

Factors Involved in Pension Legislation For Governmental Employees

Excerpts from a Report Prepared by
the Research Department of the Illinois
Legislative Council, February, 1940.

INSTALLMENT NO. 2

Contribution

The joint contributory basis for public pension systems seems to be firmly established. A plan financed entirely by the governmental unit may tend to depress salaries or to delay salary increases so that in actual effect the employee is making indirect contributions to the retirement plan. Finally, a plan classified as being non-contributory may be viewed as contributory if the salaries paid employees are said to consist of the cash compensation plus an amount "withheld" for retirement benefits.

Contributions for Current Service

In contributory retirement systems the allocation of costs between the governmental unit and the employees is one of the important considerations to be determined. The simplest method and one widely used is an equal contribution on the part of the employer and the employee. This method assumes that the interest of the employer and of the employee are substantially the same in the long run, although either may have a greater interest in or responsibility for certain features of the system. In the payment of retirement benefits and disability benefits direct advantages accrue both to the employer and to the employee; to the employee in the form of security for the future, and to the employer in the form of improvement of the service by the elimination of superannuated and disabled employees. Contributions for retirement and disability benefits are in the interest of both, and the extent of the interest of each may be assumed to be

fairly equal. Contributions for death benefits generally and for benefits on account of withdrawal from the service are more in the interest of the employee, while contributions for death benefits to widows and other dependents on account of accidental death in the line of duty are primarily the responsibility of the governmental unit. Costs of administration are generally treated in Illinois as a joint responsibility of the governmental unit and of the employee. However, the administrative costs are normally low, so that pension plans sometimes provide that the governmental unit may defray all or a large part of the administrative costs in order to avoid the necessity for assigning proportionate parts of such costs to the many individual accounts and in order that employees who withdraw from the service prior to attaining the retirement age may receive a full refund of their contributions. The sum total of these various interests in pension plans are somewhat equal, and accordingly, the contributions of the employer may be expected to equal at least half of the total costs.

A concealed factor in the division of costs is the interest factor. Some early plans guarantee four per cent interest, and if a lesser amount is actually earned, the difference is in effect a governmental subsidy. The newer plans guarantee no stated interest.

Prior Service

The installation of a retirement system is complicated, as is the financial position of the fund once it is established, by the problem of providing retirement benefits for those who have been in the public service for a period of years at the time the pension system is inaugurated. For those employees