State of Minnesota

Report of

PUBLIC RETIREMENT STUDY COMMISSION

A

Legislative Interim Commission

To Study

Public Employee Retirement Systems

Submitted to the
Legislature of the State of Minnesota *January, 1957*

State of Minnesota

Public Retirement Study Commission

236 State Capitol - St. Paul 1, Minnesota

January 1957

The Honorable Orville L. Freeman, Governor
and Members of the Legislature of the
State of Minnesota:

The work of the Minnesota Public Retirement Study Commission, as authorized under Chapter 829, Minnesota Session Laws of 1955, has been completed.

A summary of the Commission's report and recommendations are hereby respectfully transmitted.

Harry L. Wahlstrand

Harry L. Wahlstrand
Chairman

HLW:mrb

LEGISLATIVE INTERIM COMMISSION

TO STUDY

PUBLIC EMPLOYEE RETIREMENT SYSTEMS

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Chap. 829
Authors: Goodin & Ottinger

AN ACT

CREATING AN INTERIM COMMISSION TO STUDY EMPLOYMENT RETIREMENT SYSTEMS AVAILABLE TO EMPLOYEES OF THE STATE AND POLITICAL SUBDIVISIONS OF THE STATE, AND APPROPRIATING MONEY THEREFOR.

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF MINNESOTA:

Section 1. There is created a commission to be called legislative commission to report on retirement benefit plans available to government employees. The commission shall consist of five members of the senate to be appointed by the committee on committees of the senate and five members of the house of representatives to be appointed by the speaker.

Sec. 2. The commission shall study the various retirement benefit plans available to employees of the state and employees of the various political subdivisions, political corporations, and school districts of the state, including within the scope of its enquiry the governing law, management, financial condition, and benefits of all such plans, any federal program for which such employees or any of them could be eligible, and such related matters as the commission deems proper for full legislative understanding and action.

The commission shall report fully to the governor and to the legislature and include in the report its recommendations in respect to any matter within the scope of its enquiry.

Sec. 3. Said legislative commission shall make its report to the governor and the sixtieth session of the legislature between November 15, 1956 and January 15, 1957.

Sec. 4. For the accomplishment of its purpose and the performance of its duty the commission and its committees may hold hearings at such times and places as may be convenient for the purpose of receiving evidence, and the commission and its committees may issue subpoenas in the manner any provided by its rules. The commission is authorized to secure directly from any board or executive officer managing any retirement program and from any executive department or agency of government, or from any official or employer of the state, such information as it may require, and all such boards, departments and agencies, officials, and employees are authorized and directed to furnish such information directly to the commission or to a committee thereof upon request made by the chairman.

Sec. 5. Members of the commission will serve without pay but they shall be allowed and paid for their actual and necessary expense incurred by them in their performance of their duty. The legislative research commission shall extend to it all practicable assistance. It shall have the authority to employ legal counsel, a secretary, and such other expert, professional, and clerical assistance as it may deem necessary to pay therefor; it may purchase stationary and other supplies, and it may do all things reasonably necessary and convenient to carry out the purpose of this act.

Sec. 6. There is hereby appropriated out of any money in the state treasury not otherwise appropriated $25,000, or so much thereof as may be necessary to pay expenses incurred by the commission. For the payment of such expenses the commission shall draw its warrant upon the state treasurer, which warrants will be signed by the chairman or by such other or additional member of the commission as the rules of the commission may provide, and the state auditor shall then approve and the state treasurer pay such warrants as and when presented.

ORGANIZATION AND OPERATION OF THE COMMISSION

The Public Retirement Study Commission, organized in accordance with Chapter 829, Laws of 1955, consists of five members of the House and five members of the Senate.

The Commission commenced operation in July, 1955. George V. Stennes & Associates were retained as consulting actuaries. An executive secretary and recording secretary were employed.

Over a period of 18 months the Commission held 22 regular meetings and three executive committee meetings. A number of the meetings were two day sessions. Five members attended every meeting and the average attendance of the entire membership of the Commission was 90.5%. In addition, members of the Commission were called upon to appear before numerous groups of officials and employees throughout the State.

ACTUARIAL CONSULTANTS

The Commission's actuarial consultants, Geo. V. Stennes & Associates of Minneapolis, Minnesota, were represented at each meeting of the Commission by either Mr. Stennes or Mr. Gerald Toy, or both. The lack in Minnesota pension laws of requirements or standards as to actuarial analysis and reports as to pension funds considerably increased the need of the Commission for actuarial assistance. In addition to performing the essential functions of analyzing pension systems and possible revisions thereto, the Commission's actuaries supplied valuable practical advice drawn from broad experience in the field of industrial pensions and simultaneous activities as consultants to the "Governor's Retirement Study Commission" of Wisconsin which body is similar in function and purpose to this Commission. Mr. Stennes is a Fellow and Mr. Toy an Associate member of the Society of Actuaries.

RECOGNITION AND APPRECIATION

Resources as to funds, manpower and time would have confined the Commission to a less thorough study and to a smaller portion of its extensive assignment had it not been for the general cooperative assistance of many officials and groups plus unusual assistance from several sources.

To officials of three life insurance companies and to the companies they represent go the Commission's appreciation for very valuable assistance.

Mr. Robert F. Preston, 2nd vice-president and actuary of the Northwestern National Life Insurance Company, Mr. Raymond W. Bender, actuarial director of the Prudential Insurance Company of America, Mr. Walter J. Rupert, vice-president and chief actuary and Mr. Walter Chapin, 2nd vice-president and actuary of the Minnesota Mutual Life Insurance Company not only met with the Commission but subsequently presented actuarial surveys of the St. Paul Police Relief Association and the Minneapolis Fire Department Relief Association. Such surveys represent considerable effort and expense.

The Commission commends the State Employees Retirement Association, the Public Employees Retirement Association, the Minnesota Highway Patrolmen's Retirement Association and the Game Wardens Retirement Association for their spirit of cooperation in providing actuarial services as to their respective funds beyond the amount the Commission could afford. Public Employees Retirement Association provided a very good actuarial survey at considerable expense.

The Commission is particularly indebted to Mr. Frederick N. MacMillin, executive director of the Wisconsin Retirement Fund for coming to St. Paul to meet with the Commission and for valuable contributions he made to the Commission's information.

Mr. Victor Christgau, former director of the division of Employment and Security of the State of Minnesota, and now director of the Bureau of Old Age and Survivors Insurance with the Social Security Administration was very co-operative in supplying the Commission with valuable information and data.

The League of Minnesota Municipalities cooperated with the Commission and supplied the results of research by its staff.

The public examiner and five members of his staff contributed considerable information to the Commission as did Mr. Theodore Abramson from the office of the commissioner of insurance.

Mr. Donald Hillstrom, secretary to the Minneapolis Fire Department Relief Association and Mr. Robert Dunning, secretary of the St. Paul Police Relief Association are commended for their cooperation in preparing a considerable amount of data necessary as a basis for actuarial evaluation of those two funds.

It is gratifying to report that the executive secretaries of the three major pension funds attended nearly every meeting of the Commission as did representatives of many of the other pension funds.

Many individuals and groups could well be singled out for mention. Wherever such listing is stopped there would still be others equally deserving of attention. Space prohibits further enumeration but the widespread cooperation from many persons and groups is further illustrated by the following summary:

Officers, board and committee members from the public employee pension funds presented suggestions, information and requests to the Commission. Representatives of a number of employee groups, public officials of the State and organizations representing various types of subdivisions appeared before the Commission.

PURPOSES OF THIS REPORT

The Public Retirement Study Commission is charged by Chapter 829, Laws of 1955, with the responsibilities to study, analyze and report on as broad a base of subject matter as the name of the Commission describes.

Subject to limitations described in a later chapter, the purposes of this report may be outlined as to:

1. Analyze and report as to the condition of public employee pension funds as now constituted.
2. Set forth fair and workable alternatives in present pension funds to establish or preserve soundness and equity as to both the public and employees.
3. Study and set forth the soundest and most workable basis on which OASI (social security) could be incorporated into public employee pension provisions.

The intention of this report is to interpret and summarize the vast amount of technical information and data considered by the Commission in as readily understandable a manner as possible and also, in the same manner, to recommend the soundest, workable solutions to the problems that now exist.

SUMMARY OF MINNESOTA PENSION PROBLEM

Minnesota's three major statewide pension funds are State Employees Retirement Association, Public Employees Retirement Association and the State Teachers Retirement Fund hereafter referred to as SERA, PERA and TEACHERS. Besides these three, Minnesota has local teacher funds in Minneapolis, St. Paul and Duluth, the Minneapolis Employees Retirement Fund, 20 pension funds for paid policemen, 19 pension funds for paid firemen, the State Highway Patrolmen's Relief Association and the Game Warden's Retirement Association. In addition, there are approximately 400 volunteer firemen's relief associations.

Statutory provisions, including financing of these funds and their benefit levels, are different for each fund.

To avoid confusion the condition of the three major funds is summarized here. Such summary is illustrative as to the other funds which will be discussed later in this report.

The combined financial problem as to SERA, PERA and TEACHERS with their total of some 90,000 members may be summarized as follows:

To pay now and in the future that portion of total pensions that are due to employees services already performed, these funds should now have invested at 3% interest a total sum of	$ 272 million
They actually have invested some	70 million
The deficit as to past service, growing at the rate of 3% interest per year ($6 million) is therefore	202 million

The total pension to be paid because of past service is thus greater than $272 million by the factor of 3% interest.

The extent by which each current year of employee service adds to the total problem of the three funds can be illustrated as follows:

The present value of pension fund liabilities to employers because of last year's service is some		$ 31 million
Provision for this liability made last year:		
Employee contributions	$ 11.7 million	
State and subdivision contributions .	2.3 million	14 million
Addition to the deficit due to last year's services of employees		17 million

To prevent the three major pension funds, as now constituted, from accumulating still larger deficits will require increased financing starting now to the extent of $23 million each year. Broken down this means:

To pay 3% interest on past deficit	$ 6 million
To finance each year's additional pension liabilities, an additional	17 million
Total	$ 23 million

The relative significance of the $202 million deficit as to the three major pension funds is indicated by the fact that the employee pay from which pension deductions are made totals $205 million per year.

To add here the unfinanced liability of the 46 special service and local public employee pension funds would considerably increase all amounts. Additional reasons for ommission here are cited later.

MINNESOTA LEVEL OF PENSION BENEFITS.

The level of Minnesota pension benefits provided for public employees is on the high side as compared with other states and particularly so as compared with surrounding states.

Because of differences in benefits, privileges and conditions other than direct primary pensions, a tabular comparison tends to confuse unless based on actuarial evaluations which are not available.

It is indicative however to note that SERA usually requires 29 years of service to provide pensions at age 65 of one-half of final 5 years salary. Teachers requires 28 years for one-half of average salary and PERA requires as little as 20 years to provide one-half of last 10 years average salary. More states require 35 years or more of service to reach such levels than require 30 years or less.

A LOOK AT OTHER STATES

Examination of the public employee pension situation in other states reveals that Minnesota's problems are more typical than unusual.

In a considerable number of states examinations similar to the Minnesota study reported here either are now under way or have been made since 1951.

A few public employee pension funds have been found to be adequately financed but in an overwhelming majority of cases conditions similar to Minnesota, in some instances worse, have been revealed.

Corrective measures adopted in the various states vary widely but all are aimed at remedy of unsound financing. South Dakota abolished its own plans and adopted OASI alone. Several states adopted OASI in lieu of local plans. Iowa terminated its unsound system, adopted OASI and created a new state system to supplement social security. A number of states have adopted extensive revision of their own plans and shifted deficits to social security and then several have taken the opposite course of placing their own funds on a basis of sound financing.

FINANCING PENSIONS

Financing is the phase of pension problems that has been more misrepresented, evaded and postponed than any other element of the question. Groups seeking increases in pension benefits have feared to jeopardize requests by a revelation of costs. Unfounded estimates of costs have been seized upon by all concerned and in few instances have accurate, complete, actuarial evaluations been available.

Perhaps a generalization will better illustrate the problem as to the three major pension funds of SERA, PERA and TEACHERS than would a detailed analysis:

> Of the 90,000 total membership of the three funds the total number now retired is only 3,600.
>
> Typical of such funds elsewhere, these three 26 to 28-year old systems will have steadily increasing numbers of people retiring each year with considerably larger average pensions. The total number on retirement will increase until about 20% of the number of members will be on pensions. This means some 20,000 people now drawing pay checks will be drawing pension payments.
>
> The public will be paying salary to a like number of people performing the pensioner's former services.

Unless such level of pension benefits as is continued is financed adequately the $202 million deficit already noted will eventually double or triple in a generation depending on the annual rate of deficiency.

FUNDING OF PENSIONS - A RECOMMENDATION

The principles of funding are readily understandable if the mechanics of the process are not allowed to confuse the issue.

As the employee works his salary deductions are invested so as to add a considerable interest gain to his actual deductions.

If government "matching contributions" are not at the same time invested, government - when the employee retires - must match both the employee's deductions and accumulated interest.

It may take 30 or more years to build the pension value.

The pension benefit level at age 65 pays out in 12 years more than the total fund of employee accumulations plus government matching of that amount.

THEREFORE - if government has not accumulated its share of the pension fund

Government must make up its share within 12 years

or

Reduce pensions to cut the government obligation.

This is not theory.

The Commission recommends that: FUTURE PENSION OBLIGATIONS OF ALL RETIREMENT FUNDS IN THE STATE SHOULD BE FINANCED ON A BASIS OF ADVANCE FUNDING.

Additional reasons cited for this recommendation are:

1. Labor costs of current services will not be postponed to a future generation.

2. Retired former employees would have as security for their pension assets accumulated during their employment rather than an amendable, repealable law.

3. Taxpayers and legislators a generation hence may not feel obligated to keep the unfinanced promises of a previous generation.

4. A funded method will quickly reflect actual costs of further "liberalization" of pension benefits while deferred financing masks costs of even unsound liberalizations.

5. Considerably smaller long range dollar costs are required because current funds for future pensions are invested at interest.

ACTUARIAL VALUES

Many people have in inumerable instances brushed actuarial values aside as theoretical. In fact, actuarial valuation as to pensions is simply accrual budgeting of liabilities. It is only theoretical to the same extent as when a business firm learns through accounting whether it is gaining or losing money instead of relying on funds in the cash register and ignoring unpaid bills.

If pension obligations are payable the actuarial deficits are no more theoretical than are the pensions to be paid.

THE SIGNIFICANCE OF DEFICITS AND RESERVES.

The $202 million of deficits cited for the three major funds, plus extensive deficits in regard to the other funds in the State, constitute the present value of pension obligations for past service which to date have not been funded. This unfinanced obligation can be discharged by several means:

1. Pension benefits can be reduced to a level that can be financed by the assets on hand and the present rate of financing.

2. A feasible level of financing can be determined then pension plans revised to a condition of soundness within that level.

3. The problems can be further postponed till the inevitable time when staggering deficits far in excess of present amounts will force drastic measures.

A frequently used excuse for justification of pension deferred financing is that pension funds should not build up huge reserves of taxpayers money.

It must be noted that deficits are such reserves as to liability except that instead of being invested to reduce the total cost they increase by interest not earned and increase the ultimate total cost.

There is the additional fact that the accumulation of deficits makes costs appear low in early years only to fall with accumulated force in later years.

Besides the general causes of deficits, each of the major Minnesota pension plans has special provisions, or privileges, or benefits which are costly but of value to a limited few. Material reduction in deficits - and at the same time greater equity between members of each fund - can be accomplished by removing some of these special p rovisions. Reductions of this nature would not reduce the general level of benefits.

Complementary to the previous recommendation that pension plans, in the future be currently funded, the Commission further recommends that:

SUCH PAST DEFICITS AS ARE NOT ELIMINATED BY REVISION IN PENSION FORMULAS AND CONDITIONS SHOULD BE AMORTIZED OVER A PERIOD NOT TO EXCEED 40 YEARS WHEN DEFICITS ARE DUE TO CURRENTLY EMPLOYED PEOPLE, AND NOT TO EXCEED OVER 15 YEARS AS TO DEFICITS DUE TO PERSONS ALREADY RETIRED.

Additional reasons are:

1. An extended period of amortization will, in time, accomplish the necessary objectives and will facilitate financing of amortization within a containable level of annual cost.

2. A period of greater than 40 years approaches the level of perpetual interest on the deficit. Thirty years amortization would be preferable if feasible financially.

3. Deficits as to retired people should not be financed over a greater period than the probable life expectancy of retired persons.

RESULTS IF PAST PENSION FINANCING POLICY IS CONTINUED.

The question may well be asked - "What would be the result of not following the Commission's recommendations to fund current liability and amortize the deficits over a period of years?"

Obviously the results in regard to each pension fund would be so similar that an illustration as to SERA applies to all funds.

Stated as percentages of payroll:

The annual cost of SERA as now constituted . . . . . . 13% of pay

Employees now pay . . . . 6% of pay

The State in recent yearshas paid approximately , . . . 3% of pay

<u>The State could have financed the pension for 7% of pay per year</u>.

The deficit due to past service unfinanced . . . . . . $ 40 million.

Assume employees will continue to pay 6% of pay per year.

To keep the deficit from growing (not pay it off) the State must now pay 8.85% of pay. ($1.2 million per year interest at 3% on the deficit which is equal to 1.85% of pay plus 7% normal support).

If 3% continues to be the state rate of support of SERA in 20 years the fund will not have sufficient income to meet annual pension payments. The annual state payments to meet disbursements would rise rapidly each year so that in 40 years:

Deficit would exceed	$200 million
State annual payments just to meet pensions would have to be	17.5% of pay
In addition to employee payments of	6% of pay
The necessary annual cost without any payment on deficits would be	23.5% of payroll.

PRINCIPLES OF PENSION POLICY.

The adverse effects were frequently apparent to the Commission of the fact that in the past there has been no general pattern or principles or policies as to public employee pensions. Throughout this report evidence of this fact will frequently occur.

The Commission after considerable study adopted a number of basic principles as the standards on which the Commission's report and recommendations are based.

* Uniformity as to pension treatment of the various groups of public employees should be sought.

  Historically extra public financed benefits added to one fund have led to discontent and demands for similar extra treatment for members of other funds. This compounds inequities, disruptions of financing and demands on the legislature for "equivalent benefits".

* Equity should be established and maintained within each pension fund.

  The benefit "formula" and provisions should not be such that some members receive "considerably more for their money" than others with resultant extra deficits to the fund from some employees and often not even "fair" return in proportion to other employees.

  All options should be equal in value in relation to costs, employee contributions, etc.

* Age 65 should be considered the normal age for retirement.

  Beside being the OASI age, the"employability" of the average person plus the considerably higher costs of providing a reasonable level of pensions at a lower age all indicate 65 as the best age around which to build retirement goals.

* In all cases of optional retirement at ages less than 65, benefits should be on a basis of full actuarial discount.

  No employee should receive a "bargain" at the expense of other employees and the fund because of early retirement. This has been a material extra cause of deficits to many pension funds.

Often early retirees seek employment elsewhere acquiring pension benefits or OASI benefits through employment after "early retirement".

* Thirty years should be considered the minimum period of service necessary for a pension plan to provide the "normal level" of pension benefits.

Young people now entering private industry will pay OASI taxes for 40 or more years before age 65.

The costs of providing "lifetime" levels of retirement on a smaller proportion of an employees employed life are excessive both as to the employee and as to government.

Government has no obligation to provide a lifetime level of retirement to an employee because of a few years of public service.

* Fifty per cent of average salary is a fair "normal level" of benefits for a pension fund to provide for an employee of 30 years service.

This is from 60% to 90% more than the primary benefits of OASI alone.

Pension plans are not obligated to provide alone and at government subsidy the level of retirement an employee might wish. Some area of private responsibility should remain.

* Governmental employer support of pension costs should not exceed equal matching of the employees contribution to his pension.

To provide a greater share of the benefits at governmental expense tempts employees to work for extra benefits and marginal benefits because the cost to the employee is small.

Taxpayers can not be expected to pay a larger share for employee pensions which exceed in level the pension the taxpayers receive in connection with their own employment.

Pensions should not become "hidden extra salary".

* As to Minnesota, at this time the best basis for financing public employee pensions is at an employee contribution rate of 6% of pay (up to $4,800 per year) with government providing an equal matching amount.

This basis will provide pensions at the levels described above.

The State and subdivisions have the extra burden of financing accumulated deficits.

At this level it is much more likely that pension systems will be developed into a condition of soundness without ultimate cuts in benefits.

There is no indication that employees generally are willing to pay one half of the cost of higher pensions.

Summarizing as to level of pension benefits, it is recommended that:

PUBLIC EMPLOYEE PENSIONS SHOULD BE DESIGNED TO A LEVEL OF BENEFIT THAT WILL PROVIDE TO AN EMPLOYEE WITH 30 YEARS SERVICE AND WHO HAS REACHED AGE 65 A PENSION OF APPROXIMATELY ONE-HALF THE AVERAGE SALARY FROM WHICH THE EMPLOYEE HAS HAD PENSION DEDUCTIONS.

DANGERS OF UNFINANCED INCREASES IN PENSION BENEFITS.

One of the most adverse factors encountered in a study of pension funds is the frequency of occasions when pension benefits have been increased as to selected groups with too little and often with no contribution on the part of the benefitted persons.

All such increases jeopardize the financing of the pension fund and are inequitable to all employees not benefitted or not benefitted in proportion.

* Favored employees "get something for nothing" or at least "bargains" at the expense of the fund.
* The total costs of pensions plans are so increased for the benefit of a few that the level of benefits may become jeopardized.
* Success by one group in obtaining "special bargains" invites other groups to fight for similar or greater bargains.

Besides many small kinds of adverse increases three types of adverse increases in benefits have occurred frequently and at considerable extra cost.

1. Prior Service Credit - Employees are allowed to "buy" pension service credit for years before they were members of a fund. If they pay their entire share of the cost they confront the pension fund with an extra

deficit for services long since performed. Too often they have not even been required to pay the entire share of the cost.

<u>This is a major cause of deficit to PERA.</u>

2. Benefit "formulas" or provisions granting retroactive pension increases unsupported by employee contributions of a share of the cost, formulas basing benefits on five or ten highest years of salary instead of actual salary and employee contributions cause both considerable deficits and considerable inequity. Under such formulas the highest salary is presumed to have been the salary throughout the whole term of employment.

   a. Pensions paid on the difference between actual and presumed salary are entirely a deficit to the fund and eventually the employer unless benefits are cut. They are something for nothing as far as the employee is concerned.

   b. The employee who receives the biggest raise in pay or promotion gets the most for nothing to the detriment of the fund and other employees.

Annuity tables such as TEACHERS have similar effect to the extent they provide extra pensions beyond the level employee contributions warrant.

3. Raises in benefits to retired persons without special financing is a detriment to the pension funds and to employees.

   a. These raises are always "something for nothing".

   b. Sudden additional deficits are added to the fund.

   c. Unwarranted costs not inherent in the pension fund level of benefits make pension costs appear much more expensive than they really are.

   d. These raises incite employees to also want extra "free" benefits.

e. Current labor costs due to pensions are inflated for services long since rendered.

<u>The Commission recommends:</u>

1. PRIOR SERVICE CREDIT SHOULD IN THE FUTURE NEVER BE ALLOWED EXCEPT WHEN SEPARATELY AND ADEQUATELY FINANCED BY BOTH EMPLOYEE AND EMPLOYER.

2. BENEFIT PLANS OR "FORMULAS" SHOULD IN THE FUTURE AVOID SPECIAL BARGAINS AND OTHER INEQUITIES AND SHOULD BE RELATED TO ACTUAL PAY AND EMPLOYEE CONTRIBUTIONS.

3. RAISES IN PENSION BENEFITS TO RETIRED PERSONS SHOULD BE RECOGNIZED AS A FORM OF WELFARE ASSISTANCE AND NOT DISGUISED AS PENSIONS. SUCH WELFARE GRANTS SHOULD IN ALL INSTANCES BE SEPARATELY FINANCED AND NEVER CHARGED TO THE PENSION FUNDS.

<u>ACTUARIAL SURVEYS OF PENSION FUNDS</u>.

An adequate actuarial survey is to a pension fund what competent accounting is to a business. No one would suggest a business should run without accurate knowledge as to its appreciation of assets, accrual of liabilities, accounts receivable and payable and cost of various operations.

An actuarial survey is basically accrual accounting analysis of a pension fund.

It is not enough that the Legislature, the employees and the public know general overall totals as to each pension fund. An accurate and specific analysis should be available as to the effect on the fund of each facet of its operation.

> Is there inequity in the fund so that members with certain conditions such as age, tenure, etc., get more for their money than other members?
>
> Do certain options or alternatives cause loss to the fund?
>
> What are the costs of the various benefits that combine to make up the pension plan?
>
> What are the "turnover recovery" and mortality rates in recent experience? (This factor is subject to fluctuation due to a number of causes).

<u>Equally important</u> with a knowledge of actual operation of a pension fund is <u>an accurate basis for an analysis of the costs and effects</u> on a pension plan of <u>the biennial crop of proposed amendments to the plans</u>.

No accurate and reliable analysis of proposed changes and their effects on the funds is possible unless they are based on the basic data which only a recent actuarial survey would provide.

Minnesota has generally been very deficient as to actuarial surveys of its pension funds.

PERA has never had an adequate actuarial survey until 1956. Projections on prior occasions were of limited value.

TEACHERS reported having had a survey in 1947.

SERA reported a survey five years ago although the Commission was unable to obtain definite information as to the effects of a number of individual factors in the plan.

It should be emphasized that a good actuarial survey is considerably more than a general "projection" made by an actuary just as in business a trial balance audit is not an accounting analysis.

It is reasonable to assume that had there been good actuarial evaluation of the pension funds many unsound and inequitable provisions would never have found their way into the pension funds. Doubtless also remedies would have been applied at an earlier date.

If sound pension plans are to be established and maintained there must be regular and thorough actuarial surveys.

If changing conditions as to interest earnings, mortality, turnover, are to be noted and adjustments made before accumulative effects are too great, there must be frequent actuarial surveys.

If sound financial policies and the maintenance of correct rates of financial support are to be effected the adjustments necessary must be actuarially determined.

The Commission recommends -

LEGISLATION SHOULD BE ENACTED REQUIRING THAT EACH PENSION FUND OR ASSOCIATION ORGANIZED UNDER THE LAWS OF THE STATE OF MINNESOTA FOR THE PURPOSE OF PAYING PENSIONS OR RETIREMENT BENEFITS MUST CONFORM WITH THE FOLLOWING:

REQUIREMENTS OF ACTUARIAL SURVEYS FOR MINNESOTA FUNDS.

An actuarial survey of each fund shall be made every four years.

The first such survey shall be made as of January 1, 1958 and must be delivered not later than June 1, 1958 to such agency of the legislature dealing with retirement plans as may have been established or, if no such agency exists, then at least one copy of such survey shall be delivered to each body of the Legislature at the beginning of the 1959 session. Successive actuarial surveys as herein provided shall follow the same course of procedure:

1. A census of each of active and deferred annuitant classes by attained age, sex and service. The census shall show number of members, their aggregate annual salary, their contributions for the past plan year, and their prospective retirement annuities under the plan.

2. A census of each of the classes of retired members, disabled members, and survivors of members by type of annuity, attained age, and sex (and duration where applicable). The census shall show number of retirants and amount of annual annuity payable as of the survey date.

3. An actuarial balance sheet showing assets, liabilities, and the deficit from full funding of liabilities.

4. A statement of assumptions made in determining present values of benefits and contributions, including the following:

   a. Interest rate

   b. Mortality rates (before and after retirement)

   c. Withdrawal rate

   d. Salary scale

5. Each actuarial survey shall include findings as to:

   a. The normal support rate required to adequately finance currently accruing liabilities.

b. Such additional annual rate of support as is required to amortize the deficits found by the end of the fiscal year of the fund occurring in 1997.

Nothing recommended herein is intended to preclude the various pension funds from requesting, or the Legislature determining to amortize any deficit in a shorter time than the limit herein set forth.

The survey shall be made by an actuarial firm which has on its staff either a Fellow of the Society of Actuaries or an actuary who has at least fifteen years of service to major public employee funds.

Comment: Examination of the pension funds by the public examiner is useful as to determining legality and propriety of the transactions of operation. These examinations do not perform any of the functions of actuarial surveys.

RECORDS AND ACCOUNTS OF PENSION FUNDS.

The present records and accounts of the pension funds have in varying degrees proven unsatisfactory. The Commission and its actuaries were handicapped in several important respects by the inability of the pension funds to supply data except after a time consuming and expensive search of existing records. This condition actually tends to conceal many factors in the operation of the funds.

The PERA fund at considerable expense revised its records to a mechanized system meeting most of the requirements herein intended; this fund has already been commended for this action.

The requirements which the records and accounting systems of the pension funds should satisfy are on file with the Commission. To save space they will not be enumerated in detail here.

In general the requirements are such as to coincide with the data needed for an adequate actuarial survey as already outlined.

Records kept as required will considerably reduce the cost of the actuarial surveys.

It is recommended that -

> PROPER LEGISLATION BE ENACTED REQUIRING EACH PENSION FUND SUBJECT TO THE REQUIREMENTS FOR ACTUARIAL SURVEYS SHOULD BE REQUIRED TO ESTABLISH, DURING THE NEXT YEAR, RECORDS IN ACCORDANCE WITH THE REQUIREMENTS OF SUCH LEGISLATIVE INTERIM COMMITTEE OR COMMISSION CONCERNED WITH RETIREMENT PLANS AS MAY BE ESTABLISHED BY THE 1957 SESSION OF THE LEGISLATURE OR, IF NO SUCH AGENCY OF THE LEGISLATURE IS SO ESTABLISHED, THEN THE MINIMUM REQUIREMENTS AS TO RECORDS SHOULD BE MADE A PART OF THE STATUTORY REQUIREMENTS OF THE VARIOUS FUNDS.

WHY ALL EMPLOYER SUPPORT OF PENSIONS SHOULD BE REGULAR CONTRIBUTION OF A PER CENT OF PAYROLL.

The reasons are overwhelming why public financial support of pensions should be a per cent of employee pay contributed to the pension funds by each governmental employer unit. This is the opposite of previous practice in Minnesota.

There are many general reasons for this conclusion and, for each pension fund, additional reasons particularly applicable to each fund.

General Reasons and Principles Applicable to All Funds:

1. Pension liabilities are labor costs incurred with each employee pay check.

2. Labor costs due to pensions should appear as an expense of each governmental unit or function truly as employee salaries.

3. Failure to finance pensions currently as a labor cost has resulted in several undesirable results:

   a. Deficits mean postponing labor costs of this generation to fall on the next generation.

   b. The inevitable relationship between increases in pension benefits and pension costs is disguised.

4. No other system has been successful in maintaining relationship between employee and employer sharing of pension costs.

5. Every responsible pension authority consulted or studied strongly advised payroll support system.

Additional Reasons Why Employer Support of SERA Should be by Payment from the Same Funds as the Employees Payroll is Paid.

The state contributions to SERA have in the past come from two sources:

1. State units principally operating on fees, federal aid, etc., have paid per year to SERA approximately half of current employers liability.

2. The Legislature has ordered a property levy for such other state support of SERA as has been paid to the fund. This has recently amounted to less than one-third of annual accrual of liability.

Results of this practice are:

1. Part of the pension labor costs of non-tax supported functions have become deficits and thus are shifted away from the function and to the taxpayer.

2. The federal government, which agrees to pay each year the established employer rate of pension costs on all employees paid by federal funds such as the Department of Employment and Security, has in fact only paid half of the real costs shifting the other half to the Minnesota taxpayers.

3. Units of the state who mingle tax funds with fees, receipts for services, grants, etc., have been classed as totally tax supported funds leaving to the taxpayers the entire pension liability of all operations.

   As only one example - the University of Minnesota - the pension liability as to employees in so-called "self-supporting" services such as dormitories, food services, etc., becomes a cost to the taxpayer rather than to the services.

Some of the amounts of money involved can be readily estimated.

From recognized non-tax supported units of the state with an annual payroll of $28 million, the amount of deficit left to the taxpayers is approximately $750,000 per year.

The proportion of non-tax money in the "mingled fund" units is considerable but cannot be readily determined as to amount.

Only by charging each employee payroll source can the full government costs of the employees pension be properly allocated.

Only by collecting payments on past deficits in the same manner can deficits be paid in general from the source from which the deficit came.

Special Reasons as to PERA for Employer Support Based on Payroll.

For PERA with its hundreds of subdivision employer units support based on payroll is obviously the only fair and sound method of support.

In addition, full funding through government support based on payroll is even more imperative to PERA than any other fund if equity between the many units of government is to be mentioned.

Why Employer Support of TEACHERS Fund Should be a Per Cent of Payroll Paid by School Districts.

1. The property levy would be on the same taxpayer as if the state levied the tax.
2. Teacher pension costs would be properly allocated instead of disguised as state government costs.
3. Most school districts consider that pensions cost them nothing.
4. The TEACHERS fund is much more likely to maintain full government funding than if the legislature is asked each session to appropriate funds.

The Commission recommends that:

ALL EMPLOYER SUPPORT OF EACH OF THE THREE MAJOR PENSION FUNDS SHOULD BE PAID BY THE EMPLOYING UNIT OF EACH EMPLOYEE AS A PER CENT OF THAT PART OF THE EMPLOYEE'S PAY THAT IS SUBJECT TO PENSION DEDUCTIONS.

TRANSFER OF MEMBERSHIP BETWEEN PENSION FUNDS.

Recommendations of the Commission, if adopted, will have the effect of establishing a considerable degree of uniformity or equivalence of cost, employee contributions and benefits between the three major public employee pension funds in the state. Other public employee pension funds, with the exception of state and local funds for employees in safety and enforcement services, are sufficiently similar in membership composition and theory of operation so that they should be included in the action proposed here.

It is deemed obvious that both equity as to employees and the interests of the state and its subdivisions is best served by facilitating movement as to employees between the governmental units of the state.

There exist reciprocity laws between some of the funds but they appear to fall short of desirable objective.

Therefore it is recommended that:

GENERAL LEGISLATION SHOULD BE ENACTED PERMITTING TRANSFER OF SERVICE CREDIT AND APPROPRIATE ASSETS BETWEEN PUBLIC EMPLOYEE PENSION FUNDS IN REGARD TO ANY PERSON CHANGING EMPLOYMENT ELIGIBILITY FROM ONE PENSION FUND TO ANOTHER PROVIDED THAT NO SUCH CHANGES SHOULD BE ENABLED BETWEEN A FUND WHOSE MEMBERS ARE UNDER OASI COVERAGE AND A FUND WHOSE MEMBERS ARE NOT UNDER OASI COVERAGE.

THE VARIOUS FUNDS INVOLVED SHOULD BE REQUIRED TO TRANSFER ASSETS TO COVER THE FULL ACTUARIAL LIABILITY, BOTH EMPLOYEE AND EMPLOYER, OF SUCH SERVICE CREDIT AS IS TRANSFERRED.

THE THREE MAJOR PENSION FUNDS

The recommended steps set forth in this section of the Commission's report have one major objective -- sound, workable and equitable pension systems.

The public must not be subjected to further accumulation of unrevealed but delayed and ultimately excessive tax burdens.

Employees should have pension plans on which they can safely rely.

It is essential that the following principles be clearly established before consideration of the steps to be recommended:

1. Justice and soundness require that as to each pension fund two plans be set forth:

   (a) The best solutions for continuation without OASI

   (b) The best solutions if OASI is included in the total pension scheme.

   Adoption of OASI is dependent on two factors -- enablement by the legislature and passage of a referendum by employees. Both groups are entitled to select between the two best possible plans. To offer a referendum between an OASI plan and the unfinanced and somewhat unsound present plans would be dishonest and misleading.

2. All recommended steps are designed to be in accord with the principles, practices and equitable provisions recommended elsewhere in this report.

3. All steps are intended to provide adequate financing of pensions in-so-far as the authority of the State of Minnesota is concerned based on the belief that further postponement of financing, with the inevitable result of even higher ultimate costs, will in time jeopardize the pension systems.

4. All steps recommend provide larger benefits for past service than

employee past contributions warrant in recognition of employees expectations.

5. Uniformity between the three major funds as to equity, financing and benefits is maintained as closely as possible.
6. Pension benefits are the maximum that can be provided within the financing set forth. Greater benefits would require larger contributions by both employees and the governmental employers.
7. To report in detail the extensive study made by the Commission with all of the technical information collected would cause the report to be excessively long and render understanding more difficult. The Commission's research material will be open to any member of the Legislature who desires more detailed information.

STATE EMPLOYEES RETIREMENT ASSOCIATION.

The State Employees Retirement Association, started in 1929, has never been adequately financed. Pension benefit limits were reduced one-third to a maximum of $100 per month in 1939. In the years since benefit levels and other provisions have been frequently liberalized. The fund is set up on the principle that all benefits not financed by employee contributions are an ultimate obligation of the State.

The pension formula contains a number of inequitable provisions. Benefits are only loosely tied to individual employee contributions so that some employees get "much more for their money" than others.

1. An extra $5 per year of pension for each year of service is not related to contributions or salary.

2. The basic formula creates a deficit to the fund on retirement of employees with few years of service but gives the employee of many years of service less than he is entitled to.

3. The provision basing pensions on the "5 highest consecutive years" of service has several inequitable features:

   (a) Government must more than match employees contributions.

   (b) The employee who gets a large pay raise or promotion a few years before retirement gets a "gift" of more government money and causes a bigger deficit than the employee who receives small raises or no promotions.

Financial Condition of SERA.

The following figures are based on data submitted to the Commission's actuary by the actuary for SERA and by the fund itself and doubtless would be somewhat altered if a complete actuarial survey were made at this time. Such a survey would doubtless modify the figures to some extent but would not change the fundamental principles illustrated.

The present deficit as to past employees service is . . . . . . $ 40 million

The per cent of payroll needed per year to meet current accruing costs would be at least 13%

(In recent years employees have been paying 6% and government approximately 3% per year).

The per cent of payroll required to amortize the deficit over 40 years would be 2.6%

Total annual per cent of pay cost to finance present fund until the deficits are paid would be 15.6%

In dollars, the above would be:

Current cost	$ 8.5 million
Amortization cost . .	1.7 million
Total Annual Cost -	$10.2 million

A Sound Modified SERA Plan.

The plan set forth here is based on principles already enumerated and, in the judgment of the Commission, is the soundest workable and equitable basis for the continuation of SERA. Several objectives of the plan are:

1. A revised disability benefit is proposed and survivorship benefits are added.

2. The principal deficit causing inequities between employees are removed as to future service. Special bargains to some short term employees and some other groups are eliminated and they are made eligible for OASI.

3. The unfinanced $5 pension per year of service is removed.

4. The proposed benefit formula will provide substantially as large a pension for employees with 30 years tenure as the present basic formula and will provide larger pensions for longer years of service.

5. The $200 maximum limit on pensions regardless of years of service and contributions is eliminated as unfair.

PROVISIONS OF THE MODIFIED SERA PLAN.

The main provisions of the modified SERA plan as approved by the Commission are outlined below:

1. COVERAGE: Unlimited full time employees are to be included, with the following exceptions.

   a. Employees classified by the civil service commission as "labor service employees" are not to be included.

   b. New employees over age 50 are not to be included unless they have credits for prior years of contribution to the fund equal to the number of years of their age in excess of 50, and have left their accumulations in the fund.

   c. Present members over 60 years of age who have less than six years of membership in the fund are not to be included in the modified plan. Their accumulated deductions are to be refunded to them after deducting the employee share of social security taxes retroactive to January 1956.

2. BENEFITS: The following benefits are to be provided by the plan.

a. Retirement benefit.

(1) Eligibility for retirement. A member over age 65 shall be eligible for normal retirement after ten years of service. A member over age 58 shall be eligible for early retirement after twenty years of service at an actuarially reduced pension.

(2) Normal retirement benefit at age 65. The retirement annuity shall be a percentage of average salary for total years of service. The average salary on which the annuity is based shall be calculated assuming that the annual salary for each year of service prior to January 1,1957 is the average of the five consecutive years prior to that date for which earnings were highest. The actual earnings for subsequent years of service will be used to determine average earnings. Earnings in excess of $4,800 shall be excluded for any year of service.

The percentage of average earnings for total years of credited service shall be determined by the table below:

First 10 years	-	1%	per year of service.
Second 10 years	-	1-2/3%	per year of service.
Third 10 years	-	2-1/3%	per year of service.
Subsequent years	-	3%	per year of service.

(3) Early retirement benefit. If retirement occurs prior to age 65, the annuity shall be the actuarial equivalent of the normal annuity of section 2. a. (2) and the death benefit described in section 2. b. (3).

(4) Late retirement benefit. The normal retirement benefit formula as outlined in section 2. 2. (2) shall be used for retirants over age 65.

(5) Optional retirement annuities. The board of directors must provide that the annuity at retirement may be taken in the form of an annuity payable for a period certain and for life thereafter; or as a joint and survivor annuity. Such optional forms shall be actuarially equivalent to the normal form.

b. Death benefit.

(1) Survivors benefits.

(a) Children under 18. Upon death of a member before retirement and after he has had ten years of membership, an annuity benefit shall be paid as long as there is a dependent and unmarried surviving child under age 18. The benefit shall be paid monthly in accordance with the schedule below. The maximum monthly benefit shall be $200 for any one family. Benefits shall cease upon remarriage of the widow.

Surviving mother	$ 65 per month
Each dependent and unmarried surviving child	$ 45 per month

An additional $20 per month shall be equally divided among the dependent and unmarried children.

(b) Widow. Upon death of a member before retirement after he has had twenty years of service, his widow shall be granted a deferred annuity equal to 75% of the member's normal annuity earned to date of his death. This normal annuity shall be calculated in accordance with the formula of section 2. a. (2). The annuity shall be payable at age 62 of the widow. The annuity shall be cancelled upon remarriage of the widow.

(2) Benefit if no survivors benefits are payable. If a member dies before retirement and no survivors benefits are payable, the death

benefit shall be a refund of his accumulated deductions with compound interest at 2%.

(3) Death benefit after retirement. Upon death of a member after his retirement or qualification for disability benefits, the benefit shall be one monthly annuity payment plus a lump sum of $250.

c. Disability benefits.

(1) Qualification for benefit. A member shall be deemed eligible for a disability benefit if he has at least ten years of service and becomes totally and permanently disabled. Total and permanent disability shall be defined as the inability to engage in any substantial gainful activity by reason of a medically determinable impairment that can be expected to be of long continued and indefinite duration. Determination of disability shall be made by the board of directors of the fund. The disabled member shall be required to submit to such reasonable medical examinations and medical tests as may be required by the board of directors in order to establish the continuance of total and permanent disability. Any disability benefit shall be reduced by the amount of any workmen's compensation income benefit.

A three month period of total and permanent disability shall be required before the first benefit payment under this section.

(2) Amount of benefit. After ten years of service, a member shall be entitled to a disability benefit equal to the normal annuity described in section 2. a. (2) plus a supplementary monthly life annuity according to the following schedule.

Age at time of Disability	Supplementary Annuity
Under 56	$ 50
56	45
57	40
58	35
59	30
60	25
61	20
62	15
63	10
64	5

d. Separation benefit.

(1) Qualification for benefit. A member withdrawing from State service or from the class of employees eligible for membership as defined in section 1 is eligible for a separation benefit.

(2) Separation after less than 10 years of service. A member separating with less than ten years of service is eligible to receive 75% of the total deductions from his salary, without interest. No benefit is payable until one year following separation; and application must be made for the benefit to be paid.

(3) Separation after 10 years of service.

(a) Cash withdrawal. A member separating with ten or more years of service is eligible to receive 100% of the total deductions from his salary, without interest. No benefit is payable until one year following separation; and application must be made for the benefit to be paid.

(b) Deferred retirement annuity. A member separating with ten or more years of service may leave his accumulated deductions in the fund, and shall be entitled to a deferred retirement annuity commencing at age 65. This annuity shall be calculated in accordance with the formula of section 2. a. (2) using actual years of service prior to separation. The accumulated deductions left on deposit may be withdrawn at any time after one year subsequent to separation, without interest.

3. CONTRIBUTIONS:

(a) Member. Each member shall contribute a percentage of his monthly earnings as shall be actuarially determined from periodic actuarial surveys as specified by law. The initial percentage shall be 6%. Earnings in excess of $4,800 per year shall not be considered for purposes of this contribution.

(b) Employer. Contributions by the employer shall be such percentage of of member earnings as may be actuarially determined to match member deposits. The initial employer contribution shall be 6% of monthly earnings in respect to each employee member, except that earnings in excess of $4,800 per year shall not be considered for purposes of these contributions. The employer contributions shall be subject to such additional percentage of earnings as may be required to amortize deficits.

4. PRIOR SERVICE CREDIT. No purchase of prior service credit shall be allowed after July 1, 1957; but this provision shall not prevent an employee from applying membership credit in other Minnesota public employee funds to attain eligibility status. Prior service shall be defined to be that period of service during which no contributions were made to the fund.

FINANCING THE MODIFIED SERA.

The effect of removing some inequities and unsound provisions from the present SERA system is described by the Commission's actuary as follows:

"The proposed modifications of SERA would reduce the existing deficit. The reduction would probably be at least $4 million. The actual deficit could be obtained only by an actuarial survey based on the modification."

If we assume the SERA actuary's deficit figure of $40 million, the financial condition of the modified SERA would be:

Total deficit of modified SERA	$ 36 million
As to retired persons - $ 9.5 million	
As to employed members - 26.5 million	
Per cent of payroll needed per year to meet current accruing costs (employees - 6%, government - 6%)	12%
Per cent of payroll required to amortize deficit over 40 years	2.4%
Total annual cost as per cent of payroll to finance modified fund until deficits are paid would be	14.4%

(Note: SERA payroll for pension deductions - $65.4 million).

AFTER DEFICITS ARE PAID THE ANNUAL COST OF THE MODIFIED SERA WILL NEVER EXCEED	12%

Turnover recovery: Recovery from employees leaving service plus employer matching funds for such employees is used to finance disability and survivorship benefits and to contribute toward amortization of the deficit.

Based on recent experience and the provisions of the modified SERA, a liberal estimate as to turnover recovery is the equivalent of 2% of payroll.

Besides turnover recovery, recent increases in interest rates on investments promise a material contribution toward meeting current pension costs.

Considering turnover recovery and prospective improved interest return, there appears to be a reasonable probability that the modified SERA can be financed and the deficit amortized at an annual support of 13% of payroll.

The Commission recommends that -

MINIMUM ANNUAL RATE OF SUPPORT OF THE MODIFIED SERA SHOULD BE:

FROM EMPLOYEE PAY UP TO $4,800 PER YEAR .... 6% of payroll

FROM THE STATE DEPARTMENTS ON THE SAME
PAY UP TO $4,800 PER YEAR .... 7% of payroll

There is obvious need for an early adequate actuarial survey as to SERA after which any change in support rates disclosed as necessary should become effective.

PUBLIC EMPLOYEES RETIREMENT ASSOCIATION.

PERA, founded in 1931, serves public employees of the municipalities, counties, non-teaching employees of the school districts and other agencies and political subdivisions not served by SERA and TEACHERS. It has grown from 8,246 members in 1946 to 36,470 members in 1956. In 1951 and 1955 membership was made mandatory for public employees not eligible for other pension funds resulting in rapid growth and a large number of comparatively new members.

The present benefit formula is the most liberal of the three major funds and one of the most liberal in the United States. The basic formula provides pensions of one-half of average pay for the ten highest years after only 20 years of service. In addition, the plan includes prior service privileges, non-employee membership privileges and comparatively high retirement allowances for as little as 5 years of service which add very considerably to the liabilities of the fund.

In 1956 PERA had a very good actuarial survey made. This has been of considerable value to the fund and has enabled the Commission to analyze PERA to a degree that would have been impossible before.

Summarizing the Financial Condition of PERA.

Pension liabilities are accruing to the fund at the rate of	14% of members pay.
Support has in the past amounted to	4% members contributions

This building of pension liabilities at a 14% rate while providing financing at a 4% rate has resulted as follows:

Pension liabilities accrued	$ 144 million
Assets (at time of survey)	16 million
Accrued pension liabilities unfinanced .	$ 128 million
Of this amount, the deficits as to persons already retired amounts to	$ 10 million.

A Sound Modified PERA Plan.

The following recommendations are in accordance with the principles already set forth as to this fund, SERA and TEACHERS.

Notwithstanding the fact that members have been contributing 4% of pay, instead of 6% as in the other funds, it is considered highly desirable to maintain the same level of benefits as in the other major funds.

Additional effects of this plan are:

1. Disability benefits are added and survivors benefits are revised.

2. The principal extra deficit causing inequities between members are removed as to future service. Special "bargain" provisions as to short term members are corrected.

3. The recommended benefit formula will require more years of service to reach 50% of final salary but this will be partially offset in many cases by computing benefits for past service on average salary for five highest years instead of ten highest years.

4. The $200 maximum limit on pensions is considered inequitable and is eliminated.

PROVISIONS OF THE MODIFIED PERA PLAN.

The main provision of the modified PERA plan as approved by the Commission are as similar as possible to those of the modified SERA plan. These are indicated below by reference to the SERA plan already outlined except where provisions vary from those of the SERA plan.

1. COVERAGE: Unlimited full time employees are to be included, with the following exceptions.

   a. Labor service employees are not to be included.

   b. New employees over age 50. See SERA 1. b.

   c. Present members over age 60 with less than six years service. See SERA 1. c.

2. BENEFITS: See SERA 2.

3. CONTRIBUTIONS: See SERA 3.

4. PRIOR SERVICE: After July 1, 1957, prior service shall be paid for by a member deposit of 6% of average salary for the years for which credit is sought, plus an equivalent deposit by the employing authority. Compound interest at 4% shall be paid in respect to these deposits from the year of service purchased to date of deposit. Provision for collection of this deposit may be authorized instead of lump sum deposit.

   A member may make the required deposit if his employing unit does not match his deposit.

   In no case may a member purchase prior service credit in excess of 10 years.

   The option to purchase prior service credit shall expire at midnight of June 30, 1958.

FINANCING THE MODIFIED PERA.

The adoption of the modified PERA plan will considerably alter the deficit of PERA.

Present deficit		$ 128 million
Elimination of losses due to requirement for financing of prior service purchases	$ 38 million	
Reduction of deficit through elimination of bargain provisions and other inequities and revision of pension benefit formula	29 million	
Total reduction in deficit		$ 67 million
DEFICIT OF MODIFIED PERA		$ 61 million

Per cent of payroll per year to meet current accruing costs (employer - 6%, employee - 6%)	12%
Per cent of payroll required to amortize remaining deficit over 40 years	3%
Total annual cost as per cent of payroll to finance modified PERA will be	15%

(Note: PERA payroll for pension deductions - $85.8 million).

AFTER DEFICITS ARE PAID THE ANNUAL COST OF THE MODIFIED PERA WILL NEVER EXCEED	12% of payroll.

Turnover recovery. Turnover recovery (from withdrawing employees, forfeiture and recovery of employer contributions) appears from the limited data available to the Commission's actuary to be likely to be approximately half the rate estimated for SERA, or 1% of payroll. This, plus the fact an additional year of growth in deficit at a high rate will have occurred between the time the PERA actuarial survey and July 1, 1957, is the basis for the following recommendation.

The Commission recommends that -

THE MINIMUM ANNUAL RATE OF SUPPORT OF THE MODIFIED PERA SHOULD BE:

FROM EMPLOYEE PAY UP TO $4,800 PER YEAR . . . . 6% OF PAYROLL

FROM EMPLOYER SUBDIVISIONS AS TO THE SAME
PAY UP TO $4,800 PER YEAR . . . . .8.5% OF PAYROLL.

The 1956 PERA actuarial survey is adequate if a supplementary survey as to the effect of these modifications and a study of turnover is added.

(Note: PERA, from limited data, appears to have a high proportion of its turnover on members of such short service that dollar amount of turnover recovery would be small).

The modifications in PERA will, more than those of any other fund, cause hardship on some individuals eligible for retirement in case they continue employment instead of retiring. The Commission desires to allow such persons as would be so adversely affected to continue working when so doing will not cause additional loss to the fund.

Therefore it is recommended that the modified PERA fund contain an additional provision to the effect that -

THE MONTHLY PENSION OF ANY MEMBER OF PERA ELIGIBLE TO RETIRE BEFORE JULY 1, 1957 WHO DOES NOT RETIRE AND WHOSE SALARY DEDUCTIONS CONTINUE TO BE RECEIVED AT THE THEN CURRENT RATE, SHALL IN NO CASE BE LESS THAN THE MONTHLY PENSION SUCH EMPLOYEE MEMBER WOULD HAVE BEEN ENTITLED TO RECEIVE HAD HE RETIRED BEFORE JULY 1, 1957. PROVIDED FURTHER THAT SUCH ADDITIONAL PROVISION SHOULD NOT BE INCLUDED IN THE PERA-OASI COMBINATION.

STATE TEACHERS RETIREMENT FUND

As to pension benefits, the Teachers Retirement Fund differs from SERA and PERA in that pensions are determined by applying the accumulated "teacher's savings" to an annuity table and not by a formula as to salary.

The fund is based on the principle that the public will match the "teacher's savings" to provide twice the annuity the savings would buy.

Basis of Deviation from Principle.

The considerable extent by which TEACHERS has departed from this equal matching principle is shown by the following:

1. The annuity table used by TEACHERS assumes a death rate over 10% higher than actually occurs.

2. The annuity table assumes 4% interest on invested reserves whereas in recent years only 2 3/4% has been earned.

The result of using this unrealistic annuity table is that the fund pays pension benefits approximately 25% higher than can be provided by "teacher's savings" plus equal public matching.

Cost to the public (currently or in extra deficits) is nearly 50% over the cost of matching the "teacher's savings". The public must meet the 25% loss on the teachers "bargain" annuity rate then must match that loss with an equal additional loss.

Significance of Teacher's Financing to Date.

The fund has not had an actuarial survey for many years. TEACHERS was unwilling to participate in financing actuarial analysis.

The manually kept cards and ledgers of the fund would yield essential data for actuarial analysis only after expensive and time consuming manual tabulating.

The fund does retain an actuary for limited for limited service apparently principally to determine the tax levy to be certified to the state auditor.

Because of the limitations as to precise data the Commission's actuary has has been careful to estimate the condition of TEACHERS fund in the direction of understatement as follows:

On the basis of TEACHERS present annuity tables with unrealistic mortality and interest assumption -

The present unfinancied liability as to past service is . . .	$ 34 million
The percent of pay (subject to deduction needed per year to meet currently accruing costs is at least . . . . (Teachers now pay 6%)	14.5%
The per cent of payroll required to amortize deficit over 40 years would be	3.3%
Total annual per cent of pay cost to finance the present fund until deficits are paid would be	17.8%

In dollars the above would be:

Current cost	$7.6 million
Amortization cost . . .	1.7 million
Total Annual Cost . .	$9.3 million

The extent of deficit and potential liability due to unsound provisions as to "buy back" and by "extra privileges" can only be determined by a complete survey. Some of the privileges are unusual as to pension funds and are potentially very costly.

A Sound Modified TEACHERS Retirement Fund.

In accordance with the principles already set forth and in order to modify this fund to a reasonable, sound and equitable basis, the provisions herein set forth are recommended.

Notable features of this plan are:

1. The basic principle of the fund is re-established as to future service.

2. A number of costly provisions of value to a limited number at the expense of the fund have been eliminated.

3. Disability and survivor benefits are included which are considered better than now provided.

4. The requirement for realistic annuity tables is only applied as to future service in consideration of "expected return" as to past service.

   Because of the 1955 raise in salary from which deductions are allowed pension values in most cases will still grow faster than before 1955.

5. Teachers made ineligible for the modified TEACHERS fund are made eligible for OASI coverage.

PROVISIONS OF THE MODIFIED TEACHERS PLAN.

The modified TEACHERS plan is as similar as possible to SERA and PERA except as to special needs of the fund. Provisions are indicated by reference to the SERA plan already outlined except where provisions vary from that plan. The main provisions of the modified TEACHERS plan as approved by the Commission are outlined below.

1. COVERAGE: Coverage shall be in accordance with Minnesota Statutes Section 135.05, with the following exceptions.

   a. There shall be no exemption due to age less than 25 years.

   b. No optional privilege of membership shall be continued for teachers who have not become members prior to enactment of this Act.

   c. Temporary and substitute teachers not on regular appointment shall not be eligible for membership, except that the board of directors may admit such teachers for membership upon application and approval by the board of directors.

d. New teachers over age 50. See SERA 1. b.

e. Present members over age 60. See SERA 1. c.

2. BENEFITS.

a. Retirement benefit.

(1) Eligibility for retirement. A member over age 65 shall be eligible for retirement after ten years of service. A member over age 58 shall be eligible for early retirement after 20 years of membership service at the retirement annuity purchaseable by his deposits at his attained age, in accordance with sections 2. a. (2) and 2.a. (3).

(2) Deposit accumulations up to January 1, 1957. The amount to the credit of members as of January 1, 1957 together with additional amounts, if any, which may be deposited because of teachers service in the State of Minnesota prior to January 1, 1957 shall be carried forward as a fixed amount for each member.

The annuity granted at retirement in respect to such fixed amount shall be computed on the basis of annuity purchase rates in effect on January 1, 1957. Interest as earned on such accumulations shall be credited to deposit accumulation after January 1, 1957.

(3) Deposit accumulation after January 1, 1957. Amounts credited to members due to service after January 1, 1957 together with interest credited to deposit accumulations up to January 1, 1957 shall be accumulated at interest as earned to date of retirement. The annuity granted in respect to such accumulation at retirement shall be computed using annuity purchase rates based on the 1937

Standard Annuity Table of Mortality set back two years of age with interest at 3%. Rates are to be calculated separately for men and for women.

The annuity purchase rates under this subsection shall be subject to change in the future depending upon actual experience of the fund with regard to both mortality and interest earnings.

(4) Optional retirement annuities. See SERA 2. a. (5)

b. Death benefit.

(1) Survivors benefits. See SERA 2. b. (1).

(2) Benefit if no survivors benefits are payable. If a member dies before retirement and no survivors benefits are payable, the death benefit shall be the accumulation in the member's account, including credited interest.

(3) Death benefit after retirement. See SERA 2. b. (3).

c. Disability benefit.

(1) Qualification for benefit. See SERA 2. c. (1).

(2) Amount of benefit. After ten years of service, a member shall be entitled to a disability benefit purchased by double the amount in his account at date of disability. This amount shall be accumulated at interest for the number of years from his age to age 65. The rate of interest in this calculation shall be the average rate credited over the five years prior to disability. This amount shall be used to purchase a life annuity at the annuity purchase rate effective at age 65 for deposits after January 1, 1957.

d. Separation benefit.

(1) Qualification for benefit. See SERA 2. d. (1)

(2) Separation after less than ten years service. See SERA 2. d. (2).

(3) Separation after ten years service.

(a) Cash withdrawal. See SERA 2. d. (3).

(b) Deferred retirement annuity. A member separating with ten or more years of service may leave his accumulation on deposit, and shall be entitled to a deferred annuity commencing after age 62. This annuity shall be based on the annuity purchase rates then in effect for deposits made after January 1, 1957. It shall be one of the life annuity options and shall be matched by an equal annuity payable from public funds.

The accumulation left on deposit may be withdrawn at any time after one year subsequent to separation, without interest.

3. CONTRIBUTIONS.

a. Member. See SERA 3. a.

b. Employer. See SERA 3. b.

4. PRIOR SERVICE CREDIT. Purchase of prior service credit in accordance with Minnesota Statutes 135.06, Subd. 2, shall not be allowed after July 1, 1957, unless paid in cash or authorized for deduction from salary before that date.

5. TEACHING SERVICE IN OTHER PENSION FUNDS OR OUT OF STATE. Payment into the TEACHERS fund by any teacher in accordance with Minnesota Statutes 135.09, Subdivision 1, must, after July 1, 1957, be conditioned upon an equivalent payment by the teacher's employing agency.

Compound interest at 4% shall be paid in respect to these payments from the year on which service was purchased to date of deposit..

Provision for collection of such payments may be authorized instead of lump sum deposit. A member may make the required payment if his employing authority does not match his payment.

The provisions of Chapter 135.09, Subdivision 1, shall not apply as to teachers becoming members of the fund after July 1, 1957.

Payments on account of service credit from teaching service in any other state may only be allowed if the teacher's payments are accompanied by an equal additional amount paid by the teacher's school district or by the teacher.

School districts of the state may pay the amount to match the teacher's share.

All payments into the fund by teachers in accordance with the provisions of Minnesota Statutes 135.09, Subdivision 1, shall be included as "Deposit Accumulations after January 1, 1957".

FINANCING OF THE MODIFIED TEACHERS FUND.

The lack of detail data as to TEACHERS makes it impossible to measure the extent of loss to the fund eliminated by the removal of "special bargain" privileges which did have considerable potential for increasing deficits.

An adequate actuarial survey is long overdue.

Deficits as to past service to date cannot be estimated as having been reduced under the actuary's conservative estimate.

A very considerable cause of additional future deficit has been eliminated.

Total deficit of modified TEACHERS will be . . . $ 34 million

Per cent of payroll needed per year to meet current accruing costs will be . . . . (Teacher - 6%, school district - 6%).	12%
Per cent of payroll per year needed to amortize the deficit over 40 years is	3.3%
Total annual per cent of payroll needed to finance the modified TEACHERS until the deficit is paid	15.3%

In dollars the above costs would be:

Current cost	$ 6.5 million
Amortization cost	$ 1.7 million
Total Annual Cost ...	$ 8.2 million

(Note: TEACHERS payroll for pension purposes - $53.8 million).

AFTER DEFICITS ARE PAID THE ANNUAL COST OF THE MODIFIED TEACHERS FUND WILL NEVER EXCEED . . . . 12% of payroll.

TEACHERS was unable to furnish data that would enable an accurate estimate of turnover recovery. Because of the high proportion of females in the TEACHERS fund it is reasonable to estimate that the surviving minor child and mother benefits will not require as much of the turnover recovery as will be the case with SERA.

Until an actuarial survey indicates a change,

The Commission recommends that:

THE MINIMUM ANNUAL RATE OF SUPPORT OF THE MODIFIED TEACHERS FUND SHOULD BE:

FROM TEACHERS PAY UP TO $4,800 PER YEAR . . . 6% OF PAY

FROM SCHOOL DISTRICTS AS TO THE SAME SALARY . 7% OF PAY.

SOCIAL SECURITY AND PUBLIC EMPLOYEES.

Whether or not OASI should be generally adopted as part of public employees retirement provisions cannot be dogmatically answered in either the affirmative or the negative.

If OASI coverage is substituted for part of the present pension plans there will be definite advantages to some individual employees and definite disadvantages to other individuals with mixed effects as to many employees.

To the extent that by group, type, or condition employees can, to their advantage, be separated as to pension provisions from the general body of employees, separate coverage under OASI is recommended.

The Commission has already recommended modifications to place each of the major pension funds in sound, equitable and workable condition.

The Commission in this portion of its report sets forth the soundest basis for the necessary further modifications of the three major pension funds if OASI coverage should be adopted.

It cannot be too strongly stressed that: ANY REFERENDUM AS TO OASI SHOULD IN EFFECT BE ON THE QUESTION OF WHETHER TO CONTINUE A SOUND MODIFIED PENSION PLAN OR TO ADOPT A SOUND COMBINATION OF A REDUCED PENSION PLAN PLUS OASI.

PUBLIC EMPLOYEES AND OASI COVERAGE IN OTHER STATES.

The extension of OASI coverage to public employees in other states does not follow any particular pattern.

Some states allow the coverage to only those employees not eligible for other pension plans and some states provide OASI for all public employees. The majority of states fall between these extremes.

Minnesota is one of the 47 states who now have OASI for at least a few public employees.

Some states have OASI for state employees and not local. Other states are just the opposite.

Ohio is the only state not allowing OASI for any public employee.

The latest information available indicates the following general distribution of OASI coverage for public employees:

10 - states provide only OASI for public employees but no other pension plans.

19 - states have some type of combined OASI and pension plans.

4 - states have combined plans only for teachers.

17 - states with OASI agreements for limited groups of public employees do not allow OASI for state employees.

The above figures do not total 48 because some states fall into two categories.

FUNDAMENTAL CONSIDERATIONS AS TO OASI.

Preceding consideration of OASI as to specific conditions or groups it is essential that certain fundamentals be clearly understood:

1. There are no "bargains for everybody" in pension or benefit systems. If one member gets a bargain another compensates with a loss.

   Any pension plan whether OASI or any other can in total pay out only what it receives. Liberal benefits or privileges in one respect must be compensated by small benefits or privileges in others.

2. The adoption of OASI is irrevocable. For all practical purposes withdrawal of any covered group from OASI is impossible.

3. OASI, if adopted, becomes the primary retirement benefit and the

pension plans become the supplementary benefits. Whenever OASI benefits or costs change any needed compensating reduction in cost or change in benefit must be in the pension plan.

4. OASI cannot be compared to most pension plans. This means that:

   a. Benefits to individuals are not related to years of service or total contributions.

   b. Many benefits are not equally available to all persons covered but are dependent upon marital condition, family and sex.

   c. The relative advantages and disadvantages of OASI vary as to individual employees according to sex, marital condition, age and number of children, etc. Hence, OASI cannot be characterized as better or poorer than the pension plans in regard to employees collectively.

5. In time OASI, if adopted, may completely supplant the pension plans.

   a. Both costs and benefits of OASI are very likely to be increased over present scheduled increase in costs. Both political parties have promised to increase OASI.

   b. South Dakota repealed pension plans on adoption of OASI. Several states have so integrated OASI into their pension plans that increases in OASI automatically reduce pension payments.

   c. OASI is the basic benefit level of the employed public. If combined pension and OASI costs and benefits too far exceed OASI the public may well demand curtailment or elimination of the pension plans.

6. Congress has for years maintained the policy that social security taxes be increased whenever benefits are increased so that no costs

have been borne by other taxes.

PRINCIPLES OF A COMBINED SYSTEM OF OASI AND PENSION FUNDS.

Certain fundamental principles must be followed and certain adverse or dangerous provisions avoided if a retirement system combining OASI and the pension funds is to have maximum likelihood of long range success and soundness.

1. Due to the so-called "windfall" provisions of OASI no plan should be considered which does not require that the future reduced benefit level of pension fund is not completely in effect simultaneously with the effective date of OASI.
   a. Any other basis would allow persons retiring soon to double up retirement benefits.
   b. The doubling up would continue in diminishing amount as years go by resulting in a yearly decrease in total retirement benefits.
   c. The windfall benefits create considerable deficit to the OASI fund. An employee upon payment of 1-1/2 years taxes receives full retirement benefits as if he had paid all his life.
   d. Doubling up would create an OASI deficit and leave a large pension fund deficit so that the taxpayers would have to pay for two deficits for one employee.
2. In a combined OASI-pension fund plan deficits in the pension fund due to employees should be eliminated. (Retired persons cannot be placed under OASI therefore their deficit must remain to the fund).

a. The total annual rate of OASI tax - now 4-1/2% of pay - rises 1% of pay in 1960, and each 5 years thereafter to 8-1/2% of pay in 1975 and after.

b. By 1975, if the total combined plan costs of OASI plus normal pension fund costs is further increased by costs due to deficits, the then current pension costs will be so large as to jeopardize the continuance of the pension fund.

c. The deficits due to persons now retired should be paid off before 1975 for the same reasons cited in 'b' above.

3. No combination plan including OASI should be allowed which seeks to differentiate between OASI benefits "earned as a public employee" as against those earned elsewhere. Such measures would be contrary to the principles on which OASI is based and are fallacious. Such provisions in the laws of several states have proved severely disruptive as well as unsound. This can be demonstrated by a considerable number of examples.

4. A pension fund and OASI should entirely separate as to benefit payments and administration.

PUBLIC EMPLOYEES FOR WHOM OASI IS CLEARLY ADVISABLE.

As to public employees whose length of service is likely to be short in duration the advantages of OASI coverage considerably exceed the advantages of membership in the pension funds.

OASI as a welfare fund, covering most persons in general employment without particular concern as to years of service or number of employers, is far more suitable for persons only temporarily in public employment or those entering public employment late in life.

Pension plans are primarily intended to allow "career" employees to build retirement income in accordance with years of service and income earned under one type of employment if not for a single employer.

The Commission recommends as to all three major pension funds that:

THE LAWS AND RULES AS TO ELIGIBILITY FOR MEMBERSHIP BE CHANGED SO THAT HEREAFTER PART-TIME, SEASONAL AND TEMPORARY EMPLOYEES WILL NOT BE ELIGIBLE TO JOIN AND FURTHER THAT EACH PRESENT MEMBER IN SUCH CATEGORIES BE GIVEN THE OPTION OF REMAINING IN THE FUND OR OF WITHDRAWING WITH REFUND OF HIS CONTRIBUTIONS.

The Commission has been in communication with the social security administration for the purpose of determining eligibility for OASI without referendum as to various categories of public employees not eligible for membership in the pension funds. Clarification in these respects is still in the process of being determined so that the following recommendations are contingent on favorable ruling of the social security administration.

It is recommended that in case of a favorable ruling by the social security administration:

* PUBLIC EMPLOYEES INELIGIBLE FOR MEMBERSHIP IN ANY PUBLIC EMPLOYEE PENSION FUND BE PLACED UNDER OASI COVERAGE EFFECTIVE AS OF JANUARY 1, 1956 OR SUCH LATER DATE AS ACTUAL EMPLOYMENT RECORDS WILL ALLOW.

* IN CASE OF FAVORABLE RULING BY THE SOCIAL SECURITY ADMINISTRATION NEW EMPLOYEES OVER AGE 50, EXCEPT SUCH AS HAVE AT LEAST ONE YEAR OF TRANSFERRABLE MEMBERSHIP CREDIT IN ANOTHER MINNESOTA PUBLIC EMPLOYEE PENSION FUND FOR EACH YEAR OF AGE OVER 50, SHOULD BE INELIGIBLE FOR MEMBERSHIP IN ANY OF THE MAJOR PENSION FUNDS.

* IN CASE OF A FAVORABLE RULING BY THE SOCIAL SECURITY ADMINISTRATION ANY PRESENT MEMBER OF ONE OF THE MAJOR PENSION FUNDS WHO IS 60 YEARS OF AGE AND WHO DOES NOT HAVE AT LEAST SIX YEARS OF MEMBERSHIP CREDIT OR EQUIVALENT TRANSFERRABLE CREDIT FROM ANOTHER MINNESTOA PENSION FUND SHOULD BE DISCONTINUED AS A MEMBER OF SUCH FUND AND SHOULD RECEIVE A REFUND OF HIS ACCUMULATED SALARY DEDUCTIONS LESS THE AMOUNT OF HIS OASI TAX BETWEEN JANUARY 1, 1956 AND THE DATE OF REFUND.

* IN CASE OF UNFAVORABLE RULINGS AS TO THE ABOVE RECOMMENDATIONS AND IN AND IN CASE SUBSEQUENT EVENTS DO NOT ENABLE THE FULFILLMENT OF THESE RECOMMENDATIONS IT IS RECOMMENDED THAT REMEDIAL LEGISLATION BY CONGRESS BE SOUGHT.

Additional reasons for the above recommendations are:

1. Employees excluded from pension membership would receive considerably more benefits under OASI.

2. Pension funds would be relieved of pressure for welfare reasons to add unsound and costly benefits for short service employees.

3. Pension funds could provide better pensions and benefits for "career" employees.

4. Most of the employees made ineligible for pension fund membership will have OASI coverage through previous employment or will be returning soon to jobs or self-employment under OASI coverage.

5. The administration of the pension funds will be saved the cost of handling thousands of small temporary accounts and refunds.

OASI AND THE THREE MAJOR PENSION PLANS.

OASI coverage for members of the three major pension plans is contingent on two occurences.

1. The Legislature would have to provide that a referendum among the members of each "coverage group" may be held.
2. The majority of all members of each group who are eligible to vote must have voted in the affirmative as to OASI coverage for members of that group.

With some possible exceptions the coverage groups would consist of the members of each of the pension funds.

It is entirely possible that OASI coverage might be accepted by members of one pension fund and be rejected by members of another fund.

As already pointed out it is important that the modified pension plans previously outlined will have been adopted before any referendum is permitted.

If a referendum is held and if the decision is to adopt OASI coverage the following provisions as to SERA should become effective at once as to any member of SERA eligible to OASI coverage.

PROVISIONS OF THE COMBINED SERA--OASI PLAN.

The main provisions of a combined SERA - OASI plan are outlined below. The administration of the SERA portion of the plan will be independent of OASI. The following provisions relate only to the SERA portion of the combined plan.

Social security coverage shall be retroactive to January 1, 1956. The required member contributions shall be made out of member accumulations in SERA.

The required employer payments shall be paid by legislative provision.

1. COVERAGE. See SERA 1.

2. BENEFITS.

a. Retirement benefit.

(1) Eligibility for retirement. See SERA 2.a.(1).

(2) Retirement benefit. The amount of the SERA portion of the retirement annuity shall be calculated in accordance with subsections (a), (b) and (c) following.

(a) The accumulated member deposits including interest up to the date upon which social security coverage becomes effective, less the amount used for retroactive social security coverage, shall be accumulated at the credited rate of interest to date of retirement.

(b) Future member and employer deposits as hereinafter defined, shall be accumulated at the credited rate of interest to date of retfrement.

(c) The total of amounts under sections (a) and (b) shall be used to purchase a retirement annuity at the retirement age. The annuity purchase rates shall be based on the 1937 Standard Annuity Table of Mortality, Male, set up one year of age, with interest at 3%. The purchase rate shall be the same for men and women.

The annuity purchase rates under this subsection shall be subject to change in the future depending upon actual experience of the fund with regard to both mortality and interest earnings.

(3) Optional retirement annuities. The board of directors must provide optional annuity forms of the following types.

(a) Life annuity.

(b) An annuity for a period certain and for life thereafter.

(c) A joint and survivor annuity.

These forms shall be on an actuarially equivalent basis, using the basis stipulated in section 2. a. (2) (c).

(4) Early retirement option. A member retiring before becoming eligible for social security retirement benefits may elect to receive an actuarially equivalent income payable at retirement. The SERA fund shall pay such actuarially equivalent income until the member becomes 65 years old at which time the payments from SERA shall be reduced by the anticipated amount upon which the actuarial equivalent was based.

b. Death benefit.

(1) Death benefit before retirement. If a member dies before retirement the death benefit shall be a refund of his accumulated deposits with interest as credited to his account.

(2) Death benefit after retirement. The amount of benefit shall be in accordance with the annuity option selected, as stipulated in section 2. a. (3).

c. Disability benefits.

(1) Qualification for benefit. See SERA 2.c.(1).

(2) Amount of benefit. After ten years service and for disability before age 50, a member shall be entitled to a disability benefit payable to age 50 of $90 per month, plus a life annuity. The amount of the life annuity shall be that purchaseable by the accumulated deposits in the member account, including interest, plus

an equivalent amount from employer funds. The life annuity for this option shall be of the form stipulated in section 2.a.(c)(a).

d. Separation benefit.

(1) Qualification for benefit. See SERA 2.d.(1).

(2) Separation after less than ten years of service. See SERA 2.d.(2).

(3) Separation after ten years of service.

(a) Cash withdrawal. See SERA 2.d.(3)(a).

(b) Deferred retirement annuity. A member separating with ten or more years of service may leave his accumulated deductions in the fund, and shall be entitled to a deferred retirement annuity commencing at age 65. The amount of this annuity shall be based on the accumulated deposits, including interest, of the member at separation, with further addition of interest as credited to age 65, plus an equivalent matching amount from employer funds.

The accumulated member deposits may be withdrawn at any time after one year subsequent to separation, without interest.

3. CONTRIBUTIONS.

a. Member. See SERA 3.b., except change percentage to 3% instead of 6%.

b. Employer. See SERA 3.b., except change percentage to 3% instead of 6%.

4. PRIOR SERVICE CREDIT. See SERA 4.

SUMMARY OF FINANCIAL RESULTS OF COMBINED SERA--OASI PLAN.

The deficit remaining in SERA would be for pensions due persons retired before adoption of OASI.

This deficit must be amortized rapidly to keep up with pensions now being paid.

The amortization of deficit should be completed before the OASI rate reaches its scheduled permanent level in 1975.

The deficit for retired members would be $9.5 million.

Current cost as percentage of payrol 6%. (3% employee - 3% employer).

Annual Costs of Combined Plan Including Deficit Amortization Expressed as a Percent of Payroll Subject to Deductions.

	Annual Employee Cost		Annual State Cost			
Years	OASI Tax	Combined Tax	OASI Tax	Deficit Payment Annual Rate	Total State Annual Rate	TOTAL COMBINED COST
1957-59	2-1/4%	5-1/4%	2-1/4%	2%	7-1/4%	12-1/2%
1960-64	2-3/4%	5-3/4%	2-3/4%	1-1/2%	7-1/4%	13%
1965-69	3-1/4%	6-1/4%	3-1/4%	1%	7-1/4%	13-1/2%
1970-74	3-3/4%	6-3/4%	3-3/4%	-1/2%	7-1/4%	14%
1975 on	4-1/4%	7-1/4%	4-1/4%	none	7-1/4%	14-1/2%

If all deficits are paid by 1975 the permanent annual cost of the combination will be 14.5% of payroll plus any additional increases in OASI taxes.

(Note: OASI taxes are on pay up to $4,200 per year and SERA deductions are on pay up to $4,800 per year).

PROVISIONS OF THE COMBINED PERA--OASI PLAN.

The PERA pension plan that should become effective should OASI coverage be adopted for members of that fund would be arrived at by applying the following changes and modifications to the modified PERA pension plan outlined earlier. As before, many provisions refer to the SERA provisions to avoid duplication of wording and to illustrate the similarities and differences of SERA and PERA.

The administration of the PERA portion of the plan should be independent of OASI. The following provisions relate only to the PERA portion of the combined plan.

Social security coverage shall be retroactive to January 1, 1956. The required member contributions shall be made out of member accumulations in PERA. The required employer payments shall be paid by employing units on behalf of present employees.

References to "SERA" and to "SERA-OASI" are to the modified SERA plan and to the combined SERA-OASI plan, respectively.

1. COVERAGE. Unlimited full time employees are to be included with the following exceptions:

   a. Labor service employees are not to be included.

   b. New employees over age 50. See SERA 1.b.

   c. Present members over age 60 with less than six years service. See SERA 1.c.

2. BENEFITS.

   a. Retirement benefit.

      (1) Eligibility for retirement. See SERA 2.a.(1).

      (2) Retirement benefit. The amount of the PERA portion of the retire-

ment annuity shall be calculated in accordance with subsections (a), (b) and (c) following.

(a) The actual member deposits without penalty deductions shall be credited with interest earned to the effective date of this combined PERA-OASI plan.

The resulting accumulation of deposits plus interest shall be multiplied by 1.5; and from the result shall be deducted the required amount for retroactive social security coverage. The balance shall be accumulated at the credited rate of interest to date of retirement.

(b) Future member and employer deposits. See SERA-OASI 2.a.(2)(b)

(c) Annuity purchase. See SERA-OASI 2.a.(2)(c).

(3) Optional retirement annuities. See SERA-OASI 2.a.(3).

(4) Early retirement option. See SERA-OASI 2.a.(4).

b. Death benefit.

(1) Death benefit before retirement. If a member dies before retirement, the death benefit shall be a refund of his accumulated actual deposits with interest as credited to his account.

(2) Death benefit after retirement. See SERA-OASI 2.b.(2).

c. Disability benefit.

(1) Qualification for benefit. See SERA 2.c.(1).

(2) Amount of benefit. After ten years of service and for disability before age 50, a member shall be entitled to a disability benefit payable to age 50 of $90 per month, plus a life annuity. The amount of the life annuity shall be that purchaseable by accumulated deposits as defined in sections 2.a.(2)(a) and 2.a.(2)(b) above. The life annuity for this benefit shall be of the form

stipulated in section 2.a.(3)(a).

d. Separation benefit.

(1) Qualification for benefit. See SERA 2.d.(1).

(2) Separation after less than ten years of service . See SERA 2.d.(2).

(3) Separation after ten years of service.

(a) Cash withdrawal. See SERA 2.d.(3)(a).

(b) Deferred retirement annuity. A member separating with ten or more years of service may leave his accumulated deductions in the fund, and shall be entitled to a deferred retirement annuity commencing at age 65. The amount of this annuity shall be based on the amounts defined in sections 2.a.(2)(a) and 2.a.(2)(b) above.

The accumulated actual member deposits may be withdrawn at any time after one year subsequent to separation, without interest.

3. CONTRIBUTIONS.

a. Member. See SERA-OASI 3. a.

b. Employer. See SERA-OASI 3.b.

4. PRIOR SERVICE CREDIT. After July 1, 1957, prior service shall be paid for by a member deposit of 6% of average salary for the years for which credit is sought, plus an equivalent deposit by the employing authority. Compound interest at 4% shall be paid in respect to these deposits from the year of service purchased to date of deposit. Provision for collection of this deposit may be authorized instead of lump sum deposit.

A member may make the required deposit if his employing unit does not match his deposit.

In no case may a member purchase prior service credit in excess of ten years.

The option to purchase prior service credit shall expire at midnight of June 30, 1958.

SUMMARY OF FINANCIAL ASPECTS OF COMBINED PERA-OASI.

The deficit remaining to the PERA fund in case the modified PERA fund is further changed as above outlined will amount to . . . . $28 million.

The relatively larger deficit than for the combined SERA-OASI plan is due to the fact that PERA members in the past have contributed only 4% of pay and governmental employers have contributed nothing (except in 1950).

Current cost of PERA would be 6% of pay (up to $4,800 per year) on the basis of employee 3% - employer 3%.

Employee total costs of PERA plus OASI would be identical for each year as for SERA-OASI.

The cost of amortizing the $28 million deficit by 1975 will, for PERA, be larger than for SERA but will be on the same plan of decreasing amortization as OASI increases.

The employer total costs of PERA normal cost,plus OASI, plus amortization will be 8.5% of pay until 1975.

After 1975, with deficits paid, the costs thereafter for the combined PERA-OASI plan will be 7-1/4% from employees and 7-1/4% from employers, or a total annual cost of 14.5% of pay.

(Note: OASI taxes are on pay up to $4,200 per year and PERA deductions are on pay up to $4,800 per year).

PROVISIONS OF THE COMBINED TEACHERS--OASI PLAN.

In the event, following a referendum, OASI coverage is provided for members of the Teachers Retirement Fund the provisions of the modified TEACHERS plan should be further changed as shown here.

The administration of the TEACHERS portion of the plan shall be independent of OASI. The following provisions relate only to the TEACHERS portion of the combined plan.

Social security coverage shall be retroactive to January 1, 1956. The required member contributions shall be made out of member accumulations in TEACHERS. The required employer payments shall be paid by employing units on behalf of present employees.

References to "SERA" and to "SERA-OASI" are to the modified SERA plan and to the combined SERA-OASI plan, respectively.

1. COVERAGE. Coverage shall be in accordance with Minnesota Statutes, Section 135.05, with the following exceptions.

a. There shall be no exemption due to age less than 25 years.

b. No optional privilege of membership shall be continued for teachers who have not become members prior to enactment of this Act.

c. Temporary and substitute teachers not on regular appointment shall not be eligible for membership, except that the board of directors may admit such teachers for membership upon application and approval by the board of directors.

d. New teachers over age 50. See SERA 1.b.

c. Present members over age 60. See SERA 1.c.

2. <u>BENEFITS</u>.

a. <u>Retirement benefit</u>. See SERA-OASI 2.a., except subsection (2)(c) shall be changed to read as follows:

The total amounts under sections (a) and (b) shall be used to purchase a retirement annuity at the retirement age. The annuity purchase rates shall be based on the 1937 Standard Annuity Table of Mortality, set back two years of age, with interest at 3%. Rates are to be calculated separately for men and for women.

b. <u>Death benefit</u>. See SERA-OASI 2.b.

c. <u>Disability benefit</u>. See SERA-OASI 2.c.

d. <u>Separation benefit</u>. See SERA-OASI 2.d., except that the deferred retirement annuity in section 2.d. (3)(b) shall commence after age 62 instead of after age 65.

3. <u>CONTRIBUTIONS</u>. See SERA-OASI 3.

4. <u>PRIOR SERVICE CREDIT</u>. Purchases of prior service credit in accordance with Minnesota Statutes 135.06, Subd. 2, shall not be allowed after July 1, 1957, unless paid in cash or authorized for deduction from salary before that date.

5. <u>TEACHING SERVICE IN OTHER PENSION FUNDS OR OUT OF STATE</u>. See MODIFIED TEACHERS 5.

<u>SUMMARY OF FINANCING OF COMBINED TEACHERS-OASI PLAN.</u>

Remaining deficit in TEACHERS fund (Principally on account of retired persons).	$ 6 million.
TEACHERS current cost as per cent of payroll (On salary up to $4,800.)(Teacher - 3%, Employer - 3%)	6%

Total TEACHERS-OASI costs as to teachers will be identical as shown for SERA-OASI.

Employer cost for TEACHERS plus OASI and amortization
of deficit by 1975 would be . . . . 7% payroll
(TEACHERS up to $4,800 per year, OASI up to $4,200 per year.)

After 1975, total annual normal support cost combined plan:

Each teacher	7-1/4% payroll
Employer	7-1/4% payroll

Subject to increases in OASI, the total cost annually after 1975 . . 14.5%.

FIREMEN, POLICEMEN, HIGHWAY PATROLMEN AND GAME WARDENS PENSIONS.

These pension funds should be considered in relationship to each other. Not only do they have similar patterns of benefits but all are now operating on a basis of financing that has or will bring each fund to the point where total assets will consist of little more than a revolving fund to meet monthly pensions between receipt of tax levies or other revenue.

Historically the interrelationship of these funds goes farther. Whenever one fund has obtained an additional benefit or other provision succeeding sessions of the legislature have received requests by the other funds for similar liberalization. It is reasonable to assume, and the records will demonstrate, that the fund with the most liberal benefits today is a good example of what the other funds will be like in a few years.

PROFESSIONAL FIRE FIGHTERS PENSION FUNDS.

There are 19 professional fir fighter pension funds. These funds range in size from the Minneapolis Fire Department Relief Association with 567 active members and 196 retired members to the West St. Paul Fire Department with seven active members and no retired members.

Each of these pension funds has been developed by a series of amendments to the statutes creating volunteer firemen's relief associations.

Each firemen's fund is operated by officers elected from among the firemen members. The management is entirely vested in the hands of these officers.

Benefit provisions are determined by the specific statutes applicable to each fund plus by-laws adopted by the membership of each fund. Thus, many questions of benefit are determined by vote of the membership.

Each fund invests its own money presumably in accordance with the statutes. However, the amount of assets in each fund is relatively small since none of the funds operate on a reserve basis.

Financing is by a small membership contribution plus the premium tax of 2% on fire insurance policies in the community, plus tax on property in the community subject to a maximum of usually one mill. In addition, in Cities of the 1st and 2nd Class an additional 2% tax on fire insurance premiums is applied whenever the assets in the pension fund fall below a stipulated amount.

Basically all firemen funds are on a pay-as-you-go basis with the result that only minimum membership contributions and property taxes are levied in a community like West St. Paul with no persons on retirement, and maximum legally permissible mill rate, insurance tax, and surtax are required in Cities of the 1st and 2nd class where a considerable number of retired persons has been built up.

Benefits range from the level of Cities of the 1st Class where retirement is permitted at age 50 with pension benefits up to 38/80ths of salary for 28 years service down to promised benefits of $60 per month after 30 years service in West St. Paul where no persons are yet retired, or $85 per month in Red Wing where there are retired persons.

The Commission had neither the time available or the resources to finance an analysis of each firemens fund or policemens pension fund.

The officers of the three life insurance companies, cited in the first part of this report, offered to examine one firemen fund and one policemen fund without expense to the Commission. This contribution has enabled the Commission to report on a typical fund for each group in order that a general understanding of this type of pension fund can be available.

The Minneapolis Fire Department Relief Association was selected for actuarial analysis by the actuaries of three insurance companies. This department was selected because it was one of the largest, it has one of the longest experience records and could serve as an indication of typical expectation in regard to other fire department pension funds.

MINNEAPOLIS FIRE DEPARTMENT RELIEF ASSOCIATION.

The pension benefits of the Minneapolis fund are very similar to Duluth and St. Paul benefits and are the most liberal pension provisions that have been devised in Minnesota to date.

Current salary of a 1st Class fireman is $435 per month. The 38 unit pension available to a retiring fireman after 20 years service and disability, or 28 years service and at age 50, is currently $206.72 per month.

The widow's pension is $97.92 per month for life or until re-marriage. Both pensions automatically increase in the same proportion as any future pay increases. Thus, the pension of the oldest retired fireman, or widow of a fireman, is as large as that of the new retirees and will continue to reflect each wage increase granted active firemen.

Financial support for this pension system is:

Members contribute 2.5% of pay on 1st Class fireman's salary
- 2% on fire insurance premiums
- 2% surtax on fire insurance premiums
- 1 mill of property tax

These figures are estimated for 1956 as follows:

Members contributions at 2.5% of pay	$ 70,000
Total taxes on fire insurance premiums	235,000
One mill of property tax	375,000
Total	$ 680,000

The actuary's report shows that for 1956 pension payments will total $720,000. Thus, the maximum income to the fund of $680,000 will fall short by $40,000 of meeting the current year's pension payments. By 1960 pension payments will total $930,000 per year; by 1965, still $930,000 per year; by 1970 payments required for the year will total $1,050,000 and, by 1971 -- $1,090,00.

It is thus obvious that the total assets of the Minneapolis fund -- $578,000 as of 1955 -- will thus be exhausted in a vewy few years.

Stated as a per cent of payroll, the 1956 cost of the Minneapolis firemen's pension fund will equal 23.4% of payroll. By 1960 this required cost will be 30.3% of payroll as will be the cost in 1965. By 1971 the cost will have risen to 35.5% of payroll.

An analysis of the fund as of 1970 shows that the fund would need assets of $11 million in order to keep annual costs after 1970 to the 23.4% of payroll payable in 1956.

If the current method of not building reserves is continued the necessary annual rate of financing will increase over the intervening years so that by 1970 the amount necessary to meet that year's pensions will be 35.5% of payroll.

CONCLUSIONS:

It is obvious that there is an immediate need for increased financing starting at $40,000 for 1956. By 1960 there will be need for $250,000 a year financing and, by 1971 there will be need for $410,000 per year of additional financing.

The discussion of benefit provisions for this type of fund will follow the report as to the Highway Patrolmen's Association.

POLICE PENSION FUNDS

There are 19 police pension funds in Minnesota ranging from those of Cities of the 1st Class to smaller cities and villages.

The largest pension fund is the Minneapolis Police Relief Association with some 642 active members and 467 retired members including widows of policemen. Crookston, which has seven active members and two retired members is the smallest.

As with the fire departments, the benefits range from extremely liberal in Cities of the 1st Class to Crookston with $100 per month pension. The majority of these funds pay pensions as a per cent of the salary of a 1st Class policeman, although as yet most of these funds - except the Cities of the 1st Class - do not increase the pensions for retired persons everytime they increase the salary of the active policemen.

The legal basis of most police funds has been provided by separate legislation although, like the fire funds, they follow a general pattern.

The history of these funds is that the smaller funds tend to lag behind but follow the larger funds in liberalization of benefits.

The St. Paul Police Relief Association was selected as an old enough and large enough fund to yield a typical example of such funds.

ST. PAUL POLICE RELIEF ASSOCIATION.

The St. Paul policemen's fund pays a pension upon retirement at age 50, or over, of 40% of salary for 20 years service up to 50% of salary for 30 years service prior to retirement.

The present salary of a patrolman is $396 per month. Hence, the 50% of salary pension is currently $198 per month. The pension includes liberal disability benefits, also widows pensions.

The pension fund is supported by membership contributions of 4% of salary of the maximum patrolman's rate and such mill levy as is required. The current tax levy is 1.5 mills.

For the year 1956 pension payments were estimated at $393,000 which represents 19% of payroll of the department.

Pension benefits and costs can be expected to be by 1960 - $492,000 or 23.8% of the present payroll. By 1965 it will be $584,000 or 28.2% of payroll, by 1970- $623,000 or 30.1% of payroll and, by 1971 - $634,000 or 30.6% of payroll.

These costs are based on current payroll. Since all pensions increase with pay increases a pay raise would increase the dollar cost of pensions but the per cent in relation to payroll will be approximately the same as at the current wage scale. However, the mill levy of necessity will have to be increased to meet higher pension payments following each wage increase unless the contributions of members is increased.

It is obvious that this pension system cannot be financed by 4% member contribution plus 1.5 mill tax.

The actuary shows that if there is a 5% pay increase in 1957, a 5% pay increase in 1960, a 5% increase in 1965 and another 5% pay increase in 1970 the cost by 1970 for pensions will be increased to $760,000 from $634,000 with only a slight portion defrayed by the 4% members contributions on increased salary.

The Cost of Funding the St. Paul Police Relief Association.

If the St. Paul police pension fund were placed on a funded basis the deficit to date would be $9,920,000 but, with such a fund at 3% interest, the cost could be maintained at 20.2% of payroll instead of rising in 15 years to 30.6% of payroll.

INDICATIONS AS TO FIREMEN'S AND POLICEMEN'S PENSION FUNDS.

The Minneapolis fire and the St. Paul police pension funds appear to be good examples of this type of pay-as-you-go pension funds with early retirement at full pension.

The cost 15 years hence of 35.5% of payroll for Minneapolis fire and 30.6% of payroll for the St. Paul police could be anticipated, with perhaps some variations in time, in regard to the fire and police funds in Cities of the 1st Class and to a considerable extent in Cities of the 2nd Class where - if past experience is indicative - pension benefits will tend to be liberalized along the lines pioneered by the larger city funds.

Many of the smaller pension funds are young enough so that current pay-as-you-go costs are small. These funds could be placed on a level cost basis and funded. if such action is taken in the next few years, thus preventing such high ultimate costs.

One major obstacle to funding the newer police and fire pension funds is that as presently constitued the investments would be handled by persons elected from these services rather than persons experienced in investing substantial funds.

As the questionnaires submitted to this committee indicate, member contributions to police and fire pensions range from no contributions in communities such as Richfield, to not more than 4% contributions in those funds requiring the highest rate of employee contribution. Thus, firemen and policemen are beneficiaries of pension funds costing on a level financing basis up to 20% or more of payroll for member contributions not exceeding 4% of payroll.

Special note should be taken of several facts concerning metropolitan police and fire funds:

1. Each pay raise of employed members constitutes a proportional increase in pensions of retired employees and widows. This creates an immediate new deficit upon each pay raise.

2. Each pay raise immediately creates a proportional increased pension liability for all active employees. This creates an immediate new deficit upon each pay increase.

3. To finance these pension funds at the present level of benefits would still not pay either the deficits or, in the future, finance the funds. To maintain a constant level of yearly cost would require:

   a. Funding at present level

   b. Appropriating for each new deficit concurrent with each pay raise. This would be modified to a very slight extent by the fact that the small employee contributions would increase in dollar amount on larger salaries.

There is a considerable need that firemen's and policemen's funds should be analyzed thoroughly. Most of the funds have expensive provisions not essential to their basic plan. These should be evaluated.

With the exception of the St. Paul Police Relief Association, which has unlimited tax levy authority, the other fire and police funds cannot be permanently financed at the present level of benefits within the legal limits of the tax authority they now possess.

<u>It is worthy of note that these pensions are far more costly than those of other employees yet the members of these funds pay less than those in other funds</u>.

THE TWO STATE "ENFORCEMENT" EMPLOYEE FUNDS.

Inevitably the enforcement employees of the state would hardly be satisfied with SERA type pensions while observing the firemen and policemen pensions of the municipalities of the state.

Thus, in 1943 the Minnesota Highway Patrolmen's Retirement Association was formed and in 1955 the Game Warden's Retirement Association was instituted.

MINNESOTA HIGHWAY PATROLMEN'S RETIREMENT ASSOCIATION.

The Highway Patrolmen's Retirement Association was established July 1, 1943. Legislation effective at that time transferred SERA funds previously paid by patrolmen into the new fund.

Contributions are effectively set at $20 a month for each patrolman. The law specifies 8% of salary but the maximum of $20 a month is effective in all cases because no salary is less than $250 a month. The highway department matches these contributions. Provision is made in the law that contributions may be increased if necessary to insure the actuarial soundness of the fund.

Pension benefits are limited by the law, which sets a maximum of $150 monthly pension at age 55 with 20 years service, plus $3 a month for each year of service beyond 20. At present salaries this is also the minimum pension for regular retirement.

Both contributions and pensions have been increased over the amounts originally established. Formerly, contributions were set at 6% of salary (with $15 a month maximum) and pensions were limited to $100 a month starting at age 58 with 20 years service.

Death and termination benefits are the refund of a member's contributions without interest. If a patrolman has served more than ten years, he may leave his accumulation and receive a life annuity at age 55 in proportion to his actual years of service.

Disability benefits are granted but are limited to a $100 monthly benefit. The disability must be service-incurred and any payment is reduced by workmen's compensation benefit and by any income from employment. The fund liability for this benefit may therefore be considered quite small.

As of December 31, 1955 there were 288 members in the fund. Of these, 258 were active or on leave and 30 had either retired or had resigned and left their accumulations to buy a deferred annuity.

Valuation of the fund was made on the basis of a modern mortality table and approximately the experience rate of interest earned by the fund. A retirement age of 58 has been used in calculations as some patrolmen serve till age 60.

<u>As to Financing</u>:

SERA funds held for patrolmen were transferred to the Highway Patrolmen's fund upon its organization in 1943. These funds were not sufficient to cover the pension liability transferred. During the first ten years time the current financing of the fund was generally maintained as the deficit remained at about the same amount.

The 1952 actuarial report showed a deficit of . . . . $ 361,613

The June 30, 1955 actuarial surved shows:

Required reserve	$ 2,690,593
Total assets	890,397

Deficit as of June 30, 1955 . . . . $ 1,800,196.

The 1953 session of the legislature <u>increased the benefit level of the Highway Patrolmen's fund about 50% without increasing employee or state contributions</u>.

The unfinanced 1953 increase in benefits accounted for the total increase in deficit of -- $ 1,280,000.

If there is no further increase in the level of benefits, the cost of financing the Highway Patrolmen's fund, expressed as a per cent of patrolmen's pay, will be:

Per cent of pay to finance current year's increase in pension liability	13.6%	
Per cent of pay to amortize $1,800,000 deficit over 40 years	6.7%	
At present benefit level the annual cost of financing the fund is		20.3% of pay

Present basis of financing:

At present the patrolmen contribute $20 per month to the fund which amount is matched by the State.

$20 per month expressed as % of present pay ... and	5.5%	
matched by the Highway Department	5.5%	
At the present level of financing the deficit will increase annually at the rate of		8.7% of pay.

GAME WARDEN'S RETIREMENT ASSOCIATION

The Game Warden's Retirement Association was formed in 1955 on the basis of the law passed that year. Funds previously paid by game wardens into SERA were transferred into the new fund.

Member contributions are 6% of salary. The Division of Game and Fish contribute 1% of their receipts from sale of licenses, which approximately equals total member contributions.

The pension benefit at age 55 with 25 years service is 50% of average salary for the five highest consecutive years. There is a proportionate reduction for fewer years and an increase for years over 25.

Widows receive half the annuity granted a member but not over $75 per month. Children under 18 receive $20 per month with a total maximum for widow and her children of $150 per month.

There are 147 members of the association as of March 1956.

As to Financing:

Valuation of the fund gives the following results assuming average retirement age of 60:

Required reserves	$ 2,192,229	
Assets	302,172	
Deficit		$ 1,890,057

This deficit is due principally to the past service liability not covered by funds transferred from SERA. The contribution level is not sufficient to support the level of benefits. The deficit will therefore increase as the fund ages and new members are added.

If there is no further increase in the level of benefits, the cost of financing the Game Warden's Retirement Association, expressed as a per cent of wardens pay, will be:

Per cent of pay necessary to finance the increase in pension liability per year is	14.7%	
Per cent of pay required to amortize $1,890,057 deficit over 40 years is	12.7%	
At present benefit level the annual cost of financing the fund is		27.4%

At present benefit level the annual cost of financing the fund is . . . . 27.4% of pay

Present basis of financing:

Present member contributions of 6% plus the State contribution of 1% of fees from sale of licenses, estimated to be approximately 6% of pay, provides annual financing of approximately . . . . 12.0% of pay

At the present level of financing the deficit will increase annually at the rate of . . . . 15.4% of pay

Summary of Findings as to Police, Fire, Highway Patrolmen and Game Warden's Pension Plans.

The Commission's time and resources permitted only a general anlaysis of these funds so the following findings are only a start on the amount of study that would be warranted.

Generally throughout the United States this type of fund provides for earlier retirement than other employee funds.

Highway patrolmen and game wardens pay a larger per cent of their pay than do firemen and policemen but the game wardens are the only group paying as large a portion of pay as SERA employees.

It is very evident that these funds will be a constantly recurring cause of pension confusion unless there is some standardization of costs, benefit levels and sources of financing.

A PRINCIPLE OF PENSION POLICY.

The firemen's, policemen's, highway patrolmen's and game warden's funds demonstrate to an extreme degree two dangerous practices discussed earlier in this report in regard to the three major pension funds.

1. The practice of raising pension levels retroactively to all active members of a fund has serious financing results. The employee nearing retirement participates in the pension increase but very little in the financing.

   The Highway Patrolmen's sudden 1953 deficit of $1,200,000 illustrates this point.

2. The practice of raising, at the expense of the funds, the pensions of people already retired is a serious practice financially speaking.

   This creates an immediate deficit in behalf of people who have not contributed any part of the increased cost.

   The costs of pensions generally is unduly inflated.

   The most dangerous type of this practice is the so-called "escalator" provision of funds such as the Minneapolis Fire Department Relief Association whereby all pensions are a proportion of a fireman's current rate of pay. Thus <u>automatically</u> every retired person's pension increases with each pay increase to an employed fireman.

The Commission is of the opinion that if the above described "escalator" provision should become general as to public employee pensions a chaotic condition as to financing would be unavoidable.

<u>The Commission Recommends that:</u>

LEGISLATION SHOULD BE ENACTED TO THE EFFECT THAT NO PENSION FUND ORGANIZED UNDER THE LAWS OF THE STATE OF MINNESOT BE ALLOWED TO INCREASE THE BENEFITS TO PERSONS AFTER RETIREMENT EXCEPT WHEN SUCH INCREASES ARE ADEQUATELY FINANCED FROM FUNDS OR SOURCES OF FUNDS NOT OTHERWISE AVAILABLE TO THE PENSION FUNDS.

FIREMEN'S RELIEF ASSOCIATIONS - VOLUNTEER.

Firemen's relief associations intended for volunteer firemen have, in many instances, evolved through a series of amendments into the firemen's pension funds for paid firemen. Several associations today include both volunteer and paid firemen. There appears to be considerable incompatability as to the interests of volunteer and paid members of the same association.

The Commission directed a questionnaire to all firemen's relief associations and devoted what time was possible to this problem but considers the information and recommendations of this report to be only the first steps of a study that should be pursued further.

In the year 1954 the State distributed $515,516 as aid to fire departments. This money represented proceeds of the 2% State tax on the premiums for fire insurance policies.

Of the $515,516 a total of $290,000 was distributed to municipalities or firemen's relief associations maintaining paid fire departments and is all used toward financing pensions. The balance of $225,483, aid to fire departments, was distributed to 610 municipalities, or fire-towns, serviced by volunteer fire departments. If the fire department of the municipality has no incorporated relief association the municipality must spend the insurance tax aid for fire protection purposes. If there is an incorporated relief association the insurance tax aid must be turned over to that relief association for pension or other benefits.

Current State insurance department figures indicate there are 423 incorporated fire department relief associations. Since nearly all but the smallest towns and villages have incorporated associations, it is reasonably accurate to say that approximately $225,483 per year of state tax money is distributed to firemen's relief associations whose members are volunteer firemen. The statutes covering the operation of these associations are Minnesota Statutes, annotated, Section 69.01 to 69.24 and Sections 424.30 and 424.31.

It was apparently the legislative intent that the local communities also be required to contribute to the relief associations for their volunteer firemen since the Statutes require that the local community possessing a fire relief association must levy 1/10th mill tax and may levy up to 1 9/10th additional mills, allowing a total levy of 2 mills.

The public examiner's 1954 report (statistical - not based on examination of the various subdivisions) showed that the total of local levies for all fire-towns with volunteer relief associations totalled only $124,123. When it is noted that 223 of there 423 towns showed no local levy for the year 1954, it appears that over one-half of the fire-towns with volunteer departments are not complying with the Statutes as to the local tax support of their fire relief associations.

As to the investments of these associations - the public examiner reports that, although his office has probably never examined most of these relief associations, the few he has examined indiczte a variety of practices as to the investment of funds.

In addition to the public examiner's information, questionnaires sent out by this Commission are quite revealing.

After three months, the response to the questionnaire sent to the 423 fire-towns was as follows:

- 56 associations who received $45,876 of state aid sent in questionnaires relatively complete.
- 21 towns stated they were 'not involved' since they only handle their "own money" which they receive from the State.

- A number of the towns did answer indicating annoyance over the State interfering with the spending of "their own money".

- In all, 367 who received $179,607 of State aid, did not answer the questionnaire.

We are advised by the public examiner that under date of January 7, 1946 and December 27, 1932 there are attorney general opinions to the effect that funds of fire relief associations are not public funds in all senses of meaning. Since there is no machinery for examination of compliance with the actual statutory requirements, there is no way of knowing exactly what public use may be made of the tax funds turned over to the various associations.

Some Apparent Problems Concerning the Operation of Firemen's Relief Associations are:

1. The majority of the volunteer department relief associations have not been examined by the public examiner for many years, if ever. It appears that in at least some cases they have actually adopted by-laws contrary to the Statutes.
2. Statutory requirements that the mayor, clerk, treasurer and fire chief of the municipalities be ex-officio members of the board are more frequently than not ignored.
3. Some of the funds have built up material balances which are invested by them.
4. The only measure toward supervision is that the insurance commissioner requires a skeleton financial statement to be filed each year before the insurance tax is released to the municipality. There is no supervision as to whether or not the skeleton statement filed is true.
5. Much of the confusion as to statutory requirements and operation of the firemen's pension funds for larger communities is fundamentally due to the fact that each community has sought and obtained various

amendments to MSA Section 69.01 to 69.24 and 424.30 and 424.31 designed to convert firemen's relief associations for volunteer firemen into firemen's pension funds. There appears to be few relief associations who have sought or obtained amendments while remaining purely volunteer relief associations.

There are several instances where a relief association has procured amendments to the law in an attempt to continue as a relief association for volunteer members of their fire department while becoming a pension fund for paid members of the same department.

Some of the amendments compound the confusion by causing a controversy as to whose benefits the funds of the association are primarily for.

The Commission considers that there is considerable need for further study of volunteer firemen's relief associations.

To effect some early improvement and to assist in establishing a better basis for further study the Commission at this time makes two recommendations.

<u>It is recommended that</u> -

IF AN INVESTMENT AGENCY, SIMILAR TO THAT RECOMMENDED BY THIS COMMISSION FOR THE PURPOSE OF INVESTING ASSETS OF THE MAJOR PENSION FUNDS IS ESTABLISHED, A "FIRE FUND" SHOULD BE CREATED TO BE OPERATED ON A SEMI-BANKING BASIS WITH THE ASSETS OF EACH FUND CARRIED AS A LIABILITY AGAINST THE COMBINED ASSETS OF THE "FIRE FUND".

<u>The Commission recommends that</u> -

LEGISLATION BE ENACTED TO PROVIDE THAT NO RELIEF ASSOCIATION INCLUDING VOLUNTEER FIREMEN IN ITS MEMBERSHIP SHALL BE ALLOWED TO PROVIDE BENEFITS TO ANY MEMBER DIFFERING IN NATURE OR AMOUNT FROM THE BENEFITS PROVIDED

FOR OTHER MEMBERS IF SUCH DIFFERENCE IS BASED ON ANY COMPENSATION SUCH MEMBER MAY HAVE RECEIVED FOR HIS SERVICES AND, FURTHER, THAT NO BENEFITS OF SUCH ASSOCIATION MAY BE BASED UPON ANY RATE OR AMOUNT OF COMPENSATION FOR FIRE FIGHTING SERVICES.

INVESTMENT OF PENSION FUNDS.

The investment of the assets of the various pension funds should amount to more than just the preservation of the invested funds.

The funds of the major pension funds are required by law to be invested in securities legal for the investment of savings banks and trust funds.

The discussion here does not contemplate any change in the statutory requirements intended to safeguard the security of invested funds.

The question of changing the requirements as to investment of pension funds is suitable for study and investigation at some later date.

The investment return on assets of the three major Minnesota pension funds has in recent years been smaller than the return realized by similar funds in this and other states which were invested under equally conservative investment laws.

Investment return of the three major funds has in recent years averaged 2.75% interest. Under the same laws, based on the experience of similar funds, it appears reasonable to estimate that interest yields could have been averaged as high as 3.25%.

There are several reasons for the comparatively low rate of interest return:

1. A considerable proportion of pension funds have been invested in tax exempt securities.

   The tax exempt feature is of no value to a pension fund but is of sufficient value to taxpaying investors that interest yields are considerably smaller.

2. None of the assets of the funds have been invested in industrial or utility bonds some of which are rated considerably higher by investment rating authorities than many of the tax exempt bonds owned by

the pension funds.

Industrials and utilities are not tax exempt and hence average a higher interest yield on even the best of securities.

3. The State Investment Board who purchases all securities for the pension funds is not so constituted as to be conducive to higher yields for pension funds.

   a. The members of the board - the governor, the auditor, the treasurer, the attorney general and a member of the board of regents of the University of Minnesota serve in ex-officio capacities and need have no background of experience in the selection of investments.

   b. The board is not equipped with expert counsel or staff to facilitate the selection of high grade non-government securities.

   c. The state officials on the board have the responsibility of selling the securities of the State of Minnesota at as low an interest cost as possible while attempting to obtain as high an interest yield as possible on pension funds investments.

4. In some instances the pension funds assets have been considered to be a market at relatively low interest for the bonds of subdivisions of the state. This may be fine for the subdivisions but is hardly conducive to reducing the cost of pensions.

THE EFFECT OF INTEREST RETURN ON PENSION FUNDS.

One-half of one per cent (.5%) greater interest return on the assets of a pension fund is conservatively equivalent to the annual payments into the fund of 1% of payroll.

This means that this amount per year would be available toward a number of possible purposes including:

a. Increased benefits

b. Payment on deficit

c. Reduction in employer or employee contributions, or both.

Because of the possibilities for increased interest return through either the rising interest rates now occurring, or through better selection of investments for yield, or through both means, the Commission has assumed throughout its deliberations that an interest yield of at least 3% is reasonably obtainable.

The Commission wishes to state with all possible emphasis that no adverse criticism of the present State Board of Investment,either individually or collectively,is in any way intended. All discussion of past or current investments and the Commission recommendation which follows are based on inherent characteristics of present and proposed machinery for investment.

MEASURES IN OTHER STATES TO IMPROVE INVESTMENT EXPERIENCE.

New Jersey and Wisconsin are notable examples of the states that have revised their machinery for investing the assets of pension funds. New Jersey established a State Investment Council in 1950 and Wisconsin established a new State of Wisconsin Investment Board.

While the Wisconsin and New Jersey investment authorities differ in details they are so similar as to fundamentals that they demonstrate the desirable characteristics of investment agencies for public funds.

New Jersey and Wisconsin serve as working demonstrations of the following desirable characteristics of an investment board:

1. The members of the board should be persons selected to serve on the board instead of persons elected or appointed to other positions but serving on the board in an ex-officio capacity.
2. Board membership should include persons experienced and skilled in the investing of funds.
3. Board membership should include representation of the pension funds.
4. The method of selection of board members should minimize the probability of politics.
5. The functions of the board should be administered by personnel trained and experienced in investment management.
6. No member of the board should be in a position to benefit from transactions of the board.
7. The board should select, manage and control the investments of the pension funds.
8. The assets of each fund should be invested within the statutory provisions governing that fund.

In conformance with the fundamentals listed as desirable for an investment board and to increase the investment yield of pension fund assets without impairment of the security thereof -

The Commission recommends that:

PROPER LEGISLATION BE ENACTED ESTABLISHING AN INVESTMENT BOARD TO SELECT, MANAGE AND CONTROL THE INVESTMENTS OF THE THREE MAJOR PUBLIC EMPLOYEE PENSION FUNDS OF THE STATE AND SUCH OTHER FUNDS AS MAY BE REQUIRED OR PERMITTED BY THE LEGISLATURE. SUCH

LEGISLATION SHOULD INCLUDE THE PROVISIONS OUTLINED BELOW AND SUCH ADDITIONAL PROVISIONS AS ARE NOT INCONSISTENT WITH THOSE STATED OR IMPLIED WHICH WILL SERVE TO IMPROVE THE FUNCTION ABILITY OF THE ACT.

AN OUTLINE FOR AN INVESTMENT BOARD.

Membership.

The board should consist of seven (7) members as follows:

- Three members, one from each of the three major pension funds.
- Four public members appointed as provided and who shall be persons who are well qualified and have at least ten years experience in the field of investment and finance.

The members selected by each of the three major pensions funds should have a term of one year and be selected by the board of trustees of each fund.

Each of the four public members should have a term of four years except that at the inception of the board one member would have an initial term of one year, one member an initial term of two years, one member an initial term of three years and one member an initial term of four years.

Each member of the board shall serve until his successor is selected and qualified.

Any vacancies occuring in the board shall be filled in the manner of the initial appointment for the balance of the term of the person to be succeeded.

Method of Selection of Public Members.

An advisory and nominating committee should be established consisting of the presidents of all insurance companies incorporated in the State of Minnesota which companies have assets of more than $100 million, plus the presidents of any mutual savings banks incorporated in the State of Minnesota which have assets of more than $100 million, plus the vice-president of the University of Minnesota who is responsible for the investment of trust funds, endowment funds, etc., of that institution. The governor is to designate one member of this committee to act as chairman and to call meetings of the committee on proper notice as occasion may require.

It will be the duty of this committee to submit to the governor a list of nominees for any of the appointive positions on the Investment Board which may be vacant or for which the term of an incumbent may be about to expire. Such nominees must be persons having at least ten years experience in the field of investment and finance who, in the opinion of the committee, are well qualified to serve as members of the Investment Board. A statement of the qualifications and background of each nominee must be prepared by the committee and transmitted with the list of nominees to the governor. There must be at least two or more nominees for each position to be filled. Members of the committee are themselves to be eligible for inclusion as nominees.

The governor shall appoint the members of the board not selected by the pension funds from the list of nominees submitted by the committee.

Explanation: Determination of the membership of the nominating and advisory committee is based on the fact that at this time none of the financial institutions whose presidents are included are engaged in the sale of securities. Each such institution is a large investor in securities.

No person at the time of nomination for the Investment Board or after appointment shall hold any office, position or employment in any political party nor shall any such member benefit directly or indirectly from any transaction made by the director of the Investment Board.

Each appointment by the governor to membership on the Investment Board shall be subject to ratification by the Senate of the State of Minnesota.

Each member of the board should receive $25 per day for time spent in the performance of his duties or required for travel to so perform his duties and, in addition, any actual necessary expense.

The members of the board shall elect annually from their number a chairman of the board. Any member so elected as chairman shall serve for a term of one year and until his successor is in like manner elected.

Any member of the board can be removed by the governor, for cause, upon notice and opportunity to be heard at a public hearing.

Director of the Investment Board.

The Board of Investment shall appoint a director who shall have immediate supervision and direction of the work of the board.

The director shall be appointed by the board and must be a person well qualified by training and experience to manage, administer and invest funds and direct the work of the board.

The person appointed by the board to the position of director must first receive the approval of the advisory and nominating commission who may require the board to submit additional names along with a complete description of the background and qualifications of each person so submitted to the nominating and advisory committee.

Any director so appointed shall serve without term but may be removed from office by the State Investment Board if 5 or more members thereof shall vote for such director's removal from office. The position shall not be in the classified service of the State.

Any vacancy occuring in the office of the director of the Investment Board shall be filled in the same manner as the original appointment.

The director of the board shall devote his entire time and attention to the duties of his office and shall not be engaged in any other occupation or profession. He shall receive such salary as shall be provided by the board subject to such maximum amount as the Legislature may determine.

The director shall report to the board at its meetings and account to the board for all operations under his supervision.

Duties and Powers of the Board.

The board shall have the duty and power to invest all of the assets of those pension funds whose trustees are entitled to select a member of the board and, in addition, may if requested, perform investment service for any other pension fund established by statute of the Legislature of the State of Minnesota.

The board shall have access to all files and records of the board and may require any officer or employee to provide such information as it may deem necessary in the performance of its functions. The board shall have authority to inspect and audit the respective accounts and funds assigned for investment purposes to the Board of Investment. It shall formulate and establish, and may from time to time amend, modify or repeal, such policies as it may deem necessary or proper, which shall govern the methods, practices or procedures for investment, reinvestment, purchase, sale or exchange transactions to be followed by the director of the Board of Investment.

On or before January 1st of each odd numbered year, the board shall report to the governor and the legislature with respect to its work.

The board shall have authority through the director to employ such additional personnel as may be necessary to carry out the work of the board. Such employees as the board may require, with the exception of the director, shall be in the classified service of the State of Minnesota.

The board shall establish the basis for determining cost of operation and shall assess against each of the funds for which it performs service the costs of such service.

The board shall invest the assets of the various funds in securities permissible by law in regard to each of the several funds.

Investment Powers of the Board.

The board shall have full power to invest any of the assets of the funds over which it functions in the securities authorized by law for each pension or other fund assigned by law to the board and to dispose of such securities when in its judgment it is to the best interest of these funds to do so. Every such security shall be held as an asset to the fund by which purchased and, except as otherwise provided by law, the loss or gain shall inure thereto. All securities in which money of any such fund is invested shall be under the management and control of the board.

The board shall have the power to retain expert counsel and to procure qualified consultant services to such extent as it shall from time to time deem advisable.

THE NEED FOR A PENSION STUDY AND REPORT AGENCY.

The Commission has frequently encountered features and provisions enacted as amendments in relation to pension funds which it is reasonable to presume would not have been passed - or would have been altered before passage - had the Legislature been provided with a thorough analysis of the real nature and effect of the changes.

Further, there are many obvious instances of inconsistencies between funds with a lack of pattern or fundamental legislative policy in regard to pension funds. This situation would doubtless have been reduced in extent, if not eliminated, had there been competent and complete analysis of proposed amendments available to the Legislature.

The need is strongly indicated for an agency responsible to the Legislature to provide the following legislative services:

1. To furnish the Legislature with an analysis and report concerning each bill creating or modifying any pension system operating or proposing to operate under legislative authority. Such report should contain probable cost, affect on actuarial soundness of the fund involved, and also the desirability of each proposal as to public policy and the probable affect on other pension systems.

2. To investigate and report to the Legislature on pension systems generally and as to practices and developments in regard to pensions both within and without the State of Minnesota.

3. An agency to require that records and accounts of various pension systems are so kept as to reveal rather than to conceal the experience and trends within each pension system. To this end the agency should

report to the Legislature proposed legislation if necessary to effect such purpose.

To accomplish such purpose an agency should have:

1. Office space
2. Adequate financial resources
3. Power to retain necessary staff
4. Power to retain services, principally actuarial, or of a professional and consultant nature
5. Power to subpoena officers, employees, records and other persons concerning investigations of pension funds.
6. Authority to require pension funds under study to pay a reasonable proportion of the cost of such study.
7. Power to require cooperation and full disclosure form officers and members of pension funds.

Such an agency to be of maximum value should function not only during the session of the legislature but also during the interim periods between sessions.

The Public Retirement Study Commission at this time can function more effectively as a pension study agency than any other organization. The members of the Commission have in the last interim acquired a knowledge of pension fund problems and principles that would be impossible to duplicate in a short time. The data accumulated by the Commission would also be of considerable value.

THEREFORE IT IS RESPECTFULLY SUGGESTED TO THE HOUSE AND SENATE OF THE STATE OF MINNESOTA THAT THE COMMISSION BE CONTINUED SO AS TO FUNCTION AS A PENSION STUDY AND REPORT AGENCY DURING THIS SESSION.

RECOMMENDATIONS FOR FURTHER STUDY.

The subject matter assigned to the Commission by Chapter 829, Laws of 1955 was so extensive it could not be thoroughly studied within the time available.

Early in its operation the Commission began to concentrate its attention on that portion of its subject matter that was most essential, or where the need for early remedy was most pressing.

The Commission derives considerable satisfaction from the extent of its assignment that has been covered in view of the fact that similar initial studies in many other states have extended from four to six years.

Further study is needed in regard to a considerable range of subject matter.

The administration and mechanics of operation of the pension funds in the last interim often had to be subordinated to the study of fundamentals.

The problems of such local pension funds as those for teachers in Cities of the 1st Class, Minneapolis employees, and several smaller funds should be studied.

It has already been indicated that further study is needed in the field of fire and police pensions and the two similar state employee funds.

A number of proposals or requests brought to the attention of the Commission appeared to have merit but will require more study.

The Commission considers it particularly important that there be an early follow-up study and analysis of all pension measures and changes resulting from acts of the Legislature at this session.

Because of the considerable need for further study of public employee retirement systems, the considerable data and material already assembled and in order

To render of maximum value the work of the past Commission, including the knowledge and background acquired by the members of the Commission, it is respectfully recommended that

THE PUBLIC RETIREMENT STUDY COMMISSION AND ITS ASSIGNMENT BE CONTINUED.

APPENDICES

I Characteristics of Modified Pension Plans (Without OASI).

Characteristics of OASI and the Combined Plans

II Examples of Retirement Incomes Under Modified Plans And Combinations with OASI

CHARACTERISTICS OF MODIFIED PENSION PLANS (WITHOUT OASI).	CHARACTERISTICS OF OASI AND THE COMBINED PLANS.

GENERAL POLICY

Control of the pension plans remains with the State.	OASI future costs, benefit provisions and conditions rest with Congress.
Employer matching in past has been irregular.	Employer matching in OASI portion is mandatory.
Deficits remain to be paid.	Much deficit transferred to OASI to be paid in OASI taxes generally.
Deficits are measureable.	Windfall provisions to much of public likely to force extra increase in OASI taxes to an extent not now known.
Total annual costs after payment of debt - 12% of payroll. (Employee-6%, Employer - 6%).	Total annual costs after payment of debt will be 14.5% of payroll subject to Congressional increases in benefits and costs.
If pensions are funded, little likelihood of increased cost without increased benefit.	Considerable possibility of increased cost without increase in benefits.
If pensions are not funded increased costs are inevitable later on.	Excessive combined total costs would force reduction or discontinuance of State pensions.
Coverage accumulatable between various State pension plans.	
Coverage not transferrable between public and private industry employment.	OASI coverage transferrable between all covered employment public or private.
Above two provisions of value in holding career employees but may hinder in some cases in recruiting new employees.	Above provisions valuable in recruiting employees.
Not suited to short term employees.	Well suited to short term employees.
Pension costs only slightly subject to general economic conditions of nation.	OASI costs certain to increase if present high level of prosperity and employment should decrease for any extended period. (This statement is affirmed by OASI actuaries and published data.)

AS TO COVERAGE FEATURES.

Early retirement provided with 20 or more years of service.	No retirement benefits prior to age 65. (Women - age 62).
Pension totals increase yearly until actual retirement from covered positions:	No increase in OASI due to work after age 65.
Pensions not suspended in case of subsequent employment.	OASI benefits suspended whenever earnings exceed $1,200 per year.
Pension based on years of service and salary up to maximum.	OASI benefits as large after few years as after many years of coverage.
a. Pension small with few years of service.	a. Larger than pensions from few years of service.
b. Pension large after many years of service.	b. Smaller than pensions from many years of service.
Joint survivor pension optional at reduced monthly amount.	Spouse and widow benefit (at age 62) in addition to regular benefit of men employees.
	Spouse and widower benefit only rarely available to women employees.
Death Benefit - employees total contribution plus interest.	Death Benefit - cash, not over $279.
Surviving minor children and their mother benefit available only to those described (not widowers). Not lost to mother in case she becomes employed.	Surviving minor children and their mother benefit available only to those described (not to widowers generally). Suspended as to mother in case she earns over $1,200.

PROVISIONS AS TO EMPLOYEES LEAVING PUBLIC EMPLOYMENT IN THE STATE.

Employees contributions withdrawable: Less than 10 years - 75% Over 10 years - 100%	No OASI refunds.
Proportional pension to begin at age 65.	Can withdraw from OASI only by leaving covered employment or becoming unemployed. In either case if there are any benefits

Pensions Without OASI (cont'd)	OASI Combination (cont'd)
a. Not conditioned on earnings after age 65. b. In addition to other pensions or OASI from other employment.	they decrease with time.

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Disability before age 50.	OASI disability only after age 50. State plans have disability prior to age 50.
No spouse or widow special benefits.	Many OASI benefits of little value to a number of employees. Spouse or widow benefits of little value to: - single men - single women - married women employees
Survivor benefits to minor children and their mother same as OASI.	Minor children and their mother benefits of little value to: - persons without minor children - married women employees with children
Pensions of a husband or wife completely unaffected by benefits of spouse.	If husband and wife are both employed under OASI and if wife draws her own OASI benefits she loses all spouse or widow benefits from her husband. If she draws benefits from her husband she loses her own benefits.

EXAMPLES OF RETIREMENT INCOMES UNDER MODIFIED PLANS AND COMBINATIONS WITH OASI.

The following table will serve as examples of the incomes an employee retiring in 1957 would receive under the proposed modified SERA and PERA plans and under the proposed combinations of these plans with OASI.

TEACHERS would be similar but not precisely the same.

Period of Service Prior to Retirement in - 1957	Assumed Salary Basis for Illustration: Starting Annual Salary	Assumed Salary Basis for Illustration: Annual Salary Last 5 Years	Monthly Income Under Formula Used for SERA & PERA	SERA & PERA Combination with OASI: Total Monthly Income (See note)
10	$ 2,000	$2,500	$ 20	$ 90
10	3,500	4,375	36	127
10	4,800 level.		40	133
15	2,000	2,500	38	96
15	3,500	4,375	66	139
15	4,800 level.		73	149
20	1,800	2,475	55	100
20	2,700	3,713	99	131
20	4,800 level.		107	166
25	1,800	2,700	86	113
25	2,700	4,050	129	150
25	4,800 level.		153	187
30	1,800	2,925	122	129
30	2,700	4,388	183	174
30	4,800 level.		200	211
35	1,800	3,000	162	144
35	2,700	4,500	243	195
35	4,800 level.		260	239

(Note: The pension fund part of these totals will be smaller than shown if and to the extent that in past years an SERA employee paid less than 6% of pay on $4,800 of income or a PERA employee paid less than 4% of pay on $4,800 of income.)