

A Discussion of Retirement

By Jerry S. Saylor
Executive Secretary

Assuming good management, the most important feature of a pension system is the grouping of the lives, reducing length of life to average, thus guaranteeing to each annuitant the highest possible plane of living after retirement, be his period of life thereafter short or long. Because of the uncertainty of life, this guarantee cannot be achieved by any individual acting alone. This thought should have wider acceptance.

Almost every retiring member is concerned about what happens to his money if he does not live long enough to recapture it. All of them seem to feel that early death is imminent. None ever worry about where the money to pay his pension will come from if he lives longer than the average. Practically all the annuitants lose the fear of being cheated through early death when they learn that the entire pension may be optioned to include a survivor. Somehow they get the impression that an optional settlement guarantees them against financial loss. While we are glad to have them thus reassured, we would like it even better if the peace of mind stemmed from a more logical conclusion.

Rates Based on Averages

Since rates and benefits are based on averages, a retiring member has the same chance to reap a profit as he does to sustain a loss. It is illogical to assume that inclusion of a survivor guarantee against loss, since it is obvious that both member and survivor could and sometimes do die within a very short period after the member's retirement.

If every retired member should live exactly the average length of time after retirement, then each would just use up all contributions made in his behalf plus interest earnings thereon. It should be remembered that every optional plan is the financial equivalent of every other. In other words,

the cost to the system is the same for each option available to the individual.

Economy Stressed

Economy of operation should be stressed wherever retirement is discussed. The rate structure assumes that the retirement fund will earn 2¼ per cent net interest and that administrative expenses will not exceed 4 per cent of contributions. Interest is computed each year on the balance in the member's account. Expenses are computed against the member's annual contribution. In both cases the actual interest earnings and the actual expenses are applied regardless of the assumptions. Currently, account balances are being credited with an actual interest earning of 2.01 per cent and are being charged with 1.25 of annual contribution for expenses. The difference between the 4 per cent of contributions allowed for expenses and the 1.25 per cent actually being used more than makes up the difference between the interest earnings assumption of 2¼ per cent and the actual credit of 2.01 per cent.

Up to the present, and projected for the next ten years on the present basis, a member's account balance is and will be larger, under actual operations, than it would have or will be if the assumed percentages had been or were to be used in the future. This is possible only through strict economy. Before the system began operations, many top-flight insurance executives, including the state insurance commissioner, were consulted as to the number of employes likely to be needed to carry on the work of the system. The unanimous answer was one employe for each one thousand members. The number of employes has never exceeded 75 per cent of this estimate.

Simplified Operation Essential

If the operating expenses are to continue at a low level, it is well to bear in mind that simplified op-