

Question of Soundness

The question of soundness with respect to prior service pensions is not actuarial. The only question of soundness is, "Will the state keep its promise to pay prior service pensions?" Undoubtedly, it will. If one doubts that it will, does setting up the "Reserve" and investing the reserve's money in federal, state and county bonds make the doubt any less? They too are only promises to pay. The prior service pensions can be kept sound actuarially and otherwise, as long as the state has paid more money into the system for prior service cost at any time than has been paid out up to that time in prior service pensions.

The difficulty of following the present bookkeeping procedure for prior service pensions is recognized, because it has become necessary to use employer current service contributions to set up the reserve for prior service pensions in advance.

More and more current service money will be required for the prior service part of the reserve for the next ten years or so, but after that less will be needed and prior service contributions will eventually pay back the current service part of the employers' accounts. There is no need to be afraid that there may not be enough of employer contributions for both prior service and current service to pay for prior service alone. Setting money aside for full prior service pensions in a reserve is not the same as spending it.

It would appear that when the retirement act was passed the legislature did not have in mind the creation of a reserve meeting the full cost of prior service pensions in advance. It proposed instead to pay them out over a 30 year amortization period to lighten the burden of the annual cost. It is difficult to reconcile the law with the assertion that "we are spending the money in 15

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