

Factors Involved in Pension Legislation For Governmental Employees

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paid are to a considerable extent affected by the method used in fixing the credits allowed employees for that part of their service prior to the adoption of the retirement statute. A common method is to state such credits for each year of service as a fixed percentage of some base salary (which may be the salary being earned at the time the act is passed, the average salary over a period of years, or the actual salary earned) and to pay interest on such credits from the time such salary is deemed to have been paid. This alternative, incorporated in the proposed pension plan for state employees, has several advantages, and is comparable to the provisions made for future entrants into the service. Other methods are to pay the employee upon retirement a flat sum annually for each year of prior service or to pay him annually a fraction of base salary for each year of prior service. This former is the procedure under the retirement system for federal employees.

Superannuation or Retirement Benefits

Two main considerations govern the payment of retirement benefits. These are age and length of service. Most retirement plans are now based upon a combination of the two, or age as a condition of retirement and length of service as a determinant of the amount of benefit.

The fixing of the age upon which an annuitant becomes eligible for pensions presents one of the difficult problems of pension systems. Retirement based upon the age consideration alone may result in the same payments being made to one who has been in the service for only five years as are now made to one who has served for 25 years or longer. The inequalities are more evident if the

pension fund is one to which the employees have contributed a fixed percentage of their salary during the years of their employment. Accordingly, the standard practice in Illinois retirement plans is to make eligibility to retirement and the size of retirement benefits dependent more upon length of service than upon age.

Early pension laws based eligibility to retirement and the size of benefits almost entirely on length of service. This had the disadvantage that those who reached old age after a short period of service had very small retirement benefits, so that they would not voluntarily retire, while employees who entered the public service at an early age could retire with substantial benefits at an age when they were still able to render efficient service. The increased emphasis which current pension theory places upon age of retirement, as opposed to length of service is due to the desire to provide a certain minimum subsistence for all retiring employees, regardless of their length of service, while at the same time retaining the services of employees until age has interfered with their efficiency.

Theoretically the age for retirement should approximate the age which represents the limit of the employee's useful service. Naturally, this limit is not reached at the same point by all persons, and differences in types of employment and sex are sometimes recognized by retirement statutes. Private industry frequently fixes earlier retirement ages for women than for men, but the lower compensation usually paid women plus the longer life expectancy of women makes such a procedure relatively expensive. The effects of setting up a compulsory retirement age, have been mitigated in some juris-