

Factors Involved in Pension Legislation for Public Employees

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There has been a shift during recent years in the basic concept of the purpose of pension legislation. Early pension statutes reflect prominently a "reward-for-service" aspect in which pension payments were looked upon mainly as a supplementary compensation for employees who had spent many years in the service of the government. Today increased emphasis has been placed upon the "security" aspect of pensions. The new emphasis upon the security aspect of pensions is brought about largely by the claimed responsibility of the state and local governments to provide a method whereby their employees may contribute to an accumulation of reserves which will assure some measure of old age security.

The Federal Social Security Act exempts public employees from its benefits and responsibilities. According to one point of view, the difficulty is constitutionally adjusting the Federal act to cover state and local employees is partly a fortunate circumstance. Thus it has been said:

The State can provide a satisfactory and economically sound plan which will adequately provide for local conditions without interference or dictation from Washington. It is not faced with the difficulties which, because of the blanket application of Social Security without respect to any peculiar local circumstances, is confronting industry. The State has obtained the very thing industry has asked for; namely, the right to provide according to existing local conditions.

The Unit for a Retirement Plan

The soundness of a retirement plan may depend, to a large extent, upon the size of the pension unit. Insofar as particular groups of employees, the employing governmental agency, and the

taxpayer all have an interest in the pension plan, it is desirable that retirement systems be sufficiently . . . flexible to give recognition to differing conditions and differing needs existing as between governmental units.

Providing pensions for public employees is primarily an insurance problem, and, as in the case of most insurance problems, the necessary mathematical calculations become more accurate as the unit dealt with becomes larger. That is, actuarial calculations based on the probable life span of a few persons are considerably more likely to be at error than similar estimates based upon a large number of cases. Furthermore, the financial soundness of a retirement plan covering but few employees will be greatly affected by the life span of a single person, while a plan covering many persons is much less affected by individual cases.

It may, therefore, be agreed that the insurance features of a retirement system become sounder as the unit dealt with becomes larger. For this reason, state-wide pension systems covering the employees of smaller governmental units within the state offers a distinct advantage from the standpoint of actuarial soundness over a large number of systems operating separately. Furthermore, the use of larger units in the establishment of pension funds makes possible a centralized and more adequate administration, and makes possible the employment of a higher type of actuarial, medical examining, and other necessary services.

This desirability, if not necessity, of a large basic unit in order to assure financial soundness, accounts in part for the fact that in private employment company-operated pension plans