A COMMISSION REPORT

Transferability of Public Employee Retirement Credits Among Units of Government

ADVISORY COMMISSION ON INTERGOVERNMENTAL RELATIONS
MARCH 1963
A—16

ADVISORY COMMISSION ON INTERGOVERNMENTAL RELATIONS
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PREFACE

The Advisory Commission on Intergovernmental Relations was established by Public Law 380, passed by the first session of the 86th Congress and approved by the President September 24, 1959. Sec. 2 of the act sets forth the following declaration of purpose and specific responsibilities for the Commission:

> Sec. 2. Because the complexity of modern life intensifies the need in a federal form of government for the fullest cooperation and coordination of activities between the levels of government, and because population growth and scientific developments portend an increasingly complex society in future years, it is essential that an appropriate agency be established to give continuing attention to intergovernmental problems.
>
> It is intended that the Commission, in the performance of its duties, will--
>
> (1) bring together representatives of the Federal, State, and local governments for the consideration of common problems;
>
> (2) provide a forum for discussing the administration and coordination of Federal grant and other programs requiring intergovernmental cooperation;
>
> (3) give critical attention to the conditions and controls involved in the administration of Federal grant programs;
>
> (4) make available technical assistance to the executive and legislative branches of the Federal Government in the review of proposed legislation to determine its overall effect on the Federal system;
>
> (5) encourage discussion and study at an early stage of emerging public problems that are likely to require intergovernmental cooperation;

(6) recommend, within the framework of the Constitution, the most desirable allocation of governmental functions, responsibilities, and revenues among the several levels of government; and

(7) recommend methods of coordinating and simplifying tax laws and administrative practices to achieve a more orderly and less competitive fiscal relationship between the levels of government and to reduce the burden of compliance for taxpayers.

Pursuant to its statutory responsibilities, the Commission from time to time singles out for study and recommendation particular problems, the amelioration of which in the Commission's view would enhance cooperation among the different levels of government and thereby improve the effectiveness of the Federal system of government as established by the Constitution.

One such problem, so identified by the Commission, was the question of transferability of public employee retirement credits when such employees change employment from one unit of government to another.

The Commission added this project to its work program on May 4, 1962. The project was strongly urged by prominent national organizations, individuals, and government officials who are interested in government efficiency and in improving the public service as a career.

This report briefly examines the background of public employee retirement systems at all governmental levels. It reviews such retirement systems in regard to provisions governing the intrastate and interstate transferability of retirement credits, and presents alternative methods for achieving a greater degree of retirement credit transferability.

This report was adopted at a meeting of the Commission on March 21-22, 1963.

Frank Bane
Chairman

WORKING PROCEDURES OF THE COMMISSION

This statement of the procedures followed by the Advisory Commission on Intergovernmental Relations is intended to assist the reader's consideration of this report. The Commission, made up of busy public officials and private persons occupying positions of major responsibility, must deal with diverse and specialized subjects. It is important, therefore, in evaluating reports and recommendations of the Commission to know the processes of consultation, criticism, and review to which particular reports are subjected.

The duty of the Advisory Commission, under Public Law 86-380, is to give continuing attention to intergovernmental problems in Federal-State, Federal-local, and State-local, as well as interstate and interlocal relations. The Commission's approach to this broad area of responsibility is to select specific, discrete intergovernmental problems for analysis and policy recommendation. In some cases, matters proposed for study are introduced by individual members of the Commission; in other cases, public officials, professional organizations, or scholars propose projects. In still others, possible subjects are suggested by the staff. Frequently, two or more subjects compete for a single "slot" on the Commission's work program. In such instances selection is by majority vote.

Once a subject is placed on the work program, a staff member is assigned to it. In limited instances the study is contracted for with an expert in the field or a research organization. The staff's job is to assemble and analyze the facts, identify the differing points of view involved, and develop a range of possible frequently alternative, policy considerations and recommendations which the Commission might wish to consider. This is all developed and set forth in a preliminary draft report containing (a) historical and factual background, (b) analysis of the issues, and (c) alternative solutions.

The preliminary draft is reviewed within the staff of the Commission and after revision is placed before an informal group of "critics" for searching review and criticism. In assembling these reviewers, care is taken to provide (a) expert knowledge and (b) a diversity of substantive and philosophical viewpoints. Additionally, representatives of the American Municipal Association, Council of State Governments, National Association of Counties,

U. S. Conference of Mayors, U. S. Bureau of the Budget, and any Federal agencies directly concerned with the subject matter participate, along with the other "critics" in reviewing the draft. It should be emphasized that participation by an individual or organization in the review process does not imply in any way endorsement of the draft report. Criticisms and suggestions are presented; some may be adopted, others rejected by the Commission staff.

The draft report is then revised by the staff in light of criticisms and comments received and transmitted to the members of the Commission at least two weeks in advance of the meeting at which it is to be considered.

In its formal consideration of the draft report, the Commission registers any general opinion it may have as to further staff work or other considerations which it believes warranted. However, most of the time available is devoted to a specific and detailed examination of conclusions and possible recommendations. Differences of opinion are aired, suggested revisions discussed, amendments considered and voted upon, and finally a recommendation adopted with individual dissents registered. The report is then revised in the light of Commission decisions and sent to the printer, with footnotes of dissent by individual members, if any, recorded as appropriate in the copy.

ACKNOWLEDGMENTS

The staff work for this report was conducted by Mr. William P. Maxam, a staff member of the Commission. In the course of the project, Mr. Maxam received generous assistance and advice from numerous retirement system officials, other officials of Federal, State, and local government, and private individuals and organizations concerned with improving the public service. This help is gratefully acknowledged.

Wm. G. Colman
Executive Director

Melvin W. Sneed
Assistant Director
Governmental Structure and Functions

TABLE OF CONTENTS

TABLE OF CONTENTS
(continued)

CHAPTER I

INTRODUCTION

Retirement and pension plans are not of recent origin. In fact, pensions of sorts are perhaps as old as government itself, dating back to bygone eras when royal monarchs rewarded faithful soldiers and courtiers with grants of lands and treasure to sustain them in their old age. Modern retirement systems began in 1834 when the British Superannuation Act was passed. The first public retirement system in the United States was a police pension system, established in New York City in 1857. The first State to adopt a retirement system was Massachusetts in 1911. Then, the United States Civil Service Retirement Act was passed in 1920. 1/

From these beginnings, involving only a few selected groups, retirement programs in the United States have had a phenomenal growth in the last 25 years. In 1935, the year the Social Security Act was passed, not more than 15 percent of the labor force had any retirement protection. Today, almost every worker is protected by at least one retirement program, whether it be a public employee plan, a private industrial or union plan, old-age, survivors, and disability insurance under Social Security, or a combination of these. About 9 out of every 10 workers are covered under Social Security. 2/ Approximately 22 million employees in private industry, or about two-fifths of the total, are covered by private pension plans. These private pension plans number about 25,000. 3/ On the public employment side, there are over 2,200 retirement systems for State and local government employees. These systems cover over four million persons. 4/ The Federal

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1/ Address by Albert H. Aronson at International Conference of the Public Personnel Association, Montreal, Canada, October 1, 1957, p. 1.

2/ Proceedings of the Fourth Annual Social Security Conference, July, 1962, p. 149.

3/ A Brief Review of Employee Benefit Plans and Funds, President's Committee on Corporate Pensions, p. 1.

4/ Employee Retirement Systems of State and Local Governments, U. S. Bureau of the Census, U. S. Census of Governments, 1957 (1959).

Civil Service Retirement System provides retirement coverage for more than two million employees of the Federal Government. Thus, pension and retirement programs constitute a subject of wide magnitude and affect almost every adult citizen in the United States.

Retirement systems have advantages for the employees involved, the employer, and--in the case of public employee retirement systems--the public. If they did not offer advantages, retirement systems would not have become as extensive as they are at present. As will be discussed in Chapter II, retirement system objectives need to be changed and modified as society, government, and employment become increasingly complex. However, for the purposes of this study, a few of the most important principles or objectives of a retirement system have been taken from the Wisconsin Governor's Retirement Study Commission Report of 1957, underscored, as follows: 5/

A. For the Employee--

1. Attract high grade personnel to enter and make such service a life career. As will be shown later, this is one of the traditional objectives of retirement systems that causes the greatest difficulty in dealing with the concept of employee mobility. Until the post-World War II era, public employment generally offered better retirement provisions than private industry and thus had some advantage in competing for top people. However, this advantage generally has been lost for the public employer. Regarding this, Aronson points out that:

> Pension systems were established in the public service before they were established generally in industry. The relationship between public practice and industrial practice with respect to retirement has undergone a marked shift over a generation. Before the advent of Social Security, public retirement plans, limited in extent and in benefits though they were, nevertheless represented an advantage in public employment under civil service over employment in industry. In part this compensated for lower public pay scales. Retirement plans constituted one of the major attractions of the public service in recruitment and retention of employees.

5/ Final Report, State of Wisconsin Governor's Retirement Study Commission, January 15, 1957, p. 11.

Today the lag between pay in government and pay in industry persists, In fact, if one takes pay during the 1930's as a basis, there is a greater disparity today. But now, instead of public retirement systems constituting a major advantage of public employment, there is, often, perhaps generally, no advantage to the public servant in this respect. In fact, social security combined with supplemental company plans may be more attractive than the public retirement system alone. I should point out, however, that benefits under a number of public retirement plans are above the general average in industry. On the other hand, one could point to a few industrial patterns, including coverage under social security and company plans, which provide more generous benefits than any public system. This is certainly the case in some plans for executives. 6/

2. Permit the employee to leave the service before he becomes inefficient because of old age and disability. Until pension systems became so generally accepted as they are now, there were usually about two alternatives for elderly employees. They could either be kept on the payroll after they could no longer perform their assigned tasks, usually to the detriment of both the employer and the employee, or they could be relieved of their positions and left to their own devices. Modern social considerations dictate that some form of economic remuneration must be made available for the retired worker. Thus, a phenomenal growth in the number of pension systems has resulted.

3. Retire ill and superannuated persons in order that their positions may be filled with young, energetic persons. Better morale is maintained in an organization if the younger staff members know they will have opportunities for promotion as a result of a scheduled retirement program.

B. For the Employing Agency and the Taxpayer--

1. Promote economy and efficiency in service. The employer can maintain a smoother running organization if, by making regular systematic contributions, he has established a retirement fund whereby aging employees can be given economic security in retirement and thus not need to be kept on duty and on the

6/ Aronson, *op. cit.*, p. 2.

payroll years beyond their usefulness.

2. <u>Stabilize employment</u>. This is another of the traditional objectives that may need to be re-examined.

3. <u>Attract able personnel</u>. At the present time, a reasonably good retirement system is a must for attracting able personnel. While top individuals won't use a retirement system as the sole criterion in selecting a position, an employer must provide a retirement program simply because virtually all employers do.

4. <u>Enable employees to provide for themselves and their dependents in case of old age, disability, or death</u>. In the case of public employment, the taxpayer will come out ahead financially by contributing to a retirement fund, rather than having the employee hang onto his job past his usefulness and then receive old-age assistance which the taxpayer must provide in its entirety.

5. <u>The public will receive better services if superannuated employees are retired in an orderly manner</u>.

CHAPTER II

THE PROBLEM

Reason for the Study

Many public administrators and agencies are finding the serious lack of provision for intergovernmental transferability of retirement rights to be a hindrance to personnel recruitment. Examples which indicate the concern about the problem follow.

Dr. Leona Baumgartner, as Commissioner of Health for the City of New York, stated in a letter to the Twentieth Century Fund that:

> One of the most difficult and trying problems facing public health administrators today is the inability to recruit well-qualified professional staff....
>
> I find, in talking to many people in public health, that a major factor in keeping them (people) where they are and preventing them from accepting other job offers is the great loss they would sustain in relation to pension benefits that have been built up over a period of years....
>
> I believe that it is desirable from almost every standpoint that there be a freer interchange of personnel between jurisdictions. One state may have a surplus of talent in a given area; another, a deficit. The experiences gained in one governmental setting may be of significant value to an agency in another political or jurisdictional setting. Frequently, too, with a change in executive leadership of a community or state, it might be a happier situation for many of the key administrative personnel if they were able to move more easily into another jurisdiction or level of governmental structures.

An internal memorandum from the Bureau of Employment Security of the Department of Labor, in referring to recruitment difficulties, states that:

> ...we do not get applications from people in States where they know that they would lose their rights to their State retirement and they cannot obtain credit under the Federal retirement system for their State work. About the only people who will apply for work with the Bureau from such States are those who have had only a few years service and, therefore, do not have the length of experience which would make them good Bureau employees.

The Municipal Manpower Commission also found that:

> In the vast majority of states and urban governments... retirement credits have turned into an anchor, and operate as a real deterrent to the easy interchange of middle and top-level APT (administrative, professional, technical) personnel. 7/

While many more such quotations could be listed, these should suffice to illustrate the concern about the problem that prompted the Advisory Commission on Intergovernmental Relations to undertake this study.

Scope of the Study

This report is concerned primarily with the "transferability" aspects of Federal, State, and local government retirement laws and policies. This, of course, includes Social Security and the Federal Civil Service Retirement System. These two systems, as well as a considerable number of State and local government retirement systems, have been examined chiefly to determine the extent to which they permit and encourage, or discourage, the transferability of retirement credits between systems. Both interstate and intrastate transferability will be considered.

An attempt has been made to secure detailed information on the principal public employee retirement systems in each of the 50 States, including the governing statutes, as well as State retirement commission and committee reports where appropriate. Either the legislative research agency or the State retirement department was contacted in each State. On the basis of information received from 48 States, it is believed that the pertinent provisions of a

7/ Government Manpower for Tomorrow's Cities, A Report of the Municipal Manpower Commission, 1962, p. 78.

sufficient number of retirement systems have been examined to provide an adequate basis for general appraisal of the transferability question. It is noted, however, that there is a dearth of published material on this subject. There appears to have been much discussion but little research on the problem.

Conceptual Conflict Inherent in the Mobility Question

To facilitate the mobility of public employees may, of itself, be at odds with the traditional concept that a principal objective of a retirement system is to retain personnel. Most employers, both public and private, have been sold on this as a reason for establishing retirement systems and later, for increasing benefits. It would appear that if greater employee mobility is to be tolerated, if not encouraged, some evolution in the concepts and objectives of retirement systems will be necessary.

There are three important subject areas around which a case can be made for permitting a greater degree of transferability of retirement credits of public employees. These are the deferred compensation theory, the prevalence of a high degree of mobility of the population, and the fact that some governmental units or agencies may need personnel from another unit of government in order to initiate or to continue important programs.

(1) Deferred Compensation

Many authorities in the pension field agree that the granting of pensions was first thought of in consideration of and in remedy of poverty. In the case of veterans' pensions, they were considered to be rewards for heroic services rendered in time of war. Alleviation of poverty undoubtedly was a basic justification for the pension payments authorized under the Social Security Act.

However, current thinking tends to emphasize that pension payments are in reality deferred compensation. A report on the Maine State Retirement System contains a typical statement of this point of view:

> In effect, the employer's contributions represent compensation that the employer could otherwise pay its employees but which is withheld and accumulated to be paid out to the employees during their years of retirement. This leads to the theory of pensions as deferred compensation. 8/

8/ Report to Legislative Recess Committee on Maine State Retirement System and Social Security Coverage, by the consulting firm of Bowles, Andrews and Towne, 1954, p. 18.

If this theory of deferred compensation is accepted by employers, it would appear that a more liberal attitude would follow as to the alternatives employees might be permitted to exercise in regard to their retirement credits. To pursue this further, it would seem that the use of retirement systems to retain employees is not consistent with the theory of deferred compensation. It will be pointed out later that funding considerations prohibit giving the employee unlimited freedom in transferring retirement credits, but it would appear, nevertheless, that he should have greater freedom than he does now.

(2) Mobility

It recently has been stated that "ours is a nation of semi-nomadic people." 9/ In support of this statement it may be pointed out:

> ...Of the 159 million persons 5 years old and over in the nation in 1960, 75 million had changed residence since 1955. Fourteen million, or about one-fifth of the movers, were living in a different State than 5 years before; another 14 million had moved across county lines within the same State, and the remaining 47 million had moved from one residence to another in the same county. 10/

Regarding mobility in occupations with which this report is concerned, the Research Division of the National Education Association found in a sample survey conducted in 1947-48 that 30 percent of the teachers questioned had served in more than one State. The sample covered 6,000 teachers throughout the nation. 11/ The International City Managers' Association reports that for the past 10 years, 70 to 80 percent of the city managers appointed in the United States came from outside the city of appointment. However, it is probable that the two professions cited here have a somewhat higher mobility rate than many of the other public service professions.

9/ Adrian, Charles R., State and Local Governments, 1960, pp. 16-17.

10/ A Report on Manpower Requirements, Resources, Utilization, and Training, U. S. Department of Labor, March, 1963, p. 55.

11/ How to Provide Reciprocity in Teacher Retirement, Research Division of the National Education Association, January, 1951, p. 10.

Increasing need for public employee mobility should be considered by Federal, State, and local governments in devising and revising their retirement systems. Public employees should not be penalized by having their retirement benefits virtually wiped out when they transfer, often necessarily, if they are to progress up the career ladder of public service. Neither should the retirement benefits of a governmental unit be so arranged as to unduly discourage employee transfers. Obviously, there can be adverse effects for an employer with little or no turnover among his employees, as well as for employers with too much turnover.

It should be pointed out that there is inconsistency between the fact that population in general is highly mobile and that a considerable number of public employees may likewise move, while at the same time there frequently are other public employees who have qualifications badly needed by another unit of government and yet refuse to transfer because of the loss of retirement credits they would suffer.

(3) Increasing Interdependence of Governmental Units, Especially with Regard to Certain Personnel Categories.

As the problems of government increase in complexity, largely because of population growth and the pace of technological change, some governmental units will find it increasingly difficult to initiate new programs and expand older programs on account of personnel scarcities. Programs requiring public health personnel, engineers, scientists, teachers, and social workers, probably will have the greatest recruitment problems for the foreseeable future. An earlier quote from Dr. Baumgartner points up the idea of oversupply in one governmental unit and scarcity in another in the public health field. Discussions with educational and welfare officials have revealed similar findings in the fields of teaching and social work. Likewise, agricultural officials point out the same problem regarding Extension Service personnel and scientists in the State Experiment Stations.

A. A. Weinberg, Chairman, Committee on Public Employee Retirement Administration of the Municipal Finance Officers Association, summarizes especially well the interdependence issue as it relates to public employee mobility.

> The increasing inter-dependence among the various levels of government, occurring during recent years, dictates the need for greater mobility within public

> administration. Mobility will tend to encourage employees of proved ability and experience, possessing special talents and skills, to continue to serve the public to the end that maximum efficiency in all governmental operations may be achieved. Public administration, therefore, must be viewed in its broadest aspects, without reference to geographical boundaries, rather than in terms of the particular state or local governmental unit. 12/

Also, writing in regard to the interest of the nation, the economy, and the individual, Mr. Robert M. Ball, now Commissioner of Social Security, stated:

> From the standpoint of the public interest and to promote the welfare of the individual, we should in general encourage workers to try out at better jobs in which they may be more productive. We should not put grave penalties in the way of enterprise and initiative. 13/

12/ Public Personnel Review, January, 1961, p. 55.

13/ Ball, Robert M., Pensions in the United States, 1952, pp. 45-46.

CHAPTER III

STATE AND LOCAL GOVERNMENT EMPLOYEE RETIREMENT SYSTEMS

Extent of Coverage

According to the 1957 Census of Governments, there were 2,205 State and local government retirement systems. Of this number, 147 systems were administered by State governments and accounted for about three-fourths of the total membership. The remaining 2,058 systems were locally administered and nearly nine-tenths of these were operated by municipalities. Over 4 million of the approximately 6.3 million State and local government employees were covered by public employee retirement systems in 1957. 14/ Nearly 4.2 million State and local employees are covered by Social Security, and over 2.9 million are currently covered by Social Security and a public employee retirement system. 15/ As a result of this widespread public employee retirement coverage, it is reasonably safe to assume that practically all full-time State and local employees, with the exception of some elected officials, are covered either by Social Security or by a public employee retirement system, or both.

Pattern of Existing Operations

The following hypothetical case is presented to illustrate the meaning or usage of terminology appearing in the report.

Mr. Civil Servant (CS) graduated from college at age 22 and accepted employment with the State government of Arizona. As a result of his employment with the State of Arizona, CS had dual retirement coverage. He had retirement coverage under both Social Security and the Arizona State Retirement System. The cost to the employee for this coverage at the present time would be 3-1/2 percent of his total salary for the State retirement plan and 3-5/8 percent of the first $4,800 of his salary for Social Security coverage.

14/ U. S. Census of Governments, *op. cit*.

15/ *State and Local Government Employment Covered by OASDI*, Department of Health, Education, and Welfare, Social Security Administration, July, 1962, p. 4.

The cost to the employer is exactly the same as for the employee. Since the Arizona retirement system approaches being a funded system, the State contributions to the State retirement system are deposited each month, and the State's contribution to the Social Security account of CS is also provided. "Under fully funded plans, for each portion of service rendered the (employer) by the employee, a sum is set aside to provide a retirement income related to that service. A fully funded plan might be defined as one under which, if it were to be closed out at any time, enough money would already have been paid into it to meet all the obligations for all benefits accrued under the plan from its inception to its termination." 16/ On the other hand, a strictly nonfunded plan requires no contributions by either the employer or the employee during the employee's period of service. The nonfunded plan might even be described as a "buy now--pay later" plan since the funds for paying the retirement benefits must be raised after the employee has retired. Then there is the partially funded plan which ranges somewhere between the funded and nonfunded plans. "The large majority of publicly administered retirement systems call for current funding and investment of employee contributions. Many of these plans do not fully fund employer contributions." 17/

After Mr. CS had been employed by the State government for three years, he decided to accept a teaching position in the public school system of Flagstaff, Arizona. The Arizona State Retirement System covers both State employees and public school teachers. After three years teaching in Arizona, Mr. CS decided to accept a position with the State government of Indiana. Since the Arizona system has a vesting provision after five years service, Mr. CS decided to leave his contributions in the system. Vesting is "the provision for unconditional ownership of all retirement and survivor benefits purchased for the employee by his own and his employer's contributions." 18/ As a result of this vesting provision, CS can leave his contributions for his six years service in the Arizona system and receive a commensurate pension at age 60 covering this service. This is referred to as a deferred benefit. CS could also have withdrawn his contributions with interest. However, this would not have been advantageous since he could not purchase credit in the Indiana system.

16/ Greenough, W. C. and King, F. P., Retirement and Insurance Plans in American Colleges, Columbia University Press, New York, 1959, pp. 89-90.

17/ Greenough and King, ibid.

18/ Greenough and King, ibid, p. 71.

After eight years of service with the State of Indiana, in which CS had dual coverage (State system plus Social Security), he accepted a job with the State government of Colorado. Since the State of Indiana did not provide for vesting until the completion of 10 years service, and the Public Employees' Retirement Association of Colorado did not provide for the purchase of retirement credit for out-of-State service, CS withdrew his contributions with interest from the Indiana system and used these funds for current expenses. After five years of service with the State of Colorado, CS accepted a position with the State of South Carolina. South Carolina permits the purchase of retirement credit for out-of-State service, but CS decided to leave his contributions in the Colorado system which provides for a deferred benefit at age 65. South Carolina also provided dual coverage for State employees. After serving 16 years with the State of South Carolina, CS accepted a high-level job with the Federal Government. Since he needed four more years service to meet the South Carolina vesting requirement of 20 years, he withdrew his contributions. The Federal Government does not permit the direct purchase of retirement credit for State government service, and CS did not take advantage of the opportunity to make voluntary contributions to the Federal Civil Service Retirement System in order to increase his retirement annuity. At age 65, CS retired after eight years service with the Federal Government.

When CS began totalling the number of years for which he had retirement credit, he found that in addition to Social Security benefits he would receive retirement benefits from public employee retirement systems for only 19 years of his 43 years of public employment. He received deferred benefits from the Arizona and Colorado retirement systems based on six and five years service, respectively, and he received an annuity from the Federal Civil Service Retirement System for eight years service.

State Provisions Governing Employee Transfer

There are several provisions of retirement systems which either contribute directly to retirement credit preservation in the case of employee transfer or are related thereto. These are vesting, reciprocal arrangements for transfer between retirement systems within a State, provisions for purchase of retirement credit for public service (to other public jurisdictions), the degree to which retirement systems are funded, and whether or not retirement systems permit the employee to withdraw his contributions with interest when he leaves the system.

Most of the public employee retirement systems reviewed during the course of this study have vesting provisions. However, as Table I indicates, these provisions range from immediate vesting in the Wisconsin Teachers' Fund to the 27-year service requirement in the Arkansas Teachers' Retirement System. The California State Employee's Retirement System vests when the employee's contribution reaches $500, which is generally less than two years. A summary of vesting provisions of the 60 systems in Table I that have specific time requirements is as follows:

27 years	--	1 system
25 years	--	7 systems
20 years	--	16 systems
18 years	--	1 system
16 years	--	1 system
15 years	--	8 systems
10 years	--	18 systems
5 years	--	8 systems

Thus, a majority of these systems require 15 or more years service for vesting. It is probably safe to assume that the remainder of the public employee retirement systems that provide for vesting would fall into much the same pattern as these 60 systems. In summary, lengthy service requirements for vesting sometimes inhibit public employee mobility when it is desirable in the public interest.

Many States have provision for the reciprocal intrastate transfer of employees between some of their public employee retirement systems, yet few States have such provision for all employee retirement systems in the State. Table II shows that 19 States provide for employee transferability between at least two retirement systems. However, most of these provisions are between State teachers' and State employees' systems and between State teachers' and local teachers' systems. Only seven States have intrastate reciprocal provisions which enable virtually all public employees and public employee retirement systems in the State to participate. Of course, the 11 States that have only one major public employee retirement system for State and local employees and teachers permit considerable employee mobility within the State. Legislation would be needed in all States except the seven with widespread reciprocity and the two with single systems in the State, if employees in all States are to be permitted to transfer between public employee retirement systems within the State without loss of retirement credit.

Whether or not a system is funded and whether an employee can withdraw his contributions with interest may have an important

T A B L E S

TABLE I

Number of Years Required for Vesting in State-Administered Retirement Systems

State[1]	Single State System[2]	System for State Employees Only	State Teachers System	State and Local Employees	State Administered System for Local Employees
Alabama	-	-	25	25	-
Alaska	-	-	-	[3]	-
Arizona	5	-	-	-	-
Arkansas	-	-	27	20	-
California	-	-	5	Immediate[4]	-
Colorado	5	-	-	-	-
Connecticut	-	-	-	-	-
Delaware	-	-	-	-	-
Florida	-	-	10	10	-
Georgia	-	-	20	18	-
Hawaii	5	-	-	-	-
Idaho	-	-	-	-	-
Illinois	-	10	15	-	10
Indiana	-	-	10	10	-
Iowa	[5]	-	-	-	-
Kansas	-	-	-	10	-
Kentucky	-	20	20	-	20
Louisiana	-	15	10	-	15
Maine	10	-	-	-	-
Maryland	-	-	-	-	-
Massachusetts	-	-	-	-	-
Michigan	-	25[6]	25[6]	-	25[6]
Minnesota	-	10	-	-	10
Mississippi	16	-	-	-	-
Missouri	-	15	20	-	-
Montana	-	-	10	10	-
Nebraska	-	-	5	-	-
Nevada	25	-	-	-	-
New Hampshire	-	-	-	-	-
New Jersey	-	-	20	20	-
New Mexico	-	-	15	10	-

TABLE I
(continued)

Number of Years Required for Vesting in State-Administered Retirement Systems

State 1/	Single State System 2/	System for State Employees Only	State Teachers System	State and Local Employees	State Administered System for Local Employees
New York	-	-	-	15	-
North Carolina	-	20 7/	-	-	20
North Dakota	-	-	25	-	-
Ohio	-	-	5	5	-
Oklahoma	-	-	20	-	-
Oregon	10	-	-	-	-
Pennsylvania	-	-	-	-	-
Rhode Island	10	-	-	-	-
South Carolina	20	-	-	-	-
South Dakota	-	-	20	-	-
Tennessee	-	-	-	20	-
Texas	-	15	-	-	-
Utah	-	-	10	-	-
Vermont	-	-	-	10	-
Virginia	15	-	-	-	-
Washington	-	-	-	-	-
West Virginia	-	-	20	20	-
Wisconsin	-	-	Immediate	8/	-
Wyoming	-	5 7/	-	-	-

1/ There are apparently no vesting provisions in the statewide systems in those states for which there are no listings.

2/ Single State system coverage includes State and local employees and teachers.

3/ Vesting when age of employee and number of years service total 75.

4/ Vesting after employee contributions total $500.

5/ Vesting at age 48 if employee has at least eight years service.

6/ Also vesting at age 50 with 15 years service.

7/ Teachers are covered by same system as State employees.

8/ Vesting when both employer's and employee's contributions are sufficient to provide for monthly pension of $10 at retirement age.

TABLE II

Intrastate Reciprocity Provisions of State-Administered Retirement Systems

State	Single State System 1/	None	Between at Least 2 Systems	Widespread Reciprocity
Alabama	-	-	X	-
Alaska	-	X	-	-
Arizona	X	X	-	-
Arkansas	-	X	-	-
California	-	-	-	X
Colorado	X	X	-	-
Connecticut	-	-	X	-
Delaware 2/	-	-	-	-
Florida	-	-	X	-
Georgia	-	-	X	-
Hawaii	X	X 3/	-	-
Idaho	-	X 4/	-	-
Illinois	-	-	-	X
Indiana	-	-	X	-
Iowa	X	X	-	-
Kansas	-	X	-	-
Kentucky	-	-	X	-
Louisiana	-	-	X	-
Maine	X	X	-	-
Maryland	-	-	-	X
Massachusetts	-	-	-	X
Michigan	-	-	-	X
Minnesota	-	-	X	-
Mississippi	X	-	X	-
Missouri	-	-	X	-
Montana	-	-	X	-
Nebraska	-	X 4/	-	-
Nevada	X	X 3/	-	-
New Hampshire	-	-	X	-
New Jersey	-	-	X	-

TABLE II
(Continued)

Intrastate Reciprocity Provisions of State-Administered Retirement Systems

State	Single State System 1/	None	Between at Least 2 Systems	Widespread Reciprocity
New Mexico	-	X	-	-
New York	-	-	-	X
North Carolina	-	-	X	-
North Dakota	-	X 4/	-	-
Ohio	-	-	X	-
Oklahoma	-	X 4/	-	-
Oregon	X	X	-	-
Pennsylvania	-	-	X	-
Rhode Island	X	X	-	-
South Carolina	X	X	-	-
South Dakota	-	X 4/	-	-
Tennessee	-	-	X	-
Texas	-	-	X	-
Utah	-	X	-	-
Vermont	-	-	X	-
Virginia	X	X 5/	-	-
Washington	-	-	-	X
West Virginia	-	X	-	-
Wisconsin	-	X	-	-
Wyoming	X 6/	X	-	-

1/ Single State system coverage includes State and local employees and teachers. While legally there may be no provisions for reciprocity in these systems, by the very nature of the single system there can be considerable transfer within the system.

2/ Information not obtained.

3/ There is only one retirement system in the State.

4/ No general State retirement system.

5/ As a general rule there are no reciprocal arrangements in Virginia, but on occasion arrangement has been made with special retirement systems.

6/ The single State system in Wyoming does not provide coverage for local employees.

bearing on the arrangements that can be worked out to provide for the protection of employee retirement credit. The State retirement systems which are reported on divide into 22 funded and 19 partially funded. Whether an employee can withdraw his contributions with interest when he departs from a system is important because if interest is granted it will enable the employee to purchase more credit in a new system if the system permits such purchase. Of the State employee systems reported on in Table III, 28 systems grant interest on the withdrawal of contributions and 9 do not grant interest.

Provision for the purchase of retirement credit for out-of-State public service, as well as vesting, is another method for the preservation of retirement benefits upon transfer from one State to another. This option is more realistic if the surrendering State permits withdrawal of employee contributions as described earlier. This provision is available in the State teachers' retirement systems of 28 States, as indicated by Table IV. In most of these systems, the employee may make the purchase by paying both the employer's and the employee's share with interest for the number of years purchased. The purchase of credit is not nearly so widespread in State employees' retirement systems as in teachers' systems. Only three State employee systems provide for the purchase of out-of-State credit, as shown by Table IV. In the statutes, regulations, and handbooks of the State systems examined, there was an absence of mention of out-of-State purchase. This absence generally can be construed to mean that such purchase is not permitted.

Multiplicity of State and Local Retirement Systems

Nearly 68 percent of the 2,205 State and local government retirement systems have a membership of less than 100. Many of these systems are operating on an unsound financial basis. In 1961, the Illinois Public Employees' Pension Laws Commission made the following observation regarding the problem:

> The most serious contributing factor to the disorderly pension policy in Illinois is the multiplicity of pension funds which exist under the established legislative pattern, embracing 304 individual units, the largest number of pension funds of any state in the United States. Pension funds, having memberships of less than 1,500 participants, number 289 in Illinois, or more than 95 percent of the total number of pension funds in operation. These funds should

> be consolidated with larger units now in operation, or by means of new statewide pension funds. The conditions governing the operation of small pension funds preclude their proper administration under recognized principles and standards. The underlying structure of these funds is basically defective and can only be cured by consolidation. This is the only permanent remedy. 19/

While the situation regarding multiplicity of pension plans may be more serious in Illinois than elsewhere, much of the above quotation applies to a number of other States as well. In the area of pension system multiplicity, local governments are greater offenders in permitting small unsound pension systems to operate than are State governments. Forty-one of the 45 States that administer general public employee pension systems permit local government participation in State systems, either in the general State system or a State administered system for local employees. Local governing bodies often have not taken maximum advantage of the opportunity to participate in State retirement systems to the extent desirable from the standpoint of economy of administration and sound financial practice in pension funds. Local governments have failed to join in the State retirement systems largely because of local and vested interests that oppose any tampering with local pension systems. The Illinois Public Employees' Pension Commission found that the representatives and employees of numerous municipal retirement systems in the State were not interested in a proposal for consolidation, regardless of assurances given against any loss or impairment of pension rights. 20/ The States do not appear to have provided the necessary leadership in encouraging pension fund consolidation.

Use of Social Security

The Social Security Act originally provided retirement coverage only for employees working in industry and commerce and other non-public employment. This was about 60 percent of the total working force. The

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19/ Report of the Illinois Public Employees Pension Laws Commission, 1961, p. 18.

20/ Illinois Public Employees' Pension Laws Commission, op. cit., p. 82.

TABLE III

Financial Aspects of State Employment Retirement Systems
Affecting Withdrawal of Employee Contributions

State	Funding of System 1/	Employee Contributions Withdrawn With or Without Interest Upon Departure 2/
Alabama	Funded	With interest
Alaska	Partially	With interest
Arizona	Partially	With interest
Arkansas	Funded	Without interest
California	Funded	With interest
Colorado	Partially	Without interest
Connecticut	Partially	Without interest
Delaware 3/	-	-
Florida	3/	Without interest
Georgia	Partially	With interest
Hawaii	Funded	With interest
Idaho 4/	-	-
Illinois	Partially	Without interest
Indiana	Partially	With interest
Iowa	Funded	With interest
Kansas	Partially	With interest
Kentucky	Partially	With interest
Louisiana 3/	-	-
Maine	Funded	With interest
Maryland	Funded	With interest
Massachusetts	Partially	With interest
Michigan	Partially	With interest
Minnesota	Partially	3/
Mississippi	Funded	With interest
Missouri	Funded	With interest
Montana	Partially	Without interest
Nebraska 4/	-	-
Nevada	Partially	Without interest
New Hampshire	Funded	With interest
New Jersey	Funded	With interest

TABLE III
(continued)

Financial Aspects of State Employment Retirement Systems
Affecting Withdrawal of Employee Contributions

State	Funding of System 1/	Employee Contributions Withdrawn With or Without Interest Upon Departure 2/
New Mexico	Funded	With interest
New York	Funded	3/
North Carolina	Funded	With interest
North Dakota 4/	-	-
Ohio	Partially	With interest
Oklahoma 4/	-	-
Oregon	Funded	3/
Pennsylvania 3/	-	-
Rhode Island	Funded	Without interest
South Carolina	Partially	3/
South Dakota 4/	-	-
Tennessee	Funded	With interest
Texas	Partially	With interest
Utah	Funded	3/
Vermont	Funded	With interest
Virginia	Funded	With interest
Washington	Funded	With interest
West Virginia	Funded	With interest
Wisconsin	Partially	With interest
Wyoming	Partially	Without interest

1/ Determinations on funding were made on the basis of the following criteria: Funded -- current payments by both employer and employee to meet all incurred obligations; nonfunded -- no payments made until employee retires; partially funded -- employee contributions are generally on a current basis, but employer's are not, or are only partially paid for prior service.

2/ Source: Survey of State Retirement Systems, 1962, National Association of State Retirement Administrators.

3/ Information not obtained.

4/ No general State employees' retirement system.

TABLE IV

State System Provisions for Purchase of Out-of-State Retirement Credit--Number of Years 1/

State	State Employees Systems	State Teachers Systems 2/
Alabama	none	none
Alaska	none	10
Arizona	none	3/
Arkansas	none	10
California	none	none
Colorado	none	3/
Connecticut	-	10
Florida	-	10
Georgia	-	10
Idaho	4/	no limit
Illinois	-	10
Indiana	-	8
Kansas	-	10
Kentucky	-	8
Maine	no limit	3/
Massachusetts	-	10
Michigan	-	15
Missouri	-	10
Montana	-	10
Nebraska	4/	10
New Jersey	-	10
New Mexico	-	5
New York	-	10
North Dakota	4/	7
Ohio	no limit	no limit
Pennsylvania	none	10
Rhode Island	-	10
South Carolina	½ SC service	3/
Texas	-	10
Vermont	none	-
Virginia	none	3/
Washington	-	4
West Virginia	-	15
Wisconsin	-	2/5ths of total
Wyoming	none	3/

(Footnotes on Following Page)

TABLE IV - FOOTNOTES

1/ It is reasonably safe to assume that there is no provision for purchase of credit in States not listed. In the descriptive materials regarding these particular States there was no mention of out-of-State purchase.

2/ Basic source: Proceedings of the Thirty-eighth Annual Meeting, National Council on Teacher Retirement of the National Education Association, 1960, pp. 83, 89-92.

3/ Same system covers both State employees and teachers.

4/ No general State system for State employees.

1950 amendments to the Social Security Act, which provided the first major extension of coverage, brought into the program, among other groups, employees of the Federal, State, and local governments who did not have staff retirement system protection. Amendments in 1954 and 1956 extended Social Security coverage to State and local employees who were already members of retirement systems. Neither the 1950 amendments nor the later amendments made Social Security compulsory. As the Director of the Bureau of Old-Age and Survivors Insurance of the Social Security Administration, has pointed out:

> Generally speaking, coverage is available to most employees of State and local governments and nonprofit organizations on a group-elective basis. In some cases when coverage is arranged for a group, all employees must be covered. In others, only employees desiring coverage are covered; however, once this group is covered, all newly hired employees in this group are covered on a compulsory basis. Coverage in each group will thus eventually be complete. 21/

Under the existing law, only about 10 percent of the total labor force in the United States is excluded from Social Security. Among those excluded are employees covered under the Federal Civil Service Retirement System and those under certain State and local government retirement systems.

About 60 percent of all State and local employees are covered by Social Security. Social Security coverage is provided for some public employees in all States. In providing retirement coverage for State employees, five States rely solely on Social Security, 38 States have their State retirement systems combined in some way with Social Security and the remaining seven States have some group or groups of public employees covered by Social Security.

The extent to which State and local governments provide Social Security coverage for their employees as of October 1962, is shown in Table V. While the percentage of State and local employees covered by Social Security tends to increase slightly from year to year, the increase in the number of employees covered in recent years actually is just a trickle and there will not be any big flow of State and local public employee coverage again unless a large part of the States and groups of public employees not currently covered avail themselves of Social Security coverage.

21/ Christgau, Victor, Social Security Bulletin, August, 1960, p. 22.

TABLE V

Percentage of State and Local Government Employees Covered by Social Security

October, 1962

Approximate percent of employment covered (current estimates)	Number of States			
		Type of Government		
	Total	State	County	Other Local Government
Total	50	50	47 1/	50
None	1 2/	1	2	1
Less than 20..........	2	6	2	3
20-39	6	1	0	7
40-59	3	-	2	6
60-79	10	3	3	8
80 or more	28	39	38	25
80-89	7	14	5	5
90 or more	21	25	33	20

Source: State and Local Government Covered by OASDI, A Quarterly Statistical Report, Department of Health, Education, and Welfare, Social Security Administration, October, 1962, p. ii.

1/ Alaska, Connecticut, and Rhode Island have no county governments.

2/ Social Security officials advise that a few public employees in Ohio have recently been provided with OASDI coverage. This development in Ohio is not reflected in the table.

Teachers Insurance and Annuity Association

Among all U. S. liberal arts colleges and universities, public and private, approximately two-thirds participate in the TIAA retirement system. Since this system offers a solution to the employee mobility problem for the groups it covers, it is discussed in this report. TIAA grew out of studies by the Carnegie Corporation and the Carnegie Foundation for the Advancement of Teaching and was established in 1918 for the purpose of providing retirement and insurance benefits for staff members of colleges, universities, independent schools, and other nonprofit educational and scientific institutions. TIAA is a limited eligibility, nonprofit organization which provides life insurance, major medical expense insurance, and total and permanent disability income insurance, as well as retirement annuity plans. This report is concerned only with the retirement annuity phase.

In 1962, TIAA had 140,000 annuity policyholders and total assets of $867 million. There were nearly 1,200 participating organizations which included over 600 colleges and universities and over 500 other educational organizations. Examples of the other organizations, in addition to nonprofit junior colleges and independent schools, include the National Bureau of Economic Research, the Brookings Institution, the Social Science Research Council, the Committee for Economic Development, the Association of American Colleges, the American Council on Education, the American Association of University Professors, the Brookhaven, Argonne, and Oak Ridge National Laboratories, the RAND Corporation, and the Carnegie, Rockefeller, and Ford Foundations.

The TIAA retirement plans work essentially as follows: the employee joins the staff of the university or other educational organization that participates in the TIAA system. University regulations determine the waiting period before participation in the retirement plan begins, the contribution rate, how the contribution is shared between employer and employee, and the retirement age. When the employee becomes eligible for participation, a TIAA annuity contract is issued to the employee and his contributions and those of his employer are fully vested in him from the day the first premium is paid. Under this arrangement for immediate full vesting, there are no provisions for cash surrender or loan values for the individual. The employer and employee contributions, and their earnings, are understood to be for the sole purpose of providing retirement benefits or, in case the individual dies before retiring, a death benefit for his survivors. The employee never forfeits the employer contributions and their earnings. "Benefits promised in return for premiums already paid are not affected by suspension of premium payments. Whether premiums are continued or not, whether the policyholder remains in academic work or not, whether the employing institution continues to share in premiums or not--none of these alternatives has any effect on benefits purchased by premiums already paid." 22/ As can be seen, this type retirement plan offers a highly satisfactory solution to the employee mobility problem for the nearly 1,200 institutions and the 140,000 academic-type policyholders who participate in TIAA.

In addition to the regular guaranteed annuity programs of TIAA, a companion organization established in 1952, the College Retirement Equities Fund (CREF), provides a variable annuity for participants in TIAA plans. One-fourth, one-third, or one-half of total annuity premiums may be paid to CREF, whose retirement benefits are based on investments in common stocks. 23/ The balance of premiums goes to the TIAA fixed-dollar annuity, based on the fixed returns of mortgage and security investments. The purpose of the combined fixed and variable annuity system is to provide a retirement income that is more responsive to changes in the cost of living than a fixed-dollar annuity alone and less volatile than a variable annuity alone. This objective is summarized in the report of the economic study that preceded the development of CREF:

> Contributions to a retirement plan that are invested partly in debt obligations and partly in common stocks through an Equities Fund providing lifetime unit annuities offer promise of supplying retirement income that is at once reasonably free from violent fluctuations in amount and from serious depreciation through price level changes. 24/

The operation of the CREF program is divided into two phases--accumulation and distribution. Under the accumulation phase, the participant is credited with a number of accumulation units for each premium paid. The number of units credited to him depends upon the

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22/ Greenough and King, *op. cit.*, pp. 35-36.

23/ *Ibid*, pp. 37-42.

24/ Greenough, William C., *A New Approach to Retirement Income*, New York, TIAA, 1952, p. 14.

current value of the accumulation unit, the value being determined each month by dividing the current market value of all common stocks in CREF's accumulation fund by the total number of accumulation units outstanding. These units represent the individual's share in the ownership of the diversified, high-quality common stocks in which investments are made. The value of an individual's CREF accumulation rises and falls with the monthly change in the value of the accumulation unit. Dividends that CREF receives are reinvested and apportioned to participants before retirement as additional accumulation units.

When retirement begins, the accumulation units are converted into annuity units. The CREF retirement income is expressed not as a fixed number of dollars, but as a fixed number of annuity units payable each year for life. The dollar value of the annuity is set for a year at a time. The most important factor in determining the annual change is the change in market prices of CREF's common stocks. Other factors are dividend income, expenses of operation and mortality experience. The accompanying TIAA annuity provides the fixed-dollar component of the combined fixed and variable annuities.

Summary

(1) Practically all of the roughly 6.3 million full-time employees of State and local governments are covered by some type of retirement system--around 1.4 million by Social Security alone; 2.9 million by both Social Security and a State or local retirement system; and 2 million by a State or local retirement system alone.

(2) Most State systems require 15 or more years of service before the employee is eligible to draw an annuity upon reaching retirement age--i.e., before "vesting."

(3) Eleven of the 50 States have State, local, and school employee retirement integrated into a single Statewide retirement system. While there is no statutory provision for reciprocity in these States, the single State system by its very nature permits considerable transfer.

(4) Seven States permit widespread intrastate reciprocity of retirement rights in moving from one unit or level of government to another within the State. Nineteen States provide for some reciprocity, while most of the other 24 States provide for no reciprocity, other than within the single State systems mentioned above.

(5) In about half the teacher retirement systems, interstate transferability is provided through the purchase of credit in the new system.

(6) The multiplicity of public employee retirement systems in many States presents a serious obstacle to sound pension planning, as well as to the transferability of retirement credits.

(7) TIAA offers State and local institutions of higher learning a satisfactory means of providing for employee transferability without loss of retirement credit. About 25 percent of these institutions participate in TIAA. 25/

(8) The foregoing situation while, in general, permissive of some transferability of retirement rights, on the whole constitutes a maze of contradicting and complicating provisions which tend to restrict very significantly the intrastate and interstate mobility of public employees.

25/ Greenough and King, op. cit., p. 42.

CHAPTER IV

FEDERAL CIVIL SERVICE RETIREMENT AND SOCIAL SECURITY

Federal Civil Service Retirement System

The Federal Civil Service Retirement System over the years has served primarily as a staff retirement system for Federal Civil Service employees in the Executive Branch and has been rather zealously guarded in this respect by employee organizations, the Bureau of the Budget, and the U. S. Civil Service Commission. Notable exceptions to this policy have been the inclusion of such groups as Members of Congress, legislative employees, and certain agricultural employees stationed in the States and counties. Proposals have been made as recently as the current session of the 88th Congress to extend this retirement coverage further and to grant retirement credit for service not usually considered to be wholly Federal service, but none of these has been adopted.

As this suggests, the federal system has been most strict in its refusal to grant retirement credit for other than Federal service. No retirement credit is granted Federal employees for previous service rendered in State or local governments. There is no provision for the direct purchase of retirement credit for prior service outside the Federal Government. The federal system provides the employee of five or more years service with the option of withdrawing his 6½ percent contribution without interest or receiving a deferred benefit at age 62. The employee who separates from Federal employment prior to attaining five years service has no other choice but to withdraw his contribution with interest.

While there is no provision in the federal system for the purchase of retirement credit for prior public service, there is provision for the "bargain" purchase of additional annuity. If the employee desires to make this purchase, the procedure is as follows:

> In addition to the mandatory 6½ percent deduction from salary, voluntary contributions may be made by the employee. Deposits must be in multiples of $25, and the total may not exceed 10 percent of all basic salary to date of retirement. These contributions earn compound interest at 3 percent.

> Upon an employee's separation for immediate annuity, each $100 in the accrued account (voluntary contributions plus interest) will purchase an additional annuity of $7 plus 20 cents for each full year the employee is over age 55 at the time he retires. If, for example, he retires at age 70, the increase in the regular annuity would be $10. Generally, this formula results in an actuarial "bargain" for the employee. 26/

This purchase of retirement credit is available to all employees covered by the Federal Civil Service Retirement System. Civil Service Commission officials advise that employees do not make extensive use of this provision.

Coordination of Civil Service Retirement System and Social Security

For almost a decade there has been considerable discussion and study of the possibility of combining Social Security and the Federal Civil Service Retirement System in some manner. The Chairman of the U. S. Civil Service Commission has pointed out that "Commission leadership has, since 1956, been on record as favoring full coordination in order to facilitate mobility of employment between government and private industry, and to provide adequate survivor protection to the families of short-service Federal employees." 27/ Under draft legislation submitted to the Congress in 1956, it was proposed simply to coordinate the retirement system and Social Security, dividing contributions between the two systems. Retirement benefits under the Civil Service System would have been reduced for those employees who also received Social Security payment. No Congressional action was taken on this proposal.

In 1960, the Civil Service Commission voiced no objection to a proposal to transfer credits and funds from the Retirement Fund to the Social Security system for those employees lacking the five years service necessary to qualify for deferred retirement benefits. The Commission believed that this plan was inadequate, but thought that it was possibly a step in the direction of coordination of the two systems. However, the Department of Health, Education, and Welfare opposed this proposal.

26/ Jones, John P., Civil Service Retirement Program, 1959, U. S. Department of Health, Education, and Welfare, Social Security Administration, July, 1959, p. 8.

27/ Statement of John W. Macy before Legislative Subcommittee of House Post Office and Civil Service Committee, July 13, 1962, p. 5.

Proposed legislation in the form of H. R. 10706 was introduced in the 2nd session of the 87th Congress which would have provided for the interchange of retirement credits between the Civil Service system and the Social Security system. Briefly, this bill would have enabled the Federal employee to transfer retirement credits between the two systems to make up any inadequacy he might have in qualifying for retirement benefits under either system. Under this proposal, funds could be transferred both ways between the two systems as the particular employee situation required. However, the Civil Service Commission definitely opposed transfer of Social Security credits and funds to the Retirement Fund, largely because of its belief that the retirement relationship between the Federal Government and the employees would be interfered with. A House subcommittee hearing was held on this bill, along with several other somewhat related bills, but no other action was taken.

Civil Service Commission Chairman Macy summarized the latest thinking on coordinating the two systems in July, 1962, as follows:

> We (the U. S. Civil Service Commission) are currently cooperating with the Department of Health, Education, and Welfare in an effort to develop and present a fully workable coordination plan. We are considering two possibilities which have developed since 1956. One would offer each present employee a one-time choice of coming under a coordinated system or of continuing in an unchanged staff retirement plan. The second would reduce the retirement annuity only with respect to service performed after the effective date of coordination. 28/

Problems Relating to Providing Retirement Credit for Federal-State Service

There are two questions involving Federal agencies and employees which are so closely related to the public employee retirement credit transferability problem that they must be considered in this report. First is the question of whether Federal employees who complete at least five years of Federal service covered by the Federal Civil Service Retirement Act should, upon compliance with certain specifications, be granted retirement credit for previous service in Federal-State cooperative programs. Chiefly involved in this issue have been such agencies as the Department of Agriculture and its employees participating in Federal-State cooperative programs in extension, research, and conservation activities; the Department of Labor and Bureau of Employment Security employees who at one time or another were engaged in Federal-State cooperative programs as employees of State Employment Security agencies; and the

28/ Macy, *op. cit.*, p. 6.

Department of Health, Education, and Welfare and its employees who have been involved in Federal-State cooperative public welfare programs. This does not exhaust the list of agencies involved. In fact, Mr. Macy points out that there are "some 80-odd known Federal-State programs" similar to those for which retirement coverage has been proposed. 29/

Bills to grant retirement credit to some group of Federal employees for previous State and local service in Federal-State cooperative programs have been introduced in every Congress since 1949, except the 82nd Congress. These bills have had varying degrees of success from no legislative action to a Presidential veto, to the overriding of a Presidential veto. Mr. Macy summarizes the major happenings in this legislative area, as follows:

> The (Civil Service) Commission notes that S. 1041, a bill to credit certain State service under the Retirement Act, was approved by the 84th Congress but vetoed by the President under date of August 12, 1955. Briefly, the White House memorandum of disapproval stated that the bill was not approved because it would (1) make improper use of Federal funds to pay for service never received by it, (2) result in an unsound shifting of fiscal responsibility from State to Federal government, (3) set an undesirable precedent, and (4) constitute an unsound approach to the desirable goal of increased employee mobility. It is also noted that on July 1, 1960, the legislative body, notwithstanding Commission opposition and Presidential veto, accorded employees of agricultural stabilization and conservation county committees the benefits of the Civil Service Retirement Act, Federal Employees' Group Life Insurance Act, and the Federal Employees Health Benefits Act. 30/

Several similar bills were introduced in the 87th Congress, of which H. R. 3258 was typical. This bill essentially provided that Federal employees who have been covered by the Civil Service Retirement system for at least five years may purchase additional

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29/ U. S. Congress, Hearings Before the Committee on Post Office and Civil Service, House of Representatives, 87th Congress, 2nd session, June 6, 13, and 20, 1962, p. 63.

30/ U. S. Congress, Hearings, ibid.

retirement credit for prior State or local employment in a Federal-State cooperative program which was financed in part by Federal funds. It provided that the employee may make this purchase by paying his contribution with interest for the appropriate number of years. Retirement credit may not be purchased for any years that are already credited in a State or local retirement system. Hearings were held on H. R. 3258 as well as similar bills during the 2nd session of the 87th Congress. Such proposals were favorably reported by the Post Office and Civil Service Committees of both Houses, but did not reach the floor in either House.

The second question involving the Federal Civil Service system, which relates to retirement credit transferability, concerns the interchange of personnel between the Federal Government and the States. This problem also chiefly concerns the Department of Agriculture among the Federal agencies, but it has implications for other Federal agencies. The center of this problem is Public Law 918, 84th Congress, which authorizes the interchange of personnel between the Department of Agriculture and the States. The objectives of the program are to "aid in the dissemination of useful information on subjects connected with agriculture and to provide a means whereby the United States Department of Agriculture and the several States may better cooperate in problems arising as a result of the interrelationships of their work in the field of Agriculture." 31/

After the enactment of Public Law 918, it was soon discovered that there were restrictions in many States affecting the interchange of personnel with the Federal Government. Consequently, the Department of Agriculture, at the request of the Joint Land-Grant College -- Department of Agriculture Committee on Training for Government Service, arranged with the Public Personnel Association to conduct a survey to determine the legal barriers in the States to the use of Public Law 918. Among other things, but most closely related to this report, the Public Personnel Association survey found that employee retirement rights in 20 States would be lost or suspended as a result of participation by employees in the interchange program. The survey found that in three States an employee who accepted Federal employment as a part of the interchange program could retain his retirement rights by continuing to pay his contribution into the State retirement system. 32/

31/ U. S. Department of Agriculture Letter to the Presidents of Land-Grant Institutions, October 31, 1958, p. 1.

32/ U. S. Department of Agriculture Letter, *op. cit.*, p. 3.

In the hope of securing greater State participation in the interchange program, the Department of Agriculture, in cooperation with the Committee on Suggested State Legislation of the Council of State Governments, prepared suggested uniform State legislation which would provide for greater ease of transferring employees back and forth between the States and the Department of Agriculture for periods up to two years. According to a paper on this matter, prepared by the Department, the proposed State law:

> ...authorizes the State to cooperate actively with the Federal Government in carrying out the employee interchange program. It provides two methods whereby this exchange can be accomplished with respect to State employees. They can be considered on detail to regular work assignments of the State, in which case they shall be entitled to the same salary and benefits to which they would otherwise be entitled and remain employees of the State for all purposes except with respect to supervision of their duties. Such supervision during the period of detail is to be covered by agreement between the State and this Department. As an alternative, State employees may be placed in a status of leave of absence from their positions in the State, to be carried on leave without pay, except in circumstances considered by the State to justify the granting of annual leave or other time off with pay to the extent authorized by law. Employees who are in a leave of absence status would have the same rights, benefits, and obligations as employees generally in such status except that they would be entitled to be credited with the period of such assignment toward benefits as State employees.
>
> The same technique is provided for handling the interchange with respect to Department employees who are assigned to the State. 33/

However, the Committee on Suggested State Legislation did not approve the original proposal of the Department. The Committee directed the Council staff to explore the desirability and need of a general State interchange act. As finally approved, the suggested "State Employee Interchange Act" authorizes employee interchange

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33/ U. S. Department of Agriculture, Suggested Uniform State Legislation, p. 2.

among and between all levels of government--a recognition of the value of at least a temporary mobility of public employees. The suggested "State Employee Interchange Act" is included in the Program of Suggested State Legislation, 1963 of the Council of State Governments.

CHAPTER V

ALTERNATIVE METHODS FOR THE TRANSFER OF RETIREMENT CREDITS

There are several alternative possibilities for achieving a greater degree of transferability of public employee retirement credit among Federal, State, and local governments. Although there probably is no one solution that is completely satisfactory and acceptable for all public employees and public employee retirement systems, the methods discussed here would reduce measurably the employee's loss of retirement benefits when he changes jobs. Most of the following methods or variations of them could be used to facilitate either intrastate or interstate transferability of retirement credits. However, each method has limitations and other difficulties associated therewith.

(1) Reciprocal transfer of contributions between retirement funds.

There are two particular aspects of this alternative. First, the employee could be allowed to withdraw his contributions to the retirement system, with or without interest, and to transfer these contributions to the retirement system which covers his new position. The acquiring retirement system would accept these funds and grant the employee back retirement credit for his service in another governmental unit. What might be problematical for this device is whether there is constitutional or statutory conflict when a State or local government assumes a previous financial obligation of another jurisdiction. Some teachers' retirement systems do permit purchase of back retirement credit if the employee pays only the share he would have paid had he been in the system. Other States do not permit this type of purchase. Also, a sizeable financial burden is assumed by the receiving jurisdiction if the transferring employee has had long prior service in a high salary bracket.

Secondly, the employee leaving a retirement system could be allowed to withdraw not only his contributions, with or without interest, but also the contributions of the employer and transfer both to the acquiring retirement system. The acquiring system would either grant the employee retirement credit for his total number of previous years service or grant him credit for whatever number of years service the transferred amount would purchase in the receiving system. Actuaries advise that it is extremely difficult, if not impossible, to ascertain in most retirement systems precisely how much the employer has contributed. In systems where the employer contributes a straight percentage as the employee does, it is difficult to compute the employer's share because there are other costs, including administrative costs which the employer must bear. And, in those systems where the benefit schedules, qualifying conditions, and other policy standards are complex, the task of computing the employer's share is even more formidable.

(2) Deferred retirement benefits.

As indicated previously, a high percentage of public employee retirement systems provide for a deferred benefit. The service requirements for a deferred benefit generally range from 5 to 25 years. The age requirement generally falls somewhere between 50 and 65. In some systems the vesting provision provides for a reduced annuity when the deferred benefit option is exercised, while in others there is no such reduction. The way the deferred benefit option works is, simply, when the employee fulfills the minimum number of years service required by the system, he may accept employment elsewhere, and if he does not withdraw his contributions he will receive an annuity upon reaching the retirement age specified by the system.

Many students of the problem of retirement credit transferability see a reduced service requirement for vesting as the only practical solution to the problem, one that could gain widespread acceptance. This is true in part because no transfer of funds is required. The National Education Association, recognizing the desirability of the five-year vesting provision and the feasibility of its acceptance by legislative bodies and retirement system administrators, included the following statement in its resolutions at the 1962 Convention in Denver:

> The National Education Association urges that all State teachers retirement laws provide for full vesting of retirement rights after not more than five years of creditable service, thereby making possible more liberal provisions for deferred annuities for teachers who move from one State or locality to another. 34/

34/ Platform and Resolutions, National Education Association, Denver, Colorado, July, 1962, p. 60.

Disadvantages to the employee which five-year vesting presents are that many retirement systems base retirement pay on the highest average salary for a fixed number of consecutive years, such as the highest five-year salary, which in most cases occurs immediately prior to retirement, and that some systems figure deferred benefits at reduced rates. Nevertheless, this alternative enables the employee to receive benefits from employer contributions which he would not get if he withdrew his own contributions upon leaving the system.

Mr. Robert J. Meyers, Chief Actuary of the Social Security Administration, further points out limitation of the vesting approach as applied to plans that determine pensions on a "final salary" or "high salary" basis. He states:

> ...salaries tend to increase with age--and also usually with the passage of time due to the rise in the general earnings level -- so that pieces of vested benefits, when added together, produce a lower result than if all service were continuous under one plan, because the various pieces are based on lower final salaries. 35/

In spite of this limitation, Mr. Meyers goes on to point out "that people will generally transfer from one employer to another only when better circumstances (including salary) are available" and that "the higher salary opportunities for the transferring employee mean higher retirement benefits per se and thus tend to offset the reduction that occurs" when total vested benefits are figured in more than one retirement system. 36/

It can be concluded from almost every viewpoint that the vesting-deferred benefit concept is a considerable help in preserving pension rights when individuals transfer, and it is perhaps the most feasible approach from a practical administrative standpoint.

(3) Purchase of credit for prior service in another retirement system.

Under this alternative the employee is permitted to purchase retirement credit in the acquiring retirement system for service rendered under a previous system. Generally, there is provision that

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35/ Meyers, Robert J., Memorandum on "Effects of Transferring on Pension Amounts When Vesting Provisions Apply," January 15, 1963

36/ Ibid.

an employee cannot purchase credit for service for which he will receive a deferred benefit in a previous system. If the employee is to purchase retirement credit for previous service, the acquiring retirement system may require the employee to pay either the share he would have paid had he been a member of the system or both his share and the employer's share. These payments may be required either with or without interest. As indicated previously, there are some retirement systems which permit the employee to purchase credit by paying only the employee's share, while others require the employee to pay both his own and the employer's share.

In some States, this approach would face the same obstacle as noted for the transfer of contributions. If the State or local government is required to assume any obligation for the employee's prior service, then a constitutional or statutory question may be raised in some States and a financial question in many others. This alternative has some merit and is relatively free from administrative problems if it can be squared with actuarial considerations and with legal provisions.

(4) Extension of Social Security to all public employees.

As mentioned earlier, about 60 percent of the State and local government employees in the nation have Social Security coverage. This is now available to virtually all State and local employees if desired by the employees, their employing agencies and retirement organizations, and approved by the appropriate legislative bodies. Social Security obviously helps to facilitate employee mobility in that it provides for immediate vesting, and the employee can maintain his retirement credits regardless of where he is employed. Social Security provides a base retirement allowance for the employee, and while it does not completely solve his retirement financial problems, it undoubtedly makes him somewhat less conscious of the loss of other retirement benefits which may be involved in changing positions. Rather than looking upon the extension of Social Security as an alternative solution to the transferability problem, it should be assessed as a supplement to the other possible solutions presented here.

(5) A reciprocal arrangement in which each retirement system pays its proportionate share of the employee's retirement benefits.

Systems of this type exist in Michigan and Illinois. Under this alternative the retirement systems in the State or nation, depending upon the scope of arrangement, would enter into agreement to pay their share of the employee's retirement benefit, providing the employee had served the agreed upon minimum service in the system. In Illinois, the requirement in each system is two years service; in Michigan, the requirement in each system is five years service. Under this alternative, no funds are transferred between retirement systems when the employee transfers. Each system pays its proportionate share to the employee or to the retirement system from which the employee retires when he reaches retirement age, based on his service in each system. The employee is permitted to utilize his number of years service in any of the reciprocal systems in order to qualify for retirement in the final system. The employee is not allowed to receive retirement benefits from one reciprocal system while still employed by another reciprocal system.

The essential difference between the two laws is that the Michigan law provides that the employee upon retirement receives only proportionate benefits from each system on the same basis as if he had retired from the system. In addition to this same type provision, the Illinois law also has an alternative formula which provides that:

> ...if the employee pays to the system under which retirement occurs prior to the date his retirement annuity begins, an amount equal to 1 per cent of the actual full-time rate of salary on the date of separation from service under each of the other systems, multiplied by the number of years of pension credits in each of these systems which are considered by the system under which retirement occurs in determining the retirement annuity payable under this section and for which contributions were made by the employee.
>
> The system under which retirement occurs shall calculate and pay a retirement annuity based upon the combined pension credits under all systems participating under this section, using the final average salary and formula prescribed by the system under which retirement occurs. 37/

The most appropriate excerpts of the Reciprocal Retirement Acts of Michigan and Illinois are included in Appendices A and B, respectively.

37/ State of Illinois Retirement Systems Reciprocal Act of July 11, 1955, Section 5.1, as amended by Acts of June 12 and August 9, 1961.

This alternative would appear to be a highly satisfactory solution to the intrastate transferability problem for the special reason that no transfer of funds between systems is involved upon the employee's transfer. Of course, wide participation by a large number of the retirement systems of the State is the key to the success of such a provision. In both Illinois and Michigan the different retirement systems participate at their own option. It would seem that the chief reason retirement systems would not participate in such a reciprocal arrangement is their reliance on the philosophy that the major purpose of a retirement system is to retain employees in their positions. Where this attitude prevails, there is hostility toward both intrastate and interstate transferability. Since the great majority of State public employee retirement systems do not provide for vesting for less than 10 years service, it surely would be difficult to persuade these systems to provide a portion of a departed employee's retirement benefit if he had only worked for the State for no more than five years. Furthermore, widespread acceptance would be essential for the operation of this alternative on an interstate basis, and this likely would be difficult to achieve.

It is probable that the Michigan Reciprocal Retirement Act would conform with overall constitutional and statutory provisions in all of the States. However, there might be some question about such conformance in the case of the Illinois law because of the assumption of past obligations by the final retirement system under the alternative quoted above. It has met the legal test in Illinois. In fact, the Judges' Retirement System there participates in the Reciprocal Act. However, there is the possibility that a similar law might not fare so well in all other States.

(6) <u>An employee's retirement credits remain in the initial system and future employers pay into this system.</u>

This system exists in Kentucky. As it operates on an intrastate basis, the employee who completes more than five years service in either the Kentucky Employees' Retirement System or the Teachers' Retirement System and then transfers to employment covered by the County Employees' System may retain coverage in his original system. Both the employee and the County Employees' System make contributions to the original retirement system. This arrangement apparently works very well on a limited scale, since all the retirement programs involved are State administered systems. However, even in Kentucky this alternative involves only the three systems mentioned above and only those employees who transfer to the County Employees' System.

In some instances this alternative would improve the retirement credit transferability situation. It would appear that it would be highly acceptable in States where the great majority of public employees are covered by State administered retirement systems. However, actuaries continue to warn of the difficulties involved in the transfer of funds between retirement systems. There would be practical difficulties involved, such as determining the employer's share of the contributions under certain funding conditions. There might be legal questions involved, especially in regard to interstate transfer of funds. Finally, political questions would be involved because most States would not relish the idea of making contributions to a specific retirement system in an out-of-State governmental unit. There are other alternatives which would be more compatible for the interstate reciprocity situation.

(7) A nationwide retirement association or system which would provide for full vesting without qualifying period.

There are at least two ways in which a system of this type could be established and operated. They are discussed as follows:

(a) Establishment of a nationwide retirement system for public employees with private funds which would operate in a manner similar to TIAA. TIAA's charter and entire history have confirmed its limited eligibility and its concentration in the field of higher education. It is not likely that TIAA or its participating colleges would be willing to consider amendment of its charter to provide for the participation of employees outside the field of higher education and closely related activities. So, public employees cannot look forward to participation in TIAA. Nor is there present indication of any movement to initiate a general nationwide public employee retirement system with the use of private funds.

Assuming there were such a movement, what would be the prospects for government and public employee participation in the program? Many employees might be interested in participating in a program of this nature because it offers a rather attractive retirement plan. On the other hand, State and local governments might not be enthusiastic about such a program for several reasons. The immediate vesting provision would relieve the employer of any hold on the employee's services such as a five-year vesting arrangement, for example, provides. It is quite likely that immediate vesting might make the employee too mobile to please employers. In fact, a State municipal league director advises "that several State legislators (in his State) were quite critical of this (TIAA) arrangement, pointing out that this means that present faculty members (of the State university) will find it more advantageous to move out of the State because of this immediate vesting." It should be remembered that public employees in general are a different group, comprising varying actuarial risks as distinguished from the select groups of employees currently covered by TIAA. Also, a number of State and local governments do not approve of placing funds in organizations which are certain to invest these funds outside the State, especially when they may believe that their present retirement systems are adequate.

(b) Establishment by the Federal Government of a corporation to provide retirement coverage for public employees similar to TIAA coverage. While TIAA is a nonprofit organization which was established by private funds, the Federal Government could finance and administer a similar plan for public employees. Many of the same arguments as advanced in the case of TIAA could be made for and against the establishment of a Federal corporation designed to provide the same type coverage for public employees. About the only difference is the injection of Federal Government participation. There is no doubt that such a plan is workable and that it would provide for mobility. The questions are: would Congress legislate for such a corporation for public employees in preferance to private employees; and would State and local governments participate in such a program if it were not compulsory? At this time, the answers to both appear negative. It would be difficult to justify Federal financial participation in the area of public employment when similar retirement transferability problems exist outside the public arena and governments have not made maximum use of Social Security. The acceptance of such a program by State and local governments would likely be slow, judging from the fact that about 25 percent of the public college and university faculties are covered by TIAA and about 60 percent of State and local employees are covered by Social Security.

CHAPTER VI

CONCLUSIONS AND RECOMMENDATIONS

Modern economic conditions require that individuals plan for an adequate income upon retirement. Consequently, provision of an adequate retirement system is a "must" for any employer desiring to attract competent employees, and especially is this true for the public employer who so frequently seems to be at a disadvantage in the competition with private industry for qualified personnel.

As indicated earlier, government as an employer today must be considered in its broadest aspects rather than in terms of a particular unit or agency of government. This is true because of the increasing interdependence among levels of government. Governing bodies, retirement officials, and employee groups at various levels of government frequently believe they are serving the best interests of their employees and of their governmental units by hindering the transfer of retirement credits in order to discourage employees from seeking positions elsewhere. However, in the long run this policy may very well be wrong in terms of the self interest of employing agencies, because it is entirely possible, in connection with both interstate and intrastate mobility that a balance of migration between governmental units may ultimately be achieved, thus avoiding inconvenience for any unit of government in the recruitment and retention of employees or in the financing of pensions.

In general, the Advisory Commission subscribes to this broad view of government in regard to retirement programs, while at the same time recognizing that the transferability of retirement rights rests on somewhat of a paradox--namely, that government employees generally are relatively mobile, yet many often refuse to leave one position for another where they are more urgently needed because of the resultant loss in retirement credits. Regardless of how divergent these employee actions may seem, both tendencies are apparent. Many government employees probably move from one governmental unit to another without great concern over the loss of retirement credits. Others do not move because they wish to preserve their retirement benefits in their entirety.

In formulating policy recommendations in this field, the Commission has taken into consideration the wide disparities in resources among governmental jurisdictions throughout the nation. Also taken into account is the belief that a certain amount of employee mobility is desirable; that while excessive employee turnover should not be encouraged, retirement program provisions that tend to prohibit mobility by causing the forfeiture of retirement benefits should be eliminated. Provision should be made for an employee to change jobs without suffering any major loss of retirement credits. The Commission believes that this is still another problem area of intergovernmental relations in which State and local governments should act to mitigate the problem, else the Federal Government will be increasingly importuned to assume responsibility under an alleged "national interest." In the long run, public employers and employees at all levels of government--Federal, State, and local--will benefit from a better program for the preservation of retirement credits of employees who transfer from one governmental unit to another. The Commission therefore submits the following recommendations especially for the consideration of State and local governments.

Expansion of Retirement System Coverage

The Commission recommends that public employees of all units of government be provided coverage by a staff retirement system.

Forty-one of the 50 States provide retirement plans in which local governments participate either on an optional or a mandatory basis. This may be through local participation in the State employees' plan or through local participation in a State administered retirement plan for local government employees. State employees in five States have Social Security coverage only. State employees in seven States are covered by a State retirement program only. In 38 States, State retirement programs and Social Security are combined in some fashion. Teachers in all 50 States have retirement coverage either by a combined State retirement system, a State teachers' system, or a local teachers' retirement system.

In light of the extent to which State and local governments already provide retirement plans for their employees in addition to Social Security coverage, the Commission believes that the quality of administration in State and local governments would be greatly strengthened if public employees at all levels of government were covered by a public employee retirement system. If this is to be accomplished, five States need to establish retirement plans for State employees with the option for local governments to participate if they desire to do so; those States that do not now have provision in their retirement plans for local participation should make the necessary provisions to provide for participation at the option of the local unit of government; and those local units of government that do not now avail themselves of the opportunity to provide retirement coverage for their employees by participating in a State system should do so. Social Security coverage does not provide sufficient retirement benefits to enable governmental units that use Social Security alone to compete for top personnel with those public and private employers that provide both Social Security and other retirement benefits.

Consolidation of Separate Retirement Systems

The Commission recommends that States in which numerous small public employee retirement systems operate examine the situation and provide the necessary leadership for merging these systems where feasible.

The Commission believes that many State and local governments could greatly strengthen their public employee retirement systems and, at the same time, make inroads on the transferability problem by consolidating many of the separate systems currently in operation. The fact that over two-thirds of the 2,205 State and local retirement systems have a membership of less than 100 is sufficient to illustrate the extent of the problem. It is difficult to operate such small systems on a sound financial basis. In fact, some authorities in the field believe that public pension systems with less than 1,500 members should be merged. While the Advisory Commission does not propose any specific numerical size as desirable for public employee retirement systems, it nevertheless believes that the multiplicity of pension systems presents a fundamentally important problem to which State and local governments and retirement groups must address themselves. If this is not done, then employees run the risk of losing pension dollars and governments risk losing competent employees and failure to recruit new ones.

Intrastate Reciprocity

The Commission recommends that States which do not now have an intrastate reciprocal retirement law enact such legislation in order to provide for a considerable measure of preservation and continuity of retirement credits for public employees who transfer employment between covered units of government within the State.

Exceptions to this, of course, would be States which have only one public employee retirement system in the State where transferability is afforded automatically. The Commission recognizes that there is no one solution that will apply equally well to all States. For example, legal provisions now differ in the States which provide for intrastate reciprocity of retirement credit. Each law apparently is working well in the particular State involved. In New York, the law provides fully for the reciprocal transfer of contributions between different retirement funds. In Michigan and Illinois, each retirement system participating in the reciprocal act pays its portion of the employee's retirement benefits when he retires. In Kentucky, the reciprocal act provides that the employees and his acquiring retirement system will continue to make contributions to the employee's previous retirement system, if the employee has over five years service in the previous system. This arrangement operates on a very limited basis in Kentucky.

There is room for variation in legislation of this type to meet individual State needs and situations. However, the Commission believes that a reciprocal retirement act, such as the Michigan Act (see Appendix A) or the Illinois Act (see Appendix B) provides the most satisfactory solution to the intrastate transferability problem in the absence of a single system. In order to implement intrastate reciprocity provisions of a similar nature, a State should have an enabling act to permit all public employee retirement systems in the State to participate in the reciprocal arrangement on a voluntary basis. Essentially, such a law would provide that each system would pay its proportionate share of the retirement benefits of each employee who served a specified number of years with the system and then retired from another reciprocal system. The Illinois Act, in addition, has an alternative formula for permitting the employee to deposit in the account of the retirement system from which he is to retire an amount equal to one percent of the annual salary for every year he is to receive credit, then upon making this deposit the employee will receive an annuity computed as if he had spent his entire career in the final reciprocal retirement system. This alternative necessarily requires the final system to assume an added obligation for previous service by the employee to other jurisdictions within the State. While this provision has met the legal test in Illinois, it might not do so in all other States. Some version of these two acts should provide the vehicle to solve the intrastate mobility problem. These reciprocal arrangements have the advantage of not requiring the losing system to transfer funds upon the transfer of the employee. The losing system pays to the employee or to the final system upon the employee's retirement the same amount as if the employee had retired from the system itself.

Both of these laws provide for voluntary rather than compulsory participation by the public retirement system. However, if the purpose is to be accomplished, all public employee retirement systems in the State must participate. States should by education, leadership, and example in the State administered retirement systems encourage all local retirement systems to participate in the reciprocal act once it becomes law. Then, if participation by the major local retirement systems is not forthcoming after a reasonable length of time, States may wish to consider making local participation mandatory.

Early Vesting

The Commission recommends that the employee's benefits be vested when he has completed a period of service of not more than five years in the system and that the employee be granted a deferred retirement annuity at the normal retirement age, providing he does not withdraw his contributions to the retirement fund when he leaves employment covered by the fund.

A majority of the retirement systems examined during the course of this study have vesting provisions. However, the number of years required for vesting ranges from immediate vesting to a 27-year requirement.

The National Education Association is on record supporting vesting after five years service. The Federal Civil Service Retirement System provides for vesting after five years service. Such a service requirement is reasonable for both the employer and the employee. Assuming that the employee has received training for his position, he should have the training more than "paid off," so to speak, in five years. The possible disadvantage of vesting to the employee is that many retirement systems compute deferred benefits at a considerably reduced rate from those granted at the normal retirement age. Nevertheless, vesting does make it possible for the employee to receive benefits from the employer's contributions which he cannot do if he withdraws his contributions when he leaves a retirement system. In the view of the Commission, early vesting offers the most satisfactory solution to the interstate transferability problem that is practicable at the present time.

The Commission has received suggestions that the vesting provision be made compulsory for the employee. That is, after a specified time period of employment, such as five years, or when the employee reaches a certain age, such as 40 years, the employee would no longer be permitted to withdraw his contributions, but would be required to accept the deferred benefit. This suggestion stems out of the fact that many employees who change positions withdraw their contributions to retirement systems rather than leaving the contributions in order to receive deferred benefits. Then, employees generally do not purchase retirement credit in those systems that offer such an alternative. Consequently, the employee may reach the end of his career and find that he has accumulated very few years of retirement credit. The Commission recognizes that this is a "freedom of choice" issue, involving the question as to whether the employee is to have some control over his own contributions. The problem is of sufficient importance that it should be considered by State and local governments in connection with a five-year vesting proposal.

Extension of Social Security Coverage

The Commission suggests that units of government not now covered under Social Security review the situation and give careful consideration to the possible advantages of extending Social Security to their employees.

Social Security provides a base retirement coverage through which benefits cannot be lost through job transfers among any employers offering this coverage. Retirement systems provide the additional supplement needed by the retired public employee to maintain a reasonable standard of living. Some retirement credits earned in a public employee retirement system may be lost through transfers regardless of how good the reciprocal arrangements may be.

At the State and local government levels, over 4.1 million of the more than 6.3 million public employees are covered by Social Security. Over 2.9 million State and local employees are covered by both Social Security and a public employee retirement system. Some public employees in each of the 50 States are covered by Social Security. At the Federal level, the Civil Service Commission is on record favoring extension of Social Security coverage to Federal civilian employees, with the Civil Service Retirement System continuing as the staff retirement plan with some adjustments.

The Question of a National System and Other Considerations

The Commission has considered a number of other possible alternatives as remedies for the retirement credit transferability problem. While some of these have merit, nevertheless, the Commission does not consider them to be generally feasible. Among the most widely mentioned of these alternatives is the proposal for a nationwide governmental or non-governmental corporation which would provide retirement coverage for public employees. 38/ A corporation of this type might be similar to the Teachers Insurance and Annuity Association. It should be pointed out that TIAA is doing a most commendable job in its present areas of coverage and has provided a solution to the transferability problem for those covered. However, TIAA largely limits its services to the field of higher education and there seems to be no reason to believe that TIAA coverage will be extended to general public employment.

Essentially, the Commission's doubts as to the feasibility of a nationwide system are based on the following considerations: (1) such a nationwide "retirement pool" would require an initial infusion of a fairly large sum of money--either from private philanthropic sources or from the Federal Government; (2) there does not appear to be a sufficiently strong or urgent demand for such a nationwide system as would attract initial private loans or grants of the magnitude required; and (3) Federal funding would be very difficult to justify.

There are at least three indications that a widespread demand for national pooling is not present: (1) governments have not made maximum use of Social Security for public employee coverage. About 60 percent of State and local government employees are covered by

38/ See A Report of the Municipal Manpower Commission, op. cit., p. 116.

Social Security even though this coverage has been available for nearly a decade; (2) about 25 percent of public supported universities currently participate in the TIAA for their personnel, although this program was established in 1918; and (3) unless the national system made State and local participation mandatory, there is little reason to believe that such participation would be greater than has occurred under Social Security. Some States still are reluctant to provide TIAA coverage for State college and university faculties. Compulsory participation would not be desirable.

Federal financial participation in a national pooling of State and local government retirement credits could hardly be justified to any greater extent than similar Federal action with regard to the many private pension plans in the private sector of the national economy.

However, if various groups of public employees find it feasible in the future to form a TIAA-type arrangement, this might help further to solve the transferability problem.

The Commission has considered a possible alternative which would permit the purchase of retirement credit for previous public service and does not believe this to be an adequate solution for the transferability problem. The Commission recognizes that some public employee retirement systems may find such an alternative to be useful, and, where this is true, the Commission does not suggest its abandonment. However, as a matter of practical and general application, this alternative is faced with difficulty. First, the statutory or legal question of whether the acquiring retirement system can assume obligation for past service rendered by the employee to another governmental unit frequently arises. Thus, in some States the purchase of credit is not legally acceptable. Second, if the employee is required to pay both his share and the employer's share for retirement credit for previous service, the cost becomes prohibitive. In fact, administrators of retirement systems which permit the purchase of credit point out that most employees do not avail themselves of the opportunity to purchase credit when it exists. Also, if the employee is not required to pay both shares, actuarial problems arise for the retirement system to which he transfers.

The Commission would point out that an arrangement between units of government providing for reciprocal transfer of contributions between retirement funds is in some cases a workable alternative. However, the Commission does not believe that this is as feasible as the others set forth or that it is needed if the other alternatives were adopted generally. The Commission takes this position because of the practical financial and legal problems involved in gaining acceptance for such a system and in the administration of it once adopted.

The Commission is aware that an alternative whereby an employee's retirement credits remain in the initial system and future employers, as well as the employee, pay into the system is in some cases workable. Under this alternative, after the employee has acquired a specified number of years, five for example, in a public employee system, and then transfers to another reciprocal public employee system, the acquiring retirement system and the employee will continue to pay into the initial system. This arrangement is used to a limited extent in Kentucky. One of the important reasons why this apparently works well is that the retirement systems participating are State systems. The Commission does not believe that widespread adoption of this alternative is desirable because of the administrative problems involved.

The Commission believes that if the recommendations set forth in this report are followed by all levels of government the problem of protecting public employee retirement credits from loss through transfers will be substantially alleviated.

APPENDIX A

State of Michigan, 71st Legislature, Regular Session of 1961, Act No. 88, Public Acts of 1961

Sec. 1. This act shall be known and may be cited as the "reciprocal retirement act."

Sec. 2. (Definitions)

Sec. 3. (1) Any municipal unit, which covers its employees under retirement systems, by a majority vote of its governing body, may elect to adopt the provisions of this act for its employees covered under retirement systems.

(2) Any state unit, by a majority vote of its governing body, may elect to have the provisions of this act made applicable to its members.

(3) The governing body of a municipal or state unit, within 10 days after it elects to come under the provisions of this act, shall file written certification of its action with the secretary of state. Upon the filing of the certification the municipal unit or state unit shall be a reciprocal unit. The secretary of state shall maintain a list of reciprocal units, which list shall be available to any municipal unit and state unit requesting a copy.

(4) The provisions of this act, when adopted by a municipal or state unit shall be effective for the unit in addition to the provisions of charter, ordinance, resolution or state law governing the retirement systems for the reciprocal unit, as the provisions of charter, ordinance, resolution or state act are in force and as amended.

Sec. 4. A member of a reciprocal retirement system who leaves the employ of a reciprocal unit, herein called the preceding reciprocal unit, enters the employee of another reciprocal unit, herein called the succeeding reciprocal unit, and becomes a member of the succeeding reciprocal unit's reciprocal retirement system, shall be entitled to a retirement allowance payable by the preceding reciprocal unit's reciprocal retirement system if:

(a) He has 5 or more years of credited service in force acquired in the employ of the preceding reciprocal unit.

(b) He does not withdraw his accumulated deposits from the preceding reciprocal unit's reciprocal retirement system.

(c) He enters the employ of the succeeding reciprocal unit within 5 years after the date he leaves the employ of the preceding reciprocal unit.

(d) He has no break in employment with any governmental unit for a period longer than 5 years.

(e) His credited service in force with the preceding reciprocal retirement systems acquired in the employ of the preceding reciprocal units plus his credited service acquired in the employ of the reciprocal retirement system from which he retires equals or exceeds the minimum credited service required for age and service retirement in the reciprocal retirement system from which he retires. His credited service acquired as a member of the reciprocal system from which he retires shall be not less than 5 years.

(f) His retirement allowance payable by any preceding reciprocal retirement system shall be determined, at the time he ceased to be a member of the preceding reciprocal retirement system, upon the basis of the retirement allowance formula of the preceding reciprocal retirement system, his credited service in force in the said preceding reciprocal retirement system, and his final average salary at that time.

(g) His retirement allowance payable by any preceding reciprocal retirement system, shall begin the first day of the calendar month next following the month he files his application with the governing body of the preceding reciprocal retirement system after his attainment of age 60 years. The retirement allowance shall not begin prior to his attainment of the minimum age for age and service retirement required in the preceding reciprocal retirement system, or prior to the date he retires from the last reciprocal unit in which he is employed with a retirement allowance payable by the reciprocal unit's reciprocal retirement system, whichever is later.

Sec. 5. A member of a reciprocal retirement system, who has 5 or more years of credited service acquired as a member of the system and who has attained the age but has not met the service requirements for age and service retirement shall be entitled to use his credited service in force acquired in the preceding reciprocal retirement system in meeting the service requirements of the system from which he retires. Credited service acquired in a preceding reciprocal retirement system shall not be used in determining the amount of his retirement allowance payable by the reciprocal retirement system from which he retires; his retirement allowance payable from the reciprocal retirement system from which he retires shall be based only upon his credited service in force in that system.

APPENDIX B

Text of the Retirement Systems Reciprocal Act of Illinois

"An act to establish continuity and preservation of pension credit for employees in Governmental service in the State of Illinois", approved July 11, 1955, edited to include all changes made to and including 1961.

Be it enacted by the People of the State of Illinois represented in the General Assembly:

SECTION 1. There is established a plan for the continuity and preservation of pension credit, in accordance with the provisions hereof, in the case of employees transferring employment from one governmental unit to another governmental unit, if such employees shall have acquired such credit in any established retirement system or pension fund maintained by any such governmental unit. The purpose of this plan is to assure full and continuous pension credit for all service rendered by a person in public employment which service is covered by a retirement system or pension fund.

The acceptance of the provisions of this Act, with the exception of Section 10, shall be optional with any eligible employee who is a member of a retirement system covered by this Act, or in the event of his death, with his widow.

SECTION 2. (Definitions)

SECTION 3. Any employee who has withdrawn or withdraws from the service of one employer and then or later enters the service of another employer covered by the provisions of this Act, and who has not forfeited his pension credit in the retirement system maintained by the employer from whose service he has withdrawn, shall be entitled to a proportional retirement annuity, and the widow of any such employee shall be entitled to a widow's annuity, computed as stated herein, for the periods of credited service in each retirement system, notwithstanding that the employee may not have fulfilled the minimum service requirement prescribed by any retirement system for the receipt of a retirement annuity. If a retirement system provides no refund of contributions, the pension credit in the case of any employee who shall have participated in such system shall be considered effective for the purposes of this Act.

Eligibility for a proportional retirement annuity or widow's annuity in each retirement system under the provisions of this Act shall be determined by taking into account the entire length of service of the employee for which he has been granted pension credit under all retirement systems participating under this Act, provided that in order to qualify for either proportional annuity from any of such retirement systems the employee must have a combined pension credit at least equal to the longest minimum qualifying period prescribed by any of the retirement systems involved in the combined pension credits.

Interest on pension credit shall continue to accumulate in accordance with the provisions of the Act governing the retirement system in which the same has been established during the time an employee is in the service of another employer, on the assumption such employee, for interest purposes for pension credit, is continuing in the service covered by such retirement system.

SECTION 4. The provisions of this Act shall be applicable and limited only to a retirement annuity and widow's annuity, and to the pension credit established for such purposes. Any death benefit, ordinary disability benefit, duty disability benefit, accidental disability benefit, supplemental annuity, or any other type of annuity or benefit provided by any retirement system, not included in the definition of retirement annuity and widow's annuity shall not be affected by the provisions hereof.

SECTION 5. Upon retirement in the retirement system to which the employee last made contributions, a proportional retirement annuity shall be computed by each retirement system in which pension credit has been established by the employee on the basis of salary and service credits under each system. Such computations shall be in accordance with the formula or method prescribed by each such system and in effect at the date of the employee's latest withdrawal from the service of the employer maintaining such retirement system, except as modified by this Act.

If, at the date of retirement, the employee shall have attained the age prescribed for the receipt of a minimum retirement annuity under any retirement system subject to the provisions of this Act which prescribes a minimum retirement annuity, in which he has a pension credit, and his combined pension credit in all retirement systems participating under this Act is sufficient to meet the service qualification prescribed in the applicable retirement system for the receipt of a minimum retirement annuity, the employee shall have the option of receiving the proportional retirement annuity based upon the minimum annuity formula applicable in each such system.

If any proportional retirement annuity is calculated upon the basis of the average salary of an employee for a specified number of years of service, and the employee has to his credit in a system fewer years than the prescribed number, the actual number of years of credited service in the retirement system computing the proportional annuity shall be used as the basis for such calculation.

If (1) a minimum annuity formula available for the completion of a specified minimum period of service under the retirement system provides a definite sum or percentage of average compensation for completion of such minimum service, in addition to a certain percentage of average compensation for each year of service, and (2) the employee has not received credit in the retirement system for the minimum number of years required to qualify for such minimum benefit formula, and (3) the combined pension credits under all systems are equal to or more than the period of service prescribed in the system for the receipt of a minimum annuity, the employee shall be entitled to that portion of the definite sum or percentage of average compensation which his service in such retirement system bears to the minimum service required by that system to qualify for such minimum formula.

SECTION 5.1. Notwithstanding the provisions of the other sections of this Act, or the acts governing those retirement systems covered by this Act, the alternative formula prescribed in this section for calculation and payment of the retirement annuity, shall be applicable in lieu of the formula prescribed in the other sections of this Act, if the employee pays to the system under which retirement occurs prior to the date his retirement annuity begins, an amount equal to 1 per cent of the actual annual full-time rate of salary on the date of separation from service under each of the other systems, multiplied by the number of years of pension credits in each of these systems which are considered by the system under which retirement occurs in determining the retirement annuity payable under this section and for which contributions were made by the employee.

The system under which retirement occurs shall calculate and pay a retirement annuity based upon the combined pension credits under all systems participating under this section, using the final average salary and formula prescribed by the system under which retirement occurs. Service rendered prior to a break in employment of more than 12 months under governmental units covered by the retirement systems which are subject to this Act, shall not be considered, by the system under which retirement occurs, in determining the retirement annuity payable under this section. If an employee is concurrently employed by governmental units covered by two or more systems participating under this section during a period of service which is used in determining the average salary on which his annuity is based, his earning credits under all of these systems during the period of concurrent employment shall be considered by the system under which retirement occurs in computing his final average salary.

If an employee who becomes entitled to retirement benefits under this section, has elected a reversionary annuity under any of the systems participating under this section and in which he has pension credits, the system under which retirement occurs shall reduce the retirement annuity otherwise payable under this section, by the actuarial equivalent of the amount required to provide the reversionary annuity. This actuarial equivalent shall be determined by and in accordance with the actuarial tables of the system under which the election of reversionary annuity is made.

Each of the other systems participating under this section in which the employee has pension credits, shall assume a portion of the annuity liability by paying at least annually to the system under which retirement occurs, the amount of the proportional retirement annuity which would otherwise have been payable under the other sections of this Act, and the employee concerned shall, by the acceptance of the retirement annuity payable under this section, waive and forfeit the right to receive such proportional retirement annuity from such other systems. If the minimum age requirement of the system under which the retirement occurs is lower than that of any of the other systems in which the employee has pension credits, the payment by such other system to the system under which retirement occurs shall be eferred until the minimum age requirement of such other system has been met.

For the purpose of this section, the system under which retirement occurs shall be the system to which this section applies and in which the employee contributes on or after the effective date of this amendatory Act of 1961 and to which the employee last contributes for a period of four or more years. If the employee contributes concurrently to two or more of such systems during this period, the system under which retirement occurs shall be that system under which he has the greatest earnings credits during the period of concurrent employment, or if he has equal earnings credits under these systems during this period, the system under which he has the longest period of pension credits.

This section shall not apply to any retirement system which has accepted the provisions of this Act, if the act governing this system specifically excludes the application of this section. If any system is so excluded from the application of this section, service and earnings credits under this system shall be disregarded by the system under which retirement occurs in determining the retirement annuity payable under this section, and the system which is so excluded shall pay to the employee a proportional annuity in accordance with the other sections of this Act.

This section shall be applicable only to the employee or participant who is in service, on or after the effective date of this amendatory Act of 1961, as a contributing member of a system to which this section applies.

The alternative formula prescribed in this section shall be used only in determining the retirement annuity, and it shall not be applicable to widow's annuity as defined in this Act or to other types of benefits.

SECTION 6. The provisions governing a retirement annuity, with the exception of those contained in Section 5.1, shall be applicable to a widow's annuity. Appropriate credits shall be established for widow's annuity purposes at the date of retirement of an employee in the case of any retirement system providing a widow's annuity for which an employee has established pension credit, according to the same conditions that govern a retirement annuity, and subject to the same limitations and restrictions herein prescribed for a retirement annuity. If a retirement system has no widow's annuity benefit, no pension credit for qualifying purposes for such benefit or otherwise shall be considered on account of such system under the provisions hereof.

SECTION 7. If the minimum qualifying age of retirement in any of the retirement systems is lower than the minimum age of retirement in any of the other retirement systems which are to provide a proportional retirement annuity, or proportional widow's annuity, payments by such other system shall be deferred until the employee or widow has attained the minimum age of retirement prescribed for such system.

SECTION 8. If the measure of pension credit in any retirement system for a retirement annuity or widow's annuity is apportioned upon the basis of length of service rendered by an employee, the combined service under all retirement systems in which the employee has established service credit shall be effective in establishing such vesting of pension credit in any retirement system.

SECTION 9. Any employee who shall have waived, by the acceptance of a refund, his pension credit in any retirement system which has accepted the provisions of this Act, may have his pension credit reinstated by repayment of the refund, including interest from the date of refund to the date of repayment, to the retirement system from which he received the refund provided (1) such retirement system is authorized by law to receive such repayments, and (2) such employee has completed at least 2 years of service subsequent to the date of the last refund received by the employee under a retirement system which has subscribed to the provisions of this Act. Each retirement system shall consider pension credits under all retirement systems which have subscribed to the provisions of this Act, in determining whether the employee meets the service requirements under the system for repayment of a refund.

The repayment of a refund under this section shall not be considered as an election to accept the provisions of the other sections of this Act.

SECTION 10. In the event the combined retirement annuities or widow's annuity exceeds the highest maximum annuity prescribed by any retirement system in which an employee has established pension credit, the respective retirement annuities or widow's annuities payable by the several retirement systems shall be reduced proportionately according to the ratio which the amount of each proportional annuity bears to the aggregate of all such annuities.

If a widow's annuity is payable by two or more systems and the widow or other survivor elects to waive the widow's annuity under any of these systems and accept a lump sum payment or other death benefit in lieu of the widow's annuity, the systems under which the widow's annuity benefits become payable, shall, for the purpose of reducing the combined widow's annuity within the limitation prescribed in this section, assume that the widow or other survivor had been entitled to a life annuity which was the actuarial equivalent of the amount of such lump sum payment or other death benefit. The determination of this life annuity shall be made by and in accordance with the actuarial tables of the system under which lump sum or other death benefit is payable. Only those systems which pay monthly widow's annuity benefits, shall make the adjustment required under this section.

SECTION 11. Any employee who is concurrently employed by employers under two or more of said systems shall be entitled to establish a pension credit in accordance with the provisions of each system, provided that if such concurrent employment results in a duplication of credits, each of the systems involved in such concurrent employment shall reduce the service credit for the period of concurrent employment to its full time equivalent, using as a basis for such adjustment the earnings credited for each employment.

SECTION 12. In no event shall pension credit for the same period of service rendered by an employee be accredited more than once in one or more retirement systems.

SECTION 13. Each retirement system shall submit to the other retirement systems, upon request, a report, properly certified, regarding the length of service rendered for the purpose of establishing the employee's eligibility for retirement and any other pertinent information as may be necessary in the administration of this Act and to effectuate the provisions hereof.

It shall be the duty and responsibility of an employee having pension credit in any retirement system to make available such information or any other required data relating thereto, to the retirement system in which he last finds himself, in order that such pension credit may be applied in the manner herein provided. A retirement system subject to the provisions hereof shall be under no obligation or responsibility to initiate any inquiry or investigation for the purpose of establishing pension credit in the case of any employee, in the absence of a request from the employee, accompanied by sufficient facts bearing upon such credit which the employee may have accumulated.

Two or more retirement systems subject to the provisions hereof may agree, at the time of retirement of an employee or when a widow's annuity becomes payable, to have the retirement system under which the employee retires or a widow's annuity becomes payable to pay currently the combined amounts of the proportional payments on account of the retirement annuity or widow's annuity. Such agreement shall be evidenced by a written document between two or more retirement systems in the form agreed upon between them. At the end of each fiscal year of the last retirement system, reimbursement thereto shall be made by the other retirement systems providing proportional annuities of the amount paid on their account by the last retirement system. Such arrangement shall be optional with the several retirement systems. If no such arrangement is made, each retirement system shall pay its own proportional annuities to the beneficiaries entitled thereto. Widow's annuity payments shall be made by or on account of any retirement system only where widow's annuities are applicable and are provided.

SECTION 14. The provisions of this Act shall apply only to those retirement systems which have accepted the provisions of this Act, as specified in the respective Acts governing such systems.

SECTION 15. This Act shall be known as the "Retirement Systems Reciprocal Act".

APPENDIX C

SUMMARY OF PUBLIC EMPLOYEE RETIREMENT PROVISIONS IN EACH OF THE 50 STATES

This appendix presents a brief summary of the public employee retirement situation in each of the States from which a reasonable amount of information could be obtained. Those aspects are emphasized which have a direct relation or are closely related to retirement credit transferability. In some instances the material regarding a particular State is somewhat skeletal. In spite of the fact that the State summaries are brief, the material is presented in this manner because of the belief that this part of the report can serve as a point of departure for those individuals and organizations desiring to delve further into their particular State situation and to attempt to apply thereto some of the policy considerations set forth in this report.

The material presented here has been summarized largely from the following sources: correspondence from State legislative service agencies, State retirement system and municipal league officials; the individual State statutes pertaining to the retirement systems; reports of State commissions and committees established to study the retirement systems; informational handbooks on particular retirement systems; the 1957 Census of Governments volume entitled Employee-Retirement Systems of State and Local Governments; the 1960 Proceedings of the Annual Meeting of the National Council on Teacher Retirement of the National Education Association; Quarterly Statistical Reports on State and Local Government Employment covered by OASDI by the Bureau of Old-Age and Survivors Insurance of the Social Security Administration; and the 1962 Survey of State Retirement Systems by the National Association of State Retirement Administrators. The figures used from the 1957 Census of Governments regarding membership in the various retirement systems obviously are out of date. However, these data are used to demonstrate how in some States, one, two, or a very few systems have the great preponderance of public employee retirement system membership. The State summaries follow:

Alabama

There are two major retirement systems in this State. These are the Employees' Retirement System whose membership is comprised of State employees and local nonschool employees and the Teachers' Retirement System. There is arrangement for local units of government to bring their employees under the State administered system. The 1957 figures indicate that out of the more than 50,000 members of retirement systems in the State, these two systems had over 46,000 of the members. Twelve local systems shared the remaining 4,000 employees. Both of the major systems provide for a deferred benefit at age 60 after the completion of 25 years service. There is provision for retirement credit transferability between the two major systems in the State. There is no arrangement for interstate reciprocity, not even for purchase of out-of-State retirement credit in either system. If an employee ceases to be a public employee, he may withdraw his contribution with varying amounts of interest depending on the number of years service. The Employees' Retirement System is a fully funded system.

Alaska

There are two systems in Alaska. These are the Public Employees' Retirement System and the Teachers' Retirement System. Membership in the Public Employees' System is composed of State employees and local employees whose governing bodies have elected to participate in the system. The only provisions in the systems relating to employee mobility are the provision in the Public Employees' act which provides for a deferred benefit for the employee at age 65, "if his employment is terminated on or after the date on which his attained age and credited service total at least seventy-five (75) years" and the provision in the Teachers' system which provides that 10 years credit for out-of-State service may be purchased. In the Employees' system, an employee leaving the system may withdraw his contribution with varying amounts of interest. The Public Employees' system is funded except for prior service costs which will be liquidated by year 2000.

Arizona

The Arizona State Retirement System is the major retirement system in the State. Its membership is composed of all State employees, including those of universities and colleges, public school teachers, and local employees whose governing bodies elect to join the system. Phoenix and Tucson do not participate in this system. In 1957, the Arizona State system had 28,000 of the total retirement system membership of over 30,000. The other 20 systems in the State shared the remaining 3,000 members. The Arizona State system has a vesting provision which provides that the employee will receive a deferred benefit at age 60 if he has completed five or more years of service. There is no provision for intrastate or interstate reciprocity. If the employee leaves his employment with less than five years service, his contribution is returned with interest. The system approaches the fully funded concept.

Arkansas

The two major retirement systems in the State are the Teachers' Retirement System and the State Employees' Retirement System, which consists of three divisions (a) State employees, (b) County employees, and (c) Municipal Employees. The Teachers' system has a vesting provision which provides for a deferred benefit at age 60 if 27 years service has been completed. The only provision in the systems for intrastate reciprocity is that employees may transfer their retirement coverage when moving from one division of the State Employees' system to another. The Teachers' system permits the purchase of credit for out-of-State service at the rate of one year for every subsequent two years of Arkansas service. A maximum of 10 years of out-of-State service may be credited. The cost of this purchase includes the contributions of both the employer and the employee plus three and one-half percent simple interest. The State Employees' system is fully funded. An employee leaving employment covered by the State Employees' system may withdraw his contributions.

California

The two major public employee retirement systems in the State are the State Employees' Retirement System and the State Teachers' Retirement System. Membership in the State Employees' Retirement System includes State employees, nonacademic employees of the University of California, the employees of the State colleges, the classified employees of all public schools (excluding teachers), the employees of over 150 cities, 28 counties, and some hundred other public agencies. Both of the above systems have vesting provisions. The requirement in the State Employees' system for a deferred benefit at age 55 is that the employee must have contributed $500 to the system or must have 20 years service. In the Teachers' system the requirement for a deferred benefit at age 55 is the completion of five years service. There is no provision in either the State Employees' or the State Teachers' systems for the purchase of out-of-State credit.

The State Employees' system enters into contract with local units of government to provide retirement coverage for the local employees. This contractual arrangement is optional to the local governmental unit. Before agreeing to provide retirement coverage, the State system conducts a valuation of the local government retirement situation, then adjusts costs to the employees and the employer accordingly. Every four years the State conducts an investigation and valuation of each unit of government covered and changes rates if necessary. There is provision for employee transfer among the units of government covered by this system without loss of retirement credits to the individual. When an employee reaches retirement age and has the qualifying number of years in the system, his allowance is calculated on his highest three-year average salary regardless of in what unit of government or combination of units it was achieved. Then, the costs are pro-rated to the employers. There is a reciprocal retirement act in the State which permits independent public employee retirement systems to participate in reciprocal arrangements among themselves and with the State Employees' system at their own option. Twenty-three counties participate under the same reciprocal conditions as exist within the State system. There is reciprocity between the State Employees' system and the State Teachers' system, but it goes only to recognition of final compensation. The State Employees' system approaches the fully-funded concept. An employee leaving employment covered by the State Employees' system may withdraw his contributions with interest.

Colorado

The Public Employees' Retirement Association is the major retirement system in the State. Its membership is comprised of State employees, employees in some cities, and public school teachers. The City and County of Denver school district employees have their own retirement system which is the only other retirement system of significant size in the State. In 1957, the Public Employees' System had nearly 25,000 members, the Denver school system had nearly 5,000 members, and the remaining 2,000 retirement system members in the State belonged to 12 other systems. The Public Employees' System has a vesting provision which provides a deferred benefit at age 65 for those employees having five years creditable service. The only type of retirement credit transfer provided for in the Public Employees' system is among the elements of the system itself. There are no interstate transfer provisions.

Connecticut

The two major public employee retirement systems in the State are the State Employees' Retirement System and the Teachers' Retirement System. In 1957, these systems had 22,000 and 20,000 members respectively as compared to 15,000 members in the 62 other public employee retirement systems in the State. Teachers changing from employment covered by the Employees' system to that covered by the Teachers' system may transfer retirement credits. Teachers may purchase retirement credit for up to 10 years for out-of-State teaching service. This purchase must be made within five years of entry in the system. An employee leaving employment covered by the Employees' system may withdraw his contributions without interest. The State Employees' Retirement System is a partially-funded system.

Delaware

Significant information regarding public employee retirement systems in this State was not obtained.

Florida

The State and County Officers and Employees Retirement System and the Teachers' Retirement System are the two major retirement systems in the State. According to 1957 figures, there were 44,000 members of the State and county system and 33,000 members of the Teachers' system. The remaining 19,000 members of retirement systems in the State belonged to 73 other systems. Both of the major systems have vesting provisions. The State and county system provides for a deferred benefit at age 60 if 10 years of creditable service have been completed. The Teachers' system provides for a deferred benefit at age 55 if 10 years of service have been completed. The State and county system has a reciprocal arrangement with the Supreme and Circuit Court Judges' systems and for municipal employees involved in functions for which a county assumes responsibility. Teachers may purchase retirement credit for out-of-State service not to exceed 10 years. In order to purchase out-of-State credit, the teacher must pay eight percent of his out-of-State salary, plus three and one-half percent accumulated interest thereon.

Georgia

The two major retirement systems in the State are the Employees' Retirement System and the Teachers' Retirement System. The membership in the Employees' system is composed of State employees and local employees under a State Merit System of Personnel Administration. Both systems have vesting provisions. The Teachers' system provides for a deferred benefit to be paid at age 60 if 20 years of service have been completed. The Employees' system provides for a deferred benefit at age 60 if 18 years of service have been completed. There is provision for reciprocal transfer of retirement credits between the two systems. The Employees' system has no provision for for intersate reciprocity. The Teachers' system permits purchase of up to 10 years credit for out-of-State service for teachers who have come from systems that have similar provisions. The cost for this purchase is eight percent of the salary earned during these years plus three and one-half percent accumulated interest. Employees leaving these systems may withdraw their contributions at any time. No interest is allowed with less than five years service. The Employees' system approaches the fully-funded concept.

Hawaii

The State has one system, the Employees' Retirement System of Hawaii, which covers State and local employees and teachers. In 1957 the membership was over 20,000. There is a vesting provision which provides a deferred benefit at age 55 with the completion of five years service. There are no reciprocal arrangements in the system. However, this does not impede intrastate transferability because of the wide membership coverage of the system. An employee who leaves employment covered by the Employees' system may withdraw his contributions with interest. The system is funded.

Idaho

The only major retirement system in the State is the Teachers' Retirement System. The 1957 figures show that the Teachers' system had over 7,100 members out of about 7,600 retirement system members in the State. The remaining 500 members belonged to six other systems. The system provides for no intrastate reciprocity. Complete credit for out-of-State service may be purchased by a teacher providing he pays the entire cost. The State of Idaho makes no contribution for benefits for out-of-State service.

The 1961 session of the Idaho legislation appropriated funds for the studies needed prior to the establishment of a State employees' retirement system. Since both political parties have endorsed a retirement system, it appears that a system is well on the way to adoption.

Illinois

Three of the largest public employee retirement systems in the State are the State Employees' Retirement System, the State Teachers' Retirement System, and the Chicago Teachers' Retirement System. Each of these systems has a vesting provision. The State Employees' system provides for a deferred benefit at age 60 with the completion of 10 years service. This applies if the employee leaves service before age 55. However, if the employee leaves service after age 55, he may receive a deferred benefit at age 60 with eight years service. The State Teachers' system provides that the employee may receive a deferred benefit at age 60 with 15 years service or at age 55 with the completion of 20 years service. The Chicago Teachers' system provides for a deferred benefit at age 65 with the completion of 10 years service, if the employee departs employment after age 55. However, if the employee has 20 years service, he may receive a deferred benefit at age 55. Retirement credit for out-of-State service may be purchased in the above two teachers' retirement systems. In the Chicago system there is no limit to the total number of years of such service that may be purchased provided that three-fifths of the total service is in the Chicago system and that the last five years are rendered in the Chicago system. In the State Teachers' system, retirement credit for out-of-State service may be purchased up to a maximum of 10 years. The State Employees' system is a partially-funded retirement system.

A "Retirement Systems Reciprocal Act" was passed in Illinois in 1955. All public employee retirement systems in the State may participate at their own option. Not less than two years service in a system is recognized toward retirement benefits. When an employee reaches retirement age, he may use his number of years service compiled in reciprocal systems to qualify in the reciprocal system from which he wishes to retire, providing he has the two years minimum in each system. The employee's total number of years in all reciprocal systems must equal the minimum number of years required for retirement in any one of the systems. Each system pays its share of the employee's retirement benefit based on his number of years and earnings in the system. As of February 28, 1961, there were 13 public employee retirement systems in the State participating under this reciprocal act.

Indiana

The State Teachers' Retirement System and the Public Employees' Retirement System have the great majority of the public employee retirement system membership in the State. The 1957 figures gave the Teachers' system a membership of 42,000 and the Public Employees' system 31,000. The remaining 8,000 members belonged to 113 other systems. The Public Employees' system has provision for a deferred benefit at age 65 if the employee has 10 years creditable service. Under the Teachers' system, the employee can receive a deferred benefit at age 50 with 15 years service or at age 65 with 10 years service. There is complete reciprocity between the two systems. The only provision relating to intersate reciprocity is in the Teachers' system which permits purchase of out-of-State credit of eight years service or one out-of-State year for every three years of Indiana service, whichever is greater. An employee leaving employment covered by the Public Employees' system may withdraw his contributions with interest.

Iowa

The Public Employees' Retirement System is by far the largest public employee retirement system in the State. Its membership includes State, county and city employees, and teachers. In 1957, the Public Employees' system covered 89,000 of the 93,000 retirement system members in the State. Sixty-seven systems covered the remaining 4,000 employees. The Public Employees' system has a vesting provision which provides a deferred benefit for the employee at age 55 if he leaves the system at age 48 and has at least eight years service. Members of this system may transfer from position to position without loss of retirement credit. However, this is the only provision resembling reciprocity that the system has. If an employee leaves employment covered by the system, he may withdraw his contributions with interest. The Public Employees' system is a funded system.

Kansas

The Kansas Public Employees' Retirement System provides retirement coverage for all State employees and for county, city, township, and special district employees who are covered by Social Security but by no other public employee retirement system. There is a vesting provision in this system which provides for a deferred benefit at age 65 with the completion of 10 years service. The only retirement credit transferability provided by the system pertains to those employees who transfer among the various elements of the system. If an employee separates from service covered by the Public Employees' system, he may withdraw his contributions with interest.

Kentucky

There are three major public employee retirement systems in the State. They are: the Public Employees' Retirement System, covering State employees; the County Employees' Retirement System; and the Teachers' Retirement System. There are vesting provisions in the Public Employees' and Teachers' systems which provide for a deferred benefit for the employee at age 60 if 20 years of service have been completed. There are reciprocity provisions in the three systems which provide that if an employee changes employment from that covered by the Public Employees' or Teachers' systems to that covered by the County Employees' system after five years of employment, he may stay in the original retirement system, and the acquiring employer, as well as the employee, will pay into this system. The only provision resembling interstate reciprocity is that of the Teachers' system which permits employees to purchase retirement credit for up to eight years of out-of-State teaching service. To do this, the employee must pay into the fund the amount he would have paid had he been employed in Kentucky plus three percent compound interest. Upon leaving employment of any of the above three systems, the employee may withdraw his contributions with interest. The Public Employees' system approaches the funded concept.

Louisiana

The two largest retirement systems in the State are the State Employees' Retirement System, which covers State employees only, and the State Teachers' Retirement System. In 1957, the State Employees' system had a membership of 26,000 and the Teachers' system had over 25,000 members. The remaining 19,000 public retirement system members were covered by 31 other systems. Both systems have vesting provisions which provide for deferred benefits at age 60. The State Employees' system requires 15 years service and the Teachers' system requires 10 years service for the deferred benefit. There is provision for reciprocal transfer of retirement credits between these two systems. The Teachers' system has provision for purchase of retirement credit for out-of-State service.

Maine

The Maine State Retirement System is the only major public employee retirement system in the State. This system provides coverage for State and local employees and for teachers. In 1957, this system provided coverage for 19,631 of the 19,769 public employees who had retirement coverage other than Social Security. The remaining 138 employees were covered by four locally administered retirement systems. There is a vesting provision in the State system which provides for a deferred benefit at age 60 with the completion of 10 years service. The nature of the public employee retirement situation in Maine is such that there is intrastate reciprocity for all public employees except the slightly more than 100 that do not participate in the State system. Retirement credit for out-of-State service may be purchased in this system apparently for an unlimited number of years. An employee leaving employment covered by this system may withdraw his contributions with not less than three-fourths of the accumulated interest. This system is a funded system.

Maryland

The State of Maryland administers three public employee retirement systems. These systems are the State Employees' Retirement System for State and local employees, the Teachers' Retirement System, and the State Police Retirement System. In 1957, membership in these systems was 24,500, 17,000, and 400, respectively. Two other important public employee retirement systems which have reciprocal transfer arrangements are the Baltimore City employees' system and the Baltimore County employees' system. Membership in these systems in 1957 was 21,500 and 1,700, respectively. The remaining 4,000 retirement system members belonged to six other systems. The five systems specifically mentioned above qualify for participation in the intrastate reciprocal retirement credit transfer provision in the State retirement law. Other public employee retirement systems in the State operated on an actuarial basis may also participate. The State Employees' and the Teachers' systems provide for retirement upon the completion of 30 years service or upon reaching age 60. An employee who leaves employment covered by the State Employees' system may withdraw his contributions with interest. The State Employees' system is a funded system.

Massachusetts

The two largest public employee retirement systems in the State are the State Employees' Retirement System for State employees only and the Teachers' Retirement System. These systems each had a membership of over 32,000 in 1957. There is complete reciprocity in regard to transferability of retirement credits between city, town, county, State, and teacher retirement systems. The State Employees' system provides for retirement upon the completion of 20 years service or upon reaching age 55. The Teachers' system provides for an annuity at any age after the completion of 20 years service. Retirement credit for up to 10 years of out-of-State service may be purchased in the Teachers' system. An employee leaving employment covered by the State Employees' system may withdraw his contribution with interest. The State Employees' system is a partially-funded system.

Michigan

The two largest State administered public employee retirement systems in the State are the State Employees' Retirement System and the Public School Employees' Retirement System. Both of these systems have vesting provisions which are essentially the same. An employee may leave either system after completing 25 years service and receive a deferred benefit at age 60. There is also provision for vesting in both systems with the double requirement of age 50 and 15 years service. Both systems provide that an employee who has completed 10 years service and reaches age 60 while on the job may begin receiving retirement benefits. And, an employee who has completed 15 years service and reaches age 55 while on the job may begin receiving retirement benefits.

The Legislature of the State of Michigan passed an intrastate reciprocal retirement act which became law on May 23, 1961. Any public employee retirement system in the State by its own option may participate in the reciprocal arrangement provided by this act. Reciprocity under this act essentially works as follows: The employee may leave a participating system after five years service and transfer to another participating system where he must also remain for at least five years before transferring or retiring. Upon reaching retirement age, the employee will receive retirement allowances from all participating systems in which he has a minimum of five years service. If the employee reaches retirement age in a reciprocal system and has at least the five year minimum service requirement, he may use prior service years in other reciprocal systems to meet the service requirement in the system from which he is retiring. This does not increase the employee's benefits. It merely provides the needed service requirement. The Public School Employees' Retirement System and the Detroit Teachers' Retirement System are the only systems in the State which permit purchases of retirement credit for out-of-State service. As much as 15 years of out-of-State credit may be purchased in the Public School system and 10 years in the Detroit system. When an employee separates from employment covered by the State Employees' system, he may withdraw his contributions with interest. The State Employees' system is a partially funded system.

Minnesota

The three largest retirement systems in the State are the State Employees' Retirement Association, the Public Employees' Retirement Association which covers local government employees, and the Teachers' Retirement Association. The combined membership in these three systems in 1957 was approximately 78,000 as compared to the total public employee retirement system membership of about 92,000. The remaining 14,000 employees were covered by 49 other retirement systems. There is reciprocal arrangement among the three systems mentioned above which provides that employees may move between the three systems and not suffer loss of retirement benefits. The State Employees' and the Public Employees' systems have vesting provisions which provide for a deferred benefit at age 65 after the completion of 10 years service. If an employee separates from service covered by the State Employees' system, he may withdraw his accumulated contributions. Under present financing this system should be fully funded within 15 to 20 years.

Mississippi

The Public Employees' Retirement System is the only major retirement system in the State. This system provides mandatory coverage for all State employees and schools and colleges, and optional coverage for employees of local subdivisions. In 1957, this system had a membership of 52,500 compared to the total State public employee retirement system membership of 53,631. The remaining 1,131 employees were covered by 16 other retirement systems. The only reciprocity arrangement that the above named system participates in is with the Mississippi Highway Patrol Retirement System. If an employee separates from employment covered by the Public Employees' system, he may withdraw his contributions with interest. The Public Employees' system is a funded system.

Missouri

The four largest public employee retirement systems in the State are the State Employees' Retirement System for State employees only, the State Teachers' Retirement System, the Kansas City Teachers' Retirement System, and the St. Louis Teachers' Retirement System. Each of these has a vesting provision. Deferred benefits are paid as follows: in the State Employees' system at age 65 with 15 years service; in the St. Louis Teachers' system at age 60 with 10 years service; in the State Teachers' system at age 60 with 20 years service; and in the Kansas City Teachers' system at age 60 with 25 years service. There is complete intrastate reciprocity between the three teachers' systems in the State. Retirement credit for out-of-State service may also be purchased in the teachers' systems. An employee who leaves employment covered by the State Employees' system may withdraw his contribution with interest. The State Employees' system is a funded system.

Montana

The two major public employee retirement systems in the State are the Public Employees' Retirement System which covers State and local employees and the State Teachers' Retirement System. In 1957, these two systems had a combined membership of 23,330 out of the total State public employee retirement system membership of 23,958. The remaining 628 employees were covered by 23 other systems. Both of the major systems have provision for deferred benefits at age 60 with the completion of 10 years service. There is provision for intrastate transferability between these two major public employee retirement systems. In the Teachers' system, up to 10 years of out-of-State retirement credit may be purchased. If an employee separates from employment covered by the Public Employees' system, he may withdraw his contributions without interest. The Public Employees' system is financed primarily on a pay-as-you-go basis.

Nebraska

There is no general State administered public employee retirement system in this State. Significant information regarding the teachers' retirement system was not obtained.

Nevada

The Public Employees' Retirement System is the only public retirement system in the State. This system covers State and local employees and teachers. There is a vesting provision which provides for a deferred benefit at age 60 with the completion of 25 years service. The system has no provision for reciprocal transfer of retirement credits. When an employee leaves the system, he may withdraw his contributions without interest. The Public Employees' system is a partially funded system.

New Hampshire

There are four State administered retirement systems in the State. These are the State Employees' Retirement System covering State and local employees, the Teachers' Retirement System, the Firemen's Retirement System, and the Policemen's Retirement System. In 1957, these four systems covered all of the State's approximately 10,500 public retirement system members, except about 100 who belonged to another system. There is complete reciprocity between the four State administered retirement systems. If an employee leaves employment covered by one of the four above systems, he may withdraw his accumulated contributions. The State Employees' system is a funded system.

New Jersey

The two largest retirement systems in the State are the Public Employees' Retirement System covering State and local employees and the Teachers' Retirement System. In 1957, the Public Employees' system had nearly 43,000 members and the Teachers' system had over 46,000 members. Both of these systems have vesting provisions which provide for deferred benefits at age 60 with 20 years service. There is provision for intrastate transfer of retirement credits among the State administered public employee retirement systems, including the two mentioned above and those covering police and firemen. Using 1957 figures, there were about 9,000 employees not covered by State administered employee retirement systems out of a total of over 112,000 covered employees in the State. Teachers may purchase credit for up to 10 years of out-of-State service. The cost of this is based on the attained age and salary of the individual at the date of purchase. An employee who leaves employment covered by the Teachers' system and the Public Employees' system may withdraw his contributions with or without interest depending on the number of years of service. The Public Employees' system is a fully funded system.

New Mexico

In April, 1957, the Public Employees' Retirement System which covers State and local employees with its over 10,800 members covered all public employees who were members of a retirement system, except 23. In July, 1957, the Educational Retirement System covering public school teachers and employees was established. This system now has more than 13,000 members. Both systems have vesting provisions. The Public Employees' system provides for a deferred benefit at age 60 with the completion of 10 years service. The Educational system provides a deferred benefit at age 60 with 15 years service. Teachers may purchase up to five years retirement credit for out-of-State service. To make this purchase, the teacher must pay 10-1/2 percent of his salary at the time of application for each year of credit plus 3-1/2 percent interest compounded annually. Employees leaving employment covered by either of the above systems may withdraw their contributions plus interest. The Public Employees' system is funded on a retirement reserve basis.

New York

The four major public employee retirement systems in the State are the State Employees' Retirement System which covers State and local employees, the State Teachers' Retirement System, the New York City Employees' Retirement System, and the New York City Teachers' Retirement System. In 1957, these four systems had a combined membership of about 438,000 compared to the total public employee retirement system membership in the State of 489,000. The remaining 51,000 employees were covered by 53 other retirement systems. The State Employees' system has a vesting provision which provides for a deferred benefit at age 60 with the completion of 15 years service. Retirement credit for out-of-State service may be purchased in both of the above teachers' retirement systems. This credit shall not exceed 15 years in the New York City Teachers' system and 10 years in the State Teachers' system. The State Teachers' system contains a provision for the reciprocal transfer of both the employer's and employee's contributions to any out-of-State teachers' retirement fund that will enter into such an agreement. No other retirement system has agreed to enter into such arrangement. An employee who separates from employment covered by the State Employees' system may withdraw his contributions. The State Employees' system is a funded system.

There is an intrastate reciprocal retirement act in New York in which all public employee retirement systems operating on an actuarial basis may participate. The four systems mentioned above participate in this intrastate arrangement. Under this agreement, an employee transferring from one reciprocal unit to another may transfer his accredited service, his contributions to the retirement system, and the reserves contributed by the employment unit. The employee after having acquired three years in a reciprocal system may retire from the system under the same conditions and with the same requirements as if he had always been covered by the system.

North Carolina

The two major retirement systems in the State are the Teachers' and State Employees Retirement System and the Local Government Employees Retirement System. Both are State administered. In 1957, membership in the two systems was 72,000 and 9,000, respectively. The other 13 public employee retirement systems in the State had a total membership of about 5,000. The two main systems have vesting provisions which provide for a deferred benefit at age 60 with the completion of 20 years service. The only reciprocal arrangement in the systems permits employees changing from local employment to State employment to transfer contributions and credit from the Local system to the Teachers' and State system. Employees separating from employment covered by either system may withdraw their contribution with one-half interest if they have less than 20 years service. Both systems are funded.

North Dakota

There is no general State administered public employee retirement system for State and local employees in the State. The State administered public employee retirement system for State and local employees was abolished when Social Security was adopted for these employees. There are State administered public employee retirement systems for teachers, judges, highway patrolmen, and personnel of the Unemployment Compensation Division. There is no provision in any of these systems for intrastate transferability of retirement credits. The only provision resembling an interstate transferability provision is that in the Teachers' system which permits purchase of up to seven years retirement credit for out-of-State service. The Teachers' system also has a vesting provision which provides a deferred benefit at age 55 with the completion of 25 years service.

Ohio

There are three major public employee retirement systems in the State. These are the Public Employees' Retirement System covering State and local employees, the State Teachers' Retirement System, and School Employees' Retirement System. Using 1957 figures, these three systems covered all of the 275,000 public employee retirement system members except about 21,000 who belonged to 259 other systems. There is complete reciprocity for the transfer of retirement credits among these three systems. Employees who are members of other public employee retirement systems in the State and transfer to employment covered by any of the above three systems may receive retirement credit in any of the three systems by transferring both the employer's and employee's contribution to the acquiring system. Full credit will be received by the employee only if the contributions transferred are equal to those which would have been received by the appropriate retirement fund had the employee always been a member of the fund. Unlimited retirement credit for out-of-State service may be purchased in any of the above three systems. However, the acquiring employer makes no contribution for out-of-State service. All three systems have a vesting provision which provides for a deferred benefit at age 60 after completion of five years service. An employee leaving employment covered by any of the three major systems may withdraw his contribution with interest. The Public Employees' system approaches the fully funded concept.

Oklahoma

There is no general State administered public employee retirement system in this State. Significant information regarding the teachers' retirement system was not obtained.

Oregon

The Public Employees' Retirement System which covers State and local employees and teachers is the major public employee retirement system in the State. In 1957, this system had a membership of over 48,000, compared to a total State public employee retirement membership of 53,600. The remaining 5,600 employees were covered by five other retirement systems. There is a vesting privilege in the Public Employees' system after 10 years service which provides a deferred benefit at age 60. This system has no reciprocity regarding retirement credit transfer with any other system. If an employee leaves service covered by the Public Employees' system before age 60, he may withdraw his contributions. This retirement system is a funded system.

Pennsylvania

There are three State administered public employee retirement systems in the State. These are the State Employees' Retirement System, the Public School Employees' Retirement System, and the Municipal Employees' Retirement System. There is provision for intrastate retirement credit transferability between the State Employees' system and the Public School system. There is also provision for intermunicipal transfer of retirement credits in the Municipal Employees' system. At present there is no provision for retirement credit transfer between the State Employees' system and the Municipal Employees' system. The Public School Employees' Retirement System permits the purchase of retirement credits for up to 10 years of out-of-State service. To do this, the employee must pay his own contribution and an equal amount as the equivalent of the employer's share.

Rhode Island

The Employees' Retirement System of Rhode Island is the major public employee retirement system in the State. This system has separate divisions for State employees, teachers, and municipal employees. There is a vesting provision in each of the divisions which provides for a deferred benefit at age 60 with the completion of 10 years service. Teachers may purchase retirement credit for as much as 10 years of out-of-State service. This purchase may be made by paying in lump sum 10 percent of the first year's salary in Rhode Island for each year of out-of-State service to be credited. An employee leaving employment covered by the Employees' Retirement System of Rhode Island may withdraw his contributions without interest. The Employees' system is a funded system.

South Carolina

The South Carolina Retirement System covers State and local employees and teachers. In 1957, this system covered all public employees in the State who had retirement coverage except about 400 firemen who belonged to four local retirement systems. The State administered system has a vesting provision which provides a deferred benefit at age 60 with the completion of 20 years service. A public employee from outside the State assuming employment in South Carolina covered by the State retirement system may purchase out-of-State retirement credit equal to one-half his South Carolina service by paying both the employer's and employee's share of the cost without interest. Upon leaving service covered by the Retirement system, the employee may withdraw his contributions.

South Dakota

There is no general State administered retirement system for State and local employees. There are four State administered limited coverage retirement systems. These are the Law Enforcement Officers' System, the Teachers' Retirement System, the Judges' Retirement System, and a retirement system for the civilian employees of the National Guard. All other salaried, full-time State personnel are covered by Social Security. There is no provision for retirement credit transferability in any of the State administered systems. The employee's total retirement credit in the Teachers' system vests after 20 years service or at age 62, whichever comes first. Employee contributions to the Teachers' system may be withdrawn whenever the employee leaves employment covered by this system. There are several municipal retirement systems in the State for policemen and firemen, which have no provision for retirement credit transfer.

Tennessee

The two largest retirement systems in the State are the State Retirement System which covers State employees, teachers who elect to transfer to this system, and employees of the political subdivisions and the Teachers' Retirement System. There is a vesting provision in the State Retirement System which provides for a deferred benefit at age 55 with the completion of 20 years service. The State system has intrastate reciprocity arrangements with the Teachers System, Judges' System, and the Attorney Generals' System. An employee who separates from employment covered by the State system may withdraw his contributions with interest if he has completed five years service, without interest if he has completed less than five years service. The State Retirement System is a funded system.

Texas

There are two major public employee retirement systems in the State. These are the Employees' Retirement System for State Employees only and the Teachers' Retirement System. In 1957, these systems had 34,000 and 134,000 members, respectively. The remaining 25,000 public employee retirement system members were covered by 60 other retirement systems. Both of the above systems have vesting provisions. The Employees' system provides for a deferred benefit at age 60 with 15 years service. The Teachers' system provides a deferred benefit for employees with various combinations of age and length of service. Perhaps the most significant is the attainment of 55 years of age and the completion of 15 years service at the same time. There is provision for retirement credit transferability between the Employees' system and the Teachers' system. Retirement credit for out-of-State service may be purchased in the Teachers' system. The teachers may do this by paying into the retirement fund 12 percent of the annual compensation of the first year in Texas for each year of out-of-State retirement credit purchased. Out-of-State credit may be purchased at the rate of one year for every two years of Texas service, not to exceed a total of 10 years. An employee covered by the Teachers' system may withdraw his contributions with interest upon leaving employment covered by the system. It is anticipated that the Employees' system will be fully funded between 1980 and 1985.

Utah

Significant information regarding public employee retirement systems in this State was not obtained.

Vermont

There are three State administered public employee retirement systems in the State. These are the Employees' Retirement System for State and local employees, the Teachers' Retirement System, and the State Police and Motor Vehicle Inspectors' Retirement System. In 1957 these three systems covered all of the 6,000 public employee retirement system members except 375 who were covered by a municipal system. There is provision for intrastate transfer of retirement credit among the three State administered systems, but no provision for interstate transferability. There is a vesting provision in the Employees' system which provides for a deferred benefit at age 65 with the completion of 10 years service. An employee leaving employment covered by the Employees' system may withdraw his contribution with two-thirds of the accumulated interest. The Employees' system is a funded system.

Virginia

The Supplemental Retirement System covering State and local employees and teachers is the major public employee retirement system in the State. In 1957, this system covered 63,000 public employees. Thirteen other public employee retirement systems covered the remaining 14,000 public employees who had coverage. There is provision for intrastate transferability of retirement credit for employees changing employment within the Supplemental system. The only other retirement credit transfer is for employees of a special State retirement system, such as the police system, who transfer to employment covered by the Supplemental system. There is no provision for interstate transferability, nor is there provision for purchase of retirement credit for out-of-State service in the Supplemental system. There is a vesting provision in the Supplemental system which provides for a deferred benefit at age 60 with the completion of 15 years service. An employee who leaves employment covered by the Supplemental system may withdraw his contributions with interest. The Supplemental system is a funded system.

Washington

The State Employees' Retirement System which covers State and local employees and the State Teachers' Retirement System are the two major public employee retirement systems in the State. In 1957, these systems each had a membership of over 25,000 employees. The other 15,000 public employees having retirement coverage were covered by 44 systems. There is provision for intrastate transferability of retirement credits among the various retirement systems in the State, including the two major ones. The statute on intrastate transferability is permissive rather than compulsory, and the final determination on this rests with the board of each retirement system. The only provision relating to intrastate transferability is that in the Teachers' system which permits the employee to purchase a maximum of four years retirement credit for out-of-State teaching service. When an employee leaves employment covered by the State Employees' system, he may withdraw his contributions with interest. The State Employees' system is a fully funded system.

West Virginia

The two major public employee retirement systems in the State are the Public Employees' Retirement System which covers State and local employees and the State Teachers' Retirement System. Both of these systems have vesting provisions. Both systems require 20 years service. The State Employees' system provides the deferred benefit at age 65, the Teachers' system at age 60. The only intrastate transfer of retirement credit is within the Public Employees' system. The Teachers' system permits purchase of out-of-State credit which will give the employee up to a total of 20 years credit if the employee has at least five years service in the State. If the employee leaves employment covered by the Public Employees' system after five or more years service, he may withdraw his contributions with three percent interest. If he has less than five years service, no interest is granted. The Public Employees' system is a funded system.

Wisconsin

The three major public employee retirement systems in the State are the Wisconsin Retirement Fund which covers State and local employees, the State Teachers' Retirement System, and the Milwaukee Teachers' Retirement Fund. In 1957, these three systems had a combined membership of about 78,000. Total public retirement system membership in the State was nearly 96,000. The remaining 18,000 employees were covered by 63 other retirement systems. The Wisconsin Retirement Fund provides for immediate vesting of both the employer's and employee's contributions upon entry of the employee into the system, and a deferred benefit will be paid at age 55 regardless of length of service if the employee's account is sufficient to provide a monthly annuity of $10. The State Teachers' system provides for immediate vesting of both the employer's and the employee's contributions and will provide an annuity at age 50 regardless of number of years service. The Milwaukee Teachers' system has a vesting provision which provides for a deferred benefit at age 55 with the completion of 10 years service. The Wisconsin Retirement Fund has no reciprocal arrangement for retirement credit transfer with any other retirement system. An employee who separates from employment covered by the Wisconsin Retirement Fund may withdraw his contributions with interest. This Fund is a funded system except for prior service credits which are being liquidated.

Wyoming

The State Retirement System which covers State employees and teachers is the only major public employee retirement system in the State. The 1957 figures show that this system had 8,000 members out of a total of 8,260 for all eight systems in the State. The remaining 260 employees belonged to police, fire, and judges' retirement systems.

There is a vesting provision in the State system which provides for a deferred benefit at age 60 with the completion of five years service. There are no provisions for intrastate or interstate reciprocity in any of the retirement systems in the State, not even for purchase of out-of-State teaching credit. Since State employees and teachers are both members of the same system, this permits some transferability without loss of retirement credits. An employee leaving employment covered by the State system may withdraw his contributions without interest.

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