

# Retirement System Bookkeeping

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## Current Service Annuities

During his years of service, the employe deposits with the retirement system a certain percentage of his annual salary, depending on his age when he enters state or school employment, or his age on July 1, 1946 if he was in the service before and on that date.

To match the employe's total on deposit when he retires, his employing agency or department (called hereafter the "employer") deposits 70 cents for every dollar deposited into the system by the employe. This is estimated to be enough from the employer for matching, because many employes will quit state service before ten years is up and a few will die while still working for the state before retiring. In these cases the employe's total on deposit (plus interest, less operating expense) is refunded, but the employer gets no refund. Over the years this estimated 70 cents from the employer for matching each dollar from the employe can be adjusted up or down, as may be shown necessary by the four-year surveys.

Suppose that July 1st after the employe's 65th birthday has arrived and he is retiring from service. Up to this time the employe's account has been credited with his monthly deposits and at the end of each fiscal year (on July 1st) has been credited with his share of interest earnings for that year and has had his share of the operating expense subtracted. The employer's account is treated likewise except, of course, it includes enough for its many employes. When retirement occurs, the total on deposit in the retiring employe's account is matched from employer accounts and set aside in a "Reserve for Annuities Granted." For each \$1,000 so set aside, the employe retired will get \$7.74 per month for the rest of his life, assuming the employe is a man and Option 1 was

chosen. This money set aside in the reserve for annuities granted is theoretically expected to be just enough at 2¼% interest to pay the employe's current service annuity until the month he dies. For a particular employe, the chance of that happening is almost nil. He will either live longer than expected and get more or he will die sooner and get less, but because of the many employes involved, the experience of the actuaries is that on the average everything will come out even.

Since, after the employe retires, neither he nor the employers contribute further to pay out this current service annuity, it is necessary to set up this reserve and set it up right if there is to be enough money to pay the annuity as planned. That is what is meant by being "actuarially sound."

This setting up of the reserve for annuities granted is standard commercial practice. Its purpose is clear and the practice is sound. As the annuities are paid, the retiree's account shows a record of the periodic payments he receives and their amount is subtracted from the reserve. Some people will say there are other ways of running retirement systems in the case of going concerns like federal and state governments. They will have contributions coming in from employes about as fast as annuities are paid out. But these "other ways" are called "actuarially unsound." The state retirement board is keeping current service annuities actuarially sound.

## Prior Service Pensions

When the retirement law was passed, it included a promise by the state to pay employes who retired under its provisions \$2.50 per month for each year of state or school service prior to July 1, 1946, up to a maximum of 20 years. It was further enacted that this cost was to be amortized over a period of 30 years.

These pensions are unlike current