

# *A Discussion of Retirement*

## (Conclusion)

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Optional settlements at retirement are closely related to retention in service after retirement age. When a member retires on pension there are four different plans for payment available to him. The unmodified form, which is a straight life annuity, ceasing at the death of the annuitant and does not include a survivor. Under this plan the annuitant receives the largest amount possible.

Option 1 is a cash refund plan and while the annuitant receives slightly less per month than under the unmodified plan, he is guaranteed that either he or his surviving beneficiary will receive through annuity payments or cash refund at least as much as the total of his own contributions.

Under option 2 the annuitant receives considerably less than under option 1 or the unmodified form, but if his named beneficiary survives him, she will receive for life the same pension he received during his life. The amount of pension depends upon the age of the beneficiary as well as that of the member. When the survivor is the spouse, a very rough general average would provide a pension approximately 30% to 35% less than the unmodified form.

Option 3 is very similar to option 2 except that the survivor receives only one-half as much as the member received during his lifetime. If the surviving beneficiary is the spouse, the average reduction from the amount available on the unmodified form is very roughly 20% to 25%.

When a member reaches retirement age, his employer may recommend to the retirement board that continued service by the employe is in the public interest and if the retirement board approves, the employe may be retained for successive periods of one year, so long as the employer and the retirement board mutually agree that the

continued service is in the public interest. Retention of employes at or beyond retirement age should be based on consideration of the public interest as required by law, but equally important, it seems to me, are the best interests of the member.

Almost everyone, I think, would agree that it is to the member's interest to be retained since he will continue to receive his salary rather than a much lower pension and his pension will continue to grow. However, it must be remembered that should he die on the job or in service, all his beneficiary or his estate can recover is the amount of his own net contributions.

The options which we have been discussing cannot become effective until the member actually retires, is eligible for pension and has selected his option. In other words, the employe has not established for himself and his survivor a vested right in the employer's contributions until he actually retire on pension.

One example will suffice. We have a member under retention who is 79 years of age and whose wife is 69. Obviously, he will not be able to continue on the job for more than another year or two at most, and his salary is not large. Were he to retire now, he could have between \$80 and \$90 per month on the unmodified plan or about \$50 per month under option 2. These values capitalize for approximately \$7,000. The member has contributed about \$1100. At age 79 life is very uncertain. If he dies in service we will refund to the widow \$1100. If he retires on pension, we will normally pay in pension to the member and survivor an amount the present value of which is \$7,000. Actually, if both live out their expectancies, we will pay considerably more, over the years, than the \$7,000. Is this member justified in gambling \$7,000 against \$1100