

Factors Involved in Pension Legislation for Public Employees

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sary to pay pensions to persons who have already retired and (b) the reserve necessary for that part of the pension already earned, but which will not become payable until the contributor retires. Of these, the reserve for pensions for those who have already retired is of the greatest significance; since only death can ordinarily terminate the moral, if not legal, obligation to pay such pensions. The reserve for pensions to those who have not yet retired is also of substantial significance, but this obligation may later be reduced substantially by separations from the public service, whether due to death, discharge or resignation.

The Allocation Reserve Funds Plan

Most of the funds operating on the allocation reserve plan have a favorable financial position. This may be attributed to several factors, but the most important appears to be the obtaining in advance of actuarial cost estimates and the basing of contributions and benefits in accordance therewith. That other factors may also be responsible has been indicated by the New Jersey Pension Survey Commission with particular reference to the retirement plans of that state:

The findings show that the funds operating in accordance with sound actuarial principles are the most conservative, due no doubt to the fact that these funds bring to the attention of the public the cost of the benefits because they require annual appropriations determined by the cost. The laws have evidently been held to more reasonable pension benefits when the cost is known and currently covered than when the cost is unknown and is left for a future generation to meet.

The allocation reserve plans operate under a procedure involving the use of approved actuarial methods to determine the extent of demands for pen-

sion retirement benefits, at present and future dates, and to fix contributions which, together with compound interest, will meet those demands. A reserve fund is established, with individual accounts, into which the employee and governing unit both pay regular contributions. The amount of the reserve is based upon the size of the accruing benefits, and contributions are related to the eventual pension burden rather than to the pension demands in any given year.

The desirability of allocation reserve plans is generally conceded. The great advantage of the allocation reserve plan is that the maintenance of adequate reserves gives every reasonable assurance that promised benefits will be paid in full and that necessary contributions are being made as retirement benefits are being earned.

The criticisms that are occasionally made of allocation reserve plans fall into two categories. In the first place, the accumulation of full reserves is said to be unnecessary for financial soundness in a large public retirement system and undesirable because of various factors, including the possibility of bad investments and consequent capital loss. As a result of this objection there is a trend away from the very conservative policy of creating full reserves, still adhered to in most of the Illinois allocation reserve plan. The Chicago park employee' fund now operates on a modified reserve basis, in which full reserves are carried for all pensioners and partial reserves are carried by the governing body for active employees in addition to the employee's accumulated contributions. A modified reserve plan is also provided for in the case of the state teachers' retirement fund. Here,