

SB

25

Introduced: 1/16/79  
Referred: State Affairs  
and Finance

1 IN THE SENATE

BY RAY

2 SENATE BILL NO. 25

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 ELEVENTH LEGISLATURE - FIRST SESSION

5 A BILL

6 For an Act entitled: "An Act relating to withdrawal from the federal Social  
7 Security System; and providing for an effective date."

8 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:

9 \* Section 1. AS 39.35.160(b) is amended to read:

10 (b) In addition each employee shall pay the appropriate social  
11 security contribution or the contribution required under AS 39.30.170 in  
12 lieu of a social security contribution.

13 \* Sec. 2. AS 39.35.680(21) is amended by adding a new subparagraph to read:

14 (D) may include employees of the division of marine  
15 transportation excluded under (C)(v) of this paragraph provided  
16 that

17 (1) the State of Alaska formally agrees to their  
18 inclusion through the process of collective bargaining, and  
19 ~~(1)~~ other than military service credit, only ser-  
20 vice after January 1, 1980 may be credited under this chapter;

21 \* Sec. 3. AS 39.35.680(25) is amended to read:

22 (25) "normal retirement" means retirement for a member who is  
23 at least 55 years old and has a minimum of five years credited service,  
24 or who is any age and has 30 years or more of credited service, or who  
25 is making contributions under AS 39.30.170, is any age and has 25 years  
26 or more credited service, or a peace officer or fireman who is any  
27 age and 20 years or more of credited service;

28 \* Sec. 4. AS 39.35.370(c) is amended to read:

29 (c) The monthly amount of a retirement benefit for a peace officer

1 or fireman is two percent of the average monthly compensation times the  
2 years of credited service up through 10 years, plus two and one-half  
3 percent of the average monthly compensation times the years of service  
4 over 10 years. For all other employees it is two per cent of the aver-  
5 age monthly compensation times the years of service. The monthly amount  
6 of a retirement benefit for an employee covered by this chapter who is  
7 making contributions under AS 39.30.170 shall be increased by three-  
8 fourths of one per cent of the average monthly compensation times the  
9 years of credited service with the state. An actuarial adjustment must  
10 be made for an early retirement benefit.

11 \* Sec. 5. AS 39.35.410(d) is amended to read:

12 (d) The monthly amount of an occupational disability pension is  
13 the greater of 40 per cent of the disabled employee's gross monthly com-  
14 penetration at the time of termination due to disability or the amount  
15 determined in accordance with AS 39.35.370(c) considering the employee's  
16 credited service and compensation before termination of employment.

17 \* Sec. 6. AS 39.30 is amended by adding new sections to read:

18 ARTICLE 4. SUPPLEMENTARY EMPLOYEE BENEFITS ON WITHDRAWAL  
19 FROM FEDERAL SOCIAL SECURITY.

20 Sec. 39.30.150. SURVIVOR'S BENEFITS. (a) The State of Alaska  
21 shall provide for survivor's benefits for occupational and non-occupa-  
22 tional death effective as of an employee's first day of employment, or  
23 January 1, 1980, whichever is later, to employees of the state who are  
24 making contributions under AS 39.30.170 as follows:

25 (1) for all casual, emergency or temporary employees not  
26 covered by the Alaska Public Employees' Retirement System (AS 39.35) or  
27 the Alaska Teachers' Retirement System (AS 14.25) the benefit payable to  
28 the beneficiary shall be a lump sum of \$15,000.

29 (2) for all employees other than those covered under (1) of

1 this subsection, the benefit payable to the beneficiary shall be a lump  
2 sum equal to 12 times the employee's basic monthly compensation at the  
3 time of death;

4 (b) For purposes of this section, "basic monthly compensation at  
5 the time of death" means the employee's basic monthly compensation for  
6 the last full month of employment immediately preceding his death or  
7 disability leading to his death.

8 Sec. 39.30.160. DISABILITY BENEFIT. (a) The state shall provide  
9 an occupational and non-occupational disability benefit program covering  
10 each employee of the state making contributions under AS 39.30.170.  
11 Coverage shall begin on the first day of employment or January 1, 1980,  
12 whichever is later. Disability payments are not payable during the  
13 first six months of disability.

14 (b) In this section, "disability" means the complete inability of  
15 the employee to engage in his regular occupation during the first 12  
16 months of disability, and thereafter the complete inability to engage in  
17 any employment or occupation for which he is reasonably fitted by reason  
18 of education, training or experience.

19 (c) For a casual, emergency or temporary employee not covered by  
20 the Alaska Public Employees' Retirement System (AS 39.35) or the Alaska  
21 Teachers' Retirement System (AS 14.25), the disability benefit is \$100  
22 per week and shall be payable only if the disabled employee fulfills the  
23 requirements set out in (e) of this section. The last payment shall be  
24 for the week in which (1) the death of the disabled employee occurs, or  
25 (2) the disabled employee reaches the age of 65, whichever occurs first.

26 (d) For all employees other than those covered in (c) of this  
27 section, the monthly disability benefit shall be 60 per cent of the  
28 first \$5,000 of the employee's basic monthly earnings at the date of  
disability less any disability benefits the employee is entitled to

1 under Social Security or any other disability plan to which the state  
2 makes contributions on behalf of that employee. The disability benefit  
3 shall be payable only if the disabled employee fulfills the requirements  
4 set out in (e) of this section. The last payment shall be for (1) the  
5 month in which the death of the disabled employee occurs, or (2) the  
6 month the disabled employee reaches normal retirement age, or (3) the  
7 month the disabled employee reaches the age of 65, whichever comes  
8 first.

9 (e) An employee receiving a disability benefit under this section  
10 shall provide the director of the division of retirement and benefits,  
11 one year after appointment to disability benefits and once each year  
12 thereafter until disability benefits cease, satisfactory proof of con-  
13 tinuing disability. If the employee provides satisfactory proof that  
14 the disability is permanent, the requirement of submitting further proof  
15 of continuing disability may be waived by the director.

16 Sec. 39.30.165. BASIC MONTHLY COMPENSATION. In secs. 150 - 160 of  
17 this chapter, "basic monthly compensation" means the amount earned by  
18 the employee during the month, including normal overtime; however,  
19 unusual or seasonal overtime or work of a seasonal nature may be ad-  
20 justed to reflect a 12-month average.

21 Sec. 39.30.170. CONTRIBUTIONS. (a) The amounts which both the  
22 state and the employee of the state would have otherwise paid into the  
23 federal Social Security System at the rate then in effect had the state  
24 continued in the federal Social Security System shall be paid into  
25 special employee benefit account in the Department of Administration to  
26 be used to provide employee retirement and death and disability benefits  
27 for each of the following groups:

28 (i) employees covered under the Alaska Public Employees'  
29 Retirement System (AS 39.35), except peace officers and firemen (as

1 defined in AS 39.35.680(27));

2 (2) peace officers and firemen covered under AS 39.35 (PERS);

3 (3) employees covered under the Judicial Retirement System  
4 (AS 22.25); ~~AS 22.25~~

5 (4) emergency, temporary or casual workers not covered under  
6 AS 39.35 (PERS) or AS 14.25 (TRS);

7 (5) employees of the division of marine transportation en-  
8 gaged in operating the state ferry system who are covered by a maritime  
9 union contract and are not covered under AS 39.35 (PERS).

10 (b) There shall be determined the cost of providing the survivor  
11 and disability benefits provided under AS 39.30.150 and AS 39.30.160  
12 expressed as a percentage of payroll for each of the groups set out  
13 under (a) of this section, except that all employees covered under AS  
14 39.35 (PERS) shall be considered as one group for purposes of this  
15 subsection.

16 (c) From the employee benefit accounts established under (a) of  
17 this section, the Department of Administration shall deduct:

18 (1) from each benefit account, the amount determined under  
19 (b) of this section to pay the cost of providing benefits under sec.  
20 150 and 160 of this chapter for each employee in that group;

21 (2) from the account for the group listed in (a)(1) of this  
22 section, an additional 7.1 per cent of gross monthly compensation for  
23 each employee in that group;

24 (3) from the account for the group listed in (a)(2) of this  
25 section, an additional 6.2 per cent of gross monthly compensation for  
26 each employee in that group.

27 (d) The balance in each employee benefit account shall, after  
28 deduction of the amounts specified in (c) of this section, be allocated  
29 on a pro rata basis to those employees for whom contributions under (a)

1 of this section exceeded deductions under (c) of this section and be de-  
2 posited in individual deferred compensation accounts in the names of  
3 those employees. The director of the division of retirement and bene-  
4 fits shall administer the deferred compensation program and shall, by  
5 regulation, establish operating procedures for the program which allow  
6 for deferment of the state and federal income tax until benefits are  
7 receivable in accordance with federal requirements under the Internal  
8 Revenue Code.

9 \* Sec. 7. If approved by employees of the State of Alaska as set out in  
10 sec. 8 of this Act, the state's notice of intention to withdraw from the  
11 federal Social Security System shall be allowed to become effective January  
12 1, 1980.

13 \* Sec. 8. The Department of Administration shall conduct an election by  
14 secret ballot by September 25, 1979. The department shall, at least 90 days  
15 before the election, prepare a list of all affected state employees, in-  
16 cluding permanent, seasonal and temporary employees, who shall be eligible to  
17 vote, along with mailing addresses, and make the list available to interested  
18 persons or employee representative organizations. The question on the ballot  
19 shall read: "Do you favor withdrawal from the Social Security System?" The  
20 ballot shall contain a description of the benefits provided for in this Act  
21 which would be provided in lieu of further benefits under the Social Security  
22 System. No other information concerning the election issue may be distri-  
23 buted with or attached to the ballot. A simple majority of those employees  
24 voting shall determine the outcome of this issue.

25 \* Sec. 9. Sections 1 - 7 of this Act take effect on January 1, 1980 if  
26 approved by a majority of the votes cast by affected state employees under  
27 sec. 8 of this Act. Section 8 of this Act takes effect immediately in accor-  
28 dance with AS 01.10.070(c).

78-126  
Chairman Cowper stated the next bill to be considered was  
HB 946.

HB 946

"An Act relating to withdrawal from the federal Social Security System; and providing for an effective date."

Sherry Shelley, representing APEA and the Confidential Unit, stated both organizations are in favor of the bill, mainly because it provides for an election in the Spring of 1979 where employees can elect whether or not they want to withdraw from the federal social security system. She stated the bill needs two amendments, which are being drafted at the present time. She stated the first amendment relates to the Boatman's Union participation, and the second amendment relates to the actuary figure which they are recommending be reduced to  $3/4$ 's of 1%. She stated with that reduction the bill will not cost the state anything. There was discussion on the amendments.

Representative Meekins asked what the rationale for the bill was. Ms. Shelley advised that the APEA is not taking a position on whether or not state employees should opt out of the social security system. She stated they have many members who believe this would be a better way to go, and would like an opportunity to vote on it. She stated the money that is not going into social security would be paid into an enhancement P.E.R.S. program. She stated there are basically four programs. Employees would not get an increased check by withdrawing from social security.

In answer to a question from Representative Duncan, Ms. Shelley stated there are basically four different programs under the bill. She stated the Inland Boatman's Union has a private pension plan, and Public Safety has a different program. She stated that basically the bill set's up four different alternatives for employees. She stated the money previously submitted to social security would go into an insurance program, disability program, and a mandatory deferred compensation program for each temporary employee. There was further discussion on the bill. Ms. Shelley stated the bill provides for an election in the spring of 1979, and should the employees vote to opt out, they would not actually drop out until spring of 1980.

Representative Miller stated there are a substantial number of state employees paying social security that feel a better system could be designed if that same money were taken and put into an enhancement P.E.R.S. system. He stated this bill does not do that; all it does is allow the question to be put before the people who are paying social security. He stated this does not make any difference to the state money-wise. He stated his feeling is that the people who actually pay into the system should make the decision on this.

5/31/78

Representative Buchholdt asked if those groups who opted out could decide to come back in at a later date. Representative Miller stated he was not sure, but thought that once the decision was made it couldn't be changed. Representative Buchholdt asked if the present employees decided to opt out and future employees wanted back in, could they do that. Representative Miller stated he didn't think so. He stated everyone would have to either go out of the system or stay in. There was discussion. Representative Miller stated this would have to be done by all the groups, not just one group. He stated the State would be paying the same amount of moeny either way.

Representative Rhode asked what this would do to the federal social security program. Representative Miller stated this was a national program and he didn't think it would make any difference if 3,200 employees dropped out. Representative Rhode stated this would be whittling away from the program. Representative Miller stated he didn't think this was their concern. He stated if congress decided this is a threat they might try to "plug the loop-hole" that allows employees to opt out of the s,stem. He stated that right now it is legal to do this.

Representative Duncan stated that people from the Division of Retirement would like to testify on this. He stated he would also like to see copies of the amendments and recommended this bill be held over.

HE 946  
HELD OVER

The meeting adjourned at 9:55 a.m.

ADJOURN

-----  
Tape HPC 78-125 #1580 to end  
78-126 # 001 to 713

5/31/78

Representative Rhode wondered, if this bill went into effect, how long it would be before the State didn't get outside bidders. Representative Meekins stated that right now the difference in terms of higher costs in Alaska is about 20-25%. He stated one thing about bidding is that businesses in Alaska don't have the capital equipment in place to do the work. He stated he believes a cycle could be started where the more the business is used, the more equipment they will be able to purchase, and the more business they will get.

Chairman Cowper stated the language in the bill is unclear to him. Representative Meekins stated they had trouble drafting language to be sure businesses were actually in-state bidders. Representative Freeman asked if this bill would effect municipalities. Representative Meekins answered that it does not require anyone but the state to give preference. There was discussion on the language in the bill. Chairman Cowper stated the problem is with the definition of "Alaska bidder".

Representative Meekins advised that the federal government has this program, as does Hawaii. He stated Hawaii's figure is 15%. He stated several other states have this.

Representative Rhode commented that if this bill becomes law an Alaska bidder might hook-up with an outside business. Chairman Cowper stated this bill also effects construction concerns.

Representative Meekins referred to page 1, line 12, and stated it says an Alaska manufacturer or warehouse would get 25%; an Alaska bidder would get 15%; and there is already a provision that outside bidders that do a substantial amount of business within the state get 5%.

There was further discussion on the language of the bill. Representative Duncan recommended redefining "Alaska Bidder" and adding a stipulation that the business had to be established in the state for a certain number of years. Representative Meekins stated they could redo the bill to have it not apply to construction. He stated he is really concerned only with the small businesses in the state. There was further discussion. Representative Meekins stated he would come back to the Committee with a better defined, more constricted definition of who is eligible.

HB 512  
HELD OVER

Chairman Cowper stated the next bill to be considered was HB 946.

HB 946

"An Act relating to withdrawal from the federal Social Security System; and providing for an effective date."

Mr. Paul Arnold, Director, Division of Retirement and Benefits, presented a fiscal note on HB 946. He advised that Administration's position on the bill is clearly opposed. He stated they are opposed to the concept of withdrawing from social security. He advised that if the state were to take action and not have to depend on any counter-action by the federal government this would have more latitude. But, he stated, they are seeing that the long term approach of social security is to include as many people as possible in that system. He stated social security wants total coverage of all eligible employees. Mr. Arnold stated they also felt that one-third of funding for social security is going to come from federal general revenues. He stated that if that comes to pass those who are not paying into social security are going to want to get back into social security.

Mr. Arnold advised that if the State withdraws from social security, under current law they are barred from ever participating in social security again. He stated if the State does opt out and set up an alternative package, at a future date they would be paying for social security from general revenue funds. He stated that would add to the costs.

Mr. Arnold stated there are many benefits within social security that cannot be replaced. He stated there are several benefits that the state couldn't provide -- one is "portability". He advised the benefits of the social security system are tax free, there is no other pension plan that is not taxed. He stated social security indexes in total any cost of living increase. He stated that neither P.E.R.S. or T.R.S. can provide this, because it is too costly. He stated social security also provides a tremendous amount of survivor/disability benefits that would not be available under other programs.

Mr. Arnold stated the actual bill has inequities built into it. He stated it defines contributions as 7.7% taken from the pool to fund employees. He stated it does not take into account if benefits cost more or less. He stated another problem with the bill is that it receives the same contributions that are going into social security, with an addition of \$4 million, for the first year. He stated that since the contributions are coming in up to a ceiling of \$17,700, the problem is that everyone who makes over \$17,700 will have their P.E.R.S. benefits calculated on their salaries which in some cases are much higher than that. He stated someone would be subsidizing these benefits. He stated the higher the income, the more the employee will be drawing out.

Chairman Cowper asked what would happen to people who work for the state for 4 or 5 years and then leave. Mr. Arnold advised that if they had been with the state for less than

6/1/78

five years, under P.E.R.S. they would only be eligible for a refund. He stated under this bill they wouldn't have any of these funds. He stated the only portion that would be refundable would be the portion going into the deferred comp program.

Chairman Cowper commented that to him it defies logic that Congress will allow withdrawals from social security to continue.

Representative Duncan stated he can understand some problems Mr. Arnold is saying might happen. He stated the bill allows the employees who are the ones contributing to the system to make the decision of whether or not they want to withdraw. He stated he thinks the information being given to this Committee should be given to the employees. He asked if the Administration is opposed to allowing employees to vote on this issue. Mr. Arnold stated Administration is opposed to withdrawing from the social security system. Representative Duncan stated that is not the issue in this bill. He stated the bill gives the employees the right to vote. Mr. Arnold stated the bill states his division shall remain impartial during an election. He stated he doesn't know what that means that he can't speak out at all? Mr. Arnold stated he thinks if the employees are given an opportunity to vote they have to be totally informed.

Representative Duncan asked if Administration is opposed to allowing employees the right to make the decision. Mr. Arnold stated if this is the case there is probably not a legislator here who should be here -- every issue should be resolved to the employees. He stated he didn't know what the administration's position was on whether or not a vote should be taken. Representative Duncan stated he thought he should get that answer from the Governor.

Representative Duncan commented the fiscal note is based on passage of the Act. He stated it has \$1 million in costs in 1979 and the bill doesn't even take effect until 1980. Mr. Arnold stated this is in error. Representative Miller stated this fiscal note prompts him to consider circulating among actuary's and getting a re-ainer. He stated Administration sat in on every meeting concerning this and never once questioned the assumptions made on the bill. He stated that now after the actuary they hired came in with their statement, Administration has the William Mercer Co. coming in and raising the price up 6%. He stated he would like to have the actuary report to the Legislature rather than Administration. Chairman Cowper suggested addressing this through the Legislative Review Board on Retirement and Benefits.

The meeting adjourned at 10:15 a.m.

-----  
Tape HFC 78-126 0713 to 1598

HB 946  
HELD OVER

ADJOURN

6/1/78

HOUSE FINANCE COMMITTEE

June 2, 1978

9:25 a.m.

All members of the Committee were in attendance except Representative Gruening. Present to testify were: Pat Murphy, APEA; and Paul Arnold, Division of Retirement and Benefits.

PRESENT

Chairman Cowper recalled the meeting to order and brought HB 946 up for consideration.

HB 946

"An Act relating to withdrawal from the federal Social Security System; and providing for an effective date."

Mr. Pat Murphy, APEA, advised that in 1975 then Commissioner of Administration Andy Warwick put in a letter of intent to opt out state employees from social security. He advised at that time they circulated a letter to employees asking if they wanted to opt out. He advised that letter of intent would have expired in 1977. He stated since the Legislature was not ready to deal with the issue last year they put it into a Committee to study through HCR 16. He advised they studied the issue for six months. The result of that is the present bill, HB 946.

Mr. Murphy advised the important language, as far as they are concerned, is in section 8 which provides that the Department of Administration shall conduct an election, asking employees if they want to opt out. He stated opting out is a very complex issue. He stated all this bill does is give public employees an opportunity to decide whether or not they want to opt out. He stated APEA is not taking a position on whether or not they should opt out. They will provide the information to their membership.

Mr. Murphy stated the other important item in this bill is how much it is going to cost. He stated as far as they are concerned it is not going to cost anything. He stated the Committee was given money to fund the services of an actuary. According to his calculated costs it would not exceed the present and projected contributions of state employees. Mr. Murphy advised that after this report was made, the State's actuary came in with a report that has a cost figure of \$4.3 million. Mr. Murphy stated he has been dealing with this issue for the past three or four months and he is not qualified to say whose figures are right. However, he stated he didn't think it was relevant because they are willing to move the benefit factor down to 2.75% which should absorb the costs.

6/2/78

Mr. Murphy stated they are not asking for a free ride. They are saying reduce the benefits to 2.75% and let their members vote on whether or not they want to opt out. He stated the only cost he sees would be on page 2 of the fiscal note, items 4 & 5, which are costs for the election -- \$5,000 data processing, \$1500 for postage, and \$200 for printing ballots.

Representative Rhode asked if the employees involved in this could have an election without the bill. Mr. Murphy stated the reason for the election being put in the bill is the fact that they could conduct an election, but the Governor would not necessarily live with the results of that election. He stated by being in the bill, this would have the force of law.

Representative Schaeffer asked what the results of the election they conducted earlier were. Mr. Murphy stated they had about 1,000 responses and they were for an opt out. He stated that was two years ago, and information provided was probably biased towards opting out. He advised that from their point of view, next time they will provide unbiased information to their membership.

Representative Buchholdt asked what steps will be taken to be sure the election is unbiased. Mr. Murphy stated because there will be two parties involved -- Administration and the Unions -- with some in favor and some opposed, he thinks the information will be fairly disseminated. He stated he thinks fair information will be put out on both sides of the question.

There was brief discussion on opting out. Representative Freeman asked if Marine Transportation was in favor of the bill. Mr. Murphy stated the IBU at this time favors a vote of their membership, and he thinks they even favor opting out.

Mr. Paul Arnold, Division of Retirement and Benefits, stated one of the things the social security study group addressed was the issue of the advisability of withdrawing from social security. He stated he did oppose those provisions of the bill. Mr. Arnold stated there are inequities in the bill. He stated he would like to make it clear that he is not attempting to "sand-bag" the bill or use the actuary to accomplish this. He stated the only difference between the two actuarial figures was in the methods that were developed. He stated it was about a 6% difference in the total cost. There was brief discussion on the actuary.

Representative Duncan asked if, on page two of the bill, they changed the figure to "3/4's of 1%" if they could assume there will be no cost to the state. Mr. Arnold stated he is not sure. He stated he didn't know what impact this would have as far as reducing the cost. He stated he thinks it would be better if they eliminated the fixed amount.

6/2/78

Representative Meekins asked if he had found out what Administration's position on the bill was. Mr. Arnold stated they are opposed to withdrawing from social security. Regarding having employees vote, he stated he had not had an opportunity to discuss this with the Governor's Office.

Representative Duncan moved to amend the bill on page two to change "1%" to "3/4%". There being no objection, it was so ordered.

Representative Duncan moved to report out a finance committee substitute for HB 946 incorporating the above change. There being no objection, it was so ordered.

Representative Duncan stated this would eliminate everything in the fiscal note except those items relating to the cost of the election -- \$6,700 in contractual. He will provide a new fiscal note.

The meeting adjourned at 10:00 a.m.

CSHB 946  
REPORTED  
OUT

FISCAL  
NOTE  
REVISED

ADJOURN

-----  
Tape HFC 78-130 0618 to 1164

6/2/78

78-125 # 1580 - END  
 126 # 001 - 1598  
 130 # 618 - 1164



Sherry Kelley currently in private retirement system. IDU

as you 3% - ~~74%~~ <sup>reduce to 74%</sup>  $2\frac{3}{4}$  %  
 to take care of admin. cost

These 2 students now in SB. 25-

Old and city employees have opted out,

ROB

Teacher's union sec. 5.5.

that



Arnold - opposed to concept of withdrawal  
 2 things: change will come about to some mod. cost.

no one wants to pay fed. cost if not in system

future employees will want to avoid "we didn't vote for that"



Let the asking question "Should we opt out?"

May 19, 1978

Legislative Board of Retirement Benefits analysis and recommendations  
on:

House Bill No. 946

No detailed fiscal analysis of HB 946 is possible at this time; however, with the exception of including maritime employees in the PERS, most costs should be covered by funds that would otherwise go to the social security system.

Five members of the board recommend that HB 946 do pass; one member has no recommendation; and one member was absent.

The board feels that, if HB 946 passes, the state should support a program to provide affected employees with adequate information on which to base their decision prior to the election. Providing a voter information pamphlet containing pro and con arguments would constitute a minimal program.

The board feels that the ballot should not contain a description of any benefits but simply reference the benefits to be provided in lieu of social security.

SUMMARY OF HOUSE BILL NO. 946

Retirement system affected: PERS

Provides for an election in which the state employees who are currently covered by federal social security may choose whether to continue that coverage or to continue the same contributions required by social security, opt out and receive an alternative package of benefits provided by the state.

Provides that an occupational disability pension be the greater of 40 percent of the disabled employee's compensation or the accrued retirement benefit.

The alternate package of benefits for affected state employees includes:

- (1) membership in the PERS for employees of the division of marine transportation engaged in operating the state ferry system who are covered by a union or group retirement system to which the state makes contributions;
- (2) a 25-and-out provision for PERS employees;
- (3) an additional one percent on the PERS benefit crediting factor for each year of service;
- (4) survivor's and disability insurance; and
- (5) a mandatory deferred compensation program for contributions in excess of deductions.

# MEMORANDUM

TO:  Jay Hogan  
Director  
Legislative Finance Division

DATE: May 25, 1978

FILE NO.

TELEPHONE NO. 465-4460

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

SUBJECT: Social Security Withdrawal

We are pleased to announce a presentation by Mr. A. Haeworth Robertson, former Chief Actuary of the U.S. Social Security Administration, on the advantages of the State's withdrawal from Social Security. Mr. Robertson will speak and entertain a general discussion from 12 p.m. - 1 p.m., May 30, in Court Room A, Juneau Court and Office Building. All interested employees are invited to attend.

Please post notice of this presentation throughout your office in the Juneau area. The issue of social security withdrawal is a complex one and one that should be of interest to all employees. As you may be aware, there is currently legislation pending which would authorize state employees to vote on withdrawal and which proposes alternate benefits to social security. Mr. Robertson's appearance will present a rare opportunity for employees to gather information from perhaps the most knowledgeable individual on the Social Security System today.

Mr. Robertson is currently with the actuarial firm of William M. Mercer, Inc., with offices in Washington, D.C. He became Chief Actuary of the U.S. Social Security Administration in 1975. While he was in that position he was awarded the Commissioner's Citation (the Social Security Administration's highest honor award) and the Arthur J. Altmeyer Award (conferred by the Department of Health, Education and Welfare) for superior performance in planning and directing the actuarial activities of the Social Security Administration, and in recognition of his especial efforts in interpreting the status of Social Security financing for public organization and individuals.

He holds a master's degree in actuarial science from the University of Michigan, has performed actuarial work for the U.S. Air Force; for ten years was a consulting actuary in various consulting firms dealing with private and public pension plans; devoted four years to organizing, operating and serving as president of a life insurance company; and for six years was an international consultant on social insurance programs which included assignments in Switzerland, Barbados, Ghana, Lebanon and the Philippines.

Jay Hogan

-2-

May 25, 1978

Mr. Robertson is a Fellow of the Society of Actuaries, a Fellow of the Conference of Actuaries in Public Practice, a member of the American Academy of Actuaries, an Associate of the United Kingdom's Institute of Actuaries, and an Enrolled Actuary.

If you require any further information, or if I can be of service to you in any way, please do not hesitate to contact me.

PBA/BAC/mc

THE FOLLOWING PAGES WERE TREATED AS  
A UNIT IN THE ORIGINAL FILE.

### **Social Security Rollback Must Wait**

WASHINGTON (AP) — President Carter says cuts in "unnecessary" Social Security benefits must precede any rollback in the steep payroll tax increases enacted to save the retirement fund from bankruptcy.

In his upcoming budget, Carter proposes eliminating \$600 million in Social Security benefits in '80, it was learned Wednesday.

The president's proposal comes at a time of increasing congressional support for a rollback of the tax increases.

**SOCIAL SECURITY DEDUCTIONS.** Many Americans will have Social Security deductions taken from their paychecks for a longer period in 1979 than in 1978. Assuming a worker is paid weekly every Friday, here is how long he or she will pay Social Security taxes in 1979, compared with 1978:

Annual Earnings	1978		1979	
	Number of Weeks	Last Social Security Payment	Number of Weeks	Last Social Security Payment
\$17,700 or less	52	Dec. 29	52	Dec. 28
20,000	47	Nov. 24	52	Dec. 28
22,900	41	Oct. 13	52	Dec. 28
25,000	37	Sept. 15	48	Nov. 30
30,000	31	Aug. 4	40	Oct. 5
35,000	27	July 7	35	Aug. 31
40,000	24	June 16	30	July 27
50,000	19	May 12	24	June 15

**CB-RADIO RULES.** Those who found a citizens'-band radio under the Christmas tree this year may want to get a copy of the Federal Communications Commission's new booklet, "Citizens Band Radio Service Rules." The booklet explains federal broadcast regulations for CB's in plain English. It explains how to get a license and what to do to get on the air. It even includes a CB-problem checklist to help make repairs. The booklet is available for \$1.25 from the Consumer Information Center, Dept. 109F, Pueblo, Colo. 81009.

**CHAIN LETTERS.** A new illegal chain-letter scheme apparently is sweeping the country, the Postal Service warns. The chain, called the "Circle of Gold," usually requires participants to buy two copies of the letter for \$100--\$50 for the bearer of the letters and another \$50 to the first person at the top of a 12-name list. The Postal Service cautions that chain-letter schemes involving the mailing of money are against federal law. Besides, it notes, people who buy chain letters rarely get their money back.

**WINTER DOG WALKING.** The Humane Society of the United States issues this seasonal warning for dog owners: A pet spending most of its time indoors probably never has developed a thick undercoat. Spending long periods outdoors in frigid weather could be dangerous to its health.

**SOLAR-ENERGY FIT FALLS.** If you've been thinking about installing solar-energy equipment to take advantage of new tax breaks, be careful, warns a report just published by a congressional subcommittee. Some solar-energy systems, especially those in residences, have been plagued by "a significant number of design, manufacturing and installation problems," the subcommittee said. Other energy-conservation steps that may be more cost-effective also should be considered, the subcommittee added. These include installation of insulation, storm windows or doors, caulking or weatherstripping and automatic-setback thermostats.

March 17, 1978

ANALYSIS OF ALTERNATIVES TO THE SOCIAL SECURITY  
FOR PERS AID TEMPORARY EMPLOYEES OF THE STATE OF ALASKA

In November 1977 the State of Alaska notified the Social Security Administration of its intent to terminate participation in the Social Security System. Such termination is effective two years from the date that the notice of intent was filed. State employees in the following categories will be affected by the withdrawal from Social Security:

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.

As all of the state employees affected by the withdrawal from Social Security do not have the same fringe benefits, it is necessary to establish a separate and distinct plan for each of the above listed groups of employees. There are basically three plan combinations that are feasible to accommodate a replacement for Social Security. There are up to three basic components involved in each of these three replacement plans. The components are PERS, the existing deferred compensation plan and a new 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. The three alternate plans are comprised of these basic components as follows:

1. Plan A - PERS plus the deferred compensation plan
2. Plan B - PERS plus the deferred compensation plan plus the new plan
3. Plan C - The deferred compensation plan plus the new plan

The alternatives available for each of the four considered groups of employees are:

1. PERS employees - Plans A, B and C
2. Justices and judges - Plan C
3. Temporary employees - Plan C
4. Marine Transportation division employees - Plan C

Obviously, if either all or a portion of the temporary employees or employees of the division of marine transportation were at a future time included under PERS, their Plan C would be modified to the extent they would be sharing in any benefits under PERS that were deemed otherwise attributable to replacement for Social Security coverage.

Under Plan A there would be improvements in the retirement, survivor's, lump sum death and disability benefits under PERS to recognize the loss of Social Security benefits, it being felt that those increases in the existing PERS benefits would raise those overall benefits to a satisfactory level. Social Security contributions in excess of the amount necessary to fund the increased cost would go to the deferred compensation plan.

Under Plan B the PERS improvements for these benefits would be more modest with additional survivor's disability and lump sum death benefits being established under a new plan. Excess Social Security contributions would go again to the deferred compensation plan.

Finally, under Plan C there would be no PERS improvements. Thus, Plan C is identical to Plan B, except that more funds are diverted to the deferred compensation plan.

The Social Security Withdrawal Study Group which is made up of representatives from all the organizations representing state employees recommended Plan B for PERS employees and Plan C for temporary employees. Under Plan B for PERS employees the following benefits are available for selection:

<u>BENEFITS</u>	<u>COST</u>
1. Increase the benefit crediting factor for employees other than peace officers and firemen to 2-1/2% per year of state employment after withdrawal from Social Security (currently 2%) and increase the benefit crediting factor 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%).	Future Service Only 2.4 Future Service and Past Service 3.2

- |    |  |  |            |
|----|--|--|------------|
| 2. | Increase the occupational death and disability benefits for payments prior to retirement date to the larger of 40% of compensation and the accrued PERS benefit (currently 40% of compensation.)   | (already included in PERS program)                     | 0.0        |
| 3. | 25 year service retirement   | Future Service Only<br>Future Service and Past Service | 0.7<br>0.9 |
| 4. | 20 year service retirement   | Future Service Only<br>Future Service and Past Service | 2.2<br>2.8 |
| 5. | Add non-occupational disability benefits of larger of 40% compensation or accrued benefit  |  | 0.4        |
| 6. | (Note: At a minimum it is suggested 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 (re-marriage or spouse earnings following death of the employee).) |  |            |

PERS Employees

One X Salary Benefit	.5
Two X Salary Benefit	1.0

Temporary Employees

Lump Sum Benefit \$15,000	..21
---------------------------	------

All other monies received for temporary employee as a result of social security withdrawal will be placed in a mandatory deferred compensation program.

7. In addition, it is recommended that the cost of all improvements to PERS, plus the cost of any new plan, not exceed 75% of the contributions available from Social Security on a long term basis. Funds placed in deferred compensation plan.

(NOTE: This report does not deal with selection of benefits or plans with selection of benefits or plans for employees under the Judiciary System or Marine Group.)

Currently employees and the State each contribute 6.05% (12.1%) of income on a taxable wage base of \$17,000.00 to social security. The total monies (12.1 of \$17,000.00 base) contributed to social security currently equal 8.9% of the total state payroll. Calculations from the Milliman and Robertson, Inc. Report indicate total Social Security contributions in future to be equivalent to 10.2% of total state payroll. It is now necessary to select a percentage between 8.9% and 10.2% on which to base the benefit package for PERS employees. Assuming 8.9% is selected a typical benefit package from the benefits listed above would be as follows:

A.	1/2% benefit factor increase (Item 1)	Future Service Only	2.4
B.	20 year retirement (Item 3)	Future Service and Past Service	2.8
C.	Non-occupational disability at 40% compensation (Item 5)		0.4
D.	Two Salary Benefit (Item 6)		1.0
E.	25% contributed to deferred compen- sation plan to provide margin of error (Item 7)		2.3
TOTAL			8.9

#### Areas for Discussion

1. There are several ways in which the employee contributions to the plan 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, of course, will receive tax-free any benefits resulting from those contributions. An alternative would be to have all contributions made through 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 legislation introduced should indicate in what manner the contribution will be handled.
2. Keeping in mind that Social Security Law can change at anytime, it has been suggested to the new PERS plan developed from Social Security withdrawal to Social Security contributions rates in the future. Thus if in the future either employer or employee contribution rates increased in Social Security, likewise there would be an increase in the new PERS plan for both employees and the employer (State of Alaska). State employees would not gain any increased employer contribution, if

the new PERS plan is not tied to Social Security contribution rates. However, many legislators have indicated that if an attempt is made to tie the new PERS plan to social security contribution rates in the future, the legislation opting out of Social Security will have much difficulty passing. It might be wise to select a percentage of total payroll between 8.9% and 10.2% (explained above) as the mandatory contribution rate for a set number of years.

# SOCIAL SECURITY TAKES BIGGER CHUNK OF PAYCHECKS WITH MORE INCREASES DUE

The new Social Security financing bill will substantially raise the payroll taxes of everyone paying into the system—employees and employers alike.

The taxes, designed to shore up the shaky Social Security system, will not take effect until next year. But employees already have seen a slight increase this year under an older law, and deductions will escalate rapidly starting in 1979.

The increases are intended to boost Social Security revenues to avoid a fiscal crisis the disability fund faces next year and the exhaustion of the old age and survivors' trust fund in 1983. The new tax structure also is supposed to eliminate the system's fiscal deficits for 75 more years.

The original Social Security funding law required an increase this year of two-tenths of one per cent on a slightly expanded wage base. The rate already has changed from 5.85 per cent of the first \$16,500 to 6.05 per cent of the first \$17,700. For a \$10,000 a year worker, the tax increased \$20 per year. The maximum tax jumped from \$965 to \$1,071. But starting in 1979, the changes will come more rapidly.

Passed at the close of the first session of Congress, the new funding bill almost doubles the previously scheduled increases in payroll taxes through 1987. For some workers the actual annual deduction will almost triple over the next 10 years.

By 1987, lower-paid employees will be paying 15-20 percent higher payroll taxes. Those earning more than \$20,000 will pay about 85 per cent more than they do now. There will be a dramatic rise in the taxable wage base from the current \$17,700 to \$42,600.

There is some good news for retirees, though. Under the older of the two financing laws, retired persons younger than 72 could earn only \$3,000 a year without losing any of their Social Security benefits. That changed. This year, retirees age 65-71 may earn up to \$4,000 with no penalty—above the limit they lose one dollar of pension for every two dollars earned. There is no outside income limit for persons age 72 and older.

Beginning in 1982, there will be no earning limit for those age 70 and older, and no penalty for outside income of \$6,000 for other retirees over age 65.

Here's how the new law affects three specific wage earners:

\* \$10,000 wage earner in 1977 paid a maximum tax of \$585 . . . by 1987 the payroll deduction will reach \$715.

\* \$15,000 wage earner paid a maximum tax of \$877.50 last year . . . by 1987 the payroll deduction will reach \$1,072.50.

\* \$20,000 wage earner paid a maximum tax of \$965 . . . by 1987, the payroll deduction will reach \$1,430.

The new schedule of Social Security deductions is more fully detailed in the accompanying chart.

One foreseeable effect of the S. S. increases, besides the erosion of earnings for public employees, is the difficulty of improving employee benefits or winning new ones. The state must match the increased contributions imposed on employees on a dollar-for-dollar basis. It is safe to assume that public employers will try to hold down costs in other areas to compensate for this added cost.

James F. Marshall, executive director of the Assembly of Governmental Employees, of which the SCSEA is an affiliate, warns that some states may try to cut the cost of the new legislation by pushing for integration of their public employees' retirement system with Social Security. Although this would reduce contributions by both employee and employer, it also would mean a reduction in the size of retirement checks.

If the Social Security program proves too expensive, other ways to trim costs may include stripping away Medicare, disability and survivor benefits and handling them separately to hold down Social Security taxes.

Some of the expense of new taxes this year is balanced by President Carter's State of the Union proposal for a general tax cut which should be slightly larger than the increased payroll deductions for most employees.

## S.S. NEW DEDUCTIONS

Salary	Current rate	New law
<b>\$10,000</b>		
1979	\$605	\$613
1982	630	670
1985	630	705
1987	645	715
<b>\$20,000</b>		
1979	\$1,143	\$1,226
1982	1,260	1,340
1985	1,260	1,410
1987	1,290	1,430
<b>\$30,000</b>		
1979	\$1,143	\$1,404
1982	1,474	2,010
1985	1,758	2,115
1987	1,935	2,145
<b>\$40,000</b>		
1979	\$1,143	\$1,404
1982	1,474	2,131
1985	1,758	2,676
1987	2,012	2,660

\$42,600 or more — \$3,046

# CHANGES IN THE SOCIAL SECURITY LAW

The maximum amount of earnings that counts for social security increased on January 1, 1978 to \$17,700 up from the previous year's taxable wage base of \$16,500, according to the Social Security Administration. Because of changes in the law designed to keep benefits in line with living costs, it is no longer possible to predict with accuracy what the dollar amounts of benefits are likely to be in the future years. The law is structured, however, so that you can be sure that the "real" value of your benefits (your buying power) will be at least as great as it is now.

Under the tax schedule now written into law, the 1978 combined Social Security and Medicare tax is 6.05 percent of the first \$17,700 of earnings. (\$1,070.85 at the most) (8.1 percent or \$1,433.70 at the most, for self-employed). The employer contributes the same amount toward an employee's coverage.

Maximum earnings subject to tax will be set by law through 1981 (see table below). After that, they will be raised whenever cash benefits are increased, under the automatic adjustment provisions of the law, because of increases in the cost of living. How much the tax base will rise after 1981 cannot be known now, as it depends on the increase in average wages of employees covered by Social Security each year. Tax rates after 1981 will be, for employer and employee, 6.7 percent each from 1982 through 1984, 7.05 percent in 1985, 7.15 percent from 1986 through 1989, and 7.65 percent from 1990 on; for the self-employed, 9.35 percent from 1982 through 1984, 9.9 percent in 1985, 10 percent from 1986 through 1989, and 10.75 percent from 1990 on.

## EMPLOYER & EMPLOYEE (EACH)

Year	Maximum Earnings Base	OASDI Tax Rate	Health Plan Tax Rate	Total Tax Rate	Annual Maximum Tax
1978	\$17,700	5.05	1.00	6.05	\$1070.85
1979	22,900	5.08	1.05	6.13	1403.77
1980	25,900	5.08	1.05	6.13	1587.67
1981	29,700	5.35	1.30	6.65	1975.05

## SELF-EMPLOYED

1978	\$17,700	7.10	1.00	8.10	\$1433.70
1979	22,900	7.05	1.05	8.10	1854.90
1980	25,900	7.05	1.05	8.10	2097.90
1981	29,700	8.00	1.30	9.30	2762.10

The monthly Social Security check you will get after you retire fully insured depends on your average earnings

in "covered employment during the period used to figure your benefits. In the first 5 months of 1978, an employee and his wife can expect to receive a joint monthly benefit check of around \$690 — provided they both start drawing benefits at age 65 and the employee's earnings have been equal to or over the maximum taxable earnings base each year that is used to figure benefits.

You can retire before you reach 65, but this will result in a reduced monthly benefit. The earliest age at which you can retire is 62. If you retire on your 62nd birthday and apply for benefits immediately, you can get 80 percent of the monthly amount you would be entitled to if you waited until 65. For each month you wait to apply after reaching 62, your benefits checks are slightly higher. Note that if you choose to take benefits in a reduced amount before you reach 65, you will continue to get a reduced benefit even after you reach 65. Dependents of the insured may be entitled to benefits of the following categories:

Wife or husband at least 62 years of age (a non-dependent husband will have his benefit reduced by the amount of any pension he receives for public employment not covered by Social Security).

Wife at any age if she is caring for a child under 18 or disabled — who is entitled to Social Security.

Unmarried children under 18 (or 22 if fulltime students).

An unmarried child who becomes disabled before reaching 22 and has remained so since, or whose disability recurs within seven years of the termination of his earlier entitlement to benefits.

Grandchildren who live with insured, if their parents are dead or disabled.

A divorced wife if she (a) is at least 62 and (b) was married to insured for 20 years or more (10 years, starting January 1979).

Medicare for the aged or disabled is discussed on the reverse. For additional discussion see Payroll Compensation at 353-151. Copies of "Your New Social Security and Medicare Fact Sheet" can be ordered by writing to: BNA Books, The Bureau of National Affairs, Inc., 9401 Decoverly Hall Rd., Rockville, Maryland 20850. Copies are 30c each for 20-29 copies, 25c for 100-499, 20c for 500-999 copies, and 19c each for 1,000 to 2,499.

### Social Security's Dominance

With more than half of U.S. households paying more in social security taxes than federal income taxes, complaints about the nation's tax structure are mounting. Critics point out that social security's transformation into the dominant tax for the majority of U.S. families is steadily turning the nation's "progressive" tax system into a "regressive" structure in which lower-income taxpayers are bearing a proportionally heavier tax burden than upper-income individuals.

Two factors have combined to produce this shift in the nation's tax burden: congressional reliance on higher payroll taxes, rather than income taxes, to finance increased social security benefits; and the continuing erosion of the income tax base by various corporate and individual tax breaks, which currently are estimated to cost the Treasury Department \$112.7 billion in yearly revenues. Thus, in 1950, 79.7 percent of the federal government's revenues were derived from income taxes and only 20.3 percent from social security; today, however, income taxes account for 59.3 percent of the revenues, while social security payroll taxes have climbed to 40.7 percent. Moreover, with the recent trend toward cutting income taxes to offset higher social security taxes the shift is accelerating. For example, President Carter's proposed \$25 billion tax cut is designed, in part, to help offset the hefty social security tax increase that went into effect on January 1. Also, Mr. Carter has indicated that more tax cuts may be in the works to ease the sharp payroll tax hikes scheduled for future years under the social security reform bill signed into law in December.

### Tax Rulings

#### Traveling Expenses . . .

An employee's contention that his traveling expenses, including the costs of meals and lodgings, during a year's employment in another state were tax deductible is upheld by the U.S. Tax Court.

Due to a depressed job market in his home town of Cleveland, Ohio, a union electrician, who normally secured work through an area hiring hall, was obligated to work for a year at a Michigan jobsite. Although the worker periodically returned to his family home in Ohio, where he looked for a job and even investigated

other lines of work, a lack of work in the area forced him to keep returning to the Michigan jobsite. In filing his federal income tax returns, the employee claimed that his Michigan employment was temporary and that his expenses there were deductible as "traveling expenses" that had been incurred "away from home" in the pursuit of a trade or business.

Rejecting the Internal Revenue Service's argument that the employee's home was Michigan since it was his principal place of employment, the court stresses that the worker had "strong social and familial ties" to Cleveland and had "no intention" of working away from there "except on a temporary basis." "It would not have been reasonable" for the employee to "relocate himself and his family in Michigan," the court says, concluding that the worker was entitled to the deduction. (*Saunders v. Comr.*, USTC No. 1236-75, Dec. 12, 1977)

#### . . . Apprenticeship Committee

A collectively bargained, jointly administered apprenticeship committee formed to upgrade area work standards through educational and training programs qualifies for an exemption from federal income tax, the Internal Revenue Service holds.

Under a contract between a union and an employers' association, IRS notes, the nonprofit apprenticeship committee selects and trains apprentices in order to "ensure that local standards on the quality of work conform with national codes for the industry." Federal law, IRS continues, provides for the tax-exempt status of "labor organizations" set up to better their members' conditions, improve the grade of their products, or develop a higher degree of efficiency in their occupations. Since the apprenticeship committee was involved in "improving the grade of the industry's product" and "developing a higher degree of occupational efficiency," IRS concludes, it "is exempt from federal income tax." (*Rev. Ruling 78-42*, Jan. 30, 1978)

### UI: IUR Drops, EB Halted

Regular extended unemployment insurance benefits (EB) were discontinued in 41 states on January 28, because the national insured unemployment rate (IUR) dropped below 4.5 percent, the Labor Department announces. The IUR drop to 4.42 percent for the 13-week period ending January 7 ended the authoriza-

(Continued on page 7)

THE PRECEDING PAGES WERE TREATED AS  
A UNIT IN THE ORIGINAL FILE.



Page 3, lines 26 thru line 15, page 4) RE: 39.30.160 Disability Benefit

This section is in conflict with 39.35.410(d) (Page 2 line 12-17)

To be fair to both parties affected (Police + Fire) + (all other Employees) a compromise of 60% for a disability as defined in this section is reasonable. Even though most Police + Fire Personnel are facing debilitating injuries on a regular basis as compared with other employees, the frequency of occurrence to all employees seems similar.

(Page 4, lines 21-27) Contributions:

The first 7 lines are fairly clear, both the State + the employee continue paying at the current (includes future) equal rate of the S.S. System. This in effect does not cost the State or the employee any different had we not chosen to get out of the S.S. system. The confusion comes on page 5 where specific percentages are set for different groups. The language identifies the States share paid to the system. If this percentage is allowed to remain static + does not move with the Federal System it would be out of balance in a few years.

There is no question in my mind that withdrawal from Social Security is the best way to go. Properly written this Bill when passed, will provide Alaskans with the retirement incentive to remain in Alaska. It will also provide retirees with the necessary funds to keep them out of the "Poverty Bracket" present Social Security recipients are in.

Sincerely,

Robert A. Penman

7730 Honeysuckle

Anchorage, Alaska

99502

SB 25 - SOCIAL SECURITY WITHDRAWAL

Comparative summary of existing statutes, SB 25 and HB 946 based on the 9 sections of SB 25

GENERAL OVERVIEW

FOR THIS GENERAL OVERVIEW  
 \* WHEN STATED "SAME AS SB 25" <sup>HB</sup> ~~NECESSARILY~~ <sup>NOT</sup> ~~BE~~  
 SB 25 <sup>HB</sup> ~~46~~ ~~MAY~~ ~~NOT~~ ~~BE~~  
 EXACTLY THE SAME. REFER TO COMPREHENSIVE DRAFTS. But it generally speaks to same issue.

SB 25

SECTION NO.	EXISTING STATUTES	SB 25	HB 946
1.	Requires social security contribution.	Requires same or contribution in <u>lieu</u> of social security.	* Same as SB 25
2.	Defines members. Lists those included and those excluded..	Adds to include marine transportation ferry system employees now excluded with stipulation of collective bargaining.	Adds to include marine transportation employees. Deletes exclusion of M.T.
3.	Defines "normal retirement"	Amends to include members in alternative system. 25 & out.	Same as SB 25
4.	Defines retirement for peace officers and firemen. Determines retirement for all other PERS members.	Increases retirement benefits for PERS members in alternate system.	Same as SB 25
5.	Determines occupational disability pension for firemen & peace officers. Determines same for all other members.	Determines occupational disability pensions for all members.	Same as SB 25
6.	<u>NEW SECTION - 4 parts</u>		
	AS 39.30.150	Determines survivor benefits for occupational and non-occupational death. Defines basic monthly compensation under alternate system.	Same as SB 25
	.160	Determines disability benefits for each group under alternative system. Defines "disability". Requires proof of disability.	Same as SB 25
	.165	Defines "Basic Monthly Compensation"	Same as SB 25

SB 25 -SOCIAL SECURTY WITHDRAWAL

Comparative summary of existing statutes, SB 25 and HB 946 based on the 9 sections of SB 25

SB 25

SECTION NO.	EXISTING STATUTES	SB 25	HB 946
	.170	Determines contributions in lieu of social security for each group. Provides for deductions for deferred compensation. Sets up accounts.	Same as SB 25
7.	NEW	Provides intention to withdraw from social security by 1/1/80 if approved by employees.	Same
8.	NEW	Provides for election	Same
9.	NEW	Provides for effective dates	Same

SB 25 - SOCIAL SECURITY WITHDRAWAL

Comparative summary of existing statutes, SB 25 and HB 946 based on the 9 sections of SB 25

SB 25

SECTION NO.	EXISTING STATUTES	SB 25	HB 946
1. AS 39.35.160(b)	Each employee shall pay the appropriate social security contribution.	Amends by <u>adding</u> that each employee shall pay the appropriate social security contribution <u>or</u> a contribution in <u>lieu</u> of a social security contribution.	<u>SAME AS SB 25</u>

SB 25 - SOCIAL SECURITY WITHDRAWAL

Comparative summary of existing  
statutes, SB 25 and HB 946 based  
on the 9 sections of SB 25

SB 25

SECTION NO.	EXISTING STATUTES	SB 25	HB 946
2. AS 39.35.680(21)	<p>(A) Defines member or employee as one eligible to participate in PERS and</p> <p>(B) includes:</p> <ul style="list-style-type: none"> <li>i. active member</li> <li>ii. inactive member</li> <li>iii. vested member</li> <li>iv. deferred vested member</li> <li>v. non-deferred vested member</li> <li>vi. disabled member</li> <li>vii. retired member</li> </ul> <p>(C) does <u>not</u> include:</p> <ul style="list-style-type: none"> <li>i. former members</li> <li>ii. persons on contract or fee basis</li> <li>iii. casual, emergency or temporary workers</li> <li>iv. persons in Alaska Teachers Retirement System</li> <li>v. Marine Transportation ferry system employees who are covered by union or group retirement system to which state makes contributions.</li> <li>vi. supreme court justices</li> </ul>	<p>Adds new sub-paragraph(D) to <u>include</u> marine transportation employees who are now excluded under (C)(v) from PERS <u>if</u> the state agrees to their inclusion through collective bargaining <u>and</u> specifying that other than military service credit, only service after 1/1/80 may be credited.</p>	<p><u>Includes</u>, under (B) marine transportation employees who are now excluded under (C)(v), and specifies that other than military service credit, only service after 1/1'90 may be credited. Deletes (C)(v) which <u>excludes</u> Marine Transportation ferry system employees.</p>

SB 25 -SOCIAL SECUIRTY WITHDRAWAL

Comparative summary of existing  
statutes, SB 25 and HB 946 based  
on the 9 sections of SB 25

SB 25

SECTION NO.	EXISTING STATUTES	SB 25	HB 946
3. AS 39.35.680(25)	Defines "Normal retirement" as retirement for a member who is at least 55 and has a minimum of 5 years credited service, or who is any age and has 30 years or more credited service, or a peace officer or fireman who is any age and has 20 years or more of credited service.	Amends to include under the definition of "normal retirement" members who are making contributions under the <u>new</u> system in lieu of social security and are of any age & have 25 years or more of credited service.	SAME AS SB 25.

SB 25 - SOCIAL SECURITY WITHDRAWAL

Comparative summary of existing statutes, SB 25 and HB 946 based on the 9 sections of SB 25

SB 25

SECTION NO.

EXISTING STATUTES

SB 25

HB 946

4. AS 39.35.370(c)

Determines the amount of retirement pension for peace officers and firemen. For every other PERS member and retired member the monthly amount is 2% of his average monthly compensation times years of credited service.

Amends statute by adding an increase in the monthly amount of retirement benefit for a PERS employee who is paying into the alternate system (in lieu of social security) by  $\frac{3}{4}$  of 1% of the average monthly compensation times the years of credited service making the total =  $2\frac{3}{4}\%$  of the average monthly compensation times years of credited service.

SAME AS SB 25

was not  
included  
in the bill  
because  
it was  
not  
needed

SB 25 -SOCIAL SECURITTY WITHDRAWAL

Comparative summary of existing statutes, SB 25 and HB 946 based on the 9 sections of SB 25

SB 25

SECTION NO.	EXISTING STATUTES	SB 25	HB 946
5. AS.39.35.410(d)	<p>Determines monthly amount of occupational disability <sup>pension</sup> for a peace officer or fireman. For other employees it is determined in accordance with sec. 370(c) of this chapter (see sec. 4 of this summary), considering compensation before termination of employment and <u>either credited service that would have been accumulated</u> if employment had continued until his 55th birthday <u>or</u> actual credited service before disability, whichever is <u>greater</u>, except the determined amount shall be reduced by assuming that a joint &amp; survivor option of 75% became immediately effective upon retirement, with the employee's spouse as contingent beneficiary. If no spouse exists at retirement the pension shall not be reduced.</p>	<p>This section is amended to <u>read</u> that the amount of an occupational disability pension is the <u>greater</u> of 40% of the employee's gross monthly compensation, <u>or</u> the amount determined in sec. 370(c) of this chapter, considering the employees credited service and compensation before termination of employment.</p>	<u>SAME AS SB 25</u>


SB 25  
SECTION NO.

6. AS 39.30 is amended by adding new sections to the existing statutes.  
ARTICLE 4 - SUPPLEMENTAL EMPLOYEE BENEFITS ON WITHDRAWAL FROM SOC. SECURITY

Sec. 39.30.150 - SURVIVOR BENEFITS

SB 25

HB 946

- a) State shall provide for survivor's benefits for occupational and non-occupational death effective as of employee's first day of employment or 1/1/80 whichever is later, to employees making contributions under AS 39.30.170 (alt. system)
- 1) for casual, emergency & temporary employees not covered by PERS or TRS, benefits payable to beneficiary shall be a lump sum of \$15,000.
  - 2) for all employees other than those above, benefits payable shall be a lump sum equal to 12 times the employee's basic monthly compensation at time of death.
- b) Defines "Basic Monthly Compensation at Time of Death" as employee basic monthly compensation for the last full month of employment immediately preceding death or disability leading to death.
- a) Same as SB 25
- 1) for employees covered by Judicial Retirement Ssystem or PERS, benefits payable to beneficiary shall be a lump sum equal to 12 times employee's basic monthly compensation at time of death.
  - 2) Same as a)1 sec.39.30.150 SB 25.
- b) Same as SB 25
- 

SB 25  
SECTION NO.

6. AS 39.30 is amended by adding new sections to the existing statutes.

ARTICLE 4 - SUPPLEMENTAL EMPLOYEE BENEFITS ON WITHDRAWAL FROM SOC. SECURITY

Sec. 39.30.160 - DISABILITY BENEFITS

SB 25

HB 946

- a) Requires state to provide an occupational and non-occupational disability benefit program covering each state employee making contributions under AS 39.30.170 (alternative system) Coverage to begin on 1st day of employment or 1/1/80, whichever is later. Disability payments are not payable during the first six months of disability.
- b) Defines "disability" as complete inability to engage in regular occupation during first 12 months of disability & thereafter complete inability to engage in any employment or occupation for which he is reasonably fitted by reason of education, training or experience.
- c) For a casual, temporary or emergency employee not covered by PERS or TRS, the benefit is \$100 per week payable only if the employee fulfills the requirements of (e) of this section. The last payment shall be for the week in which 1) death occurs, or 2) he reaches age of 65, whichever occurs first.
- d) For all employees other than those covered by (c) the monthly disability benefit shall be 60% of the first \$5,000 of the employees basic monthly earnings at the date of disability less any benefits the employee is entitled to under social security or any other disability plan to which the state contributes on his behalf. Disability benefits payable only if the employee fulfills the requirements of (e) below. The last payment shall be for 1) the month of his death, or 2) the month he reaches normal retirement age, or 3) the month he reaches 65, whichever comes first.

SAME AS SB 25  
(Entire section)  
dealing with DISABILITY  
BENEFITS

---

SB 25  
SECTION NO.

---

6. AS 39.30 is amended by adding new sections to the existing statutes.  
ARTICLE 4 - SUPPLEMENTAL EMPLOYEE BENEFITS ON WITHDRAWAL FROM SOC. SECURITY

Sec. 39.30.160 - DISABILITY BENEFITS (Continued from last page)

---

SB 25

HB 946

---

e) An employee receiving these benefits must provide satisfactory proof of continuing disability to the Director of the Division of Retirement & Benefits one year after employee is appointed to disability benefits and once each year thereafter until benefits cease. If employee provides satisfactory proof of permanent disability, the requirement of further proof of continuing disability may be waived.

SAME AS SB 25

---

SB 25  
SECTION NO.

---

6. AS 39.30 is amended by adding new sections to the existing statutes.

ARTICLE 4 - SUPPLEMENTAL EMPLOYEE BENEFITS ON WITHDRAWAL FROM SOC. SECURITY

Sec. 39.30.165 - BASIC MONTHLY COMPENSATION

---

SB 25

HB 946

---

Defines "basic monthly compensation" as the amount earned by the employee during the month, including normal overtime; however, unusual or seasonal overtime or work of a seasonal nature may be adjusted to reflect a 12-month average.

SAME AS SB 25

SB 25  
SECTION NO.

6. AS 39.30 is amended by adding new sections to the existing statutes.  
ARTICLE 4 - SUPPLEMENTAL EMPLOYEE BENEFITS ON WITHDRAWAL FROM SOC. SECURITY

Sec. 39.30.170 - CONTRIBUTIONS

SB 25

HB 946

- a) Amounts usually paid by the state and employee into social security shall be paid into a special employee benefit account in the Dept. of Administration to be used for retirement, death and disability benefits for:
1. PERS members except peace officers and firemen.
  2. Peace officers & firemen covered under PERS
  3. Judicial Retirement System members
  4. emergency, temporary or casual workers not covered by PERS or TRS
  5. Marine transportation state ferry employees who are covered by a maritime union contract but not in PERS
- b) Cost of providing survivor and disability benefits outlined in this article shall be determined and expressed as a percentage of payroll for all of the above groups except all employees covered by PERS shall be considered as one group. (a.1.& 2.)
- c) From employee benefits accounts (a) the Department of Administration shall deduct:
1. the amount determined under (b) to pay for cost of providing benefits under sections 150 & 160 for each employee in that group.
- (a) Amounts usually paid into social security to be paid into special employee benefit account in the Dept. of Administration for employee retirement, death and disability benefits.
- b) The cost of providing survivor and disability benefits under sections 150 & 160 shall be expressed as a percentage of payroll for each of the following
1. PERS members
  2. Judicial Retirement System members
  3. Emergency, temporary or casual workers not covered by PERS or TRS
- c) From the amount contributed by the employee and the state the Dept. of Administration shall deduct:
1. for each employee the amount determined under (b) to pay for benefits under sections 150 and 160.
  2. for PERS members except peace officers and firemen, an additional 7.1% of gross monthly compensation.
  3. for peace officers & firemen covered under PERS an additional 6.2% of gross monthly compensation.

6. AS 39.30 is amended by adding new sections to the existing statutes.  
ARTICLE 4 - SUPPLEMENTAL EMPLOYEE BENEFITS ON WITHDRAWAL FROM SOC. SECURIT

Sec. 39.30.170 - CONTRIBUTIONS (Continued)

SB 25

HB 946

- (c) 2. from the account for group in (a)  
(1) an additional 7.1% of gross monthly compensation for each employee in that group.
3. from the account for group in (a)  
(2) an additional 6.2% of gross monthly compensation for each employee in that group.
- (d) The balance in each employee benefit account shall, after specified deductions in (c) be allocated on a pro rata basis to those employees for whom contributions under (a) exceed deductions under (c), and be deposited in individual deferred compensation accounts. The director of the division of retirement and benefits shall administer this program and establish operating procedures which allow for deferment of state and federal income tax until benefits are receivable in accordance with federal regulations under the Internal Revenue Code.
- (d) The balance of contributions made into special employee benefit account shall, after deductions specified in (b) of this section, be deposited in an individual deferred compensation account. Director of the division of retirement and benefits shall administer this program and establish operating procedures which allow for deferment of state and federal income tax until benefits are receivable in accordance with federal regulations under the Internal Revenue Code.

SB 25 - SOCIAL SECURITY WITHDRAWAL

Comparative summary of existing statutes, SB 25 and HB 946 based on the 9 sections of SB 25

SB 25

SECTION NO.	EXISTING STATUTES	SB 25	HB 946	
7.	Intention to withdraw from Social Security System & providing for an effective date.	None	If approved by employees of the State of Alaska as set out in sec. 8 (see next page) the state's notice of intention to withdraw from the federal Social Security System shall become effective January 1, 1980.	<u>SAME AS SB 25</u>

SB 25 -SOCIAL SECURITTY WITHDRAWAL

Comparative summary of existing statutes, SB 25 and HB 946 based on the 9 sections of SB 25

SB 25

SECTION NO.	EXISTING STATUTES	SB 25	HB 946
8. Election	None	<p>Provides for the Dept. of Admin. to conduct a secret ballot election by <u>9/25/79</u>. The Dept. shall prepare a list of <u>all</u> affected employees and their addresses at least 90 days before the election and make the list available to interested parties. The question on the ballot shall read "Do you favor withdrawal from the Social Security System?" The ballot shall contain a description of the benefits under the alternative system in lieu of social security benefits. No other information concerning this issue will be distributed or attached to the ballot. A simple majority of those employees voting shall determine the outcome of the issue.</p>	<p>SAME AS SB 25 <u>except</u> this bill provides for a secret ballot election between <u>February 1 and April 1, 1979</u>.</p>

SB 25 -SOCIAL SECURTY WITHDRAWAL

Comparative summary of existing statutes, SB 25 and HB 946 based on the 9 sections of SB 25

SB 25

SECTION NO.	EXISTING STATUTES	SB 25	HB 946
9.	Effective dates	None	Sections 1-7 of this bill will take effect on 1/1/80 if approved by a majority of the voters under sec. 8. Sec. 8 takes effect immediately if this bill is passed.
			<u>SAME AS SB 25</u>

Introduced: 1/16/79  
Referred: State Affairs  
and Finance

1 IN THE SENATE

BY RAY

2 SENATE BILL NO. 25

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 ELEVENTH LEGISLATURE - FIRST SESSION

5 A BILL

6 For an Act entitled: "An Act relating to withdrawal from the federal Social  
7 Security System; and providing for an effective date."

8 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:

9 \* Section 1. AS 39.35.160(b) is amended to read:

10 (b) In addition each employee shall pay the appropriate social  
11 security contribution or the contribution required under AS 39.30.170  
12 lieu of a social security contribution.

13 \* Sec. 2. AS 39.35.680(21) is amended by adding a new subparagraph to read:

14 (D) may include employees of the division of marine  
15 transportation excluded under (C)(v) of this paragraph provided  
16 that

17 (1) the State of Alaska formally agrees to their  
18 inclusion through the process of collective bargaining, and

19 (ii) other than military service credit, only ser-  
20 vice after January 1, 1980 may be credited under this chapter;

21 \* Sec. 3. AS 39.35.680(25) is amended to read:

22 (25) "normal retirement" means retirement for a member who is  
23 at least 55 years old and has a minimum of five years credited service,  
24 or who is any age and has 30 years or more of credited service, or who  
25 is making contributions under AS 39.30.170, is any age and has 25 years  
26 or more of credited service, or a peace officer or fireman who is any  
27 age and has 20 years or more of credited service;

28 \* Sec. 4. AS 39.35.370(c) is amended to read:

29 (c) The monthly amount of a retirement benefit for a peace officer

1 or fireman is two percent of the average monthly compensation times the  
2 years of credited service up through 10 years. plus two and one-half  
3 percent of the average monthly compensation times the years of service  
4 over 10 years. For all other employees it is two per cent of the aver-  
5 age monthly compensation times the years of service. The monthly amount  
6 of a retirement benefit for an employee covered by this chapter who is  
7 making contributions under AS 39.30.170 shall be increased by three-  
8 fourths of one per cent of the average monthly compensation times the  
9 years of credited service with the State. An actuarial adjustment must  
10 be made for an early retirement benefit.

11 \* Sec. 5. AS 39.35.410(d) is amended to read:

12 (d) The monthly amount of an occupational disability pension is  
13 the greater of 40 per cent of the disabled employee's gross monthly com-  
14 penetration at the time of termination due to disability or the amount  
15 determined in accordance with AS 39.35.370(c) considering the employee's  
16 credited service and compensation before termination of employment.

17 \* Sec. 6. AS 39.30 is amended by adding new sections to read:

18 ARTICLE 4. SUPPLEMENTARY EMPLOYEE BENEFITS ON WITHDRAWAL  
19 FROM FEDERAL SOCIAL SECURITY.

20 Sec. 39.30.150. SURVIVOR'S BENEFITS. (a) The State of Alaska  
21 shall provide for survivor's benefits for occupational and non-occupa-  
22 tional death effective as of an employee's first day of employment, or  
23 January 1, 1980, whichever is later, to employees of the state who are  
24 making contributions under AS 39.30.170 as follows:

25 (1) for all casual, emergency or temporary employees not  
26 covered by the Alaska Public Employees' Retirement System (AS 39.35) or  
27 the Alaska Teachers' Retirement System (AS 14.25) the benefit payable to  
28 the beneficiary shall be a lump sum of \$15,000.

29 (2) for all employees other than those covered under (1) of

1 this subsection, the benefit payable to the beneficiary shall be a lump  
2 sum equal to 12 times the employee's basic monthly compensation at the  
3 time of death;

4 (b) For purposes of this section "basic monthly compensation at  
5 the time of death" means the employee's basic monthly compensation for  
6 the last full month of employment immediately preceding his death or  
7 disability leading to his death.

8 Sec. 39.30.160. DISABILITY BENEFIT. (a) The state shall provide  
9 an occupational and non-occupational disability benefit program covering  
10 each employee of the state making contributions under AS 39.30.170.  
11 Coverage shall begin on the first day of employment or January 1, 1980,  
12 whichever is later. Disability payments are not payable during the  
13 first six months of disability.

14 (b) In this section, "disability" means the complete inability of  
15 the employee to engage in his regular occupation during the first 12  
16 months of disability, and thereafter the complete inability to engage in  
17 any employment or occupation for which he is reasonably fitted by reason  
18 of education, training or experience.

19 (c) For a casual, emergency or temporary employee not covered by  
20 the Alaska Public Employees' Retirement System (AS 39.35) or the Alaska  
21 Teachers' Retirement System (AS 14.25), the disability benefit is \$100  
22 per week and shall be payable only if the disabled employee fulfills the  
23 requirements set out in (e) of this section. The last payment shall be  
24 for the week in which (1) the death of the disabled employee occurs, or  
25 (2) the disabled employee reaches the age of 65, whichever occurs first

26 (d) For all employees other than those covered in (c) of this  
27 section, the monthly disability benefit shall be 60 per cent of the  
28 first \$5,000 of the employee's basic monthly earnings at the date of  
29 disability less any disability benefits the employee is entitled to

1 under Social Security or any other disability plan to which the state  
2 makes contributions on behalf of that employee. The disability benefit  
3 shall be payable only if the disabled employee fulfills the requirements  
4 set out in (c) of this section. The last payment shall be for (1) the  
5 month in which the death of the disabled employee occurs, or (2) the  
6 month the disabled employee reaches normal retirement age, or (3) the  
7 month the disabled employee reaches the age of 65, whichever comes  
8 first.

9 (c) An employee receiving a disability benefit under this section  
10 shall provide the director of the division of retirement and benefits,  
11 one year after appointment to disability benefits and once each year  
12 thereafter until disability benefits cease, satisfactory proof of con-  
13 tinuing disability. If the employee provides satisfactory proof that  
14 the disability is permanent, the requirement of submitting further proof  
15 of continuing disability may be waived by the director.

16 Sec. 39.30.165. BASIC MONTHLY COMPENSATION. In secs. 150 - 160 of  
17 this chapter, "basic monthly compensation" means the amount earned by  
18 the employee during the month, including normal overtime; however,  
19 unusual or seasonal overtime or work of a seasonal nature may be ad-  
20 justed to reflect a 12-month average.

21 Sec. 39.30.170. CONTRIBUTIONS. (a) The amounts which both the  
22 state and the employee of the state would have otherwise paid into the  
23 federal Social Security System at the rate then in effect had the state  
24 continued in the federal Social Security System shall be paid into  
25 special employee benefit account in the Department of Administration to  
26 be used to provide employee retirement and death and disability benefits  
27 for each of the following groups:

28 (1) employees covered under the Alaska Public Employees'  
29 Retirement System (AS 39.35), except peace officers and firemen (as

1 defined in AS 39.35.680(27));

2 (2) peace officers and firemen covered under AS 39.35 (PERS);

3 (3) employees covered under the Judicial Retirement System  
4 (AS 22.25);

5 (4) emergency, temporary or casual workers not covered under  
6 AS 39.35 (PERS) or AS 14.25 (TRS);

7 (5) employees of the division of marine transportation en-  
8 gaged in operating the state ferry system who are covered by a maritime  
9 union contract and are not covered under AS 39.35 (PERS).

10 (b) There shall be determined the cost of providing the survivor  
11 and disability benefits provided under AS 39.30.150 and AS 39.30.160  
12 expressed as a percentage of payroll for each of the groups set out  
13 under (a) of this section, except that all employees covered under AS  
14 39.35 (PERS) shall be considered as one group for purposes of this  
15 subsection.

16 (c) From the employee benefit accounts established under (a) of  
17 this section, the Department of Administration shall deduct:

18 (1) from each benefit account, the amount determined under  
19 (b) of this section to pay the cost of providing benefits under secs.  
20 150 and 160 of this chapter for each employee in that group;

21 (2) from the account for the group listed in (a)(1) of this  
22 section, an additional 7.1 per cent of gross monthly compensation for  
23 each employee in that group;

24 (3) from the account for the group listed in (a)(2) of this  
25 section, an additional 6.2 per cent of gross monthly compensation for  
26 each employee in that group.

27 (d) The balance in each employee benefit account shall, after  
28 deduction of the amounts specified in (c) of this section, be allocated  
29 on a pro rata basis to those employees for whom contributions under (a)

1 of this section exceeded deductions under (c) of this section and be de-  
2 posited in individual deferred compensation accounts in the names of  
3 those employees. The director of the division of retirement and bene-  
4 fits shall administer the deferred compensation program and shall, by  
5 regulation, establish operating procedures for the program which allow  
6 for deferment of the state and federal income tax until benefits are  
7 receivable in accordance with federal requirements under the Internal  
8 Revenue Code.

9 \* Sec. 7. If approved by employees of the State of Alaska as set out in  
10 sec. 8 of this Act, the state's notice of intention to withdraw from the  
11 federal Social Security System shall be allowed to become effective January  
12 1, 1980.

13 \* Sec. 8. The Department of Administration shall conduct an election by  
14 secret ballot by September 25, 1979. The department shall, at least 90 days  
15 before the election, prepare a list of all affected state employees, in-  
16 cluding permanent, seasonal and temporary employees, who shall be eligible to  
17 vote, along with mailing addresses, and make the list available to interested  
18 persons or employee representative organizations. The question on the ballot  
19 shall read: "Do you favor withdrawal from the Social Security System?" The  
20 ballot shall contain a description of the benefits provided for in this Act  
21 which would be provided in lieu of further benefits under the Social Security  
22 System. No other information concerning the election issue may be distri-  
23 buted with or attached to the ballot. A simple majority of those employees  
24 voting shall determine the outcome of this issue.

25 \* Sec. 9. Sections 1 - 7 of this Act take effect on January 1, 1980 if  
26 approved by a majority of the votes cast by affected state employees under  
27 sec. 8 of this Act. Section 8 of this Act takes effect immediately in accor-  
28 dance with AS 01.10.070(c).

THE FOLLOWING PAGES WERE TREATED AS  
A UNIT IN THE ORIGINAL FILE.



# Alaska State Legislature

JUNEAU ALASKA

SB 25

Relates to withdrawal from federal social security system by state employees. Amends AS 39.30 by addition of new article entitled "Supplemental Employee Benefits on withdrawal from federal social security". allowing state employees to pay into a special employee benefit account in the Dept. of Administration for retirement, death and disability benefits in lieu of a social security contribution. Provides act effective January 1, 1980, if approved by a majority of affected state employees. Sec. 8 provides for election by state employees on 9/25/79 - effective immediately.

Fiscal note wont be available for a week. - ADMIN - S & WELL - 2277

Modified and amended version of HB 946 (~~FINANCE - SUBMITTED~~)

*passed House & which passed in Senate Labor Management.*

SB 25 is sponsored by Ray but was submitted by APEA who have related back-up material.

HB - 946



SB - 25

1. HISTORY
2. TESTIMONY & POSITIONS OF INTERESTED PARTIES
3. COMPARISON OF EXISTING STATUTES, SB 25 & HB 946  
GEN. OUTLINE / DETAILED COMPARISON
4. DATA ON AFFECTED EMPLOYEES
5. SOCIAL SECURITY & PERS. BENEFITS

To DO: ① GET POSITIONS OF: PAUL ARNOLD - RETIREMENT  
GILGOWER -  
LOCAL 71 - WHEN AVAILABLE

② COMPARISONS OF SOCIAL SECURITY BENEFITS  
& PERS (EXPANDED) BENEFITS

S/B 25.

1/22/78

Desired rate to be set by  
Dept. of Admin. - with the  
available till next week

Back up on HV ~~94~~ 946

Sponsored by Roy  
Submitted by ~~AC/EA~~

SB. 25 - Withdrew from fed. soc. security

SEC. 1 - AS. 39.35.160(b) -

PERS - (APEA, UNF, P.S., LOCAL 71)

Last year - APEA -

LOCAL 71 - 800

OWN  
Ret  
TRUST  
FUND

- IBU - I had Bodens U. in

Public Def -

Confidential Unit -

fudges - own

Temp. employees - no system

cannot participate  
in Pers.  
used  
to  
so state  
would look  
diff

What to do w/ SS money for disabled  
people

---

946 said -

Now would say IBU can participate in Pers.  
& use SS money for that purpose.

SB. 25

HB 946

Sec. 2, 115 39.35.680 (21) amended to read

(21) member or employee - person elig.

(A) to participate in system who is covered by system

(B) includes active, inactive, vested deferred vested, non-vested, disabled retired, employees of m.t. who are covered by maintenance unit contract

Sec. 6, ART. 4

Sec. 39.30.150 SURVIVORS BENEFITS

inc. Temp covered by federal Ret. System (AS 2.2.25) or APEA Ret. System

~~Sec. 39.30.165 (not included in bill) inc. #25~~

Sec. 39.30.170 - Contributions

THE PRECEDING PAGES WERE TREATED AS  
A UNIT IN THE ORIGINAL FILE.

Your  
social security



# Contents

	Page
Your social security .....	5
Who gets checks? .....	7
Checks for a worker's family .....	8
Medicare .....	9
Building protection .....	11
Monthly cash benefits .....	11
Work credit for disability benefits .....	12
Work credit for retirement benefits .....	13
Work credit for survivors benefits .....	13
Special rules apply to some work ..	14
What is it worth? .....	15
Amount of monthly checks .....	15
A word of explanation .....	17
Reduced benefits .....	18
Estimating your check .....	18
Bigger checks by additional work ..	18
Examples of monthly social security payments .....	19
Special minimum benefit .....	20
Why payments stop .....	21
If you work after payments start ..	21
Income that counts .....	23
If you go outside the United States .....	23
Financing .....	24
The basic idea .....	24
Contribution rates .....	24
How contributions are paid .....	26
Future increases are automatic ...	26
Excess earnings, contributions ...	27

<b>Serving you . . . . .</b>	<b>28</b>
<b>Social security offices . . . . .</b>	<b>28</b>
<b>When you should contact us . . . . .</b>	<b>28</b>
<b>Your social security card . . . . .</b>	<b>28</b>
<b>When you apply for social security benefits . . . . .</b>	<b>30</b>
<b>Right of appeal . . . . .</b>	<b>31</b>
<b>Supplemental security income . . . . .</b>	<b>32</b>
<b>For more information . . . . .</b>	<b>32</b>

## Your social security

Today, social security is the Nation's basic method of providing a continuing income when family earnings are reduced or stop because of retirement, disability, or death.

- ▶ Nine out of 10 workers in the United States are earning protection under social security.
- ▶ Nearly 1 out of every 7 persons in this country receives monthly social security checks.
- ▶ About 23.1 million people 65 and over, nearly all of the Nation's aged population, have health insurance under Medicare. Another 2.6 million disabled people under 65 also have Medicare.

Nearly every family, then, has a stake in social security.

Through the years since social security was enacted in 1935, there have been many changes to improve the protection it gives to workers and their families. At first, social security covered only the worker upon retirement; but in 1939, the law was changed to pay survivors when the worker died, as well as certain dependents when the worker retired.

Social security covered only workers in industry and commerce when the program began. In the 1950's, coverage was extended to include most self-employed persons, most State and local employees, household and farm employees, members of the Armed Forces, and members of the clergy. Today, almost all jobs in the United States are covered by social security.

Disability insurance benefits were first paid for July 1957, giving workers protection against loss of earnings due to total disability.

The social security program was expanded again in 1965 with the enactment of Medicare which assured hospital and medical insurance protection to people 65 and over. Since 1973, Medicare coverage has been available to people under 65 who have been entitled to disability checks for 2 or more consecutive years and to people with permanent kidney failure who need dialysis or kidney transplants.

As a result of legislation enacted in 1972, social security benefits will increase automatically in the future as the cost of living goes up.

Legislation enacted in late 1977 made an important change in the way benefits are calculated, restored the financial soundness of the social security program, and made other changes in the program.

This booklet is about your social security. It tells how you earn protection under social security, the kinds of benefits you and your family can get, how social security is financed, and other information that can help you in planning for the future.

## Who gets checks?

Who gets a monthly social security check? The question can be answered in one word. People. All kinds of people. Young people, old people, poor people, rich people. Men, women, and children.

Monthly social security checks may go to workers and their dependents when the worker retires, becomes severely disabled, or dies. Then, there's Medicare, which helps pay the cost of health care for eligible people who are 65 or over or disabled.

Monthly benefits social security pays include:

*Retirement checks*—When you retire, you can start getting retirement checks as early as 62.

*Disability checks*—A worker who becomes severely disabled before 65 can get disability checks.

Under social security, you're considered disabled if you have a severe physical or mental condition which:

- ▶ Prevents you from working, and
- ▶ Is expected to last (or has lasted) at least 12 months, or is expected to result in death.

Your checks can start for the 6th full month of your disability. Once checks start, they'll continue as long as you are disabled. If you are severely disabled, you could get benefits even though you manage to work a little.

*Survivors checks*—If the worker dies, survivors checks can go to certain members of the worker's family. A lump-sum payment also can be made when a worker dies. This payment usually goes to the widow or widower.

### **Checks for a worker's family**

Monthly social security checks also are paid to certain dependents of a worker who has retired, become disabled, or died.

*Retirement or disability*—Monthly payments can be made to a retired or disabled worker's:

- ▶ Unmarried children under 18 (or 22 if full-time students).
- ▶ Unmarried children 18 or over who were severely disabled before 22 and who continue to be disabled.
- ▶ Wife or husband 62 or over.
- ▶ Wife under 62 if she's caring for worker's child under 18 (or disabled) who's getting a benefit based on the retired or disabled worker's earnings.

*Survivors*—Monthly payments can be made to a deceased worker's:

- ▶ Unmarried children under 18 (or 22 if full-time students).
- ▶ Unmarried son or daughter 18 or over who was severely disabled before 22 and who continues to be disabled.
- ▶ Widow or widower 60 or older.
- ▶ Widow, widower, or surviving divorced mother if caring for worker's child under 18 (or disabled) who is getting a benefit based on the earnings of the deceased worker.
- ▶ Widow or widower 50 or older who becomes disabled not later than 7 years after worker's death, or within 7 years after mother's or father's benefits end.
- ▶ Dependent parents 62 or older.

Checks also can go to a divorced wife or husband at 62 or over, or a surviving divorced wife at 60, or to a disabled surviving divorced wife 50 or older if the marriage lasted 20 years or more (10 years beginning January 1979). Children may be eligible for social security benefits based on a grandparent's earnings under certain conditions.

Generally, a marriage must have lasted at least 1 year before dependents of a retired or disabled worker can get monthly benefits; survivors can get benefits in most cases if the marriage lasted at least 9 months.

### **Medicare**

The two parts of Medicare—hospital insurance and medical insurance—help protect people 65 and over from the high costs of health care. Also eligible for Medicare are disabled people under 65 who have been entitled to social security disability benefits for 24 or more consecutive months (including adults who are receiving benefits because they have been disabled since childhood). Insured workers and their dependents who need dialysis treatment or a kidney transplant because of permanent kidney failure also have Medicare protection.

The hospital insurance part of Medicare helps pay the cost of inpatient hospital care and certain kinds of follow-up care. The medical insurance part of Medicare helps pay the costs of physicians' services, outpatient hospital services, and for certain other medical items and services not covered by hospital insurance. People who have

medical insurance pay a monthly premium. More than 70 percent of the cost of medical insurance is paid from general revenues of the Federal Government. The basic premium is \$8.20 for the 12-month period beginning July 1978.

If you're eligible for a social security or railroad retirement check either as a worker, dependent, or survivor, you automatically have hospital insurance protection when you're 65.

It's a good idea to apply for your Medicare insurance 3 months before your birthday month. That way your protection will start the month you reach 65. When you apply for hospital insurance, you will be enrolled automatically for the medical insurance part of Medicare unless you tell us you don't want it.

People 65 and over who haven't worked long enough to be eligible for hospital insurance can get this protection by enrolling and paying a monthly premium just as they would for other health insurance. The basic premium is \$63 for the 12-month period beginning July 1978. People who buy Medicare hospital insurance also must enroll in medical insurance.

For more information about Medicare, ask at any social security office for a copy of the leaflet, *A brief explanation of Medicare*.

# Building protection

## Monthly cash benefits

Before you or your family can get monthly cash benefits, you must have credit for a certain amount of work under social security. The exact amount of work credit depends on your age.

Social security credit is measured in "quarters of coverage." Starting with 1978, employees and self-employed people receive one quarter of coverage for each \$250 of covered annual earnings. For information about how self-employment earnings are covered under social security, ask for a copy of the leaflet, *If you're self-employed...reporting your income for social security*. No more than four quarters of coverage can be credited for a year. The \$250 measure will increase automatically in the future to keep pace with average wages.

Before 1978, an employee generally earned one quarter of coverage if he or she was paid wages of \$50 or more in a calendar quarter. Self-employed people received four quarters of coverage if they had self-employment net profit of \$400 or more.

More than 9 out of 10 jobs in paid employment and self-employment in the United States are covered by social security. Special rules which apply to some occupations are discussed later in this booklet.

If you stop working under social security before you've earned enough credit, you can't get benefits later. But the credit you've already earned will stay on your record and you can add to it if you return to work under social security.

Having enough credit means only that you or your family can get checks. The amount of your check depends on your average earnings over a period of years.

The following tables show how much credit is needed for retirement and survivors benefits. The people in any social security office will be glad to give you more details.

Under a special rule, cash payments can be made to a worker's children and their mother or father even though the worker dies with fewer credits than shown provided he or she has worked under social security  $1\frac{1}{2}$  years in the 3 years before death.

### **Work credit for disability benefits**

If you become disabled before you're 24, you need credit for  $1\frac{1}{2}$  years of work in the 3 years before you become disabled

If you're between 24 and 31, you must have credit for half the time between your 21st birthday and the time you become disabled.

If you become disabled at 31 or later, you generally need credit for at least 5 years of work out of the 10 years ending when you become disabled. You may need additional credit, depending on your age and the date your disability starts.

The chart for work credits for survivors and disability benefits on the next page shows how much total work credit is needed by workers who become disabled at age 43 or older.

If you are disabled by blindness, you do not have to meet the requirement of recent work but do need credit for  $\frac{1}{4}$  year of work for each year since 1950 (or the year you reached 21 if later), up to the year you become blind. A minimum of  $1\frac{1}{2}$  years of credit is needed.

**Work credit for retirement benefits**

<b>If you reach 62 in</b>	<b>Years you need</b>
1975	6
1976	6 $\frac{1}{4}$
1977	6 $\frac{1}{2}$
1978	6 $\frac{3}{4}$
1979	7
1981	7 $\frac{1}{2}$
1983	8
1987	9
1991 or later	10

**Work credit for survivors and disability benefits**

<b>Born after 1929, die or become disabled at</b>	<b>Born before 1930, die or become disabled before 62 in</b>	<b>Years you need</b>
28 or younger		1 $\frac{1}{2}$
30		2
32		2 $\frac{1}{2}$
34		3
36		3 $\frac{1}{2}$
38		4
40		4 $\frac{1}{2}$
42		5
44		5 $\frac{1}{2}$
46	1975	6
48	1977	6 $\frac{1}{2}$
50	1979	7
52	1981	7 $\frac{1}{2}$
54	1983	8
56	1985	8 $\frac{1}{2}$
58	1987	9
60	1989	9 $\frac{1}{2}$
62 or older	1991 or later	10

### **Special rules apply to some work**

Although almost all jobs in the United States are covered by social security, there are special rules which apply to some.

You should check with a social security office about these special rules if you work in or about someone's home doing housecleaning, gardening, or babysitting; if you are a student and also are employed by your school or college; if you own, operate, or work on a farm; if you are a member of a religious order; if you have a job where you get cash tips; or if you are an employee of a State or local government, a non-profit or international organization. Special rules also apply to those who work or are self-employed outside the United States.

Leaflets containing information of special interest to self-employed people, farmers, farm landlords, people who receive cash tips, and others are available at any social security office. State and local government employees should direct their questions to their State Social Security administrator.

## What is it worth?

### Amount of monthly checks

Up to now, social security checks have usually been based on your average earnings under social security over a period of years, using the actual dollar value of your past earnings. This method will continue to be used for workers who reach 62, become disabled, or die before 1979.

For workers who reach 62, become disabled, or die after 1978 a new method of calculating benefits will go into effect. Under this method, actual earnings for past years will be adjusted to take account of changes in average wages since 1951. These adjusted earnings will be averaged together and a formula will be applied to the average to determine the benefit amount.

The new method is intended to insure that benefits will reflect changes in wage levels over your working lifetime and will have a relatively constant relationship to pre-retirement earnings. So that no one now nearing retirement will be disadvantaged, the law contains a guarantee. Under the guarantee, retirement benefits for workers who reach 62 after 1978 and before 1984 will be figured two ways—under the old method using benefit rates that were in effect as of January 1979 and under the new method. The benefit rate paid will be the higher of the two calculations.

Workers who become disabled after 1978 will have their benefits figured only under the new method starting in 1979 as will the survivors of workers who die after 1978. In addition, social security benefits for people on the rolls will increase automatically in future years as the cost of living rises. Each year, living

costs will be compared with those of the year before. If living costs have increased 3 percent or more, benefits will be increased by the same amount and will be included in checks issued the following July unless Congress has already acted to raise benefits.

While you are working, social security contributions are taken out of your wages. You will pay social security contributions on all wages up to \$17,700 in 1978. After increases to \$22,900 in 1979, \$25,900 in 1980, and \$29,700 in 1981, this amount will increase automatically in future years to keep up with changes in average wage levels as under previous law. This means that a worker paying increased social security contributions can be sure of higher benefits later because benefits will be based on a higher level of earnings.

Social security checks are not subject to Federal income tax.

If you qualify for checks on the record of more than one worker (for example, on your own record and your husband's), you'll get an amount equal to the larger of the two amounts. If, in addition to your social security benefit as a wife, husband, widow, or widower, you receive a pension based on your work in public employment not covered by social security, your benefit as a dependent or survivor will be reduced by the amount of that pension. Under an exception in the law, your governmental pension will not affect your dependent's or survivor's benefit if you become eligible for that pension before December 1982, and, if at the time you apply or become entitled to your social security benefit as a dependent or survivor, you could have qualified for that benefit if the law as in

effect in January 1977 had remained in effect. (At that time, men had to prove they were dependent upon their wives for their support to be eligible for benefits as a dependent or survivor.) Your governmental pension, however, will not affect any social security benefit based on your own work covered by social security.

In addition to monthly benefits, there is a lump-sum payment made at a worker's death. It is \$255.

#### **A word of explanation**

Some people think that if they've always earned the maximum amount covered by social security they will get the highest benefit shown on the chart. This isn't so. Although retirement benefits as high as \$502 a month are shown, payments this high can't be paid to a worker retiring at 65 now. The maximum retirement benefit generally payable to a worker who becomes 65 in 1978 is \$489.70 a month (effective June 1978), based on average covered yearly earnings of \$8,257.

The reason the average can be no higher now is that the maximum covered earnings were lower in past years. Those years of lower limits must be counted in with the higher ones of recent years to figure your average covered yearly earnings and this average determines the amount of your check.

The maximum earnings creditable for social security are \$3,600 for 1951-1954; \$4,200 for 1955-1958; \$4,800 for 1959-1965; \$6,600 for 1966-1967; \$7,800 for 1968-1971; \$9,000 for 1972; \$10,800 for 1973; \$13,200 for 1974; \$14,100 for 1975; \$15,300 for 1976; \$16,500 for 1977; \$17,700 for 1978; \$22,900 for 1979; \$25,900 for 1980; and \$29,700 for 1981.

The table shows examples of monthly cash benefits payable, based on several different levels of average yearly earnings.

### **Reduced benefits**

You can retire as early as 62, but your retirement check will be reduced permanently. Payment amounts are also reduced if a wife, husband, widow, or widower starts getting payments before 65.

The amount of reduction depends on the number of months you get checks before you reach 65. If you start your checks early, you'll get about the same value in total benefits over the years, but in smaller installments to take account of the longer period you'll get them.

### **Estimating your check**

Although the *exact* amount of your retirement check can't be figured until you apply for benefits, you can estimate the amount ahead of time. Ask at any social security office for a copy of the leaflet, *Estimating your social security retirement check*.

### **Bigger checks by additional work**

If you return to work after you start getting retirement checks, your added earnings will often result in higher benefits when you again stop working. Social security will automatically refigure your benefit after the additional earnings are credited to your record.

In addition, a worker who doesn't get any benefits before 65 and delays retirement past 65 will get a special credit that can mean a larger benefit. The credit adds to a worker's benefit 1 percent for each year (1/12 of 1 percent for each

**Examples of monthly social security payments (effective June 1978)**

**Average yearly earnings after 1950 covered by social security**

Benefits can be paid to a:	\$923 or less	\$3,000	\$4,000	\$5,000	\$6,000	\$8,000	\$10,000*
Retired worker at 65	121.80	251.80	296.20	343.50	388.20	482.60	534.70
Worker under 65 and disabled	121.80	251.80	296.20	343.50	388.20	482.60	534.70
Retired worker at 62	97.50	201.50	237.00	274.80	310.60	386.10	427.80
Wife or husband at 65	60.90	125.90	148.10	171.80	194.10	241.30	267.40
Wife or husband at 62	45.70	94.50	111.10	128.90	145.60	181.00	200.60
Wife under 65 and one child in her care	61.00	133.20	210.00	290.40	324.00	362.00	401.00
Widow or widower at 65 if worker never received reduced benefits	121.80	251.80	296.20	343.50	388.20	482.60	534.70
Widow or widower at 60 if sole survivor	87.10	180.10	211.80	245.70	277.60	345.10	382.40
Widow or widower at 50 and disabled if sole survivor	61.00	126.00	148.20	171.90	194.10	241.40	267.50
Widow or widower with one child in care	182.80	377.80	444.40	515.40	582.40	724.00	802.20
Maximum family payment	182.70	384.90	506.20	633.80	712.10	844.50	935.70

\*Maximum earnings covered by social security were lower in past years and must be included in figuring your average earnings. This average determines your payment amount. Because of this, the amount shown in the last column generally won't be payable until future years. The maximum retirement benefit generally payable to a worker who is 65 in 1978 is \$489.70.

month) from age 65 to age 72 for which he or she did not get benefits because of work. The credit will be increased to 3 percent for each year ( $\frac{1}{4}$  percent for each month) for workers reaching 65 after 1981. Also, persons who received reduced benefits will be able to get the credit for non-payment months after reaching 65. Starting with June 1978, the worker's credit will also apply to widow's and widower's benefits.

### **Special minimum benefit**

There is a special minimum benefit at retirement for some people who worked under social security over 20 years. This helps people who had low earnings (but still above a specified level) in their working years. The amount of the special minimum depends on the number of years of coverage. For a worker retiring before 1979 at 65 with 30 years of coverage, the special minimum is \$180. Effective January 1979, the special minimum for a worker with 30 or more years of coverage will increase to \$230. Most people who have worked 20 years or more under social security already receive benefits higher than the special minimum.

Years of coverage from 1937 to 1950 are determined by dividing the total wages for those years by \$900, with a maximum of 14 years of coverage counted for that period. After 1950, a year of coverage is any year a person has earnings of at least 25 percent of the maximum covered by social security.

The automatic cost-of-living benefit increases apply to the special minimum benefit amounts starting in 1979.

## Why payments stop

### **If you work after payments start**

After you start getting social security checks, they will continue to arrive each month unless your circumstances change and cause payments to stop.

If you go back to work and are under 72, your earnings may affect your social security benefits. You don't have to stop working completely, though, to get social security benefits. You can receive all benefits if your earnings do not exceed the annual exempt amount. The annual amount for 1978 is \$4,000 for people 65 or over and \$3,240 for people under 65.

If your earnings go over the annual amount, we withhold \$1 in benefits for each \$2 of earnings above the limit.

The monthly measure used for 1977 and earlier years to determine whether benefits could be paid for any month a person earned 1/12 or less of the annual exempt amount and did no substantial work in his or her business has been eliminated. A person can use the monthly test only in the first year he or she has a month in which earnings do not exceed 1/12 of the annual amount or does not perform substantial services in self-employment. If such a month occurs in 1978, a benefit can be paid for any month in which you earn \$334 or less (if 65 or older) or \$270 (if under 65) and you don't perform substantial services in self-employment even though your total yearly earnings exceed the annual amount.

For people 65 or over, the annual exempt amount will increase to \$4,500 for 1979; to \$5,000 in 1980; \$5,500 for 1981; and \$6,000 for 1982. After that, the limit will increase automatically as the level of average wages rises. The limit for people under 65 will also continue to increase.

(*Note: Different rules apply to work performed by people getting benefits because they are disabled. For more information, ask for a copy of the leaflet, *If you become disabled*, at any social security office.*)

If you are getting retirement checks, your earnings may affect your dependent's checks as well as your own. If you get checks as a dependent or survivor, your earnings can affect only your own check.

### **Income that counts**

When figuring what income may affect your social security checks, you must count earnings from work of any kind, whether or not it's covered by social security, except tips amounting to less than \$20 in a month with one employer. Total wages, not just take-home pay, and all net self-employment earnings must be added together.

However, income from savings, investments, or insurance won't affect your checks.

Your earnings for the entire year in which your checks start or stop count when we figure the amount of benefits that can be paid for that year. But earnings after you reach 72 won't affect your checks. Starting with 1982, earnings after you reach 70 won't affect your check.

### **If you go outside the United States**

Special rules apply to people outside the U.S. If you go outside the country for 30 days or more while you're getting checks, your absence from this country may affect your right to checks. Ask at any social security office for a copy of the leaflet, *Your social security check while you're outside the United States*.

# Financing

## **The basic idea**

The basic idea of social security is a simple one: During working years, employees, their employers, and self-employed people pay social security contributions. This money is used only to pay benefits to the more than 33 million people getting benefits and to pay administrative costs of the program. Then, when today's workers' earnings stop or are reduced because of retirement, death, or disability, benefits will be paid to them from contributions by people in covered employment and self-employment at that time. These benefits are intended to replace part of the earnings the family has lost.

Part of the contributions made goes for hospital insurance under Medicare so workers and their dependents will have help in paying their hospital bills when they become eligible for Medicare. The medical insurance part of Medicare is financed by premiums paid by the people who have enrolled for this protection and amounts contributed by the Federal Government.

## **Contribution rates**

If you're employed, you and your employer each pay an equal share of social security contributions. If you're self-employed, you pay contributions for retirement, survivors, and disability insurance at a rate about equal to 1½ times the employee rate. The hospital insurance contribution rate is the same for the employer, the employee, and the self-employed person.

As long as you have earnings that are covered by the law, you continue to pay contributions regardless of your age and even if you are receiving social security benefits.

For 1978 employees and employers each pay 6.05 percent on the employee's wages. The total rate for self-employed people is 8.10 percent. The rates include 1.0 percent for hospital insurance under Medicare. The maximum amount of earnings that can count for social security purposes and on which you pay social security contributions is \$17,700 in 1978.

Future rate increases are scheduled. In 1979 and 1980 the employee and employer will each pay 6.13 percent. The rate for each will go to 6.65 percent in 1981; to 6.70 percent in 1982; to 7.05 percent in 1985; to 7.15 percent in 1986; and to 7.65 percent in 1990.

The self-employed rate will go to 9.30 percent in 1981; to 9.35 percent in 1982; to 9.90 percent in 1985; to 10 percent in 1986; and to 10.75 percent in 1990.

The hospital insurance part of the rate will increase to 1.05 percent in 1979; 1.30 percent in 1981; 1.35 percent in 1985; and to 1.45 percent in 1986.

Funds not required for current benefit payments and expenses are invested in interest-bearing U.S. Government securities.

The Government's share of the cost for supplemental medical insurance and certain other social security costs comes from general revenues of the U.S. Treasury, not from social security contributions.

### **How contributions are paid**

If you're employed, your contribution is deducted from your wages each payday. Your employer matches your payment and sends the combined amount to the Internal Revenue Service.

If you're self-employed and your net earnings are \$400 or more in a year, you must report your earnings and pay your self-employment contribution each year when you file your individual income tax return. This is true even if you owe no income tax.

Your wages and self-employment income are entered on your social security record throughout your working years. This record of your earnings will be used to determine your eligibility for benefits and the amount of cash benefits you and your dependents will receive.

### **Future increases are automatic**

The maximum amount of annual earnings that counts for social security will rise to \$22,900 for 1979; to \$25,900 for 1980; and to \$29,700 for 1981. After 1981, the maximum will rise automatically in future years as earnings levels rise as it did before 1979. This will mean higher benefits later because a greater portion of a worker's earnings will be counted towards social security. Every year the increase in average covered wages will be determined, and if wage levels have increased since the base was set last, the base will be raised — but only if there is an automatic benefit increase the same year.

### **Excess earnings, contributions**

When you work for more than one employer in a year and pay social security contributions on wages over \$17,700 for 1978, you may claim a refund of the excess contributions on your income tax return for that year. If you work for only one employer who deducts too much in contributions, you should apply to the employer for a refund. A refund is made only when more than the required amount of contributions has been paid. Questions about contributions or refunds should be directed to the Internal Revenue Service.

Earnings over the maximum may appear on your social security earnings record, but they cannot be used to figure your benefit rate.

# Serving you

## **Social security offices**

The Social Security Administration has over 1,300 offices conveniently located throughout the country; representatives of these offices also make regular stops in neighboring communities.

## **When you should contact us**

Before you or your family can get any social security checks, you must apply for them.

Get in touch with any social security office if:

- ▶ You're unable to work because of an illness or injury that is expected to last a year or longer.
- ▶ You're 62 or older and plan to retire.
- ▶ You're within 2 or 3 months of 65 even if you don't plan to retire.
- ▶ Someone in your family dies.

It's important for you to call, visit, or write any social security office before you reach 65, not only about retirement checks, but also about Medicare, which is available whether or not you retire.

A long delay in applying for monthly benefits can cause loss of some benefits since back payments can be made for no more than 12 months.

## **Your social security card**

You need a social security number if your work is covered by social security or if you have certain kinds of taxable income. Your social security number is also used for Federal income tax purposes.

People should apply for their card several weeks before they need it.

Show your card to your employer when you start work. Upon request, show it to anyone who pays you income that has to be reported. You can apply for a social security card at any social security office.

The number on your card is used to keep a record of your earnings. You need just one social security number during your lifetime. Notify any social security office if you ever get more than one number.

If you lose your social security card, contact a social security office to get a duplicate of the card you lost. You should also contact social security if you change your name to get a new card showing your new name.

Your employer is required to give you a statement of the social security contributions deducted from your pay. This is done at the end of each year or when you stop working for that employer. These records, such as Form W-2, will help you check on your social security record.

It's a good idea to check your record every 3 years or so to make sure that earnings are being correctly reported to your record. You can get a free postcard form at any social security office for this purpose.

## **When you apply for social security benefits**

When you apply for social security benefits, you should have with you:

- ▶ Your own social security card or a record of your number (if your claim is on another person's record, you'll need that person's card or a record of the number).
- ▶ Proof of your age; a birth certificate or a baptismal certificate made at or shortly after birth if you have one.
- ▶ Your marriage certificate if you're applying for wife's or widow's benefits.
- ▶ Your children's birth certificates if you're applying for them.
- ▶ Your Form W-2 for the previous year; a copy of your last Federal income tax return if you're self-employed.

If you're applying for benefits as a dependent parent of a deceased son or daughter, or as a dependent grandchild, you'll need proof that you were being supported by the worker. Generally, this proof must be supplied within 2 years after the worker dies or applies for cash benefits. An application for the lump-sum death payment must usually be made within 2 years after the worker's death.

Don't delay applying because you don't have all these proofs. The people in the social security office will tell you about other proofs that can be used when you apply.

### **Right of appeal**

If you feel that a decision made on your claim is not correct, you may ask the Social Security Administration to reconsider it. If, after this reconsideration, you still disagree with the decision, you may ask for a hearing by an administrative law judge of the Bureau of Hearings and Appeals. And, if you're not satisfied with the hearing decision, you may request a review by the Appeals Council. If you're still not satisfied, you may take your case to the Federal courts.

The Social Security Administration makes no charge for any of the appeals before the administration. You may, however, choose to be represented by a person of your own choice, and he or she may charge you a fee. The amount of such a fee is limited and must be approved by the Social Security Administration.

Someone in any social security office will explain how you may appeal and will help you get your claim reconsidered or request a hearing.

### **Supplemental security income**

In addition to the benefits mentioned in this booklet, there is a Federal program called supplemental security income (SSI). It assures a minimum monthly income to needy people with limited income and resources who are 65 or older or blind or disabled. Eligibility is based on income and assets. Payments of up to \$189.40 a month (\$284.10 for a couple), effective July 1978, can be made.

Although the program is administered by the Social Security Administration, it is financed from general revenues, not from social security contributions.

### **For more information**

If you would like more information about social security monthly benefits, Medicare, or SSI, contact any social security office. The people there will be glad to help you. To find the address of the nearest office, look in the phone directory under Social Security Administration, or ask at your post office.

Social security  
credits—  
how you  
earn them

## Social security credits—how you earn them

Almost all employment and self-employment in the United States is covered by social security. (If you're not sure your work is covered, ask at any social security office.)

But, you need credit for a certain amount of work under social security before you or your family can get social security payments.

This leaflet tells you how you earn social security credits—called “quarters of coverage”—and how many credits you need to get benefits.

### If you work as an employee

Starting with 1978, you earn one quarter of coverage for each \$250 of your covered annual earnings, up to a total of 4 quarters for each year you have covered earnings of \$1,000 or more. *No more than 4 quarters of coverage can be earned for any one year.*

The amount of covered earnings needed for a quarter of coverage will increase automatically each year to keep pace with increases in average wage levels.

Any quarters of coverage you earned before 1978 will remain on your social security record and will count in determining your eligibility for benefits.

*If you work as a domestic employee in a private household, your wages are covered by social security if you are paid \$50 or more in cash in a 3-month calendar quarter by one employer. You get one quarter of coverage for each \$250 of your covered wages, up to a maximum of 4 quarters for a year.*

*If someone hires you to do farm work, including domestic work in a farm home, your wages are covered by social security if:*

- ▶ You receive at least \$150 in *cash* pay from that employer during a year, or
- ▶ You are employed on 20 or more days during a year for cash pay figured on a time basis (by the hour, day, week, etc.), regardless of the amount of pay.

You will get one quarter of coverage for each \$250 of your covered earnings, up to a maximum of 4 quarters for a year.

*If you work for a member of your family your work may not count for social security. Work done by a child under 21 for a parent, by a husband for his wife, or by a wife for her husband is not covered by the social security law. However, work done by a parent for a son or daughter in connection with the son's or daughter's business, is covered. Household work for a son or daughter may be covered in certain situations. Check with any social security office for further details.*

### If you work for yourself

Starting with 1978, you earn one quarter of coverage for each \$250 of your covered self-employment income. Your income is covered by social security if you have net profit of \$400 or more in a year. Your self-employment income also may count for social security even if your actual net earnings are less than \$400. You can get more information about this at any social security office.

Quarters of coverage you earned before 1978 remain on your social security record and will count in determining your eligibility for benefits.

## How many credits you need

The amount of social security credit you need depends on your age. If you have enough credit to be entitled to benefits, payments also can be made to your dependents. This includes unmarried children who are under 18, children who became disabled before 22 and continue to be disabled, or children who are 18-22 and full-time students.

Credits earned at any time after 1936 can be counted.

*Retirement benefits and Medicare*—The table on page 5 shows the number of quarters of coverage you will need to get retirement benefits.

If you reached 65 before 1971 and are not already getting retirement benefits, contact any social security office to find out how many quarters of coverage you need.

The table also shows the number of credits you need to get hospital insurance under Medicare if you are not entitled to monthly benefits.

Nearly everyone who reached 65 before 1968 and everyone 65 or older who is entitled to monthly social security or railroad retirement benefits gets Medicare hospital insurance, even if he or she has never worked under social security.

*(Note: No earnings credits are needed for the medical insurance part of Medicare. To get medical insurance protection, you must enroll for it and pay a monthly premium.)*

## Social security credits—how you earn them

Almost all employment and self-employment in the United States is covered by social security. (If you're not sure your work is covered, ask at any social security office.)

But, you need credit for a certain amount of work under social security before you or your family can get social security payments.

This leaflet tells you how you earn social security credits—called “quarters of coverage”—and how many credits you need to get benefits.

### If you work as an employee

Starting with 1978, you earn one quarter of coverage for each \$250 of your covered annual earnings, up to a total of 4 quarters for each year you have covered earnings of \$1,000 or more. *No more than 4 quarters of coverage can be earned for any one year.*

The amount of covered earnings needed for a quarter of coverage will increase automatically each year to keep pace with increases in average wage levels.

Any quarters of coverage you earned before 1978 will remain on your social security record and will count in determining your eligibility for benefits.

*If you work as a domestic employee in a private household, your wages are covered by social security if you are paid \$50 or more in cash in a 3-month calendar quarter by one employer. You get one quarter of coverage for each \$250 of your covered wages, up to a maximum of 4 quarters for a year.*

*If someone hires you to do farm work, including domestic work in a farm home, your wages are covered by social security if:*

- ▶ You receive at least \$150 in *cash* pay from that employer during a year; or
- ▶ You are employed on 20 or more days during a year for cash pay figured on a time basis (by the hour, day, week, etc.), regardless of the amount of pay.

You will get one quarter of coverage for each \$250 of your covered earnings, up to a maximum of 4 quarters for a year.

*If you work for a member of your family, your work may not count for social security. Work done by a child under 21 for a parent, by a husband for his wife, or by a wife for her husband is not covered by the social security law. However, work done by a parent for a son or daughter, in connection with the son's or daughter's business, is covered. Household work for a son or daughter *may* be covered in certain situations. Check with any social security office for further details.*

### If you work for yourself

Starting with 1978, you earn one quarter of coverage for each \$250 of your covered self-employment income. Your income is covered by social security if you have net profit of \$400 or more in a year. Your self-employment income also may count for social security even if your actual net earnings are less than \$400. You can get more information about this at any social security office.

Quarters of coverage you earned before 1978 remain on your social security record and will count in determining your eligibility for benefits.

## How many credits you need

The amount of social security credit you need depends on your age. If you have enough credit to be entitled to benefits, payments also can be made to your dependents. This includes unmarried children who are under 18, children who became disabled before 22 and continue to be disabled, or children who are 18-22 and full-time students.

Credits earned at any time after 1936 can be counted.

*Retirement benefits and Medicare—The table on page 5 shows the number of quarters of coverage you will need to get retirement benefits.*

If you reached 65 before 1971 and are not already getting retirement benefits, contact any social security office to find out how many quarters of coverage you need.

The table also shows the number of credits you need to get hospital insurance under Medicare if you are not entitled to monthly benefits.

Nearly everyone who reached 65 before 1968 and everyone 65 or older who is entitled to monthly social security or railroad retirement benefits gets Medicare hospital insurance, even if he or she has never worked under social security.

*(Note: No earnings credits are needed for the medical insurance part of Medicare. To get medical insurance protection, you must enroll for it and pay a monthly premium.)*

Year you are 65	Quarters of coverage needed for retirement benefits		Quarters of coverage needed for hospital insurance	
	Men	Women	Men	Women
1971	20	17	12	12
1972	21	18	15	15
1973	22	19	18	18
1974	23	20	21	20
1975	24	21	24	21
1976	24	22	24	22
1977	24	23	24	23
1978	24	24	24	24
1982	28	28	28	28
1986	32	32	32	32
1990	36	36	36	36
1994 or later	40	40	40	40

**Survivors benefits**—In some cases, survivors benefits can be paid if a worker has fewer quarters of coverage than those required for retirement benefits. One quarter of coverage is required for each year:

- ▶ After 1950 and up to the year of death, if you were born in 1929 or before; or
- ▶ After the year you reached 21 and up to the year of death, if you were born in 1930 or later.

Regardless of when you were born, monthly payments can be made to your surviving dependent children if you worked under social security for 1½ years (6 quarters) in the 3 years before your death.

Your widow or widower also may be eligible for benefits if she or he is caring for children under 18 or disabled who are entitled to benefits based on your earnings.

**Disability benefits**—The number of credits needed depends on your age when you become disabled. If at the time you become disabled you are:

- ▶ Under 24—You need credit for 1½ years of work (6 quarters) out of the 3-year period ending when your disability begins.
- ▶ 24 through 30—You need credit for having worked under social security for half the period from the time you reach 21 until you become disabled.
- ▶ 31 or older—You need credit for at least 5 years of work out of the 10 years ending when you become disabled (in other words, 20 quarters of coverage out of the previous 40 quarters). You also need to be fully insured—that is, you need enough work to be eligible for retirement benefits as if you had reached retirement age at the time you become disabled.

A person disabled by blindness does not have to meet the requirement for recent work under social security. But a blind person does need credit for ¼ year of work for each year since 1950 or, if later, the year he or she reached 21, up to the year he or she became blind. A minimum of 1½ years of credit is needed.

#### For more information

If you have any questions about work credits or any other social security matter, get in touch with a social security office. The people there will be glad to help you.

U.S. Department of  
Health, Education, and Welfare  
Social Security Administration  
HEW Publication No. (SSA) 78-11072  
February 1978

☆ U.S. GOVERNMENT PRINTING OFFICE: 1978 O-441/58

Your 1979  
social security  
deduction

## **Your 1979 social security deduction**

The social security (FICA) deduction from your paycheck is higher this year.

The social security tax rate is 6.13 percent in 1979, compared to 6.05 percent in 1978. In addition, the "wage base"—the maximum amount of earnings on which social security taxes are paid—rises from \$17,700 last year to \$22,900 in 1979.

These increases stem from legislation enacted in 1977 to insure the financial stability of the social security system into the next century.

Workers paying into the social security system are building lifetime protection for themselves and their families. In addition to monthly benefits in retirement, social security also provides disability and survivors insurance that protects you and your dependents throughout your working years. Social security deductions also pay for Medicare hospital insurance for people 65 and older and for those who have been getting disability checks for 2 years or more.

Higher social security deductions also pay for "inflation insurance." The law provides for automatic increases in social security benefits to reflect rises in the cost of living.

## **Impact of changes**

People earning less than \$17,700 a year won't notice as big a change in their social security deductions as workers in higher income brackets.

If your earnings are \$10,000 a year, for example, you will pay \$8 more into social security in 1979 than you did last year. That's about 15 cents more a week.

If your earnings are \$17,700, you will pay \$15 more into social security this year—an additional 29 cents a week.

On earnings of \$22,900 or more, the social security tax in 1979 will increase by \$333—or \$6.40 a week. This larger increase reflects the higher taxable wage base in 1979. But those workers in higher income brackets also can count on higher benefits when they are eligible for social security. Their monthly checks will be higher because benefit amounts are based on the amount of earnings on which social security taxes are paid.

Employers also will pay more into social security in 1979 since they match, dollar for dollar, the social security taxes paid by employees.

### **In the years ahead**

The social security law also provides for additional increases in the tax rate and the wage base in future years in order to keep the social security system on a sound financial footing.

The table below shows the tax rate for 1980 through 1990, and the wage base for 1980 and 1981. Starting with 1982, the earnings base will rise automatically according to increases in average wage levels.

<b>In</b>	<b>Employers and employees each will pay</b>	<b>On earnings up to</b>
1980	6.13%	\$25,900
1981	6.65%	\$29,700
1982	6.70%	•
1983	6.70%	•
1984	6.70%	•
1985	7.05%	•
1986	7.15%	•
1987	7.15%	•
1988	7.15%	•
1989	7.15%	•
1990	7.65%	•

\*Wage base will increase according to average wage level increases.

### **For more information**

For more information about social security, call any social security office. The number is listed in your local telephone directory under "Social Security Administration."

U.S. Department of  
Health, Education, and Welfare  
Social Security Administration  
HEW Publication No. (SSA) 79-10008  
January 1979

Your stake in  
social security  
as a public  
employee

### Your stake in social security as a public employee

Over 34 million Americans—nearly one in seven—get a social security check each month. And 25.5 million people have health insurance coverage under Medicare to help them pay costly hospital and doctor bills. Social security's retirement, survivors, disability, and health insurance protection is a benefit "package" unavailable elsewhere at a comparable cost.

Today, close to three-fourths of all State and local government employees have social security coverage. More than half are covered both by social security and by an employer retirement system. Unlike most of the 100 million Americans who work and have compulsory social security coverage during a year, State and local employees are covered through voluntary State agreements with the Federal Government. This means the State has the unique option of asking for cancellation of coverage for a group wishing to do so which has been under the program at least 5 years. Less than 1 percent of all State and local employees had their coverage cancelled, however, and the overall number of public employees under social security has steadily increased.

If you and your fellow employees are considering dropping social security in favor of another pension plan, you should think about it very carefully. It is a good idea to get the opinion of an independent expert, such as an actuary, before making a decision. Such an expert may be available in the State or local government. Once a group drops out, it can't get coverage again. Before your group makes a decision, ask yourself these questions:

#### Will another plan provide monthly benefits to my family if I die or become disabled before retirement?

Yes  No

When comparing social security with other plans, some people consider only retirement benefits. But to make a realistic comparison, you must take into account that social security is more than a retirement system. Your contributions also provide protection for you and your family if you should become disabled for a year or more or if you should die.

About 7.6 million survivors of deceased workers are getting nearly \$1.5 billion a month from social security. They include children and their widowed mothers and fathers, many older widows, widowers, divorced wives, and dependent parents. In addition, over 2.8 million disabled workers under 65 and about 2 million dependents of disabled workers also are getting monthly checks. Payments to the family of a young worker who dies or becomes disabled can, in many cases, amount to more than \$100,000 over a period of years.

Out of each social security contribution dollar, about 19 cents goes for survivors benefits, 13 cents for disability benefits, 52 cents for retirement benefits, and 16 cents for Medicare hospital insurance. These amounts include the relatively small cost of administering each program. Overall, approximately 2 cents of each contribution dollar is used for administrative expenses of these four programs.

#### Will another plan give me health benefits at 65 or earlier?

Yes  No

Medicare helps most people 65 and over pay costly hospital and doctor bills. People under 65 who have been entitled to social security disability checks at least 2 consecutive years also have Medicare coverage. In addition, if an insured worker under 65 or a member of the family has permanent kidney failure, Medicare will help pay the bill.

A person 65 or over can get Medicare hospital insurance without paying a premium if he or she has either worked long enough under social security or is eligible for a social security or railroad retirement check as a worker, dependent, or survivor. Otherwise, the person must pay a monthly premium (\$63 effective July 1978) to get this protection.

If your group cancels its social security coverage, many younger workers may not be insured for hospital insurance later on and will have to pay a premium if they want it. By then, the cost will probably be much higher than \$63 a month because of rapidly rising medical costs.

#### Will another pension plan replace more of my earnings than social security?

Yes  No

If a married worker has always earned the average amount that counts for social security, the monthly family benefit for the worker and spouse (both 65) would amount to over 60 percent of the worker's final gross monthly wages. The replacement rate is even higher for workers with lower earnings.

#### Will another plan protect my benefits against inflation?

Yes  No

Social security benefits increase automatically as the cost of living goes up. Each time the Consumer Price Index rises 3 percent or more, benefits will increase by the same percentage the following year. Benefits were increased automatically in 1978 and in each of the three preceding years.

Another provision in the law guarantees that as wages rise in the future, higher earnings will count for social security. Since the amount of your benefits depends on your covered earnings over your working lifetime, it is important that this taxable base (\$17,700 for 1978) be kept up to date.

If your earnings are now above the base, you will pay more contributions as the base increases. But you will get more protection in the form of higher benefits later. And you will be assured that your retirement check will be more closely related to the amount of your earnings when you retire, not your earnings now.

#### With social security taxes rising each year, isn't the program becoming too expensive for most workers?

Yes  No

It's true that most working people will pay more for social security protection in coming years. It was necessary to increase contributions because of rising inflation, high unemployment, and other factors. Many employee benefit plans, however, also have been encountering financial problems due to increased costs.

An important point to remember is that the majority of American workers who earn less than the taxable wage base will pay only a little more into social security than they would have under the old law. This is because the taxable rate (6.05 percent on wages in 1978, and 6.13 percent in 1979 and 1980) does not rise as fast as the base. As an example, a person who earns \$15,000 in both 1979 and 1980 will pay \$919.50 into social security each year. This is only \$12 more than he or she would have paid under previous law. An individual who earns \$10,000 both years would pay only \$8 extra.

#### Would another plan provide greater financial stability than social security?

Yes  No

The social security system is not like private pension plans, which must fund benefits in advance because there is no way of assuring that additional people will be enrolled in future years. Because social security coverage is compulsory for most workers, the system is assured of a continuing income. Social security actually operates as an income transfer program, with current income used to

pay current benefits. Reserves are accumulated to serve as a buffer in times of recession, when income to social security drops because of higher unemployment. Long range demographic and economic projections are updated annually so adjustments can be made to maintain the fiscal soundness of the system.

**If I'm now insured for monthly social security retirement benefits and Medicare, shouldn't I drop my coverage?**

Yes  No

It's true that a State or local employee who has worked long enough under social security can still get retirement benefits at 62 or older and Medicare at 65 if the group cancels coverage now. But the retirement check *amount* will be less than it would have been because the amount is based on covered earnings over a working lifetime. Most workers have their highest earnings in the last years of employment.

Take John M., for example, who was 50 in December 1977, 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 1977, but none from 1978 up to 1993, when he'll retire at 65. So his social security check will be about \$808 a month (under 1977 estimates). If he had kept his social security coverage, he would have gotten about \$1,122 a month in social security benefits.

Also, he loses disability protection after 5 years without coverage, as do other members of his coverage group. To be eligible for disability benefits, people generally need some *recent* work under social security.

**My social security protection continues if I change jobs. Would it under a private plan?**

Yes  No

Under social security, earnings with different employers and in different types of covered employment are all added to your permanent social security record. Credit for all covered employment and self-employment is combined when you or your family applies for benefits.

Under some private plans, employees may not be eligible for the full range of benefits until they have been under the plan many years. If they quit or change jobs before retirement, they may lose some or all of their rights to benefits under the plan.

**Does another plan adequately protect new employees?**

Yes  No

While many older State and local government employees have worked long enough under social security to be eligible for some social security benefits later on, many younger and new employees will not have had this chance. They and their families may be losing valuable benefit protection for which an alternate plan may not adequately compensate. You should consider the consequences to all present and future members of the group if coverage is terminated.

**Social security benefits are tax free. Are pensions from another plan?**

Yes  No

There's no Federal income tax to pay on social security checks. But private pension benefits you receive in excess of the amount you contributed to the pension fund are counted in determining Federal income tax liabilities.

**Does another plan provide sufficient benefit protection for women workers and their dependents?**

Yes  No

Under social security, a woman worker has the same benefit rights as a man. For example, her children could get benefits on her social security record if she dies or becomes disabled. Her husband may be able to get survivors payments if he has young children in his care. He also may be eligible for widowers benefits at age 60 (as early as 50 if disabled) or husband's benefits at 62.

If both the woman and her husband work and become insured, both can receive social security retirement checks on their own earnings records. A spouse's benefit also *may* be payable to one of them but only to the extent that this benefit exceeds the amount of the individual's own retirement check. Take Helen and Bill, for example, both over 65. If Helen receives \$400 a month from social security but Bill's retirement check is only \$180, then he is eligible for \$20 a month on Helen's record because his amount is *less than one-half* of hers. If Helen receives \$400 but Bill is not insured, then he could receive the full \$200 spouse's benefit on her record.

(NOTE: If a spouse receives a social security check as a dependent or survivor *and* also gets a pension based on his or her work in public employment *not* covered by social security, the social security check may be reduced by the amount of the pension. Since the offset does not apply if the public employment *is* covered by social security, this is another good reason for obtaining or retaining coverage.)

**For more information**

If you answered "no" to most of the above questions or if you weren't sure, you should seriously consider keeping your social security coverage. Each dollar you contribute buys valuable protection for you and your family.

If you have questions about your social security *coverage*, contact your State social security administrator. If you want more information about social security *benefits* or Medicare, get in touch with the nearest social security office. The people there will be glad to help you.

U.S. Department of  
Health, Education, and Welfare  
Social Security Administration  
HEW Publication No. (SSA) 78-10065  
June 1978

☆ U.S. GOVERNMENT PRINTING OFFICE: 1978:720-441/107

Thinking  
about  
retiring?

### Thinking about retiring?

If you have started thinking about retiring, chances are some of your questions have to do with social security.

This leaflet answers many of the questions we have received about retirement and social security. We hope it helps make your retirement planning a little easier.

Before you can get retirement checks, you must have credit for a certain amount of work covered by social security. The exact amount depends on your age. You earn credit in  $\frac{1}{4}$  year units called quarters of coverage. The quarters need not be consecutive. The following table shows in years how much credit is needed for retirement benefits.

#### Work credit for retirement benefits

If you reach 62 in	Years you need
1975	6
1976	6 $\frac{1}{4}$
1977	6 $\frac{1}{2}$
1978	6 $\frac{3}{4}$
1979	7
1981	7 $\frac{1}{2}$
1983	8
1987	9
1991 or later	10

### Checks for your family

When you retire, checks can be paid to certain members of your family. Monthly checks can go to your unmarried children under 18, or 22 if full-time students; or 18 or over who were severely disabled before 22 and who continue to be disabled; your wife or husband 62 or over; and your wife under 62 if she's caring for your child under 18 (or disabled) who's getting checks on your record.

### When should I retire?

It's difficult to give a single answer to this question because each person's situation is different. Social security retirement benefits can be paid as early as age 62. But, if your benefits start before 65, the amount of your checks will be reduced to take account of the longer period you will be getting them.

The amount of the reduction depends on the number of months you receive benefits before you become 65. The reduction amounts to 20 percent at 62; 13  $\frac{1}{3}$  percent at 63; and 6  $\frac{2}{3}$  percent at 64.

There may be other factors involved in your decision about retiring. A company pension for instance, would influence your decision. So would your ability to continue working and your own financial situation, among others. The important thing is that it is your choice.

We can't answer this question for you; it's up to you.

There is one thing we can say for sure. If you haven't applied before, be sure to apply 2 or 3 months before you reach 65 so that you will have full Medicare protection the month you reach 65. If you wait until the month you are 65 or later, your Medicare medical insurance coverage will be delayed at least one month.

This is important because many commercial and non-profit health insurance plans adjust their coverage when a person reaches 65 to take account of Medicare coverage. You may want to get in touch with your insurance agent or the office where you pay health insurance premiums to discuss your health insurance needs in relation to Medicare

protection. This is particularly important if you have dependents who are covered under your present policy. Be sure, however, not to cancel any health insurance you now have for your own protection until the month your Medicare coverage begins.

Once you decide when you will retire, remember to apply for your social security retirement checks 2 or 3 months before you plan to stop working. This way, your benefits will be ready to start when your income from work stops.

There is another factor to consider. If you work past 65, your monthly benefit will be increased by 1 percent for each year (1/12 percent for each month) that you don't get a benefit because of your work. For people who reach 65 in 1982 or later, the credit will be 3 percent for each year ( $\frac{1}{4}$  percent for each month).

### How can I apply?

There are two ways to apply and the way you choose is strictly up to you. You can apply in person or you can do it over the telephone. Many people find it more convenient to use the phone so they don't have to travel to the office.

Once you've been interviewed by phone, the rest can be done by mail.

### What documents do I need?

First, you need your social security card, or a record of the number.

Next, you need proof of your date of birth. We prefer that you submit an official record of your birth or baptism recorded early in life. If this is not possible, submit the best evidence you have available. The best is often the oldest. If you're not sure what is best, just call any social security office. The people there

can tell you what kind of documents are acceptable.

Other records that might be acceptable include school, church, State or Federal census, insurance policies, marriage, passports, employment, military service, children's birth certificates, union, immigration, and naturalization. This is not an exclusive list and there are other records which may prove acceptable.

We would like you to bring in your latest W-2 (Wage and Tax Statement) form, or, if you're self-employed, a copy of your latest self-employment tax return since the most recent reports may not yet be in our records. We need these so that you'll get the highest possible benefit as early as possible.

If your husband or wife is also going to apply for benefits, he or she will need pretty much the same documents. It would also be a good idea to have your marriage certificate available, although this is not always needed. If either of you were married before, we will need information about the duration of the previous marriages.

If you have eligible unmarried children, you should bring their birth certificates along, together with a record of the social security numbers if available.

In some situations, other documents may be needed, but those listed here will be enough in most cases.

### How much will I get?

We really cannot answer this question until we check your social security record, which shows all of your earnings covered by social security.

When you apply, we will figure your exact benefit rate. Your rate will depend on the amount of earnings reported for you. The higher your earnings over the years, the closer your benefit rate will be to the larger figure mentioned below.

But right now, benefits payable to a retired worker who reaches 65 this year range from \$121.80 to \$489.70 a month. The range for a worker who reaches 62 this year is from \$97.50 to \$377.70 a month.

If you have eligible dependents, and you are 65, the range for a family is from \$182.80 to \$856.60 a month. If you're 62 this year, the range is from \$158.50 to \$731.70 a month.

Once you are on the social security benefit rolls, your checks will increase automatically to keep pace with increases in the cost of living. Each year, living costs are compared to those of the previous year. If the cost of living has increased by 3 percent or more from one year to the next, benefit rates will be increased by the same percentage the following July.

### When will my checks start?

If you apply 2 or 3 months before your retirement month, your checks should start the month you retire. If you apply closer to that month or after, your checks will start 6 to 8 weeks after you apply and we have all the required supporting evidence.

### What if I return to work?

Anyone can work after they become eligible for social security checks. But, the real question being asked is: How much can I earn and still get checks? The answer to this question depends on your age.

*If you are 65 or older*—If you are 65 or older in 1978, you can earn \$4,000 this year and receive all benefits due you for the year. This annual exempt amount will increase to \$4,500 for 1979; \$5,000 for 1980; \$5,500 for 1981; and \$6,000 for 1982. After that, it will increase automatically to keep pace with increases in average covered wages.

*If you are under 65*—If you are under 65 in 1978, you can earn \$3,240 this year and receive all benefits due you for the year. This annual exempt amount will increase automatically in future years to keep pace with increases in annual covered wages.

If your earnings exceed the annual exempt amount, \$1 in benefits will be withheld for each \$2 of earnings above the exempt amount.

There is a special rule that applies to people only in the year they retire. Under this rule, even though earnings exceed the annual exempt amount, a benefit can be paid for any month the person's wages do not exceed the monthly limit and the person does not perform substantial services in self-employment. The 1978 monthly limit is \$334 for people 65 or over and \$270 for people under 65. (For information about substantial services, ask for a copy of the leaflet *If you work after you retire* at any social security office.)

### What must I report after my checks start?

You must report any event that might have an effect on your benefit checks. When your claim is approved, you'll receive a "certificate of award" and a copy of the booklet *Your rights and responsibilities—retirement and survivors benefits*.

This booklet lists the events you should report to social security. It tells you how to report them and also contains information you should know about your social security checks.

It would be a good idea to look the booklet over when you get it so you have a clear idea of what your responsibilities are. Keep it where you can find it easily and refer to it if you have a question about what to do. If you don't find the answer, call your social security office right away. The people there will be glad to answer your questions.

And, if you ever have a question about social security, you can get the answer at your social security office. The people there will be glad to help you.

U.S. Department of  
Health, Education, and Welfare  
Social Security Administration  
HEW Publication No. (SSA) 78-10055  
June 1978

☆ U.S. GOVERNMENT PRINTING OFFICE 1978:730-641/78

Thinking  
about  
retiring?

### Thinking about retiring?

If you have started thinking about retiring, chances are some of your questions have to do with social security.

This leaflet answers many of the questions we have received about retirement and social security. We hope it helps make your retirement planning a little easier.

Before you can get retirement checks, you must have credit for a certain amount of work covered by social security. The exact amount depends on your age. You earn credit in 1/4 year units called quarters of coverage. The quarters need not be consecutive. The following table shows in years how much credit is needed for retirement benefits.

#### Work credit for retirement benefits

If you reach 62 in	Years you need
1975	6
1976	6 1/4
1977	6 1/2
1978	6 3/4
1979	7
1981	7 1/2
1983	8
1987	9
1991 or later	10

### Checks for your family

When you retire, checks can be paid to certain members of your family. Monthly checks can go to your unmarried children under 18, or 22 if full-time students; or 18 or over who were severely disabled before 22 and who continue to be disabled; your wife or husband 62 or over; and your wife under 62 if she's caring for your child under 18 (or disabled) who's getting checks on your record.

### When should I retire?

It's difficult to give a single answer to this question because each person's situation is different. Social security retirement benefits can be paid as early as age 62. But, if your benefits start before 65, the amount of your checks will be reduced to take account of the longer period you will be getting them.

The amount of the reduction depends on the number of months you receive benefits before you become 65. The reduction amounts to 20 percent at 62; 13 1/3 percent at 63; and 6 2/3 percent at 64.

There may be other factors involved in your decision about retiring. A company pension for instance, would influence your decision. So would your ability to continue working and your own financial situation, among others. The important thing is that it is your choice.

We can't answer this question for you; it's up to you.

There is one thing we can say for sure. If you haven't applied before, be sure to apply 2 or 3 months before you reach 65 so that you will have full Medicare protection the month you reach 65. If you wait until the month you are 65 or later, your Medicare medical insurance coverage will be delayed at least one month.

This is important because many commercial and non-profit health insurance plans adjust their coverage when a person reaches 65 to take account of Medicare coverage. You may want to get in touch with your insurance agent or the office where you pay health insurance premiums to discuss your health insurance needs in relation to Medicare

protection. This is particularly important if you have dependents who are covered under your present policy. Be sure, however, not to cancel any health insurance you now have for your own protection until the month your Medicare coverage begins.

Once you decide when you will retire, remember to apply for your social security retirement checks 2 or 3 months before you plan to stop working. This way, your benefits will be ready to start when your income from work stops.

There is another factor to consider. If you work past 65, your monthly benefit will be increased by 1 percent for each year (1/12 percent for each month) that you don't get a benefit because of your work. For people who reach 65 in 1982 or later, the credit will be 3 percent for each year (3/4 percent for each month).

### How can I apply?

There are two ways to apply and the way you choose is strictly up to you. You can apply in person or you can do it over the telephone. Many people find it more convenient to use the phone so they don't have to travel to the office.

Once you've been interviewed by phone, the rest can be done by mail.

### What documents do I need?

First, you need your social security card, or a record of the number.

Next, you need proof of your date of birth. We prefer that you submit an official record of your birth or baptism recorded early in life. If this is not possible, submit the best evidence you have available. The best is often the oldest. If you're not sure what is best, just call any social security office. The people there

can tell you what kind of documents are acceptable.

Other records that might be acceptable include school, church, State or Federal census, insurance policies, marriage, passports, employment, military service, children's birth certificates, union, immigration, and naturalization. This is not an exclusive list and there are other records which may prove acceptable.

We would like you to bring in your latest W-2 (Wage and Tax Statement) form, or, if you're self-employed, a copy of your latest self-employment tax return since the most recent reports may not yet be in our records. We need these so that you'll get the highest possible benefit as early as possible.

If your husband or wife is also going to apply for benefits, he or she will need pretty much the same documents. It would also be a good idea to have your marriage certificate available, although this is not always needed. If either of you were married before, we will need information about the duration of the previous marriages.

If you have eligible unmarried children, you should bring their birth certificates along, together with a record of the social security numbers if available.

In some situations, other documents may be needed, but those listed here will be enough in most cases.

### **How much will I get?**

We really cannot answer this question until we check your social security record, which shows all of your earnings covered by social security.

When you apply, we will figure your exact benefit rate. Your rate will depend on the amount of earnings reported for you. The higher your earnings over the years, the closer your benefit rate will be to the larger figure mentioned below.

But right now, benefits payable to a retired worker who reaches 65 this year range from \$121.80 to \$489.70 a month. The range for a worker who reaches 62 this year is from \$97.50 to \$377.70 a month.

If you have eligible dependents, and you are 65, the range for a family is from \$182.80 to \$856.60 a month. If you're 62 this year, the range is from \$158.50 to \$731.70 a month.

Once you are on the social security benefit rolls, your checks will increase automatically to keep pace with increases in the cost of living. Each year, living costs are compared to those of the previous year. If the cost of living has increased by 3 percent or more from one year to the next, benefit rates will be increased by the same percentage the following July.

### **When will my checks start?**

If you apply 2 or 3 months before your retirement month, your checks should start the month you retire. If you apply closer to that month or after, your checks will start 6 to 8 weeks after you apply and we have all the required supporting evidence.

### **What if I return to work?**

Anyone can work after they become eligible for social security checks. But, the real question being asked is: How much can I earn and still get checks? The answer to this question depends on your age.

*If you are 65 or older*—If you are 65 or older in 1978, you can earn \$4,000 this year and receive all benefits due you for the year. This annual exempt amount will increase to \$4,500 for 1979; \$5,000 for 1980; \$5,500 for 1981; and \$6,000 for 1982. After that, it will increase automatically to keep pace with increases in average covered wages.

*If you are under 65*—If you are under 65 in 1978, you can earn \$3,240 this year and receive all benefits due you for the year. This annual exempt amount will increase automatically in future years to keep pace with increases in annual covered wages.

If your earnings exceed the annual exempt amount, \$1 in benefits will be withheld for each \$2 of earnings above the exempt amount.

There is a special rule that applies to people only in the year they retire. Under this rule, even though earnings exceed the annual exempt amount, a benefit can be paid for any month the person's wages do not exceed the monthly limit and the person does not perform substantial services in self-employment. The 1978 monthly limit is \$334 for people 65 or over and \$270 for people under 65. (For information about substantial services, ask for a copy of the leaflet *If you work after you retire* at any social security office.)

### **What must I report after my checks start?**

You must report any event that might have an effect on your benefit checks. When your claim is approved, you'll receive a "certificate of award" and a copy of the booklet *Your rights and responsibilities—retirement and survivors benefits*.

This booklet lists the events you should report to social security. It tells you how to report them and also contains information you should know about your social security checks.

It would be a good idea to look the booklet over when you get it so you have a clear idea of what your responsibilities are. Keep it where you can find it easily and refer to it if you have a question about what to do. If you don't find the answer, call your social security office right away. The people there will be glad to answer your questions.

And, if you ever have a question about social security, you can get the answer at your social security office. The people there will be glad to help you.

U.S. Department of  
Health, Education, and Welfare  
Social Security Administration  
HEW Publication No. (SSA) 78-10055  
June 1978

☆ U.S. GOVERNMENT PRINTING OFFICE 1979:720-641/78

Higher  
social  
security  
payments

### Higher social security payments

Social security monthly benefits will increase 6.5 percent starting with the check due in early July. This is the fourth automatic cost-of-living increase. The table below gives examples of some of the higher payments.

The average monthly check for a retired worker without dependents will rise from \$239 to \$254 a month and for a couple from \$407 to \$433. For a disabled worker, the average check increases from \$268 to \$285. People who get benefits will receive the increase automatically. They don't have to take any action themselves.

#### Examples of monthly social security payments (effective June 1978)

Benefits can be paid to a:	Average yearly earnings after 1950 covered by social security						
	\$923 or less	\$3,000	\$4,000	\$5,000	\$6,000	\$8,000	\$10,000*
▶ Retired worker at 65	121.80	251.80	296.20	343.50	388.20	462.60	534.70
▶ Worker under 65 and disabled	121.80	251.80	296.20	343.50	388.20	482.60	534.70
▶ Retired worker at 62	97.50	201.50	237.00	274.80	310.60	386.10	427.80
▶ Wife or husband at 65	60.90	125.90	148.10	171.80	194.10	241.30	267.40
▶ Wife or husband at 62	45.70	94.50	111.10	128.90	145.60	181.00	200.60
▶ Wife under 65 with one child in her care	61.00	133.20	210.00	290.40	324.00	362.00	401.00
▶ Widow or widower at 65 if worker never received reduced benefits	121.80	251.80	296.20	343.50	388.20	482.60	534.70
▶ Widow or widower at 60 if sole survivor	87.10	180.10	211.80	245.70	277.60	345.10	382.40
▶ Widow or widower at 50 and disabled if sole survivor	61.00	126.00	148.20	171.90	194.10	241.40	267.50
▶ Widow or widower with one child in care	182.80	377.80	444.40	515.40	582.40	724.00	802.20
Maximum family payment	182.70	384.90	506.20	633.80	712.10	844.50	935.70

\* Maximum earnings covered by social security were lower in past years and must be included in figuring your average earnings. This average determines your payment amount. Because of this,

amounts shown in the last column generally won't be payable until future years. The maximum retirement benefit generally payable to a worker who is 65 in 1978 is \$489.70.

## **Higher SSI payments**

Supplemental security income payments (SSI) will increase by 6.5 percent beginning with the check due in July. This is the fourth automatic cost-of-living increase.

The new SSI payment amounts will be \$189.40 for an individual and \$284.10 for a couple.

Many States make payments to supplement these Federal SSI amounts. The people at your social security office can tell you if your State makes these additional payments.

**U.S. Department of  
Health, Education, and Welfare  
Social Security Administration  
HEW Publication No. (SSA) 78-10124  
May 1978**

☆ U.S. GOVERNMENT PRINTING OFFICE: 1978 O-441-001

Your  
social security  
rights and  
responsibilities

Disability benefits

## **Your social security rights and responsibilities**

This booklet tells about your social security checks. It explains how you—or someone for you—should notify the Social Security Administration when certain things happen that may affect your social security checks.

This booklet is only for people receiving social security benefits because they are disabled:

- ▶ *Disabled workers*, who receive benefits based on their own earnings.
- ▶ *Disabled widows (including surviving divorced wives) and disabled widowers*, who receive benefits on the earnings of their deceased husband or wife.
- ▶ *Adults who became disabled in childhood (before reaching 22)*, who receive benefits based on the earnings of their father or mother.

The following list shows when you, or someone acting for you, should notify us. Take a few minutes to read over the list. Then, if one or more of the items may affect you, turn to the page indicated for more detailed information. Keep this booklet in a handy place and refer to it from time to time so that you don't overlook anything.

- 1 You change your mailing address (Page 11).**
- 2 Your condition significantly improves (Page 12).**
- 3 You go to work (Page 12).**
- 4 You go outside the United States for 30 days or more (or into certain countries) (Page 13).**
- 5 You apply for or there is a change in the amount of your workers' compensation benefits (disabled workers only) (Page 14).**
- 6 You marry (except disabled men workers) (Page 14).**
- 7 A child in your care is adopted (Page 15).**

Someone should report for you if:

- 8 You have become unable to manage your own funds (Page 16).**
- 9 You die (Page 16).**

If you want more information than this booklet gives on a particular point or need help in making a report, the people at any social security office will be glad to help you.

### **Supplemental security income**

Some people with limited income and resources qualify for both social security disability benefits and supplemental security income (SSI) payments. If you are one of them you should also read the booklet.

#### *What you have to know about SSI*

(formerly *Important information about your supplemental security income payments*). If you don't have a copy of the booklet, ask any social security office to give you one.

If you are not now receiving SSI payments and think you may be eligible (or would like more information), contact any social security office. The people there will be glad to tell you more about the program.

### **Your social security checks**

Social security benefits are paid by U.S. Government checks. Your Certificate of Award explains when your checks will begin and in what amount. Because the law requires a 5-month waiting period, payments to a disabled worker and family or to a disabled widow or widower generally cannot begin until the 6th full month of disability.

If you became disabled more than 6 months before you applied, back benefits may be payable, but not before the 6th full month of disability. Back payments may be made for up to 12 months before you applied.

The first check you get may include payment for more than one month. From then on, checks for a particular month are issued early in the following month. For example, a check dated May 3 would normally be your benefit for the month of April; a check dated June 3 would be your benefit for the month of May; etc.

Your checks should arrive in the mail about the same day each month. Sometimes, although not often, something may happen in the mail delivery or elsewhere to cause a delay. If your check isn't delivered on the usual day, look for it to arrive by the 6th of the month. If it still hasn't come by the 6th, get in touch with any social security office. The people there will help you find out what happened and see that you get any check due you as soon as possible.

### **Cashing checks**

It's a good idea to wait until you are at the bank or with the person who will cash your check before endorsing it. If you endorse a check and *then* lose it, the person who finds it could cash it.

### **Direct deposit of checks**

You can have your checks deposited in a checking or savings account in a bank, savings bank, savings and loan association or similar institution, or Federal or State chartered credit union. If you don't have an account now, you can open one with a financial organization.

Direct deposit of checks has several advantages. For example:

- ▶ You don't have to stand in line to cash or deposit your check.
- ▶ If you are away from home, your money is available in your account instead of sitting in your mailbox.
- ▶ You don't have any problem cashing your check because it goes directly into your account.
- ▶ You don't have to worry about losing your check or having it stolen.

If you want to arrange for direct deposit of your checks, contact the financial organization of your choice and ask for a direct deposit form SF-1199. Completion of the form only authorizes deposits into your account. It does not authorize withdrawals from your account.

If you want more information about direct deposit, get in touch with your financial organization or contact any social security office.

### **The amount of your check**

In future years, the amount of your check will increase automatically to keep pace with changes in the cost of living. Whenever the consumer price index goes up 3 percent or more from one year to the next, the increase will be included in the check the following July unless a general benefit increase is enacted or becomes effective during the prior year. This is to make sure that the value of your social security check keeps up to date with living costs.

### **Returning benefit checks not due**

If you get a check which you know isn't due you, return it to the U.S. Treasury Department, Division of Disbursement, at the address shown on the envelope in which the check was delivered. Enclose a note telling why you're sending the check back.

### **If you lose your check**

If your check is lost or stolen, get in touch with your social security office immediately and explain what happened. Your check can be replaced if it is destroyed, stolen, or lost. It takes time to do this, though, so it is in your interest to be careful with your checks.

### **Vocational rehabilitation referral**

When you applied for social security disability benefits, your name and information from your file were sent, as required by law, to the State vocational rehabilitation agency. People from that agency may get in touch with you about services they can provide to help you regain your ability to work.

### **When you are no longer disabled**

*Disabled workers and adults disabled in childhood*—You were found disabled and eligible for social security benefits because you have a condition that prevents you from doing substantial gainful work.

Your eligibility ends if your condition improves so that you are capable of doing substantial gainful work. Your eligibility also ends if you return to substantial gainful work. If you return to work in spite of a severe impairment, your eligibility may continue until you have completed a trial work period as described on page 17 .

Did you receive benefits as an adult disabled in childhood and then recover from your disability before age 22? If you are still under 22, unmarried, and are attending school full time, you may be eligible for students' benefits. The people at your social security office will be glad to tell you what evidence is needed to establish your full-time school attendance.

*Disabled widows and widowers*—You were found disabled because you have an impairment severe enough to meet the medical requirements of the law for this type of benefit.

Your eligibility ends if your impairment improves so that it no longer is severe enough to meet the medical requirements or you are performing substantial gainful work.

**If you again become disabled**

If your benefits as a *disabled worker* were ended and you become disabled again before you are 65, you should notify your social security office as soon as the new disability begins. Under some circumstances you can receive disability benefits *beginning with the first full month you are disabled*. This is possible if:

- ▶ The new disability has lasted or can be expected to last a continuous period of at least 12 months or to result in death;
- ▶ The new disability begins within 5 years after the month in which the previous period of disability or entitlement to disability benefits ended; and
- ▶ You still meet work and other eligibility requirements for disability benefits.

*If you become re-entitled on this basis, however, you are not entitled to a trial work period of the kind described on page 17.*

*If you receive benefits as a disabled widow or widower or as an adult disabled before age 22 and the benefits stop because you are no longer disabled, it may be possible to have them reinstated provided you again become disabled within 7 years after your previous entitlement to benefits ended and you still meet the other eligibility requirements. For information about whether your disability benefits can be reinstated, get in touch with your social security office.*

### **When you get older**

If you are receiving checks as a disabled worker, your disability benefits will automatically be changed to retirement benefits when you reach 65. We will send you other instructions then to take the place of the instructions in this booklet.

If you are getting checks as a disabled widow or widower, you will get new instructions when you reach 65 because your rights and responsibilities will be somewhat different than they are now.

### **Your Medicare protection**

You will have protection under Medicare after you have been entitled to disability benefits for 2 consecutive years. Shortly before your protection starts, we will send you information about Medicare and explain how you can have the full protection it provides.

### **If a social security representative visits you**

We may, from time to time, get in touch with you to give or get information. Usually we do this by mail. Sometimes for your convenience our representative may call at your home.

Anyone from social security will be glad to show you identification before discussing your social security. A social security employee will never ask you for money to have something done because helping you with your social security business is our job. If you ever have any doubts about someone who says he or she is from social security, call the social security office and ask if they sent someone to see you.

### **How to report**

You can make your reports by mail, telephone, or in person, whichever you prefer. It's usually easier to telephone your report. If you mail your report, the pre-addressed "Reporting Card" given you can be used. Replacement cards will be sent to you or you may obtain them from any social security office.

On any report you make, be especially careful to include all these necessary details:

- ▶ Name of person or persons about whom report is made.
- ▶ What is being reported.
- ▶ Date it happened.
- ▶ Your signature and address.
- ▶ The correct claim number under which the social security benefits are payable. It is a nine-digit number (000 00 0000) followed by a letter H, A, C, HC, or W. It is shown on all letters sent to you about the benefits you are receiving.

If you want help in making a report or if you have a question, get in touch with any social security office.

## **What to report**

The remainder of this booklet gives detailed information about when and what you're to report to us. It's important to report promptly to protect your own interests.

If you fail to report something or if you make a false statement about it, you can be penalized by a fine or imprisonment. You may also lose some of your checks if you don't report to us when a report is due.

## **1 Change of mailing address**

Even if your payments are being sent direct<sup>ly</sup> to your financial organization for deposit, let us know right away of any change in your mailing address. If you receive your checks directly, telling us about your new address will reduce the chance that it might be delayed. If you have elected payment by direct deposit, telling us about your new address will assure that you get any correspondence we send you. You may call or write social security, but if you write, please be sure to type or print your complete new address carefully, including your ZIP code number. Also, tell us your social security claim number, your old address, and the name of all those in your family who should get checks or other information at the new address. We'll change the records as soon as possible.

You also should tell the post office of your change of address and ask them to forward your mail. That way, if we haven't been able to make the address change before your next check is mailed, it will be forwarded to you by the post office.

## **2 Your condition improves**

You should notify us if your condition improves. You may then be asked to discuss your condition with a representative of your social security office. In addition, there may be times when we will want to discuss your condition with you, even though you made no report. If a new medical report on your condition is needed, you may be asked to have a physician examine you.

If your condition has improved medically to the extent that you are no longer disabled within the meaning of the law, benefits will still be paid to you for a period of 3 months. Thus, if your disability ended in July, you would be paid for July, August, and September. Your last check would be the one for September.

Improvement in your condition does not necessarily mean a benefit will end, unless it is established that the medical improvement is sufficient to permit your return to substantial work.

## **3 You go to work**

You should notify us if you take a job or become self-employed while you are still disabled, *no matter how little you earn.*

Generally, people who return to work *before* there has been medical improvement in their conditions get a *trial work period*. During this period they may work and still get disability checks. (A special provision applies to people 55 and over who are disabled by blindness. They should ask at the social security office about this provision.)

*Disabled widows and widowers do not get a trial work period. Also, workers whose disability benefits ended because they recovered or returned to work, but who again become disabled and entitled to social security benefits within 5 years, may not get a trial work period.*

Even if you are not eligible for a trial work period, you will be paid benefits for an adjustment period of 3 months should you recover or return to substantial gainful work. (See "What is substantial gainful work?" on page 18.) "Trial work period" is explained on page 17.

#### **4 If you go outside the United States**

Notify us if you (or someone for whom you get checks) decide to go to any of the following countries: Albania, People's Republic of China, Cuba, East Germany and East Berlin, North Korea, Vietnam, and Khmer Republic (Cambodia).

Also notify us if you (or someone for whom you receive social security benefits) decide to go to any other country outside the United States for a stay of 30 or more consecutive days.

In your notice give the name of the country to which you or the other person is going and the date you expect to leave the U.S.

Special provisions apply to the payment of social security benefits to people who are outside the U.S. When you report you're going outside the U.S., you'll get special reporting instructions. You'll also be told how to arrange for getting your checks while you are abroad.

If you're thinking about going abroad, ask at any social security office for a copy of the booklet, *Your social security check while you're outside the United States*. This booklet explains how your checks are affected when you leave the country.

**5 You apply for or there is a change in the amount of your workers' compensation benefits**

If a disabled worker receives workers' compensation benefits, the amount of social security benefits payable to the worker and family may be reduced.

If you are a disabled worker, you should notify us if, before age 62 you:

- ▶ Apply for workers' compensation benefits;
- ▶ Receive a lump-sum workers' compensation settlement;
- ▶ Begin to receive workers' compensation benefits; or
- ▶ Have a change in the amount of your workers' compensation benefits or such payments stop.

**6 Marriage**

If an *adult disabled in childhood* marries, or if a person receiving benefits as the *disabled widow, disabled surviving divorced wife, or disabled widower* of the worker remarries, we should be notified. (If a woman who gets checks as a retired or disabled worker marries, she should let us know so we can show her new name on her checks.)

In some cases, social security checks stop after marriage. In others, the amount may be changed because of marriage. This depends on what kind of benefits you get and sometimes on whether the person you marry gets checks.

If your checks as a widow, widower, or divorced wife stop because you remarry, they may be started again if your remarriage ends. For help in getting them started, go to any social security office.

If an adult child's checks are stopped because of marriage, they cannot be started again unless the marriage is void.

The following chart shows how marriage will affect your type of benefit:

Type of benefit you now receive	If you marry, benefits will . . .
Disabled worker (benefits are based on his or her own earnings)	Continue unchanged
Disabled widow, or widower under age 60	End unless your husband or wife is getting social security benefits as a widower, parent, adult disabled in childhood, or as a child under certain limited conditions
Disabled widow, or widower age 60 or over	Continue (though in some cases in a reduced amount)
Disabled surviving divorced wife	End unless your husband is getting social security benefits as a widower, parent, adult disabled in childhood, or as a child under certain limited conditions
Adult disabled in childhood	End unless you marry a social security beneficiary other than a child under certain limited conditions

## 7 Adoption

If you get checks for a child, notify us if he or she is adopted so our record will show the child's new name. In your report, show the date of the adoption decree and the adopting parent's name.

## 8 Person not able to manage own funds

Not everyone who gets social security checks can manage his or her own funds. A parent, or some other person, usually gets checks for a child.

Sometimes an older person becomes unable to manage his or her own funds. When this happens, the person who takes care of the older person should let us know. Then we can arrange to send the checks to a relative or other person who can handle the funds. We call this person a "representative payee."

*Duties of a representative payee*—A representative payee accepts the responsibility for receiving and using social security benefits for another person. If you're a representative payee, it's your job to:

- ▶ See that the checks are used in the person's best interest and, when we ask, tell us how they were used. You'll get a special booklet that tells what you should do. It's called *Your duties as a representative payee*.
- ▶ Notify us whenever something on the list on page 3 happens.
- ▶ Notify us if the person leaves your care or custody, has a change of address, or if you no longer wish to be the payee.

## 9 Death

When a beneficiary dies, the check for the month in which death occurs should be returned to the sender. For example, if the person dies in July, even on the last day, the check dated August 3 should be returned. However, if the check is issued jointly to a husband and wife, the survivor should get in touch with any social security office about cashing the check.

If the person who died worked under social security, benefits may be paid to his or her survivors. If his wife (or her husband) and children were getting checks before he or she died, they probably won't have to apply again. Their checks will continue. If they weren't getting checks, someone should contact the nearest social security office to find out what benefits may be payable.

### **Trial work period**

If you are *eligible* for a trial work period (see page 12), you may test your ability to resume substantial work for as many as 9 months should you try to return to work *while you are still disabled*. You will continue to receive your disability checks during this period no matter how high your earnings are. Remember, however, that *you must notify us whenever you begin working*.

The trial work period ends after you have done some work in 9 different months or when you recover from your disability, whichever is earlier.

Since the trial work provision is intended to give a disabled person the opportunity to test his or her ability to work and hold a job, minor work activity in the trial work period may be disregarded. As a general rule, when you are working in a trial work period, only months in which you are employed and earn more than \$50 will count as a month of trial work. If you are self-employed, only months in which your net earnings are more than \$50 or you devote more than 15 hours to the business will count as months of trial work. The 9 different work months may be consecutive, or they may be separated by months or even years in which you do not work at all.

At the end of the trial work period, your case is reviewed to see whether you are able to engage in substantial gainful work. If you are, your benefits will continue for 3 additional months before being stopped.

When you report that you have returned to work, your benefits may be discontinued if the evidence shows you have recovered or you may be asked to submit evidence that you are still disabled. *If you recover from your disabling condition during a 9-month trial work period, the trial work period ends with the month of recovery; this may be as early as the first month of your return to work.* Benefits stop after a 3-month adjustment period—the month of recovery and 2 additional months.

On the other hand, if you do *not* recover during the trial work period, we will review your trial work. If we find that you are still unable to do substantial gainful work, your disability benefits will continue.

#### **What is substantial gainful work?**

If you return to work while still disabled, a decision about continuing or ending your benefits depends on whether your work shows that you are able to engage in substantial gainful work. This determination is based on whether the work involves significant duties and is of substantial value.

*If you work as an employee*—The amount of your earnings is important in determining whether you can perform substantial gainful work. The general rule is that if your earnings average more than \$200 a month (gross pay before payroll deductions), you are performing substantial gainful work. Special rules apply to people disabled by blindness. They should ask about this provision at any social security office.

If your earnings average \$200 or less a month, you may not be doing substantial gainful work. However, if your work is about the same in amount and quality as that being done for a living by workers in your area who are not disabled, you would be considered to be doing substantial gainful work. In making this decision, consideration is given to your hours, duties, and job performance.

Sometimes a disabled worker receives a "subsidy" in addition to actual earnings. *This subsidy is not counted as earnings in applying the above test.* Thus, if your pay includes a subsidy in addition to the value of your services, the subsidy is not considered in deciding whether your work is substantial and gainful. In such cases, consideration is given not only to what you are paid, but also to your skills, your experience, the degree of responsibility you have, the hours you work, and the amount you produce. Often people working in "sheltered workshops" get a subsidy in addition to the pay they get for working. A sheltered workshop is usually a non-profit organization or institution which provides paid work and rehabilitation services for disabled persons who cannot work in non-sheltered jobs.

*If you are self-employed*—Your business income may not be the best measure of whether you are doing substantial gainful work. This is because business income may depend on many factors other than your own work, such as the economic situation and services of other people.

In such cases, more consideration will be given to the kind and value of your work, including management, than to the amount of your income.

For more detailed information about how working might affect your benefits, get in touch with your social security office.

#### **If a dependent works**

If one of your dependents who is under 65 and not disabled works and earns more than \$3,240 in 1978, some of the dependent's benefits may be withheld. In general, \$1 in benefits is withheld for each \$2 over \$3,240. (The 1977 annual exempt amount was \$3,000.) The earnings limitation for people 65 or older is \$4,000 for 1978. The \$1 for \$2 reduction applies above that amount.

#### **Vocational rehabilitation services**

The social security disability program encourages people to return to gainful employment whenever possible. Many disabled people have been able to return to work after receiving rehabilitation assistance, including medical services and aids, vocational counseling, training, and job placement. The vocational rehabilitation agency in your State provides these services.

If you are offered rehabilitation services by your State vocational rehabilitation agency and you refuse the services without good cause, your monthly social security disability benefits must be withheld.

The kinds of services that are provided include:

- ▶ *Vocational and medical diagnosis*—so you can better understand your problems.
- ▶ *Advice and counsel*—by trained rehabilitation counselors to help you pick a job you could do.
- ▶ *Medical, surgical, or hospital services*—to remove or reduce your handicap.
- ▶ *Aids*—such as braces, artificial limbs, or hearing aids.
- ▶ *Training*—you may need it to prepare for a job.
- ▶ *Placement*—should you need help in finding the right job when you are ready for work.

If your State vocational rehabilitation agency does not get in touch with you, you may want to get in touch with it to find out what services the agency might be able to offer.

Even if some time passes before you think you're ready for rehabilitation services, feel free to call or write the agency to see what services it can provide. The agency's address may be listed with other State offices in your telephone book or you can ask for the address at your social security office.

Your disability benefits will continue while you receive rehabilitation services until your condition improves or you show by working that you can do substantial gainful work.

If you return to work and later have difficulty in continuing, the rehabilitation agency in your State may again be of assistance. If your benefits have been stopped, you should also get in touch with your social security office.

### **If you are not satisfied with the decision on your claim**

A written notice is used to notify you of the decision made on your claim. If you believe the decision is not correct, you have the right to ask that your claim be re-examined. Your request for review must be in writing and filed with any social security office within specified time limits.

- 1 First you may ask that the initial decision be reconsidered. Your request must be made within 60 days from the date you receive the notice of the initial decision.
- 2 If you disagree with the results of that reconsideration, you may next ask for a hearing before an administrative law judge. Your request must be made within 60 days from the date you receive the notice of the reconsidered decision.
- 3 If you disagree with the decision of the administrative law judge, you may then ask for a review of that decision by the Appeals Council. This request must be made within the time limit mentioned in the notice of the hearing decision.
- 4 If you disagree with the Appeals Council decision or denial of review, you may bring a civil action in a Federal court. Your complaint must be filed in the United States district court for the district in which you reside within 60 days of the date we mail you the Appeals Council decision or denial of review.

If you have any questions about the decision on your claim for social security benefits or any other of your rights under the social security law, telephone, write, or visit any social security office. We will be glad to discuss your claim or any other social security matter with you and assist you in any way we can.

#### **Your right to be represented**

You have the right to be represented by an attorney or other person of your choice in any business you might have with us. This does not necessarily mean that you will need a representative. Most people handle their social security business themselves, with the help of the people in the social security office. If you wish to be represented, however, we will be glad to work with your representative just as we would work with you.

There are special regulations concerning who may represent you, what the representative may do, and how much may be charged for services. If you would like more information about these matters or have any other questions about your right to representation, please get in touch with us.

U.S. Department of  
Health, Education, and Welfare  
Social Security Administration  
HEW Publication No. (SSA) 78-10153  
January 1978

© U.S. G.P.O. 1978-260-955/150

**DEPARTMENT OF ADMINISTRATION**

**DIVISION OF RETIREMENT & BENEFITS**

POUCH CR  
JUNEAU, ALASKA 99811

February 14, 1979

The Honorable Bill Ray  
Senator, District C  
Alaska State Legislature  
Pouch V  
Juneau, AK 99811

Dear Senator Ray:

Thank you for offering me the opportunity to comment on the letter you recently received from Ms. B. Charlene Stewart, concerning AS 39.35.360, Earlier Service. Although I cannot agree with Ms. Stewart's suggestion that Sec. 360 should be expanded to permit the crediting of all federal service rendered in Alaska prior to 1961 under the Public Employees' Retirement System (PERS), I do appreciate her concerns and I can understand how she concludes that her suggestion would remedy the situation. I share her concerns, but propose a different remedy; i.e., Sec. 360 should not be applicable to any members joining the PERS after July 1, 1979.

Sec. 360 was originally enacted by the Legislature to be effective January 1, 1961, the same time the PERS was established. However, in its original form Sec. 360 authorized only the crediting of service rendered while an employee of the Territory of Alaska, and required that the employee subsequently work for the State in a covered capacity (making contributions) for a period of five (5) years before such service could be credited. Then, as now, no contributions were required for creditable employment segments prior to statehood. As I understand it, the original purpose of Sec. 360 was to reward those career Territorial/State employees with a retirement benefit for service rendered to the Alaskan government and citizenry prior to the time when a comprehensive PERS existed.

Since that time Sec. 360 has been amended on at least eight (8) different occasions. Those amendments have reduced the period of service which must be rendered to the State to three (3) years, and expanded the eligible employment segments to include service as an elected official with the Territory or political subdivision thereof, service as a peace officer of a participating political subdivision, service with certain political subdivision detention facilities, and specified types of employment with

nine (9) different federal agencies. I repeat, no contributions are required for any of this service prior to 1961.

Each time Sec. 360 has been amended, it appears that the same basic argument is advanced: The affected individuals performed de facto, if not de jure, service for the State and for that reason should have that time credited for retirement purposes. While the law does provide that any PERS retirement benefits shall be offset by any U. S. government pension received for the same period of service, it does not provide the same offset for any pension payable from a political subdivision. Even the U. S. pension offset is of questionable fiscal value to the PERS, since the only source from which we can obtain that information is the affected individual; reporting a federal pension is essentially a matter of good faith.

As Sec. 360 now reads, one can easily appreciate Ms. Stewart's contention that it is unfair to keep expanding the coverage for select groups of persons, without making it available to everyone. Reading that section from the employee's perspective, it easily appears that it has been amended without rhyme or reason. As she notes, it is difficult to appreciate how service as a Civil Aeronautics Administration heavy equipment operator is of any greater value to the State than her service with the Federal Housing Administration. In fact, it is difficult to explain how service in the current eligible categories was of any greater value in the development of Alaska than work as a miner, logger, commercial fisherman, etc., during that period. However, in my opinion the solution to resolving inequities which now exist lays not in adding to the list of selected "elite" groups, thereby merely altering the perspective of some persons, but rather by reexamining validity of allowing any select groups to profit in the future. Aside from the social policy ramifications of crediting all types of federal service prior to statehood under the PERS, we must consider the horrendous costs of such a move to the Alaskan taxpayer.

Without extensive research, I cannot know the true fiscal impact of legislation as suggested by Ms. Stewart, nor can I state the cost to the taxpayer of the various amendments to Sec. 360 made over the years. But I do know that they have been terribly expensive; we need only look to the latest amendment as an example.

As you know, last year the legislature amended Sec. 360 to provide credit to former employees of the Alaska Communications System and former peace officers of the Territory or participating political subdivisions of the Territory. In preparing a fiscal note on those provisions, we estimated that no more than 60 employees out of approximately 21,000 active and retired members would benefit from the amendment. However, to pay the additional benefits which would be due to these fortunate few, our actuary determined that the PERS required contributions in the amount of \$154,000 per year over a 30 year amortization period. The total present day value of the additional benefits thereby provided amounts to \$2,246,850, or an average of \$37,448 per affected employee. Of course, this expense is borne by the taxpayer.

When contemplating issues of expanding creditable service under the PERS, we must remind ourselves of the purpose underlying the creation of the retirement system. When the system was originally established, the legislature provided at AS 39.35.010(a):

The purpose of this chapter is to encourage qualified personnel to enter and remain in the service of the state by establishing a system for the payment of retirement, disability, and death benefits to or on behalf of the employees.

To fulfill this purpose, the PERS must provide competitive inducements to attract qualified employees. However, we cannot endorse system enhancements at the expense of the taxpayer, when no demonstratable need exists in order to fulfill its purpose. Nearly 20 years after statehood, I suspect that little if any need exists to attract former federal employees of the Territorial era by providing more benefits. On the other hand, the crediting of additional federal service from that period works somewhat at cross-purposes to the chapter; it not only costs money, but it actually encourages those employees not to remain in State service, by increasing the amount of service they may apply towards a service retirement.

In light of these considerations, I once more suggest that employees hired on or after July 1, 1979, not be entitled to any service credit under Sec. 360, and that Sec. 360 be expanded no further. While this will not wholly resolve the inequities perceived by Ms. Stewart, it will halt further perpetuation of those perceived inequities, and the increased costs which must be paid by the public.

I thank you again for the opportunity to comment on this matter. Should you have any questions, please do not hesitate to contact me at 465-4460.

Sincerely,



Paul B. Arnoldt  
Director

PBA/BAC/jb

cc: All Members

11th Alaska State Legislature

STATE OF ALASKA  
THE LEGISLATURE

LEGISLATIVE AFFAIRS AGENCY

POUCH Y STATE CAPITOL  
JUNEAU ALASKA 99801  
907-465 3800

MEMORANDUM

February 27, 1979

SUBJECT: SB 25; Summary and Analysis Correction

TO: The Honorable Clem Tillion  
President of the Senate

FROM: Ken Humphreys *J.K.H.*  
Senior Policy Analyst

The summary for SB 25 which was included in the February 16 report of the Legislative Board of Retirement Benefits was in error in that it treated a section of last year's bill. The current version of the bill would not include marine employees in PERS. A corrected summary is attached, and the board's analysis should reflect that the fiscal impact has not yet been determined.

Please contact me if you have questions.

KH:jm  
Attachment

cc: Chairmen of the House and Senate Finance and State Affairs Committees  
Chairman of the Legislative Council

February 16, 1979

Legislative Board of Retirement Benefits analysis and recommendations  
on:

Senate Bill No. 25

As SB 25 is currently drafted, the fiscal impact has not been determined. More detailed fiscal information will be available soon and the board will make a recommendation at that time.

(corrected 2/27/79)

SUMMARY OF SENATE BILL NO. 25

Retirement system affected: PERS

Provides for an election in which the state employees who are currently covered by federal social security may choose whether to continue that coverage, or to continue the same contributions required by social security, opt out and receive an alternative package of benefits provided by the state.

Provides that an occupational disability pension be the greater of 40 percent of the disabled employee's compensation or the accrued retirement benefit.

The alternate package of benefits for affected state employees includes:

- (1) allows the employees of the division of marine transportation who are covered by a maritime union contract to bargain collectively for inclusion in the PERS;
- (2) a 25-and-out provision for PERS employees;
- (3) an additional three-fourths of one percent on the PERS benefit crediting factor for each year of service;
- (4) survivor's and disability insurance; and
- (5) a mandatory deferred compensation program for contributions in excess of deductions.

Fiscal note

ACTUARY STILL WORKING ON  
NEXT WEEK IT

of total employees affected  
how many in APEA -

7/15/80 22415 118/10  
But of them 50%  
11207.5

Summary -

list of

summaries - staff -  
leg.

off people  
APEA

-elect

copies of reports

list of all interested parties ✓

Get copies of all reports ←

How long will testimony take -

1. SOCIAL SECURITY } COMPARISON OF BENEFITS  
2. AIT SYSTEM

3. STATUTES } COMPARISON ✓  
4. 51325 & 1946

5. (1-4) PROS & CONS OF AIT SYSTEM ←

6. EMPLOYEE FEELINGS - QUESTIONNAIRE ✓

7. AFFECTED EMPLOYEES (HOW MANY) WHO REALLY BENEFIT ✓

8. INTERESTED PARTIES - IN FAVOR OR OPPOSITION WITH PROS ✓

9. 1946 - TESTIMONY - PRO & CONS

THE FOLLOWING PAGES WERE TREATED AS  
A UNIT IN THE ORIGINAL FILE.

Chronological history of events culminating in SB 25- State withdrawal from the federal social security system.

- DEC. 1975
- \*1. December 1975 - OPEN LETTER TO EMPLOYEES ASKING IF THEY WANT TO OPT OUT.  
State (Commissioner of the Dept. of Administration) gave notice to the federal government of intention to withdraw. Notice must be given two years in advance.
- \*2. July 30, 1976 William M. Mercer/Consulting Actuaries, submitted a study relative to termination of state from federal social security, to the Dept. of Administration. This study was requested by the then Commissioner, Andy Warwick.
- MARCH, 1977
- \*3. March 17, 1977 - QUESTIONNAIRE  
FIPA REPORT TO PUBLIC EMPLOYEES - WITHDRAWAL  
HB 364 - An act relating to withdrawal of the state from federal social security - was introduced in the House by the House Rules Committee. It was referred to House State Affairs Committee where it died. <sup>LEGISLATIVE</sup> NOT PREVIOUS ~~READY~~ TO DEAL WITH THIS
- \*4. May 2, 1977 HCR 66 - Relating to withdrawal from social security - was introduced in the House and sponsored by Rep. Miller & Rep. Duncan. This resolution requested the Governor to cause the 1975 withdrawal notice to be rescinded as of July 1, 1977 and a new notice be given by December 1, 1977 for the purpose of time to conduct further study on the issue. It was resolved that the Legislative Council conduct a study on all aspects of withdrawal. The study group was to include members of the Council, representatives of each employee bargaining group and the director of the division of retirement. <sup>ALSO</sup> Also requested was an actuarial study of costs and benefits of recommended changes be conducted by an independent actuary

\* SEE ATTACHED FOR FURTHER DETAIL

\* See attached list of members

under direction of the Legislative Council. This resolution was referred to the House State Affairs Committee, passed both houses and became legislative resolve no. 107 (SLA 1977)

5. March 15, 1978 The study group report - Alternates to the Social Security System for employees of the State of Alaska (by Millman & Robertson, Inc.) was submitted to the Legislative Council.
6. June 3, 1978 The result of the above study became HB 946 submitted by the Rules Committee at the request of the Legislative Council. It was referred to House Finance and passed out of Finance on this date as CS for HB 946 (am). It passed the House and died in Senate Labor and Management Committee.
7. January 16, 1979 SB 25 - An act relating to withdrawal from the federal social security system - was introduced in the Senate by Sen. Bill Ray at the request for the Alaska Public Employees Association. It was referred to Senate State Affairs then Finance.

Results of APEA Questionnaire sent out with their report on withdrawal from social security to their members. March 1977

Gen.Govt responses=583 out of 5,187 (11%)

Supervisory responses=165 out of 816 (20%)

		Gen. Govt.	Supervisory
1. Are you in favor of withdrawal?	YES	82%	89%
	NO	16%	8%
	NO OPINION	1%	2%
2. If in favor, should money be used to improve PERS benefits?	YES	71%	78%
	NO	10%	9%
	NO OPINION	18%	12%

List in order of priority

<u>GEN. GOVT. UNIT</u>	<u>SUPERVISORY</u>
1. Increase retirement to 2½% for each year of service.	1.
2. Equal benefits for occupational and non-occupational death & disability	4.
3. Increase death & disability benefits to 50% of monthly earnings.	2.
4. All state employees 20 and out.	3.
5. Extend death and disability benefits to employees who leave state service	5.
6. Death and disability insurance for temporary employees.	6.

<u>GEN. GOVT.</u>	<u>COMMENTS</u>	<u>SUPERVISORY</u>
1.	Want alternatives to putting money in retirement fund.	1. Study to determine wage percentage necessary to parallel s.s. benefits.
2.	Want 20 year retirement option because older employees will lose a minimum of s.s. income and younger employees will have opportunity to qualify for benefits	2. S.S. money should be used to increase pers payments.
3.	Want retirement increased to 3% for each year. Also want retirement benefits adjusted twice annually to compensate for changes in CPI. No. of years to qualify for vested rights changed from 5 to 2 years.	3. If PERS improved, retirement benefits should be increased, no decrease should be allowed.
		4. Retirement should be based on 3% for each year of service.
		5. Want ironclad irrevocable agreement with Admin. if withdraw.
		6. Sick leave not used to be credited toward retirement at time of retirement.

## SOCIAL SECURITY WITHDRAWAL

One hundred thirty-eight cities, counties and local government agencies have abandoned the Federal Social Security system in the last three years.

Another two hundred and seven government bodies — most prominently the State of Alaska — have notified the Social Security Administration that they too intend to withdraw from the financially uncertain national insurance program.

So far, the actions of these local government units have had no impact on the vast Social Security system which draws payments from over 100 million Americans and pays benefits to some 30 million or more.

Under the Social Security system, a worker needs at least six (6) quarters, but not more than forty (40) quarters, of coverage to be eligible for a Social Security retirement benefit. Those benefits are determined by a schedule based on what is called the employee's "average monthly wage." The average monthly wage is determined by adding together a worker's annual earnings for each year from age 21 to 62, dividing that total by the number of years employed and then dividing by 12. That produces the "average monthly wage."

The basic cause of concern regarding the future of the Social Security system stems from this benefit formula. In 1972, Congress revised the Social Security law and established an automatic cost of living adjustment on Social Security retirement benefits by tying them to the Consumer Price Index (C.P.I.).

At the same time, Congress also tied the taxable wage base to the benefits increases; that is, when retirement benefits are raised due to inflation, the taxable wage base is automatically increased by a percentage comparable to the inflation of contributing workers' wages. The end result is a "double indexing" of the benefit formula. Inflation raises workers' wages, which raises the "average monthly wage," which consequently increases benefits paid. Then when benefits are raised, the taxable wage base is increased, which raises benefits paid. Unfortunately, Social Security does not include any formula which will generate the revenue required to pay for these upwardly spiraling benefits.

Unlike the Social Security system, the retirement benefit that an employee receives from the Public Employees Retirement System (P.E.R.S.) is directly proportional to what the 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 that system after five years of service. The benefit formula is two (2) percent of the employees average monthly salary, times the number of years of service, times the average of the last three consecutive high-year earnings. Normal retirement age after vesting is 55, however there is an option for early retirement any time after age 50. This is accomplished by subtracting a half of a percent for each month retired before age 55.

During the first session of the 10th Alaska State Legislature, Social Security withdrawal was a major issue following the introduction of a bill that would have legally withdrawn all state employees from the Social Security system through a balloting election procedure (HB#304 and SSSB#215).

However, this bill did not address several main issues, therefore, numerous labor organizations were very verbally apposed to withdrawing at this point in time (namely Labor Local 71 and the confidential unit). The main issues against the withdrawal were as follows:

1. Most importantly, there was no alternative for the money after withdrawal from the current Social Security system. (That is to say, it was not known for sure what to do with the money that would continue to come from state employees pay checks after withdrawing).
2. Likewise, there was no firm understanding that the State of Alaska would continue to pay the same amount of money, into another fund, as under Social Security.
3. No inclusion of benefits to cover temporary position State Employees.
4. Very little consideration was given to disability and the causes of non-occupational vs. occupational disability.
5. Finally, the findings in the Mercer Report, a report the State of Alaska had done on factors in consideration of termination from the Social Security system, vs. the report by the Alaska Public Employees Association's Committee on Social Security Withdrawal, Chaired by Mike Murray of Juneau, were not sound and traceable.

A compromise which would allow another two years to study the inequities of the A.P.E.A.'s Report and the Mercer Report, came about during the last Session of the Legislature as both time was running out under the current 'letter of intent' to withdraw from Social Security and as major opposition mounted. As a result of this compromise came a unanimous support by all, including legislators, to better evaluate the Social Security Withdrawal idea.

This compromise came in the form of House Concurrent Resolution 66, introduced by Representative Mike Miller (D-Juneau) and Representative Jim Duncan (D-Juneau). The purpose of this Resolution was to give the Governor the authority to rescind the first "letter of intent" to withdraw from the Social Security system and re-submit a new "letter of intent"; thus allowing the State of Alaska, A.P.E.A. and the legislators an additional two years to study Social Security. The first

"letter of intent" was sent in on December 3, 1975, by then Commissioner of Administration, Andy Warwick. The letter to rescind the first letter of intent was sent in May 31, 1977, by Billy Bob Allen now Commissioner of Administration. To date, the second "letter of intent" has not been sent by the present administration, who has only until December 31, 1977 to accomplish it.

Inclusive of H.C.R.#66, which passed unanimously in both the State House and Senate, was language that called for an independent accuracy study of the costs and benefits of the recommended changes, as needed, for withdrawal from the Social Security system. Members of a committee that will determine the direction and choice of accuracy for the State of Alaska's study are a representative of each labor organization, a member of the legislative council and the Director of Retirement.

With the above in mind, the committee held its first meeting on July 11th and determined that Dick Wikenwerder with Milliam Accuracy, a Seattle based accuracy company, would be hired to do the study called for under the bill. A tentative date, of August 18th, has been scheduled to meet with Mr. Wikenwerder to give him the direction and the scope that the committee feels the accuracy should take. Additionally, some tentative directions have already been given to Mr. Wikenwerder to consider before the meeting with the full committee. They are:

1. increase from the current 2 percent to 2 1/2 percent in the P.E.R.S.
2. retirement after 20 to 25 years in the system.
3. a COLA allowance — cost of living adjustment for people who have retired under the P.E.R.S. already.
4. to come up with an alternate plan for the Social Security withdraw plus keep the present P.E.R.S., for a combined retirement benefit system.

Those in attendance at the first committee meeting, and on the committee are:

Representative Mike Miller - Chairman

Linda McCurry - Confidential Unit

Ann Shippard - Public Safety Employees (PSEA)

Roy Dunn - Alaska Public Employees Association (APEA)

Greg O'Clary - Inlandboatmen's Union (IBU)

Paul Arnold - Division of Retirement

Ken Humphries - Legislative Affairs Agency

Bob Gates - Division of Retirement Director

# 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~~ Headquarters

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:

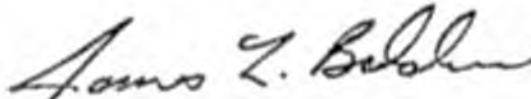
- (1) Improve PERS in general with the use of additional funds released from Social Security contributions.
- (2) Improve the current deferred compensation plan.
- (3) Establish a new program essentially replacing Social Security.
- (4) Study the benefits under the Public Safety Employees Retirement 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 5.8j 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 analyze 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

THE PRECEDING PAGES WERE TREATED AS  
A UNIT IN THE ORIGINAL FILE.

CHANGES THAT COMMITTEE SUBSTITUTE FOR SB 25 WOULD MAKE IN THE BILL

By SB 25 Sections

Section 2. AS 39.35.160(b) The substitute would exclude provision D(ii) which provides that other than military service credit, only service after 1/1/80 may be credited.

Section 6. AS 39.30.170 The substitute deletes the words "... and are not covered under PERS." from section (a)(5) and re-numbers making this section (a)(4)

(a)(5) Adds the words, "...and not included in groups described in (3) and (4) of this subsection. and re-numbers making this section (a)(4).

(b) Changes sentence which states that groups under (a) covered by PERS shall be considered as one group to Groups under (a) covered by PERS the cost of the additional benefits shall be actuarially determined on an annual basis.

(c)(2) Changes sentence which states that deducted from account for (a)(1) PERS employees an additional 7.1% of gross monthly compensation for each employee in that group to

CS for SB25

SECTION 1 - AS 39.35.160(b)

SAME

SECTION 2 - AS 39.35.680(21)

EXCLUDES PROVISION

(ii) providing that other than mil. soc. credit, any service after 1/1/80 may be credited.

SEC. 3.

SAME

SEC. 4

SAME

SEC. 5

SAME

SEC. 6 - SEC. 39.30.170

SAME UP TO 39.30.170

a) 415

a) 415

4) one temp or casual workers not covered under PERS or TRS

① MT employees above Relates

5) MT employees on state ferry system who are covered by a marine contract and covered by PERS

"... and are not covered under PERS.

⑤ adds "... and not included in groups des. in (3) or (4) [TRIS] MT.

30  
A 5 39. ~~170~~ 170

b) For each group in  
a, cost det by % of payroll

Groups under (a) covered  
by PERS shall be  
considered 1 group.

### DEDUCT.

(2) (a) (1) from act ~~for~~  
c) for PERS employees  
a add 7.17% of gross ro.  
comp. for each employee  
in that group.

d) amounts dep. on indiv  
def. emp. acts on names  
of employees.

For each group in (a) cost  
of prov. surv. & death benefit.  
shall be det.

for  
Groups under (a) covered  
by PERS the cost of <sup>the</sup>  
add. benefits shall be  
actuarially determined on  
an annual basis. Costs  
det. under this sec. shall  
be expressed as % of payroll

for PERS (a) the  
actuarially det. cost  
of prov. benefit for  
each emp. in that group.

d) amounts shall be  
dist. (ref'd) to emp.  
no less frequently than  
annually. shall be regarded  
as ref'd. if distrib. does  
not exceed amount which  
employee contrib under (a)  
shall be considered bonus  
pay. + if dist. exceeds  
amt. of emp contrib under (a)  
May <sup>not</sup> be regarded as  
comp. for ret. purposes.

Freeze es. with holiday  
Savings of 1% of payroll

Programs covered w/ PERS -

Noon time out -

Group benefits

What about temps?

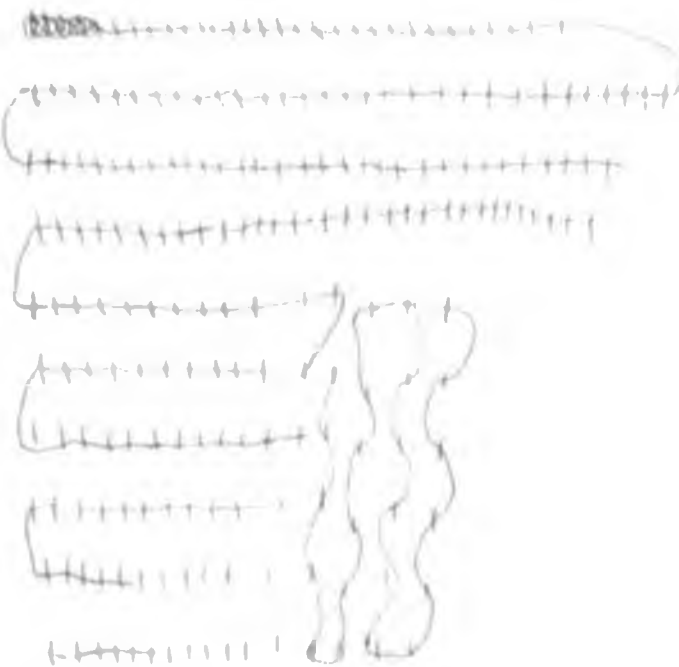
~~What~~ New plan

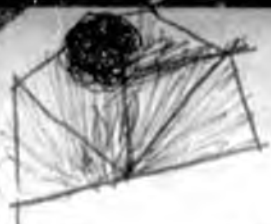
COST OF SPECIAL BENEFIT

MANAGED BENEFIT



1.00	
1751	+ 9.26
1755	2.26 1.50
	3.76





CS - SB25

- (1) Unit record - Employer/Employee with name
- (2) Tie into SS notes

ESTIMATED STATE EMPLOYEES AFFECTED BY SB 25

<u>TOTAL NUMBER OF STATE EMPLOYEES</u>	-	10,597
(Does not include University of Alaska or ASHA employees)		
<u>AVERAGE LENGTH OF SERVICE WITH STATE</u>	-	3.86 years
<u>TOTAL NUMBER OF EMPLOYEES WITH AN AVERAGE LENGTH OF SERVICE OF LESS THAN FIVE YEARS</u> (Gen. Govt., P.S., Labor, Exempt)		9,076 (85%)
<u>TOTAL NUMBER OF EMPLOYEES WITH AN AVERAGE LENGTH OF SERVICE OVER FIVE YEARS</u> (Excluded, Marine Trans., Supervisory)		1,521 (15%)
<u>TOTAL NUMBER OF TEMPORARIES WITH STATE</u> (Mostly Gen. Govt., Exempt, Labor)		1,157

\*Source: Dept. of Administration, Division of Personnel

ALASKA PUBLIC EMPLOYEES ASSOCIATION

TOTAL NUMBER OF MEMBERS	-	*8,000
NUMBER OF STATE EMPLOYEES IN APEA		*6,579 (82%)
<u>NUMBER OF APEA EMPLOYEES WITH AN AVERAGE LENGTH OF SERVICE OF LESS THAN FIVE YEARS</u> (General Government Unit)		*5,709 (87%)
<u>NUMBER OF APEA EMPLOYEES WITH AN AVERAGE LENGTH OF SERVICE OVER FIVE YEARS</u> (Supervisory Unit)		*870 (13%)

\*Source: Cherie Shelley, APEA

---

As law now stands PERS benefits do not become vested until after five years of service with the State. If a member terminates employment with the State he has the choice of being refunded his contributions (employer's contribution stays in PERS) or keeping them in PERS to be collected when he retires.. Under SB 25, members who terminate employment with the State would be automatically refunded their contributions.

PERS is mandatory when one becomes a state employee, except for the following who have their own retirement systems: MT (Inland Boatman), Teacher's Retirement System, Judicial Retirement System, emergency, temporary or casual workers.

Employees affected by SB 25.

200 Personnel

TOTAL NUMBER OF STATE EMPLOYEES AS OF FEBRUARY 2, 1979

Does not include University of Alaska employees (about 1,000) or Housing Authority employees (2 DEC. )

TKS & YERS NO CONTACT WITH STUDENTS

↓ MOSTLY UNDER TKS

TOTAL NUMBER OF EMPLOYEES: 10,597

AVERAGE LENGTH OF SERVICE WITH STATE: 3.86 AVERAGE WAGE 22,906

TOTAL NUMBER OF EMPLOYEES WITH AN AVERAGE LENGTH OF SERVICE LESS THAN FIVE YEARS: 9,076 = 85% AVERAGE WAGE = \$23,840.

TOTAL NUMBER OF EMPLOYEES WITH AN AVERAGE LENGTH OF SERVICE OVER FIVE YEARS: 1,521 = 15% (Mainly marine trans, excluded and supervisory employees)

AVERAGE WAGE: \$34,325.

↑ (8.5 yrs)

TOTAL # OF Temps WORKING FOR STATE = 1,157

P.E.R.S. benefit do not become vested until after 5 years of service. If you terminate before five years you are refunded all your P.E.R.S. contributions. Employers contribution stays in fund. or you can keep it in - (with <sup>W/RE TRAILING</sup> no benefit) unless you go back to work for state at which time you can repurchase. Social Security is portable. Thus 85% of employees would not really benefit from withdrawal. Long term employees would.

\* Large turnover, many these same people.

SUPPLY - ~~6700~~

Every one but Union & House  
Airlines

Exempt: Const  
Leg.  
+  
Part. emp

1531

63 Teachers

FEIS

Excluded - 5

70 sup.

342 cops  
PEACE OFFICERS

646 MAT. TRANS.

10,597

1258 LABOR TRACRAFTS

147 Confid. emp - Resonant off  
Payroll <sup>of</sup> ~~staff~~

5.5 570.9

DIV B-U TYP NAME S.S.N. CLASS PCN STUS HIRE DT LOC RNG STP SCH RATE MONTHLY YEARLY YTD

\*\*\*\*\* DEPARTMENT TOTALS \*\*\*\*\*

NUMBER OF EMPLOYEES - 507 AVERAGE PAY - MONTHLY - 1,734.40 YEARLY - 20,812.80 AVERAGE LENGTH OF SERVICE IN YEARS - 3.46 TOTAL

BARGAINING UNIT	CLASS	PCN	STUS	HIRE DT	LOC	RNG	STP	SCH	RATE	MONTHLY	YEARLY	YTD
A	506								1,736.83		20,041.96	3.46
B	273								1,601.95		19,223.40	3.17
C	13								1,357.58		16,290.96	3.79
D	24								1,647.52		19,770.24	3.37
E	74								1,626.73		19,520.76	3.51
F	2								1,404.00		16,048.00	3.44
G	7								1,637.83		19,654.20	3.51
H	9								1,658.97		19,907.64	1.26
I	6								1,323.79		15,885.48	1.67
J	100								2,278.03		27,336.36	4.72

\*\*\*\*\* STATEWIDE TOTALS \*\*\*\*\*

NUMBER OF EMPLOYEES - 10498 AVERAGE PAY - MONTHLY - 1,908.90 YEARLY - 22,906.80 AVERAGE LENGTH OF SERVICE IN YEARS - 3.86 TOTAL

BARGAINING UNIT	CLASS	PCN	STUS	HIRE DT	LOC	RNG	STP	SCH	RATE	MONTHLY	YEARLY	YTD
A	316								2,496.22		29,954.64	4.65
B	5								3,510.20		42,122.40	9.58
C	5739								1,641.10		19,717.20	7.83
D	146								1,632.14		19,585.68	3.64
E	1267								1,780.75		21,465.00	4.64
F	658								2,198.75		26,385.00	5.87
G	876								2,872.58		34,470.96	8.45
H	63								2,116.09		25,393.08	3.25
I	1389								2,244.24		26,930.88	3.27
J	5979								1,851.54		22,218.48	3.61
K	314								1,697.20		20,366.40	1.22
L	344								1,868.84		22,426.08	3.60
M	1027								2,118.95		25,427.40	4.07
N	60								2,116.06		25,392.72	2.43
O	151								2,103.23		25,238.76	2.47
P	108								2,252.48		27,029.76	2.90
Q	162								1,604.45		19,253.40	2.77
R	1265								1,790.10		21,481.20	4.67
S	28								1,551.73		18,620.76	3.51
T	1079								2,232.36		26,788.32	4.85

FEB 2  
TOTAL = 10,597

85% State employees have 20 or more 5 years average length of service (3.86)

- A - P.S.
- E - EXCLUDED
- G - Gen Govt
- V - Confed.
- L - Labor Union
- N - Non Union

- J - Judge
- F - Fire
- X - Student

E - EXCLUDED } # 4

M - MARCHING TEAMS } # 398

S - SUPERVISORY } # 1579

VS: 8420 VS 9,076

TOTAL - 10,457

IF PASSED WOULD AFFECT EVERYONE PAYING INTO SOCIAL SECURITY.

- 1. PERS MEMBERS except P.O. & firemen
- 2. P.O. & FIREMEN
- 3. JRT MEMBERS
- 4. eme-temp or casual workers not in PERS or TRS
- 5. MACHINE TRANS.

PERS

NOW - EVERYONE BUT MT, JRT, EM. TEMP OR CAS OR TRS

↓  
 NEW  
 SYSTEM  
 MT  
 JRT  
 TRS

# HISTORY OF SBL

SR 429	HB 579	5-96
Copy	51122 - 1177	AK. LEANS FIND OUT GET COPY
	HB 596	

CONFERENCE APPOINTED  
SCS CS (RULES)

H 5  
579 - DIED P.F. committee

H 5  
596 - DIED FCC. HOUSE

SBL 429 - become 342  
by the committee

Temp	Temp
Copy 342	1 Temp
Confid	675 Temp
C. T. Accept	115 Temp
115	115 Temp
X -	104 P
396 - Totaly except	362 Temp
part of 86.	25
Touches 11/1000	387
773 no temp	
Total 1,101	

APEA -

Gen. Mkt - 5709

Supervisors - 870

2 lks NS. & City of HOME



6,579

~~870~~

SB 25 - WITHDRAWAL FROM FEDERAL SOCIAL SECURITY

INTERESTED PARTIES

1. Senator Bill Ray, Sponsor
2. Department of Administration  
Division of Retirement & Benefits  
Paul Arnoldt, Director
3. Alaska Public Employees Association  
Pat Murphy, Executive Director  
Cherie Shelley, Representative of APEA & Confidential Unit
4. Local 71, AFL-CIO - ~~UNION~~ TRADES & CRAFTS
5. Marine Transportation
6. ~~Inland Boatman's~~ Union
7. Federal Social Security
8. Office of the Governor
9. Mike Miller, was chairman of the Legislative Council Study  
Group on Withdrawal from Social Security
10. Robert Penman. 7730 Honeysuckle St., Anchorage, Alaska 99502.  
Wrote a letter to legislators expressing his views on SB 25.

FISCAL NOTE: Requested 1/21/79

ALTERNATIVE TO SENATE BILL 25  
(Withdrawal From Federal Social Security)

Next  
wages  
package

present

I. Freeze social security contributions at present levels.  
(6.13% employee and 6.13% employer on salaries up to \$22,900).

II. Increase employees wages equal to social security contributions.  
(Employee deduction for social security would be discontinued,  
and employer contribution to social security would be paid to  
the employee).

Mandatory

III. Establish a "menu" of supplemental benefits from which an  
employee can elect to participate. (Deductions for the supplemental  
benefits would be taken from employee's wages).

- (1) No election (employee receives equivalent of  
social security contributions).
- (2) Supplemental Health Benefits.
- (3) Supplemental Death Benefits.
- (4) Supplemental Disability Benefits.
- (5) Supplemental Survivor Benefits.
- (6) Supplemental Annuities.

existing  
contributions,  
mandatory  
participation  
with list  
- no cost bill  
opportunity

THE FOLLOWING PAGES WERE TREATED AS  
A UNIT IN THE ORIGINAL FILE.

## SOCIAL SECURITY SYSTEM

- I. Old Age, Survivors and Disability Insurance (OASDI)
  - II. Hospital Insurance Benefits & Supplemental Medical Insurance Benefits (Medicare)
- 

### I. OASDI

- a. All participants covered
- b. Both employer & Employee pay into social security
- c. Retirement benefits provided on a non-reduced basis at age 65

"Special Minimum Benefit" application for low earning level workers with long service.

Deferred retirement-if retirement is delayed beyond age 65, benefit increases for old age insurance benefits only.

Early retirement-as early as age 62 with benefits reduced by 5/9 of 1% for each month that retirement precedes age 65.

Earnings test-\$2,760 per year may be earned before benefits are reduced.

Wife or dependent husband benefits-will receive at age 65, 50% of spouses benefit. May commence at age 62 but will be reduced. Wife may receive full benefits at any age if she is caring for a child entitled to child's benefits.

Child's benefits-each child until age 18, unless a student and then until age 22, or if disabled.

- d. Disability benefits-member must be fully insured (minimum of 6 and maximum of 40 quarters of coverage)

Disability benefit is equal to the Primary Insurance Amount computed as though the worker had attained age 62. If worker is under 62 benefits may be reduced if he is receiving workman's compensation..

Disability benefits shall commence at the end of five months throughout which the worker has been disabled. Benefits end when recipient dies, reaches 65 or becomes no longer disabled.

## Disability (Con't)

Wife or dependent husband benefits-commencing at age 65-50% of spouses benefit amount.

Child's benefits - 50% subject to a maximum family benefit.

### e. Death Benefits

Widow or dependent widower's benefits - 100% of deceased's accrued benefits.

Mother's benefits - Payable to widow if not married, not getting widow's benefits and has care of a child of deceased entitled to a child's benefit equal to  $\frac{3}{4}$  of benefits of deceased.

Child's benefits -  $\frac{3}{4}$  of deceased benefits subject to maximum family benefit.

Parent's benefits - if parent is 62 or older and received  $\frac{1}{2}$  support from deceased and has not married since individual died and has filed an application for parent benefits, he receives  $82\frac{1}{2}\%$  of deceased's benefits.

Lump sum death payments - \$225.00 to widow/widower if applied for within 2 years of death.

Special features of SS. which will impact replacement of SS. Benefits.

1) General considerations

(a) SS. - temp employees covered  
State ~~cover~~ program - not

(b) SS - Portable  
State - not.

(c) Because any accident to a member may be a day for (HSA) benefits will be lost - need to be careful  
another problem is why for some (HSA) benefits  
based on some information - employees, need  
benefit case lost will be quite minimal

2) (HSA) - Benefits

(a) Portability - fully in SS.

Portability - <sup>Full</sup> covered. require accrued benefits  
to be fully vested. These are not required.

(1) must be a record of all contributions  
per individual's replacement program. It would be  
then a vested benefit in a judgment  
- say, 100% vested, 100% actual  
parties.

3) (HSA) - SS benefit adjusted annually

by law - average (HSA) - would be

... only - ... for ...

MISC

Max Linton Family benefit  
currently 150 - 125% of PIA

All benefits are adj. by CPI  
if increase is at least 3%

Fed. S. S. System 1976

1) Old Age, Survivors & Disability Insurance (OASDI)

A-OASDI - Provides benefits like PERS

1) COVERAGE - ALL PARTICIPANTS

2) Taxes - both employer & employee pay 1976 - 4.95%

3) Retirement - benefits provided 1977 - 5.25%

on a new reduced base wage 1978 - 6.05%

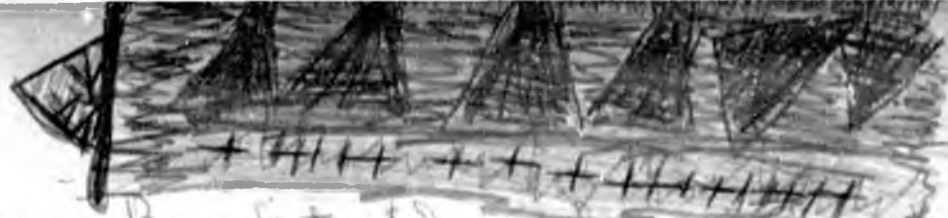
4) Benefits - longer benefits, widows 1979 - 6.13%

paid people than higher  
as compared to wife, dependent  
& young dependents

5) Unemployment - fully portable

6) Death benefits - 7% of pay insurance  
to mother of dependent children, widows over 60,  
child, dependent. In addition - lump  
sum of \$2,555 (1976)

7) Disability Benefits - total no. of persons disabled.  
receive benefit = to what they would have  
received if what at 65 on date of dis. appearing  
that to - but part - benefit, maybe payable  
to spouse or child.



# B. Hospital Insurance Benefits (Supplemental Medical Insurance Benefits (MEDICARE))

## 1) HOSPITAL INSURANCE

Broad coverage for inpatient hospital expenses & post-hospital care. Tax rate is <sup>1976</sup> .7% for emp & emp

- 1978-80 1.10%
- 81-85 1.35%
- 86-2010 1.50%

Benefits for: 2-4

- a) In-hospital benefits - <sup>2-4</sup> med, nursing, convalescent care, diagnostic & other medical
  - (i) 90 day limit for each benefit period
  - (ii) overall deductible per period - \$104 (14%)
  - (iii) Deductible per day for 61<sup>st</sup> - 90<sup>th</sup> day - 26 (14%)
- b) Skilled nursing facility - after 3 days of hospitalization coverage for 100 days in facility. Deductible of \$15 (14%) for each day in excess of 30 days.
- c) Home health care - up to 100 days within 12 mos of discharge. Includes nursing care, therapy, & medical supplies. Not subject to:
  - (i) 65+ receiving SS benefit.
  - (ii) 65+ who did not work for at least 24 mo.
  - (iii) 65+ who are not yet entitled to Medicare - H.I. Program #41/10-11 made by a bill from 7/76 - 6/77

2. Supp. Med. Ins. - if elig for H.I. or organ

over \$65 by sub. M. H. P. 1476 17.20/req.

Broad coverage, at least over

a) Physicians

b) Diag. Svcs.

c) X-ray & radiation therapy

d) Med. equip, artif devices

e) Ambulance

f) therapy

g) Don't exp. at added num for charges not covered under (1)

h) add for health over

Reimburse for costs or sub to annual deductible of \$60 & \$1000 annual to cost source.

add: on pld. gov't by funds of 4.1.1. have deductibles or transplant

TEENY

② → Survivor Benefits

A Primary Benefit

ELIG - must be "fully insured"  
Have 1 QTW of coverage

Wife or Dep Relative beneficiary  
at age 65 - 50% of spousal  
benefit amount.

Childs benefit - 50%

subject to marital deduction

Supplemental  
Payments -

\$225.00 to

under/underinsured  
if applied for  
within 2 years  
of death.

③ Death Benefit

Wife or Dep Underinsured beneficiary  
at 65 - 100% of deceased accrued  
benefit

④ Widow's Pension - payable to widow

if not remarried, subject to marital deduction  
1/2 of accrued benefit of deceased  
subject to child's benefit  
= 1/4 of PIA for life of deceased.

Childs 3/4 PIA subject to marital deduction  
if remarried - age 65, not subject for deceased  
has own income and deductible, then it's  
a separate paid benefit, → 1/2 of PIA

## Retirement Benefits

### A. Primary Benefits

1) Benefit @ 65 is = to his  
Primary Insurance Amount  
(monthly benefit before  
application of delayed  
ret. credit)

"Special Minimum Benefit"  
applic. for low earnings  
level workers w/ long serv.

2) Deferred Ret. - for ret. as  
delayed beyond 65 - benefit  
increases for old-age and  
disability

3) Early retirement  
as early as 62 - with  
benefit reduced by  $\frac{1}{4}$  of 1%  
for each month the ret.  
precedes age 65.

EXAMPLE -

4) \$7,760 / year salary  
earned before retirement  
and reduced under

C. *Thalassidroma* - <sup>2011</sup>  
12-13 (Strom)  
order of the day  
at the site of CRP  
get 50% water, P.I. H

~~along edge~~  
water may get into beach  
at a rate will be reduced.  
beach at May summer of eggs  
will rec. at 65, 50% of species  
B. *Thalassidroma* - <sup>2011</sup> Beach

THE PRECEDING PAGES WERE TREATED AS  
A UNIT IN THE ORIGINAL FILE.

# **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: 170 SEWARD STREET, SUITE 500, JUNEAU, ALASKA 99801 • TELEPHONE: (907) 586-2314

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 employee's, 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. Recommendation 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  
905 W 8th STREET SUITE 120  
ANCHORAGE, ALASKA 99501  
TELEPHONE: (907) 274-1888

FAIRBANKS FIELD OFFICE  
1514 CUSHMAN SUITE 205  
FAIRBANKS, ALASKA 99701  
TELEPHONE: (907) 456-3412

JUNEAU FIELD OFFICE  
130 SEWARD STREET SUITE 200  
JUNEAU, ALASKA 99801  
TELEPHONE: (907) 586-2314

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.

## TABLE OF CONTENTS

	Page
HISTORY .....	1
FOREWORD .....	1-17
Comparison of future retirement benefits P.E.R.S./Social Security.....	4
Explanation of future retirement benefits.....	5
Estimated current monthly P.E.R.S. retirement benefits.....	6
Estimated future monthly P.E.R.S. retirement benefits .....	7
Estimated monthly Social Security retirement benefit .....	8
Structure of the Social Security benefit formula .....	14
FACTORS WHICH MUST BE CONSIDERED .....	18
Retirement: Social Security .....	18
P.E.R.S. ....	24
Survivor's Benefit: Social Security .....	27
P.E.R.S. ....	28
Disability Benefit: Social Security .....	31
P.E.R.S. ....	32
Medical Benefit: Social Security .....	38
P.E.R.S. ....	39
Temporary Employees .....	39

### RECOMMENDATIONS

Withdrawal from Social Security .....	17
Retirement Benefits .....	15-16, 24-25
Death Benefit .....	30-31
Disability Benefit .....	34
Extended benefits to employees who leave state service .....	36-38
Medical Benefits .....	39
Temporary Employees .....	40

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 243 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.



CONTENTS:

FIRST CLASS  
PERMIT NO. 51  
JUNEAU, AK.

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 desirability 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 State 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 <u>\$15,300/yr</u>	Est. P.E.R.S. Retirement benefit 3 high yr. average <u>\$20,000/yr</u>	Est. P.E.R.S. Retirement benefit 3 high yr. average <u>\$25,000/yr</u>	Est. P.E.R.S. Retirement benefit 3 high yr. average <u>\$30,000/yr</u>
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 <u>\$15,300/yr</u>	Est. P.E.R.S. Retirement benefit Current salary <u>\$20,000/yr</u>	Est. P.E.R.S. Retirement benefit Current salary <u>\$25,000/yr</u>	Est. P.E.R.S. Retirement benefit Current salary <u>\$30,000/yr</u>	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	\$3787.00	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 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:  $\$5181.35 \times 120 \text{ months} = \$621,762.00$  before Social Security benefits begin. For employees whose current salary is \$30,000:  $\$10,159.50 \times 120 \text{ months} = \$1,219,140.00$  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, i.e. "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 GASDI (\$400, to or 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**

<u>Current Age</u>	<u>Estimated Social Security Retirement Benefit - Continuation in OASDI</u>	<u>Estimated Social Security Retirement Benefit - Termination From OASDI</u>	<u>Social Security Retirement Benefit Lost in Termination</u>	<u>Social Security Retirement Benefit Lost - With Spouse Benefit</u>
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	\$ 1,060	\$ 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, 1 1/2 years 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  $5.85\% \times \$15,300 = \$895$ .
- 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:  $41 \times 4 = 164$ .) 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 \$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 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  $180\% \times \$364 = \$655$ .

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 capital 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 employe 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 employe 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 employe 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 employe had contributed to Social Security during his highest-earning years of employment.

However, if that employe 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 employe 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 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 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:  $23 \times$  the average of his three high consecutive years' earnings  $\times$  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 as, 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:

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 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 contribution 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).

APEA  
130 Seward Street, Suite 508  
Juneau, Alaska 99801

Non-Profit Org.  
U. S. Postage  
PAID  
Alaska Public Emp. Assn.  
Anchorage No. 123  
Fairbanks No. : 00  
Juneau No. 18

## G.G.U. EVALUATION QUESTIONNAIRE

583 of the 5,187, or eleven (11) per cent, Alaska Public Employees Association members of the General Government Unit responded to the ballots sent out in the 'Report to Alaska Public Employees on Social Security Withdrawal.' The following is a break down of those returned G.G.U. membership ballots:

1) Do you favor withdrawal from the Social Security system.

A) 480 or 82% responded yes

B) 95 or 16% responded no

C) 8 or 1% had no opinion

2) 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.

A) 415 or 71% responded yes

B) 63 or 10% responded no

C) 105 or 18% had no opinion

3) Please indicate order of priority:

First priority mark #1; second priority mark #2; third priority mark #3, etc. If you are opposed to any items mark no, write additional comments on the back of the ballot.

A) Increase retirement compensation to 2 1/2 per cent for each year of credited service.

- B) Equal benefits for occupational/non occupational death and disability.
- C) Increase death and disability benefits to 50% of monthly earnings.
- D) All state employees become eligible for retirement after 20 years credited service.
- E) Extend death and disability benefits to employees who leave state service.
- F) Provide death and disability insurance for temporary employees.

Generally, very little comment was received on the back of the Advisory Ballots. Below is a cross section of the most stated comments.

1. I would prefer other alternatives to putting the monies into our retirement fund. One of my alternatives would not be to just receive the extra monies as cash on each monthly paycheck.
2. I believe the 20 year retirement option is of vital importance as older employees will lose a minimum of social security income and younger employees will have an opportunity to qualify for benefits.
3. I would like to see retirement compensation increased to 3% for each year of credited service. Additionally, retirement compensation should be adjusted twice annually to compensate for changes in the Consumer Price Index (C.P.I.), similar to Federal Civil Service. Also the number of years necessary to qualify for vested rights should be reduced from five (5) to two (2) years.

4. I feel an automatic cost of living allowance should be built into P.E.R.S. benefits after retirement, irregardless of whether or not the State of Alaska withdraws from the Social Security system. This should not be left to the discretion of the Commissioner of Administration.

## SUPERVISORY UNIT EVALUATION QUESTIONNAIRE

165 of the 816, or twenty (20) per cent, Alaska Public Employees Association members of the Supervisory Unit responded to the ballots sent out in the 'Report to Alaska Public Employees on Social Security Withdrawal.' The following is a break down of those returned S.U. membership ballots:

- 1) Do you favor withdrawal from the Social Security System.
  - A) 147 or 89% responded yes
  - B) 14 or 8% responded no
  - C) 4 or 2% had no opinion
  
- 2) 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. (P.E.R.S.)
  - A) 129 or 78% responded yes
  - B) 16 or 9% responded no
  - C) 20 or 12% had no opinion
  
- 3) 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.
  - A) Increase retirement compensation to 2 1/2% for each year of credited service.
  - B) All state employees become eligible for

- retirement after 20 years credited service.
- C) Equal benefits for occupational/non-occupational death and disability.
- D) Increase death and disability benefits to 50% of monthly earnings.
- E) Extend death and disability benefits to employees who leave state services.
- F) Provide death and disability insurance for temporary employees.

Contrary to the General Government Unit, the Supervisory Unit provides more comment on their Advisory Ballots. Below is a cross section of their comments.

- 1) I believe that prior to unilaterally transferring Social Security payments to P.E.R.S., a study should be conducted to determine the wage percentage necessary to parallel Social Security benefits.
- 2) Contributions now going to Social security should be used to increase payments to P.E.R.S. — both state and employee contributions should be increased in the future by the amount Social Security contributions would have increased. If, in the future, the P.E.R.S. fund improves its position, benefits for retirees should be increased; no decrease in contributions should be allowed the state or employees.
- 3) I am currently (1976) putting 62% of the amount I am putting into P.E.R.S. in F.I.C.A.. In other words for every one (1) dollar I put into P.E.R.S., I am also putting \$.62 in F.I.C.A. If the state is also contri-

buting to F.I.C.A. at the same rate that I am (an assumption), then I don't see how channeling all of it to P.E.R.S. will only increase the benefit formula from 2% to 2 1/2%. I think we need more facts on this magic number (2.5%) before we divert our investments to P.E.R.S.

- 4) I would like to see retirement based on 3% for each year of credited service, with possible a 75% of top three years ceiling. This should be affordable if we opt-out of Social Security.
- 5) Being a Supervisor and concerned about what the legislature is attempting to do with our Contract that was executed, at least by the Supervisors, in good faith leads me to believe that if we concur with the administration in dropping out of Social Security will we derive any benefits from this change? They could, as they are attempting to do with the Supervisors, give lip service to encourage an agreement then the next session revise it to our loss. Without and iron-clad irrevocable agreement my opinion is to say no. If they agree to the iron-clad bit I'd be agreeable. How about a commitment from the Administration before putting this to a vote.
- 6) Have sick leave not used, credited toward retirement at the time of retirement.