Retirement Law on Public Employees

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In appearing before you to explain the Public Employes' Retirement Fund and the possible application of Old Age and Survivors Insurance, I am in the position of an insurance agent who has two types of insurance. Both have the same benefits, but the payment of premiums are arranged in two distinct and different plans so that the only problem for the prospective purchaser is deciding how he wishes to pay the premiums for his protection and benefit. I make this statement at the beginning because in my explanation of the Public Employes' Retirement Fund and Federal Old Age and Survivors Insurance at one meeting you will certainly become aware of the fact that they are different, but both have the same ultimate role—a retirement benefit payable beginning at age 65.

INDIANA PUBLIC EMPLOYES' RETIREMENT FUND PLAN

First, I will try to explain to you the Public Employes' Retirement Fund Plan and how it would operate in the case of County Highway employes participation.

The Public Employes' Retirement Fund Law, passed by the 45th General Assembly, amended in 1947 and again in 1951, provides a plan whereby the governing body, in your case the County Council, may elect participation for any definable classification of employes. The County Council in two counties elected participation for the full time salaried county highway employes and excluded from participation the other county employes. The cost for this participation is paid for from the county highway funds.

The employes of the county highway departments will become eligible for a retirement benefit upon reaching 55, if they have com-
pleted 20 or more years of service, at 60 if they have completed 15 or more years of service. At 65 the employe will be entitled to a normal retirement benefit, if he has served 15 or more years of service. Upon reaching 70 retirement is compulsory if 15 or more years of service has been performed.

The retirement benefit to which they will be entitled is based upon their years of service, both service prior to the date of participation and the service rendered after participation begins. For each year of service rendered prior to reaching 45, an employe is given credit for one per cent of his average annual salary; between 45 and 55, one and one-fourth per cent of his average annual salary and after reaching 55, one and a half per cent. This is all for prior service but shall not exceed 50 per cent of his present salary. For each year of service after participation, one per cent a year of average salary is added. Whenever I mention annual salary, I am talking about salary not to exceed $1800 per year. Therefore, an employe might be eligible for a prior service and members pension of $900 a year which is all paid for by the county. To this is added what the law calls a basic annuity paid for by the county of $10 a year for the first 15 years of service or a total of $150. So if an employe was of the proper age at time of entry, he might be entitled to a pension of $1,050 a year. We have had one employe retired who received this amount after six months of membership.

To receive these pensions the employe must contribute five per cent of his salary, not to exceed $7.50 a month after participation begins. This is accumulated in his personal account plus two per cent interest compounded annually, and upon retirement is used to purchase an annuity which is added to the pension mentioned before. Under the terms of the act this could total approximately $1,100 a year if the employe has served 35 years and upon reaching the age of 65. Any benefits paid prior to the member reaching 65 is an actuarial equivalent of what he would receive at 65. In other words, the employe will receive the same number of dollars eventually but will receive them over a longer number of years since his expectancy at an age under 65 is more than that at 65.

An employe who begins participating in this plan, but withdraws from the service of the highway department before reaching retirement age, may withdraw his entire contributions at the time of his withdrawal or he may leave his contributions in the fund and should he, at a later date, return to highway service, begin immediately and thus accumulate additional years towards retirement.
The 1951 amendments to this law made an additional provision for retirement in that any employe who has served the required number of years of service, but has not reached retirement age, may upon withdrawing from service file an application for a retirement benefit which will begin when he reaches normal retirement age. This benefit, because of its extraordinary benefits, is reduced from five per cent to 20 per cent, according to the number of years elapsed between the time petitioned for and the time that benefit payments begin.

Should an employe die while a member of the fund, his beneficiary will receive his total contributions plus the accumulated interest. In addition to the benefits mentioned above, an employe may from time to time make additional contributions and buy for himself a larger annuity upon reaching retirement age. These additional contributions must be made in units of $100 and interest is accumulated in the same manner as on the regular contributions of $7.50 a month.

If you are interested you should have your County Council ask that we make a preliminary survey so as to determine what the costs would be and if our report is satisfactory, to include in their appropriations for the year beginning January 1, 1952, the total necessary for your participation, and then fully elect participation by the adoption of a resolution. However, it is not necessary that all of the employes who are employes January 1, 1952, become members of the fund. Employes who desire to waive their rights to benefits under the plan may do so prior to the effective date. All future employes shall participate after 12 months of employment.

The Indiana Public Employes' Retirement Fund, covering both state and municipal employes, is recognized as a model plan and has been followed by many states which have adopted similar plans since 1945. This plan is an actuarially solvent plan and the reserves are accumulated during the time that employes are participating so that when they retire sufficient funds have been accumulated to pay them their benefits during the remainder of their lives from the established reserves.

FEDERAL SOCIAL SECURITY OLD AGE AND SURVIVORS PROGRAM

The Congress of the United States amended Federal Social Security so as to include state and municipal employes, providing the Legislature passed the necessary enabling legislation. The 1951 ses-
sion of the Indiana General Assembly enacted into law Senate Bill 112 which made provisions for the state entering into an agreement with the Federal Social Security Administration whereby municipal employees, or as the act states, employes of political sub-divisions of the state, could come under the provisions of this act. This law will be known as Chapter 313 of the Acts of 1951 and authorizes the governing body of political sub-divisions of the state to elect to participate in the plan excluding only such employes as are now covered by a state or local retirement plan. This law sets up the steps which are necessary for participation and these steps are the same as for participation in the Public Employees' Retirement Fund in that a preliminary survey must be made to determine what the costs to the employer will be and then, at the time of making appropriations in July and August of 1951, to specifically pass an ordinance or resolution electing participation for the employes of the municipality.

The provisions of the Old Age and Survivors' Program is different from the Public Employees' Retirement Fund in that the governing body has no choice of selecting employes to be covered. In other words, should the County Council of your county elect to participate in the Old Age and Survivors' Insurance, they would have to elect participation for all county employes. The only possible exclusion would be officials elected by a vote of the people, or county employes who are paid exclusively by a fee system. To participate in the Old Age and Survivors' Insurance, the governing body must agree to contribute to the Social Security Administrator an amount equal to what a private industry pays in the manner of Social Security Old Age and Survivors tax or one and a half per cent of the payroll for the years 1952 and 1953, two per cent for the years 1954 to 1959 inclusive, and a graduated scale until three and one-fourth per cent is paid for the year 1970 and all subsequent years.

Should the County Council of any county elect to participate in Old Age and Survivors Insurance, employes have no choice but to contribute the same amount from salary or wages as the employer pays and heretofore stated. The only limit placed upon the tax is that the tax is applied only to the first $3600 of wages or salary paid to an employe during a calendar year.

To receive benefits under the Old Age and Survivors Insurance Program, an employe must be fully covered and fully covered under provisions of this act means that if an employe begins to participate after reaching 62 he must complete at least one and one-half years, or as stated in the law, six quarters, before reaching 65. A quarter equals three full months of employment. Persons under 62 years
of age must be under covered employment at least 50 per cent of the time.

Benefits payable under the Old Age and Survivors Insurance is based entirely upon average wages earned during the time that he was eligible for covered employment. This does not mean average during the time that he was actually under covered employment, but means average during the eligible time that he could have been under covered employment. An example takes into consideration a person who was eligible for covered employment for 20 years and who drew wages in excess of $300 per month during the time that he was actually employed. In this example, we will call the employee Mr. Smith. Mr. Smith started under the plan January 1, 1951, at 45 and earned, while working under covered employment for 20 years, a total of $54,000, which was divided by 240 months, total lapsed time, or an average earning while under covered employment of $225 per month. This computation reveals the fact that Mr. Smith was in covered employment three-fourths of the time. Therefore, his benefits are based upon three-fourth's of what his average salary was while under covered employment. To compute his benefits we follow the formula which is established by law. Fifty per cent of the first $100 or $50, plus 15 per cent of the balance or 15 per cent of $125 equals $18.75, to a total benefit at 65 of $68.75. If Mr. Smith's wife were living and 65 years of age or older, this would amount to $103.20 and upon the death of Mr. Smith, the widow would continue to receive $51.60. Should there be two or more dependent children, $51.60 would be added for each child, but not to exceed $136 a month. Of course, this seems to be considerably more than would be paid under the Public Employees' Retirement Fund, but in analyzing the cases, how many cases would there be where there would be dependent children and how many where the wife's age would equal or exceed the husband's at time of retirement. In addition, in the case of death, a benefit would be paid equal to three months' benefits, or a total not to exceed $240 per month.

Should a person under Old Age and Survivors Insurance not accept his benefits at 65 but continue to work, he would be allowed to remain in covered employment after reaching 65 and collect his retirement benefits in addition to his salary. However, between the ages of 65 and 75, should any person receiving benefits under Old Age and Survivors Insurance earn more than $50 a month, the excess would be deducted from his retirement checks, and should he fail to report his earnings at any time, he would be liable for violation of the law and possible prison sentence.
I believe if the benefits under these two plans, although different in some respects, were given careful consideration, it would be found that the benefits are approximately equal and that the total costs were approximately the same, and the only difference in costs to the political sub-division and the employe is that under the Public Employees' Retirement Fund the greatest cost for the employer is at the beginning and does not change for the employe, whereas under the Old Age and Survivors Insurance the cost to both the employe and the employer increases over a period of years so that in the end the cost to the taxpayer who is eventually going to pay the employee's costs is approximately the same. That is why in the beginning I stated that I was definitely explaining two plans and that the only difference was how they were to be paid for to pay specific benefits at age 65.