

Public Employees Retirement Plan and the Social Security Act

I. A. DeFRANCE

In the February, 1944, issue of the magazine *Municipal Finance*, John B. St. John, Chief Actuarial Section Bureau of Old Age and Survivors Insurance, compared the objectives, methods and benefits of the Federal Old Age and Survivors Insurance and Public Employee Retirement Plans, showing that the benefits of both types of systems are needed to provide adequate protection for both employees and employer.

It is because of major differences that the two types of plans each have a part to play in the furnishing of appropriate retirement benefits to all employees of State and local governments. Mr. St. John compares the benefits of the two systems as follows:

"Public employe retirement plans provide amounts of retirement income characteristically related closely to the employe's wages and his length of service or to the amount of his contributions. Two retiring employes, whose lengths of service have been the same, may expect to receive amounts of benefit which differ proportionately with their respective wages or salary earned. Two retiring employes, whose wages have been the same but whose lengths of service have been different, may expect to receive amounts of benefit which differ proportionately with their respective lengths of service.

"Benefits are characteristically substantial in amount when considered in relation to the worker's wage or salary—50% to 75% of pay. The average amount of monthly benefit payable, according to a recent release by the Bureau of the Census, is about \$77.

"In Contrast, old-age and survivors insurance provides retirement benefits intended, first, to provide a minimum subsistence income and only secondarily related to length of service and amount of wages. The basic benefit for a regular worker whose wages have been \$100 a month is \$25 a month. Another regular worker, whose earnings have been only half as much, or \$50 a month, has a basic benefit of \$20 or 80% as much as the \$100 man. A third worker, whose earnings have been three times as great, or \$300 a month, receives only 60% more benefit, or \$40 a month. The benefit formula is heavily weighted to secure for the majority of regular workers a benefit of \$20-\$30 a month, regardless of length of

service. Furthermore, the man whose wages have been \$100 a month receives, in addition to his basic benefit of \$25, only 1% of this amount for each year of membership in the system. If his membership in the plan lasts 40 years, he can only increase the amount of his benefit by \$10, that is, to \$35. The average amount of monthly benefit currently payable for a single man is about \$23."

Mr. St. John compares the objectives of the two plans saying:

"Old age and survivors insurance is concerned primarily with the provision of a subsistence income which will enable the recipient to avoid destitution."

The accomplishment of the above objective by the public employee retirement plan is incidental or secondary to the major purpose of such plans which Mr. St. John describes as follows:

"Most formal retirement plans . . . are more concerned with the interests of the employer in maintaining an efficient employe organization than with the interests of individual superannuated employes. An employe retirement system may have a number of other purposes . . . may be a measure of economy to remove superannuated employes from the payroll and substitute younger, more vigorous workers . . . may be a measure to secure general efficiency by removing older less efficient workers from positions in which they obstruct the progress of younger more productive workers."

Mr. St. John compares the methods or technique of the two systems, pointing out that the Federal system, to achieve its objective, is adapted to meet the needs of the typical or average wage earner, keeping records for nearly 40 million current contributors as well as for many others not currently contributing; which job requires a large administrative organization. Refinements or options in the benefit provisions would add much to the task of administration, so that simplicity of provisions and of administration seems certain to remain a basic characteristic of the Federal system. This simplicity results in the treatment of individuals in ways which often seem arbitrary.

Patronize Your Advertisers!