.

(C) P.E.R.S. DISABILITY BENEFIT

Eligibility:

If an employee incurs a physical or mental condition which permanently prevents him from satisfactorily performing the duties of his position, or any other position for which he is qualified by education and training and which is made available by his employer, and if he is not eligible to retire:

<u>Non-occupational disability</u> (with 5 or more years credited service)
Benefit: 2% X (the average of the 3 consecutive high year earnings) X number of years credited service.

OR

Occupational disability (no minimum service requirement)

Benefit: 40% of current monthly earnings while disabled or until employee is eligible for a retirement benefit. Service credit granted for entire period of occupational disability when computing retirement benefit. Upon the death of a retired employee who is receiving or is entitled to receive an occupational disability pension, a surviving spouse's pension equal to 40% of his average monthly compensation shall be paid to the surviving spouse. If there is no surviving spouse, the survivor's pension shall be paid in equal parts to his children who are under 19 years of age or, if full-time students, under 23 years of age. On the date normal retirement would have occurred if the employee had lived, monthly payments shall equal the monthly amount of the normal retirement benefit to which the employee, had he lived and continued his employment until his normal retirement date, would have been entitled with an average monthly compensation as existed at his death and the credited service to which he would have been entitled.

It should be noted that under Social Security there is no distinction between occupational and non-occupational disability, but in order to receive any benefit a worker must have 40 quarters of coverage (10 years) and half of this must be in the 10 years prior to becoming disabled. (Unless under 31 years of age.)

In other words, "fully insured" employees in state service now, who are eligible for a Social Security disability benefit, if they become disabled, would still be eligible for that benefit for five years after withdrawal from the Social

Security system. They would also receive a disability benefit from P.E.R.S.

RECOMMENDATION

It is therefore recommended that, should the State of Alaska withdraw from the Social Security system, the following revision be made in P.E.R.S.:

Employees in state service who become disabled after completing 5 or more years of credited service and when such disability has resulted from non-occupational causes shall be provided the same disability benefit as provided when disability has resulted from occupational causes.

The most difficult situation that we have to deal with is: Should the P.E.R.S. provide a death or disability benefit to survivors or dependents of individuals who either die or become disabled after they leave state service but may not be eligible for death or disability benefits from Social Security because of the State's withdrawal from that system?

When answering this question, it should be remembered that even under Social Security a worker must be both "fully" and "disability" insured in order for him or his dependents to be eligible to receive any disability benefit. In the case of death, a worker must be either "fully" or "currently" insured, for his dependents to be eligible for death benefits.

Nevertheless, there are undoubtedly some employees who are presently eligible for Social Security death and disability benefits who will lose eligibility for some of these benefits after they leave state service and after the State has withdrawn from the Social Security system.

For example, let us assume:

1. A worker who is fully insured under Social Security leaves state service and then dies. What benefits are lost?

   (a) The widow or widower of a dependent worker will lose no eligibility for retirement benefits at age 65 because of withdrawal from Social Security.

   (b) The widow will still be eligible for a mother's or a child's benefit.

2. A worker who is fully insured under Social Security leaves state service and then becomes disabled.

   (a) The worker or his dependents will lose no disability benefits if the worker had 20 quarters of coverage during the 10-year period prior to becoming disabled. That is to say, a fully insured worker is still eligible for Social Security disability benefits for five years after he stops contributions to that system.

Summarizing the above examples, we find that the benefits lost to fully insured individuals who leave state service after withdrawal from the Social Security system depends on their "disability" insured status. If these individuals, after leaving state service, go to work for an employer who is in the Social Security system, and if they had lost their "disability" insured status by the time they left state service, they would again be "disability" insured under Social Security

in 5 years if 31 years of age or older. If under age 31, they may be again eligible in only 1-1/2 years depending on age.

Another question that must be considered is the problem of employees who leave state service and are not covered by Social Security.

For instance: An employee enters state service after Alaska withdraws from Social Security and never contributes anything to that system. There are two major concerns regarding these employees:

1. Many of these employees who leave state service will have dependents who need protection; and
2. What meaningful protection can the P.E.R.S. provide for these employees that is fair and equitable, not only to those employees who leave state service but to the rest who stay with the state.

RECOMMENDATION

This Committee recommends that in the event the State of Alaska withdraws from Social Security system and, if the majority of employees, as indicated by the tally of the Advisory Ballot accompanying this report, vote to provide death and disability protection for employees who leave state service before retirement, the following revisions be made in the P.E.R.S.:

> When considering the following recommendations it should be remembered that employees in state service pay for these benefits every month.

Employees who, after completing at least five years of credited service and who then leave state service, shall remain eligible for death and disability benefits from the P.E.R.S. for a period not to exceed ten years from the

effective date of their termination from state service. The amount of death or disability benefit shall be based on the employee's earnings at the time of termination from state service.

Such eligibility shall be in effect only when all of the following requirements are complied with:

1. The employee is not eligible for retirement under P.E.R.S.

2. The employee or his beneficiaries must provide proof of disability or death as required by the Division of Retirement.

3. The employee must leave his contributions in the P.E.R.S. when he leaves state service.

4. The employee must make contributions to the P.E.R.S. on a monthly basis up to the time of his death or disability. The amount of such contribution shall be determined by the Division of Retirement. Such amount shall be the cost of those benefits, determined on an actuarial basis (i.e. the same amount that employees in state service will be required to pay, if the recommendation is implemented).

   The employee may authorize the Division of Retirement to make monthly deductions from his contributions being held in the Retirement fund.

   The employee shall refund to the P.E.R.S. those deductions with interest when he becomes eligible for retirement under the P.E.R.S.

5. Benefits under this section cease under the same conditions

affecting employees in state service.

It is also recommended that the provision which presently exists in the P.E.R.S. (section 39.25.420) insofar as it affects a deferred vested member of the P.E.R.S., be maintained. That is; if the death of a deferred vested member occurs before appointment to retirement and after completing at least 5 years of credited service, the surviving spouse may, at his or her discretion, receive either the lump sum death benefit or the 50% joint and survivor option based on credited service to the date of the employee's termination from state service.

However, no employee may simultaneously receive a pension under more than one section of the P.E.R.S.

(D) SOCIAL SECURITY MEDICAL BENEFIT

The full level of Social Security hospital insurance benefits is available to any individual who is age 65 and is receiving any retirement benefit from Social Security. In addition, supplementary medical insurance benefits are available, on an elective basis, to any individual who is eligible for hospital insurance. This means that any individual who is eligible for Social Security retirement benefits at any level will lose no Social Security medical care benefits because of withdrawal from the Social Security system. However, it must be noted that individuals who retire early are not eligible for Social Security medical benefits until they reach age 65.

It is possible that some individuals who become disabled while employed by the state or after leaving state service may not be eligible for Social Security

medical benefits. Medical benefits are provided for any individual who is under age 65 and has received Social Security disability benefits for at least 2 years. That is to say, the individual must be both fully and currently insured.

RECOMMENDATION

It is the opinion of this Committee that, should the recommendations given in the previous section of this report affecting employees who leave state service be adopted, no other changes be made in the P.E.R.S. affecting these employees.

(D) P.E.R.S. MEDICAL BENEFIT

Employees who retire from state service receive the same medical coverage that they received before retirement.

RECOMMENDATION

As most employees will be eligible for Social Security medical benefits after retirement based on either service with the state or service with other employers and, because employees who retire from state service receive medical insurance coverage from the P.E.R.S., no changes are recommended in the P.E.R.S. affecting employees who retire from state service.

TEMPORARY EMPLOYEES

Temporary employees do not participate in the P.E.R.S. However, they do contribute to the Social Security system and thus, earn "quarters of coverage" in

that system. Nevertheless, because the turnover rate of these employees is extremely high, it is not desirable to include them in the P.E.R.S. This would increase the administrative burden of that system substantially. It is, however, desirable to provide some benefit coverage for these employees.

RECOMMENDATION

This Committee recommends that, in the event the State of Alaska withdraws from the Social Security system, the State of Alaska shall provide a lump sum death benefit to beneficiaries of temporary employees who die while in state service. The amount of such benefit shall be equal to one full year's salary computed as though the employee had worked 12 continuous months.

The State of Alaska shall also provide a disability benefit to temporary employees who become disabled while in the employ of the state and when such disability has resulted from occupational causes. The disability benefit shall be equal to 40% of the disabled employees' monthly salary at the time disability occurs. Disability benefits begin the first month following the month disability occurs. The last payment shall be for the month in which: (1) The death of the disabled employee occurs; or (2) The month in which the disabled employee recovers from disability; or (3) The month in which the disabled employee ceases to be eligible for disability benefits under the Social Security Act; or (4) The month the disabled employee becomes eligible to receive a retirement pension from the P.E.R.S. (based on prior service).

PRELIMINARY REPORT

SOCIAL SECURITY WITHDRAWAL

A REPORT TO ALASKA PUBLIC EMPLOYEES

SAMPLE

PREPARED BY:

ALASKA PUBLIC EMPLOYEES
ASSOCIATION, COMMITTEE
ON SOCIAL SECURITY WITHDRAWAL

MIKE MURRAY, CHAIRMAN

NOT FOR DISTRIBUTION

Social Security Opt-out

31, 1975, the State of
er of its intent to with-
ocial Security system
...ter began a two year period during which Governor Hammond may exercise his option to withdraw the State and its employees from that program. Nothing has happened to date; the two year period is designed for study and debate on the relative merits of withdrawal. But time is growing short. A decision must be made during the coming legislative session if funds are to be reallocated in time to meet the federal deadline.

If the State opts-out, F.I.C.A. payroll deductions will stop immediately. Monies paid in to date of withdrawal and the benefits accrued would not be lost. An employee who has established his 40 quarter eligibility will still be able to draw benefits on retirement. Partial eligibility may be transferred to a participating employer later on without any loss of credit. However, once the State of Alaska opts-out, it and all its employees are out for good. Short of congressional action, there is no way for Alaska to get back in.

The question for most employees is how to get the best benefits for the money. The very real fear that many state employees have expressed regarding the imminent bankruptcy of the Social Security system is, fortunately, false. The system is as sound as the U.S. Government. Its ability to continue paying benefits depends not on the size of the reserve funds but on the Government's power to collect taxes. Far from being the retirement "insurance" most taxpayers suppose, Social Security is what economists call an "intergenerational transfer" program. Unlike a straight insurance plan, Social Security operates by handing the taxes collected from today's workers over to today's retired and disabled. The only insurance a worker receives for his future is the presumed willingness of future generations to similarly support him during his retired years.

There are other factors, however, which threaten Social Security as it operates today. In 1955, seven U.S. workers paid taxes for every person collecting benefits. Today that ratio has been reduced to 3-to-1. By the year 2030, based on the World War II baby crop reaching retirement age, there will be only two workers to support each retiree. This means that the taxes withheld to finance Social Security must increase proportionately as the ratio of worker to retiree diminishes.

All of this occurs without ever assuring the overtaxed worker that his future will be as well paid or as secure. Even though today's beginning worker will pay four to five times the taxes his father paid, the Chief Actuary of the Social Security Administration estimates that he will do 20% worse in tax-to-payoff ratio than his father; his own son will do 14% worse than that.

Although benefits delcine in real terms, Social Security taxes rise. The current 5.85% employee and employer deduction is shceduled to rise to 6.05% in 1978. As recently as 1965 the maximum Social Security tax that any worker paid was $174; it is now $895. In addition, maximum income subject to taxation has also been rising. The maximum taxable income in 1976 was $15,300. By 1980 it is scheduled to reach $21,600, based on assumptions regarding future increases in wages. The force of this upward trend is apparent in the proposal to raise the taxable wage base to $25,000 by 1977, a proposal currently under consideration by the House Social Security Subcommittee.

The conclusion is inescapable: both the taxable wage base and the tax itself are on the rise while the ratio of worker-to-retiree worsens. By the year 2005, the large group of workers born during the post-World War II baby boom will begin retiring. There will be a rapid increase in the number of individuals receiving benefits relative to the number of people working. Between 2005 and 2035, the combined payroll tax will have to rise from about 12% of covered earnings to more than 16% of covered earnings according to the Social Security Advisory Council. Since all of this is simply a transfer of funds between generations, the workers who are paying so heavily now have no guarantee that their future will be as well protected.

> "THE SOCIAL SECURITY SYSTEM AS IT CURRENTLY EXISTS IS BASICALLY A WELFARE PROGRAM FUNDED BY PAYROLL TAXATION."

But the need for continuing tax increases is also inescapable. A 1972 law tied Social Security benefit levels to movement in the consumer price index so that they are automatically lifted each year by inflation. Today, many retirees benefit more in a single year than they have contributed in taxes through their entire working careers. In addition, social welfare programs such as Aid To Dependent Children, Foster Homes, and Medicare are funded through Social Security revenue.

All of these facts are part of the reason that public employees across the country are withdrawing from Social Security. The Metropolitan Washington Council of Governments, which includes various communities near the District of Columbia, found that it could enter into a private pension plan and pay no more than it paid to Social Security. Their employees could then retire at age 60 instead of 65, with no loss in benefits. City workers in San Jose, California, left the Social Security system in 1975. They now contribute 3% less than they did under Social Security and enjoy benefits that average 25% higher.

The report prepared by the private consulting firm of Wm. M. Mercer for the Alaska State Division of Retirement concerning this issue states that Social Security benefits would cost 22% of employee's earnings to be completely duplicated. However, given the almost 12% that the State of Alaska and its workers jointly contribute to Social Security now, those funds invested in the Public Employees Retirement System (PERS) could provide an increased computation rate for retirement benefits (i.e. 2½%) as well as increased death and disability benefits.

It is possible that there are some unique benefits to the State as well. Alaska currently suffers from a nearly 40% turnover rate in State employment. If the State can offer its employees a financially attractive retirement system in which the benefits are significantly augmented by monies formerly contributed to Social Security, employees would be encouraged to sustain their employment.

The fact that Social Security is portable while private retirement systems are not means little in fact benefits to Alaska state employees. The average length of service for state workers is just four years. Those workers who change employers frequently would lose little, if anything, in retirement benefits earned through Social Security contributions made in other states. Given the same ready access to their money as now afforded employees who terminate under PERS, even those transient workers would have greater flexibility in managing their finances.

Perhaps the main issue, however, is as much philosophic as it is financial. The Social Security system as it currently exists is basically a welfare program funded by payroll taxation. State of Alaska employees will not get what they pay for in terms of their own retirement benefits. A choice must be made between providing for one's own future, and providing funds for a variety of social welfare programs.

The APEA Committee on Social Security Withdrawal, chaired by Mike Murray of Juneau, has prepared a special report on this issue which includes specific recommendations for consideration by public employees. If you wish additional information, contact your local Field Office or APEA Headquarters in Juneau.

CORRECTION

THIS DOCUMENT
HAS BEEN REPHOTOGRAPHED
TO ASSURE LEGIBILITY

02–576(2/77)

Coming up:

Social Security Opt-out

On December 31, 1975, the State of Alaska filed a letter of its intent to withdraw from the Social Security system. That letter began a two year period during which Governor Hammond may exercise his option to withdraw the State and its employees from that program. Nothing has happened to date; the two year period is designed for study and debate on the relative merits of withdrawal. But time is growing short. A decision must be made during the coming legislative session if funds are to be reallocated in time to meet the federal deadline.

If the State opts-out F.I.C.A. payroll deductions will stop immediately. Monies paid in to date of withdrawal and the benefits accrued would not be lost. An employee who has established his 40 quarter eligibility will still be able to draw benefits on retirement. Partial eligibility may be transferred to a participating employer later on without any loss of credit. However, once the State of Alaska opts-out, it and all its employees are out for good. Short of congressional action, there is no way for Alaska to get back in.

The question for most employees is how to get the best benefits for the money. The very real fear that many state employees have expressed regarding the imminent bankruptcy of the Social Security system is, fortunately, false. The system is as sound as the U.S. Government. Its ability to continue paying benefits depends not on the size of the reserve funds but on the Government's power to collect taxes. Far from being the retirement "insurance" most taxpayers suppose, Social Security is what economists call an "intergenerational transfer" program. Unlike a straight insurance plan, Social Security operates by handing the taxes collected from today's workers over to today's retired and disabled. The only insurance a worker receives for his future is the presumed willingness of future generations to similarly support him during his retired years.

There are other factors, however, which threaten Social Security as it operates today. In 1955, seven U.S. workers paid taxes for every person collecting benefits. Today that ratio has been reduced to 3-to-1. By the year 2030, based on the World War II baby crop reaching retirement age, there will be only two workers to support each retiree. This means that the taxes withheld to finance Social Security must increase proportionately as the ratio of worker to retiree diminishes.

All of this occurs without ever assuring the overtaxed worker that his future will be as well paid or as secure. Even though today's beginning worker will pay four to five times the taxes his father paid, the Chief Actuary of the Social Security Administration estimates that he will do 20% worse in tax-to-payoff ratio than his father; his own son will do 14% worse than that.

Although benefits delcine in real terms, Social Security taxes rise. The current 5.85% employee and employer deduction is shceduled to rise to 6.05% in 1978. As recently as 1965 the maximum Social Security tax that any worker paid was $174; it is now $895. In addition, maximum income subject to taxation has also been rising. The maximum taxable income in 1976 was $15,300. By 1980 it is scheduled to reach $21,000, based on assumptions regarding future increases in wages. The force of this upward trend is apparent in the proposal to raise the taxable wage base to $25,000 by 1977, a proposal currently under consideration by the House Social Security Subcommittee.

The conclusion is inescapable; both the taxable wage base and the tax itself are on the rise while the ratio of worker-to-retiree worsens. By the year 2005, the large group of workers born during the post-World War II baby boom will begin retiring. There will be a rapid increase in the number of individuals receiving benefits relative to the number of people working. Between 2005 and 2035, the combined payroll tax will have to rise from about 12% of covered earnings to more than 16% of covered earnings according to the Social Security Advisory Council. Since all of this is simply a transfer of funds between generations, the workers who are paying so heavily now have no guarantee that their future will be as well protected.

> **"THE SOCIAL SECURITY SYSTEM AS IT CURRENTLY EXISTS IS BASICALLY A WELFARE PROGRAM FUNDED BY PAYROLL TAXATION."**

But the need for continuing tax increases is also inescapable. A 1972 law tied Social Security benefit levels to movement in the consumer price index so that they are automatically lifted each year by inflation. Today, many retirees benefit more in a single year than they have contributed in taxes through their entire working careers. In addition, social welfare programs such as Aid To Dependent Children, Foster Homes, and Medicare are funded through Social Security revenue.

All of these facts are part of the reason that public employees across the country are withdrawing from Social Security. The Metropolitan Washington Council of Governments, which includes various communities near the District of Columbia, found that it could enter into a private pension plan and pay no more than it paid to Social Security. Their employees could then retire at age 60 instead of 65, with no loss in benefits. City workers in San Jose, California, left the Social Security system in 1975. They now contribute 3% less than they did under Social Security and enjoy benefits that average 25% higher.

The report prepared by the private consulting firm of Wm. M. Mercer for the Alaska State Division of Retirement concerning this issue states that Social Security benefits would cost 22% of employee's earnings to be completely duplicated. However, given the almost 12% that the State of Alaska and its workers jointly contribute to Social Security now, those funds invested in the Public Employees Retirement System (PERS) could provide an increased computation rate for retirement benefits (i.e. 2½%) as well as increased death and disability benefits.

It is possible that there are some unique benefits to the State as well. Alaska currently suffers from a nearly 40% turnover rate in State employment. If the State can offer its employees a financially attractive retirement system in which the benefits are significantly augmented by monies formerly contributed to Social Security, employees would be encouraged to sustain their employment.

The fact that Social Security is portable while private retirement systems are not means little in lost benefits to Alaska state employees. The average length of service for state workers is just four years. Those workers who change employers frequently would lose little, if anything, in retirement benefits earned through Social Security contributions made in other states. Given the same ready access to their money as now afforded employees who terminate under PERS, even those transient workers would have greater flexibility in managing their finances.

Perhaps the main issue, however, is as much philosophic as it is financial. The Social Security system as it currently exists is basically a welfare program funded by payroll taxation. State of Alaska employees will not get what they pay for in terms of their own retirement benefits. A choice must be made between providing for one's own future, and providing funds for a variety of social welfare programs.

The APEA Committee on Social Security Withdrawal, chaired by Mike Murray of Juneau, has prepared a special report on this issue which includes specific recommendations for consideration by public employees. If you wish additional information, contact your local Field Office or APEA Headquarters in Juneau.

ALASKA PUBLIC EMPLOYEES ASSOCIATION

REPORT

TO ALL EMPLOYEES OF THE STATE OF ALASKA CONCERNING THE DESIREABILITY OF WITHDRAWAL FROM THE SOCIAL SECURITY SYSTEM;

AND

A BALLOT WHEREBY EMPLOYEES OF THE STATE OF ALASKA MAY ADVISE THE ALASKA PUBLIC EMPLOYEES ASSOCIATION:

A. WHETHER PUBLIC EMPLOYEES WANT TO OPT-OUT OF THE SOCIAL SECURITY SYSTEM;

B. WHAT BENEFITS, IF ANY, SHOULD BE REPLACED WHICH MAY BE LOST TO SOME EMPLOYEES BECAUSE OF WITHDRAWAL FROM THE SOCIAL SECURITY SYSTEM.

HISTORY

Being the representative of the largest group of state employees, APEA has over the years received considerable input from these employees and others expressing their desire to withdraw from the Social Security system. With this in mind, APEA negotiators entered into an agreement with the State of Alaska to jointly conduct a study to determine the desireability of terminating participation in the Social Security system for employees of the State of Alaska. The result of this agreement is the report prepared by William A. Mercer, and is referred to hereafter as the Mercer Report.

The federal law which establishes the Social Security system provides that a public employer may withdraw from the Social Security system after two years advance notification of withdrawal is given. The State of Alaska gave such notification in December, 1975 and, unless the State advises the Social Security Administration otherwise, the employees of the State of Alaska will not make contributions to that system after December, 1977.

This report is not intended to be an in-depth study of the Social Security system but, rather, to make recommendations based on the Mercer Report, a report prepared by the professional staff of APEA, information published by the Social Security Administration, the Public Employees Retirement System, the U.S. Senate Subcommittee on Aging, and other information gathered concerning other public employers who have withdrawn from the Social Security system. More importantly, however, this report also contains a ballot which gives the employees of the State of Alaska what may very well be a once-in-a-lifetime opportunity to express their wants

and needs concerning their future security and retirement.

The information collected from this ballot will be used, as much as is practical, to formulate a list of priorities for the purpose of drafting legislation that will effectuate those priorities. APEA's main lobbying effort during the session of the legislature will be the passage of this legislation. If the employees of the State of Alaska actually do opt-out of the Social Security system, assuming that they vote to withdraw, the benefit they may derive from that action will depend greatly on the success or failure of this legislation.

SUMMARY

Why do so many employees want to withdraw from the Social Security system? A recent survey conducted by APEA showed that 2/3 of the approximately 1500 employees who responded to that survey wanted to "opt-out" of Social Security. Why is this? Is the system really that bad? There is no question that some employees want to opt-out because they think that the system is "going broke." Others want to opt-out because they think that after they have established their 40 quarter eligibility they will be eligible for the maximum benefits provided by Social Security; for those employees there is no point to pouring more money into the system since they think they will not get any more out of it.

Both of these groups of employees are mistaken. In the first place, the system can never go broke. It is, quite literally, as strong as the U.S. Government itself. Or, to put it another way, it is as strong as the government's ability to collect taxes. What this means is that the government will simply raise Social Security taxes whenever the system needs more money to fund the programs it provides. As for the second group of employees who think they need only "40 quarters in," this report should clarify many of their misconceptions. However, it is safe to assume that the majority of employees who want to opt-out of Social Security do so because they feel they would receive greater benefits at retirement if the money that both they and the State are presently contributing to Social Security were invested, instead, in the Public Employees Retirement System.

There is no question that Social Security taxes are certain to increase dramatically in the future now that the taxable wage base is tied to the Consumer Price

Index. The tax (currently 5.85%) on the taxable wage base is also certain to increase. Although benefits are also tied to the Consumer Price Index, what these benefits will cost in the way of Social Security taxes to individuals cannot now be accurately predicted. With this "double indexing" of the Social Security benefit formula, some actuaries have projected Social Security benefit costs under the current system will reach as high as 30% to 50% of taxable pay in the years 2020 to 2050. That is, for many of us, eight to twelve times what we are now paying. Mr. A. H. Robertson, Chief Actuary of the Social Security Administration, in a speech he gave in October, 1975, said that, "Based on current projections of income to the Social Security system and benefit payouts, the current Social Security tax rates are insufficient to the extent that the Social Security Trust Fund could be depleted by 1982."

We do not get a realistic picture of what retirement benefits are worth if we compare future Social Security benefits with future P.E.R.S. benefits. The numbers that these kind of projections produce are so inflated, few are able to recognize their relative value. Considering the fact that Social Security benefits are now tied to inflation, it is fairly safe to assume that future benefits from that system will have a relative value equal to present benefits.

THE MAXIMUM BENEFIT PAYABLE TO AN INDIVIDUAL WHO RETIRED AT AGE 65 IN 1976 WAS $364 PER MONTH. THE SPOUSE OF THAT INDIVIDUAL WOULD RECEIVE 50% OF THAT BENEFIT, ALSO AT AGE 65.

It is difficult to imagine how anyone could live on this amount of money today. Nevertheless, many do, although it is common knowledge that the standard of living among retired persons, living entirely on Social Security, is one of the lowest in the United States. The monthly check from Social Security is barely

enough to provide shelter for these individuals, let alone food or any luxuries. So it is little wonder many of them end up living out their lives in some old-age home or turning their Social Security checks over to some other institution so they can survive. It is a national disgrace that we, a nation of incredible wealth, systematically do this to our parents and grandparents. Perhaps, consciously or subconsciously, this is why many people want to get out of Social Security. And, as most workers are unable to accumulate enough wealth during their working years to enable them to maintain their standard of living after retirement, it would be prudent indeed for any worker to take advantage of an opportunity that will assist him in providing security for his retirement.

Such an opportunity is now at hand. If the employees of the State of Alaska withdraw from the Social Security system and, if the money that both the employees and the State are now paying into Social Security is reinvested in the Public Employees Retirement system, retirement benefits from P.E.R.S. can be substantially improved.

AN EMPLOYEE WHO RETIRED FROM STATE SERVICE AFTER 30 YEARS WOULD RECEIVE 75% OF THE AVERAGE OF HIS THREE HIGH YEARS' EARNINGS IF THE BENEFIT FORMULA WERE INCREASED TO 2-1/2%. AN EMPLOYEE WHO RETIRED AFTER 20 YEARS' SERVICE WOULD RECEIVE 50%.

What may be even more important, especially to young employees, is that under the P.E.R.S. they are eligible for a pension while they are still relatively young. An increased benefit formula could provide the means for these employees to advance their education or to pursue other careers. In any case, it would provide any career employee a benefit which would allow him to retire with the confidence of knowing that his future is secure.

When considering withdrawal from the Social Security system, the question of portability invariably arises. That is, that benefit accrual is fully portable for employees who go from one employer to another, so long as those employers participate in the Social Security system. Whereas, under the P.E.R.S., when employees leave state service benefit accrual stops, although they still may be eligible to receive retirement and death benefits. It should be noted that, currently under the P.E.R.S., any employee who leaves state service before reaching retirement age and who has at least 5 years of credited service will still be eligible for a retirement pension at age 50 or 55 if he has not withdrawn his contributions from the system (ie. a deferred, vested member). His retirement benefit will be based on his years of credited service.

It should also be noted that, should this same employee die before retirement and after leaving state service, the surviving spouse may, at his or her discretion, receive either the lump sum death benefit or the 50% joint and survivor option, based upon the deceased employee's credited service. In addition, any person who is receiving a retirement benefit from the P.E.R.S. is also entitled to major medical insurance coverage. But they do not accrue credited service when they leave state employment and they are not eligible for any disability benefit after leaving state service.

However, under the latest revisions in the P.E.R.S., the death and disability benefits for employees who either die or become disabled while in state service and whose death or disability resulted from occupational causes, are <u>not</u> based on credited service. In the case of death, the surviving spouse will receive 40% of the deceased employee's monthly earnings at the time of death, until such time, if the deceased spouse had lived, he would have been eligible to retire. At that time the surviving spouse will receive the normal retirement pension

based on the deceased employee's three high-year earnings, with service credit up to his retirement age, had he lived.

In the case of disability, the disabled employee also receives 40% of his current monthly salary until he is eligible for retirement. AT that time, he receives the normal retirement benefit based on his earnings at the time of disablement. The period of disability constitutes credited service.

It is the opinion of this committee that if the State of Alaska withdraws from the Social Security system and if the recommendations described elsewhere in this report concerning death and disability benefits affecting employees who leave state service are implemented, employees who leave state service will have adequate death and disability protection if they are not covered by Social Security and until such time as they may be eligible to receive these benefits from Social Security.

Another area of concern for some people is that the Federal Government will change the law which allows public employers to withdraw from Social Security or they will use general fund revenues to support the benefits of the Social Security system. The reason the Federal Government allows public employers a choice in participating in Social Security is due to the fact that it is questionable whether it is constitutional for the Federal Government to force public employers to belong. Even if the law is changed, it is doubtful whether it would apply to public employers who had already withdrawn.

As to the question of using general fund revenues to support Social Security benefits; this is quite possible. If this occurred after the State of Alaska withdrew from the Social Security system, public employees would, in fact, be

paying for some Social Security benefits by virtue of the fact that they pay federal taxes. If this were to happen, it is fairly safe to assume that Congress would, at the same time, make some benefits available to individuals who are not in the system, especially when one considers that there are so many federal employees, and they are not in the Social Security system.

As previously noted in this report, Social Security benefits are now tied to the Consumer Price Index. This was done, of course, to prevent inflation from reducing the buying power of retired workers living on Social Security. Now that this feature has been in effect for several years, there has been considerable concern expressed in the U.S. Congress about the cost of maintaining that provision. Thus, there is some possibility that Congress might put a limit on how much Social Security benefits will be increased due to inflation.

The fact that there is no automatic cost of living allowance built into P.E.R.S. benefits after retirement must be considered in regard to withdrawal from Social Security. It should be noted, however, that there is a provision in the P.E.R.S. whereby the Commissioner of Administration may authorize a cost of living adjustment for persons receiving benefits from the P.E.R.S., provided the financial condition of the retirement fund can permit it.

There is no question but that the cost of Social Security is going to increase substantially from now on, and it should not have to be pointed out that both the employee and the employer will pay the cost. In the event of withdrawal from the Social Security system, it would not be too optimistic to assume that any savings to both the employees and the State would be used to provide cost of living adjustments to retired employees.

ESTIMATED MONTHLY P.E.R.S. RETIREMENT BENEFIT

AT AGE 55

Current Age	Years of Service at age 55	Est. P.E.R.S. Retirement benefit Current salary $15,300/yr	Est. P.E.R.S. Retirement benefit Current salary $20,000/yr	Est. P.E.R.S. Retirement benefit Current salary $25,000/yr	Est. P.E.R.S. Retirement benefit Current salary $30,000/yr
50	5	$201.21	$263.02	$328.77	$394.52
45	10	$538.52	$703.95	$879.94	$1055.93
40	15	$1081.00	$1413.07	$1766.33	$2119.60
35	20	$1928.82	$2521.33	$3151.67	$3782.00
30	25	$3226.50	$4217.65	$5272.06	$6326.47
25	30	$5181.35	$6773.00	$8466.25	$10,159.50

Assumptions:

(1) Future salary increases at annual rate of 6%.

(2) 2-1/2% benefit formula "x" 3 high year average

(3) Employee becomes age 55 while in state service.

(4) Employee does not elect survivor option.

Note: When comparing P.E.R.S. retirement benefits to those of Social Security, it should be noted:

(1) That full Social Security retirement benefits do not begin until age 65.

(2) That most employees will receive a Social Security retirement benefit at age 65 at some level, in addition to the P.E.R.S. benefit.

(3) That Social Security benefits are not subject to federal tax.

(4) That P.E.R.S. benefits are not subject to state and local taxes in Alaska.

(5) That P.E.R.S. benefits are not subject to federal tax until after retirement benefits paid to an individual exceed the individual's

(5) contributions to the P.E.R.S. system.

(6) That many employees will be in higher salary ranges before retirement age because of promotions.

(7) Employees who retire at age 55 under P.E.R.S. will receive payments from that system for 10 years (120 months) before Social Security benefits begin. That is, for employees with 30 years' service whose current salary is $15,300: $5181.35 x 120 months = $621,762.00 before Social Security benefits begin. For employees whose current salary is $30,000: $10,159.50 x 120 months = $1,219,140.00 before Social Security benefits begin. With a 4% annual cost of living adjustment, these 10 year totals would be increased by 148%. An employee whose current age is 30 and who is currently earning $15,300 annually, and who retires from the P.E.R.S. at age 55 at $5181.35 per month, would be receiving $7670 per month at age 65 if a 4% annual, post-retirement, cost of living adjustment were in effect when he retired.

Included in this report is a table from the Mercer Report showing estimated monthly Social Security retirement benefits at age 65. Although it is safe to assume that the Social Security benefits shown in that table are correct, based on the assumptions made, it would have been helpful if more information had been provided concerning Assumption #5, ie. "All workers remain eligible for Social Security benefit at some level." For instance: Line 1, Current age 30, in the column showing "Estimated Social Security Retirement Benefit -- Termination from OASDI ($400, to an individual/ $600 with spouse benefit).

The table shows that the worker terminated from Social Security at age 30. At that time he could have had as many as 10 or 12 years in the Social Security system while working for the state. He could then have continued working for the

state, after termination from Social Security, for another 20 years and retired under the P.E.R.S. at age 50. The question is; did that employee then go to work for an employer who was in the Social Security system? If he did, he would gain 15 more years of Social Security credits. The next logical question is: how many years did this worker contribute to the Social Security system and when, during his career, did he make the contributions which entitled him to a $600 retirement benefit?

It should also be pointed out that there are several areas in the Mercer Report where the information presented is not now valid: namely in the area of death and disability benefits under the P.E.R.S.

WILLIAM M.
MERCER

Table 1

Estimated Monthly Social Security Retirement Benefit
At Age 65

Current Age	Estimated Social Security Retirement Benefit - Continuation in OASDI	Estimated Social Security Retirement Benefit - Termination From OASDI	Social Security Retirement Benefit Lost in Termination	Social Security Retirement Benefit Lost - With Spouse Benefit
30	$ 3,824	$ 400/$600*	$ 3,424	$ 5,136
35	$ 2,793	$ 578/$867*	$ 2,215	$ 3,323
40	$ 1,968	$ 595/$892*	$ 1,373	$ 2,060
45	$ 1,423	$ 545/$817*	$ 878	$ 1,317
50	$ 1,068	$ 499/$748*	$ 569	$ 854

*with spouse's benefit

Assumptions

(1) Future increases in wage base at the annual rate of 6%.

(2) Future increases in the cost of living at the annual rate of 4%.

(3) Spouse is same age as worker.

(4) Worker's earnings in all years equal or exceed the wage base.

(5) All workers remain eligible for Social Security benefit at some level.

NOTE: In comparing the benefits of the alternative programs to those of Social Security, the column headed "Social Security Retirement Benefit Lost - With Spouse Benefit" should be used.

THE BOTTOM LINE

STRUCTURE OF THE SOCIAL SECURITY BENEFIT FORMULA:

It is almost impossible to read anything about the Social Security system which doesn't express grave concern about the future of that system. There is no questions but that the basic cause of this concern is the Social Security benefit formula. For many years it has been apparent that retired workers living on Social Security were one of the poorest classes of people in the United States. These people living on "fixed incomes" were going from bad to worse as each year went by because of increases in the cost of living. Finally, in 1972, Congress revised the Social Security law and established an automatic cost of living adjustment on Social Security retirement benefits by tying those benefits to the Consumer Price Index which reflects rises in the cost of living. At the same time, they also tied the taxable wage base to the benefit increases with the intent of thereby paying for the benefit increases. This is what is meant by "double indexing" of the benefit formula. However, as it turned out, when the benefits went up, for example: 4%, it was discovered that the taxable wage base had to be increased more than 4% to pay for the increased benefits.

The effect of this is that the taxable wage base is increasing at a greater rate than are the wages of the workers who are contributing to the system, and that every year more and more workers are not earning the maximum wage subject to Social Security tax. Consequently, the Social Security system is not collecting the revenue necessary to support the programs it provides. Although the tax rate which is currently 5.85% is scheduled to increase to 6.05% in 1978, 6.30% in 1981,

6.45% in 1986, and to 7.45% in 2011, the Social Security Administration has stated that the tax rates are insufficient to fund the benefits.

Of course, if the tax rates increase as scheduled and double-indexing of the benefit formula continues, the inequities which already exist in the system will be greatly increased. That is, that workers who earn the maximum wages subject to Social Security taxes will be paying for an even greater share of the benefits paid to workers who do not earn the maximum amount subject to Social Security tax. By comparison, the retirement benefits paid to a worker under the P.E.R.S. are directly proportional to what that worker pays into the system.

In view of the fact that a worker may retire from the P.E.R.S. as early as age 50, or even earlier in many cases; and

---because that worker will almost certainly return to work for an employer who is in the Social Security system; and

---because retirement benefits for career employees are substantially greater from the P.E.R.S. and will be even more so if the benefit formula is increased to replace any retirement benefit that may be lost to state employees after withdrawal from the Social Security system; and

---because short term staff employees would lose little, if any, Social Security retirement benefit; and

---because the Social Security retirement system contains numerous inequities which are discriminatory; and

---more importantly, because the cost of Social Security is certain to increase at a greater rate than benefits will be improved;

THIS COMMITTEE CAN FIND NO REASON OF SUFFICIENT CONCERN TO CAUSE STATE EMPLOYEES TO VOTE AGAINST WITHDRAWAL FROM THE SOCIAL SECURITY SYSTEM.

RECOMMENDATIONS IN GENERAL

I. It is recommended that the employees of the State of Alaska vote "yes" to the question "Should the employees of the State of Alaska terminate their participation in the Social Security system?", on the condition that the State of Alaska contribute a sum of money to the Public Employees Retirement System equal to, or greater than, the sum that the State is currently contributing to the Social Security system on behalf of its employees.

Such money shall be used, as much as is practical, to improve and/or replace those benefits which may be lost to employees because of their non-participation in the Social Security system, or as otherwise determined by the tally of the Advisory Ballot accompanying this report.

II. It is also recommended that the employees of the State contribute to the Public Employees Retirement system at least part of the money they are currently contributing to the Social Security system. Such amount shall be determined, as much as is practical, by the tally of the Advisory Ballot.

FACTORS WHICH MUST BE CONSIDERED BEFORE VOTING TO WITHDRAW FROM
THE SOCIAL SECURITY SYSTEM

BENEFITS: (A) RETIREMENT
(B) SURVIVORS' BENEFIT
(C) DEATH & DISABILITY BENEFITS
(D) MEDICAL BENEFIT

The following discussion describes what benefits are provided by Social Security and how withdrawal from the Social Security system may affect state employees' eligibility for these benefits. This discussion also describes what benefits these employees may be eligible to receive from the P.E.R.S. Also included here are recommendations for improvement and/or replacement of benefits which may either be lost or decreased for some employees because of withdrawal from the Social Security system.

(A) RETIREMENT

1. SOCIAL SECURITY

---The normal retirement age for workers covered by Social Security is 65 years. A worker may retire at age 62 with a penalty of 5/9 of 1% for each month that he retires before his 65th birthday.

---To be "fully insured," a worker must have one "quarter of coverage" for each year after 1950 (or, if later, the year he reaches age 21) or before the year death occurs or, if earlier, the year he reached age 62.

---The maximum number of "quarters of coverage" required is 40. The minimum number required is 6. A quarter of coverage is a calendar quarter in which a worker has earned at least $50 in wages for employment covered under this law.

---The "taxable wage base" is the maximum amount of annual earnings subject to Social Security tax and used to calculate the average monthly wage. The taxable wage base in 1976 was $15,300. The Social Security tax in 1976 was 5.85% x $15,300 = $895.

---The monthly retirement benefit payable to an individual at full retirement age is determined from a "schedule" based on the "average monthly wage."

---The "average monthly wage" is the average wage subject to Social Security tax earned by a worker over his career after 1950.

---The "Primary Insurance Amount" is the monthly benefit payable to an individual at full retirement age before application of any delayed retirement credit. Such amount is determined from a schedule based on the Average Monthly Wage.

This means that an employee's earnings (up to the maximum taxable wage) for each year after 1950 or, if later, the year he reaches 21, up to the year he is 62, are totaled and then divided by that number of years. (If an employee becomes 21 years of age after 1950, that is 41 years until he becomes 62. It is also 164 quarters of coverage: 41 x 4 = 164.) There is a provision in the law to drop from this total the five lowest earning years, which means that the average monthly wage is based on 36 years of employ ment That may be important, especially if, in those years, the contribution to Social Security was $0. The result of all the addition, subtraction and division is (when the total is divided by 12 months) the "average monthly wage."

The maximum average monthly wage possible up to 1976 was $585. The maximum retirement benefit, payable to an individual who retired in 1976, was $364.

(i.e. primary insurance amount.) If the average monthly wage was one-half of the maximum possible (1/2 of $585) or approximately $293, the benefit from Social Security would be $229. That is 78% of the average monthly wage, whereas $364, the maximum benefit, is only 62% of $585. In this way, Social Security retirement benefits are far more profitable for those workers who do not earn the maximum amount subject to Social Security tax.

WIFE'S BENEFIT

A wife or dependent husband or a retired worker receives 50% of the spouse's benefit at age 65. A wife may receive this benefit at age 62, but her benefit will be reduced by 25/36 of 1% for each month before she is 65 years old that she receives the benefit. A wife may receive her benefit at any age if she is caring for a child entitled to a child's benefit. Payments cease when either spouse dies, or when they are divorced after less than 20 years of marriage, or there is no child entitled to a child's benefit and the wife is under age 62.

CHILD'S BENEFIT

Every child of a worker who is entitled to a retirement benefit will receive 50% of the worker's benefit until age 18, or age 22 if the child is a full-time student. Payments cease when the child either dies, is married, or is no longer a student. If the child's benefit is based on his being disabled, the benefit stops the third month following the month he ceases to be disabled.

There is also a maximum limit that Social Security will pay to any family. That limit is approximately 180% of the retirement benefit. For 1976 that figure was 180% x $364 = $655.

TO SUMMARIZE

A worker needs at least six (6) quarters of coverage, but not more than 40 quarters of coverage, to be eligible for a Social Security retirement benefit. The amount of that benefit is determined by the employee's "average monthly wage."

Because the taxable wage base is much greater during the worker's later years, his average monthly wage will be higher if he earns quarters of coverage just before reaching age 65.

The Social Security retirement benefit formula favors workers in the lowest income bracket; that is, those workers get a higher return on their money than do workers in higher income brackets. The taxable wage base on which Social Security contributions are based is currently $15,300. By 1980, based on assumptions regarding wage increases, it is scheduled to climb to $21,600. There is also a bill under consideration by the U.S. House Social Security Subcommittee which will further increase the taxable wage base to $25,000 without any guarantee that benefits will be raised proportionately. This trend will have a greater impact on Alaskans than on workers in other states since wages are higher here.

Many employees in state service are either already vested in Social Security or will become vested in that system in the future, regardless of Alaska's withdrawal from the program, because a high percentage of state employees work for the State for less than four years. However, some employees, because of their long-term employment with the State of Alaska after withdrawal from the Social Security system, will lose some Social Security retirement benefit.

This may happen to an employee who is vested in Social Security before the State withdraws from that system but who continues in state employment for some time (possibly 10 or 20 years) after withdrawal from Social Security, and who does not contribute to Social Security after leaving state service.

If an employee retires under P.E.R.S., the Social Security retirement benefit that he would receive would be based on the "average monthly wage" he earned while he was contributing to the Social Security system. It follows, then, that the employee would receive a smaller Social Security retirement benefit at age 65 than he would have received had he remained in that system until his retirement age. This is true since the "average monthly wage" would have been higher if the employee had contributed to Social Security during his highest-earning years of employment.

However, if that employee left state service at age 40 or 50 or even 55 years of age (regardless of whether he received a retirement benefit from P.E.R.S.), and if he then went to work for an employer covered by the Social Security system, that worker would then add quarters of coverage to his Social Security earnings which would increase his average monthly wage. This is especially true at this time because the taxable wage base will normally be much higher during a worker's later years of employment. Consequently, an employee who leaves the Social Security system and later returns to it may receive, on retirement, a benefit only slightly reduced.

Also, it must be pointed out that single workers and married working women pay into the Social Security system for retirement benefits they may never receive.

That is, single workers pay for spouse and child benefits that they cannot possibly collect because they are not married. Also, a married working woman pays for full benefits but she can only receive 50% of her husband's benefit unless he dies. At that time she receives her own, or his full benefit, whichever is greater. For this reason many widows and widowers who are retired on Social Security live together without being married. As a widow or widower, each receives one full retirement benefit; if they get married, the wife receives only 50% of her husband's benefit. This applies to every woman, whether or not she ever worked or contributed to Social Security.

(A) RETIREMENT

2. P.E.R.S.

Unlike the Social Security system, the retirement benefit that an employee receives from the Public Employees Retirement System is directly proportional to what that employee pays into the system. State employees are currently contributing four and one-quarter percent of their earnings to the P.E.R.S. An employee is vested in this system after five years service. The benefit formula is: 2% X number of years of service X the average of three consecutive high year earnings. Normal retirement age after vesting is 55 years, with an option for retirement at age 50. An employee who elects to retire before his 55th birthday will lose 1/2 of 1% of his normal benefit for each month that he retires before his 55th birthday. That is to say, a 6% penalty for each year of early retirement. Also, it should be noted that any employee may retire without penalty after 30 years of service regardless of age, except that peace officers, firemen, correctional officers, and Fish and Game field biologists and technicians may retire after 20 years of service without penalty, regardless of age.

It is also worth noting that teachers and other employees who are required to hold a teaching certificate have their own retirement system. This system is the "Teachers Retirement System" and these employees may retire without penalty after 20 years of service regardless of age.

Employees who retire from state service under the P.E.R.S. may elect, at their at their own option, any one of three survivor options. Ordinarily, upon death after retirement, there will be no continuing benefit for the spouse unless the employee applies for it 30 days prior to retirement. Under each of these options, normal retirement benefits are actuarially reduced, with the spouse continuing to receive payment after the employee's death in accordance with the plan that is chosen.

An employee who retires and wants to provide a continuing benefit to the spouse in the event of his own death may elect:

A. 75% joint and survivor option; or

B. 50% joint and survivor option; or

C. 66 and 2/3% last survivor option.

An employee who elects either (A) or (B) above will have his normal retirement benefit actuarially reduced based on the age of the spouse at the time of the employee's retirement. Upon the employee's death, the spouse will receive either 75% or 50% of his reduced pension for life, whichever was chosen before retirement.

An employee who elects (C) above will have his normal retirement reduced also but, upon the death of either employee or spouse, the survivor receives 66 and 2/3% of the reduced benefit for life.

The difference between (C) and either (A) or (B) is that retirement benefits under (A) and (B) will not change on the death of the spouse. However, under option (C), either survivor receives 66 and 2/3% of the reduced benefit.

In selecting any of these options, an employee should keep two general principles in mind: (a) the lower the age of the spouse at the time the employee retires, the greater the reduction in the normal retirement benefit; and (b) the lower the continuing payments to the spouse, the smaller the reduction will be to normal retirement benefits.

Another option is also available under the P.E.R.S. called the "level income option," whereby employees who retire under the P.E.R.S. before they are eligible for Social Security retirement benefits, may have their P.E.R.S. benefit increased until their Social Security benefit payments begin. At that point, the P.E.R.S. benefit will be reduced proportionately. The result is a more "level income" throughout the retirement years.

It should be noted that any employee who leaves state service may withdraw all of his contribution plus interest from the system. Of course, if he does this he will not be eligible for any benefits. Additionally, there is a provision in the P.E.R.S. regulations whereby any employee who leaves state service and withdraws his contributions may be reinstated in the system at a later date without penalty, if he pays back his contributions plus interest.

(B) SURVIVORS' BENEFIT

1. SOCIAL SECURITY

A widow or dependent widower (who received at least half of his support from his wife) will receive at age 65 100% of the "primary insurance amount"

the deceased spouse would have received at normal retirement age had he lived. The survivor may receive this benefit at age 60 with a penalty reduction of approximately 1/2 of 1% for each month that the survivor receives the benefit before she or he attains age 65. This benefit stops when the surviving spouse dies or remarries.

A widow not entitled to a widow's benefit may be entitled to a mother's benefit. (A widow must be at least 60 years old to receive a widow's benefit.) A mother's benefit is payable to the widow of a worker who dies while fully insured (40 quarters of coverage) or currently insured (6 quarters of coverage in the 13 quarters period ending with the quarter in which the death of the worker occurred) provided the widow is:

(a) not married

(b) not entitled to widow's benefit

(c) has in her care a child of her deceased husband entitled to a child's benefit.

A woman need not be age 60 to qualify for a mother's benefit. The mother's benefit is equal to 3/4 of the "primary insurance amount" the deceased spouse would have received at normal retirement, had he lived. The mother's benefit ceases when she dies or remarries, or becomes entitled to a widow's benefit, or no longer has a child who is entitled to a child's benefit.

Social Security also provides a child's benefit for children under 18 years of age or 22 years of age, if the child is a student. Eligibility requirements and benefits are similar to a mother's benefit. That is the worker who dies must be fully or currently insured.

Parents are also eligible for a Social Security benefit if they are dependent

(receive 1/2 of their support) on a worker who dies. For the parent to be eligible, the worker who dies must be fully insured.

In addition to the benefits already mentioned, Social Security pays a one-time lump sum benefit of $255.00 to the widow or widower of a worker who dies while fully or currently insured.

MAXIMUM LIMIT OF FAMILY BENEFITS

The total monthly benefit payable to any family from Social Security is approximately 170% of the primary insurance amount.

(B) SURVIVORS' BENEFIT

2. P.E.R.S.

If an employee's death is the result of non-occupational causes, and if he has at least five years of service, his beneficiary may elect a lump sum death benefit or the 50% joint and survivor option, based on credited service. If death occurs before he has one year of service, his beneficiary will receive a refund of his contribution, plus interest.

LUMP SUM DEATH BENEFIT (Non-occupational Cause)

After one year of service, but less than five years of service, an employee's beneficiary will receive $1000.00 plus $100.00 for each year of service up to the time of his death, plus the balance of his contributions to the fund.

50% JOINT SURVIVOR OPTION (Non-occupational Cause)

After five years of service, an employee's beneficiary will receive 50% of: 2% X the average of his three high consecutive years' earnings X the number

of years service he had until the time of his death. This amount is subject to actuarial reduction which is based on the age of the beneficiary or beneficiaries.

Additional death benefits are payable to beneficiaries of employees in the P.E.R.S. who are covered by medical insurance and/or collective bargaining agreements. In most cases, these benefits are lump sum payments.

P.E.R.S. DEATH BENEFIT BEFORE RETIREMENT

If death is a result of occupational causes in the performance of an employee's duties while in state service, the surviving spouse will receive 40% of the deceased employee's monthly compensation at the time of death, until such time, if the deceased employee had lived, he would have been eligible to retire. At that time the surviving spouse will receive the normal retirement pension based on the deceased employee's 3 high year earnings, with service credit up to his retirement age, had he lived. If there is no surviving spouse, the pension will be paid to surviving children who are under 19 years of age or 23 years of age if full-time students. Payments cease when there is no surviving spouse or child.

RECOMMENDATION

To be eligible to receive any death benefit from Social Security, a widow must be at least 60 years old unless she has a child who is entitled to a child's benefit. Even then her deceased spouse must have died while "fully" or "currently insured".

In the event the State of Alaska withdraws from the Social Security system, the employees most likely to lose this benefit are employees who are not vested

under Social Security and who die while in state service. These employees may often be young people who may very well have children. Unless these employees have been in state service for a considerable number of years, their benefit under the P.E.R.S. would be less than what they could receive from Social Security had they been covered by that system. It is assumed the employee dies from non-occupational causes.

Therefore, it is recommended that, should the State of Alaska withdraw from the Social Security system, the following revision be made in the P.E.R.S.:

Beneficiaries of employees who have five years or more of credited service, who die while in state service before retirement, and whose death results from non-occupational causes, shall be provided the same death benefit as provided when death is a result of occupational causes.

The above recommendations will certainly provide greater benefits to beneficiaries of employees who die while in state service than are provided from Social Security. This is especially true when one considers that under Social Security the surviving wife must be 65 years old to get a full benefit unless she has dependent children. Also, the husband will get nothing from Social Security if his working wife dies and he was not dependent on her while she was alive.

Under the P.E.R.S. a spouse will receive a pension regardless of his or her age and whether or not he or she was dependent.

It should be noted that under P.E.R.S., if there is no surviving spouse, this same pension will go to a surviving minor or minors (equally divided) until they

are age 19 or age 23, if full-time students.

The most difficult situation that we have to deal with is: Should the P.E.R.S. provide a death or disability benefit to survivors or dependents of individuals who either die or become disabled after they leave state service but may not be eligible for death or disability benefits from Social Security because of the State's withdrawal from that system?

When answering this question, it should be remembered that even under Social Security a worker must be both "fully" and "disability" insured in order for him or his dependents to be eligible to receive any disability benefit. In the case of death, a worker must be either "fully" or "currently" insured, for his dependents to be eligible for death benefits.

Nevertheless, there are undoubtedly some employees who are presently eligible for Social Security death and disability benefits who will lose eligibility for some of these benefits after they leave state service and after the State has withdrawn from the Social Security system.

For example, let us assume:

1. A worker who is fully insured under Social Security leaves state service and then dies. What benefits are lost?

    (a) The widow or widower of a dependent worker will lose no eligibility for retirement benefits at age 65 because of withdrawal from Social Security.

(b) The widow will still be eligible for a mother's or a child's benefit.

2. A worker who is fully insured under Social Security leaves state service and then becomes disabled.

   (a) The worker or his dependents will lose no disability benefits if the worker had 20 quarters of coverage during the 10-year period prior to becoming disabled. That is to say, a worker is still eligible for Social Security disability benefits for five years after he stops contributions to that system.

Summarizing the above examples, we find that the benefits lost to fully insured individuals who leave state service after withdrawal from the Social Security system depends on their "disability" insured status. If these individuals, after leaving state service, go to work for an employer who is in the Social Security system, and if they had lost their "disability" insured status by the time they left state service, they would again be "disability" insured under Social Security in 5 years.

Another question that must be considered is the problem of employees who leave state service and are not covered by Social Security.

For instance: An employee enters state service after Alaska withdraws from Social Security and never contributes anything to that system. There are two major concerns regarding these employees.

1. Many of these employees who leave state service will have

dependents who need protection, and

2. What meaningful protection can the P.E.R.S. provide for these employees that is fair and equitable, not only to those employees who leave state service but to the rest who stay with the State.

This Committee recommends that in the event the State of Alaska withdraws from Social Security system and, if the majority of employees, as indicated by the tally of the Advisory Ballot accompanying this report, vote to provide death and disability protection for employees who leave state service before retirement, the following revisions be made in the P.E.R.S.:

When considering the following recommendations it should be remembered that employees in state service pay for these benefits every month.

Employees who, after completing at least five years of credited service and who then leave state service, shall remain eligible for death and disability benefits from the P.E.R.S. for a period not to exceed ten years from the effective date of their termination from state service. The amount of death or disability benefit shall be based on the employee's earnings at the time of termination from state service.

Such eligibility shall be in effect only when all of the following requirements are complied with:

1. The employee is not eligible for retirement under P.E.R.S.

2. The employee or his beneficiaries must provide proof of disability or death as required by the Division of Retirement.

3. The employee must leave his contributions in the P.E.R.S. when he leaves state service.

4. The employee must make contributions to the P.E.R.S. on a monthly basis up to the time of his death or disability. The amount of such contribution shall be determined by the Division of Retirement. Such amount shall be the cost of those benefits, determined on an actuarial basis (i.e. the same amount that employees in state service will be required to pay, if the recommendation is implemented).

   The employee may authorize the Division of Retirement to make monthly deductions from his contributions being held in the Retirement fund.

   The employee shall refund to the P.E.R.S. those deductions with interest when he becomes eligible for retirement under the P.E.R.S.

5. Benefits under this section cease under the same conditions affecting employees in state service.

It is also recommended that the provision which presently exists in the P.E.R.S., (section 39.35.420) insofar as it affects a deferred vested member of the P.E.R.S., be maintained. That is; if the death of a deferred vested member occurs before appointment to retirement and after completing at least 5 years of credited

service, the surviving spouse may, at his or her discretion, receive either the lump sum death benefit or the 50% joint and survivor option based on credited service to the date of the employee's termination from state service.

However, no employee may simultaneously receive a pension under more than one section of the P.E.R.S.

(C) DISABILITY BENEFIT

1. SOCIAL SECURITY

To be eligible to receive any disability benefit from Social Security an individual must be unable to engage in any substantial gainful activity by reason of medically determined physical or mental impairment which can be expected to result in death, or has lasted, or can be expected to last, for a continuous period of not less than 12 months. In addition, a worker must be "fully insured", that is, have 40 quarters of coverage (ten years) and also have had not less than 20 quarters of coverage (5 years) during the ten years prior to becoming disabled. However, special exceptions apply in the case of individuals who become disabled prior to age 31 and in the case of the blind. A worker must wait 5 months before he receives any disability payment.

The disability benefit payable from Social Security is equal to the normal retirement benefit computed as though the worker had attained age 62.

The wife or dependent husband of a disabled worker receives 50% of the spouse's benefit at age 62. A wife may receive a 50% benefit at any age if she is caring for a child entitled to a child's benefit. A child of a disabled worked is entitled to a 50% benefit also, if he is under 18 years old or 23 years old, if he

is a student.

Maximum family benefit is approximately 170% of the disabled worker's normal retirement benefit.

(C) DISABILITY BENEFIT

2.. P.E.R.S.

Eligibility:

If an employee incurs a physical or mental condition which permanently prevents him from satisfactorily performing the duties of his position, or any other position for which he is qualified by education and training and which is made available by his employer, and if he is not eligible to retire:

Non-occupational disability (with 5 or more years credited service)

Benefit: 2% X (the average of the 3 consecutive high year earnings) X number of years credited service.

OR

Occupational disability (no minimum service requirement)

Benefit: 40% of current monthly earnings while disabled or until employee is eligible for a retirement benefit. Service credit granted for entire period of occupational disability when computing retirement benefit. Upon the death of a retired employee who is receiving or is entitled to receive an occupational disability pension, a surviving spouse's pension equal to 40% of his average

monthly compensation shall be paid to the surviving spouse. If there is no surviving spouse, the survivor's pension shall be paid in equal parts to his children who are under 19 years of age or, if full-time students, under 23 years of age. On the date normal retirement would have occurred if the employee had lived, monthly payments shall equal the monthly amount of the normal retirement benefit to which the employee, had he lived and continued his employment until his normal retirement date, would have been entitled with an average monthly compensation as existed at his death and the credited service to which he would have been entitled.

It should be noted that under Social Security there is no distinction between occupational and non-occupational disability, but in order to receive any benefit a worker must have 40 quarters of coverage (10 years) and half of this must be in the 10 years prior to becoming disabled.

In other words, employees in state service now, who are eligible for a Social Security disability benefit, if they become disabled, would still be eligible for that benefit for five years after withdrawal from the Social Security system. They would also receive a disability benefit from P.E.R.S.

RECOMMENDATION

It is therefore recommended that, should the State of Alaska withdraw from the Social Security system, the following revision be made in P.E.R.S.:

Employees in state service who become disabled after completing 5 or more years of credited service and when such disability has resulted from non-occupational

causes shall be provided the same disability benefit as provided when disability has resulted from occupational causes

(D) MEDICAL BENEFIT

1. SOCIAL SECURITY

The full level of Social Security hospital insurance benefits is available to any individual who is age 65 and is receiving any retirement benefit from Social Security. In addition, supplementary medical insurance benefits are available, on an elective basis, to any individual who is eligible for hospital insurance. This means that any individual who is eligible for Social Security retirement benefits at any level will lose no Social Security medical care benefits because of withdrawal from the Social Security system. However, it must be noted that individuals who retire early are not eligible for Social Security medical benefits until they reach age 65.

It is possible that some individuals who become disabled while employed by the State or after leaving state service may not be eligible for Social Security medical benefits. Medical benefits are provided for any individual who is under age 65 and has received Social Security disability benefits for at least 2 years. That is to say, the individual must be both fully and currently insured.

RECOMMENDATION:

It is the opinion of this Committee that, should the recommendations given in the previous section of this report affecting employees who leave state service be adopted, no other changes be made in the P.E.R.S. affecting these employees.

(D) MEDICAL BENEFIT

2. P.E.R.S.

Employees who retire from state service receive the same medical coverage that they received before retirement.

RECOMMENDATION:

As most employees will be eligible for Social Security medical benefits after retirement based on either service with the State or service with other employers and, because employees who retire from state service receive medical insurance coverage from the P.E.R.S., no changes are recommended in the P.E.R.S. affecting employees who retire from state service.

TEMPORARY EMPLOYEES

Temporary employees do not participate in the P.E.R.S. However, they do contribute to the Social Security system and thus, earn "quarters of coverage" in that system. Nevertheless, because the turnover rate of these employees is extremely high, it is not desirable to include them in the P.E.R.S. This would increase the administrative burden of that system substantially. It is, however, desirable to provide some benefit coverage for these employees.

RECOMMENDATION:

This Committee recommends that, in the event the State of Alaska withdraws from the Social Security system, the State of Alaska shall provide a lump sum death benefit to beneficiaries of temporary employees who die while in state service. The amount of such benefit shall be equal to one full year's salary computed as

though the employee had worked 12 continuous months.

National Governors' Association
HALL OF THE STATES • 444 North Capitol Street • Washington, D.C. 20001 • (202) 624-5300

Governors' Bulletin

Editor: Bernard Chabel

October 14, 1977 77-41

FLOOR ACTION ON SOCIAL SECURITY EXPECTED NEXT WEEK

The House is expected to consider legislation (HR 9346) next week that would mandate coverage, beginning in January 1982, for all federal, state, and local government and nonprofit organization employees under the social security system. The measure, which was reported to the floor by the Ways and Means Committee, also provides for increased social security taxes and an accelerated increase in the wage base against which these taxes are levied. Currently, states and localities have the option of including their employees under social security. About 30 percent of all state and local employees are not included in the system.

Mandating coverage of federal, state, and local government and nonprofit organization employees would add an estimated 6 million workers to the system. Such mandatory coverage, however, creates three major problems for state and local governments. Many observers feel mandatory coverage is an unconstitutional intrusion by the federal government. Also, employees of six states and hundreds of local units of government currently are not covered. These governmental units would experience a major fiscal impact because they would be compelled to make social security contributions for all their employees beginning in January 1982. All state and local governments also will feel the effects of the proposed increases in the tax rate and wage base. Finally, over 6,700 state and local pensions plans now in operation would be affected. Many of these plans provide a benefit structure that is integrated with social security benefits. A significant number of plans, however, would have to be completely redesigned to mesh with social security. In some cases, such integration would entail constitutionally or statutorily prohibited reductions in employee benefits under state and local plans to reflect new benefits available through social security.

An amendment to delete the mandatory coverage provision will be offered by Rep. Joseph Fisher (D-Va.), but is not expected to pass without vigorous support from state and local government leaders. Governors are urged to inform their House delegations immediately of the consequences of mandatory coverage on their states.

CARTER SIGNS JUVENILE JUSTICE EXTENSION

President Carter signed the Juvenile Justice and Delinquency Prevention Act extension (PL 95-115) on October 3. The bill extends the current law for three years, with annual authorizations of $150 million in FY '78, $175 million in FY '79, and $200 million in FY '80. The measure continues the current 10 percent state match requirement for FY '78 and allows states to use up to 15 percent of their annual formula allocation for planning and administration. However, beginning in FY '79 the match requirement will be eliminated but the states will be required to match administration and planning funds on a dollar-for-dollar basis up to 15 percent of the state's annual allocation formula.

RESOLUTION OF UR PENALTY CONTROVERSY

Congress last night approved and sent to the White House legislation to resolve the nursing home utilization review controversy. The bill, HR 3, would waive unconditionally any penalties assessed against a state for allegedly unsatisfactory utilization control surveys in quarters before calendar 1977. The bill also unconditionally waives any penalties for unsatisfactory reviews in calendar 1977 quarters, if the state is in compliance at the end of the October-December 1977 quarter.

The bill restructures the penalty to be levied against a state not in full compliance for the October-December 1977 quarter so that the one-third reduction of federal matching funds will be applied only to the proportion of Medicaid recipients in allegedly inadequately surveyed facilities compared to the total of Medicaid recipients whose facilities are required to be surveyed. Full compliance, under the bill, would be redefined to be actual review of all large facilities and at least 98 percent review of all other covered facilities, so long as a good faith effort was made to review all facilities. The HEW secretary could waive penalties if he finds the above standard was not met for technical reasons.

CONTINUING RESOLUTION FOR LABOR-HEW MONEY BILL SIGNED

The House and Senate yesterday agreed to a resolution that continues providing funds for the programs and employees of the Departments of Health, Education and Welfare, Labor, and several smaller agencies through the end of October. President Carter promptly signed the measure. The action gives House and Senate negotiators more time to resolve the Medicaid abortion funding issue deadlock which has tied-up the $60 billion fiscal 1978 appropriations bill for months.

Both the House and Senate would allow the federal government to pay for abortions under the Medicaid program if the woman's life is endangered by a continued pregnancy. The Senate language also authorizes abortion funds in cases of rape or incest "or if the mother or fetus would suffer serious health damage." The House language is more restrictive. It would permit only "medical procedures" such as dilation and curettage "performed before the fact of pregnancy is established" in cases of rape and incest which are reported to law enforcement authorities and would eliminate the "serious health damage" clause.

HOUSE APPROVES INLAND WATERWAYS USER FEES

The House this week approved legislation (HR 8309) to impose a fuel tax on commercial users of inland waterways. The measure, approved 331 to 70, would impose a tax of four cents per gallon as of October 1, 1979, with the levy climbing to six cents per gallon on October 1, 1981. The House bill must be reconciled with a Senate-passed measure that would charge barge users 100 percent of the annual cost of operation and maintenance of river projects and 50 percent of the construction costs for new ones. Those fees would be phased-in over a ten-year period. The House-approved user tax was attached to a bill authorizing $432 million for the replacement of Locks and Dam 26 on the Mississippi River at Alton, Illinois. President Carter warned that without the user fee he would veto any measure funding the project.

MANPOWER SEMINAR

The NGA Employment and Vocational Training Program will hold a national manpower seminar October 26-28 in San Francisco. The seminar will emphasize state manpower officials' participation in discussing key issues in current and proposed legislative agendas. Those interested in participating should contact NGA.

RECEIVED
OCT 19 1977
LEGISLATIVE AFFAIRS
AGENCY

The new attempts to mandate federal, state and local coverage is an effort to restore short-range solvency to the social security system. In recent years, benefits have been outpacing tax receipts at a growing rate. Social Security officials predict a deficit of about $5.6 billion in 1977, following losses of $3.2 billion last year and $1.2 billion in 1975. At this rate, the reserve funds will be depleted within 5 years.

1. The Committee's proposal to mandate social security coverage of state and local government employees is unconstitutional.

--A 1939 Ways and Means Committee report stated that:

> "no method has yet been devised which would overcome constitutional difficulties and also protect the old-age insurance system against adverse selection."

--The U.S. Supreme Court supports the view that Congress cannot tax governmental functions. In New York v. United States (326 U.S. 572), Chief Justice Stone stated that no non-discriminatory tax could be levied on revenues from taxes.

--The U.S. Supreme Court, in National League of Citires v. Usery (426 U.S. 833, 1976) stated:

> ...that when Congress seeks to regulate directly the activities of States as public employers, it transgresses an affirmative limitation on the exercise of its power akin to other commerce power affirmative limitations contained in the Constitution.

2. The Committee proposal for mandatory coverage of state and local government employees would disrupt existing retirement systems established by responsible governments.

--70 percent of state and local government employees are now covered by Social Security. Those employees enjoy social security benefits which are integrated with existing retirement plans as a matter of state or local policy. Mandating coverage for the remaining 30 percent of employees will force wholesale changes in state and local law.

--States and local governments cannot reduce pension benefits for state and local government employees due to constitutional restrictions or court decisions (see 90 Harvard Law Review 992). Imposition of social security benefits would thus provide windfall benefits to some employees, allowing many employees to retire to a higher income than their last year salary.

3. The Committee proposal for expanded coverage would place a federal tax on state and local governments which have not joined the Social Security System.

--The cost to state and local governments is estimated at $27 billion by 1984. Although only 5 states do not have social security coverage, states might be affected if their localities were forced into the system. Many states either directly or indirectly subsidize local employee benefits.

--This cost factor will be applied to state and local governments which can least afford to incur the added costs. Indeed, some jurisdictions are considering withdrawing from Social Security in order to save money.

NATIONAL CONFERENCE OF STATE LEGISLATU[illegible]

ACTIO[illegible]

October 5, 1977

CONTACT: Jeff Esser or Paul Sweet
(202(624-5408

THE ISSUE: Federal Mandate To Force States and Localities to Join The Social Security System

STATUS: The U.S. House Ways and Means Committee has adopted an amendment to the social security financing bill which would force states and localities to join the social security system. The bill (HR 9346) would mandate universal coverage of all federal, state and local government employees under the system by 1982.

ACTION URGED: The National Conference of State Legislatures requests your assistance in contacting the members of Congress from your state, asking them to vote against federal-mandated coverage of state and local employees. NCSL supports Congressional efforts to improve the social security system so that state and local decisionmakers will voluntarily elect to participate; however, we feel that coverage and the option to withdraw should remain as it is under current law. Although Congress clearly has the authority to mandate coverage of federal employees, there are constitutional prohibitions on taxing state and local governments as employers.

BACKGROUND: Because of these prohibitions, the current law does not automatically cover all state and municipal employees as it does all private sector firms and their employees. Those state and local governments that participate in the system do so on an optional basis.

-more-

ALERT

444 North Capitol St., N.W. • Washington, D.C. 20001 • 1405 Curtis St. • Denver, Colorado

REGISTRATION FORM

NCSL Pensions Task Force Meeting

Hall of the States -- 2nd Floor Conference Room
444 North Capitol Street, N.W., Washington, D.C.

October 17-18, 1977

Name ______________________________ Title ____________________________________

Mailing Address ____

City ___________________________________ State _____________________ Zip ________

Telephone Number :Area Code ____________________ Number _____________________

Arrival Date ___________________________ Arrival Time _____________________

Departure Date _________________________ Departure Time ___________________

Hotel Accomodations Required: _____ YES _______ NO / LATE GUARANTEE _______ YES _____ NO

*** We have reserved rooms at the following hotels on a first-come-first-served basis. Please indicate your preference:

Quality Inn Capitol Hill -- 415 New Jersey Avenue, N.W.

$36 Single ___________________ $46 Double ___________
Reservations deadline September 19, 1977

Capitol Hilton Hotel -- 16th and K Streets, N.W.

$45 Single ________________ $57 Twin _____________
Reservations deadline September 30, 1977

Please return this form to the following address:

MRS. BARBARA SIMCOE
National Conference of State Legislatures
444 North Capitol Street, N.W.
2nd Floor
Washington, D.C. 20001
(202) 624-5409

(If you do not plan to arrive by 4 p.m. and want to guarantee your room, please indicate your approximate arrival time at the hotel. If you guarantee your room and do not arrive or cancel your reservation, you will be responsible for payment. NCSL will not be responsible for any guarantees.)

***There will be no registration fee for this meeting.

PENSION NEWSLETTER

Vol. I Number I September 1, 1977

A Publication of The National Conference of State Legislatures

REVIEW OF STATE LEGISLATION

State legislators are becoming increasingly aware of the problems of state pension plans. The 1977 legislative sessions saw major efforts on the part of legislators to deal with these complex issues, including growing unfunded liabilities, adequacy of retirement income, and disparate accounting methods between different state systems.

To get a handle on some of these problems, many legislatures have authorized comprehensive studies of their pension systems. By initiating these studies, legislators have been able to obtain detailed information on their systems, and identify areas where legislative action is needed.

Studies

Utah and Virginia are among the states studying whether benefits should be integrated with Social Security. Hawaii recently completed a similar study which recommended that the state continue participation in Social Security by adopting an integrated benefit formula whereby Social Security benefits are calculated in the determination of retirement income. New Jersey recently authorized a study on cost comparisons of three different actuarial cost methods. Wyoming and Tennessee are examining the feasibility of their states paying full contributions. North Dakota is studying the cost of converting the present North Dakota Public Employees Retirement System from "money purchase" to "fixed benefit formula." The New Mexico Legislature has authorized a major $250,000 study on both their public employees and teachers retirement plans. Other states authorizing studies include: Arizona, Colorado, Idaho, Iowa, Kentucky, Maryland, Massachusetts, Michigan and Nebraska.

Commissions

States are also looking at permanent pension commissions as mechanisms for studying pension issues, analyzing fiscal implications of proposed legislation and developing recommendations for improvements. In addition to the eleven existing commissions, six states (California, New Jersey, Michigan, Nevada, West Virginia and Pennsylvania) have created special interim committees or introduced legislation to establish permanent pension commissions during the 1977 sessions.

1977 Legislation

In addition to bills which have fallen into the category of basic pension housekeeping measures, there has been some significant pension legislation enacted

during the 1977 sessions.

South Carolina passed legislation which if passed by referendum will become an amendment ot their constitution. The bill stipulates that increased retirement benefits shall not be paid unless funding for the increase has been provided. It also requires that all state retirement programs operate on a sound actuarial basis.

In Tennessee, legislation was enacted which requires that any bill which creates financial liability on their retirement system must include funding for such liabilities. This legislation also requires that any bill reported by the council must be accompanied by an appropriation bill or appropriate amendment which provides the first years' funding. Other states are following this same trend by stipulating that fiscal notes accompany all pension legislation.

California has been able to get a better accounting of their pension systems through the work of an actuary who has been hired as a consultant to the Senate Committee on Public Employment and Retirement. In addition to testifying at committee hearings, the actuary provides cumulative annual cost/unfunded liability studies on bills before the committee. A pension study of the New Jersey Legislature has recently recommended the hiring of a part-time actuary, and legislation introduced this session in Pennsylvania calls for the establishment of an Office of Actuarial Review within the State's Auditor General's Office.

Indiana created a new police and firefighters pension and disability fund as a separate account in the public employees' retirement fund but administered by the state board.

Arkansas created a new retirement plan for public employees and state police. The purpose of the act is to establish uniform benefit specifications and minimum financing, accounting, and reporting standards for the two plans.

PERMANENT COMMISSIONS

A Special Subcommittee of the Michigan House of Representative's Committee on Retirement has recently completed a study of permanent legislative retirement commissions. The report identifies ten states that now have permanent commissions and numerous other states, including Michigan, have introduced legislation during the 1977 sessions to create comparable commissions. Those already in existence include:

Illinois Public Employees Pension Commission
Louisiana Joint Legislative Retirement Committee
Massachusetts Retirement Law Commission
Minnesota Legislative Retirement Study Commission
New York Permanent Commission on Public Employee Pension and Retirement Systems
Ohio Retirement Study Commission
South Carolina Retirement Committee
South Dakota Retirement Laws Committee
Tennessee Council on Pensions and Retirement
Wisconsin Joint Survey Committee on Retirement
Wisconsin Retirement Research Committee

Florida and Maine have already eliminated mandatory retirement. Illinois, Massachusetts, California, New York and Georgia have introduced similar legislation during the 1977 sessions.

IRS RULING

Responding to the concerns of the states and NCSL's Public Pension Task Force, the IRS announced August 10 that it would postpone the July 31 filing deadline for state and local government retirement plans. On April 21, the IRS had announced that under a provision of the Internal Revenue Code (Section 401) state retirement plans were required to meet federal qualifications in order to remain tax exempt.

In their recent press release the IRS said, "Issues concerning discrimination and the taxability of the income of trusts relating to state and local government employee retirement plans will not be raised until a review of these matters is completed." The release also stated that, "The IRS is reconsidering whether the statutory prohibition against discrimination in coverage and contributions or benefits, under Section 401(a) of the Internal Revenue Code, applies to plans covering various elected and appointed officials of state and local governments. Also under consideration is whether the trusts relating to such plans are subject to tax on their income."

By extending the filing date, the IRS met the objectives of an NCSL Pension Task Force Resolution adopted July 8 which asked that the IRS extend the July 31 deadline until the issues are resolved and the law clarified. The Task Force passed a companion resolution endorsing the objectives of federal legislation (S. 1587) introduced by Senator Richard Stone (D-Fla.) to specifically exempt state and local government retirement systems from the federal income tax.

NCSL PUBLIC PENSIONS CLEARINGHOUSE

The National Conference of State Legislature's Public Pensions Clearinghouse has been designed as a central source for legislators and their staffs to exchange information on public pension issues. To help us respond to requests for information on public pensions, we are anxious to receive copies of legislation and special studies in these areas. We have identified at least one pension contact in each state, and hope that by working with these individuals, our pension resources will continue to expand. It is also our intent that the Pension Newsletter serve as an information exchange between the states. We plan to highlight special pension studies and major legislative initiatives of both the federal and state governments. By opening the lines of communication among the states in the pensions area, we hope to help legislators deal with the complexities of their public pension systems.

NCSL Contacts: Lanny Proffer
Dena Bellows
303/623-6600

NCSL PUBLIC PENSION TASK FORCE MEETING

The next meeting of the Public Pension Task Force is scheduled for Monday and Tuesday, October 17 & 18, at the Hall of the States, 444 N. Capitol Street, Washington, D.C. The meeting will focus on the soon-to-be-released Report of the Pension Task Force of the House of Representative's Committee on Education and Labor, and on Social Security Amendments. The meeting is open to interested legislators and their staffs. A reservation form for the meeting and hotel accomodations are attached.

The report highlights the responsibilites of the different commissions which range from reviews of pension and retirement bills, including preparation of fiscal notes, to special studies of public retirement systems, to recommending legislation to promote more efficient administration of the systems. Structure varies among the commissions as noted in the case of Wisconsin where there are two permanent commissions. The Wisconsin Joint Survey Committee on Retirement Systems is responsible for submitting reports analyzing all legislation affecting public employee pension or retirement plans, while the Wisconsin Retirement Research Committee conducts studies and publishes reports on a variety of public pension issues.

The study examines the membership of the different commissions. With the exception of New York and Massachusetts, nine of the eleven commissions are composed primarily of legislators or state administrative officials. Three of these commissions, Minnesota, Louisiana and South Dakota are made up entirely of legislators. In Massachusetts, Wisconsin, Tennessee, South Carolina and Ohio, representatives from retirement systems or public employee groups are designated to serve on the commissions. The number of regular members assigned to the commissions ranges from 6 to 18, with about 10 as the average.

Financing of the commissions is discussed in detail in the study. Most appropriations range between $30,000 and $50,000 annually. However, during 1975-1976, New York's Commission operated on a $364,300 budget, while the South Dakota Retirement Law Committee was budgeted at $5,000. In Tennessee, no separate appropriation is made for their Council on Pensions and Retirement. The Michigan study includes a table listing the appropriations of these eleven commissions.

A final section of the report examines staffing of the permanent commissions. On the average, these staffs total from four to six full-time employees. Specifics on the job descriptions are included in the text of the study.

Copies of the Michigan report may be obtained by writing:

House Committee on Senior Citizens and Retirement
House of Representatives
State Capitol — 373-1837 (517)
Lansing, Michigan 48901

Harold Scott 373-1743

HR 5383 - AGE DISCRIMINATION IN EMPLOYMENT ACT AMENDMENTS OF 1977

The House Committee on Education and Labor has reported out HR 5383, legislation to eliminate mandatory retirement on account of age for federal employees and to raise the age limit from 65 to 70 in the Age Discrimination in Employment Act. The proposed legislation also clarifies the conditions under which an employer with a bona fide employee benefit plan may require early retirement. The Act, which was passed in 1967, and amended in 1974 to include federal, state and local public employees, prohibits discrimination because of age in hiring, job retention, compensation and other conditions of employment. The Act now covers persons aged 40 through 64.

The proposed amendments also instruct the Secretary of Labor to study the feasibility of eliminating the upper age limit on retirement. An interim report reviewing this issue would be due on year after the effective date of the Act, with a final report due two years after its effective date.

3. Financing of Michigan Local Government Retirement Systems.

May 1977
38 pages

Department of Management and Budget
Office of Intergovernmental Relations
Lansing, Michigan 48901

Minnesota

Overview of Minnesota Public Pension Plans

March 1977
32 pages

The Legislative Commission on Pensions and
Retirement. 147 State Office Building
St. Paul, Minnesota 55155

New Jersey

The State-Administered Retirement Systems of New Jersey: Report of the Special Committee to Study Public Pension Programs.

June 2, 1977
119 pages

Legislative Services Agency
Division of Legislative Information & Research
State House
Trenton, New Jersey 08625

New York

Public Pension Fund Regulation

October 29, 1976
52 pages

Legislative Commission on Expenditure Review
111 Washington Avenue
Albany, New York 12210

2. Recommendation for Reform of Section 207-a of the General Municipal Law.

(Relates to disabled firemen of city of less than one million population)

May 1977
7 pages of recommendations
40 pages of tables for municipalities

The Permanent Commission on Public Employee Pension and Retirement Systems
880 Third Avenue
New York, New York 10022

STATE PENSION STUDIES

Arkansas

Report of the Arkansas Retirement Systems Study Committee and The Joint Interim Committee on Public Retirement and Social Security Programs.

Nov. 12, 1976
374 pages

Arkansas Legislative Council
State Capitol
Little Rock, Arkansas 72201

Illinois

Expenditures For Fringe Benefits In Illinois Municipalities.

Nov. 1976
115 pages

Public Policy Research Institute
Western Illinois University
Macomb, Illinois 61455

Indiana

Performance Audit of Public Employee Retirement Systems In Indiana.

Dec. 1976
245 pages

Office of Fiscal and Management Analysis
Indiana Legislative Council
302 State House
Indianapolis, Indiana 46204

Michigan

1. Permanent Legislative Retirement Commissions.

Dec. 1976
20 pages

Michigan House of Representatives
Committee on Retirement
State Capitol
Lansing, Michigan 48901

2. Benefits of Michigan Local Retirement Systems.

May 1977
35 pages

Department of Management and Budget
Office of Intergovernmental Relations
Lansing, Michigan 48901

Utah

Report and Recommendations of the Subcommittee on Retirement to the Intergovernmental Relations Study Committee of the 42nd Legislature.

(To determine whether State Retirement System benefits and those provided by social security should be integrated)

June 15, 1977
14 pages

Office of Legislative Research
326 State Capitol
Salt Lake City, Utah 84114

Wisconsin

The Retirement Research Committee, directed by Blair Testin, publishes staff reports on pension issues on a periodic basis. For information on all the 1977 reports contact the Committee directly. Some of the studies include:

Staff Report 34--1977

A study of Retirement Plans for Legislators, Judges, and other Elected Officials.

Staff Report 35--1977

Department of Employee Trust Funds Retirement Plan Improvement Considerations As to Post-Retirement Adjustments, Formula Improvements and Normal Retirement Age Reductions.

Staff Report 40--1977

The Department of Employee Trust Funds and Collective Bargaining.

Staff Report 43--1977

Deferred Compensation Plans.

Contact: Blair Testin, Director
Retirement Research Committee
Room 318
122 W. Washington Avenue
Madison, Wisconsin 53702

Published By: The National Conference of State Legislatures
1405 Curtis Street, 23rd Floor
Denver, Colorado 80202
303/623-6600

Ken

STATE OF ALASKA
THE LEGISLATURE
LEGISLATIVE AFFAIRS AGENCY

POUCH Y - STATE CAPITOL
JUNEAU, ALASKA 99811
907-465-3800

MEMORANDUM

July 19, ~~1944~~ 1977

SUBJECT: First Meeting of the HCR 66 Study Group on Social Security Withdrawal

TO: Representatives of the Various Organizations Involved With the HCR 66 Study

FROM: Ken Humphreys K.H.
Research Analyst

The first meeting of the group directing the study of social security withdrawal per House Concurrent Resolution No. 66 convened in the State Capitol at Juneau at 9:15 a.m., July 11. Representative Mike Miller, representing the Legislative Council, presided informally and reviewed the events which led to HCR 66 and the current study. Having mentioned two previous reports on the subject (the William M. Mercer report of June 1, 1976, and the A.P.E.A. report of March 1977) and having indicated that there was a general feeling on the part of both legislators and employee groups that more information was needed to make an intelligent decision, Representative Miller asked those present to give brief introductory statements. Others present and the gist of their remarks are as follows:

Mr. Ken Humphreys, research analyst with the Legislative Affairs Agency and assigned to the study, felt that the business of the first meeting should include a decision on an actuary and some attempt to narrow the field of endeavor.

Mr. Robert Gates, director of the division of retirement and benefits, indicated that there was a need to establish points of view on the basis of which an actuary could operate and felt that there would be cost and time savings associated with using the actuary already on contract with the state who is familiar with and has data on the Public Employees Retirement System.

Mr. Roy Dunn, representing the Alaska Public Employees Association, felt that most members of A.P.E.A. wanted to use social security contributions to finance an enriched retirement program, not reduce contributions; he favored an "independent" actuary, particularly Mr. Richard Winkenwerder, a consulting actuary with the firm of Milliman and Robertson, Inc.

Ms. Ann Sheppard, representing the Alaska Public Safety Employees Association, felt that she could not yet accurately reflect the desires of the members and hoped to get answers to various questions with a view to polling the public safety employees in the near future.

Mr. Paul Arnold, deputy director of the division of retirement and benefits (appointed director when Mr. Gates' promotion to deputy commissioner takes effect) said that, in the interest of efficiency, he hoped input could be restricted and the present group could reach agreement on a package which could be evaluated actuarially and presented to interested parties in a relatively simple and understandable form.

Ms. Lynda McCurry, representing the Confidential Employees Association, indicated that she had formed no opinions yet. Ms. McCurry will be sharing the representation of the confidential employees with Mr. Roger Thayer.

Mr. Gregg O'Claray, representing the Inlandboatmen's Union of the Pacific, the Masters, Mates and Pilots, and the Marine Engineers Beneficial Association, said the marine groups' priority item would be to investigate the feasibility of merging with the P.E.R.S. in conjunction with withdrawing from social security and not just a separate, "add-on", defined contribution plan. He felt that some plan which returned more dollars for each dollar contributed by the employee was possible and desirable. Mr. O'Claray favored Mr. Winkenwerder for the group's actuarial work.

Mr. Ken Spray who will represent Local 71 of the Laborer's Union was unable to attend the first meeting.

Following a short recess and some further discussion, the group agreed to contact Mr. Winkenwerder and, if possible, arrange for him to attend the next meeting and provide the necessary actuarial and benefit consulting services.

Representative Miller felt that most legislators wanted to investigate enrichment of the P.E.R.S. in addition to other plans. The group agreed that they should investigate a plan which would enrich the P.E.R.S. by providing 1) an increase in the 2% of salary per year of service, 2) a cost-of-living increment, and 3) a "20 (or 25) and out" provision. It was felt that a scheme similar to this might serve as a point of departure, be investigated for cost feasibility, and should be included for study along with a defined contribution plan which Mr. Gates had recommended. Mr. Gates pointed out the "before tax," deferred compensation advantages of a defined contribution plan and felt it would protect the state much better if it were mandated back into the social security system--there would be no open-ended obligations which the state would be constitutionally obligated to retire. Representative Miller requested that Mr. Gates reduce a version of his plan to writing for the next meeting.

It was agreed that the second meeting would be held in the State Capitol at Juneau, Room 216, at 9:00 a.m., August 18.

Following the first meeting, I contacted Mr. Winkenwerder who indicated that he would be pleased to accept the assignment and would attend the second meeting. Terms of the contract were necessarily left open. I will provide him with whatever background information I can in the meanwhile.

KH:jm

Mailing List for HCR 66 Study Group on Social Security Withdrawal

The Honorable Mike Miller
Capitol Bldg.
(Thru Helen Gowdy)

Mr. Robert Gates
Director
Division of Retirement and Benefits
Department of Administration
7th Floor S.O.B.
Mail Station 0200

Mr. Roy Dunn
A.P.E.A. Juneau Field Office
130 Seward Street, Suite 511
Juneau, Alaska 99801

Ms. Ann Sheppard
Public Safety Employees Assn.
P. O. Box 4-2624
Anchorage, Alaska 99501

Mr. Paul Arnoldt
Deputy Director
Division of Retirement and Benefits
Department of Administratien
7th Floor S.O.B.
Mail Station 0200

Ms. Lynda McCurry
Confidential Employees Association
Department of Labor, Personnel Section
Box 3-7000
Juneau, Alaska 99811

Mr. Roger Thayer
Confidential Employees Association
Department of Transportation
Mail Station 1300

Mr. Gregg O'Claray
Inlandboatmen's Union of the
Pacific-Alaska Region
124 Front Street
Juneau, Alaska 99801

Mr. Ken Spray 6-6993
A.P.S.E. Local 71
114 S. Franklin
Juneau, Alaska 99801

Mr. Richard A. Winkenwerder
Milliman & Robertson, Inc.
914 Second Avenue
Seattle, Washington 98104

Ken Humphreys
Research Analyst
Legislative Affairs Agency
MS 3101

STATE OF ALASKA

JAY S. HAMMOND, GOVERNOR

DEPARTMENT OF ADMINISTRATION

OFFICE OF THE COMMISSIONER / POUCH C – JUNEAU 99811

August 4, 1977

The Honorable Mike Miller
P.O. Box 1494
Juneau, AK 99802

Dear Representative Miller:

I am writing this letter to provide you and the other members of the committee with a written outline of the proposal that I made at our first meeting concerning an alternative program to be considered should the State opt out of Social Security. When considering the issue of attempting to replace the current and anticipated future benefits from social security there are a myriad of alternatives which might be considered. After giving considerable thought to this issue there is one approach wh ch, if adopted, would overcome most if not all of the objections I have heard concerning continued participation in the social security program.

When considering the proposal set forth in this letter it is necessary to keep the following basic assumptions in mind:

1. The contributions will be paid into the supplemental program at the same level as is currently being required from Social Security. It would also be possible to consider making contributions in the future at the same level as social security requires. There will be an equal sharing of contributions into the systems, i.e., 5.85% from employee and employer and those contributions will be made on earnings up to the social security maximum, currently $16,500 per year.

2. The Internal Revenue Service will approve a Deferred Compensation Plan which would be mandatory for all state employees. (I have had some preliminary discussions with a consultant on this matter and as far as I can tell there is nothing to suggest that such a ruling couldn't be obtained.)

3. That statutory language is enacted which would provide for the termination of such a program in the event that social security coverage was mandated in the future by the Federal government.

The following proposal is submitted for consideration by the committee. Quite obviously there will need to be further discussion and amplification on certain issues in order to design a program which will meet the general needs of the vast majority of employees.

1. The social security deductions currently being withheld from the employees paycheck would be mandatorily placed into a Deferred Compensation Plan. Each employee would defer the equivalent dollar amount currently required for social security, i.e., 5.85% of $16,500 or $965.25. This amount could be pegged at a fixed level or increase at the same rate as required by social security. The level of earnings subject to deductions could be fixed or variable depending on the wishes of the parties involved.

2. The required employer contributions would be placed into a trust and would be partially used to purchase any ancillary benefits agreed upon by all parties concerned. Any residual balances in the trust remaining after the ancillary benefits have been purchased from the employers contribution would be distributed to the employees account on a pro rata basis according to earnings of that employee in the given calendar year. For example, if the employers contribution was $965.25 per year for an individual earning maximum social security wages and the ancillary benefits were purchased for $500, then the remaining $465.25 would be distributed into an account maintained for the ultimate benefit of that employee. During the time an individual is employed the monies deferred or placed in his account by the employer would not be subject to withdrawal and would therefore be accumulating earnings on a non-taxable basis until the time the funds are withdrawn.

3. The Social Security System currently affords a number of benefits other than a straight annuity at the time of reaching ages 62 or 65 such as a $250 death benefit, a disability income benefit, a survivors benefit and medicare. A decision will have to be made as to which of these or other benefits should be provided under this supplemental benefit program in order to assure that employees and their families have some sort of basic protection in the event of serious illness or premature death. One approach that might be taken would be to try and provide similar benefits to those currently offered by social security and in general terms use the same eligibility requirements. If this approach is taken it will tend to keep the cost of the ancillary benefits at a fairly modest level and consequently make a larger percentage of the employers contributions available for distribution to the individual employees account.

Establishment of a program such as I have outlined above would be, in my opinion, a very straight forward program. This approach would be relatively easy to understand and inexpensive to administer. The major benefits of such a program are listed below.

1. A uniform supplemental benefit program would be established that would provide benefits that are supplemental to any other benefit program in which a state employee participates.

2. There would be a direct relationship between the amount of contributions made to the plan and the ultimate benefits to which the individual was entitled. This would overcome a current objection to social security where many employees feel they and the employer are making contributions to the system for benefits which the individual never will become entitled, i.e., a single person making contributions has a portion of social security contributions going towards providing a survivors benefit.

3. Under this proposal the individual can be guaranteed, either in the form of a refund or in the form of an annuity, the total amount of the contributions made by the individual, any ancillary benefit provided by the plan, and a share of the employer contribution made on his behalf.

4. The individual could receive such income at a future date without being concerned about the limitations on earnings currently imposed on a person drawing an annuity from social security.

5. Since the employees contributions would be channeled into a Deferred Compensation Plan, those deductions would be made on a pretax basis. This would have the effect of immediately increasing every employees net paycheck by varying amounts depending on the individuals tax bracket.

6. By taking this approach, which is considered a defined contribution plan as opposed to the PERS which is a defined benefit plan, there would be no difficulty in terminating such a supplemental program in the event social security coverage should become mandatory in the future for public employees.

7. It would be a relatively simple conversion to send the magnetic tape currently provided to social security to an insurance company to administer the supplemental benefit program. Consideration could be given to internal administration of the program.

8. Any administrative expenses necessary to operate this plan could be deducted from the income earned on the employers contributions prior to distributions to the individual members account. By taking this approach there would be no greater cost to either the individual or the State of Alaska for operating such a separate program.

9. Several options could be offered relating to pay out of funds so there would be more flexibility in receiving payments from the system then is presently available under social security.

There are numerous other minor advantages which could be recited, however, I think the main points that immediately come to mind have been presented. I will be happy to discuss this proposal in greater detail if you and the other committee members would care to pursue this matter further. As I mentioned at our meeting I am assuming the position of Deputy Commissioner of Administration and will not likely be able to regularily attend future meetings of the committee. Paul Arnoldt, who will become Director of the Division of Retirement and Benefits is familiar with this proposal and I will assist him in any way I can to further refine this proposal or comment on other ideas which maybe presented by the committee.

If you have any further questions on this matter I would appreciate hearing from you.

Sincerely,

Robert S. Gates
Acting Deputy Commissioner

RSG/jb

cc: Ken Humphreys
Legislative Affairs Agency ✓

Roy Dunn
Alaska Public Employees Association

Ann Sheppard
Alaska Public Safety Employees Association

Lynda McCurry
Confidential Employees Association

Gregg O'Claray
Inlandboatmen's Union

Ken Spray
Alaska Public Service Employees

Paul Arnoldt
Division of Retirement & Benefits

STATE OF ALASKA
THE LEGISLATURE
LEGISLATIVE AFFAIRS AGENCY

POUCH Y · STATE CAPITOL
JUNEAU, ALASKA 99811
907-465-3800

MINUTES

SOCIAL SECURITY WITHDRAWAL STUDY GROUP

A meeting of the Social Security Withdrawal Study Group commenced at the State Capitol, Juneau, Alaska on August 18, 1977. Presiding at the meeting was Representative Mike Miller. Also present were:

Roy Dunn
Mike Murray
APEA Juneau Field Office

Ann Sheppard
Public Safety Employees Association

Paul Arnoldt, Director
Division of Retirement and Benefits

Dave Warren
Confidential Employees Association

Ken Spray
APSE Local 71

Richard A. Winkenwerder
Milliman & Robertson, Inc.

Ken Humphreys
Research Analyst
Legislative Affairs Agency

James L. Baldwin
Legislative Counsel
Legislative Affairs Agency

As the first order of business, Representative Miller stated that he had reviewed the contract for actuarial services with Milliman and Robertson, Inc. and recommended that the study group approve the contract. The contract was approved for submittal to the contractors for their review and execution.

Mr. R. A. Winkenwerder was introduced to the study group and discussion ensued concerning guidelines for his investigation of alternative approaches to Social Security. The members of the study group expressed interest in investigation of the following approaches or problems:

(1) Improve PERS in general with the use of additional funds released from Social Security contributions.

(2) Improve the current deferred compensation plan.

(3) Establish a new program essentially replacing Social Security.

(4) Study the benefits under the Public Safety Employees Retirement Program in relation to benefits enhanced under PERS.

(5) Modify PERS in some specific aspects; for example, consider a retirement after 20 or 25 years, consider an increase in the benefit accrual formula above 2 percent, (perhaps 2 1/2 percent) and finally, consider the addition of a cost of living adjustment like Social Security.

(6) Examine the disability provisions of PERS particularly in relation to the difference between the occupational and nonoccupational categories and perhaps also consider an increase in the disability benefit. In considering the disability situation, it was suggested that disability benefits from all sources be considered before arriving at any recommendations for alterations in the PERS benefit. Also consider a temporary extension for employees who leave the State.

(7) Specifically what would the current 5.85 percent of Social Security contributions buy under the PERS program? It might be considered to have the employee contributions sent directly to a deferred compensation system with the State's share of the contributions going directly to PERS to improve that program.

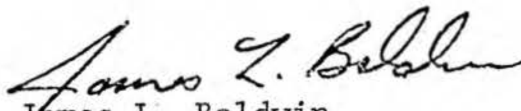
(8) Consider a fully-paid-for medical benefit program.

(9) It was mentioned that perhaps there might not be too much concern about specifically what additional benefits are being provided but rather that the employee would like to get more benefits for the dollars that are being contributed.

(10) Consider establishing a new deferred compensation plan along the guidelines of those recommended by Robert Gates in his August 14, 1977 letter.

Mr. Winkenwerder indicated that he would begin preliminary studies to analyize the current system and would report at the next regular meeting of the study group. The date for the next meeting is to be set by a call of the Chairman upon further consultation with Mr. Winkenwerder.

Respectfully submitted,



James L. Baldwin
Legislative Counsel

Ken

STATE OF ALASKA
THE LEGISLATURE
LEGISLATIVE AFFAIRS AGENCY

POUCH V - STATE CAPITOL
JUNEAU, ALASKA 99811
907-465-3800

August 22, 1977

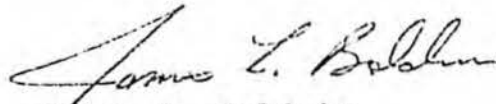
Mr. Richard Winkenwerder
Milliman & Robertson, Inc.
914 Second Avenue
Seattle, WA 98104

Dear Mr. Winkenwerder:

Please find enclosed the original and one copy of a contract for personal services relating to the social security withdrawal study group of the Alaska State Legislative Council. I hope that upon review of the contract you or your authorized contracting officer will execute the original and return it to me for execution by the Executive Director. I will send you a copy of the fully executed contract soon thereafter.

Please feel free to call me at (907) 465-4627 if you have questions or need my assistance.

Sincerely,



James L. Baldwin
Staff Attorney

JLB:jpd

Enclosures

CONTRACT BETWEEN

STATE OF ALASKA

LEGISLATIVE AFFAIRS AGENCY

AND

MILLIMAN & ROBERTSON, INC.

THIS AGREEMENT is made under authority of Legislative Resolve 107-77 between the LEGISLATIVE AFFAIRS AGENCY, hereinafter referred to as the "Agency, on behalf of the Legislative Council's Social Security Withdrawal Study Group, and MILLIMAN & ROBERTSON, INC., hereinafter referred to as the "Contractor."

THE PURPOSE OF THIS AGREEMENT is to provide for an actuarial study of the costs and benefits which would accrue to the State of Alaska and its employees if the contributions which are currently paid to the social security system are used to provide benefits under a public employee benefit program to replace and augment benefits now provided by social security. The study shall include consideration of the retirement formula, survivor's benefits, death and disability benefits, medical benefits, post-retirement pension adjustments and other replacement or augmentation benefits which may be relevant under the alternative systems which are proposed by the study group in consultation with the Contractor.

IT IS MUTUALLY AGREED THAT:

CLAUSE I. - STATEMENT OF WORK

(a) The Contractor shall, with the consent and approval of the Project Director, provide the study group with the benefit and actuarial consulting services needed to discover the most feasible alternative and replacement benefit systems and to perform a cost-benefit analysis of these plans to be presented to the Legislative Council in a final report.

(b) The Contractor agrees to:

(1) Analyze present retirement programs in consultation with members of the study group to determine the adequacy of the programs and advise members of the group concerning the compatibility of suggested alternative systems to be funded through contributions which would no longer be required by the social security system.

(2) Analyze the programs suggested under (a) above from a cost-benefit and actuarial standpoint to explain the advantages and disadvantages of the programs from both

the employers' and the employees' points of view and present these in the final written report to the Legislative Council.

(3) Confer with and assist the Agency in designing programs and drafting enabling legislation as requested by the Project Director.

(4) Be available to appear and consult with and present expert testimony before the study group and committees of the Tenth Alaska State Legislature in Juneau and to perform such additional consulting duties as relate to the written report and are mutually agreed upon with the Project Director. Insofar as practicable the times of appearances shall be scheduled by the Agency so as not to conflict with the Contractor's other professional obligations.

(5) Perform whatever services are requested by the Project Director in connection with this project.

CLAUSE II. - PERIOD OF PERFORMANCE

(a) The final report described in Clause I shall be completed and delivered to the Agency on or before March 1, 1978, and in no case shall the contractor be required to provide further professional services after June 30, 1978.

(b) This contract may be terminated by either party upon written notice to the other.

(c) If this contract is terminated by either party prior to completion, the amount due under the fee schedule for services rendered as of the date of termination shall be the amount due.

CLAUSE III. - PROJECT DIRECTOR

The Project Director shall be the Chairman of the Legislative Council or his duly appointed designee.

CLAUSE IV. - COMPENSATION AND METHOD OF PAYMENT

(a) The Contractor shall be compensated for work under this contract according to the rates set out in the appendix.

(b) The Contractor shall be reimbursed for travel expenses approved by the Project Director at the same rates and under the same regulations that govern the payment of per diem for legislators.

(c) Payments under this contract shall be made by the Agency to the Contractor in response to billings submitted to and approved by the Project Director.

(d) Total payments (including expenses) to the Contractor under this contract shall not exceed $35,000 without prior written approval of the Project Director.

CLAUSE V. - RECORDS, DOCUMENTS, AUDIT

The Contractor shall maintain accurate records, including detailed time records, as may be required by the Project Director. The records are subject to inspection by the Project Director at all reasonable times. All documents, reports and writings generated as a consequence of work done under this contract shall become the property of the State of Alaska, and on completion of the work or at the termination of this contract shall be delivered to the Agency.

CLAUSE VI. - REPORTS

The Contractor shall keep the Project Director informed as to the progress of the work performed under this agreement in the manner requested by the Project Director and shall be prepared to make presentations to the study group as scheduled by the Project Director.

CLAUSE VII. - ALL WRITINGS CONTAINED HEREIN

This agreement contains all the terms and conditions agreed upon by the parties. No other understandings, oral or otherwise, regarding the subject matter of this agreement shall be deemed to exist or to bind either of the parties to this agreement.

IN WITNESS WHEREOF, the parties have executed this agreement on the dates noted next to their signatures.

CONTRACTOR

LEGISLATIVE AFFAIRS AGENCY

MILLIMAN & ROBERTSON, INC. Date

EXECUTIVE DIRECTOR Date

Approved as to form:

AGENCY LEGAL COUNSEL 8/22 Date

BILLING RATES - HOURLY

Principal & Consulting Actuary	$66 - $96
Actuary (F. S. A.)	$44 - $55
Associate Actuary (A. S. A.)	$30 - $40
Actuarial Assistant (student)	$17 - $25

CONTRACT BETWEEN

STATE OF ALASKA

LEGISLATIVE AFFAIRS AGENCY

AND

MILLIMAN & ROBERTSON, INC.

THIS AGREEMENT is made under authority of Legislative Resolve 107-77 between the LEGISLATIVE AFFAIRS AGENCY, hereinafter referred to as the "Agency," on behalf of the Legislative Council's Social Security Withdrawal Study Group, and MILLIMAN & ROBERTSON, INC., hereinafter referred to as the "Contractor."

THE PURPOSE OF THIS AGREEMENT is to provide for an actuarial study of the costs and benefits which would accrue to the State of Alaska and its employees if the contributions which are currently paid to the social security system are used to provide benefits under a public employee benefit program to replace and augment benefits now provided by social security. The study shall include consideration of the retirement formula, survivor's benefits, death and disability benefits, medical benefits, post-retirement pension adjustments and other replacement or augmentation benefits which may be relevant under the alternative systems which are proposed by the study group in consultation with the Contractor.

IT IS MUTUALLY AGREED THAT:

CLAUSE I. - STATEMENT OF WORK

(a) The Contractor shall, with the consent and approval of the Project Director, provide the study group with the benefit and actuarial consulting services needed to discover the most feasible alternative and replacement benefit systems and to perform a cost-benefit analysis of these plans to be presented to the Legislative Council in a final report.

(b) The Contractor agrees to:

(1) Analyze present retirement programs in consultation with members of the study group to determine the adequacy of the programs and advise members of the group concerning the compatibility of suggested alternative systems to be funded through contributions which would no longer be required by the social security system.

(2) Analyze the programs suggested under (a) above from a cost-benefit and actuarial standpoint to explain the advantages and disadvantages of the programs from both

the employers' and the employees' points of view and present these in the final written report to the Legislative Council.

(3) Confer with and assist the Agency in designing programs and drafting enabling legislation as requested by the Project Director.

(4) Be available to appear and consult with and present expert testimony before the study group and committees of the Tenth Alaska State Legislature in Juneau and to perform such additional consulting duties as relate to the written report and are mutually agreed upon with the Project Director. Insofar as practicable the times of appearances shall be scheduled by the Agency so as not to conflict with the Contractor's other professional obligations.

CLAUSE II. - PERIOD OF PERFORMANCE

(a) The final report described in Clause I shall be completed and delivered to the Agency on or before March 1, 1978, and in no case shall the contractor be required to provide further professional services after June 30, 1978.

(b) This contract may be terminated by either party upon written notice to the other.

(c) If this contract is terminated by either party prior to completion, the amount due under the fee schedule for services rendered as of the date of termination shall be the amount due.

CLAUSE III. - PROJECT DIRECTOR

The Project Director shall be the Chairman of the Legislative Council or his duly appointed designee.

CLAUSE IV. - COMPENSATION AND METHOD OF PAYMENT

(a) The Contractor shall be compensated for work under this contract according to the rates set out in the appendix.

(b) The Contractor shall be reimbursed for travel expenses approved by the Project Director at the same rates and under the same regulations that govern the payment of per diem for legislators.

(c) Payments under this contract shall be made by the Agency to the Contractor in response to billings submitted to and approved by the Project Director.

(d) Total payments (including expenses) to the Contractor under this contract shall not exceed $35,000 without prior written approval of the Project Director.

CLAUSE V. - RECORDS, DOCUMENTS, AUDIT

The Contractor shall maintain accurate records, including detailed time records, as may be required by the Project Director. The records are subject to inspection by the Project Director at all reasonable times. All documents, reports and writings generated as a consequence of work done under this contract shall become the property of the State of Alaska, and on completion of the work or at the termination of this contract shall be delivered to the Agency.

CLAUSE VI. - REPORTS

The Contractor shall keep the Project Director informed as to the progress of the work performed under this agreement in the manner requested by the Project Director and shall be prepared to make presentations to the study group as scheduled by the Project Director.

CLAUSE VII. - ALL WRITINGS CONTAINED HEREIN

This agreement contains all the terms and conditions agreed upon by the parties. No other understandings, oral or otherwise, regarding the subject matter of this agreement shall be deemed to exist or to bind either of the parties to this agreement.

IN WITNESS WHEREOF the parties have executed this agreement on the dates noted next to their signatures.

CONTRACTOR		LEGISLATIVE AFFAIRS AGENCY	
Richard A. Wunkenwunder, Vice President, for MILLIMAN & ROBERTSON, INC.	9/14/77 Date	EXECUTIVE DIRECTOR	9/20/77 Date

Approved as to form:

AGENCY LEGAL COUNSEL 9/20/77 Date

Ken

STATE OF ALASKA
THE LEGISLATURE

LEGISLATIVE AFFAIRS AGENCY

POUCH Y · STATE CAPITOL
JUNEAU, ALASKA 99811
907-465-3800

MEMORANDUM November 9, 1977

SUBJECT: Third Meeting of Social Security Withdrawal Study Group (HCR 66)

TO: Representatives of the Various Organizations Involved With the HCR 66 Study

FROM: Ken Humphreys J.K.H.
Research Analyst

The third meeting of the Social Security Withdrawal Study Group has been scheduled for 10:30 a.m., November 17, in Room 100 of the Capitol Building in Juneau. Mr. Winkenwerder will have preliminary results to report to the group at that time.

This schedule was checked with as many interested parties as possible, but if you are unable to send a representative, please let me know.

KH:jm

Mailing List for HCR 66 Study Group on Social Security Withdrawal

The Honorable Mike Miller
Capitol Bldg.
(Thru Helen Gowdy)

~~Mr. Robert Gates~~
~~Director~~
~~Division of Retirement and Benefits~~
~~Department of Administration~~
~~7th Floor S.O.B.~~
~~Mail Station 0200~~

✓ Mr. Roy Dunn
A.P.E.A. Juneau Field Office
130 Seward Street, Suite 511
Juneau, Alaska 99801

Ms. Ann Sheppard
Public Safety Employees Assn.
P. O. Box 4-2624
Anchorage, Alaska 99501

✓ Mr. Paul Arnoldt
~~Deputy~~ Director
Division of Retirement and Benefits
Department of Administration
7th Floor S.O.B.
Mail Station 0200

Ms. Lynda McCurry
Confidential Employees Association
Department of Labor, Personnel Section
Box 3-7000
Juneau, Alaska 99811

Mr. Roger Thayer
Confidential Employees Association
Department of Transportation
Mail Station 1300

Mr. Gregg O'Claray
Inlandboatmen's Union of the
Pacific-Alaska Region
124 Front Street
Juneau, Alaska 99801

Mr. Ken Spray 6-6993
A.P.S.E. Local 71
114 S. Franklin
Juneau, Alaska 99801

Mr. Richard A. Winkenwerder
Milliman & Robertson, Inc.
914 Second Avenue
Seattle, Washington 98104

~~Ken Humphreys~~
~~Research Analyst~~
~~Legislative Affairs Agency~~
~~MS 3101~~

STATE OF ALASKA
THE LEGISLATURE
LEGISLATIVE AFFAIRS AGENCY

POUCH Y · STATE CAPITOL
JUNEAU, ALASKA 99811
907-465-3800

January 3, 1977 1978

M E M O R A N D U M

SUBJECT: Developments since the last meeting.

TO: Members of the Social Security Withdrawal Study Group

FROM: Ken Humphreys J.K.H.
Research Analyst

I have contacted Mr. Winkenwerder and he has indicated that he feels confident that the study can be completed on schedule by the end of February. Representative Mike Miller felt that members would like to be apprised of the current status of the actuarial work so I have requested and Mr. Winkenwerder has provided the enclosed progress report.

As indicated in the enclosed report, results which will provide a basis for the next meeting should be available in late January. We have planned to meet on Tuesday, January 24 if computer results are available. Plans must remain tentative until about January 10. I will notify members as soon as the availability of preliminary results is confirmed.

Summary minutes of the last meeting are enclosed.

Enclosures
KH:dh

SUMMARY MINUTES

Social Security Withdrawal Study Group

The third meeting of the Social Security Withdrawal Study Group was convened at the State Capitol, Juneau, Alaska on November 17, 1977. Representative Mike Miller presided.

Also present were:

Roy Dunn
Mike Murray
APEA

Wayne B. Powers
Confidential Employees Association

William D. Richards
APSE Local 71

Paul Arnoldt, Director
Division of Retirement and Benefits

Richard A. Winkenwerder, Consulting Actuary
Milliman & Robertson, Inc.

James L. Baldwin, Legislative Counsel
Ken Humphreys, Research Analyst
Legislative Affairs Agency

As the first order of business, the minutes from the last meeting were reviewed. Mr. Winkenwerder then described the preliminary work that was underway collecting data and developing profiles of existing plans.

It was agreed that, generally, Mr. Winkenwerder should continue along the lines suggested at the last meeting with the following provisos:

1. An improvement or replacement plan should be mandatory and contributions should increase with Social Security contributions. If defined benefit improvements do exhaust the contributions, the excess should be channeled into some type of deferred compensation plan until such time as benefits are again increased.

2. A small amount of time should be devoted to the possibility of providing some form of continuing disability coverage for the employee who leaves State service and is not eligible for Social Security coverage.

3. Plans to be considered should not make use of Social Security funds to improve negotiable items such as pre-retirement medical coverage.

4. There should be no attempt to precisely replace Social Security coverage. Replacement plans should be comparable in basic areas such as death, retirement and disability coverage but need not measure up on a point-for-point basis.

5. Plans should continue to provide the most economical possible post-retirement medical coverage. This includes the possibility that the State might choose to pay an insurance premium on behalf of a retiree rather than to provide direct coverage.

6. Mr. Winderwerder should study the situation of the I.B.U. in regard to P.E.R.S. membership and inclusion in replacement programs.

The next meeting has been tentatively scheduled for January 24, at the State Capitol in Juneau. Members will be notified definitely as soon as it is known whether computer results will be available on schedule.

KH:ftc

MILLIMAN & ROBERTSON, INC.
CONSULTING ACTUARIES
SUITE 3600
1301 FIFTH AVENUE SEATTLE, WASHINGTON 98101
206/624-7940

ALLAN D. AFFLECK, F.S.A.
LARRY D. BABER, F.S.A.
JAMES R. BERQUIST, F.C.A.S.
GEORGE L. BERRY, F.S.A.
DAVID R. BICKERSTAFF, F.C.A.S.
THOMAS P. BLEAKNEY, F.S.A.
BRUNO V. BOIN, F.S.A.
STEPHEN D. BRINK, F.S.A.
ROBERT M. CHANDLER, F.S.A.
MILTON F. CHAUNER, F.S.A.
THOMAS M. CHIAPPETTI, F.S.A.
KENNETH T. CLARK, F.S.A.
BARTON H. CLENNON, F.S.A.
ROBERT L. COLLETT, F.S.A.
JOHN P. COOKSON, F.S.A.
RONALD K. CURLEE, F.S.A.
JAMES A. CURTIS, F.S.A.
GARY E. DAHLMAN, F.S.A.
ROBERT H. DOBSON, F.S.A.
ROBERT H. DREYER, F.S.A.
ROBERT J. DYMOWSKI, F.S.A.
JOHN S. ECKERT, F.S.A.
GARY B. EKLOF, F.S.A.
RICHARD J. FALLQUIST, F.C.A.S.
DANIEL J. FLAHERTY, F.C.A.S.
DENNIS J. GRAF, F.S.A.
JANET S. GRAVES, F.C.A.S.
WILLIAM A. HALVORSON, F.S.A.
PAUL C. HART, F.S.A.
ROBERT D. HOGUE, F.S.A.
ANTHONY L. HOLLOBON, F.S.A.
FENTON R. ISAACSON, F.S.A.
GILBERT E. KERNS, F.S.A.
DAVID W. KRUEGER, F.S.A.
JOHN M. LENSER, F.S.A.
LEONARD P. J. LEONG, F.S.A.
FREDERIC T. LHAMON, F.S.A.
D. ALAN LITTLE, F.S.A.
TSU-YI LOO, F.S.A.
BRIAN J. MATTSON, F.S.A.
ROBERT G. MAULE, F.S.A.
DANIEL J. McCARTHY, F.S.A.
JOSEPH C. NOBACK, F.S.A.
DAVID E. NORTON, F.S.A.
RICHARD E. OSTUW, F.S.A.
J. LYNN PEABODY, F.S.A.
RAYMOND E. PINCZKOWSKI, JR., F.S.A.
JAMES H. RIGGS, F.S.A.
STUART A. ROBERTSON, F.S.A.
WALTER S. RUGLAND, F.S.A.
KEVIN M. RYAN, F.C.A.S.
ROBERT D. SHAPIRO, F.S.A.
T. THOMAS SIMESTER, F.S.A.
WILLIAM D. SMITH, F.S.A.
JOHN B. SNYDER, II, F.S.A.
STEVEN D. SOMMER, F.S.A.
KAREN I. STEFFEN, F.S.A.
DENIS J. SULLIVAN, F.S.A.
ALAN M. THALER, F.S.A.
WILLIAM S. THOMAS, F.S.A.
GERALD G. TOY, F.S.A.
RICHARD A. WINKENWERDER, F.S.A.
WENDELL MILLIMAN, F.S.A.(1976)

December 20, 1977

Mr. Ken Humphreys
Research Analyst
Legislative Affairs Agency
State of Alaska
Pouch Y - State Capitol
Juneau, Alaska 99811

Dear Ken:

You indicated that the committee members were interested in a progress report. I felt that the November 17 meeting was very helpful in terms of clarifying the direction we are to go, and in settling on some of the finer points of the issues at hand. I guess a simple, but yet well stated, progress report is that we are proceeding with the determination of the design features and cost features of the programs that we have discussed.

Specifically, Ken, at this moment the biggest concern that we have had and do have, is receiving and reviewing all of the data for state employees, which will enable us to make the necessary design and cost calculations to come up with some alternative programs. We have received from Paul a tape of the PERS participants and separate tab listings of the IBU employees and temporary employees. We have spent considerable time in examining that information. We are now satisfied that we do have the information that we need for the PERS participants. The major step now then is to determine the cost of specific improvements in the PERS system for the current PERS participants and, in addition, to determine the cost for adding IBU employees to that system.

As soon as we have received necessary output from the computer, we will be proceeding with the design, which is virtually done, and the cost of approximately replacing the survivorship,

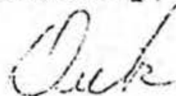
Mr. Ken Humphreys
December 20, 1977
Page Two

disability and death benefits under the Social Security system and, of course, will present that as one alternative. We had already settled on a handful of specific changes in the PERS system in which the committee was interested; as a matter of fact, those were pretty well summarized in the hand-out at our last meeting which constituted the minutes of the August 18 meeting. Specifically, we would refer to items 5 and 6 in those minutes.

Ken, I really don't know what else there is to say at this moment other than to assure you and the committee members that we do have all of the necessary data and information now to enable us to proceed with the pricing out of the alternatives to be considered. I believe that I fully understand the committee's general desires and specific considerations that they wish me to evaluate. We are at that point in time now where the study is really under way in terms of creating some output and coming up with some specific design and cost programs that can be considered as alternatives.

It is clear that we do have a substantial amount of work to do between now and the end of February. I feel comfortable with that deadline, however. At the present time I would guess that it would probably be somewhere in the latter part of January when we would have some tentative results back for the programs that we are going to consider. When I am at that point, I will be in touch with you to see if it's appropriate to have another committee meeting or whether a written confirmation as to what we have found would be sufficient.

Sincerely,



Richard A. Winkenwerder
Consulting Actuary

RAW:db

cc: Mike Miller

02-001B (Rev. 10/76)

STATE of ALASKA

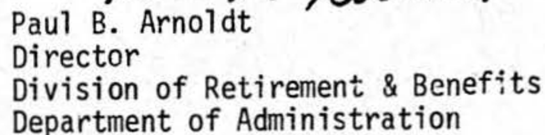
MEMORANDUM

TO: Ken Humphreys
Research Analyst
Division of Research
Legislative Affairs Agency

DATE: January 4, 1978

FILE NO:

TELEPHONE NO: 4460



FROM: Paul B. Arnoldt
Director
Division of Retirement & Benefits
Department of Administration

SUBJECT: Social Security Withdrawal Study Group

Attached for your information is a copy of the minutes of the meeting of the Social Security Withdrawal Study Group which was held on November 17, 1977.

PBA/ms
Attachment

02-001B (Rev. 10/76)

STATE of ALASKA

MEMORANDUM

TO: FILE

DATE: November 17, 1977

FILE NO:

TELEPHONE NO:

FROM: Paul B. Arnoldt
Director
Retirement & Benefits

SUBJECT: Social Security Withdrawal Study Group

The meeting of the Social Security Withdrawal Study Group convened at 10:40 a.m. on November 17, 1977, in Room 100 of the Capitol Building, in Juneau, Alaska, Representative Mike Miller presiding. Also present were Richard Winkenwerder, Roy Dunn, Mike Murray, Paul Arnoldt, Ken Humphreys, Bill Richards, Wayne Power and James Baldwin.

Richard Winkenwerder of the actuarial firm of Milliman & Robertson, Inc. explained that in his investigation of alternative approaches to Social Security his biggest concern is trying to determine which groups will be involved, what kinds of coverage will be available, the availability of data, and reviewing the existing retirement program with a view toward its improvement through utilizing available employee data.

Mike Miller asked Mr. Arnoldt if he can provide the tape information, to which Mr. Arnoldt responded that the tape contains information on all the employers, but it may be possible to spin off State data or to give him the entire tape.

Richard Winkenwerder summarized the goals of the alternative plan:

1. To include all State employees covered under PERS (permanent and part time), except
   a. temporary employees
   b. judicial system members
   c. IBU members of Alaska Marine Highway System. (These employees now belong to the Northwest Marine Retirement Trust, to which the State contributes.)

d. Elected officials (PERS is voluntary with elected officials, although all elected officials are covered under the medical programs.)

2. Improvements of PERS to be considered:

   a. Disability (See Item 6, Minutes of 8/18/77)

   b. Increase in non-occupational death benefit

   c. Retirement (considering cost of retirement after 20-25 years)

   d. Changing from 2% to 2½%

3. Improvement of medical plans to be considered:

   a. Life insurance enhancement

   b. Long term disability

   c. Dental plan (will examine bringing it up to date to meet Alaska dental costs.)

   d. Consider fully paid-for medical benefit program

Richard Winkenwerder stated that as Social Security funding increases in the future, so we will have use of the moneys later that are based on what the increase would have been.

Paul Arnoldt objected, stating that future funds must not be tied up and suggested alternatives to Social Security must be based upon current funding level of 5.85 contributions. The level of funding must be established, as we do not know what Social Security is going to do in the future. Employees are concerned about rising costs of funded programs and they would prefer having the money in their pockets. If the federal government raises the level, it will be doing so for the purpose of catching up. We will be collecting not to catch up, but to enhance the program.

Mike Miller stated that the alternative program is not limited to the present level. In the future he sees the State continuing to pay whatever they would have paid in Social Security.

Roy Dunn stated that the language of the legislation would tie everything into scale. He suggested that there is no point in giving up something now and then trying to negotiate it back in the future. He said that we should plug increases in contributions into the system and have well defined schedule of increases.

Richard Winkenwerder commented that projections are difficult, expecially if contributions will be changing.

Mike Murray asked Mr. Winkenwerder to elaborate on how Social Security funds could be used for the enhancement of the PERS. He suggested, for instance, that of the 11.9% total contribution, 8% be used to improve benefits and the balance of 3.9% could go into some sort of savings account for the retiree. Whatever becomes the initial commitment to PERS enhancement will be a firm commitment.

Paul Arnoldt stated that our objective is to strengthen the PERS system so that a career retiree will be able to maintain the same standard of living as he had before retirement. The State will continue to take money from the employee even after we opt out of Social Security, and the employee may say he would rather have that money today than to have his PERS augmented. He asked, should the excess funds be put back into the employee's pocket, or are we mandating his contribution? If we have an excellent death, disability and retirement program, how can we ask the employee to augment further. It would be the same as saying, when you retire you will be better off than when you are working. If we do not deduct from their salary, it will be the same as their getting a pay increase.

Mike Miller said that from the standpoint of retirement systems, it is his opinion that ours is certainly good, but it could be much better.

Paul Arnoldt was asked how a person living on 40% of his pay can maintain his working standard of living. He responded that in addition to retirement income, from which the retiree does not pay taxes for a period of about three years, he has his Social Security benefits which includes medicaid and medicare, as well as his State medical benefits. He compared our system to that of other states, and said that in terms of retirement age, years of service, vesting time, state contributions, etc., Alaska's program far outshines that of most other states.

Roy Dunn said that he feels it is possible that in come distant future there will be an excess of money for enhancement purposes, but for the present he can't see that we will reach the time when we will have money that we don't know how to use.

RECESS

Richard Winkenwerder returned to a discussion of his proposal for enhancement of the PERS. He inquired if there is a possibility of providing an extension of disability insurance. At present a person who does not qualify for Social Security does not qualify for medicare. If PERS is extended to pay disability benefits and a medical plan, the employee will not have lost a thing by opting out of Social Security.

Mike Murray theorized on an employee who terminates employment with the State after it has opted out, and then does not qualify for Social Security benefits under a new employer until he has been covered anew for several years, and in the meantime he becomes disabled. He asked if it

would not be desirable for the State to give an option for a disability benefit to such a person until such a time as he is again eligible for Social Security benefits.

Richard Winkenwerder responded that this is possible, and that many employers have such disability plans.

Paul Arnoldt stated that the administration of such a plan should be considered, and explained the difficulty of disability determination. It is also possible that the employee may take later employment that has a greater risk rate. At the present time disability is paid entirely by the employer.

Richard Winkenwerder spoke for the fellow who loses both disability insurance and Social Security, and wondered how many people would choose to pay for it. The question of determining disability was again discussed, and the difficulty, awkwardness and expense of administration of such a disability benefit option was repeated.

Paul Arnoldt stated that in the future an employee will come into State employment knowing full well that the State does not have Social Security. He reminded the group that disability can be claimed for up to five years after opting out of Social Security. He emphasized that employees should be thoroughly informed regarding disability coverage when leaving State employment, and this topic should be publicized. It was concluded that Mr. Winkenwerder will not discard the disability option plan, but will also not spend a large amount of time on it. This was concurred in by Mr. Miller.

Richard Winkenwerder returned to the subject of the PERS enhancement proposal, and questioned what impact a 20-year PERS plan would have

on police. It was concluded that there should be uniform benefits for all categories. If it is later concluded that there should be some differential among groups, it will be addressed at that time. Mr. Winkenwerder stated that he sees no problem in doing different things for different groups. In terms of the design of his plan, the following items within the PERS will be enhanced: retirement, death benefits, disability, survivorship and medical benefits. He asked if the committee considered one of the foregoing to have a priority. He stated again that a certain percentage of the matching contributions will be used for such enhancement, and excessive funds placed in a kind of a tax free savings for the employee. Mr. Miller sees the proposed savings plan as an entirely State funded undertaking, and because it will therefore be tax free it will enhance the employee's income.

Mike Miller responded to a discussion as to whether or not the employee's contribution in lieu of Social Security would be voluntary or mandatory by stating that it would be a mandatory contribution.

Paul Arnoldt urged that overage of contributions be used to supplement health insurance, and suggested that excess amounts should be returned to the individual employee's account with a means to allow him to pick up on a tax break.

Mike Miller made it clear that if the State chooses to opt out of Social Security, it will make no attempt to replace Social Security benefits, but will make every effort to enhance the PERS. At present the PERS is a supplement to the Social Security. He is concerned that the total package would be approximately equal to combination of the existing two systems.

Richard Winkenwerder asked if the State is anticipating anything in the PERS plan so that there can be a combination of the two benefits. Mr. Arnoldt replied that all benefits supplied in the two programs should be studied, and then an effort should be made to fill in the voids.

Paul Arnoldt explained the State medical benefit, and that presently the State program is offset against the Social Security system.

Richard Winkenwerder discussed the costs of medicare (approximately $60 per month, or $500 per year), and asked if there is an interest in trying to design some kind of specific benefit or provision that will prepay the medicare or provide a fund to assist the retiree to pay for the program. He suggested that if the State medical program is under-financed now, perhaps it would be wise for the State to pay the employee premium.

Mike Miller emphasized that under the new program the employees must have the same coverage as they now have, and the State will contribute whatever is determined to be the least expensive plan.

Paul Arnoldt provided the members in attendance with compiled information on the future of the Social Security System, as predicted by A. Haeworth Robertson, chief actuary, whom he spoke with at a recent meeting of retirement and benefits administrators.

The meeting adjourned at 12:45 p.m.

STATE OF ALASKA
THE LEGISLATURE
LEGISLATIVE AFFAIRS AGENCY

POUCH Y - STATE CAPITOL
JUNEAU, ALASKA 99811
907-465-3800

MINUTES

SOCIAL SECURITY WITHDRAWAL STUDY GROUP

A meeting of the Social Security Withdrawal Study Group commenced at the State Capitol, Juneau, Alaska on August 18, 1977. Presiding at the meeting was Representative Mike Miller. Also present were:

Roy Dunn
Mike Murray
APEA Juneau Field Office

Ann Sheppard
Public Safety Employees Association

Paul Arnoldt, Director
Division of Retirement and Benefits

Dave Warren
Confidential Employees Association

Ken Spray
APSE Local 71

Richard A. Winkenwerder
Milliman & Robertson, Inc.

Ken Humphreys
Research Analyst
Legislative Affairs Agency

James L. Baldwin
Legislative Counsel
Legislative Affairs Agency

As the first order of business, Representative Miller stated that he had reviewed the contract for actuarial services with Milliman and Robertson, Inc. and recommended that the study group approve the contract. The contract was approved for submittal to the contractors for their review and execution.

Mr. R. A. Winkenwerder was introduced to the study group and discussion ensued concerning guidelines for his investigation of alternative approaches to Social Security. The members of the study group expressed interest in investigation of the following approaches or problems:

(1) Improve PERS in general with the use of additional funds released from Social Security contributions.

(2) Improve the current deferred compensation plan.

(3) Establish a new program essentially replacing Social Security.

(4) Study the benefits under the Public Safety Employees Retirement Program in relation to benefits enhanced under PERS.

(5) Modify PERS in some specific aspects; for example, consider a retirement after 20 or 25 years, consider an increase in the benefit accrual formula above 2 percent, (perhaps 2 1/2 percent) and finally, consider the addition of a cost of living adjustment like Social Security.

(6) Examine the disability provisions of PERS particularly in relation to the difference between the occupational and nonoccupational categories and perhaps also consider an increase in the disability benefit. In considering the disability situation, it was suggested that disability benefits from all sources be considered before arriving at any recommendations for alterations in the PERS benefit. Also consider a temporary extension for employees who leave the State.

(7) Specifically what would the current 5.85 percent of Social Security contributions buy under the PERS program? It might be considered to have the employee contributions sent directly to a deferred compensation system with the State's share of the contributions going directly to PERS to improve that program.

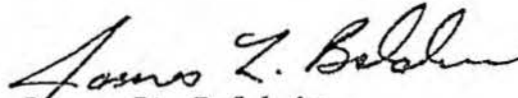
(8) Consider a fully-paid-for medical benefit program.

(9) It was mentioned that perhaps there might not be too much concern about specifically what additional benefits are being provided but rather that the employee would like to get more benefits for the dollars that are being contributed.

(10) Consider establishing a new deferred compensation plan along the guidelines of those recommended by Robert Gates in his August 14, 1977 letter.

Mr. Winkenwerder indicated that he would begin preliminary studies to analyize the current system and would report at the next regular meeting of the study group. The date for the next meeting is to be set by a call of the Chairman upon further consultation with Mr. Winkenwerder.

Respectfully submitted,



James L. Baldwin
Legislative Counsel

STATE OF ALASKA
THE LEGISLATURE
LEGISLATIVE AFFAIRS AGENCY

POUCH Y · STATE CAPITOL
JUNEAU, ALASKA 99811
907-465-3800

January 10, 1978

MEMORANDUM

SUBJECT: Next Meeting of Social Security Withdrawal Study Group

TO: Members of the Social Security Withdrawal Study Group

FROM: Ken Humphreys J.K.H.
Research Analyst

Mr. Winkenwerder has indicated that, even if computer output is not available, he will have a substantial amount of material to present to the study group on January 24. This material will include his suggested plan for improving PERS. He also needs group input at this point in the study.

Consequently, the next meeting of the study group is scheduled for 1:00 p.m. on Tuesday, January 24 in Room 311 of the Court Building, Juneau. If necessary, we will continue on January 25.

KH:ftc

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Mailing List for HCR 66 Study Group on Social Security Withdrawal

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~~Ken Humphreys~~
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Extra for Jim Baldwin
+ me

STATE OF ALASKA

Legislative Affairs Agency

ALTERNATIVES TO THE SOCIAL SECURITY SYSTEM FOR EMPLOYEES OF THE STATE OF ALASKA

A Report by Milliman & Robertson, Inc.
for the
Alaska State Legislature's Study Group
on
Withdrawal from Social Security

March 1978

ALTERNATIVES TO THE SOCIAL SECURITY SYSTEM FOR EMPLOYEES OF THE STATE OF ALASKA

Prepared by:

Richard A. Winkenwerder, F.S.A.

March 15, 1978

For the

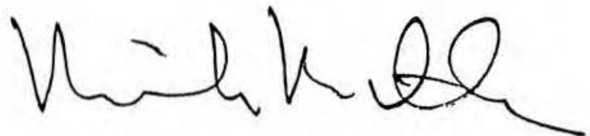
STUDY GROUP ON WITHDRAWAL FROM SOCIAL SECURITY
ALASKA STATE LEGISLATURE

FOREWORD

This report is submitted to the Legislative Council by the Study Group on Social Security Withdrawal pursuant to Legislative Resolve No. 107, S.L.A. 1977. Proposed legislation which embodies the group's recommendations relating to the state's potential withdrawal from the Social Security system will follow.

The study group, with the aid of its consultant, has explored alternatives to the Social Security system which would serve the interests of the state and its employees and which could be financed from contributions which would otherwise go to Social Security. There has been no attempt to duplicate the benefits provided by Social Security but rather, considering other benefits available to state employees, to design an alternative which may be preferable. The study group has not attempted to decide whether or not the state should opt out.

We hope the legislature and others concerned with the question of withdrawal from the Social Security system will find this report useful.



Mike Miller, Chairman
Study Group on Withdrawal
from Social Security

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March 15, 1978

Social Security Withdrawal Study Group
Legislative Affairs Agency
Alaska State Legislature
Pouch Y, State Capitol
Juneau, Alaska 99811

Attention: Representative Mike Miller

Dear Members:

At your request and direction, we have reviewed the employee benefit programs of the State of Alaska and the Social Security System to provide you with recommendations for a replacement program for state employees should the State of Alaska withdraw from the Social Security System. The results of our efforts are contained in this report.

We should like to acknowledge the very able assistance of Mr. J. K. Humphreys and would also like to thank Mr. Paul B. Arnoldt for his help in obtaining the necessary data on state employees from which we prepared our cost estimates.

Respectfully submitted,

Richard A. Winkenwerder

Richard A. Winkenwerder, F.S.A.
Consulting Actuary
Vice President
Milliman & Robertson, Inc.

RAW:lkn

STATE OF ALASKA

SECTION I

INTRODUCTION

The purpose of this report is to provide recommendations and guidance to the HCR66 Study Group on Social Security Withdrawal relative to the provisions of a fringe benefit program that would benefit the employees of the State of Alaska as a suitable substitute for the Social Security system if the state should withdraw from the Social Security system.

The Study Group had several meetings to discuss and set forth the basic guidelines that would be considered for the replacement program. The final set of guidelines represented the individual and combined thinking of the entire Study Group. As detailed investigations into the various guidelines proceeded, modifications were made when it became apparent that a particular guideline was unsuitable.

The development of a replacement program was complicated by the fact that all state employees affected by the withdrawal from Social Security (employees of the University of Alaska will not be affected) do not have the same fringe benefit coverages with the state and thus, although all would be losing the same Social Security benefits, different considerations were necessary in recommending a replacement program.

Most state employees may be classified into one of the following categories:

1. Employees participating in the Public Employees' Retirement System of Alaska (PERS). This basically covers, on a mandatory basis, all full-time and part-time employees and, on an optional basis, elected officials. Specifically excluded are state employees of the division of marine transportation engaged in operating the state ferry system while covered by a union or group retirement system to which the state makes contributions, justices and judges, temporary employees and persons covered by the Alaska Teachers' Retirement System.

2. Justices and judges

3. Temporary employees

4. Employees of the division of marine transportation as specified above

5. Employees covered by the Alaska Teachers' Retirement System

This study concerns itself with those employees in the first four categories.

The state has six basic employee fringe benefit programs which were considered in arriving at the replacement program:

1. PERS

2. Retirement and death benefit plan for justices and judges

3. Group health care and life insurance benefits for employees

4. Health care program for retired employees and family members

5. Retiree life insurance

6. Deferred compensation plan for employees

An underlying thesis throughout was the intent of the Study Group to recommend a replacement program that would be financed completely by contributions that otherwise would have been contributed to Social Security. In the final analysis it was recognized that such a commitment might not be possible where improvements to PERS were involved.

There are basically three alternatives for accommodating a replacement for Social Security. One would be to provide for improvements in PERS. Another is to establish a new supplemental plan which will provide for survivor's benefits, lump sum death benefits and disability benefits on either an insured or noninsured basis with this decision to be ultimately made at the time of implementing the program. Finally, a new deferred compensation plan could be established to provide for mandatory deferral of contributions. The details of each of these is discussed in Section III.

SECTION II

GUIDELINES

The Study Group had four meetings with the actuarial consultant. These meetings were devoted to developing the criteria that should be considered in formulating a replacement program for Social Security, in reviewing the results of actuarial calculations based on those criteria and in finalizing the plans.

The early meetings with the Study Group produced nine basic guidelines.

1. GUIDELINE

   Recommend improvements in PERS where deemed appropriate and specifically consider:

   a. reducing the service requirement for retirement to 25 or 20 years for employees other than peace officers and firemen

   b. an increase in the current 2% benefit crediting factor

   c. an automatic post-retirement adjustment to account for cost-of-living changes

   d. the disability benefits

      (i) increase them

      (ii) examine the appropriateness of differences for occupational and non-occupational causes

      (iii) consider coordinating them with benefits from other sources

      (iv) provide a five-year extension in coverage for employees who terminate to help lessen the impact of the loss of Social Security benefits

   e. different improvements for peace officers and firemen if improvements such as (a) above were adopted, to recognize that such a change would not benefit these employees

COMMENT

a. Merit was seen in applying any improved benefit factor only to service with the state performed after withdrawal from Social Security and alternatively to all service with the state both before and after withdrawal from Social Security. Therefore, study results for the cost of an increased benefit factor on both these bases is provided.

b. The Study Group directed that the cost of improving the non-occupational death benefit to the same level as the occupational death benefit recommended above in (b) be determined.

c. It was clarified that if any recommendation involved a reduction of the normal retirement service requirements for employees other than peace officers and firemen to something less than 30 years, an alternate improvement for peace officers and firemen under PERS be determined. This was appropriate because this group already has a service retirement of 20 years. A possible area to improve the plan in this regard would be an additional increase in the benefit crediting factor. Other alternatives such as an increase in either the disability or death benefits would also be considered.

d. Any automatic post-retirement adjustment based on changes in the consumer price index would be subject to the following criteria:

   (i) There would be a maximum annual increase such as 3% or 5%.

   (ii) Increases in the CPI in excess of the maximum would be carried forward to apply in any year when the actual CPI adjustment was less than the maximum specified in the plan.

   (iii) All plan benefits would be subject to the automatic CPI adjustment.

   (iv) Although it is recognized that the CPI could decrease in some year there would be at no time any decrease in plan benefits.

e. It was also suggested that consideration be given to increasing the percentage of compensation being

paid upon an occupational disability by perhaps 10% or 20% of compensation. In addition, the Study Group directed us to determine the cost of increasing the current non-occupational disability benefit to the same level as the the occupational disability benefit.

f. It was noted that the PERS disability benefits had previously been coordinated with Social Security, workmen's compensation and other employer-paid benefits. Coordination is highly preferable, but since that coordination feature was deleted (coincident with a reduction in PERS benefits), it must be assumed that the elimination must have occurred following considerable study. It therefore seemed inappropriate to pursue recommendations that would require the reinstitution of a coordination feature at this time.

2. GUIDELINE

Recommend improvements in the existing deferred compensation plan

COMMENT

No additional comments.

3. GUIDELINE

Recommend a completely new and separate plan

COMMENT

Any entirely new program would provide for disability, death and survivor's benefits, probably on an insured basis, rather than increasing any PERS benefits. Contributions in excess of those required to provide these benefits would be applied under the deferred compensation plan as increased deferred contributions.

4. GUIDELINE

Review and comment on a proposal for a replacement plan submitted to the Study Group by Mr. Robert G. Gates on August 4, 1977

COMMENT

The proposal submitted by Robert Gates for a replacement program was in essence the recommended plan outlined in (3) above. The proposal is a sound one and, with variations, is the same as we would recommend if PERS improvements were not considered.

5. GUIDELINE

Any replacement plan would be funded by current and future contributions that otherwise would have been contributed by employees and the state to the Social Security system

COMMENT

It was pointed out that any improvements in PERS to be funded by contributions that otherwise would have gone to Social Security could contain no guarantee that the cost of those improvements could always be so funded. Under these circumstances, the logical result would be for the state to absorb any excess cost.

6. GUIDELINE

Any replacement plan will require mandatory employee participation

COMMENT

No additional comments.

7. GUIDELINE

Do not consider improvements in the existing life insurance and health care plans as part of any replacement plan

COMMENT

In spite of the direction not to study improvements in the existing life and health plans, an improvement in the existing life plan is included as one recommendation.

8. GUIDELINE

Any replacement plan will not precisely replace the benefits provided by the Social Security system

COMMENT

It is recommended that only certain Social Security benefits be replaced on an approximate basis. Specifically, these relate to lump sum death, survivor's benefits and disability benefits. The amount of such benefits in each of these cases would not be geared to the amount payable under Social Security but would rather be geared to a level which is deemed appropriate and desirable. In addition, the categories of beneficiaries entitled to these benefits under the replacement plan would be severely restricted over what is allowable under Social Security. For example, such categories of beneficiaries such as divorced wives, spouses of retirees, disabled widows, surviving divorced wives of deceased workers, grandchildren and dependent parents who are also eligible for benefits under Social Security are not being considered under the replacement program. In general, it was felt that coverage for these kinds of beneficiaries was not deemed appropriate nor in the best interest of the state.

9. GUIDELINE

Determine the cost to extend coverage in PERS to employees of the division of marine transportation engaged in operating the state ferry system

COMMENT

The Study Group felt that it would be inappropriate to determine the cost under PERS for employees of the division of marine transportation under all of the options and alternatives being considered. They felt that being provided with the cost of coverage under PERS as it stands now for only state service after incorporation into the program, and also where all state service both before and after incorporation into the program is considered would be adequate for the immediate purposes.

We then completed investigations and certain studies based on the provisions of the guidelines. In the process of implementing the guidelines and determining their appropriateness, a number of questions were raised that required answering. In some cases the results indicated that a modification of a guideline was desirable; in other cases it indicated that a clarification of a guideline was necessary before arriving at more specific recommendations. Detailed discussions were held over the nine basic guidelines of the Study Group which resulted in the following comments:

Because not all state employees participate in PERS and because the PERS benefits are not identical for those that do, it is appropriate that the supplemental plan, although perhaps being structured basically the same for all employees, have different levels and types of benefits. The final recommendations will clarify the extent to which each of the employee groups would be participating in the supplemental plan.

We indicated that the final report would contain a specific recommendation for paying for Social Security hospital insurance benefits and supplementary medical insurance benefits (Medicare) at time of retirement for any employee not otherwise eligible for such benefits. It seemed appropriate also that some comments be included in the report relative to the general adequacy of retirement, disability, survivor's and death benefits from all sources. It was felt that such comments would better enable the Study Group to determine the particular importance of any PERS improvement or benefits arising from some supplemental plan.

SECTION III

RESULTS AND RECOMMENDATIONS

This Section includes the results of our calculations, our recommendations for the design of replacement plans and our recommendations and comments relative to the other areas as requested by the Study Group and outlined in Section II. We recommend three alternative plans for consideration, each of which would utilize all contributions otherwise diverted to Social Security.

An underlying consideration in our recommendations for PERS improvements and the death and disability benefits in a new supplementary plan, was that retirement, death and disability benefits be at a reasonable level and that the cost of PERS improvements and the supplementary plan not exceed 75% of the contributions available from Social Security on a long-term basis.

BASIC RECOMMENDATIONS

PLAN A

PERS EMPLOYEES

1. Increase the benefit crediting factor in PERS for employees other than peace officers and firemen to 2-1/2% per year of state employment after withdrawal from Social Security (currently 2%).

   Cost - see item 2.

2. Increase the benefit crediting factor in PERS for peace officers and firemen to 2-1/2% per year for the first 10 years of state employment after withdrawal from Social Security and to 3% per year thereafter (currently 2% and 2-1/2%).

   Cost - 2.4% of compensation for 1 and 2.

3. Increase the occupational death and disability benefits in PERS for payments prior to retirement date to the larger of 40% of compensation and the accrued PERS benefit (currently 40% of compensation).

   Cost - 0.0% of compensation.

4. Increase the non-occupational disability benefit in PERS to 60% of compensation for payments prior to retirement and to the projected accrued benefit, including years while disabled, after the normal retirement date (currently accrued benefit).

   Cost - 0.5% of compensation.

5. Increase the non-occupational death benefit in PERS to provide a lump sum death benefit after one year of $5,000 plus $500 per year of service and, for death after 5 years, the option of receiving the full accrued benefit. The above benefits would be in addition to the employee's own accumulated contributions (currently $1,000 plus $100 per year and option of 50% joint and survivor benefit).

   Cost - 0.4% of compensation.

The total cost for PERS improvements would be 3.3% of compensation.

6. Balance of Social Security contribution not required for PERS improvements will be directed to a new mandatory deferred compensation plan.

JUSTICES AND JUDGES

1. Provide for monthly disability income under a new supplementary plan equal to 60% of the first $5,000 of basic monthly compensation. The benefit would be offset by benefits payable from the pension system, Social Security, and workmen's compensation and would be payable until the earlier of age 65 and the date the employee would have qualified for a pension benefit.

   Cost - 0.5% of compensation.

2. Provide for a lump sum death benefit under a new supplementary plan equal to annual compensation.

   Cost - 0.5% of compensation.

The total cost of new plan equals 1.0% of compensation.

3. Balance of Social Security contribution not required for new plan will be directed to a new mandatory deferred compensation plan.

TEMPORARY EMPLOYEES

1. Provide for monthly disability income under a new supplementary plan equal to $100 per week payable until age 65.

   Cost - 0.3% of compensation.

2. Provide for a lump sum death benefit under a new supplementary plan equal to $15,000.

   Cost - 0.2% of compensation.

The total cost of new plan equals 0.5% of compensation.

3. Balance of Social Security contribution not required for new plan will be directed to a new mandatory deferred compensation plan.

MARINE EMPLOYEES

1. Provide for monthly disability income under a new supplementary plan equal to 60% of the first $5,000 of basic monthly compensation. The benefit would be offset by benefits payable from any pension plan, Social Security and workmen's compensation and would be payable until the earlier of age 65 and the date the employee would have qualified for a pension benefit.

   Cost - 1.4% of compensation.

2. Provide for a lump sum death benefit under a new supplementary plan equal to annual compensation.

   Cost - 0.9% of compensation.

3. Provide for a monthly survivor's benefit under a new supplementary plan for an employee who dies equal to 2.5% of compensation for each year of service. No benefit shall be payable if death occurred due to non-occupational cause prior to the completion of five years of service.

   Cost - 1.2% of compensation.

The total cost of new plan equals 3.5% of compensation.

4. Balance of Social Security contribution not required for new plan will be directed to a new mandatory deferred compensation plan.

PLAN B

PERS EMPLOYEES

1. Improve PERS according to items 1, 2 and 3 of Plan A.

   Cost - 2.4% of compensation.

2. Provide for monthly disability income under a new supplementary plan equal to 60% of the first $5,000 of basic monthly compensation. The benefit would be offset by benefits payable from PERS, Social Security and workmen's compensation and would be payable until the earlier of age 65 and the date the employee would have qualified for a pension benefit.

   Cost - 0.7% of compensation.

3. Provide for a lump sum death benefit under a new supplementary plan equal to annual compensation.

   Cost - 0.5% of compensation.

The total cost of PERS improvements and new plan equals 3.6% of compensation.

4. Balance of Social Security contribution not required for PERS improvements and the new plan will be directed to a new mandatory deferred compensation plan.

JUSTICES AND JUDGES, TEMPORARY EMPLOYEES AND MARINE EMPLOYEES

1. All benefits and costs will be as described for Plan A.

PLAN C

PERS EMPLOYEES

1. There will be no PERS modifications.

2. All benefits and costs will be as described according to items 2, 3 and 4 of Plan B.

The total cost of new plan equals 1.2% of compensation.

JUSTICES AND JUDGES, TEMPORARY EMPLOYEES AND MARINE EMPLOYEES

1. All benefits and costs will be as described for Plan A.

We completed calculations to determine the cost of the various improvements to PERS that had been discussed with the Study Group, in addition to those included above as recommendations. The costs for all PERS improvements are shown in Table 1 and are expressed as a percentage of the total compensation of state employees covered under PERS. A brief summary of the costs and benefits for the new supplementary plan for each of the four employee groups is provided in Table 2.

Some discussion of the costs in Table 1 is appropriate. In some cases two percentages are shown for a single improvement. This is consistent with the method used for presenting costs in the annual actuarial valuations prepared for the system. One percentage is a future service percentage applicable to the compensation of plan participants in each future year. The other is a past service percentage which represents the current year percent of compensation necessary to amortize the additional past service liability created as a result of the proposed amendment with level dollar payments over a period of 35 years. Thus, for the past service portion, the percentage will likely decrease slightly each year as the covered payroll increases.

Until such time as the past service portion is amortized (35 years), the total annual cost for a given improvement is equal to the sum of the past and future service percentages multiplied by the total compensation of PERS participants. After that time, the cost is equal to only the future service percent of total participant compensation.

STATE OF ALASKA
COST OF PERS IMPROVEMENTS

Table 1

	PAST SERVICE COST	FUTURE SERVICE COST	TOTAL COST
FUTURE SOCIAL SECURITY CONTRIBUTIONS	-%	10.2%	10.2%
CURRENT PERS COST	2.4	10.7	13.1
PERS IMPROVEMENTS:			
(1) 1/2% benefit factor			
a. Applies only to state service after January 1, 1978	-	2.4	2.4
b. Applies to state service before and after January 1, 1978	1.0	2.4	3.4
(2) 25 year service retirement	0.2	0.7	0.9
(3) 20 year service retirement	0.8	2.2	3.0
(4) 1% Cost-of-Living adjustment			
a. If an unfunded liability is created	0.4	1.4	1.8
b. If costs are funded entirely over service after January 1, 1978	-	2.8	2.8
(5) Larger of 40% compensation or accrued benefit for occupational death or disability	-	0.0	0.0
(6) $5,000 plus $500/year lump sum death benefit or monthly accrued benefit if elected	-	0.4	0.4
(7) Non-occupational disability of larger of 40% compensation or accrued benefit	-	0.4	0.4
(8) Non-occupational death of larger of 40% compensation or accrued benefit	-	0.8	0.8
(9) Non-occupational disability of 60% of compensation	-	0.5	0.5

Note: A "-" indicates no cost whereas "0.0" indicates some cost, although minimal.
All past service costs are funded over 35 years.
All costs are expressed as a percentage of the total compensation of PERS participants.

Note that the first line of Table 1 shows the level percent of future participant compensation that would be equivalent to future Social Security contributions. For this purpose, the recent Social Security amendments were recognized. We used the legislated contribution rates and taxable wage bases and the six subsequent year wage base estimates prepared by the Social Security Administration. We then assumed an annual 5% increase in the taxable wage base beyond that point. We valued the future compensation of plan participants using the PERS actuarial assumptions in Appendix a.

Social Security

Year	Contribution Rate	Taxable Wage Base
1977	5.85%	$16,500*
1978	6.05	17,700
1979	6.13	22,900
1980	6.13	29,700
1981	6.65	31,800**
1982	6.70	33,900
1983	6.70	36,000
1984	6.70	38,100
1985	7.05	40,200
1986	7.15	42,600
1987	7.15	44,730***
1988	7.15	46,967
1989	7.15	49,315
1990 & later	7.65	51,781

The contribution rate is applicable to both employees and employers.

* The wage bases for years 1977 through 1980 are legislated.

** The wage bases for years 1981 and later are subject to automatic adjustment. The figures shown for years 1981 through 1986 are estimates prepared by the Social Security Administration.

*** All future years subject to automatic adjustment by law. An annual increase of 5% was assumed.

These calculations showed that the total future Social Security contributions are equivalent to 10.2% of total future participants' compensation. Note that this is total compensation and not just that portion subject to the

Social Security taxable wage base. Thus, the percentage would be larger than 10.2% if the contributions were related to the taxable wage base. We also prepared two alternative calculations to see the effects of different sets of assumptions. In one of these we assumed that the tax rate stabilized at 6-1/2% commencing in 1981. This produced an equivalent rate of 9.8%. Another was to replace the 5% growth factor for compensation and the taxable wage base by 10%. This produced a level percentage of 9.6%.

In analyzing the costs of the various PERS improvements, it should be noted that since the contribution rate to Social Security increases for 13 years and since the taxable wage base, although increasing at a rate in excess of 5% per year, is less than earnings for many people, the estimated contributions that would have been made to Social Security will be less than 10.2% of compensation until about 1981 and more than that thereafter. For example, the estimated 1978 Social Security contributions will be 8.3% of compensation rather than 10.2%.

PER IMPROVEMENTS

These may be summarized below:

1. One consideration was to provide an additional 1/2% of salary as a benefit under the program. Specifically, this would increase the existing 2% accrual factor for non-peace officers and firemen to 2-1/2% and would increase the benefit accrual factor for peace officers and firemen from the existing 2% for the first 10 years and 2-1/2% for years thereafter up to 2-1/2% for the first 10 years and 3% for years thereafter. This is achievable for an estimated cost of approximately 25% of the Social Security contributions.

2. Another consideration was the reduction in the service requirement for non-peace officers and firemen from 30 years to 25 years and also from 30 years to 20 years. The reduction to 20 years would require approximately 30% of the Social Security contributions and the reduction to 25 years approximately 10% of the Social Security contributions.

3. An automatic post-retirement pension adjustment was proposed whereby on an annual basis any former employee or beneficiary receiving a monthly benefit would have that monthly benefit adjusted on an annual basis to account for changes in the Consumer Price Index. This improvement would apply only to persons becoming retired

after the effective date of the change. As indicated earlier this benefit is extremely expensive and, for example, an automatic 1% annual increase would require 20% to 30% of the Social Security contributions. Therefore, if an automatic adjustment were provided with a maximum annual increase of just 3%, it would take over half of the contributions otherwise payable to Social Security.

4. The improvement in the occupational death and occupational disability benefits to pay the accrued benefit prior to retirement if larger than 40% of compensation has an insignificant cost attached to it. The change is desirable since a person who now becomes non-occupationally disabled with over 20 years of service would receive a larger benefit than an occupationally disabled person.

5. The improvement in the non-occupational death benefit for both the lump sum and survivor's benefits to those outlined in Section II, namely an increase in the lump sum death benefit to a flat $5,000 plus $500 per year of coverage and an increase in the survivor's benefit for any employee who died after having 5 years of service to the full accrued benefit, would require approximately 4% of the Social Security contributions.

6. The cost of improving the non-occupational death and non-occupational disability benefits to the same as the occupational death and disability benefits, namely a benefit equal to 40% of compensation or the existing accrued benefit, would require approximately 12% of the Social Security contributions.

7. Finally, an increase in the non-occupational disability benefit to 60% of compensation would require about 5% of the Social Security contributions.

It is apparent from these studies that any of the suggested PERS improvements could be made. It should be noted that if change (2) above were adopted, our recommendation would be that since such a change would have no effect at all on peace officers and firemen, their retirement benefit be enchanced by an equivalent amount. Therefore, if a decision were made to go to 20-year retirement, it would be our recommendation that the peace officers and firemen's benefit credit be enhanced by a full 1% for state service after withdrawal as opposed to the 1/2% discussed above. If the decision were made to go to the 25-year retirement, our recommendation would be that their benefits be enhanced by 3/4% rather than 1/2%.

NEW SUPPLEMENTAL PLAN

Our next step was to design an entirely new plan to provide lump sum death, survivor and disability benefits as an alternative in the event improvements under PERS in these benefit areas was not deemed advisable. We focused on two key benefits: the disability benefit and the survivor benefit. The lump-sum death benefit available under Social Security is negligible and would be effectively replaced under our suggestions.

The Social Security Administration is in a unique position to administer its benefits, having full knowledge of the employment and earnings status of all persons. The system has evolved to where it administers an extremely complex benefit structure. It is not practical to replace the exact benefits of Social Security. For that matter, with respect to these two benefits, there is even considerable difficulty in integrating with Social Security (especially for the survivorship benefit).

We attempted to develop a benefit structure that would be relatively easy to maintain and also provide reasonable equity to all covered persons. A brief summary of costs and benefits is provided in Table 2.

The costs we developed will change over time, depending on the future hiring patterns of the state. The costs would remain approximately as stated if the state employees formed, in effect, an unchanging group with respect to all characteristics (in particular, if the "vesting" of Social Security remains the same for individuals). If there is an increasing concentration of individuals who have no Social Security coverage, the disability cost would be expected to rise because of the declining influence of Social Security offsets. Further, there will be rapidly declining Social Security disability benefits for existing employees. We have indicated costs for the long-term disability assuming no Social Security offsets to illustrate the worst possible situation.

We have gone further than simply replacing the disability benefit. The reason for this is that most large employers now provide a substantial long-term disability benefit. Typical characteristics are replacement of 60% of income to age 65 following a six month disability wait. Eligibility is often at date of employment. The existing program for Alaska employees is weak in total provision for disability, with one exception. Disability payments from all sources in the event of occupational disability appear to be highly redundant and although benefits will be lost from Social

Security, replacement was not deemed appropriate. Some problems in this area might well be anticipated in the future. However, non-occupational disabilities are only moderately provided for. Only individuals with a considerable length of service receive a substantial total disability benefit considering both Social Security and the retirement system together.

We recommend that the state institute an adequate long-term disability program. The long-term disability benefit is assumed to be integrated with all sources, including disability benefits under the PERS system, Workmen's Compensation and Social Security.

For the survivorship benefit, it appeared impractical to develop an umbrella-like structure as with the long-term disability. Also, adoption of a formula such as 40% or 50% continuance of pay leads to benefits and costs well in excess of those typically provided and required.

We suggest the replacement of the survivor benefit be independent of any vested Social Security benefits for employees. At a minimum we suggest a one times salary lump-sum death benefit for all employees ($15,000 flat for temporaries). Probably more desirable, would be a two times salary benefit for all employees ($15,000 flat for temporaries). Assuming $25,000 annual salary, a death benefit of $50,000 would provide income of about $700 a month for 8 years. In addition, beneficiaries of the employee would receive any survivorship benefit available under PERS and Social Security. Benefits, in total, would likely be superior to those resulting from the combination of existing PERS and Social Security benefits. A lump-sum benefit is easy to administer and avoids the severe problems associated with keeping track of the status of the survivors (remarriage or spouse earnings following death of the employee).

STATE OF ALASKA

OCCUPATIONAL AND NON-OCCUPATIONAL DISABILITY
AND DEATH BENEFITS

LONG TERM DISABILITY	EMPLOYEES COVERED UNDER PERS	EMPLOYEES OF JUDICIAL SYSTEM	MARINE EMPLOYEES	TEMPORARY STATE EMPLOYEES
Eligibility	A regular employee becomes eligible for coverage on the first day of employment	A regular employee becomes eligible for coverage on the first day of employment	A regular employee becomes eligible for coverage on the first day of employment	A regular employee becomes eligible for coverage on the first day of employment
Definition of Disability	Disability means the complete inability of the employee to engage in his regular occupation during the first 12 months of disability, and thereafter the complete inability to engage in any employment or occupation for which he is reasonably fitted by reason of education, training or experience.	Disability means the complete inability of the employee to engage in his regular occupation during the first 12 months of disability, and thereafter the complete inability to engage in any employment or occupation for which he is reasonably fitted by reason of education, training or experience.	Disability means the complete inability of the employee to engage in his regular occupation during the first 12 months of disability, and thereafter the complete inability to engage in any employment or occupation for which he is reasonably fitted by reason of education, training or experience.	Disability means the complete inability of the employee to engage in his regular occupation during the first 12 months of disability, and thereafter the complete inability to engage in any employment or occupation for which he is reasonably fitted by reason of education, training or experience.
Benefits Payable	The total amount of monthly benefit shall be 60% of the first $5,000 of the employee's basic monthly earnings at the date of disability reduced by the Deductible Amount.	The total amount of monthly benefit shall be 60% of the first $5,000 of the employee's basic monthly earnings at the date of disability reduced by the Deductible Amount.	The total amount of monthly benefit shall be 60% of the first $5,000 of the employee's basic monthly earnings at the date of disability reduced by the Deductible Amount.	The total amount of benefit shall be $100 per week.
Deductible Amount (Coordination of Benefits)	Any disability benefits the employee is entitled to under the Social Security and PERS systems.	Any disability benefits the employee is entitled to under the Social Security and Pension systems.	Any disability benefits the employee is entitled to under the Social Security system.	None
Maximum Benefit Period	Disability Benefits are payable to the earlier of the date of attainment of age 65 or the date of eligibility for normal retirement benefits.	Disability Benefits are payable to the earlier of the date of attainment of age 65 of the date of eligibility for normal retirement benefits.	Disability Benefits are payable to the earlier of the date of attainment of age 65 or the date of eligibility for normal retirement benefits.	Disability Benefits are payable to the date of attainment of age 65.
Elimination Period	Disability Benefits are not payable during the first six months of disability.	Disability Benefits are not payable during the first six months of disability.	Disability Benefits are not payable during the first six months of disability.	Disability Benefits are not payable during the first six months of disability.
Estimated Cost as Percentage of Covered Payroll	.39%	.34%	.85%	.27%
Estimated Cost as Percentage of Covered Payroll, Without Coordination with Social Security System	.72%	.49%	1.40%	.27%

TABLE 2

TABLE 2 (continued)

SURVIVOR INCOME	EMPLOYEES COVERED UNDER PERS	EMPLOYEES OF JUDICIAL SYSTEM	MARINE EMPLOYEES	TEMPORARY STATE EMPLOYEES
Eligibility	A regular employee becomes eligible for coverage on the first day of employment.	A regular employee becomes eligible for coverage on the first day of employment.	A regular employee becomes eligible for coverage on the first day of employment.	A regular employee becomes eligible for coverage on the first day of employment.
Lump Sum Benefit	The amount payable to the beneficiary shall be equal to twelve times the employee's basic monthly earnings immediately prior to his death.	The amount payable to the beneficiary shall be equal to twelve times the employee's basic monthly earnings immediately prior to his death.	The amount payable to the beneficiary shall be equal to twelve times the employee's basic monthly earnings immediately prior to his death.	$15,000
Monthly Income Benefit	None	None	The amount shall be equal to 2.5% of the basic monthly earnings for each year of service accrued. No benefit shall be payable if death occurred due to non-occupational cause prior to the completion of five years of employment.	None
Estimated Cost as Percentage of Covered Payroll	.47%	.51%	2.15%*	.21%
Estimated Cost as Percentage of Covered Payroll by Doubling Lump Sum Benefit	.94%	1.02%	3.06%	N/A

* .91% for lump sum benefit, 1.24% for monthly income benefit.

OTHER RECOMMENDATIONS

DEFERRED COMPENSATION PLAN

The existing deferred compensation plan provides for optional deferrals of compensation by permanent employees and appointed and elected officials who have completed six consecutive months of employment. A new deferred compensation plan should be established to provide for the deferral of the excess of Social Security contributions not required for PERS improvements and the new supplementary plan.

Many of its features would be similar to the existing plan but changes would also be required. For example, the new plan would provide for mandatory participation for the excess amounts by all state employees and should not provide for any hardship withdrawals. It would also provide for a separate Medicare account (discussion follows). It is recognized that there may be some difficulty in administering such a plan for temporary employees, but the possibility is not ruled out.

FUTURE INCREASES IN SOCIAL SECURITY CONTRIBUTIONS

We recommend that future increases in Social Security contributions be automatically diverted to the new deferred compensation plan until sufficient time has elapsed to judge the accuracy of the cost estimates for the PERS improvements. Only when that judgment can be made should additional improvements to PERS be considered.

MEDICARE

Any employee who is eligible for a Social Security benefit, who is at least age 65, and disabled beneficiaries are automatically covered under the health insurance portion of Social Security (Part A of Medicare). In addition, he may, if he desires, pay the premium for the supplementary medical insurance (Part B of Medicare). It is felt that the bulk of the existing employees and a large percentage of future employees of the state would qualify for some Social Security benefits. Such qualification would automatically cover these employees under the health insurance portion of the Social Security system. The existing retiree health care plan of the State of Alaska automatically reduces the benefits payable from that plan for benefits receivable from Medicare. This adjustment is made on the assumption that all employees

eligible for the health insurance portion of Medicare are covered. This is deemed to be a desirable feature, and, therefore, it is important in the future that all employees be covered under Part A of Medicare.

For employees who are not otherwise eligible for Social Security benefits, a premium may be paid to provide that coverage. That premium is currently $54 a month when eligible and is scheduled to increase in the future. It would be desirable to establish a means whereby sufficient funds would be available at age 65 for the employee to pay that Part A premium. We feel that that can be reasonably achieved through the new deferred compensation plan. Therefore, under Plans A, B or C, a portion of the contributions being deferred on a mandatory basis for employees would, on a bookkeeping basis, be diverted to a separate accumulation account for the purpose of creating a fund to pay the Part A premium at age 65.

The deferred compensation plan would provide for the continued maintenance of that account until the employee reaches age 65 (or earlier becomes eligible for Part A coverage as a result of disability under Social Security). At that time money would be withdrawn from that special account and either paid directly by the state to the Social Security system to pay the annual Medicare premium for such individual, or in lieu of that, a special payment may be made directly to the individual permitting him to make the Medicare premium payment if so desired. No attempt would be made to accumulate the exact amount needed to pay those premiums for the balance of the employee's lifetime. There would, however, be a determination made, based on the employee's age and anticipated retirement date, of the portion of his mandatory deferred compensation contributions that should be set aside in the reserve Medicare account. Rough calculations indicate that a contribution of $20 - $25 per month for 20 years will provide all or a good portion of the funds to pay the premiums.

EMPLOYEE CONTRIBUTIONS TO PERS

The treatment of additional employee contributions under PERS was discussed in some detail with the Study Group. It was pointed out that if the cost of any PERS improvements exceeded the amount of money that the state otherwise would have contributed to Social Security, the additional cost of those PERS improvements must, of course, be provided by the employees out of their Social Security contributions. The question was whether to provide for a refund feature on those contributions. It was noted that the entire improvements being considered would arise solely as a result of a withdrawal

from Social Security coverage. Since employee contributions to the Social Security system are not allocated to his behalf and since he is at no time entitled to any refund on those contributions, a similar treatment in any PERS improvements requiring employee contributions would be appropriate. Therefore, at our recommendation, the Study Group concluded that any employee contributions required to be contributed to an improved PERS system, regardless of whether those contributions arose from pre-tax or after-tax dollars, be provided on a no-refund basis. This would enable larger benefits to be provided under the PERS plan dollar-for-dollar than otherwise would be the case because an additional benefit, namely the refund benefit, would not be provided.

FIVE YEAR DISABILITY EXTENSION

Concern was expressed for continued disability coverage during the five years after employees leave the employ of the state. This concern results because in order for an employee to be eligible for disability benefits under Social Security, he must, in addition to satisfying other requirements, have earned Social Security credits in at least five of his last ten years at the point of disability. Regardless of an employee's status under Social Security at the time that he left employment with the state, if he did go to another employer which was covered by Social Security, he would have regained his disability insurance status in no more than another five years. Therefore, the suggestion was to provide a means whereby some disability coverage may be continued under a state sponsored plan for a period not to exceed five years following the employee's termination of employment.

Such a plan simply is not desirable. Some of the considerations are:

1. Such a plan would probably have to be self-insured, as it is doubtful that a carrier would accept the coverage.

2. The benefit would logically be a flat dollar benefit or based on compensation at time of termination, as opposed to being a percent of compensation at time of disability which is typical.

3. The benefit should be fully coordinated with other disability benefits payable to the employee to reduce costs and anti-selection. However, the administrative burden could be significant. How do you confirm disability for a former employee? How do you confirm the amount and source of the coordinated benefits for a former employee?

4. Such a plan could be made voluntary, but that would increase selection; and if only a few employees elected it, it could have no sound financial management. If made mandatory, it would increase the cost.

5. The employee may be covered by his new employer under a disability plan and not need the coverage.

6. Termination of employment is generally at the employee's option or forced because of inadequate performance. In either case, what obligation does the state have for continuing benefits?

We would recommend against consideration of this coverage.

MARINE TRANSPORTATION DIVISION EMPLOYEES

Costs were prepared to determine the level required to include employees in the division of marine transportation in PERS. Two sets of calculations were prepared, one to only count state service for benefit crediting purposes from the date of inclusion onward and the second to include not only that service but also all prior state service for purposes of benefit credits. The all service calculation of the future service rate for this group of employees was 9.6% of compensation and the 35-year past service rate 4.0% of compensation for a grand total of 13.6% of compensation. This compares with 13.1% for the current PERS participants. For the future service only plan, the future service rate was 7.9% of compensation with no additional past service rate.

These percentages indicate that the cost of PERS for these employees is slightly more than it is for existing PERS participants but the additional level of cost is not such that their inclusion in PERS would be prohibitive. If it should be concluded that certain improvements in PERS are desirable, the additional costs to bring in this group of employees on the improved basis could, of course, be estimated by the increases for the existing group. The Study Group directed us not to proceed with additional calculations for this group of employees. If it should be decided at some time to include this group in PERS, it would simply mean that contributions otherwise being diverted to the remaining portions of the replacement program would be reduced.

SECTION IV

DISCUSSION

Some of the results presented in Section III and other aspects of this study require discussion. This section will cover the following items:

1. A discussion of the level of death and disability benefits.

2. A discussion of the level of retirement benefits that can be expected from the current and proposed plans and their reasonableness.

3. The margin which we feel should be maintained between the estimated long-term additional costs of PERS and the estimated long-term costs of the Social Security system.

4. A discussion of the impact of future changes of one or more actuarial assumptions on the costs presented in Section III.

5. An analysis of the existing health care and life insurance benefits for employees and retired employees and family members.

6. A brief discussion of future costs of the Social Security system.

7. A discussion of the ways in which employee contributions being paid to Social Security may be paid to the retirement program.

Each of the above items will be discussed in detail below following the same numbering system:

1. DEATH AND DISABILITY BENEFITS

    The Study Group desired to see the impact upon PERS costs of increasing the level of both non-occupational death and disability benefits to the levels of those for occupational benefits. The results of those studies were presented in Section III where it was shown that the cost would be 1.2% of covered compensation. There are varying philosophies about the desirability of

maintaining different levels of benefits for occupational and non-occupational death and disability benefits. In a recent report prepared for another state on its PERS disability program, it was shown that out of 16 plans studied one-half had the same level of benefits for both occupational and non-occupational disability benefits for peace officers and firemen whereas that percentage increased to over 70% for other employees.

Although there is a rationale for both approaches, there is considerable justification for having disability benefits for both occupational and non-occupational causes the same. The same philosophy can, of course, carry over into death benefits. We believe the suggestion of the Study Group to examine the desirability of increasing the level of non-occupational death and disability benefits to that of occupational benefits should not be taken lightly. As a minimum, an additional layer of benefits for both death and disability on the occupational and non-occupational bases would be appropriate if a supplemental program is not adopted.

Another item requiring some discussion is the coordination of disability benefits with those payable from other sources such as Workmen's Compensation, Social Security and other employer sponsored benefits. As indicated earlier the disability benefits of PERS were coordinated with these other programs but such a provision was deleted. In conjunction with the deletion of that coordination provision the benefit levels were reduced. It was not deemed appropriate at this time to study plans that would include coordination, although the concept of coordination is a highly valid one and should not be dismissed lightly.

2. LEVEL OF RETIREMENT BENEFITS

The potential level of benefits being paid from PERS was reviewed to examine the appropriateness of increasing the benefit crediting factor by some additional amount.

Studies have been completed periodically to determine the required level of benefits to maintain the same standard of living after retirement as before. Those studies, when measuring the adequacy of benefits commencing at age 65, will typically show that for a lower-paid employee, benefits from all sources should be in the vicinity of 65% to 75% of pay at time of retirement, whereas for higher-paid employees that percentage can conceivably go as low as 40% or 45%. For plans which

permit retirement prior to age 65 such as Alaska PERS, those percentages should be increased in order to create the same level of adequacy.

We considered retirements after either 20 years or 30 years of credited service. For other than peace officers and firemen, the PERS benefit after 20 years of service is 40% of the retiree's pay whereas for 30 years it is 60%. Although PERS does not have a 20 year retirement provision for non-peace officers and firemen, such an employee who was age 55 could retire. All the percentages mentioned are accurate as related to an employee's highest three-year average compensation, but would be somewhat less when related to compensation at retirement date. Similar figures for peace officers and firemen would be 45% and 70%. These figures would seem to indicate that for 20-year employees, whether peace officer, fireman, or other, an enhancement in the benefit crediting factor would seem desirable and, for example, a 1/2% increment would add another 10% to the replacement percentage. When one then considers the employees' voluntary savings, residual Social Security and any sums under the deferred compensation plan these percentages do not appear unreasonable.

However, an enhancement in the benefit crediting factor for the 30-year employee does not present the same picture. The enhancement for the non-peace officer and fireman of 1/2% would raise the PERS benefit to 75% of pay at time of retirement. For the peace officers and firemen that percentage would be raised to 85%. These percentages when combined with residual Social Security and employee savings provide benefits at and beyond the upper level of the adequacy scale. Nevertheless, an enhancement of 1/2% could be considered as not unreasonable when one considers the impact of inflation, the higher replacement levels considered necessary at younger retirement ages and the percentage of total retirees with 30 years of service.

3. MARGIN

Earlier we recommended that the combined cost of additional improvements to PERS and a supplemental plan not exceed 75% of the anticipated future cost of the Social Security system. We feel it desirable to recognize the need for such a margin and to recognize the fact that if that margin should prove itself to be more than sufficient in the future, additional improvements to PERS could be adopted if desirable. It is important to

keep in mind that although a substantial margin is being maintained, it does not mean that employees are not getting their fair value out of contributions that otherwise would have gone to Social Security since such excess monies are being deposited in the balance of the approved programs for their benefit.

The contributions to PERS to fund for the increased benefits will vary from year to year because of plan experience relative to salary changes, investment earnings, rates of death, termination, disability, rates of consumer price index, etc. Therefore, contributions to any supplemental program (or to improvements in the deferred compensation plan) will necessarily vary from year to year, depending upon the surplus remaining after the PERS improvements are funded for the year, but the full amount of Social Security contributions will be utilized.

A further discussion of the merits of the margin and the specific impact of Social Security will be discussed somewhat later in this same section.

4. EFFECTS OF ACTUARIAL ASSUMPTIONS

It should be recognized that all of the costs presented in Section III are based, among other things, upon the actuarial assumptions currently being used by the state actuary. There undoubtedly will be changes in one or more of those assumptions at times in the future. Specifically, the PERS Board on October 20, 1977 elected to alter the amortization period for any unfunded liabilities from 35 years to 30 years effective July 1, 1978. In addition, they elected to increase the interest assumption from 5% to 6%, to increase the salary scale assumption modestly for ages prior to 39 and to adopt the new 1971 Group Annuity Mortality table all effective for costing during fiscal year 1978. This is simply an indication and a recognition that actuarial assumptions will change from time to time.

The specific impact of any one assumption's change on the cost presented in Section III is not being included as a part of this report. It should, however, be recognized that in terms of the specific changes that have been adopted to be effective during 1978, the following comments are valid.

A reduction in the amortization period of the unfunded liability from 35 to 30 years will effectively increase

the annual cost of that amortization by about 7% of the current amortization cost. An increase in the interest assumption from 5% to 6% will reduce the overall funding cost of the program by something in the vicinity of 20% to 25%. The increase in the salary scale will increase the cost of the program by something less than this. The combination of these three specific changes that have been adopted have the effect to reduce costs.

This means that any package of benefits that might be adopted for PERS improvement will, all other things being equal, cost somewhat less than those numbers presented in Section III. We do not feel, however, that recognition of this should cause the benefits in PERS to be improved beyond those that have been recommended. The result is that the margin created may be larger than anticipated and further it will simply divert more monies into the alternate programs than otherwise might have been the case.

5. EXISTING HEALTH CARE AND LIFE INSURANCE PLANS

There follows a brief comprehensive discussion of the existing health care and life insurance benefits for employees, retirees and their family members. The Study Group did not request any specific costs of any specific improved benefits, but analysis and overall review of these programs was deemed to be helpful and desirable as a part of the Social Security review.

GROUP LIFE INSURANCE

The $2,000 benefit is a burial benefit. In order for an employee to accrue any immediate, significant group life coverage, he must purchase (at 100% cost to himself) the optional group life plan. This is a weaker benefit than is typical. Group life benefits are, of course, not taxable as income but are included in the estate of the deceased. We would be inclined to suggest at least a one-time salary group life benefit paid for by the state and, in addition, an optional plan which is subsidized at least to some extent, say, at least 25%.

DISABILITY INSURANCE

There is no disability plan for the employees other than PERS. However, all of the replacement programs which we have recommended provide either for an enhancement of the PERS disability benefit or the addition of a long-term disability plan outside of PERS.

MEDICAL ANL DENTAL

Our overall reaction is that the program is very good. We personally prefer comprehensive medical plans that require the employee to take care of small bills. This plan has a small deductible of $50 and coinsurance grades from 20% to 0% in such a way that the employee would not be out-of-pocket for a major expense for more than $1,000. Maternity is covered as any other medical expense which is very good coverage. There is good outpatient mental coverage. The dental benefit is an incentive program related to a schedule benefit. The scheduled benefit is about two years old and appears to be 20% or so below current fee levels. It would probably be desirable to update the schedule. The basic structure of paying 50% in the prosthetic area is necessary in order to control utilization and cost level for such a plan. There are vision and audio benefits under the plan; these are not included in many plans today.

In spite of all the good features of this plan, we note that many people today, especially governmental groups, have come under coverage that provides first dollar benefits in the outpatient physician areas. Adoption of such a plan which involves service benefits would cost more than just the extra dollars that would be expected to be paid on account of the increasing utilization that accompanies removal of financial disincentives. We wouldn't recommend a change in the format of the plan, but it might be desirable to get some reading from the employees about their reaction to the plan.

6. FUTURE COST OF SOCIAL SECURITY

There are some specific aspects of the basic concept of the overall program that are important and should be discussed. It should, of course, be kept in mind that the whole purpose of the study was to find additional benefits or types of benefits that could be provided for state employees in lieu of continued coverage under the Social Security system. It was indicated earlier that the best estimate at this time as to the future costs of the Social Security program based on the current law for both employees and the state combined was 10.2% of the compensation of state employees. It should be pointed out that this percentage is the average over the future lifetime of existing employees and is not the level that would be expected at each given year.

The Social Security law provides for increasing contribution rates and taxable wage bases. We estimated the level of Social Security contributions (combined employee and employer) that otherwise would be contributed to the Social Security system for the years 1978, 1979 and 1987 and have in each case expressed these as a percentage of the anticipated salaries paid to employees at those points in time.

Social Security Contributions As a Percent of Compensation	
Year	Percent
1978	8.3%
1979	9.6
1987	12.8

This illustration shows how the contributions to Social Security are expected to increase as a percentage of pay. If the margin of 25% for the cost of all improvements is used, there will be adequate contributions to fund these new benefits.

It must be kept in mind that the Social Security Law can, of course, be changed at any time. Obviously, any change in the contribution rates or taxable wage base or philosophies on employee and employer funding will directly impact the contributions otherwise diverted to Social Security. It is entirely possible that the long-term estimated 10.2% figure could be dramatically off on either the high or low side and it would be perhaps reasonable to assume that it might be on the high side. Therefore, if significant changes are made to PERS and if the future contributions to Social Security are reduced this will only serve to reduce the margin and could effectively create a situation where the additional plan changes could not be funded by these anticipated contributions.

It would seem desirable to prepare separate cost calculations in each future fiscal year, one pertaining to the existing PERS system as it stands and the second to any improved system so that each year there can be a direct match-up of contributions diverted from Social Security and the additional funding costs for the new program. It would seem desirable and, in fact, mandatory that any legislation improving the PERS benefits not only state the anticipated funding source, but also clearly indicate that if in any year the contributions otherwise to be diverted to Social Security are not sufficient to

maintain the funding adequacy of the amended portion of PERS, that such additional funds be made up by the state or some other pre-specified source. If this is not done, it is entirely possible the amendments to PERS will not be able to be maintained and that the program will not be the viable program that it had been anticipated to be.

7. EMPLOYEE CONTRIBUTIONS

There are several ways in which the employee contributions could be handled. For example, if employee contributions are simply withheld from an employee's paycheck much as they are now for Social Security, the employee will pay tax on those contributions at the time the paycheck is received but will receive tax-free any benefits resulting from those contributions. An alternative would be to have all contributions made through mandatory salary reduction agreements (contributions will be mandatory anyway) thus relieving the employee of the tax impact at the current time on such contributions. It does, however, mean that when an employee ultimately receives benefits from the plan, he will be taxed on benefits produced by those contributions. A third alternative is simply to have a mandatory across-the-board salary reduction and have all contributions made to the replacement program by the state.

The latter alternative is administratively the easiest, but may be difficult to implement. On balance, the second alternative is probably preferable.

ACTUARIAL ASSUMPTIONS

All valuations in this report are based on the Attained Age Normal Cost Method. The unfunded accrued benefit liability is amortized over 35 years.

All actuarial assumptions are those used by the state's actuary on completion, annual actuarial valuations and are summarized below:

1. Investment Rate

   5% per annum compounded annually.

2. Rate of Salary Increase

   5% per annum compounded annually.

3. Rate of Mortality

   1951 Group Annuity Mortality Table.

4. Disability

   a. Rate of Disability

   80% of disabilities are assumed to be occupational for peace officers and firemen. 20% are assumed to be occupational for other employees. Sample rates of disability age shown below:

Age	Annual Rate
20	.070%
30	.084
40	.115
50	.240
60	.843

   b. Rate of Mortality after Disability

   1944 Railroad Retirement Board experience rates.

5. Turnover

The rates used are based on the actual experience of PERS participants. Sample rates of turnover are shown below:

Age	Annual	Rate Female
20	32.74%	37.53%
30	14.08	26.52
40	11.85	17.25
50	10.21	11.50
60	10.47	12.77

6. Retirement Age

a. Later of age 55 and 20 years of service for peace officers and firemen.

b. Later of age 55 and 30 years of service for other participants.

7. Contribution Refunds

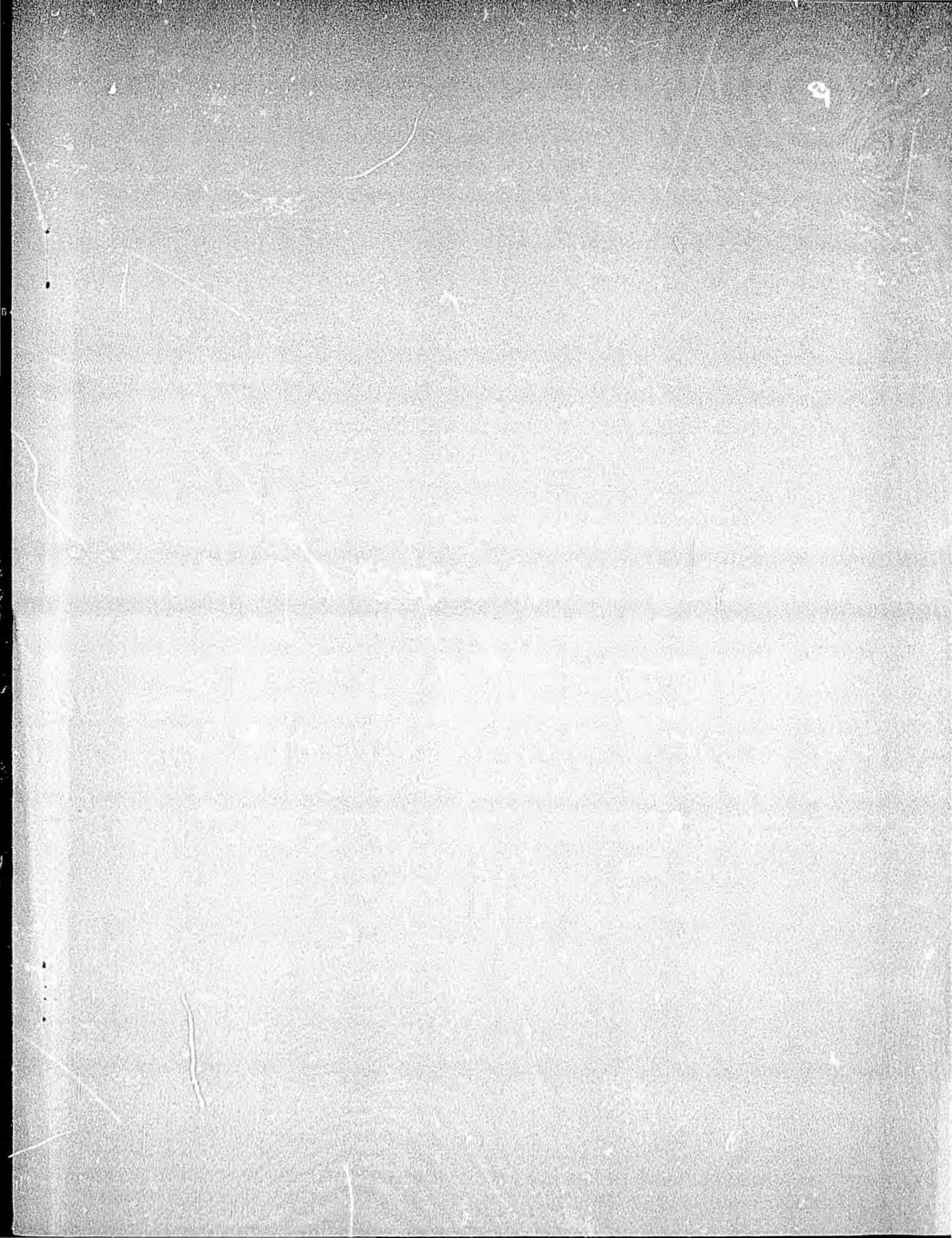
90% of terminating participants will withdraw their own contributions and forfeit their vested interest. The remaining 10% will leave their contributions and receive a deferred vested benefit.

8. Expenses

No margin for expenses was provided.

9. Assets

Book value.



Should Public Systems Withdraw from Social Security?

"Social Security does have financial problems, but these are readily solvable by a combination of actions, and beneficiaries need have no worries about getting their checks."

by Robert J. Myers

The cry of crisis about Social Security continues to be heard. In the past few years, great concern has been expressed about its financial problems. These are indeed serious, but not at all to the extent of rightly proclaiming bankruptcy. Now, widespread publicity is given to the withdrawal from Social Security of a number of state and local governments. Is this a case of a run on the bank by those with inside information and ability to act quickly? Or is it mistaken or uninformed action by only a small minority?

First, let us lay to rest the charge that Social Security is bankrupt in the usual sense of the word. This would imply that it will shortly have to suspend payments to its 33 million beneficiaries. Social Security does have financial problems, but these are readily solvable by a combination of actions, and beneficiaries need have no worries about getting their checks.

A small amount of additional financing is necessary over the short range. An increase in both the employer and employee tax of as little as one-half per cent is essential, and this should not cause any financial hardship on the part of covered persons. Similar action has been taken a number of times in the past. A similar, further increase may be needed in the early 1980's, depending upon what other changes are made (as will be discussed next).

Another problem, applicable only over the long range, is that the present method of computing benefits initially is technically faulty under likely future economic conditions. It will almost surely result in benefits that will, for cohorts attaining age 65 in the long-run future, be excessively large (even more than take-home pay eventually). Thus, if the procedure is not changed, far higher tax rates would be required than now scheduled. The technical change referred to as "decoupling" or "uncoupling" is needed, and it would eliminate about half to two-thirds of the currently estimated long-range deficit depending upon whether it is done so that the relative benefit level is at the current situation or at that prevailing before benefits were over-liberalized in 1970-72.

The new crisis being "discovered" by some is that a number of state and local governments have pulled out of Social Security insofar as their own employees are concerned. Actually, the number of exits before 1977 were relatively few, involving only groups, with 52,206 employees actually withdrawn. As of the end of 1976, an additional 325 groups, with 505,726 employees (of whom about 400,000 were with respect to New York City) had given notice of intention to withdraw, to be effective after two years following such notice. In the latter case, governments could change their minds during the two-year notice period and not withdraw.

What really drew attention to this matter was the announcement in March 1976 by New York City, with its thousands of employees, that it would withdraw. However, in January 1977, New York City announced that it would not withdraw and would rescind its notice to do so. Alaska, with 13,000 employees, had similarly given notice, but after completetion of a study, has apparently decided not to withdraw. Others who have actually opted out or served notice consist of relatively small political units, mostly in California, Louisiana and Texas.

The law provides that, after electing coverage, political units must remain in for at least five years, and then give advance notice of two years before withdrawal becomes effective. Private employers, other than nonprofit charitable, educational, and religious oragnizations, have no such voluntary coverage features. Such nonprofit oragnizations have a similar option, except that they must remain in for eight years and then have a two-year advance notice. Once that withdrawal has occurred, the entity cannot re-enter Social Security.

Majorities of state and local employees who were under an existing retirement system had to vote in favor when Social Security coverage was obtained. However, somewhat anomalously, only the employing entity makes the decision about withdrawing.

This special treatment was given to state and local governments solely on constitutional grounds—namely, that the Federal government cannot tax them without their permission. Yet, it would have been possible constitutionally for their employees to have been taxed compulsorily for Social Security, just as for Federal income tax. The lenient withdrawal privelege was probably

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Entitled "Should State and Local Governments Desert the Social Security Ship?" This article was originally published in the second quarter 1976 *Quarterly Newsletter*, published by Edward H. Friend & Company, actuaries and employee benefit consultants, Washington, D.C., and is copyrighted 1976 by Edward H. Friend & Company. It has been revised [illegible] to take into account subsequent developments

Social Security is not a magical machine that produces benefits at substantially less cost than any other mechanism. But neither is it a high-cost, low-benefits system.

granted in the belief that it would rarely be used and then only for emergencies - rather than to take financial advantage of the Social Security system.

Some governments have withdrawn because they believed Social Security to be a poor buy. Although there are instances where a political entity could provide far better benefit protection for its employees elsewhere by utilizing the money spent for Social Security taxes, these are the exceptions rather than the rule. Such a situation could occur for a group with a very young age distribution, especially if it were composed largely of married women, who would generally expect to draw Social Security benefits from their husbands' earnings record in any event.

Many of the assertions about Social Security being a bad buy for a particular group are based on perfunctory or erroneous analyses. A number of elements operating in different directions are present in such comparisons, because no private plan will be anywhere near identical with the Social Security provisions. For example, in one particular plan, it was asserted that a big improvement would be made in changing from a benefit of 55 per cent of final salary plus Social Security to 80 per cent of salary. Probably for most people, certainly those in the lower and middle salary levels, 55 per cent plus Social Security would be well in excess of 80 per cent.

Social Security: Not a bad buy

A major error committed by those who recommend that state and local governments withdraw is the failure to take into account a number of the features of Social Security, such as the disability and survivor benefits. Also often ignored is the very significant effect of the provisions for automatic adjustment of benefits with rising prices. Pension costs in a private plan that provides fixed or level annuities over the years after retirement are shown to be relatively low these days, as compared with what they would be under more stable economic conditions, because of the high investment returns of eight to nine per cent that can readily be obtained. However, such interest rates are at that level because of inflation. Under these conditions, Social Security benefits will not be level, uniform amounts over the future, but rather will rise steadily.

Accordingly, for comparability purposes, any private arrangements being considered in replacement of Social Security should be priced out on the basis of pensions increasing automatically at a rate of five to six per cent a year, rather than on the basis of level amounts. If this is done, the amount of pension that can be bought for the equivalent of the Social Security taxes will be much less and thus will compare less favorably with Social Security than would otherwise have been thought.

Under certain circumstances, a government can unfairly and unethically manipulate its coverage so as to take advantage of the Social Security system. It might do this, for example, by staying in for exactly 10 years, so that the vast majority of its employees will be permanently fully insured for all retirement and survivor benefits and also for the Hospital Insurance benefits under Medicare.

Let us look at several illustrations of how individuals fare when they are covered by Social Security for all their potential working careers. Let us see what windfalls, or alternatively what losses, develop when an entity withdraws from Social Security. Such comparisons are fraught with dangers and difficulties because a very considerable difference can occur depending upon the assumptions made. For example, the interest rate selected can make a vast difference; the use of a high interest rate will make Social Security look like a bad buy, and *vice versa*.

The following calculations have been made under rather simplified assumptions, which are believed to be reasonable, fair and consistent. The situation is examined as of age 65, and no account is taken of past disability and survivor benefit protection. Nor is account taken that, in many cases, death of an insured worker will produce only a very small lump-sum death payment.

The first case is that of a man who attains age 65 in early 1976 and who was first covered in 1951, when he had a salary of $3,000, which increased at a rate of five per cent per year (becoming $9,675 for 1975). Further, we will take two instances - initially, where he is covered for the entire period, 1951-75; secondly, where he is covered for only the first 10 years, 1951-60. In the latter case, the combined employer-employee contributions saved, accumulated at 6 per cent interest, amounted to $14,277 as of the beginning of 1976. The benefit payable to the retired worker alone as of the middle of 1976 was $361 per month for the full-coverage case and $181 per month for the partial-coverage case (or, by coincidence, exactly half as much). In both instances, the person qualifies for Hospital Insurance benefits.

The accumulated "excess contributions" for the partial-coverage would have been a losing proposition, since the Social Security benefit was $180 lower. (The "purchase" factor is based on population life tables and a three per cent interest rate, so as to allow for the effect of the automatic-adjustment-of-benefits feature of Social Security.) If the individual had an eligible spouse, the "excess" Social Security benefit for full coverage would be larger, and the "purchasable" benefit for full coverage would be larger, and the "purchasable benefit for excess contributions" smaller, so that the "loss" for withdrawing would have been even more.

But what about those now in Social Security at the younger ages or entering in the future? Here, the question of proper assumptions is much more difficult. Involved are future trends of wages and prices. Even more important, is the fact that the Social Security system is not now properly constituted as to benefit-computation procedures, as discussed previously. Also, even if that situation is remedied (as it must be), the financing now scheduled is not sufficient.

Accordingly, in order to produce rational results, we must assume *static* economic conditions in the future, since this is the only way that the present benefit formula makes sense. Also, let us assume that the average combined employer-employee tax rate for the future for Social Security (including Hospital Insurance) will be 16 per cent. Let us take the case of a man now aged 25, with a salary of $10,000 per year (remaining level in the future). Again, let us take two instances--one where there is full coverage, from age 25 to 65, and the other where coverage is terminated after 10 years.

Many hurt by termination

The accumulated "excess contributions" as of age 65 (using a three per cent rate, because of the assumption of static economic conditions) would

mount to $77,262. In turn, this would "purchase" a single-life annuity of $632 per month. The benefit payable to the retired worker alone at age 65 would be $474 for the full-coverage case, as against $216 for the partial-coverage case—again, the latter receives about 50 per cent as large a benefit, even though he has had only about 25 per cent of the coverage. In this instance, it would be "profitable" for the individual to withdraw, because the "purchasable benefit" ($632) is well in excess of the reduction in benefits because of partial coverage ($258).

If the individual had an eligible spouse, the situation would not be advantageous for withdrawal, but only to a small extent. The "purchasable benefit" from the "excess contributions" for the husband and wife combined is $353 per month, or somewhat lower than the reduction in benefits of $387 because of partial coverage. The married-couple case is *not* typical for the long-run cases, because in the future many wives will qualify for Social Security benefits on their own earning records and thus will not receive full benefits (or any benefits) from their husbands' earnings records.

For many (but by no means all) employees, the money "saved" with respect to future Social Security taxes will buy more benefits than the decrease in Social Security benefits resulting from the terminated coverage. At the same time, many other employees will be hurt by the termination—such as short-service workers, who will thereby have a gap in their Social Security coverage besides having acquired no benefits from the governmental plan.

Employees who are near retirement age when termination occurs will have a reduction in their Social Security benefits that will be far greater in actuarial value than the taxes that would have been applicable. For example, consider a male employee who was age 60 when the coverage terminated at the end of 1974 and who had had maximum covered earnings since 1956, when his governmental employer first elected coverage. When he attained age 62 in January 1976, his Social Security benefit for himself and his wife (of the same age) was $387 per month, whereas if coverage had not been terminated, it would have been $419.50. The additional value of the Social Security employer-employee taxes for 1975 if coverage had not terminated would have been $1,650. The actuarial value of the reduction in benefits would have been $5,300 (making allowance for the automatic-adjustment feature by using a 3 per cent interest rate), or $3,650 more than the taxes.

Is withdrawal desirable?

Even though in some cases a government entity can, on the average, profit—or else its employees can, on the average, get more benefits—by opting out of Social Security, there is considerable question as to whether this is desirable.

Generally, any gain so involved will be relatively small, and it may not be worth the extra effort and administrative expenses to take such action. This is especially so considering that the administrative expenses under such a large group operation as Social Security will necessarily be less than under a small, separate plan. Moreover, some employees will be disadvantaged.

Furthermore, if the gain from withdrawing arises from taking advantage of the Social Security system (due to its generous treatment of short-service workers), there is considerable question as to whether this is morally and ethically proper, even though legal.

Another possible disadvantage of a state or local government withdrawing from Social Security is in the event that a government subsidy is injected into Social Security. If a government subsidy to Social Security should be initiated, those not under the program would be paying part of its cost, but would not be getting any return from it. Thus, the only hope of "breaking even" on the taxes paid to provide such a subsidy is to be covered under Social Security!

New York City apparently decided to

When you're turned out to pasture, will it still be green?

Maybe your life's pretty good right now. But if you want to keep it that way, you've got to plan for it. And one way you can do just that is by signing up for the Payroll Savings Plan where you work. An amount you specify will be set aside from each paycheck and used to buy U.S. Savings Bonds.

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Take stock in America.

Join the Payroll Savings Plan.

If it is not possible to have compulsory coverage, the best procedure is to require that, once coverage has been elected, withdrawal should not be allowed.

withdraw *solely* on the basis of the immediate cash-flow savings, and not because it believed that Social Security was a bad buy or was in dangerous financial condition. It was seeking all ways that it could to reduce expenditures, and this seemed to be an attractive short-term way.

State and local employment

Finally, let us discuss what should be done about optional coverage for state and local government employees. As a broad, general principle, I am strongly in favor of complete compulsory coverage of both state and local employees and non-profit employees. I have the same view with regard to federal employees who are under the Civil Service Retirement system. It is an essential characteristic and requirement of a democratic national social insurance system that all employment in the country should be covered thereunder.

This approach is desirable from the standpoint of all parties concerned—the workers, the employers, and the nation as a whole. Social Security is not a magical machine that produces benefits at substantially less cost than any other mechanism. But neither is it a high-cost, low-benefits system. There can really be no better situation than a good Social Security system supplemented by a well-coordinated private pension plan.

My first choice as to coverage conditions for state and local government employees is completely compulsory coverage. There would have to be opportunity for some delay, so as to permit downward adjustment of existing plans, so that the combined benefit level (and the resulting costs) would not be excessive. Naturally, the new plan, combined with Social Security, should not be less liberal than the old plan.

The constitutional problem of taxing the state and local governments could be solved in any of several ways. One approach is to tax the employees at the self-employed rate if the employer does not agree to pay the employer tax. Another approach is to tax the employees at the full combined employer-employee rate under such circumstances. Admittedly, this would be very strong medicine and is unlikely to be feasible of adoption. Still another approach would be to credit the employees with only half of the taxed earnings if the employer does not agree to pay the employer tax.

At the very least, there should be compulsory coverage of all present employees who are not under an existing retirement plan and of all new employees entering in the future, regardless of whether covered under a retirement plan.

The anti-selection problem associated with the Social Security coverage of state and local employees will get worse and worse as time passes. This is because of the current-cost financing basis of Social Security, as against the actuarially-funded nature of supplementary pension plans. As the Social Security tax rates rise, there will be increasing financial advantages to withdraw and substitute a private plan. Accordingly, in the interest of all parties concerned, prompt resolution of this problem by Congress is essential.

If it is not possible to have compulsory coverage, the best procedure is to require that, once coverage has been elected, withdrawal should not be allowed.

Yet another approach would be on the benefits side, so as to prevent or ameliorate the windfalls that employees may get when coverage is terminated. One way would be to compute (1) the Social Security benefit based on actual service with the organization that withdrew and (2) such benefit based on such service plus all service with the organization after the termination date and up to age 62 (or prior death or disability) at the prevailing salary rate then. Then, the "earned benefit" would be computed as: item (2), times the ratio of (3) the total covered wages with the organization before withdrawal to (4) such total wages plus the presumed ones for service after termination. The "windfall benefit" (the excess of item (1) over the "earned benefit") would be deducted from the computed total benefit based on all covered employment.

Robert J. Myers, professor of actuarial science at Temple University, was chief actuary of the Social Security Administration from 1947 to 1970. He is a Fellow and Past President of the Society of Actuaries and a member and Past President of the American Academy of Actuaries.

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THE NATION'S HEADQUARTERS FOR PENSION AND INSURANCE PERSONNEL

AGREEMENT

The FEDERAL SECURITY ADMINISTRATOR of the United States (herein called the "Administrator"), and the TERRITORY OF ALASKA (herein called the "Territory," represented by the Auditor of Alaska), by virtue of the authority conferred upon them by law, agree to extend, in conformity with Section 218 of the Social Security Act, as amended, the insurance system established by Title II of the Social Security Act to services performed by individuals as employees of the Territory and as employees of those political subdivisions of the Territory listed in the Appendix attached hereto and made a part hereof, except services expressly excluded from this agreement, according to the following terms and conditions:

A. DEFINITIONS

For purposes of this agreement-

1. The term "political subdivision" includes an instrumentality of (a) the Territory, (b) one or more political subdivisions of the Territory, or (c) the Territory and one or more of its political subdivisions.

2. The term "Employee" means an employee as defined in Section 210(k) of the Social Security Act and shall include an officer of the Territory or of a political subdivision thereof.

3. The term "retirement system" means a pension, annuity, retirement, or similar fund or system established by the Territory or by a political subdivision thereof.

4. The term "coverage group" means a coverage group as defined in Section 218(b)(5) of the Social Security Act.

B. SERVICES COVERED

This agreement includes all services performed by individuals as employees of the Territory and as employees of those political subdivisions listed in the Appendix attached hereto, other than services expressly excluded therein, and except the following:

1. Any service performed by employees as members of any coverage

... the date this agreement,

or a modification thereof, applicable to such coverage group, is executed;

2. Service performed by an employee who is employed to relieve him from unemployment;

3. Service performed in a hospital, home or other institution by a patient or inmate thereof;

4. Covered transportation service (as defined in Section 210(l)) of the Social Security Act; and

5. Service (other than agricultural labor or service performed by a student) which is excluded from employment by any provision of Section 210($_a$) of the Social Security Act, other than paragraph (8) of such section.

C. CONTRIBUTIONS BY THE TERRITORY

The Territory will pay to the Secretary of the Treasury, at such time or times as the Administrator may by regulation prescribe, amounts equivalent to the sum of the taxes which would be imposed by Sections 1400 and 1410 of the Internal Revenue Code if the services of employees covered by this agreement constituted employment as defined in Section 1426 of such code.

D. COMPLIANCE WITH REGULATIONS

The Territory will comply with such regulations as the Administrator may prescribe to carry out the purposes of Section 218 of the Social Security Act.

E. MODIFICATION

This agreement will be modified at the request of the Territory to include political subdivisions or coverage groups, or both, in addition to those political subdivisions listed in the Appendix attached hereto, or to include additional services not now included in this agreement, such modifications to be consistent with the provisions of Section 218 of the Social Security Act.

F. TERMINATION BY THE TERRITORY

The Territory, upon giving at least two years' advance notice in writing to the Administrator, may terminate this agreement, either in its

entirety or with respect to any coverage group, effective at the end of a calendar quarter specified in the notice; provided, however, that this agreement may be terminated in its entirety only if it has been in effect, from the effective date specified in Paragraph J hereof, for not less than five years prior to receipt of such notice, and provided further that this agreement may be terminated with respect to any coverage group only if it has been in effect with respect to such coverage group for not less than five years prior to receipt of such notice.

G. TERMINATION BY THE ADMINISTRATOR

If the Administrator, after reasonable notice and opportunity for hearing to the Territory, finds that the Territory has failed or is no longer legally able to comply substantially with any provision of this agreement or of Section 218 of the Social Security Act, he shall notify the Territory by giving notice in writing to the Auditor of Alaska at Juneau, Alaska, that this agreement will be either terminated in its entirety or will be terminated with respect to any one or more coverage groups, at such time designated in such notice (but not later than two years from the date thereof) as he deems appropriate, unless, prior to such termination date, he finds that there no longer is any such failure or that the cause for such legal inability has been removed. If, under Paragraphs G or F hereof, this agreement is terminated with respect to any coverage group, such termination shall be effective also with respect to any additional services in such coverage group included in this agreement pursuant to any modification thereof under Paragraph E.

H. ADJUSTMENT AND REFUNDS

If more or less than the correct amount due under Paragraph C of this agreement is paid with respect to any payment of remuneration, proper adjustments with respect to the amounts so due shall be made, without interest, upon such conditions, in such manner, and at such times as the Administrator by regulation may prescribe. If an overpayment cannot be adjusted hereunder, refund shall be made in accordance with Section 218 (h)(3) of the Social Security Act.

I. INTEREST ON DELINQUENT PAYMENTS

Paragraph I of this agreement, if the Territory does not make, at the time or times due, the payments provided for under this agreement, there shall be added, as part of the amounts due, interest at the rate of six per centum per annum from the date due until paid; and the Administrator in his discretion, may without prejudice to other available methods of collection, deduct such amounts plus interest from any amounts, now or hereafter provided, which he may certify to the Secretary of the Treasury for payment to the Territory under any provision of the Social Security Act. Amounts so deducted shall be deemed to have been paid to the Territory under such provision of the Social Security Act.

2. In providing in Paragraph J of this agreement for retroactive coverage, in accordance with Section 218(f) of the Social Security Act, amounts due from the Territory under Paragraph C of this agreement, for the first and second calendar quarters of the calendar year 1951, shall not be deemed to be delinquent and subject to interest if paid to the Secretary of the Treasury not more than 90 days after date of execution of this agreement.

J. EFFECTIVE DATE

This agreement shall be effective as of January 1, 1951.

This agreement is entered into this 21th day of September, 1951, by A. J. Altmeyer, Commissioner for Social Security, pursuant to Section 218 of the Social Security Act, acting herein by virtue of authority vested in him by Oscar R. Ewing, Federal Security Administrator, in Federal Security Agency Order No. 9 dated March 8, 1951; and the Territory of Alaska, acting herein through Neil F. Moore, Auditor of Alaska, by virtue of the authority granted by Chapter 95, Session Laws of Alaska 1951, Twentieth Regular Session of the Legislature of the Territory of Alaska.

FEDERAL SECURITY ADMINISTRATOR

By A J Altmeyer
Commissioner for Social Security

Approved:

Ernest Gruening
Governor of Alaska

TERRITORY OF ALASKA

By Neil F. Moore
Auditor of Alaska

APPENDIX

1. Territory of Alaska

   A. Territorial employees and officers who were employees on the effective date of the agreement, except that employees terminated by death, or otherwise, during the interval between the effective date of this retroactive agreement (January 1, 1951) and the date this agreement is signed by the Commissioner cannot be included.

   B. Excluded services: None

   C. Authorized Agent: Neil F. Moore

      1. Title: Auditor of Alaska

      2. Address: Juneau, Alaska

   D. Effective date of coverage: January 1, 1951

   E. Approximate number of employees covered: 500

S. S. W/D Meeting
Jan. 24

Name	Representing
Geo. Clary	IBU
Jan [illegible]	Local 71
Cherie Shelley	APEA
[illegible]	APCEA
Paul B. Arnoldt	Division of Retirement & Benefits
[illegible]	
John [illegible] Glass	PSEA – 465-4313 12:00
Wayne L. Powers	Confidential
D.O.T. personnel	→ 2500
	Sommers Bldg.

Cherie Shelley

S. S. Withdrawal 4/20/78

Name	Representing
Michael J. Murray Jr	APEA
Cheri Shelley	APEA
Pat Murphy	APEA
F Cook	CEA
GREG O'CLARAY	SIU - IBU
Bruce Cummings	Division of Retirement & Benefits
Ken Humphreys	Legislative Affairs

THE FOLLOWING DOCUMENT HAS
NOT BEEN FILMED BUT IS
AVAILABLE IN THE ORIGINAL
FILE

BY AND BETWEEN

THE STATE OF ALASKA

AND

ALASKA PUBLIC SERVICE EMPLOYEES, LOCAL NO. 71

COVERING

LABOR, TRADES, AND CRAFTS UNIT EMPLOYEES

PREAMBLE

This Agreement is made and entered into this 12 April 1977 ________, by and between the State of Alaska, hereinafter referred to as the "Employer," and Alaska Public Service Employees, Local No. 71, hereinafter referred to as the "Union."

The Union shall be the only collective bargaining representative recognized by the Employer under the terms of this Agreement.

WITNESSETH, That

Whereas, it is the intent and purpose of the parties to set forth herein the entire Agreement covering hours of work, rates of pay and conditions of employment between the parties; and

WHEREAS, the Employer and the Union jointly agree to perform faithfully the obligations imposed by this Agreement;

NOW THEREFORE, in consideration of the mutual promises and covenants contained herein, it is hereby agreed as follows:

BY AND BETWEEN

THE STATE OF ALASKA

AND

ALASKA PUBLIC SERVICE EMPLOYEES, LOCAL NO. 71

COVERING

LABOR, TRADES, AND CRAFTS UNIT EMPLOYEES

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WHEREAS, the Employer and the Union jointly agree to perform faithfully the obligations imposed by this Agreement;

NOW THEREFORE, in consideration of the mutual promises and covenants contained herein, it is hereby agreed as follows:

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ARTICLE I

PURPOSE

It is the objective of the parties that the obligation of the Employer for the successful conduct of its business and the fulfillment of its responsibilities to the employees covered by this Agreement be carried on without interference arising from differences between the parties.

The Union, representing the employees of the Employer, and the Employer desire to establish and maintain, through harmonious cooperation, a standard of conditions and procedures to provide for orderly collective bargaining relations, prompt and equitable disposition of grievances, and fair wages, hours and working conditions for the employees covered by this Agreement.

ARTICLE II

RECOGNITION

The Employer recognizes, during the term of this Agreement, the Union as the sole and exclusive collective bargaining representative for all employees working in the classifications in the Labor, Trades and Crafts Unit and as the representative of all such employees in interpreting this Agreement and adjusting disputes.

ARTICLE III

UNION ACTIVITIES

The Employer agrees that it will not in any manner, directly or indirectly, attempt to interfere between any of its employees and the Union; it will not in any manner restrain or attempt to restrain any employee from belonging to the Union or from taking an active part in Union affairs; and that it will not discriminate against any employee because of his Union membership or lawful Union activity.

ARTICLE IV

PREFERENTIAL HIRING FACILITIES

1. The Union agrees to maintain preferential hiring facilities for the purpose of soliciting qualified workmen in order to fill all requisitions. The Employer agrees to use such services and will call upon the Union to furnish all the qualified workmen required in the classifications herein from among the most qualified.

2. The parties to this Agreement shall create a joint hiring committee, within thirty (30) days of the signing of this contract, composed of not more than two (2) Employer representatives, and not more than two (2) Union representatives to supervise and control the operation of the job referral system herein. The joint hiring committee is empowered:

a. To establish any and all rules and regulations from time to time that it deems advisable for the operation of the job-referral plan.

b. To hear and determine any and all disputes or grievances arising out of work registrations, work referrals and the preparation of the referral-registration lists. Any applicant or registrant shall have a right of appeal of any dispute or grievance arising out of and relating to the operation or functioning of the job referral plan to the joint hiring committee.

The joint hiring committee shall provide in the rules and regulations of the job referral plan for an appeal to an impartial umpire whenever the joint hiring committee reaches a deadlock over a dispute. The impartial umpire shall be designated by mutual agreement of the parties, and if they shall be unable to agree upon the impartial umpire, he shall be selected in the manner provided under the disputes provision of this Agreement. The authority of the impartial umpire shall be limited to interpreting and applying the rules and regulations of the joint hiring committee.

All decisions of the joint hiring committee or the impartial umpire shall be final, binding and conclusive on all parties including applicants.

If any questions arise as to the qualifications and competency of an applicant for registration as to special skills or ability, the joint hiring committee shall make the determination. Such determination shall be fair and impartial without regard to the applicant's membership or nonmembership in the Union.

3. Selection of applicants for referral to jobs shall be nondiscriminatory, and shall not be based on nor affected by race, creed, color, age, sex, national origin or political affiliation or activity. The Union agrees that it will not discriminate against non-Union workmen in referring workmen to the Employer, and the Employer agrees that he will not discriminate against Union workmen in selecting job applicants referred to him by the Union.

4. The parties recognize the primary importance to employ citizens of Alaska. Both the Union and the Employer shall give first preference to qualified residents of Alaska. Also, preference shall be given to qualified residents in the immediate area of the job call.

5. The Employer retains the right to reject any job applicant, but the applicant and the Union shall be entitled to the reason for such rejection.

6. In the event the Union is unable to supply the Employer with qualified workmen within forty-eight (48) hours (Saturdays, Sundays and holidays excluded) when called upon by the Employer, the Employer may procure workmen from other sources; provided, however, that in such instances the Employer shall promptly furnish the Union with the names of such workmen, their classification and date of hiring. In any emergency resulting from an act of God or natural disaster, the Employer may temporarily procure workmen from any source.

7. It is further agreed that all workmen employed by the Employer who are not already members shall become members of the Union on or before the thirty-first (31st) calendar day following the beginning of employment or the effective date of this Agreement, whichever is later, and all employees shall maintain membership in the Union as a condition of employment during the life of this Agreement. All requests by the Union for the dismissal of any employee for failure to comply with this provision shall be in writing.

8. Within a five (5) day period after reporting to work each new employee within the bargaining unit shall be informed as to the identity of the Union steward, chief job steward or a Union representative by the supervisor in the activity to which such employee will be regularly assigned. Each employee transferred from a section or shift shall likewise be informed.

ARTICLE V

UNION RESPONSIBILITY

1. The Union assumes all obligations and responsibility for the continued membership of its members and the Union shall retain the right to discipline its members. No workman shall be discriminated against for the upholding of Union principles, and any employee who works under the instructions of the Union, provided such instructions are in compliance with the Agreement, or who serves on a committee shall not lose his position or be discriminated against for this reason.

2. The Union agrees that this Agreement is binding on each and every member of this bargaining unit and that its members, individually or collectively, accept full responsibility for carrying out all the provisions of this Agreement.

3. It is the responsibility of the Employer to manage the work force. It is the responsibility of the parties to promote such practices as will improve the quality of service provided and the working conditions of the members. The Union agrees that it will actively dissuade excessive absenteeism and other practices which may hamper the Employer's operation and that the Union will support the Employer's efforts to eliminate waste and inefficiency, to improve the quality of workmanship and to promote harmonious relations between the Employer and employees.

4. The Union agrees to make every effort to see that the members working under this Agreement obey all reasonable rules, instructions and regulations prescribed by the Employer.

ARTICLE VI

RECOGNITION OF RIGHTS AND FUNCTIONS OF MANAGEMENT

1. Except as provided in this Agreement, nothing herein limits the Employer in the exercise of the rights of ownership and management. Accordingly, the Employer has, among others, the right: to select its supervisory personnel (supervisors as defined by the Alaska State Labor Relations Agency); to hire new employees, to discipline, suspend or discharge employees for just cause; to decide and determine and designate all occupational classifications it has to offer its employees, to assign duties and responsibilities to employees, to make such rules and regulations as the Employer considers necessary or advisable for the orderly and efficient conduct of its operations and to require employees to observe such rules and regulations; provided, however, the exercising of the aforementioned rights is not inconsistent with the provisions of this Agreement.

2. All of the functions, rights, powers and authority of the Employer not specifically abridged, delegated or modified by this Agreement are recognized by the Union as being retained by the Employer.

3. The Union recognizes that the continuity of certain work is imperative to the public service mission of the Employer, and if a work stoppage should occur, management and all other personnel not covered by this Agreement, including guards, firemen, and other protectors of public safety and health, shall be permitted to perform their respective functions without interference by the Union or its members.

ARTICLE VII

PROTECTION OF RIGHTS

1. PICKET LINE. It shall be a violation of this Agreement and it shall be cause for disciplinary action in the event an employee refuses to go through or work behind any primary picket lines unless such line is sanctioned by the Alaska Public Service Employees Local #71 and the participating International Union (Laborers International Union of North America). The Employer specifically retains all of its rights under AS 23.40.200.

2. STRUCK GOODS. It shall not be a violation of this Agreement and it shall not be cause for discharge or disciplinary action if any employee refuses to perform any service which the Employer undertakes to perform as an ally of any Employer or person whose employees are on strike, and

which service, but for such strike, would be performed by the employees of the Employer or person on strike. Nor shall the exercise of any rights permitted by law be a violation of this Agreement, unless such exercise is precluded by this Agreement.

3. LOST OR DAMAGED PROPERTY. Employees shall not be responsible for lost, stolen or damaged property except in case of proven negligence or deliberate act. This shall include the use of credit cards for any purpose or any other method of giving credit. The Employer shall provide an adequate checking system to protect the Employer and employee.

4. a. From and after the date of acceptance of this Agreement, the parties shall be governed by the following in contracting or subcontracting involving the performance of work of classifications covered by this Agreement, in towns and cities of over 2,500 population, which would directly result in the layoff of permanent or probationary employees covered by this Agreement.

The Employer shall require the contractor or subcontractor to pay the hourly wage rates established in the agreement for all such work plus the additional hourly rate established in Article XIII, Section 8 of the Agreement as "in lieu of" benefits. It is agreed that the above-mentioned "in lieu of" amount may be reduced only by the amount of actual cost of benefits paid by the contractor or subcontractor. To insure compliance with this section, the Employer shall require the contractor or subcontractor to furnish a certification of wages and/or any certified cost of benefits paid upon written request. Such certified information shall be furnished to the Union upon reasonable written showing of suspected non-compliance. In addition, the Employer shall furnish to the Union a copy of each new or renewal contract. If the contractor or subcontractor is found to be out of compliance, the Employer agrees to take all reasonable steps to enforce the requirements of this section, including without limitation, terminating the contract or subcontract if compliance cannot be otherwise obtained.

Prior to the contracting or subcontracting of any work covered by the Agreement which would result in the layoff of permanent or probationary employees, the Employer agrees to conduct a cost efficiency study. Unless such study shows that the work can be performed by the contractor or subcontractor with less cost to the Employer, no probationary/permanent employee shall be laid off and replaced by contracted or subcontracted work.

All work performed on motor vehicles which is typically associated with work done by private service stations (e.g. tires, lights, fan belts, wipers, etc.) shall be free from the requirements of this section. Other vehicle repair and overhaul service work shall be performed in State facilities except in extreme emergencies. All State-owned vehicles shall contain a maintenance/repair instruction packet outlining the foregoing language.

b. LEASING, RENTAL, ETC. All drivers and operators of owned, leased, or rented equipment used in operations covered by this Agreement shall be employees of the Employer or members of a Union consistent with the kind of work to be performed.

5. OVERLOADS. In the event an employee is arrested with an overload, the Employer shall pay all fines upon conviction, and the employee shall be paid for the time spent in service of the Employer, provided the employee has not loaded his cargo contrary to the instructions of his supervisor.

6. REVOCATION OF LICENSES. In the event an employee shall suffer a revocation of his license because of violations of any federal, state, or city law by the Employer, the Employer shall provide suitable and continued employment for such employee, at not less than his hourly rate of pay at the time of revocation of the employee's license for the entire period of revocation of the license, and the employee shall be reinstated to the seniority he held prior to revocation of his license, after his license is restored.

7. The parties agree that there shall be no strikes or lockouts during the life of this Agreement, except as provided in Article IX, section 2, paragraph (c).

ARTICLE VIII

DISCHARGE

1. The Employer retains the right to discharge a permanent employee for just cause such as imcompetence, unsatisfactory performance of duties and unexcused absenteeism. The Employer further agrees that the Union Office in the employee's district shall be notified forty-eight (48) hours prior to written notice to the employee of the reason for such discharge. A copy of the notice to the employee will be forwarded to the District Office of the Union. The Employer further agrees that with the exception of drunkenness, dishonesty, gross disobedience or abandonment of duties, all permanent employees shall be given two (2) weeks notice or two (2) weeks pay prior to discharge.

All permanent employees shall give the Employer two (2) weeks notice in writing, except in emergencies, before leaving their employment. The subsequent referral of an employee not meeting this requirement may be refused by the Employer for a ninety (90) day period commencing on the last working day of the employment period for which the required two (2) weeks notice was not received.

2. TERMINATION SLIP. It shall be mandatory that the Employer furnish each employee a termination or layoff slip showing the actual reason for termination.

3. For the purpose of this Agreement, "cause" as related to discharge for cause for employees other than permanent shall mean: incompetence,

unsatisfactory performance of duties, unexcused absenteeism, as well as drunkenness, dishonesty and gross disobedience, it being understood that such rules shall be posted for the benefit of the employees. Discharge slips shall contain the specific reason for discharge. Employees other than permanent discharged or terminated under the provisions of this section shall have appeal rights through Step #3 of the grievance procedure.

4. The Employer retains the right to discipline or suspend an employee for just cause but agrees that the Union Steward or a paid Union representative shall be notified in writing concurrent with written notice to the employee. The Employee further agrees that the Union Steward or representative shall be present, if requested by the employee, during all stages of conduct of hearings determining such matters.

ARTICLE IX

COMPLAINT & GRIEVANCE PROCEDURE

1. COMPLAINTS. A grievance shall be defined as any controversy or dispute arising between the Union or an employee of the bargaining unit and the Employer. Having a desire to create and maintain labor relations harmony, the parties agree that they will promptly attempt to adjust all complaints, disputes, controversies or other grievances arising between them involving questions of interpretation or application of the terms and provisions of this Agreement or other controversy or dispute having occasion to arise between the parties. If differences or disputes of any kind arise between the Union or the employee covered herein and the Employer, the Union or the aggrieved employee, as the case may be, shall use the following procedure as the sole means of settling said difference, dispute or controversy.

STEP ONE: The employee may report in writing to the Steward or designated representative of the Union any grievance that arises between the employee and the Employer. The designated representative will attempt to resolve the matter between the parties on the job immediately.

STEP TWO: Failing to agree at Step One, the grievance shall be referred in writing to the executive head of the department or agency in which the grievant(s) is (are) employed within ten (10) days after receipt of a response. The executive head of that department or agency shall answer the Union representative within ten (10) working days in writing.

STEP THREE: If the grievance cannot be settled as outlined in Step Two, the grievance may be submitted by the Union for settlement to the Commissioner of the Department of Administration within ten (10) calendar days after completion of Step Two. If the grievance has not been settled in writing within twenty (20) working days after receipt by the Commissioner either party may proceed to Step Four of this Article if the nature of the grievance falls within the scope of Step Four. Date of receipt shall constitute date of answer. In the event the matter is settled by written agreement between the Union representative and the Commissioner

of Administration, such written agreement shall have the same force and effect as a decision or award of the arbitrator and be final and binding on each of the parties and they will abide thereby. Should either party fail or refuse to abide by the written agreement, the prevailing party shall be free to take whatever action it deems necessary and such action will not be considered in violation of this Agreement.

STEP FOUR: Arbitration. Any grievance which involves the application or interpretation of the terms of this Agreement or is an appeal from demotion or dismissal of a permanent employee, or an appeal from dismissal of a probationary employee holding permanent status in another classification, which is not settled at Step Three may be submitted to arbitration for settlement. If either party desires to demand arbitration, the request must be received in writing within twenty (20) days of the receipt of the completed Step Three grievance. The parties will meet within ten (10) days to strike names.

Any dispute must be brought to the attention of the Employer through the Union within thirty (30) working days of the effective date of the disputed action or the date the employee is made aware of the action, whichever is later, to receive the attention of the Union and the use of this grievance procedure. A dismissal, demotion or suspension grievance must be brought to the attention of the Employer through the Union within ten (10) days of the effective date of the action or the date the employee is made aware of the action, whichever is later, to receive the assistance of the Union and the use of this grievance procedure.

2. BOARD OF ARBITRATION.

a. Within thirty (30) days of the signing of the Agreement, the Employer and the Union will jointly request from the United States Federal Mediation and Conciliation Service the names of seven (7) qualified arbitrators. Either party may at any time request a new list of arbitrators during the life of this Agreement. Such list shall be effective upon its receipt.

b. In the event that arbitration becomes necessary the arbiter will be selected by the Union and the Employer by alternately striking from the United States Federal Mediation and Conciliation Service list one (1) name at a time until only one (1) name remains on the list. The name of the arbitrator remaining on the list shall be accepted by the parties and arbitration shall commence within fifteen (15) calendar days thereafter, unless otherwise mutually agreed to by both parties.

c. During the process of the above procedure, there shall be no strike or lockout which is in any manner related to this grievance. The parties agree that the decisions or award of the arbitrator shall be final and binding on each of the parties and that they will abide thereby. The authority of the arbitrator shall be limited to questions directly involving the interpretation or application of specific provisions of this Agreement, and no other matter shall be subject to arbitration hereunder. The arbitrator

shall have no authority to add to, subtract from or change any of the terms of this Agreement, to change an existing wage rate or to establish a new wage rate except as provided in Article XIII, Section 2 and Section 4. Should either party fail or refuse to abide by the arbiter's decision, the prevailing party shall be free to take whatever action it deems necessary, and such action will not be considered in violation of this Agreement.

d. The arbitrator shall render his decision within 30 days following the final day of the arbitration hearing unless mutually agreed to by both parties.

Expenses incident to the services of the arbitrator shall be borne entirely as designated by the arbitrator. The arbitrator shall assign such expense to the losing party. If, in the opinion of the arbitrator, neither party can be considered the losing party, then such expenses shall be apportioned as in the arbitrator's judgment is equitable.

ARTICLE X

REPRESENTATIVES

1. The Union shall have representatives who are not employees of the Employer who shall be authorized to speak for the Union in all matters governed by this Agreement and shall be permitted to visit any work area at any time with advance notice to the person in charge.

2. In addition to the above, the Union may, upon written notice to the Employer, authorize Shop Stewards from among the employees of the Employer to carry out the intent and purposes of Articles VIII and IX.

ARTICLE XI

EXAMINATION OF RECORDS

The Union representative shall have the right to examine specific employee's records pertaining to wages, hours and conditions covered by this Agreement. The Employer shall make available original or copies of the original records for the examination by the Union representative, upon eight (8) working hours' written notice from the Union to the state office where the record is available.

ARTICLE XII

CHECKOFF

Whenever an employee coming under the terms of this Agreement executes and delivers to the Union, who will deliver to the Employer, a proper written assignment for the deduction of Union dues and initiation

fees from his wages, and the financial secretary of the Union notifies the Employer that such Union dues are due, the Employer agrees to make such deductions within thirty-one (31) days from the date of the notification to remit to the Union the amount so deducted from each. All employees in the bargaining unit on the Employer's payroll on the effective date of this Agreement who have previously executed a proper written assignment shall continue to have their assigned dues and initiation fees deducted from their wages. Upon receipt of a proper written assignment, the Employer shall deduct from the pay of each new employee in the unit such assigned dues and fees for the period specified so long as he remains in the unit. Such deductions shall commence not later than the pay period following the first full pay period after proper authorization is received by the State.

"Proper written assignment" shall mean an authorization executed by the employee for deductions of dues and fees in an amount as specified by the financial secretary of the Union. The amount of dues and fees to be deducted shall be those amounts as specified to the Director of Personnel and Labor Relations by the Union financial secretary.

The Employer agrees to provide to the Union once each month a list of employees showing the amounts deducted from each. This list will also include all employees and their classifications working under the jurisdiction of this Agreement. No other employee organization shall be accorded payroll deduction privileges with regard to this bargaining unit.

All dues and initiation fee assignments executed by employees shall be effective for as long as such employee is employed by the Employer in classifications coming within the purview of this Agreement. However, assignments may be cancelled by an employee who gives notice in writing to the Employer within the ten (10) day period immediately preceding the first or subsequent anniversary date of this Agreement. The State will continue to deduct the current ten cents (10¢) per hours additional dues until such time as the amount is changed by notification of the Business Manager.

ARTICLE XIII

CLASSIFICATION AND WAGES

1. a. In the event that work done places the employee in one or more of these classifications when so directed by the Employer, then the Employer agrees to pay such employee according to the highest-rated classification worked provided the employee works for a minimum of three hours at a higher-rated wage grade at the direction of the Employer, he shall be paid at the higher wage grade for the entire shift. Temporary performance of a higher rated classification shall not result in a change in classification of a position unless such temporary work is in excess of thirty (30) consecutive days. The higher rated classification shall be filled in accordance with the provisions of Article XXII, Section 3. When an employee is requested to work in a lower wage group due to a temporary fluctuation in work he shall receive his regular rate of pay for all such lower-rated work performed.

1978

STATE OF ALASKA
LABOR, TRADES AND CRAFTS

	WAGE GRADE	STEP A	STEP B	SERVICE BONUS INCREMENTS C	D	E
I-A	50 ST	12.12	14.74	14.94	15.14	15.24
	1-1/12	18.18	22.11	22.41	22.71	22.86
	2 OT	24.24	29.48	29.88	30.28	30.48
I	51 ST	11.45	13.90	14.10	14.30	14.40
	1-1/2	17.18	20.85	21.15	21.45	21.60
	2 OT	22.90	27.80	28.20	28.60	28.80
II	52 ST	10.77	13.07	13.27	13.47	13.57
	1-1/2	16.16	19.61	19.91	20.21	20.36
	2 OT	21.54	26.14	26.54	26.94	27.14
III	53 ST	9.99	12.24	12.44	12.64	12.74
	1-1/2	14.99	18.36	18.66	18.96	19.11
	2 OT	19.98	24.48	24.88	25.28	25.48
IV	54 ST	9.31	11.41	11.61	11.81	11.91
	1-1/2	13.97	17.12	17.42	17.72	17.87
	2 OT	18.62	22.82	23.22	23.62	23.82
V	55 ST	8.75	10.69	10.89	11.09	11.19
	1-1/2	13.13	16.04	16.34	16.64	16.79
	2 OT	17.50	21.38	21.78	22.18	22.38
VI	56 ST	8.19	9.98	10.18	10.38	10.48
	1-1/2	12.29	14.97	15.27	15.57	15.72
	2 OT	16.38	19.96	20.35	20.76	20.96
VII	57 ST	7.74	9.39	9.59	9.79	9.89
	1-1/2	11.62	14.09	14.39	14.69	14.84
	2 OT	15.43	18.78	19.18	19.58	19.78
VIII	58 ST	7.29	8.78	8.98	9.18	9.28
	1-1/2	10.94	13.17	13.48	13.77	13.92
	2 OT	14.58	17.56	17.96	18.35	18.56
IX	59 ST	6.85	8.32	8.52	8.72	8.82
	1-1/2	10.28	12.48	12.78	13.08	13.23
	2 OT	13.70	16.63	17.04	17.44	17.64
X	60 ST	6.36	7.56	7.76	7.96	8.06
	1-1/2	9.54	11.34	11.64	11.94	12.09
	2 OT	12.72	15.12	15.52	15.92	16.12
XI	61 ST	5.85	6.80	7.00	7.20	7.30
	1-1/2	8.77	10.20	10.50	10.80	10.95
	2 OT	11.70	13.60	14.00	14.41	14.60

b. Effective January 1, 1977, the schedule of wages shall be increased by fifty-five cents (55¢) per hour, less four cents (4¢) per hour for Health and Security contributions (in addition to the eighteen cents (18¢) per hour presently withheld). The hourly rates to be paid shall appear as follows:

	A	B
Wage Group IA	$11.53	$14.03
Wage Group I	10.89	13.23
Wage Group II	10.25	12.44
Wage Group III	9.50	11.65
Wage Group IV	8.86	10.86
Wage Group V	8.32	10.17
Wage Group VI	7.79	9.49
Wage Group VII	7.36	8.93
Wage Group VIII	6.93	8.35
Wage Group IX	6.51	7.91
Wage Group X	6.05	7.19

Should the Consumer Price Index for Anchorage rise more than 6% during calendar year 1977, the Employer agrees that the above schedule of hourly rates shall be increased one percent for each full percentage point above six that the Consumer Price Index rises effective February 16, 1978, and shall be retroactive to the beginning of the calendar quarter in which the rise in the Anchorage Consumer Price Index exceeded six percent.

The hourly rates for calendar year 1978 shall be the rates shown above, as adjusted on February 16, 1978, with the addition of 5% prepayment on the cost-of-living effective January 1, 1978.

Should the Consumer Price Index for Anchorage rise more than 6% during calendar year 1978, the Employer agrees that the above schedule of hourly rates, as adjusted effective January 1, 1978, shall be increased one percent for each full percentage point above six that the Consumer Price Index rises effective February 16, 1979, and shall be retroactive to the beginning of the calendar quarter in which the rise in the Anchorage Consumer Price Index exceeded six percent.

The hourly rates for calendar year 1979 shall be the rates shown above, as adjusted on February 16, 1979, with the addition of 4 1/2% prepayment on the cost-of-living effective January 1, 1979.

In all cases of wage increase prescribed in this section, computations will be based on the schedule of wages increased by the wages contributed to the Trust.

The Union reserves the right to adjust the distribution of wages between the schedule of wages and the contribution to Health and Security Trust during the term of this Agreeement based on actuarially established facts.

The Job Classifications are as follows:

Wage Group IA

Airport Maintenance Foreman
Engineering Technician VIII
Occupational Safety Compliance Officer
Electrical Inspector

Wage Group I

Highway Maintenance Foreman
Automotive Shop Foreman
Building Maintenance Foreman
Equipment Operator Foreman
Electrician Foreman
Electronic Technician Supervisor
Engineering Technician VII

Wage Group II

Traffic Control Equipment Technician
Highway Maintenance Foreman
Maintenance Mechanic
Electrician
Aircraft Sheet Metal Mechanic
Engineering Technician VI
Safety Consultant
Electronic Technician

Wage Group III

Mechanic Leadman
Equipment Operator
Heavy Duty Mechanic
Driller
Trades Leadman
Cook IV
Engineering Technician V
Materials Lab. Technician III
Partsman II
Plumbing Inspector
Stationary Fireman III
Aircraft Mechanic
Party Chief
Traffic Control Technician

Wage Group IV

Mechanic
Maintenance Man
Equipment Operator
Plumber
Driller
Painter
Carpenter

Stationary Fireman II
Instrumentman
Inspector III
Highway Engineering Technician V
Materials Lab. Technician II
Storekeeper III
Sign Painter

Wage Group V

Maintenance Man
Equipment Operator
Driller
Engineering Technician IV
Inspector II
Highway Engineering Technician IV
Housekeeping Supervisor
Partsman I

Wage Group VI

Equipment Operator
Labor Foreman I
Cook III
Electronic Technician Assistant
Materials Lab. Technician I
Storekeeper II
Head Chainman
Groundsman Supervisor

Wage Group VII

Equipment Serviceman
Equipment Operator
Trades Helper
Cook II
Engineering Technician III
Inspector I
Equipment Dispatcher
Groundsman
Highway Engineering Technician III
Materials Lab. Technician Aide II
Stockhandler
Rear Chainman
Laundry Supervisor

Wage Group VIII

Laborer
Building Custodian
Storekeeper I
Assistant Groundsman
Custodial Worker II
Laundry Worker II
Housekeeping Aide III

Wage Group IX

Cook I
Clothing Clerk
Engineering Technician II
Highway Engineering Technician II
Senior Food Service Worker
Materials Lab. Technician Aide I
Janitor

Wage Group X

Custodial Worker I
Housekeeping Aide I
Laundry Worker I
Food Service Worker

c. New employees will enter the schedule at step A and shall remain in that step for 120 calendar days, at which time the employee shall be placed in step B.

d. Former employees rehired into a job class in which they held permanent/probationary status for a period of six (6) consecutive months within two (2) years immediately preceding their rehire shall be moved from Step A to Step B after thirty (30) calendar days, other provisions of this Agreement notwithstanding.

2. JOB CLASSIFICATION. The specifications of job classifications regarding skills, abilities, experience, work requirements and duties shall be established by the Employer.

a. Following the signing of this Agreement, the parties agree to conduct a study to review all class specifications and job descriptions of the State within the bargaining unit following which the State will establish new classifications where necessary, delete classifications where necessary, establish and adopt new class specifications, and allocate classifications to existing wage groups. In addition, the study shall include a review of the wage group allocations of existing classifications; disputes on the allocation of existing classifications to existing wage groups shall be resolved as provided in subsection b below.

b. The following shall be the procedure for handling disputed actions on classifications covered by this Agreement.

1. The Union shall notify in writing the Commissioner of the Department of Administration of its disagreement with the classification of an individual position or classification covered by this Agreement, with a copy to the Commissioner of the operating department in which the dispute arises. Such notice shall include full details on the significant duties

and responsibility of the disputed position or classification, an analysis showing why the position or classification should be re-allocated and should be supplemented by examples of work when practical and appropriate.

2. The Commissioner of Administration shall investigate the complaint, and the parties will meet within ten (10) days of receipt of the complaint to resolve the issue.

3. If the issue remains unresolved, the parties shall select an arbitrator, as provided in Article IX, section 2 b. The arbitrator shall have no authority to establish a wage rate or classification not contained in the Agreement. The arbitrator shall have authority to provide retroactivity not exceeding thirty (30) days prior to the Union's filing of the complaint with the Employer. The decision of the arbitrator shall be final and binding.

c. It is understood the Employer will have need for employees with special skills and abilities. The Union agrees to refer persons possessing such skills and abilities and to honor all such bona fide requests.

3. SERVICE BONUS. An employee with seven (7) years of continuous probationary/permanent service with the Employer shall be paid an additional twenty cents (20¢) per hour above his base rate of pay, commencing on the first day of the pay period following the fulfillment of the service requirement.

An employee with nine (9) years of continuous probationary/permanent service with the Employer shall be paid an additional forty cents (40¢) per hour above his base rate of pay, commencing on the first day of the pay period following the fulfillment of the service requirement.

An employee with eleven (11) years of continuous probationary/permanent service with the Employer shall be paid an additional fifty cents (50¢) per hour above his base rate of pay, commencing on the first day of the pay period following the fulfillment of the service requirement.

The rates listed above shall not be cumulative, and the additional rate listed for the specified length of continuous service with the Employer shall be the total amount paid for that length of service. No employee who is receiving a service bonus on the effective date of this Agreement shall suffer a reduction of that bonus through the implementation of this section.

4. Where new types of equipment and/or operations, for which rates of pay are not established by this Agreement, are put to use after the effective date of this Agreement, within operations covered by this Agreement, rates governing such operations shall be subject to negotiations between the parties.

Rates agreed upon or awarded shall be effective as determined by the negotiations or arbitrator.

If the parties cannot agree on the proper wage rate, the dispute will be settled as provided in section 2. In these cases only, the arbitrator shall be authorized to establish a new wage and/or classification.

5. SUBSISTENCE. Subsistence shall be calculated as a daily rate according to geographical location and only as a permanent work location at $2.28 per day times step-due district.

Illustrative Place Names	House Election Districts	Steps Above Pay Plan
Ketchikan-Prince of Wales	1	0
Wrangell-Petersburg	2	1
Sitka	3	1
Juneau	4	0
Icy Strait-Lynn Canal	5	2
Cordova	6(a)	4
Valdez Pipline Corridor	*6(b)	5
Palmer-Wasilla	7	1
Anchorage	8	0
Seward	9	2
Kenai-Cook Inlet	10	2
Kodiak	11	2
Aleutian Islands	12	7
Bristol Bay	13	7
Bethel	14	8
Yukon-Kuskowim	15(a)	9
Nenena-Cantwell-Healy-Livengood-Manely	15(b)	7
Fairbanks	**16(a)	4
Eagle-Chicken-Circle-40 Mile	16(b)	5
Fort Yukon	***16(c)	9
Barrow-Kobuk	17	9
Nome	18	7
Wade-Hampton	19	8
Outside Alaska		minus 6

The Election Districts used are those designated by the Proclamation of Reapportionment Redistricting of December 7, 1961, and retained for the House of Representatives by proclamation of the Governor September 3, 1965.

*Pipeline Corridor Defined:
Richardson Highway - Valdez to Paxson
Glenn Highway - Eureka to Slana
Edgerton Highway - Chitina to the intersection with the Richardson Highway - five miles either side of the above highways between the cities or destinations listed shall be the Pipeline Corridor.
**16(a) South of Arctic Circle
***16(c) North of Arctic Circle

6. PREMIUM PAY

a. 1. For all work performed on the employee's first scheduled day off, one and one-half (1-1/2) times the basic rate of pay shall be allowed.

2. For all work performed on the employee's second scheduled day off, two (2) times the basic rate of pay shall be allowed, provided the employee has worked, been compensated for, or has been excused from working on his last regularly-scheduled work day.

3. All work performed on holidays shall be paid at one and one-half (1-1/2) times the basic rate of pay in addition to holiday pay.

b. SHIFT DIFFERENTIAL. Employees who regularly work a "swing" shift beginning between 11:00 a.m. and 7:59 p.m. shall receive shift differential pay of three and three-quarter percent (3.75%) for all compensable hours.

Employees who regularly work a "graveyard" shift beginning between 8:00 p.m. and 5:59 a.m. shall receive shift differential pay of seven and one-half percent (7.5%) for all compensable hours.

c. Employees who are required to work under dangerous conditions shall receive hazard pay of seven and one-half percent (7.5%) in four-hour increments so worked. Dangerous conditions shall be defined as working at heights more than twenty-five (25) feet above the ground on towers, bridgework, and handling explosives so designated by the Employer, antennas and transportation by helicopter required by the Employer.

7. Each new employee, unless otherwise designated, shall be hired as a probationary employee until the end of the probationary period of sixty (60) days. Upon completion of such period, he shall be considered a permanent employee and shall have seniority from his date of hire. Accrual and use of annual leave, holiday pay, retirement benefits, health and welfare coverage and other conditions of employment shall be subject to other provisions of this contract. Sick leave shall be available as accrued and posted from date of hire.

8. The Employer may request a full or part-time temporary employee. A temporary employee is one so designated for one hundred and twenty (120) calendar days or less. Such time may be extended by mutual agreement. A temporary employee is not entitled to sick and annual leave, health and accident insurance, or pension benefits. In lieu of such entitlements, each temporary employee shall receive one dollar and thirty-two cents ($1.32) for each compensable hour worked. If the employee is retained in permanent status, the seniority shall be counted from the original date of hire. Temporaries shall be entitled to subsistence only for days worked. Temporaries working four (4) hours or less per day will receive one-half (1/2) subsistence pay for each day so worked. Temporaries shall be covered by the holiday provisions of this Agreement.

Temporary employees filling positions created from federal funds for training programs, e.g. CETA and PEP, shall not be restricted by the one hundred and twenty (120) day limitation, but shall be placed at Step B at that time.

9. PERMANENT PART-TIME EMPLOYEES. The Employer may establish a fixed reduced work schedule for an employee on a continuing basis when the employee accepts such employment or agrees in writing to the schedule in advance.

Permanent part-time employees will be paid at time and one-half for hours worked prior to or beyond, and continuous with their regular shift or on early call-in. Permanent part-time employees will be paid holiday pay according to the hours they are normally scheduled to work. Permanent part-time employees will be covered in accordance with Article XXIII, section 1. Benefits for sick leave and annual leave, retirement pension pursuant to pertinent statutes and regulations, and vacation time shall accrue proportionate to the benefits for full-time service.

A permanent part-time employee working four (4) hours or less per day will receive one-half (1/2) subsistence pay for each day worked. Those permanent part-time employees who work regular shifts of four (4) hours or less per day on a five (5) days per week schedule shall receive one-half (1/2) subsistence pay for seven (7) days each week.

10. CASUAL EMPLOYEE. A casual employee is one who is employed for not more than fifteen (15) calendar days. The casual employee is entitled to the base hourly rate specified in this Agreement. Casual employees may be employed directly by the Employer with notice to the Union District Office and are not subject to other terms and conditions of this Agreement, except for the overtime provisions.

11. TRAINEE OR APPRENTICESHIP. It is understood and agreed that both parties will consider each training or apprenticeship program individually and reach mutual agreement on wages and conditions implemented. The Union and State agree to establish a policy for training. A committee composed of four (4) members from each party will establish training procedures in all departments possible.

12. LONGEVITY. AS 39.27.022 shall not apply to employees in the Labor, Trades and Crafts Unit.

ARTICLE XIV

WORKING RULES

1. The work week shall consist of thirty-seven and one-half (37-1/2) hours within five (5) consecutive days, and all permanent full-time employees shall be guaranteed a full work week provided they are ready, willing, and able to work, unless suspended, on layoff, or leave without pay.

a. It is understood and agreed between the parties that at a duty station with multiple shifts, if a majority of the employees who do shift work indicate by majority vote that rotating shifts are desirable, the parties agree that the requirement of five (5)

consecutive work days as specified in Article XIV, section 1, shall be invalid for those working rotating shifts at shift change time only.

b. No CETA or PEP employees shall be assigned work which will result in the layoff of Local #71 employees.

2. The Employer agrees that the employee shall be paid overtime for all work in excess of seven and one-half (7-1/2) hours in any one (1) day and thirty-seven and one-half (37-1/2) hours in any one (1) week, at the appropriate overtime rate of pay.

3. When a shift is started, no less than four (4) hours shall be allowed. If more than four (4) hours are worked, then the full shift shall be allowed. Seven and one-half (7-1/2) hours shall constitute a shift.

4. SHOW UP TIME. Temporary employees reporting to work and not put to work shall receive four (4) hours pay or their regular shift, whichever is less, at their regular straight-time rate unless notified not to report at the end of their previous shift or two (2) hours prior to the start of the shift. If the second half is started, then a whole shift shall be allowed or their regular shift, whichever is less.

5. STANDBY TIME. When employees are required to standby because of temporary breakdown or shortage of materials, temporary weather conditions, or for any other cause beyond their control, no time shall be deducted from this period and the finishing time or shift shall not be extended to make up the lost time.

6. CALL BACK. When an employee is called back to work within four (4) hours after the completion of his regular shift, he shall be paid for such hours worked at the appropriate overtime rate. If he is called back to work later than four (4) hours after the completion of his shift, the employee is entitled to a minimum of four (4) hours pay at the appropriate overtime rate. If the hours worked exceed four (4), the employee shall be entitled to overtime pay for all such hours worked. If the employee is called out more than once in one four-hour period, a new call-out shall not be established. Work performed outside of regularly-scheduled hours in making runway checks in compliance with the Federal Aviation Administration Airport Certification Laws will be paid for at four (4) hours straight-time rate or for time worked, whichever is greater.

7. STARTING TIME. Regular starting times will be as established by the Employer for each operation covered by this Agreement, and changes to this will be mutually agreed to by the Union and the Employer.

8. TIDAL OPERATIONS. When it is necessary to work with the tide, any such working hours may be changed at the option of the Employer to meet tidal conditions; however, when these conditions make it impossible for full shift operations, the employees shall be paid for a full shift regardless of whether a full shift is worked. No split shift which extends into the next tide shall be worked except at the overtime rate.

a. FERRY TRAVEL TIME. Ferry travel time shall be defined as actual time enroute between point of departure and destination and shall be paid at the employee's regular straight-time rate of pay. Loading and unloading of vehicles from ferries shall be included in the employee's travel time. Travel time shall not be considered time worked for the purpose of computing overtime.

9. a. Authority for orders to employees covered by this Agreement will be to the employees by a management representative through a foreman or leadman where there is a foreman or leadman as required by paragraph b and c of this section and from a foreman or leadman to other employees performing the work.

b. When four (4) or more employees, except for laborers in public buildings, are employed on the same shift or as a crew, one (1) shall be selected by the Employer as a working leadman and shall be paid at the proper rate.

c. When eight (8) or more employees are employed on the same shift or as a crew in an immediate area, one (1) shall be selected as a non-working foreman and shall be paid at the proper rate.

d. When a leadman or foreman as described in section b and c is required by the Employer to supervise others of a Wage Grade the same as his own he shall be entitled to thirty-five cents (35¢) per hour over the base rate for the Wage Grade for all such hours of supervision. Such increase shall not result in a permanent wage change. The appointment of such foremen or leadmen will be the right of management, other provisions of the contract notwithstanding.

ARTICLE XV

TRAVEL AND MOVING

1. TRAVEL AND PER DIEM. If an employee is required to travel in travel status, he shall be paid a minimum of four (4) hours at his regular straight-time rate. If the travel time is more than four (4) hours in any twenty-four (24) hour period, he shall receive a minimum of seven and one-half (7-1/2) hours at his regular straight-time rate. Travel time shall not be considered as time worked for the purposes of computing overtime for that particular day.

No employee shall be required to travel for more than forty-eight (48) hours from his duty station without prior authorization and travel advanced funds, based on the travel time status requested by the Employer, and applicable per diem rates.

2. a. When the employee is on State business away from his duty station and quarters and meals are not furnished, the employee shall be entitled to per diem in accordance with Section 7640 of the State Administrative Manual.

b. When employees are assigned to temporary duty stations that do not meet camp requirements, per diem shall be reduced $10 per day. The Employer will furnish heat, light, adequate cooking, sleeping, and lavatory facilities.

This does not apply to Article XXI, section 8, and will be effective on date of acceptance.

3. a. REIMBURSABLE TRAVEL EXPENSES. Whenever an employee is required to change his place of residence because of a change in assignment, promotion, or other reason related to his duties, he shall be reimbursed for transportation expenses in accordance with Section 7678 of the State Administrative Manual.

b. In cases of new hires to duty stations not on the connected highway system or ferry system, one-way airfare for the employee only will be furnished.

4. REIMBURSABLE MOVING EXPENSES. Employees shall be reimbursed for moving expenses under Section 7676 of the State Administrative Manual.

Transfer between duty stations and travel in exercising retention rights at the employee's option will be at the employee's expense.

5. The Employer shall insure the life of every employee against accidental death while in travel status away from his duty station in the amount of $35,000.00 at no cost to the employee. The employee shall name the beneficiary.

6 TEMPORARY TRAVEL ASSIGNMENTS. When an employee is traveling between work assignments or is temporarily assigned to work a distance of more than fifty (50) road miles away from his regularly-assigned work location the Employer will pay the employee according to the following schedule of allowances, providing the employee is in travel status at least three (3) hours of the time period shown for that meal period.

TIME PERIOD	MEAL	ALLOWANCE
Midnight - 10:00 a.m.	Breakfast	$ 4.25
10:00 a.m. - 3:00 p.m.	Lunch	$ 4.75
3:00 p.m. - Midnight	Dinner	$10.00

ARTICLE XVI

REMUNERATION

TIME CARDS. Time-card hours of employees shall not be changed without first consulting with the employee involved. Corrections to the time-card hours and subsequent pay adjustments may be made after the employee involved has been notified of the changes made and pay adjustments expected, giving the reason for the correction and approximate date the pay adjustment should be made. Copies of the employee's time cards shall be made available by the Employer for inspection by the

employee or authorized Union representative upon eight (8) working hours written notice by the Union to the state office where the records are maintained. Refusal to furnish time cards as specified herein shall entitle the employee to wait-time pay of forty dollars ($40) for each twenty-four (24) hour period thereafter. The Employer shall not be required to keep time cards over sixty-five (65) days. Any employee having a discrepancy in his time card must bring same to the attention of the Union within forty (40) days after such discrepancy.

ARTICLE XVII

CONDITIONS

1. LUNCH BREAK. A lunch period of not less than thirty (30) minutes or more than one (1) hour shall be allowed approximately midway of each shift. When the employee is scheduled to work at least three days on a ten (10) hour shift the lunch period shall be taken after approximately five (5) hours. If the shift exceeds the scheduled ten (10) hours the employee shall be entitled to an additional meal period with pay at the appropriate overtime rate and not to exceed one-half (1/2) hour. The same principle shall apply to shifts of eleven and twelve hours.

2. RELIEF PERIOD. All employees shall be allowed one (1) relief break not to exceed fifteen (15) minutes in duration during the first (1st) half of the shift and fifteen (15) minutes during the second (2nd) half of the shift. The Union and the Employer shall mutually agree on reasonable rules governing the taking of such relief periods as provided herein. When working other than the regular shift, relief breaks shall be taken consistent with the above schedule.

3. PAYDAY. The Employer agrees that payday shall be semi-monthly and shall be paid on the first (1st) and sixteenth (16th) of each month. If the employee's payday falls on a Saturday, Sunday, or holiday, then the last working day before said Saturday, Sunday, or holiday shall be considered payday. If the employee who elects to receive his paycheck at home or at work does not receive his paycheck on payday or within twenty-four (24) hours of the close of business on payday, the employee shall be entitled to penalty pay of one-half (1/2) a day's pay at the straight-time rate for each day thereafter to a maximum of twenty (20) days, provided the employee files notice with the Employer on forms provided by the State within the next regular day of business. Failure to provide notice to the Employer within the specified time period will forfeit claim for penalty pay until such notice is given. Employees who have their paychecks mailed to their banks shall be entitled to penalty pay only from the date of written complaint to the Employer.

a. ITEMIZED DEDUCTIONS. The Employer shall itemize all deductions except deferred compensation on regular paychecks so employees can clearly determine the purposes for which amounts have been withheld and shall include the number of straight-time hours, overtime hours, and dues deductions and basic rate per hour paid.

b. All mailed checks shall be considered paid timely if postmarked four (4) days prior to the due date.

4. PAY SHORTAGES. Verified pay shortages shall be paid promptly after receipt of the employee's complaint in accordance with Article XVII, Section 3, and no later than fifteen (15) days afer the written complaint is received on forms provided by the State. If not paid within the prescribed period, the penalties as set forth in section 3 above shall apply.

5. TERMINATION PAY. When an employee is terminated, his wages, less terminal leave and retirement contributions, become due immediately and shall be paid during business hours no later than the fourth working day after termination. If not paid within the prescribed period, the penalties shall be 7 1/2 hours per day straight-time rate of pay for any day thereafter that the check is late, provided that the employee files notice with the Employer on the next regular day of business. Failure to provide notice to the Employer within the specified time period will forfeit claim for penalty pay until such notice is given. Provided, however, if the employee voluntarily terminates without two (2) weeks prior notice, the late pay penalty shall not apply until after the following pay period. Date of mailing the paycheck shall constitute date of payment.

6. When the Employer prepares a written Performance Evaluation Report on an employee, the employee shall, at his option, have a Union representative present during the discussion of said evaluation.

The Employer agrees that, upon completion of the discussion of the Performance Evaluation Report with the employee, the evaluation will be signed by both the employee and the rater. Upon completion of the discussion and signing by both parties, the employee will be given his copy at the meeting. The employee's copy, without further written comments or signatures, shall constitute the written evaluation.

ARTICLE XVIII

HOLIDAYS

1. HOLIDAYS RECOGNIZED ARE:

New Year's Day	Lincoln's Birthday
Memorial Day	Seward's Day
Washington's Birthday	Independence Day
Labor Day	Alaska Day
Veterans' Day	Thanksgiving Day
Christmas Day	

Every day designated by public proclamation by the President of the United States or the Governor of the State as a legal holiday.

2. OBSERVANCE OF HOLIDAYS. A designated holiday will normally be observed on the calendar day on which it falls except that if the holiday falls on an employee's first regularly-scheduled day off it will be observed on the preceding day. If the holiday falls on the employee's second regularly-scheduled day off it will be observed on the following day.

3. PAY FOR DESIGNATED HOLIDAYS. Any of the above-designated holidays, when not worked by an employee, shall be paid at the rate of seven and one-half (7-1/2) hours at straight-time pay. An employee who is required to work on any one (1) of the designated paid holidays shall be paid time and one-half for hours worked plus holiday pay as designated above.

ARTICLE XIX

ANNUAL LEAVE

1. Employee's vacation-time credits shall accrue from the date of employment at the rate of one and one-quarter (1-1/4) days per month or majority fraction thereof for a period of two (2) years. Vacation-time credits, however, shall not be allowed to any employee whose term of employment is less than sixty (60) days. However, any employee who has worked over the sixty (60) day period but who terminates prior to the time that a vacation is taken, shall receive credit for one and one-quarter (1-1/4) days per month for each month worked from the inception of his employment and shall receive pay for the amount of credits so accumulated. After an employee has worked for a period of two (2) years, section 2 of this provision shall apply.

2. Employees with two (2) years or more employment shall start accruing one and three-quarter (1-3/4) days per month beginning on the sixteenth (16th) of the first full month of the third (3rd) year of employment. Any employee who has worked over the two (2) year period, but who terminates prior to the time that a vacation is due, shall receive credit for one and three-quarter (1-3/4) days per month for each month worked from the beginning of the third (3rd) year of employment and shall receive pay for the amount of credits so accumulated.

3. Employees with five (5) years or more employment shall start accruing two (2) days per month beginning on the sixteenth of the first full month of the sixth (6th) year of employment. Any employee who has worked over the five (5) year period but who terminates prior to the time that a vacation is due shall receive credit for two (2) days per month for each month worked from the beginning of the sixth (6th) year of employment and shall receive pay for the amount of credits so accumulated.

4. Employees with ten (10) years or more employment shall start accruing two and one-half (2-1/2) days per month beginning on the sixteenth (16th) of the first full month of the eleventh (11th) year of employment. However, any employee who has worked over the ten (10) year period but who terminates prior to the time that a vacation is due, shall receive credit for two and one-half (2-1/2) days per month for each month worked from the beginning of the eleventh (11th) year of employment and shall receive pay for the amount of credits so accumulated.

5. EXTENDED VACATION LEAVE. Any employee desiring extended vacation leave shall secure written permission from the Employer. Such extended vacation leave without pay shall not exceed fifteen (15) working days in any year. The employee may not accept any other type of employment under an APSE labor agreement while on vacation or extended leave. Proven violation of this section will subject the employee to termination.

6. Vacations may be taken at any time with the permission of the Employer whenever business permits.

7. a. Each employee shall take at least ten (10) days annual leave during each calendar period beginning January 16th and ending January 15th of the succeeding year. Should circumstances cause the Employer to refuse the employee the opportunity to take the full ten (10) days, any unused portion of the ten (10) day mandatory leave shall not be deducted from the employee's leave balance at the end of the calendar year.

b. Annual leave accrued but not used shall accumulate to a maximum of sixty (60) days on January 15th of any calendar year. If an employee would have, as of January 15th, an amount of leave in excess of sixty (60) days the Employer may, after consultation with the employee, schedule such leave in excess of sixty (60) days.

c. If an employee has an amount of annual leave in excess of sixty (60) days as of January 15th, such amount in excess of sixty (60) days shall be paid in cash.

ARTICLE XX

LEAVES OF ABSENCE

1. APPLICATION FOR LEAVES OF ABSENCE. No application for a leave of absence, as described in this Article, will be considered, unless it is applied for in writing and presented to the employee's immediate supervisor for his approval in advance whenever possible.

2. TEMPORARY ABSENCE FOR DISABILITY, ILLNESS OR INJURY. A permanent employee who shall be found and certified by a medical doctor to be unable to perform his regular assigned or alternate duties within this bargaining unit, as approved by the attending physician, because of disabling illness or injury, shall upon request receive a leave of absence without pay up to twelve (12) months but with service credit and seniority accumulating. If the disability continues beyond twelve (12) months and the employee has not returned to work, his service credit and seniority will be broken and terminated, unless otherwise mutually agreed by the Union and Employer.

3. OTHER APPROVED ABSENCE. Permanent employees may be granted a leave of absence without pay for death in the family, quarantine, marriage or voluntary service with a government agency. Leaves of absence may also be granted for other miscellaneous reasons.

4. NON-WAR MILITARY DUTY ABSENCE AND PAYMENT. An employee who is ordered by the United States Selective Service System to report for a pre-induction physical examination is entitled to a leave of absence without loss of pay, time or performance rating. The leave of absence shall not exceed three (3) working days.

An employee of the State who is a member of a reserve component of the United States Armed Forces, National or Alaska Guard or Naval Militia,

is entitled to a leave of absence without loss of pay, time or performance rating on all days during which he is ordered to training duty, as distinguished from active duty, with troops or at field exercises or for instruction. The leave of absence may not exceed sixteen and one-half (16-1/2) working days in any calendar period beginning January 16 and ending January 15.

5. ABSENCE AND PAYMENT FOR JURY DUTY AND WITNESSES. An employee who is called for jury duty or who is subpoenaed to appear in court in Alaska as a witness will be compensated by the Employer for the difference between payment received for such compulsory jury duty or court appearance and the payment he would have received for the straight-time hours he was thereby required to lose from his regular work schedule but not to exceed five (5) seven and one-half (7-1/2) hour days per week, computed at his established basic hourly wage rate. However, when subpoenaed by a party other than the Employer, the employee will not be compensated if the employee, the Employer or the Union is a party in the case, or if the employee has any direct interest or financial interest in the case. Differential payment shall be made so long as such jury duty or court appearance continues only upon presentation of documentary proof of jury duty or court appearance and the payment received therefor. Continuous-service credit and duly-established seniority privileges will accumulate during such leave.

6. ELECTIONS. If the Employer has so placed an employee that he is unable to vote on his off-duty time, it shall be the responsibility of the Employer to provide time and transportation during normal working hours, without loss of pay to the employee, for each permanent employee to vote in federal, state, city, borough elections and Union elections held on the employee's job site.

7. MATERNITY LEAVE. Immediately preceding and following childbirth, a female employee is entitled to take a total of nine (9) weeks' leave. This leave shall be charged first to sick leave, and if this is insufficient, to annual leave, then to leave without pay for the balance of the period of nine (9) weeks.

Upon application and under extenuating circumstances, additional leave may be granted by the appointing authority. A physician's certificate shall be required to support the additional leave request. Where a maternity leave of absence is taken in accordance with the provisions of this section, the employee shall accumulate service credit and seniority during such leave of absence.

8. UNION BUSINESS LEAVE. There is hereby created a Union Business Leave Bank which shall be administered by the State with a monthly report of the balance and withdrawals provided to the Union Business Manager. The bank shall be established by a transfer of one day of annual leave from each employee on the payroll of the Employer on the date of signing this Agreement. All other employees shall donate one day of annual leave when the employee's balance is at least one day or more and such leave shall be transferred to the bank.

Withdrawal requests from the bank will be for purposes of contract negotiations, executive meetings, training sponsored by the Union, and other purposes as may be determined by the Business Manager. Requests for withdrawals from the bank shall be made only by the Business Manager of the Union to the Director of Personnel and Labor Relations on forms mutually agreed by the parties and furnished by the Union. All annual leave transferred to the bank is final and not recoverable for recredit to an individual's annual leave account.

The release of employees for Union Leave from duty shall be handled on the same basis as release from duty for annual leave.

ARTICLE XXI

SAFETY AND LIABILITY

1. a. All permanent equipment mechanics in Wage Groups 3 and 4 will be required to furnish their own hand tools up to but not including socket sets of 3/4-inch drives. The employees will receive a monthly tool allowance of twenty-five ($25) dollars to be paid semi-annually. Electronics Technicians will be paid ten dollars ($10) per month and furnish all hand tools exclusive of complex testing equipment consistent with this section.

   b. No employee shall be discriminated against or disciplined in any manner because of refusal to work with, operate, or ride in unsafe equipment. Such refusal must be evidenced by a written report of the unsafe condition by the employee. If subsequently the equipment is deemed to be safe by the Safety Committee, disciplinary action may be taken by the Employer.

2. All work should be executed in a safe manner. The "Alaska State Safety Code" and OSHA regulations shall serve as minimum standards.

3. Safety devices and first-aid equipment, as may be needed for safety and proper emergency medical treatment, shall be provided for by the Employer. Each employee shall be responsible to account for the tools, protective clothing and equipment so supplied, ordinary wear and tear excepted. Non-expendable tools or protective clothing which become lost, damaged or stolen through the employee's proven negligence or deliberate act shall be replaced or paid for by the employee.

The Employer shall furnish such safety equipment and protective clothing as is necessary for the safety of the employees.

4. Not more than ninety (90) days after the signing of this Agreement, a safety committee composed of equal representation from the Employer and the Union or designated employee representatives shall be created by the Employer to inspect all tools and equipment, review safety programs and training, and enforce safety practices and regulations. The safety committee shall have the specific authority to deny the department concerned the right to operate equipment until the safety committee has

approved equipment and conditions as being safe. The safety committee shall have the right to recommend disciplinary action for any employee who habitually disregards safety practices and regulations.

5. A safety and first aid program as required by the State Safety Code, shall be instituted, and regular safety meetings for each department shall be scheduled by the Employer during working hours once each month in a "tool box" or "lunch" area.

6. The Union will cooperate with the Employer in order to have at least one (1) man in each ten (10) employed who is a trained first-aid man.

7. SPECIAL FIRST-AID REQUIREMENTS

a. The Employer will keep and maintain fully-equipped standard first-aid kits (as prescribed by the National Safety Council). Where equipment for isolated crews who are working remote areas or in areas where first-aid kits are not immediately available, such kits shall be provided and be accessible on each machine and/or for each crew.

b. Every foreman or leadman in the bargaining unit shall have a current state-approved first-aid card.

c. Blankets and stretchers shall be maintained for the use of employees who may be injured.

d. Employees whose injuries require the use of a stretcher or ambulance shall be accompanied to the hospital by an attendant.

e. Immediate transportation must be provided seriously injured or ill employees, and such transportation must have precedence over all other transportation.

f. The Employer shall also notify the Union, as promptly as possible, of lost-time accidents and shall furnish the Union with a copy of the Employer's accident report at the time such report is furnished to the insurance company.

8. SANITARY REQUIREMENTS

a. Where temporary camp housing is furnished, each man shall be allowed housing of approximately sixty (60) square feet of floor area and shall be furnished bedding and a weekly change of linen. Shelter-wells and similar structures shall require approximately ninety (90) square feet of floor area per man. Adequate closet or locker space shall be provided each man, and where more than two (2) men are housed in a single room, a locker and keys or lockable closet shall be provided each man. There shall be no more than four (4) men housed in a standard 16' x 24' shelter-well. Room attendants shall be required to sweep floors and tidy rooms daily, excluding Sundays and holidays, and one (1) day each week shall

give each room a general cleaning, including antiseptic treatment of floors. The Employer shall furnish an adequate number of washers and dryers, both in camp and in facilities arranged for through a third (3rd) party. However, employees covered by this Agreement shall be entitled to as favorable camp conditions as other employees employed on the project. Alberta or equal quality trailer camps are acceptable, providing the patented or similar covered walkways are installed.

b. Those employees handling, preparing, or serving food will not be utilized during the same shift in cleaning toilets and urinals, and will not be used to wash or clean floors, beds, walls, and the garments of patients. This does not apply to the employee's assigned work area.

c. It shall not be considered a violation of this Agreement where employees refuse to work in facilities that are not being maintained in a sanitary condition.

9. SHELTER REQUIREMENTS. Warm and adequate shelter shall be provided for employees by the Employer in which to dry their clothes and eat their lunches.

10. EQUIPMENT REQUIREMENTS. To insure safety and to eliminate unnecessary occupational accidents, the Employer agrees that all equipment shall be properly cabbed and screened.

11. DRINKING WATER. Cool, clean drinking water in sanitary containers and disposable cups will be provided in adequate supply in close proximity to workers at all times.

12. TOILETS AND URINALS. On all projects covered by this Agreement there shall be provided by the Employer at all times during construction, sanitary facilities consisting of a reasonable number of toilets and urinals.

13. ACCIDENT BOARD

a. Notification of all accidents concerning lost time, $200.00 or more property damage, suspension and reprimand, injury or fatality will be made to the Union office. An accident board shall be convened in such cases and will consist of two (2) members chosen by the Union District Office representative and two (2) members chosen by the Department involved. The accident board shall investigate such accidents and shall render a decision as to whether it is a chargeable or non-chargeable accident within seven (7) days following the convening of the accident board. If disciplinary action is taken prior to the convening of the accident board, the accident board shall have authority to adjust the action taken and order back pay. The recommendations of the accident board shall be followed, unless they are deadlocked, in which case the dispute shall be referred to a fifth (5th) disinterested party mutually chosen by the Union District Office and the Department involved whose decision shall be final and binding.

ARTICLE XXII

SENIORITY

1. Duty station seniority shall be established as follows: duty stations shall be determined by work locations. These work locations are to be categorized by location, by department, by sections within divisions within that department.

It is further mutually agreed that promotions shall be initiated by posting of a job announcement at the job location for ninety-six (96) hours. Postings of job openings shall be retained at the duty station for six months.

It has further been understood that if an employee is temporarily reassigned from his permanent duty station for a period not to exceed one (1) year, or as mutually agreed by the parties, his seniority at his permanent duty station will not be affected.

Duty station seniority shall not in any way affect the employee's overall seniority with the Employer for the purposes of vacation, holiday and/or other fringe benefits.

2. Layoffs, including layoffs caused by the elimination of jobs, shall be made in revese order of duty station seniority from among those in the classification in which the layoff occurs. If the person laid off in the classification holds seniority in a lower classification, he may be returned to that classification if he is not least senior of that group and will assume the wage level of the classification to which he is moved. When an employee is promoted, he retains his seniority in the classification he left for a period of three years, and if he has not returned to that classification, he loses any accumulated seniority in that classification. When an employee is returned to a lower classification, he shall retain his seniority at the higher classification.

3. Promotions, including promotions to newly-created jobs, shall be made in order of seniority, provided the employee is equally qualified and competent for the proposed classification with all other employees in said classification and when mutually agreed upon by both the Union and the Employer.

4. If the Employer should reclassify any employee to a position outside the bargaining unit, the employee shall be entitled to one (1) year's grace without loss of seniority.

5. Extra employees shall not be given preference over regular employees for overtime under any conditions, unless mutually agreed upon by both the Union and the Employer.

6. Seniority shall be terminated and the Employer-Employee relationship shall be servered by the following conditions:

   a. proper discharge;

   b. layoff of twelve (12) months duration;

c. resignation;

d. failure to return from leave of absence, vacation or seasonal layoff on agreed date, unless approval has been obtained from the Employer, emergencies excepted, unless otherwise mutually agreed upon by both the Union and the Employer.

e. transfer to a new duty station (an employee may not be compelled to accept a transfer except as provided in Article VII, section 4).

7. Overtime shall not be compulsory, excepting in dire emergency, and shall be distributed as evenly as possible among those employees desiring to work the overtime. Unless otherwise mutually agreed upon by both the Union and the Employer, straight seniority shall govern on the rights of refusal.

ARTICLE XXIII

HEALTH AND SECURITY

1. a. The Employer agrees to pay all insurance premiums for all permanent full-time employees, their spouse and dependents for health, dental and audio-visual insurance at the level of coverage afforded employees on the date of signing. Permanent part-time employees will likewise be covered, but not their dependents or spouse.

b. In addition to insurance coverage paid by the Employer as described in section 1a of this Article the Employer agrees to pay to the Alaska Public Service Employees Trust Fund a monthly amount equal to twenty-two cents (22¢) per hour for each straight-time hour, thirty-three cents (33¢) for each overtime hour at time and one-half, and forty-four cents (44¢) for each double-time hour, paid as wages to probationary/permanent employees for the purpose of Union sponsored and administered additional health insurance benefits. This shall include twenty-two cents (22¢) for each compensable hour of terminal leave; however, it is agreed that the payment for terminal leave hours shall not be retroactive and shall commence upon date of signing of this Agreement. The Union recognizes that the Employer, to insure timely payment of wages due the employee, may be required to issue paychecks in the form of prepay, supplemental, or field warrants. In all cases the Union and the Employer agree to honor all bona fide claims for over and underpayments due to discrepancies in hours reported. The Employer will furnish a monthly accounting of straight-time, overtime, and double-time hours for each probationary/permanent employee, as well as the list of employees who are eligible for insurance coverage as listed in 1a. The list of eligibles shall be furnished to the Union Trust at the same time it is provided to the Employer's insurance carrier. No contribution shall be made for any penalty payments.

It is recognized by the parties that such payments have reduced the negotiated wage settlement by the amounts shown in this section.

2. EMPLOYEE LIFE INSURANCE. The Employer shall insure the life of every employee in the principal amount of $2,000.

ARTICLE XXIV

PENSION AND RETIREMENT

The employee shall enjoy the retirement benefits as outlined in the applicable statues relating to the Public Employees' Retirement System.

ARTICLE XXV

SICK LEAVE - FUNERAL LEAVE

1. Employees' sick-leave credits shall accrue at the rate of one and one-fourth (1-1/4) days per month or majority fraction thereof; sick leave pay shall be based on the employee's actual scale of wages.

2. Employees with three-day sick leave and under shall not be required to furnish a doctor's certification before returning to work unless there is reason to believe malingering is involved. Any employee with more consecutive sick leave days than specified above may be required to furnish a doctor's certificate to the Employer, certifying that the employee was physically unable to perform his duties. Any employee who abuses the sick leave privilege is subject to disciplinary action.

In the event of serious illness or injury within the employee's immediate family which requires the attendance of the employee for emergency care or when his presence on the job would jeopardize the health of fellow employees, the employee shall be entitled to the use of sick leave provided that a physician's certificate may be required by the Employer that the presence of the employee was required or that the illness or injury would jeopardize the health of other employees. Immediate family shall be defined as father, mother, husband, wife, sons, daughters, brothers and sisters.

3. The employee shall be allowed time off without loss of pay for time spent off the job while under the care of a dentist, for such treatment as provided under the health and welfare plan. Such time off shall be deducted from the employee's accumulated sick leave credit account in increments of not less than one (1) hour with a minimum of two (2) hours for any one appointment. To be eligible for such sick leave pay, the employee shall notify the Employer not less than one (1) day in advance of such appointment. However, in cases of emergency, the employee need not give notice to the Employer, but must show evidence of such emergency upon return to work. Upon completion of such appointment or series of appointments, the employee shall provide the Employer with a dentist's certificate, in a form acceptable to the Employer, that shall contain the date and hour of when such appointment or series of appointments were scheduled and completed.

4. In the event of a death in the employee's immediate family, the employee shall be allowed up to five (5) working days off without loss of pay - from and including the date of death; to and including the date of the funeral - for the purpose of attending the funeral. Immediate family shall be defined as spouse, son, daughter, mother, father, sister, brother, mother-in-law or father-in-law. Funeral-leave time shall be deducted from accumulated sick leave.

5. Upon the death of an employee, any unused sick leave balance shall be paid in cash to his beneficiaries at his regular pay rate.

ARTICLE XXVI

MISCELLANEOUS

1. It is agreed between parties that the Occupational Safety Compliance Officers under the Agreement shall be required to meet minimum qualifications established by the State as well as being required to pass any examinations to be considered for employment. The certifications of eligibles and selection procedures shall continue in force in the same manner used prior to coming under the jurisdiction of the contract. It is further agreed that effective upon date of acceptance, and not before, overtime worked will be computed at the appropriate overtime rate.

2. JOB DEFINITIONS

Party Chief: A party chief shall be a qualified surveyor supervising a party of four (4) or more members.

Inspector: An inspector shall be a qualified inspector possessing the required knowledge and experience to certify in writing the quality and quantity of items incorporated into the completed project. In all cases the use and designation of an inspector is a recognized sole management right.

Instrumentman: An instrumentman shall be qualified to operate all types of surveying instruments and may supervise survey crews consisting of three (3) or fewer members.

Chainman: Chainman shall be a qualified chain and rodman.

Computer/Office Technician: An engineering technician shall be qualified in any or all of the various aspects of highway construction, design, or materials. He is differentiated from party chief, instrumentman, chainman and Computer/Technician by the fact he has not been tested and qualified in these categories.

Engineer in Training: An engineer in training is not a member of this bargaining group. He is a graduate engineer, in training for a supervisory position with the State. The State training program requires that these trainees receive on-the-job training during their two (2)

year training program. Nothing in the Agreement shall preclude these trainees from being assigned as they have in the past to various jobs as inspectors, party chiefs, and instrumentmen or computers for training purposes provided that no members of this bargaining group are laid off as a result of these assignments. Training Program shall be defined as working in addition to the regular crew.

ARTICLE XXVII

SEPARABILITY AND SAVINGS CLAUSE

1. Should it be determined that any Article of this Agreement is unlawful, then such Article:

EFFECT OF LAW

In the event that, now or hereafter, there is any directive, order, rule or regulation, provision or provisions of any Agreement between the parties, the same shall supersede such provision or provisions and thereafter shall govern and control the relations and conduct of the parties so long as such law, directive, order, rule or regulation shall remain in force and effect. In the event that this or any other agreement existing between the parties hereto, now or thereafter requires the approval of any government authority before becoming effective, the same will and shall be subject to such approval. Furthermore, it is mutually agreed that within thirty (30) calendar days after such provision or provisions become unlawful, the parties shall meet to discuss a modification of such provision or provisions to comply with the law. In all other respects, the provisions of this Agreement shall continue to full force and effect for the duration of this Agreement.

2. In the event of any conflict between this Agreement and any law, the terms of this Agreement supersede all laws, rules, regulations and orders in their application to the bargaining unit.

WAIVER

The parties acknowledge that during the negotiations which resulted in this Agreement, each had the unlimited right and opportunity to make demands and proposals with respect to any subject or matter not removed by law from the area of collective bargaining and that this Agreement is the entire Agreement and includes all collective negotiations during its term.

3. MERIT SYSTEM PRINCIPLES. The parties agree that it is their mutual intent to strengthen the merit principles in the bargaining unit, and pursuant to AS 23.40.070 (3) shall use all due diligence to maintain merit principles among public employees.

Should this Agreement or any section or Article be found not in compliance with federal merit system standards, where such standards are required as conditions for the receipt and expenditure of federal funds,

the Employer and the Union agree to immediately convene and renegotiate the Agreement, section or Article to comply with such standards.

4. GRANT-AIDED AGENCIES. Employees subject to federal provisions regarding merit system requirements for GrantinAid Agencies shall be subject to regulations developed by the Joint Hiring Committee provided for in Article IV of this Agreement. Regulations will be developed and implemented for those employees governing appointment, promotion and layoff in accordance with federal merit system standards.

ARTICLE XXVIII

UNEMPLOYMENT INSURANCE

The Employer and the Union agree to mutually support legislation as submitted and approved by the Administration.

ARTICLE XXIX

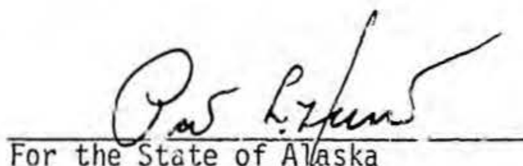
TERM OF AGREEMENT

1. This Agreement shall become effective January 1, 1977, and shall remain in effect until December 31, 1979.

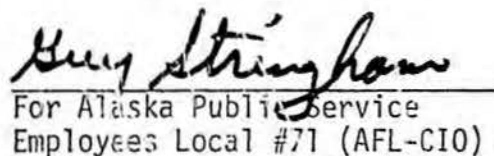
2. If either party should choose to negotiate a new agreement, they shall contact the other party during the period between October 1, 1979 and October 31, 1979.

3. In case of a delay in implementing the monetary terms of this Agreement, the Employer shall be held free of any penalty pay or other punitive measure. Such immunity is to apply to all time prior to the date that is 30 days subsequent to the date upon which an appropriation, adequate and for the specific purpose, becomes law or all time prior to the date that is 30 days subsequent to determination by a court of competent jurisdiction that such implementation may legally be made.

4. This Agreement is executed this 22 day of April, 1977, by the duly authorized agents and representatives of the parties hereto.



For the State of Alaska



For Alaska Public Service Employees Local #71 (AFL-CIO)

Signed this 22 day of April, 1977.