

**SOCIAL SECURITY COVERAGE FOR
GOVERNMENT EMPLOYEES
DISABILITY AND RETIREMENT BENEFITS
FOR TEACHERS AND STATE EMPLOYEES**

Report of the
VIRGINIA ADVISORY LEGISLATIVE COUNCIL
To
THE GOVERNOR
and
The GENERAL ASSEMBLY of VIRGINIA



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SOCIAL SECURITY COVERAGE FOR GOVERNMENTAL EMPLOYEES

DISABILITY AND RETIREMENT BENEFITS FOR TEACHERS
AND STATE EMPLOYEES

RICHMOND, VIRGINIA
November 16, 1951

To: HONORABLE JOHN S. BATTLE, GOVERNOR OF VIRGINIA
and
THE GENERAL ASSEMBLY OF VIRGINIA

Many years ago a retirement system was established for teachers in the public schools. The plan was not actuarially sound and in time the State appropriated funds to it to keep it solvent. The need for an actuarially sound plan was apparent. State employees were anxious to obtain similar provisions. As a consequence the General Assembly of 1942 enacted a retirement system for teachers and State employees. That plan remained substantially the same until 1950, at which time a number of sweeping changes were made to bring the plan more into line with current conditions. The General Assembly of 1950 was advised that certain inequities still remained and in an attempt to remedy them directed the Virginia Advisory Legislative Council to make a study of the retirement system in the following terms:

SENATE JOINT RESOLUTION NO. 18

Directing the Virginia Advisory Legislative Council to make a study of the Virginia Retirement Act and report thereon.

Whereas, in administering the Virginia Retirement Act, the Virginia Retirement System has been faced with quite a number of cases in which, as the act is now written, it has not been able to credit members of the Retirement System with all of their service as employees of the State or as Virginia public school teachers; and,

Whereas, other types of cases have arisen in which inequities and seeming hardship to employees have resulted; and,

Whereas, there should be further study to determine whether the Virginia Retirement Act could be and should be amended to the end of correcting such matters without upsetting the principles or the major provisions of the act; Now, Therefore,

Be it Resolved by the Senate, the House of Delegates concurring, that the Virginia Advisory Legislative Council is directed to make a study of these matters and submit such recommendations as it deems wise to the Governor and General Assembly not later than July first, nineteen hundred and fifty-one.

The Virginia Advisory Legislative Council shall consult with the Board of Trustees of the Virginia Retirement System in making its study and with such other agencies, officers, or persons as it may choose.

Following the adjournment of the General Assembly of 1950 the Federal Congress enacted amendments to the Social Security System to provide for

coverage of State and local governmental employees under certain conditions. The Governor directed the Virginia Advisory Legislative Council to make a study of the question of extending Social Security coverage to governmental employees in a letter dated October 26, 1950 from which the following extract is taken:

"I have received a number of inquiries from local officials in Virginia concerning 1950 amendments to the Social Security Act with particular reference to bringing local government employees within the group covered by the old age and survivors' insurance program. There also have been suggestions advanced for a special session of the General Assembly for the enactment of appropriate legislation in this connection.

"In view of the extremely complicated nature of these amendments and the fact that implementing regulations are yet to be issued by the Federal administrator, I have come to the conclusion that immediate legislation would be unnecessary and inadvisable, but the subject should be given thorough study prior to the next regular session of the General Assembly. I, therefore, request the Virginia Advisory Legislative Council to undertake such a study with the view of reporting as early as practicable prior to the legislative session of 1952 on the advisability and propriety of enacting enabling legislation in this field.

"Since the amendments would extend coverage, under certain conditions, to State as well as local government employees, I shall appreciate the Council including in its study and report such recommendations as may be in order concerning participation by State employees."

It was apparent to the Council that the two matters involved substantially similar groups. In order to avoid conflicting recommendations, the Council combined the two studies into one and appointed a committee composed of the following: Edmund T. DeJarnette of Hanover and Mosby G. Perrow, Jr., Lynchburg, co-chairmen; and James A. Anderson, State Highway Commissioner, Richmond, Jesse W. Dillon, State Treasurer, Richmond, Sidney S. Kellam, Director of Conservation and Development, Richmond, C. H. Morrisett, State Tax Commissioner, Richmond, W. B. Speck, Field Secretary, League of Virginia Counties, Charlottesville and Robert F. Williams, Secretary, Virginia Education Association, Richmond.

The Committee considered the matters directed to be studied by it at length. It held a public hearing after due notice to interested groups and individuals. It studied at length the many diverse recommendations made to it. It kept informed of legislation in other states providing Social Security coverage for governmental employees. It consulted throughout with the Board of Trustees of the Virginia Retirement System and the Director thereof and also with the officials of the Federal Security Agency. After mature deliberation, and evaluation of the several alternative courses of action, the Committee made its report to the Council.

The Council has carefully considered the report of the Committee and now submits the following recommendations:

1. As to local governmental employees not covered by the existing State Retirement System:
 - (a) Social Security coverage should be provided for all such employees with the employing locality being required to provide the employer contribution

for such employees.

(b) In the case of the constitutional officers and their employees, the State and the locality should contribute to the employer contributions in the ratio that they pay the salary or share in the excess fees.

(c) Such coverage should not apply to such local employees covered by an existing retirement system; such localities should be given the right to repeal their systems, preserving vested rights and providing for refunds of contributions, if the localities so desire.

(d) The employees covered by such Social Security provisions should be required to pay their portion of the necessary amount to give coverage back to January 1, 1951.

(e) The foregoing should be subject to the proviso that coverage shall not apply to the employees of any locality the governing body of which adopts by April 1, 1952, a resolution agreed to by the recorded vote of a majority of its members notifying the State Retirement Board that it does not desire coverage for the employees of the locality.

2. As to teachers, trial justices and State employees:

(a) The Virginia Retirement System should be repealed, preserving vested rights and providing for refund of contributions made by teachers and employees.

(b) Social Security coverage should be provided for teachers, trial justices and all State employees regularly employed and paid not more frequently than weekly.

(c) The State should pay the employer contribution to give coverage back to January 1, 1951.

(d) Teachers, trial justices and State employees should be required to pay the employee contribution required to give coverage back to January 1, 1951.

3. The Virginia Supplemental Retirement System should be established as of March 1, 1952, to cover those now eligible for membership in the Virginia Retirement System, and containing essentially the following provisions:

(a) Disability retirement after fifteen years service.

(b) Employee contribution should be at the rate of approximately 4% of that portion of the salary in excess of \$1200.

(c) Retirement at age sixty-five should be permitted but should be compelled at age seventy, as under the present Act.

(d) Optional retirement should be permitted at age sixty but any member retiring prior to age sixty-five should receive a reduced retirement allowance based on his attained age.

(e) Disability retirement benefits should be provided, the same to be the product of the number of years of service multiplied by 1 1/4% of the average yearly salary for the last five years of service.

(f) Service retirement benefits in addition to benefits provided under Social Security, would be the sum of (1) 1% of the average annual salary in excess of \$1200 for the last five years of service multiplied by the number of years of service so that, on the basis of a straight life annuity, the member will receive approximately one-half of his average annual salary, on the first \$3600 of salary after 35 years of service, and (2) an additional annuity based on excess

of accumulated contributions transferred to supplemental System from the Virginia Retirement System.

(g) Contributions should be refunded on withdrawal; in case of death prior to retirement the member's contributions should be paid to the named beneficiary.

(h) The special provision for teachers, now contained in the Virginia Retirement Act, should be likewise contained in the Supplemental System. The member must elect to continue this special retirement provision. Such action would increase cost to the member under the combined plan due to adding Social Security coverage.

(i) Any member of the System with fifteen or more years of service who leaves the System should be provided a deferred annuity and service retirement payable upon attaining retirement age, provided such member leaves the service in good standing.

The phrase "leave the service in good standing", should be defined in the act so that if the appointing authority makes an affirmative statement on the employee's record that he did not leave under such conditions the benefit should not apply. Furthermore, an employee taking advantage of this benefit should lose the same if he refuses to testify as to any matter arising out of his employment while he was with the State.

(j) Any member of the System as of July 1, 1952, who has at least ten years of service as a State employee or a teacher prior to July 1, 1942, which service was not credited to him under the Retirement Act of 1942, should be credited with such service provided his membership in the repealed system was uninterrupted.

(k) No limit should be fixed on earnable compensation to which the Act applies.

(l) A member of the present system, transferring his contributions therein to the new supplemental system, should be guaranteed upon meeting the proper requirements an allowance, including Social Security benefits, upon retirement approximately equal to what he would have received upon retirement under the dissolved system.

4. A separate bill should be enacted to provide that all members of the System who have retired or who will retire, with 30 years of service in the case of service retirement, and those who have retired or who will retire with 20 years of service, in the case of disability retirement, be guaranteed a minimum annual allowance in the form of a straight life annuity of \$600.00.

5. Benefits to persons retired should be paid monthly.

The preceding recommendations are complex and far-reaching. The reasons for them and why they are vitally necessary will now be set forth after a brief discussion of the principles involved.

Social Security Benefits for Governmental Employees

The amendments adopted by the Congress to permit coverage of governmental employees state specifically that such coverage cannot be extended to an employee who is covered by an existing system. The Federal Security Agency advises that this provision does not, however, prohibit the repeal of a system and subsequent coverage in the Social Security program of such employees. The

same enactment also increased the benefits.

Throughout this report reference is made to "back dating coverage". The legislation states that if the contributions, which would have been made had coverage been provided as of January 1, 1951, are paid the employee is fully covered provided he has met the other conditions as to service. If such back coverage is not provided it would be impossible for the employee to bring his retirement allowance up to the maximum. It is therefore apparent that to protect the employee back coverage must be given. At the same time the employee should certainly be required to pay his portion of such costs.

The benefits under Social Security are quite varied and are weighted in favor of the lower paid employees who are not, in the nature of things, able to accumulate for their own retirement. These benefits include a lump sum death allowance of \$60 to \$240; upon retirement at age 65 a minimum of \$20 and a maximum of \$80 depending on the employee's average monthly wage; if the employee's spouse is 65 an additional benefit of 1/2 the employee's benefit (this includes either husband or wife); if there is a dependent child under 18 an additional benefit of 1/2 of the retired employee's benefit and for each such child an additional allowance; upon the death of the employee if a widow, dependent widower or parent is left, 3/4 of the employee's primary benefit is provided for such person when 65 years of age; this proviso is likewise applicable to a mother, who is the widow of an insured, regardless of age, if caring for a dependent child under age 18; additional benefits are available for the child; in no case shall a maximum family benefit exceed 80% of the employee's average monthly wage or \$150, whichever is lesser. These are the principal features applicable to benefits and are conditioned upon whether the member is currently and/or fully insured. The above statement is not comprehensive and those desiring detailed information are directed to consult with local representatives of the Federal Security Agency.

Contributions - Both the employer and employee contribute to the employee's coverage. \$3600 is the maximum salary to which contributions are applicable. Contributions are made at the following rates: Until 1954, 1 1/2% from employer and employee; 1954 through 1959, 2% from each; 1960 through 1964, 2 1/2% from each; 1965 through 1969, 3% from each; 1970 on, 3 1/4% from each. Contributions made are not returnable.

Local Payrolls - Information was obtained from practically all the counties, cities and towns of the State as to the total amount paid employees. The information covered employees not eligible for membership in the State Retirement System or who rejected membership. The total amount of payrolls of salaries not in excess of \$3600 is as follows: counties - \$16,157,000; cities - \$29,628,000; towns - \$2,997,000; total - \$48,783,000. Some of the employees covered in the above tabulation are included under existing retirement systems. It was not possible to segregate this group.

Faced with payrolls of such magnitude and the number of employees involved, the Council considered whether or not it would be practical to extend the State Retirement System to cover such employees, with the localities paying their proportionate share in the case of joint employees and the full cost in the case of exclusively local employees. It was apparent that in order to do equity credit would have to be given for prior service. It was estimated that the cost of extending coverage of the State Retirement System with credit for prior service would amount to not less than \$5,000,000 annually and would probably run in the neighborhood of \$7,000,000. It did not, therefore, appear practical to extend the State Retirement System to cover such employees. Attention was next directed to affording coverage under the Social Security System.

The Council is well aware of possible Federal domination. States' rights

should not be given away to the Federal Government. At the same time, however, it is pointed out that the Social Security legislation provides for entry into agreements which are revocable after notice and which may contain such provisions not in conflict with Federal law as the State deems necessary to protect its interests. Critics of the Social Security System who state that such system will be bankrupt in a few years are reminded that it is supported by the full faith and credit of the Federal Government. Our own Retirement System, in the final analysis, depends upon the same foundation.

The necessity of attracting and holding competent public employees is evident. A major aid in such a program is a system of retirement benefits. In these days of increasingly heavy taxation the individual who can provide for his own retirement is becoming evermore rare. To extend the State system to local employees would represent, at the least, a 5% decrease in their take home pay (considering salary of \$3600.00 and less). Local employees and their families require and deserve a reasonable degree of protection. The only means of affording this that appears practical is the extension of Social Security coverage to local governmental employees.

The detailed reasoning of the Committee is now set forth and numbered to correspond with the recommendations earlier made.

1. (a) In order to protect local governmental employees in old age, and their families, Social Security coverage should be provided for them in all cases in which they are not covered by the State Retirement System. It does not appear practical to afford this protection under the State Retirement System. To the problem of extending some measure of protection against the vicissitudes of life, Social Security coverage appears the only practical solution. Since the employing locality selects the employee, it should provide the employer contribution. The State has no obligation in such cases.

(b) In the case of the constitutional officers and their employees, the State and locality jointly contribute to their salaries; in certain instances where such officers are not on a salary, the State and locality share in an agreed ratio the excess fees from the office. It appears only just that the State and locality should bear the cost of coverage of such officers and their employees in the ratio that they pay the salary or share in the excess fees.

(c) The Federal legislation specifically provides that an employee covered by an existing system is not eligible for coverage under the Social Security System. In order to afford protection to the lower paid employees and to provide a basis from which to work, should it be decided subsequently to add a supplemental system, the Council recommends that the locality should be empowered to repeal its present retirement system, if any, provided such repeal gives adequate protection to vested rights and provides for refunds of contributions.

(d) It is stated throughout this report that the employer is to give coverage back to January 1, 1951, in order to give employees the fullest protection. It seems only just that the employee should contribute his portion of the cost of back coverage. The cost to the employee would not be great and at the most could only amount to \$58.50. It should not be difficult for any employee to make arrangements to pay this amount over a period of months. It appears improper to the Council to use public funds to pay the whole cost of back coverage.

(e) Social Security benefits are determined on the basis of the amount (within the maximum limitation) which an employee has earned in covered employment during the whole time he could have been engaged in covered employment. The Congress has set January 1, 1951, as the date for beginning such calculations as to those persons made eligible for Social Security cover-

age by the most recent amendments to the Act. It is thus possible for a person for whom coverage began on January 1, 1951, to be fully insured and eligible for benefits on July 1, 1952. Any time when such a person is not in covered employment after the starting date reduces the benefits which he can draw.

Therefore, it is essential that the coverage under the proposed plan be as nearly universal as possible. If coverage for its employees depended upon affirmative action by each locality, it is inevitable that entry into the system would be delayed by some with the result that their employees could never fully regain the lost period of coverage. (The privilege of back-dating expires January 1, 1953). Experience in this State indicates that future Legislatures would probably be plagued with requests for legislation to equalize the status of employees of those localities which did not take immediate action to have such employees covered.

At the same time the Council does not feel that the localities should be forced against their will to adopt Social Security coverage and to make the necessary contribution. It is accordingly recommended that the enabling legislation bring all counties within Social Security coverage; but that an opportunity be given for a county to take affirmative action in case it does not desire such coverage, and by resolution adopted by a majority vote of the members of the governing body of the locality and certified to the State Retirement Board to eliminate its employees from coverage under the bill. The date, April 1, 1952, gives the localities sixty days in which to take such action and means that at the beginning of the second quarter of 1952 the coverage of the system will be fixed.

2. This report points out repeatedly the fact that the Social Security System is weighted in favor of the lower paid employees. The General Assembly is continually beset with bills to provide a minimum retirement allowance. Such legislation poses at least two questions, one of cost, and the other of equity as between employees with long periods of service and those with short periods of service.

The State cannot possibly hope to duplicate the benefits of the Social Security System. The Survivors' Benefits alone are such as to render the cost beyond attainment. When this cost, however, is spread over the entire United States it is materially reduced to employer and employee.

Extended discussions have been held as to possible Federal encroachment should Social Security coverage be provided for teachers and State employees. The Council has already recommended that such coverage be provided for local employees. In view of this and also because the agreement is revocable, after notice and must be renewed from time to time, the Council is of opinion that Social Security coverage should be provided for teachers, trial justices and State employees. To do otherwise would create inequities as between the two groups. Furthermore, the reduced contributions payable under Social Security would operate as a temporary pay increase, particularly to employees in the lower income levels.

If Social Security coverage is to be provided, the present Retirement System must be repealed. To be constitutional, this repeal must provide for the protection of vested rights and the return of contributions to the employee, with such employee being free to require such contributions to be paid to him or to some retirement system to be established in the future.

(a) For the above reasons, the Virginia Retirement System should be repealed subject to the exceptions set out.

(b) For the above reasons, Social Security coverage should be provided

for teachers, trial justices and State employees.

(c) To give such teachers and other employees the greatest protection, the State should pay the employer contribution so as to give coverage back to January 1, 1951.

(d) To insure that those receiving the benefits of Social Security coverage pay their part of the cost, teachers and other employees should pay the necessary amount which they would have paid had they been covered as of January 1, 1951.

To critics of the above proposals, the Council desires to point out that the Social Security System is here to stay. It may in the future require appropriations from the revenues of the Federal government in order to continue the scale of benefits. Every taxpayer in the United States will contribute to the system whether he receives any benefit or not. If teachers, trial justices and State employees are to contribute to the support of the system involuntarily through income taxation, they should at least be afforded the protection for which they are paying. They will in fact, under the proposal made, be paying additionally for the benefits which they receive.

3. The Social Security System has no provision for disability benefits. It further does not permit the return of contributions nor is it particularly desirable to those in the upper income levels. If the State is to maintain the level of public service which it has heretofore enjoyed, it must attract and hold able persons to executive positions in its service. An army is no better than its generals. This is but another way of saying that the State must devise some system whereby its administrative staff can be kept at a high level. The present and prospective level of Federal taxation does not permit the middle income groups nor the executives in the service of the State to provide for their retirement from their own resources exclusively. Those businesses which are attracting the highest executives and professional skills are doing it with a combination of salaries and retirement benefits. The State cannot hope to compete in salaries with business. It should, however, offer attractive retirement benefits and it can do so at a relatively small cost provided a large portion of the cost is shared by the Social Security System. The proposals earlier made in this report will provide for this latter.

To those who would raise objection to the following proposals in this report, the Council would point out that Virginia has been singularly free from scandals in its public service. This has been because it has been able to obtain and hold the best type of public servant both in its public schools and in its State agencies. An investment to continue this will be both beneficial to the employees and to the best interest of the public.

In order to provide retirement and disability benefits for those above the lowest income levels, a supplemental retirement system should be established as of March 1, 1952.

(a) The present retirement system provides for a disability retirement after twenty years service. The person desiring such retirement must meet rigid tests. The Council is advised of hardship cases where an employee had more than fifteen years service but less than twenty, was disabled from further service, and yet could not retire. The Council recommends that the disability retirement be lowered to fifteen years. Persons to be retired thereunder should meet the same rigid test than now applies.

(b) As elsewhere stated the Social Security System provides that the employee shall receive 50% of the first \$1200 of annual compensation; 15% of the second and third \$1200 of annual pay are provided also. It is apparent therefore

that if the supplemental system begins at the salary point at which the greatest Social Security benefit stops, the cost to the State of a supplemental system will be materially reduced. For this reason it is recommended that the supplemental system begin at that portion of the salary in excess of \$1200 annually.

The present Retirement System is a jointly contributory system. This principle should be preserved. From the best information available it is believed that the benefits envisaged in the supplemental system can be financed by an employee contribution of 4% to which the State should add approximately the same percentage.

The effect of this is that most employees making \$4300 and less will temporarily pay less under the combined system than they now pay under the present State System. A permanent reduction should accrue to employees earning \$2200 and under. Only at the level above \$4300 does the cost to the employee of the combined system exceed the amount that would be chargeable if the present system had no limit on earnable compensation. The cost to the State is likewise reduced.

(c) The principle of service retirement at an age when infirmities begin to appear is sound. The present system provides that an employee may retire at 65 but must retire at 70. This principle should be carried forward into the new system on the same basis as under the present Act.

(d) Cases occasionally arise in which circumstances compel an employee to seek retirement at age 60. If he were to receive the same benefits that he would at age 65 the cost to the State would be vastly increased because the employee would contribute for a shorter period, and receive benefits for a longer period, of time. Therefore, optional retirement between ages 60 and 65 should be permitted but the employee's benefit should be actuarially reduced to an amount based upon his attained age.

(e) The present system provides a disability retirement allowance of 1/80 of average annual salary (\$3600 limit) for the last five years of service times years of creditable service, limiting the allowance to one-half of the annual average. Basing the allowance on service, and salary seems proper. The Council recommends that the fractions be replaced by a percentage of 1 1/4% and limited to an amount consistent with the normal service retirement benefit. This produces a substantially similar result and provides for an equitable allowance when compared to service retirement.

(f) Service retirement benefits will be based upon using the Social Security benefit as the base and adding an amount so that, in the case of an employee with 35 years of service, the benefit will theoretically at least, approximately equal one-half of the average annual salary for the last five years of service, on the first \$3600 of salary. The amount which the member will receive on average salary in excess of \$3600 will depend on years of creditable service. This is the same principle employed in many industrial plans. An additional dissolution allowance will benefit the lower income groups. In the case of the employee with less than 35 years service his allowance would be reduced correspondingly.

(g) The present system provides for refunds on withdrawal and return upon death prior to retirement of contributions to beneficiary. This should be continued.

(h) The present retirement act has a special provision for certain teachers who are included in the retirement act in force prior to 1942. Retirement after 30 years service is permitted. This should be continued.

(i) Circumstances occasionally arise in which an employee who has many years of service is compelled to leave the State for personal or other reasons. At the present time he loses all rights unless he returns to State's service within five years. The Council is of opinion that where a member leaves State's service in good standing he should be permitted to leave his contributions in the system and be provided a deferred annuity and service retirement upon attaining retirement age provided such member at the time of leaving had at least 15 years' service. This proposal will correct many inequities.

The phrase "leave the service in good standing" should be defined in the act so that if the appointing authority makes an affirmative statement on the employee's record that he did not leave under such conditions the benefit should not apply. Furthermore, an employee taking advantage of this benefit should lose the same if he refuses to testify as to any matter arising out of his employment while he was with the State.

(j) There are some employees in the present system who have not been credited with service which they had given prior to 1942. Teachers particularly fall into this category. Something should be done to give them, in proper cases, credit for service prior to 1942. The Council recommends that any member of the System as of July 1, 1952, who had at least 10 years' service as an employee or teacher prior to July, 1942, for which service he had not been credited under the Retirement Act of 1942 should be credited with such service provided his membership in the Retirement System of 1942 was uninterrupted. Such cases are few but they deserve consideration.

(k) The provision of Social Security coverage recommended in this report for teachers, trial justices and other State employees will go far to provide for the lower paid groups. Those in the middle and upper brackets, however, deserve consideration. When the Retirement Act was established in 1942 the limit on earnable compensation was \$2000. Within a brief time that limit was reduced to absurdity by inflation. In 1950 the limit was raised to \$3600. From all indications we are in another spiral of inflation. In order to avoid constant amendment of the salary limit, it is the belief of the Council that the limit on earnable compensation should be removed. This will have several beneficial effects. It will serve to attract and hold the best type of administrative staff, will prevent inequities if a ceiling be fixed, and, will forestall special retirement bills. The employee will pay a large part of the benefit from his own contributions.

(l) A member of the dissolved Virginia Retirement System affirmatively directing transfer of accumulated contributions to credit therein to the supplemental system, with uninterrupted membership in the supplemental system, should be guaranteed, upon meeting the eligibility requirements for service retirement, a retirement allowance in an amount of not less than the member would have received if the Virginia Retirement System had not been dissolved unless the total retirement allowance exceeds one half of the average salary the last five years of creditable service. In determining that the retiring member receives an allowance in an amount not less than guaranteed, add the allowance from (1) Social Security (2) Virginia Supplemental Retirement System, including the additional dissolution allowance. Employment subsequent to effective date of retirement which reduces the amount of allowance received should not be construed as having any effect on the guarantee. That is, if a member retired and received an allowance of \$1500, of which \$900 would come from Social Security, he cannot work in employment covered by Social Security and still receive the Social Security benefit. He would, of course, still receive the \$600 from the State Supplemental Retirement System, unless employed by the State or as a teacher.

4. The General Assembly has guaranteed a minimum retirement allowance to persons who retired prior to July 1, 1942, of \$600 annually. This places these persons in a preferred position as compared to those who have retired since July 1, 1942. The placing of a floor under retirement benefits should be handled by a separate bill because there is less likelihood of confusion and a greater degree of consideration of such proposals on their merits.

Minimum retirement allowances should be based on reasonable service requirements. For this reason it is recommended that any member of the system who has retired or will retire with 30 years of service or more in the case of service retirement be guaranteed a minimum allowance in the form of a straight life annuity of \$600. A similar guarantee should be extended to persons who have retired or will retire with 20 years' service or more in the case of disability retirement. The total cost of this is estimated at \$893,000 and the annual cost at \$90,237. The cost will decrease progressively as we tend to move into a period of higher salaries. The guarantee as to those hereafter retiring will include the Social Security benefits.

5. Teachers who retired prior to July 1, 1942 are paid their allowance quarterly. It has been represented that they can budget their finances much better if they receive their checks monthly. The change appears to be a reasonable one and it is therefore recommended. The cost is slight, consisting only of postage and administration.

Costs

(a) Social Security coverage for local governmental employees.

The cost January 1, 1951 to July 1, 1954 to the localities for providing Social Security coverage for their employees and for those employees to whose salaries they contribute or in whose excess fees they share is estimated at \$2,322,140.

(b) Social Security coverage for teachers and State employees.

The cost January 1, 1951 to July 1, 1954 to the State for providing Social Security coverage for their employees and for those employees to whose salaries they contribute or in whose excess fees they share is estimated at \$6,648,030.

Based on the same data set forth in the preceding paragraphs the cost of providing back coverage January 1, 1951 to July 1, 1952, for the two groups referred to, is estimated at \$3,635,490.

(c) Supplemental retirement system for teachers and State employees.

The total cost of the supplemental system July 1, 1952 to July 1, 1954 is estimated at \$11,026,000. Of this it is estimated \$6,615,600 would constitute the cost for covering teachers and \$4,410,400 the cost for covering State employees. In the case of the teachers a portion of the cost can be defrayed from the Literary Fund as this is being used to finance part of the cost of the present retirement system for teachers. In the case of State employees the cost to the general fund is estimated at \$2,910,400 and the cost to the several special funds is estimated at \$1,500,000.

COMPARATIVE COST OF VIRGINIA RETIREMENT SYSTEM
AND THE INTEGRATED SOCIAL SECURITY AND SUPPLEMENTAL
RETIREMENT SYSTEM PLAN

The provision of Social Security coverage for teachers and State employees to be supplemented by a supplemental retirement system is less than the cost of the present Retirement System. Adding the Social Security estimated cost of \$5,430,000 to the \$11,026,000 cost for the Supplemental System, the total combined plan cost is \$16,456,000 for the 1952-54 biennium compared to the budget request of \$17,633,815 to maintain the Virginia Retirement System without proposed amendments during the same period. The principle reasons for this are that the accrued liability for prior service under the Virginia Retirement System is largely transferred to the Social Security system; the Social Security benefits provided at reduced cost over the next few years reduce the cost of the proposed retirement system substantially; the contribution rates for maintaining the State Supplemental System, are less, with the result that the overall cost is reduced. In this connection the following comments are particularly enlightening.

The cost estimates for the Supplemental System which have been prepared by the Director of the Virginia Retirement System are based on the 7th Valuation of the Virginia Retirement System for the fiscal year ending June 30, 1950, using estimates which result from a sample of 176 retirement cases taking into account the benefits provided under the Virginia Retirement System and those contemplated under the Supplemental System.

Upon the preparation of a current valuation by the actuary based on benefits provided under the supplemental system, contribution rates for the State and member may be determined. To the extent the valuation differs from the 7th Valuation and the sample study, will depend the amount of service liability which may be cancelled if the combined plan is enacted. Since it is highly probable that a current valuation would vary to some extent from the 7th Valuation, due to salary and membership increases and other experience factors, it is deemed advisable to estimate the amount of service liability which may be cancelled if the plan is enacted, using a high and low estimate.

The service retirement liability as set up in the 7th Valuation is \$75,123,675. The liability for disability is \$33,595,487. The service liability would be reduced immediately approximately \$38,000,000 to \$50,000,000 upon the establishment of the supplemental system. It does not follow that this would be a net saving to the State since the State would be contributing to both Social Security and the supplemental system in order to provide benefits under the combined plan.

In comparing the estimated cost under the Supplemental and Virginia Retirement Systems it has been assumed the liability under each, without condidering interest, would be liquidated over approximately 11 1/2 years. In financing, however, a normal and accrued contribution rate to be determined by the actuary would be used. The rate would be subject to change upon each valuation of the System.

Using the low estimate of reduction, \$38,000,000, the total remaining liability including disability, for the supplemental system, after considering favorable state accumulation fund credit, would be \$63,403,472. Liquidating this over a period of 11 1/2 years the State would be required to appropriate approximately \$5,513,000 each year for the supplemental system. During the 11 1/2 year period approximately \$26,820,000 would be required for Social Security. Approximately \$5,430,000 would be paid during the next biennium. Of this latter amount \$2,189,250 for back dating Social Security coverage would

be non-recurring.

The 7th Valuation shows a total liability of \$101,403,472 to be paid out of future State contributions for the Virginia Retirement System. This amount may be liquidated in about 11 1/2 years if the State contributes to the system each year the amount requested in the budget for fiscal year 1953-54. Using this as a basis for comparison the combined plan cost during the same period based on low savings estimate being approximately \$90,223,472 or an average of \$7,845,519 each year compared to \$101,403,472 or \$8,780,000 each year for the Virginia Retirement System indicates an estimated savings to the State under the combined plan, after 11 1/2 years, of approximately \$11,180,000. Using the high estimate the savings could reach \$23,180,000. When this favorable balance is eliminated the cost to the State for the combined plan would be greater than the cost to the State under the Virginia Retirement System due to increasing cost for Social Security.

Upon recommendation of the actuary the liability may be liquidated over a longer period with the yearly cost to the system being reduced.

In addition to appropriations required to maintain either the Virginia Retirement System or the combined plan it would be necessary to supplement certain retirement allowances for employees already retired.

For the purpose of estimating the cost to the member we have used a 4% rate of contribution on the portion of the salary which is in excess of \$1200 per year. This rate combined with the cost to the member under Social Security will result in a temporary increase in take home pay for almost all employees earning \$4300 or less and the effect of contributing under the combined plan while the Social Security rate is 1 1/2% is that 1 1/2% would be contributed on the first \$1200 of annual salary, 5 1/2% on the next \$2400, and 4% on the salary in excess of \$3600. As the Social Security rate increases the increase would be reflected in the first \$1200 of salary and the next \$2400. From the standpoint of the member the net effect of this is to save the employees approximately \$1,200,000 in contributions during the first year \$1,000,000 the second year and approximately \$950,000 a year for the next five years with the savings being reduced upon each occasion when the Social Security rate increases. It is true that those in the higher income groups may contribute a larger amount than has been contributed to the Virginia Retirement System but the effect of such increase would be reflected in the retirement allowance.

COST OF CERTAIN RECOMMENDATIONS.

The cost of recommendations 3(a), 3(d), 3(i), 3(j) and 3(k) are set forth below. In each case the cost is estimated (1) Under the present Virginia Retirement System and (2) Under the Virginia Supplemental Retirement System.

	1		2
			Cost under Supplemental Retirement System
	Cost under Virginia Retirement System		
3 (a) Total cost	\$2,753,765	Total cost	2,753,765
Annual cost	200,662	Annual cost	200,662
3 (d) Practically no cost		Practically no cost	
3 (i) Total cost	1,921,000	Total cost	1,075,000
Annual cost	155,519	Annual cost	87,100
3 (j) Total cost	369,000	Total cost	206,675
Annual cost *	27,733	Annual cost	* 15,530
3 (k) Total cost	10,258,000	Total cost	5,745,500
Annual cost	909,655	Annual cost	509,500

* Does not require a normal contribution (from the State)

The above estimates cannot be added together to give an accurate total. They interact upon each other and the total effect may vary somewhat above or below the total of the columns.

NEED FOR PROMPT ACTION

The successful completion of the plans above outlined will depend upon prompt action by the General Assembly. Repeal of the Virginia Retirement System and enactment of Social Security coverage legislation by February 1, 1952 is essential to permit the agreement under the latter by February 15, 1952. Upon the completion of the agreement the establishment of the Supplemental Retirement System by March 1, is required to forestall occurrence of hardship cases. Furthermore, the later the legislation is passed the more costly it will be.

The repeal of the present system is valid in the opinion of the Attorney General. The Federal Security Administrator advises that such repeal, buttressed by a similar opinion, will permit coverage under the Social Security System provided legislation for the latter is enacted.

CONCLUSION

This report is based upon the wholehearted cooperation extended by many agencies of the State including the Attorney General, Board of Trustees of the Virginia Retirement System, the Auditor of Public Accounts, the State Treasurer, and the Director of the Retirement System. The Board of Trustees assisted materially by the presentation for consideration of the combined Social Security and Supplemental Retirement System herein recommended. To all of them the sincere appreciation and gratitude of the Council is expressed.

The Council is particularly indebted to those who served as members of the Committee which made the basic study for this report. The members of the Committee contributed liberally of their time and effort in assisting the Council to arrive at a solution to this most complex problem.

Respectfully submitted,

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APPENDIX A

COMPARISON OF ANNUAL SERVICE RETIREMENT ALLOWANCE UNDER THE VIRGINIA RETIREMENT SYSTEM AND THE COMBINED SOCIAL SECURITY AND VIRGINIA SUPPLEMENTAL RETIREMENT SYSTEM BASED ON AVERAGE ANNUAL SALARY IN COLUMN (1) AND YEARS OF CREDITABLE SERVICE IN COLUMNS (2), (3) and (4).

(1) Average Annual Salary	(2) 15 Years of Service		(3) 20 Years of Service		(4) 35 Years of Service	
	Virginia Retirement System (a)	Combined Soc. Sec. and Virginia Supplemental Retirement System (b)	Virginia Retirement System (a)	Combined Soc. Sec. and Virginia Supplemental Retirement System (b)	Virginia Retirement System (a)	Combined Soc. Sec. and Virginia Supplemental Retirement System (b)
2,000.00	428.00	840.00	571.00	880.00	1,000.00	1,000.00
2,400.00	514.00	960.00	685.00	1,020.00	1,200.00	1,200.00
3,000.00	642.00	1,140.00	857.00	1,230.00	1,500.00	1,500.00
3,600.00	771.00	1,320.00	1,028.00	1,440.00	1,800.00	1,800.00
4,200.00	771.00	1,410.00	1,028.00	1,560.00	1,800.00	2,010.00
5,000.00	771.00	1,530.00	1,028.00	1,720.00	1,800.00	2,290.00
6,000.00	771.00	1,680.00	1,028.00	1,920.00	1,800.00	2,640.00
7,000.00	771.00	1,830.00	1,028.00	2,120.00	1,800.00	2,990.00
8,000.00	771.00	1,980.00	1,028.00	2,320.00	1,800.00	3,340.00
9,000.00	771.00	2,130.00	1,028.00	2,520.00	1,800.00	3,690.00
10,000.00	771.00	2,280.00	1,028.00	2,720.00	1,800.00	4,040.00

- (a) The Virginia Retirement System allowance may be reduced if the contributions of the member are insufficient to provide an employee annuity equal to the State annuity.
- (b) Dependent's allowance provided under Social Security may increase the allowance. The lower income group (\$3600 and under) may receive an additional allowance based on excess contributions transferred from the Virginia Retirement System to the Virginia Supplemental Retirement System. Social Security portion of allowance may be reduced if average annual salary under Social Security is less than final average salary under Virginia Supplemental Retirement System.

APPENDIX B

COMPARISON OF ESTIMATED COST PER YEAR TO MEMBERS WITH ANNUAL SALARIES AS LISTED IN COLUMN (1) UNDER THE COMBINED FEDERAL SOCIAL SECURITY AND VIRGINIA SUPPLEMENTAL RETIREMENT SYSTEM AND THE VIRGINIA RETIREMENT SYSTEM, USING SOCIAL SECURITY RATE AS INDICATED IN COLUMNS (3) THROUGH (7) FOR FIRST \$3600 OF SALARY AND FOR VIRGINIA SUPPLEMENTAL RETIREMENT SYSTEM A RATE OF 4% ON FULL SALARY IN EXCESS OF \$1200.*

Annual Salary	Cost For Virginia Retirement System Using Minimum Rate 5%	Cost For Combined Plan Using Soc. Sec. Rate 1 1/2% 1/1/51 to 1/1/54	Cost For Combined Plan Using Soc. Sec. Rate 2% 1/1/54 to 1/1/60	Cost For Combined Plan Using Soc. Sec. Rate 2 1/2% 1/1/60 to 1/1/65	Cost For Combined Plan Using Soc. Sec. Rate 3% 1/1/65 to 1/1/70	Cost For Combined Plan Using Soc. Sec. Rate 3 1/4% 1/1/70 and After
(1)	(2)	(3)	(4)	(5)	(6)	(7)
1,200.00	60.00	18.00	24.00	30.00	36.00	39.00
1,800.00	90.00	51.00	60.00	69.00	78.00	82.50
2,400.00	120.00	84.00	96.00	108.00	120.00	126.00
3,000.00	150.00	117.00	132.00	147.00	162.00	169.50
3,600.00	180.00	150.00	168.00	186.00	204.00	213.00
4,200.00	180.00	174.00	192.00	210.00	228.00	237.00
5,000.00	180.00	206.00	224.00	242.00	260.00	269.00
6,000.00	180.00	246.00	264.00	282.00	300.00	309.00
7,000.00	180.00	286.00	304.00	322.00	340.00	349.00
8,000.00	180.00	326.00	344.00	362.00	380.00	389.00
9,000.00	180.00	366.00	384.00	402.00	420.00	429.00
10,000.00	180.00	406.00	424.00	442.00	460.00	469.00

* Cost to teacher electing to retain special 30 year retirement provision would increase by amount of Social Security coverage contribution.

