ALASKA LEGISLATURE SPECIAL COMMITTEE/SUBJECT FILES 8672
6.1 SCOMM 4A: STUDY GROUP ON SOC. SECUR. WITHDRAWAL, 1977-1978

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SCOMM 4A: STUDY GROUP ON SOCIAL SECURITY WITHDRAWAL, 1977-78

HRC 66, 1977 which became Legislative Resolve No. 107, SLA 1977 directed the Legislative Council to "conduct a study of the manner in which the amount now contributed by both the state of Alaska and the state employees will be used to provide benefits under a public employee benefit program to replace and augment benefits now provided by social security." The study group was to include members of the council, representatives of each employee bargaining group and the director of the division of retirement.

Contents: 1 file of minutes, correspondence, supplementary material. This file was compiled by Ken Humphreys, a research analyst with the Legislative Affairs Agency assigned to the study.

LIST OF FILES (PAGE 1)	MICROFICHE #
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TERMINATION OF SOCIAL SECURITY COVERAGE: THE IMPACT ON STATE AND LOCAL GOVERNMENT EMPLOYEES

A WORKING PAPER

PREPARED BY THE

SPECIAL COMMITTEE ON AGING
UNITED STATES SENATE

SEPTEMBER 1976

Printed for the use of the Special Committee on Aging

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PREFACE

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

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

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

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

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

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

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

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

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

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

Georgia: (10) Murray County Board of Education.

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

Missouri: (14) City of Northwoods.

Texas: (15) Red River County Schools.

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

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

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

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

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

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INTRODUCTION

NEW YORK WILL QUIT SOCIAL SECURITY [1]

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

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

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

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

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

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

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

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

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

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

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

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

If all six of these nonmayoral agencies complied, the number of affected city workers would be about 230,000.

"The notice filed today does not constitute actual termination of coverage," Beame said. "That decision will be made following the most rigorous and thorough analysis of this matter, as well as the question of alternate means of providing disability insurance, during the next 2 years."

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

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

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

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

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

Part 1

BACKGROUND

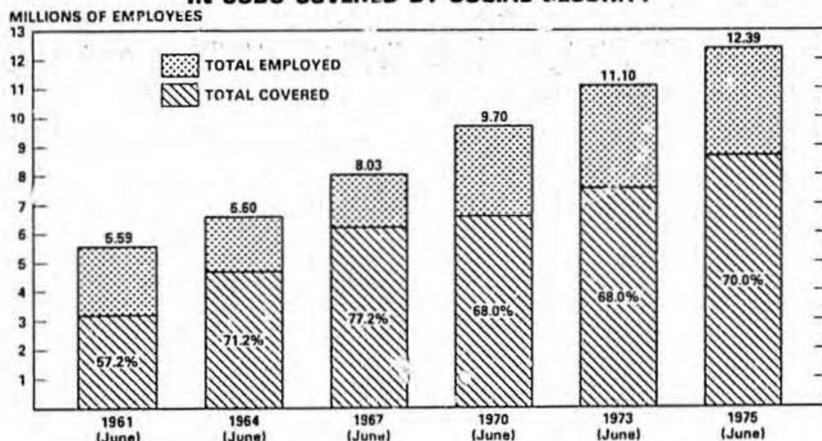
Most State and local government employees now work in jobs covered by social security. From June 1961 to June 1975 the number of State and local government employees with social security coverage more than doubled, increasing from approximately 3 million to almost 8.7 million.

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

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

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

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



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A. The Law: Termination of Social Security Coverage

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

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

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

B. Terminations on the Upswing

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

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

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

State	Number of employees for whom coverage was terminated prior to June 30, 1975	Total number of covered employees in calendar quarter ending June 30, 1975 [1]	Number of employees for whom coverage will have been terminated from July 1, 1975 to Apr. 1, 1978 [2]
Alabama	0	222,553	0
Alaska	0	28,101	12,649
Arizona	0	140,257	0
Arkansas	0	107,266	0
California	13,124	567,050	61,634
Colorado	848	43,972	239
Connecticut	0	98,760	0
Delaware	0	34,753	0
Florida	0	304,172	0
Georgia	563	268,776	2,840
Hawaii	0	38,421	0
Idaho	0	61,637	0
Illinois	1	242,012	0
Indiana	270	274,372	0
Iowa	0	186,206	0
Kansas	0	149,134	0
Kentucky	4	129,846	0
Louisiana	9,699	87,391	24,718
Maine	31	25,016	439
Maryland	3	253,419	0
Massachusetts	31	114	0
Michigan	0	506,616	3
Minnesota	0	173,853	0
Mississippi	0	139,457	0
Missouri	0	212,323	68
Montana	0	53,690	0
Nebraska	0	115,947	0
Nevada	347	2,547	6
New Hampshire	0	48,924	0
New Jersey	0	435,513	0
New Mexico	0	69,629	0
New York	0	1,126,381	362,000
North Carolina	0	325,457	0
North Dakota	0	44,147	0
Ohio	0	3,250	0
Oklahoma	0	153,331	0
Oregon	0	153,125	17
Pennsylvania	0	695,556	0
Puerto Rico	0	233,385	0
Rhode Island	0	40,074	0
South Carolina	0	172,898	0
South Dakota	0	35,041	0
Tennessee	153	203,029	0
Texas	4,420	425,538	3,853
Utah	2	79,860	0
Vermont	0	29,562	0
Virginia	0	306,586	0
Virgin Islands	0	11,878	0
Washington	1,036	247,820	526
West Virginia	0	107,756	0
Wisconsin	0	272,539	0
Wyoming	0	31,768	0
Total	30,532	9,810,708	468,992

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

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

Source: Social Security Administration.

Part 2

WHY TERMINATIONS HAVE INCREASED

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

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

A. Employees' Desire for More Take-Home Pay

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

B. Finances of Local Governments

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

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

C. "Social Security Is Going Broke"

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

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

D. Social Security Taxes Will Continue To Rise

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

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

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

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

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

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

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

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

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

F. "Replacement Plans Will Pay More"

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

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

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

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

Part 3

VALUE OF SOCIAL SECURITY

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

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

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

Value of Social Security Protection

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

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

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

SURVIVORS INSURANCE PROTECTION

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

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

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

Widow or dependent widower 60 or older.

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

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

Dependent parents 62 and older.

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

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

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

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

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

DISABILITY INSURANCE PROTECTION

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

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

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

Wives or dependent husbands 62 or over.

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

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

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

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

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

Becomes disabled in mid-1976 at age 35;

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

Has average monthly earnings of $600; and
Dies after being disabled for 5 years.
These benefits are also inflation-proof.

If the disabled worker in this example dies after being disabled for 20 rather than 5 years, the present value is about $137,140.

MEDICARE HOSPITAL INSURANCE PROTECTION

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

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

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

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

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

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

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

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

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

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

MEDICARE SUPPLEMENTARY MEDICAL INSURANCE PROTECTION

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

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

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

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

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

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

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

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

PERCENTAGE OF AGED ENROLLEES

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

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

RETIREMENT INSURANCE PROTECTION

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

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

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

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

Reaches age 65 upon retiring in January 1976;

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

Has average monthly earnings of $585.

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

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

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

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

WORK CREDITS REQUIRED

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

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

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

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

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

NEED FOR ADDITIONAL PROTECTION

> A final important point: Most people believe it is wise to supplement their social security protection with other insurance or pensions. We must remember that prices will rise in the future. Although social security benefits will increase with the cost of living, it is not too likely—in my opinion—that there will be any sizable future increase in the proportion of earnings replaced by social security benefits. So planning for some supplement seems to me to be prudent.
>
> Finally, it should be emphasized that social security was never intended to be the sole source for replacing lost earnings because of death, retirement, or disability.
>
> It, of course, provides valuable protection. And for most older Americans, social security is their primary source of support. But quite clearly, social security benefits should be supplemented by private pensions, insurance, savings, or other forms of protection.

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

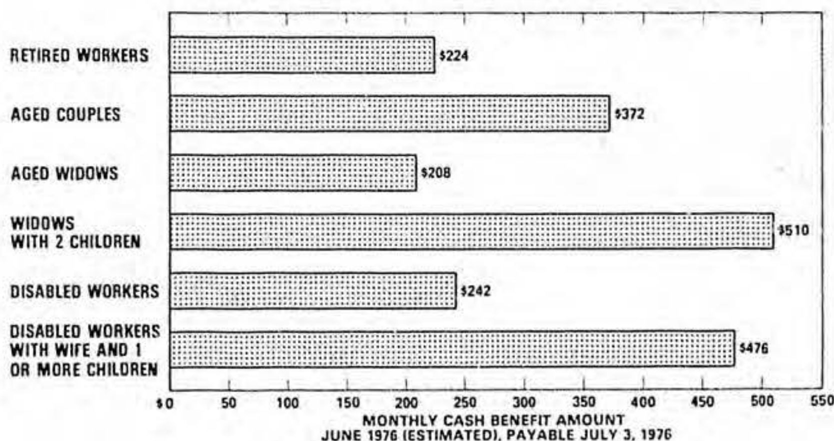
Chart 1 shows average monthly benefits for some selected family groups.

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

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

CHART 1

AVERAGE CASH BENEFITS



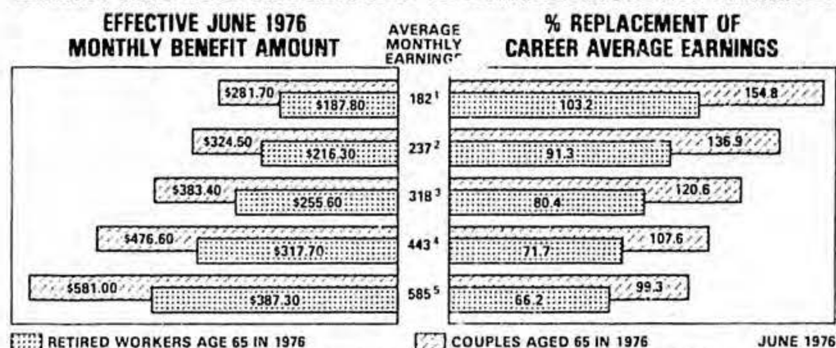
An aged widow's benefit beginning at or after age 65 is 100 percent of the benefit her husband was getting or would have gotten if he retired at age 65. The amount of a widow's benefit depends on her age at the time she starts getting benefits and whether her husband got reduced retirement benefits.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

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

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

CHART 2

BENEFIT AMOUNTS ARE RELATED TO AVERAGE MONTHLY EARNINGS



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

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

Part 4

EXAMPLES OF BENEFITS OF STAFF RETIREMENT PLANS

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

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

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

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

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

A. Parochial Employees' Retirement System of Louisiana

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

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

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

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

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

C. Highlights of Other Plans

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

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

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

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

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

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

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

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

Part 5

HOW SOME TERMINATION DECISIONS WERE REACHED

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

A. Dixon, Calif.

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

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

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

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

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

B. Murray County Board of Education, Georgia

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

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

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

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

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

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

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

C. Plaquemine, La.

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

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

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

D. Haynesville, La.

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

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

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

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

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

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

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

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

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

Part 6

CONSIDERATIONS OF STATE AND LOCAL GOVERNMENTS

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

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

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

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

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

A. Basic Choices

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

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

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

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

(4) Have no plan.

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

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

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

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

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

B. Benefit Comparability of Replacement Plans

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

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

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

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

C. Cost-of-Living Increases

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

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

D. Vesting

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

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

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

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

E. Portability

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

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

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

F. Desirability of Local Government Employment

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

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

G. Effect of Terminating Social Security Coverage on Present Employees

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

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

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

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

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

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

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

H. Effect on Future Employees

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

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

I. Financial Strength of Other Plans

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

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

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

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

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

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

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

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

J. Tax-Free Benefits

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

K. Likelihood of Future Improvements in Social Security

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

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

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

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

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

L. Possibility of General Tax Revenue Financing

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

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

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

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

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Part 7

ADMINISTRATIVE AND LEGISLATIVE RECOMMENDATIONS AND CONSIDERATIONS

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

Quite frequently, this causes two significant deficiencies:

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

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

A. Independent Evaluation of Replacement Plans

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

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

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

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

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

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

B. Actuarial Evaluation of Social Security

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

Therefore, this proposed resolution would:

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

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

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

C. Notice of Results of Evaluation

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

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

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

D. Employee Referendum

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

Therefore, the proposed resolution would:

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

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

E. Certification of Benefit Protection Comparability

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

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

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

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

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

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

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

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

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

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

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

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

F. Modification of Minimum Benefits Under Social Security

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

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

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

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

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

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

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

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

G. Modification of Social Security Financing

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

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

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

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

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

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

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

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

H. Modification of Coverage Agreements

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

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

Independent actuarial evaluation of proposed replacement plans could be mandated.

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

Certification of benefit protection comparability could be mandated.

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

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

I. Administrative Possibilities

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

The Social Security Administration (SSA) has withheld taking

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

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

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

APPENDIXES

Appendix 1

PAROCHIAL EMPLOYEES' RETIREMENT SYSTEM OF LOUISIANA

Summary of Principal Features

ACT 205 OF 1952

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

ADMINISTRATION

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

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

MEMBERSHIP

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

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

CANCELLATION OF MEMBERSHIP

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

EMPLOYEE PAYMENTS

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

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

EMPLOYER PAYMENTS

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

REGULAR RETIREMENT

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

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

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

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

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

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

DISABILITY RETIREMENT

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

SOCIAL SECURITY

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

SUPPLEMENTAL RETIREMENT BENEFITS

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

MILITARY SERVICE

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

COST-OF-LIVING ALLOWANCE

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

SUMMARY OF AMENDMENTS

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

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

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

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

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

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

Act 212 of 1966 increases benefits by one-third by raising the rate from 1½ to 2 percent for each year of creditable service, with an annuity equal to 2 percent of $1.200 for each year of creditable service, this amount to be paid only if the parish where the member is employed pays to the retirement system, either in a lump-sum or in annual contributions, an amount determined by the system's actuary to be necessary to provide this additional benefit (optional basis).

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Appendix 2

CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM

QUESTIONS AND ANSWERS

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

October 1975

PERS-ADM-DO-2A

INTRODUCTION

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

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

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

GETTING FAMILIAR WITH PERS

What Is PERS And Who Belongs To It?

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

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

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

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

How Does Social Security Figure In?

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

Who Pays For These Benefits?

1. YOUR CONTRIBUTIONS—As a member of PERS, a portion of your monthly pay will be deducted to put into the Retirement Fund. If you are *not* coordinated with Social Security (either you do not pay into Social Security or your PERS contributions are supplemental to your Social Security), each month 7% of your earnings will be contributed to PERS. If you are coordinated with Social Security, you will contribute 7% of your monthly salary in excess of $133.33. This does not include overtime. The money which you contribute earns interest for you, currently 5¼ percent compounded annually.
2. YOUR EMPLOYER'S CONTRIBUTIONS—To guarantee the payment of your benefits, your employer will pay for you at least as much as you do.
3. INVESTMENTS—PERS invests the money it receives from you and your employer. The income from these investments helps to pay for your benefits.

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

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

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

What If I Later Rejoin PERS?

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

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

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

LET'S TALK MORE SPECIFICALLY ABOUT THESE BENEFITS

RETIREMENT

When May I Retire?

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

How Much Will My Retirement Allowance Be?

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

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

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

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

c) Your "final compensation".

TABLE A

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

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

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

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

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

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

STEP #1

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

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

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

STEP #2

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

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

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

NOW YOU WORK THE FORMULA

STEP #1

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

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

STEP #2

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

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

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

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

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

not, then your retirement allowance will be figured taking this into account.

PERS can do a calculation for you if you are considering retirement. This will tell you approximately what your retirement allowance will be and what options are available to you. Just write to Public Employees' Retirement System, Benefits Division, P.O. Box 1953, Sacramento, California 95809, and include this information: Name, Social Security Number, prospective Retirement Date, mailing address, your beneficiary's Date of Birth and his/her relationship (for example, spouse).

We try to provide this information as promptly as possible. However, at times our workload is so great that some delay occurs, so we hope you will bear with us. Priority in giving estimates always goes to those who are close to retirement.

What is "Service Credit"?

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

Any credit that you receive for service before the date on which your agency came under PERS is called "prior service". Credit given for work after that date is "current service".

What Is A "Temporary Annuity"?

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

What About The Rising Cost of Living?

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

DISABILITY

What If I Cannot Work Because Of Injury Or Illness?

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

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

DEATH BENEFITS

Who Is My "Beneficiary"?

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

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

For some death benefits only specific family members are eligible.

What If I Die Before I Retire?

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

1. *Basic Death Benefit*

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

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

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

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

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

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

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

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

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

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

The beneficiaries eligible to receive this after your death are:

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

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

What Could My Beneficiary Receive If I Die Before Retirement?

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

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

or

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

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

Is My Family Protected If I Die After Retirement?

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

Survivor Continuance (Monthly Allowance)

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

Optional Settlements

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

OPTION #1

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

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

OPTION #2

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

Example #1: Without Survivor Continuance—

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

Example #2: With a ½ Survivor Continuance—

(Not covered by Social Security)

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

For his life he will now be receiving:

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

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

After his death, Sid's wife will receive:

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

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

Example #3: With a ¼ Survivor Continuance—

(All service covered by Social Security)

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

wife, who he wants to provide for, is age 54. She may receive a Survivor Continuance of ¼ of Joe's unmodified allowance, or $100. Therefore, Joe can modify the remaining ¾ of his allowance, which is $300. On this amount he takes a reduction of $75.00, making it $225.00.

For his life he will now receive:

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

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

After his death, Joe's wife will receive:

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

OPTION #3

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

Example #1: Without Survivor Continuance

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

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

Sid is retiring at age 55 with a $300 unmodified allowance. His agency offers the Survivor Continuance and, since Sid is not coordinated with Social Security, this will be ½ of his unmodified allowance, or $150. To provide more security for his 57 year old wife, Sid chooses Option #3. He takes a reduction of $15.90 on his remaining $150. This makes the modified part of his allowance $134.10.

For his life he will now be receiving:

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

He has now guaranteed that his wife, if she survives him, will receive ½

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

After his death, Sid's wife will receive:

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

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

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

For his life he will now receive:

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

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

After his death, Joe's wife will receive:

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

OPTION #4

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

Retired Member Death Benefit

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

HOW DO I APPLY FOR THESE BENEFITS?

Retirement

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

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

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

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

DEATH BENEFITS

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

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

THINGS TO REMEMBER WHEN YOU GET READY TO RETIRE

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

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

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

WHAT ABOUT WORKING AFTER RETIREMENT?

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

LET'S EXPLAIN SOME OF THE TERMS

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

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

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

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

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

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

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

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

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

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

Whom Do I Contact If I Have Further Questions?

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

ADDRESSES OF AREA OFFICES

Los Angeles Area Office
Room 4005
107 South Broadway
Los Angeles, CA 90012
Telephone: (213) 620-4430

San Francisco Area Office
11th Floor
100 Van Ness Avenue
San Francisco, CA 94102
Telephone: (415) 557-0582

Sacramento Area Office
P.O. Box 1953
Sacramento, CA 95809
Telephone: (916) 322-5180

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

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

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

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

Appendix 3

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

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

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

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

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

Sincerely yours,

DAVID H. DOTY, *City Manager.*

O

SOCIAL SECURITY WITHDRAWAL

A REPORT TO

ALASKA PUBLIC EMPLOYEES

PREPARED BY:

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

ALASKA PUBLIC EMPLOYEES ASSOCIATION

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

March 1977

Dear State Employee:

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

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

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

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

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

Sincerely,

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

ANCHORAGE FIELD OFFICE
909 W 9TH STREET, SUITE 120
ANCHORAGE, ALASKA 99501
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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.

PLEASE TEAR OUT, FOLD, AND MAIL.

ADVISORY BALLOT

Check One

( ) Member of General Government Unit

( ) Supervisory Unit

( ) Other Bargaining Unit

( ) Not Organized

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

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

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

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

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

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

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

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

( ) Provide death and disability insurance for temporary employees.

PLEASE TEAR OUT, FOLD, AND MAIL.

CORRECTION

THIS DOCUMENT
HAS BEEN REPHOTOGRAPHED
TO ASSURE LEGIBILITY

02–576(2/77)

ALASKA PUBLIC EMPLOYEES ASSOCIATION

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

March 1977

Dear State Employee:

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

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

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Sincerely,

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

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REPORT

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PLEASE TEAR OUT, FOLD, AND MAIL.

ADVISORY BALLOT

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( ) Member of General Government Unit

( ) Supervisory Unit

( ) Other Bargaining Unit

( ) Not Organized

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

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

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

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

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

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

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

( ) Provide death and disability insurance for temporary employees.

PLEASE TEAR OUT, FOLD, AND MAIL.

COMMENTS:

Postage Will Be Paid By—

ALASKA PUBLIC EMPLOYEES ASSOCIATION

130 Seward Street, Suite 508

Juneau, Alaska 99801

HISTORY

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

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

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

and needs concerning their future security and retirement.

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

FOREWORD

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

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

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

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

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

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

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

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

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

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

COMPARISON OF FUTURE RETIREMENT BENEFITS

PUBLIC EMPLOYEES RETIREMENT SYSTEM/SOCIAL SECURITY SYSTEM

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

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

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

EXPLANATION OF FUTURE RETIREMENT BENEFITS

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

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

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

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

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

Assumptions:

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

(2) Employee does not elect survivor option

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

AT AGE 55

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

Assumptions:

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

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

(3) Employee becomes age 55 while in [illegible] te service.

(4) Employee does not elect survivor option.

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

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

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

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

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

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

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

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

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

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

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

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

WILLIAM M.
MERCER

Table 1

Estimated Monthly Social Security Retirement Benefit
At Age 65

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

*with spouse's benefit

Assumptions

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

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

(3) Spouse is same age as worker.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

THE BOTTOM LINE

STRUCTURE OF THE SOCIAL SECURITY BENEFIT FORMULA:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

RECOMMENDATIONS IN GENERAL

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

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

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

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

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

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

(A) RETIREMENT

1. SOCIAL SECURITY

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

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

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

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

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

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

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

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

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

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

WIFE'S BENEFIT

A wife or dependent husband of a retired worker receives [illegible]0% of the spouse's benefit at age 65. A wife may receive this benefit at age 62, but her benefit will be reduced by 25/36 of 1% for each month before she is 65 years old that she receives the benefit. A wife may receive her benefit at any age if she is caring for a child entitled to a child's benefit. Payments cease when either spouse dies, or when they are divorced after less than 20 years of marriage, or there is no child entitled to a child's benefit and the wife is under age 62.

CHILD'S BENEFIT

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

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

REDUCED BENEFITS BASED ON EARNINGS

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

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

TO SUMMARIZE

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

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

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

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

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

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

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

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

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

(A) RETIREMENT

2. P.E.R.S.

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

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

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

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

A. 75% joint and survivor option; or

B. 50% joint and survivor option; or

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

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

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

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

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

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

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

(B) SOCIAL SECURITY SURVIVORS' BENEFIT

1. DEATH BENEFIT

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

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

(a) not married

(b) not entitled to widow's benefit

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

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

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

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

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

MAXIMUM LIMIT OF FAMILY BENEFITS

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

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

DEATH BENEFIT

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

LUMP SUM DEATH BENEFIT (Non-occupational Cause)

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

50% JOINT SURVIVOR OPTION (Non-occupational Cause)

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

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

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

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

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

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

RECOMMENDATION:

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

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

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

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

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

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

(C) SOCIAL SECURITY DISABILITY BENEFIT

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

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

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

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

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

Eligibility:

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

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

OR

Occupational disability (no minimum service requirement)

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

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

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

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

RECOMMENDATION

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

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

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

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

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

For example, let us assume:

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

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

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

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

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

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

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

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

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

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

RECOMMENDATION

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

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

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