

service annuities in that they are not, nor need be, paid up in advance. They are a promise by the state to reward the employee who has served for years before the retirement law was passed and who is forced by the law to retire before his current service has had time to build up an adequate annuity for retirement. These pensions, as a promise to pay, are as sound as the honor of the state of Oregon.

However, the board is treating prior service pensions just like current service annuities. When an employee with prior service credit of \$50.00 per month, say, retires, approximately \$6500 is added to his current service total and set aside in the reserve for annuities granted to pay out his prior service pension. Apparently, the board feels that it must follow this plan if prior service pensions are to be "actuarially sound."

Bookkeeping Plan

This bookkeeping plan used by the retirement system on prior service pensions becomes a matter of concern to all those trying to improve our retirement program during this transition period, when employees with 30 years or more of service credit are forced to retire on annuities of fifty to sixty dollars per month. This plan may cause some people to misunderstand, and to doubt the wisdom of increasing prior service credit.

The OSEA plan for improving the retirement program for those now retired or soon retiring is to increase prior service credit from \$2.50 to \$4.00 per month per year of service and to remove the 20 year limitation on the maximum counted. To meet the increased cost, it is desirable to extend the amortization period of 30 years as much as necessary and to increase the annual contributions

for prior service cost as little as possible, always keeping the pensions financially sound. This procedure will be financially sound if more has been paid into the system by the state at any time for prior service cost than has been paid out in prior service pensions up to that time.

Notice that if the legislature raises the state's promise to pay pensions for prior service from \$2.50 to \$4.00 that part of the reserve for annuities granted for prior service would, from the present point of view of this bookkeeping plan, have to be raised immediately 60%. Most of the reserve is now for prior service pensions. People unaware of the difference between current service annuities and prior service pensions would say, "You can't do this! We haven't got the money to make it actuarially sound!"

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