

**RETIREMENT SYSTEMS FOR TEACHERS, STATE AND  
LOCAL EMPLOYEES AND STATE POLICE**

**REPORT OF THE  
VIRGINIA ADVISORY LEGISLATIVE COUNCIL  
to  
THE GOVERNOR  
and  
THE GENERAL ASSEMBLY OF VIRGINIA**



S. D. 11

COMMONWEALTH OF VIRGINIA  
Department of Purchases and Supply  
RICHMOND  
1965



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**RETIREMENT SYSTEMS FOR TEACHERS, STATE AND LOCAL  
EMPLOYEES AND STATE POLICE**

**REPORT OF THE  
VIRGINIA ADVISORY LEGISLATIVE COUNCIL**

Richmond, Virginia, December 13, 1965

To: HONORABLE A. S. HARRISON, JR., *Governor of Virginia*

and

THE GENERAL ASSEMBLY OF VIRGINIA

Since 1942, teachers and certain other employees in the public school system and State employees generally have been covered by a single actuarially sound retirement system, which replaced the former inadequate teachers' pension system. During this period, the System has been continually improved and its coverage broadened to include employees of many of the State's political subdivisions. The most notable change in the System was when it was made supplemental to Social Security coverage in 1952. The last major changes in the System occurred in 1960, although subsequent improvements were also made in 1962 and 1964.

A separate retirement system applicable only to members of the State Police Force was created in 1950 and in 1954. This System was also changed to provide Social Security coverage for its members.

Many proposals for changes in each of the Systems have been advocated by the principal interested groups. The 1964 Regular Session of the General Assembly, deeming it imperative that additional information be available in order that intelligent decisions might be made regarding the various suggested amendments, adopted two acts directing the Virginia Advisory Legislative Council to study the two Systems, evaluate the suggestions for changes, and recommend such improvements in the Systems as it might deem appropriate. These acts were as follows :

**CHAPTER 595**

*An Act to direct the Virginia Advisory Legislative Council to study the Virginia Supplemental Retirement System for State employees, and to provide for the payment of certain costs with respect thereto.*

Whereas, the Commonwealth of Virginia has a continuing interest in assuring that the retirement program which is provided for its employees is adequate to meet the needs of the Commonwealth and its localities in relation to their personal programs; now, therefore,

Be it enacted by the General Assembly of Virginia :

1. § 1. The Virginia Advisory Legislative Council is directed to make a study of the operation of the Virginia Supplemental Retirement System, including the statutes relating thereto and experience thereunder. All agencies of the State shall assist the Council in its study, upon request. The Council shall complete its study and make a report containing its findings and recommendations to the Governor and General Assembly not later than October one, nineteen hundred sixty-five.

§ 2. The Board of Trustees of the Virginia Supplemental Retirement System is authorized to expend, from funds available under Title 51 of the Code of Virginia for the administration of the Virginia Supplemental Retirement System, such sums as may be necessary to defray the expenses of any actuarial or statistical computations necessary for the completion of the Council's study.

## CHAPTER 295

*An Act to direct the Virginia Advisory Legislative Council to make a study of the State Police Retirement System, and to provide for the payment of certain costs in connection therewith.*

Whereas, the Commonwealth of Virginia has a continuing interest in assuring that the retirement system for State police officers is adequate to meet the needs of the Commonwealth in maintaining an efficient State police force; now, therefore,

Be it enacted by the General Assembly of Virginia :

1. § 1. The Virginia Advisory Legislative Council is directed to make a study of the retirement system for State police officers, including the statutes relating thereto, and experience thereunder, and with special reference to the actuarial effect of any changes in the retirement benefits provided thereunder. All agencies of the State shall assist the Council in its study, upon request. The Council shall complete its study and make a report containing its findings and recommendations to the Governor and General Assembly not later than October one, nineteen hundred sixty-five.

§ 2. The Board of Trustees of the Virginia Supplemental Retirement System is authorized to expend, from funds available under Title 51 of the Code of Virginia for administration of the retirement system for State police officers, such sums as may be necessary to defray the expenses of any actuarial or statistical computations necessary for the completion of the Council's study.

Because of the cognate nature of these two acts and the similarity of the actuarial data upon which conclusions would have to be based, the Council requested the Board of Trustees of the Virginia Supplemental Retirement System and the State Police Officers Retirement System to have actuarial studies made to determine the effect and cost of the various proposals which had been made and to recommend to the Council appropriate changes in the two Systems. (The one Board administers the two Systems.)

These studies were made by the firm of Bowles, Andrews and Towne, actuaries to the two Systems, and their report is appended to this report of the Council.

The Council has carefully considered each of the proposals for changes in the Systems and analyzed the effect of the recent Social Security changes. Especially close attention has been given to the actuary's report. We now make the recommendations summarized below and submit certain general comments with regard to the two Systems. The table of summarized recommendations carries references to the pages of the actuary's report (Appendix IV) in which these matters are dealt with in detail. Costs or savings estimated to result from the numbered recommendations are set forth in the table in Appendix I, page 41.

### SUMMARY OF RECOMMENDATIONS

#### *Service Retirement-V.S.R.S.*

1. Increase the service retirement formula from  $1\frac{1}{8}\%$  to  $1\frac{3}{8}\%$  of average final annual compensation in excess of \$1,200 multiplied by the total number of years of creditable service, applicable to all persons who retire on or after July 1, 1966. (See pages 49-57).)



2. Increase the retirement allowances currently being paid under the present  $1\frac{1}{8}\%$  formula by 22.2%, effective July 1, 1966. Increase the total allowances being paid to persons who retired prior to March 1, 1952 by the same percentage, 22.2%. (This figure is the equivalent of the application of the proposed new formula to the computation of such allowances.) Increase the allowances of other service retirement pensioners on a basis consistent with these principles. (See page 56.)

3. Apply the new  $1\frac{3}{8}\%$  formula in the recomputation of present disability pensioners when they attain age 65. (See page 60.)

#### *Disability Retirement-V.S.R.S.*

4. Remove the requirement of a good health certification as a prerequisite for disability retirement prior to the completion of 15 years of service, so that disability retirement allowances would be available in all cases of disability occurring after the completion of 10 years of service. (See pages 58, 59.)

5. Compute disability allowances by the same formula as for service retirement except that the length of credited service to be assumed in cases of disability prior to age 60 would be the smaller of:

- (i) twice the actual period of creditable service; or
- (ii) the period of service the member would have completed at age 60 had he remained in service to that age. (See pages 57-62.)

6. Abolish the provision for recomputation of disability allowances at age 65 except with respect to those persons already retired for dis-

7. Except as noted in item 8, below, maintain the present guarantees as to the minimum disability allowance payable, but defer their applicability until six months after the date of disability. The present guarantees would be increased to some extent for most disability pensioners with 20 or more years of creditable service as a result of increases in the allowances being paid to pensioners who retired prior to March 1, 1952. (See pages 60, 61.)

8. In cases of disability compensable under the Workmen's Compensation Act, provide an additional guarantee that the allowance would be sufficient, when added to primary Social Security benefits and Workmen's Compensation benefits to produce a total income of not less than two-thirds of average final compensation. (See page 84.)

9. Restrict the elections of optional modes of payment by disability pensioners to the one-half joint and survivor option, and reflect in the computation of the amount of the benefit the fact that the member is apt to be subject to heavier than normal mortality. (See pages 61 and 64.)

10. Grant the Board of Trustees, in its administration of the "work test" for disability pensioners, the authority to take into account increases in the cost of living since a pensioner's date of retirement. (See page 62.)

#### *Death Benefits-V.S.R.S.*

11. Extend the application of survivors' benefits to include members who die in service prior to age 60 but after the completion of 30 or more years of creditable service as well as those who die after age 60, who are currently covered. In the application of the "early retirement reduction

factor" to the computation of allowances payable on the death of member prior to age 60, the normal retirement age would be assumed to be age 60. Amend the survivors' benefits provisions so that in no case will a survivor's allowance be paid unless the person otherwise entitled thereto is also the member's designated beneficiary. (See pages 62-65.)

12. Increase the group life insurance benefit, effective September 1, 1966, to two times annual compensation for members in service aged 50 and under, reducing by 5% for each year of age to approximately  $1\frac{1}{2}$  times at age 60 and then reducing at 10% a year to one times at age 65. The insurance benefits after retirement and after age 65 would remain as at present. Participation would continue to be compulsory. Members would contribute only toward the present level of insurance, i.e., at the rate of approximately 0.72% of total compensation. (See pages 65, 66.)

13. In cases of death compensable under the Workmen's Compensation Act, provide an allowance to the widow or dependent children equal to  $\frac{1}{2}$  of the member's average final compensation, less Workmen's Compensation benefits and less any Social Security benefits payable as a result of the coverage of the member. If a widow were also eligible for a survivor's allowance, only the larger of the two benefits would be paid, and not both. (See page 84.)

#### *Funding-V.S.R.S.*

14. Increase the members' contribution rate under the System from  $4\frac{1}{2}\%$  to  $5\frac{1}{2}\%$  of creditable compensation, to correspond to the increase in the service retirement benefit formula. As noted in item 12 above, no increase would be made in their contributions toward group life insurance. (See page 55.)

15. Finance part of the additional cost resulting from the proposed amendments to the System by application of the excess of the actual investment income in the forthcoming biennium over the actuarially assumed return. No increase in the actuarially assumed rate should be made now in determining the level of the State's contributions to the System. With respect to members retired prior to March 1, 1952, experience has been so favorable cost-wise, as shown by a recent actuarial evaluation, that the entire benefits, including the 22.2% increase, can be granted without any cost to the State except for the normal budget request for the supplements previously awarded. (See page 56.)

#### *State Police Officers*

16. Change the service retirement benefit formula and the members' contribution rate under the State Police Retirement System to correspond with those recommended for members of the V.S.R.S. (items 1 and 14 above), the aim being to make the provisions of the two Systems as identical as possible, except for the lower normal retirement age. (See pages 77-84.)

17. To prevent inequities in individual cases from the application of the new retirement benefit formula, provide a guarantee that State Police officers now in service retiring on or after age 60 would receive a total benefit (including Social Security) of at least 50% of average final compensation. (See page 80.)

18. Provide for retired State Police officers, in addition to the V.S.R.S. service retirement benefit, a supplement payable between ages

60 and 65 equal to \$135 per month (\$1,620 per year), to allow for the fact that unreduced Social Security benefits are not available prior to age 65. (See page 80.)

19. Provide that no actuarial reduction would be applied in the computation of early retirement benefits for State Police officers who retire after age 55 and prior to age 60 with 30 or more years of creditable service, with a guarantee that would provide at least as much as the present System. (See page 81.)

20. Provide for the payment of survivors' benefits in the event that a State Police officer dies from a cause not service-connected after either completing 30 years of service or attaining age 55, instead of only after age 60 as at present. (See page 81.)

21. Extend to State Police officers the same changes in the disability provisions as recommended in items 4, 5, 6, 7, 9 and 10 above, the increase in the group insurance benefits recommended in item 12, and the funding device described in item 15.

#### *Miscellaneous*

22. Reduce the service requirement for a deferred allowance in the event of termination of service from 15 to 10 years. (See pages 72, 73.)

23. In computing the Workmen's Compensation offset to occupational death and disability benefits, take into account any Workmen's Compensation benefit that would have been awarded except for the fact that other comparable reimbursement is available in lieu thereof. (See pages 81, 82.)

24. Permit re-establishment of pre-1952 service credits by those V.S.R.S. members who received a refund of their accumulated contributions at the abolishment of the old Virginia Retirement System in 1952. (See pages 70-72.)

25. Change the basis of repurchase of credit for service since 1942 by members who have previously received a refund of their contributions (including those referred to in 24 above), so that instead of repaying the amount withdrawn, plus interest, they are required to make the purchase on the basis of their current compensation and the current member contribution rate, plus 3½% interest. This purchase basis would be the same as currently in effect for purchase of "reject" service. (See pages 70-72.)

26. Give credit without additional cost for the military service of a member who rejected membership in the Virginia Retirement System in 1942, provided the member purchases credit for all reject service during which he would have contributed; and where such service has previously been charged for, upon application, refund the amount paid. (See page 72.)

27. Give credit for up to one year of leave of absence for educational purposes subsequent to July 1, 1966, on the purchase basis outlined in 25 above. (See page 74.)

28. Permit a member to establish any prior service credits at any time prior to 90 days after termination of service, rather than requiring that this be done while the member is in service. (See page 74.)

29. Clarify § 51-114.2 of the Code, relating to reimbursement of political subdivisions in respect to constitutional officers participating in local retirement systems, so that, in effect, the reimbursement would be made on the basis of future service only. (See pages 74, 75.)

## GENERAL CONSIDERATIONS

In our study of the Systems we have constantly borne in mind two considerations. The first is to provide for equitable and adequate retirement benefits to career employees who have given years of faithful service and who have reached an age at which they are entitled to turn their duties over to younger people and to enjoy, in reasonable comfort, the fruits of their long labors. The second consideration is how to accomplish this result at a cost which the State can afford without severely handicapping it in financing of other pressing needs.

It has been pointed out that members of retirement systems in other states are subject to provisions which in some cases are more liberal than those of the Virginia Systems. This is undoubtedly true, but Virginia should decide what is a fair and equitable System and adopt that, without placing too much emphasis on what is being done in other states. Had this Commonwealth been content merely to go along with what other states were doing, it would not have pioneered in 1952 in bringing its employees under coverage of the federal Social Security system.

We believe that our recommendations for changes in the Systems, if enacted, would satisfy any reasonable standards of equity and adequacy of benefits. Substantiation for this belief may be found in the actuary's report and in other pertinent exhibits appended to our report. We favor similarity of retirement provisions between those applicable to State Police officers and those for other State and local employees and teachers, except with respect to the retirement age provision, feeling that recognition of any extra hazards attendant to police work should be reflected in salary levels, not in the formula for determining retirement benefits. Finally, we believe that the anticipated additional costs to the State that would result from the implementation of our recommendations, as set forth in Appendix I of this report, even when considered in conjunction with the increase in the State's Social Security costs that will result from the 1965 amendments to the Social Security Act, would represent a justifiable payment for value received.

## CONCLUSION

The Council desires to express its appreciation to all those who assisted it in connection with these studies, and in particular to the Director and Board of Trustees of the two Retirement Systems and to the firm of actuaries which provided the basic data upon which the conclusions and recommendations of this Report are founded.

In conclusion the Council would like to reiterate that based upon the proposition that our assignment was to produce the best possible overall retirement system we have recommended changes which we think will accomplish this end. We reserve the right to support any further proposals which may be made which will improve the whole retirement program.

Legislation to carry out our recommendations, which includes in addition some technical changes required by the Board of Trustees for administrative purposes, is attached.

Respectfully submitted,

EDWARD E. WILLEY, *Chairman*

TOM FROST, *Vice-Chairman*

C. W. CLEATON

JOHN WARREN COOKE

JOHN H. DANIEL

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*A BILL to amend and reenact §§ 51-110.10, 51-111.41, 51-111.41:1, 51-111.43, 51-111.45, 51-111.46, 51-111.47, 51-111.49, 51-111.53, 51-111.55, 51-111.56, 51-111.57, 51-111.58:1, 51-111.60, 51-111.62, 51-111.67:4, 51-111.67:5, 51-111.67:6, 51-111.70:1 and 51-114.2, as severally amended, of the Code of Virginia, relating to the Virginia Supplemental Retirement System and to group life insurance for certain employees.*

Be it enacted by the General Assembly of Virginia :

1. That §§ 51-110.10, 51-111.41, 51-111.41:1, 51-111.43, 51-111.45, 51-111.46, 51-111.47, 51-111.49, 51-111.53, 51-111.55, 51-111.56, 51-111.57, 51-111.58:1, 51-111.60, 51-111.62, 51-111.67:4, 51-111.67:5, 51-111.67:6, 51-111.70:1 and 51-114.2, as severally amended, of the Code of Virginia, be amended and reenacted as follows :

§ 51-111.10. As used in this chapter unless a different meaning is plainly required by the context :

(1) “Retirement system” means the Virginia Supplemental Retirement System provided for in § 51-111.11;

(2) “Board” means the board of trustees as provided by § 51-111.17;

(3) “Medical board” means the board of physicians as provided by § 51-111.26;

(4) “Teacher” means any person who is regularly employed on a salary basis as a professional or clerical employee of a county, city or other local public school board or of a corporation participating in the retirement system as provided by Article 4.1;

(5) “State employee” means any person who is regularly employed full time, on a salary basis, whose tenure is not restricted as to temporary or provisional appointment, in the service of, and whose compensation is payable, not oftener than semimonthly, in whole or in part, by the Commonwealth or any department, institution or agency thereof, except (a) an officer elected by popular vote or, with the exception of the Auditor of Public Accounts and the Director of the Division of Statutory Research and Drafting, by the General Assembly or either House thereof, (b) a judge of a county court, county or city treasurer, commissioner of the revenue, Commonwealth’s attorney, clerk, sheriff, sergeant or constable and, with the exception of employees of county courts, a deputy or employee of any such officer, \* (c) any employee of a political subdivision of the Commonwealth, and (d) a State police officer of the Department of State Police;

(6) “Employee” means any teacher, State employee, officer or employee of a locality participating in the retirement system as provided in Article 4, or any employee of a corporation participating in the retirement system as provided in Article 4.1 or any civilian employee of the Army or Air National Guard participating in the retirement system as provided in Article 4.2;

(7) “Employer” means Commonwealth, in the case of a State employee, the local public school board in the case of a public school teacher, or the locality, or corporation or Army or Air National Guard participating in the retirement system as provided in Articles 4, 4.1 and 4.2;

(8) "Member" means any person included in the membership of the retirement system as provided in this chapter;

(9) "Service" means service as an employee;

(10) "Prior Service" means service as an employee rendered prior to the date of establishment of the retirement system for which credit is allowable under §§ 51-111.39 to 51-111.41:1, 51-111.63 and 51-111.64 or service as an employee for such periods as provided in §§ 51-111.32 and 51-111.38:11;

(11) "Membership service" means service as an employee rendered while a contributing member of the retirement system except as provided in §§ 51-111.41:1, 51-111.45, 51-111.57, 51-111.63 and 51-111.64;

(12) "Creditable service" means prior service plus membership service for which credit is allowable under this chapter;

(13) "Beneficiary" means any person entitled to receive benefits under this chapter;

(14) "Accumulated contributions" means the sum of all amounts deducted from the compensation of a member and credited to his individual account in the members' contribution account, together with interest credited on such amounts and also any other amounts he shall have contributed or transferred thereto including interest credited thereon as provided in §§ 51-111.41:1, and 51-111.49;

(15) "Creditable compensation" means the full compensation payable to an employee working the full working time for his covered position which is in excess of twelve hundred dollars per annum; \*in cases where compensation includes maintenance or other perquisites, the Board shall fix the value of that part of the compensation not paid in money;

(16) "Average final compensation" means the average annual creditable compensation of a member during his five highest consecutive years of creditable service or during the entire period of his creditable service if less than five years; \*

(17) "Retirement allowance" means the retirement payments to which a member is entitled as provided in this chapter;

(18) "Actuarial equivalent" means a benefit of equal value when computed upon the basis of such actuarial tables as are adopted by the Board;

(19) "Normal retirement date" means a member's sixty-fifth birthday; and

(20) "Abolished system" means the Virginia Retirement Act, §§ 51-30 to 51-111, repealed by Chapter 1 of the Acts of Assembly of 1952 as of February one, nineteen hundred fifty-two.

§ 51-111.41. Subject to the above restrictions and to such other rules and regulations as are prescribed by the Board, the Board shall ascertain, as soon as practicable after such statement is filed, the amount of prior service, if any, to which each member is entitled. The Board shall issue prior service certificates, covering all creditable service in the abolished system, to all members who were members of the abolished system pro-

vided such members transfer their accumulated contributions in the abolished system to the retirement system by February one, nineteen hundred fifty-three, except that: (i) any such member on leave of absence from service on March one, nineteen hundred fifty-two (ii) any such member not in service and not on leave from service on such date and, in either case, not transferring their accumulated contributions in the abolished system to the retirement system, nor, in either case, being refunded accumulated contributions in the abolished system by February one, nineteen hundred fifty-three, may within one year after re-entry into service, transfer their accumulated contributions in the abolished system to the retirement system provided, in the case of a member not in service and not on leave from service, or of a former member who has been retired, re-entry into service is or was within twenty years after date of last being in service. In any case in which a member who was a member of the abolished system is in service on March one, nineteen hundred fifty-two, and has service as a State employee or teacher prior to July one, nineteen hundred forty-two, with which such member has not been credited, the Board shall issue a prior service certificate covering such service if since first becoming a member of such abolished system the member has not withdrawn his accumulated contributions thereto.

\* \* \*

§ 51-111.41:1. (a) Any member \* may be credited with prior and/or membership service which might otherwise \* *have been* credited, except for *one or more of the following*:

(i) *rejection of membership in the abolished system under § 51-47;*

(ii) *cessation of membership under § 51-49 of the abolished system and/or under § 51-111.29 of this chapter because of the withdrawal of his accumulated contributions \* under § 51-109 of the abolished system or under § 51-111.58 of this chapter; or*

(iii) *withdrawal of his accumulated contributions under § 51-111.68 of the Code of Virginia;*

*provided such member pays, while in service or within ninety days after termination of service, an amount equal to the contributions that he would have made during the entire period to be credited (exclusive of any such period prior to June thirty, nineteen hundred and forty-two and exclusive of any period subsequent to June thirty, nineteen hundred forty-two during which the member was in the armed forces of the United States) on the assumption that the member contribution rate specified in § 51-111.46(a) as of the date of payment had been in effect during the entire such period and that his creditable compensation as of the date of payment (or as of the last date in service, if the member is not in service at date of payment) had been received during the entire such period, together with interest thereon at the rate of three and one-half percent per annum compounded annually from the \* end of each respective fiscal year to which the contribution applies to the first day of the month during which \* payment is made. Four-sevenths of such interest payment, and the amount \* of contributions paid, shall be credited to the account of the member in the members' contribution account.*

\* \* \*

(b) In order for the additional service provided for in \* *subsection (a) \** of this section to be considered in the computation of any retirement allowance payable in the event of a member's retirement under §51-111.56, the member shall have submitted at the time payment or



repayment is made, a medical report satisfactory to the Medical Board showing that the member was at such time of sound mind and body.

\* (c) An administrative charge of five dollars shall be paid by the member to the retirement system when requesting a cost estimate of the amount of *\* any payment required* under subsection (a) \* of this section.

\* (d) Any State employee or teacher member of the retirement system in service or *within ninety days after termination of service* with full time salaried service as a State employee, or a teacher, prior to July one, nineteen hundred forty-two, and heretofore not credited therewith, shall be credited with such prior service, provided, since becoming a member of the retirement system, five or more years of membership service has been credited such member, and, provided, further, *that if* the member's contributions were \* withdrawn under § 51-111.68 of the Code of Virginia, \* § 51-109 of the abolished system, or § 51-111.58 of this chapter, \* *credit for all of the member's service since July one, nineteen hundred forty-two has been established or re-established as provided in* subsection (a) \* of this section.

\* (e) *Any member granted a leave of absence subsequent to June thirty, nineteen hundred sixty-six for educational purposes may receive credit for up to one year of service during any period or periods of such leave on the purchase basis set forth in subsection (a) of this section.*

(f) Any State employee member elected to a covered position by a joint vote of the two Houses of the General Assembly of Virginia and which position was for a period excluded under the abolished system, may be credited with service during such period by paying the member contributions which would have been payable, except for the exclusion.

(g) Any clerk of a county court who is a member of the retirement system, or any member of the retirement system who since July one, nineteen hundred sixty, has been a State employee member and who has not withdrawn, since becoming a member of the retirement system or the abolished system, his accumulated contributions may, if in service, be credited with full time service as a clerk of a county court prior to July one, nineteen hundred sixty; provided, that such credit for the period between July one, nineteen hundred fifty-nine, and July one, nineteen hundred sixty, shall be allowed a member only if he pays, prior to July one, nineteen hundred sixty-three, the employee contributions which would have been payable had his position been included in the retirement system during such period.

§ 51-111.43. When membership ceases, except in the case of retirement, an employee shall thereafter lose all rights to any retirement allowance benefits under this chapter arising from service prior to the date of such cessation of membership, *except as otherwise provided in § 51-111.41:1.*

§ 51-111.45. (a) Any person who was a member of the abolished system and in the armed forces of the United States on March one, nineteen hundred fifty-two, or any member of the retirement system subsequently entering the armed forces of the United States, being on leave of absence from such service of the State or of the Virginia public free schools or *any other employer under this chapter* and not withdrawing accumulated contributions shall be entitled to have included as creditable service his period of service in armed forces of the United States provided

(f) Any member who was a former member of the abolished system and who transferred his accumulated contributions to the retirement system as provided in § 51-111.41 and who has not withdrawn such contributions may at the time of filing his notice of retirement deposit in his account in the members' contribution account by a single payment such amount as will increase his total retirement allowance to an amount not greater than the largest amount obtainable under the applicable provisions of subsection (e) of § 51-111.55.

(g) The Board may modify the method of collecting the contributions of members so that the employers, departments, institutions and agencies required to remit to the State Treasurer as provided in subsection (b) of this section may retain the amounts deducted by them from members' salaries and have a corresponding amount deducted from State funds otherwise payable to them.

§ 51-111.47. (a) Each employer shall contribute \* an amount equal to the "normal contribution". The normal contribution *for any period* shall be determined as a percentage, equal to the normal contribution rate of the total covered compensation of the members employed by such employer *in such period, reduced by an amount calculated to be equal to the estimated excess, if any, of the net investment income during such period on the assets of the system allocable to the members employed by such employer over the amount of net investment income thereon assumed in the computation of the normal contribution rate.*

(b) The normal contribution rate shall be determined as the percentage of the members' compensation payable during the members' periods of membership required to provide the difference between the total liabilities for retirement allowances not provided by the members' contributions and the amount of the assets in the retirement allowance account.

\*(c) The normal contribution rate for each employer shall be determined on actuarial bases adopted by the Board \* after each valuation and shall continue in force until a new valuation is made.

\*(d) The Board shall certify to the Comptroller; and to each employer contributor other than the State, the normal contribution rate and every change made therein from time to time.

\*(e) The aggregate employer contributions payable into the retirement allowance account shall be at least sufficient, when combined with the applicable amount then held in the account, to provide the benefits payable from the account during the current year.

\*(f) At least thirty days prior to each regular session of the General Assembly, the Board shall certify to the Governor the respective amounts which will become due and payable to the retirement system from the State treasury during the biennium next following. The amounts so ascertained shall be included in the appropriation bill which is submitted to the General Assembly.

\* (g) In the case of all teachers whose compensation is paid exclusively out of funds derived from local revenues and appropriations from the general fund of the State treasury, and in the case of all State employees whose compensation is paid exclusively by the State but of the general fund of the State treasury, the State shall be the sole contributor, and all such contributions shall be paid out of the general fund. In the case of any teacher whose compensation is paid out of funds derived in whole or in part from any special fund, or from a contributor other than the State or some political subdivision thereof, then in any year there

shall be paid out of the general fund only such proportion of the contributions on behalf of such employee as that part of such employee's compensation paid out of local revenues and funds derived from the general fund for that year bears to his total compensation for that year, and the remainder of such contributions shall be paid out of such special fund or by such other contributor in proportion to that part of the employee's compensation is paid in whole or in part out of any special fund, or by any contributor other than the State, then contributions on behalf of such employee in any year shall be paid out of such special fund, or by such other contributor, in proportion in that part of such special fund, or by such other contributor, in proportion to that part of the employee's compensation derived therefrom for that year. The governing body of each county, city and town is hereby authorized to make such appropriations from the funds of such county, city or town as shall be necessary to pay its proportionate share of contributions on account of every State employee whose compensation is paid in part by such county, city or town.

§ 51-111.49. (a) The members' contribution account shall be the account to which all members' contributions and interest allowances as provided in this chapter shall be credited; from this account shall be paid the accumulated contributions of a member required to be returned to him upon withdrawal, or paid in the event of his death before retirement.

(b) In the case of all members paid directly out of the State treasury, the Comptroller shall, at the end of each payroll period, transfer to the members' contribution account from each fund in the State treasury out of which the salary of any member is paid, an amount equal to the aggregate amount of the deductions made for the preceding payroll period from the salaries of all members paid out of such fund in the State treasury. The Comptroller shall forward a record of all such transfers to the Board. In all other cases the employer, or the department, agency or institution, by which any member's compensation is paid, shall, at the end of each payroll period, transmit to the State Treasurer its warrant for the payment of an amount equal to the aggregate amount of the deductions made for such payroll period from the salaries of all members paid by such employer, department, agency or institution, for the preceding payroll period. The funds collected by the Treasurer on account of such warrants shall be credited to the members' contribution account. The Treasurer shall transmit to the Comptroller and to the Board a record of all moneys so collected.

(c) Each contribution provided for in § 51-111.46 and each payment made under § 51-111.41:1(a), to the extent provided for therein, shall be credited to the individual account of the contributing member.

(d) Each individual account of the members' contribution account shall be credited annually with interest at the rate of two per centum per annum on the accumulated contributions of the member; provided however that interest shall accrue on any such contribution beginning at the end of the fiscal year in which each such contribution was made.

(e) Accumulated contributions transferred from the abolished system shall be credited to the individual account in the members' contribution account and interest thereon shall accrue and be credited annually at the rate of two per centum per annum beginning on the first day of the month next following the month in which such transfer is authorized.

(f) Upon the retirement of a member, his accumulated contributions shall be transferred from the members' contribution account to the retirement allowance account.

his discharge therefrom was not dishonorable and he re-enters service within one year after discharge.

*(b) Any member who rejected membership in the abolished system and subsequently entered the armed forces of the United States, being on leave of absence from the service of the State or of the Virginia public free schools, shall be entitled to have included as creditable service his period of service in the armed forces of the United States, provided his discharge therefrom was not dishonorable and he re-entered service within one year after discharge and further provided the member purchases credit for all reject service on the purchase basis set forth in § 51-111.41:1.*

*(c) Any member in service who rejected membership in the abolished system and who, prior to July one, nineteen hundred sixty-six, was credited with service during the period of rejection upon payment of contributions and interest in accordance with § 51-111.41:1, shall, upon request to the retirement system, be refunded the portion, if any, of such payment attributable to service in the armed forces of the United States that would be creditable under the provisions of subsection (b) of this section. Four sevenths of the interest payment included in such refund shall be paid from the retirement allowance account and the remainder of the refund shall be paid from the account of the member in the member's contribution account.*

§ 51-111.46. (a) Each member shall contribute for each pay period for which he receives compensation \* five and one half per centum of his creditable compensation.

(b) The Comptroller, in the case of all State employees paid by warrants on the State Treasurer, or, in the case of any other State employee, the department, institution or agency by which the salary is paid, or the employer in the case of teachers and other employees shall cause to be deducted from the salary of each member for each and every payroll period subsequent to the date of establishment of the retirement system, the contribution payable by such member as provided in this chapter, but in no case shall any deduction be made from the compensation of a member after his normal retirement date if such member elects not to contribute.

(c) In determining the creditable compensation of a member in a payroll period, whether semimonthly or monthly, the Board may consider the rate of compensation payable to such member on the date of entry or removal of name from payroll as having been received throughout the month if service for the month is creditable. If service for the month is not creditable, the Board may consider any compensation payable during the month as not being creditable compensation.

(d) The deductions provided for herein shall be made notwithstanding that the minimum compensation provided by law for any member shall be reduced thereby. Every member shall be deemed to consent and agree to the deductions made as provided herein; and payment of salary or compensation less such deductions shall be a full and complete discharge of all claims for services rendered by such person during the period covered by such payment, except as to any benefits provided by this chapter.

(e) Notwithstanding any other provisions of this section, no deductions shall be made from any member's compensation if the employer's contribution required hereunder is in default.

§ 51-111.53. (a) Normal retirement.—Any member in service at his normal retirement date may retire at any time then or thereafter upon written notification to the Board, made by the member or his employer, setting forth at what time the retirement is to become effective, provided that such effective date shall be after his last day of service but shall not be more than ninety days prior to or subsequent to the filing of such notice.

(b) Early retirement.—Any member in service on or after his sixtieth birthday, or, at the time he has complied with the requirements for retirement set forth in Chapter 36 of the Code of 1919 as it existed immediately prior to July one, nineteen hundred forty-two, in the case of a teacher who would have qualified for service retirement prior to his normal retirement date under the provisions of the abolished system and in either case prior to his normal retirement date, may retire upon written notification to the Board, made by the member or his employer, setting forth at what time the retirement is to become effective, provided that such effective date shall be after his last day of service and after the filing of such notice but shall not be more than ninety days subsequent to the filing of such notice.

(c) Deferred retirement for members terminating service.—Any member having *\* terminated service prior to July one, nineteen hundred sixty-six* after fifteen or more years of *creditable service or subsequent to June thirtieth, nineteen hundred sixty-six* after ten or more years of *creditable service* may retire under the provisions of paragraphs (a) or (b) above, provided that he shall not have withdrawn his accumulated contributions prior to the effective date of his retirement, and except that any requirements as to the member being in service shall not apply; provided further however that no member shall be entitled to the benefits of this paragraph if his *employer certifies that his service was terminated because of dishonesty, malfeasance or misfeasance in office; such certification may be appealed to the Board, and its decision shall be final.*

§ 51-111.55. \* (a) *Upon retirement as provided in § 51-111.53, on or after July one, nineteen hundred sixty-six* a member shall receive an annual retirement allowance, payable monthly to him for life, *subject to the provisions of subsection (g) of this section, determined in accordance with paragraph (1) or (2), whichever is applicable:*

(1) Normal retirement under § 51-111.53 (a).—An amount equal to one and *\* three-eighths* per centum of his average final compensation multiplied by his number of years of creditable service subject, however, to the provisions of subsections *\* (b), (c), and (e)* of this section. \*

(2) Early retirement under § 51-111.53(b).—An amount which shall be determined in the same manner as for retirement at his normal retirement date with years of creditable service and average final compensation being determined as of the date of his actual retirement, and the amount of the retirement allowance so determined being reduced on an actuarial equivalent basis for the period that the actual retirement date precedes the normal retirement date subject, however, to the provisions of subsections *\* (b) and (d)* of this section; provided further that the retirement allowance of a member retiring on or after his sixtieth birthday and with at least thirty years of creditable service shall not be so reduced.

*In the case of any beneficiary retired for service on or after March one, nineteen hundred fifty-two and prior to July one, nineteen hundred*

*sixty-six, the annual retirement allowance payable on and after July one, nineteen hundred sixty-six shall be equal to the larger of (i); eleven-ninths of the allowance that would have been paid theretofore except for the application of provisions corresponding to those contained in subsections (c), (d) and (e) of this section and (ii), the allowance theretofore paid, subject to the provisions of subsection (d) of this section.*

(b) Normal or early retirement.— \* *In addition to the allowance payable under subsection (a) of this section, a member shall receive an additional allowance which shall be the actuarial equivalent, for his attained age at time of retirement, of the excess, if any, of his accumulated contributions transferred from the abolished system to the retirement system, including interest credited since such transfer to the date of retirement, over the amount obtained by accumulating at the rate of two per centum compounded annually, annual amounts equal to four per centum of his annual creditable compensation at the date of abolition of the Virginia Retirement System for a period equal to his period of membership in the abolished system and with interest credited at two per centum annually from the date of such transfer to the date of retirement.*

(c) Normal retirement guarantee.—The retirement allowance payable upon normal retirement to a former member of the abolished system who transferred his accumulated contributions to the retirement system as provided in § 51-111.41 and who has not withdrawn such contributions prior to retirement, shall, *subject to the provisions of subsection (f) of this section*, be at least an amount which when added to the primary social security benefits to which the member may become entitled under the federal Social Security Act in effect at his retirement date, would equal the service retirement allowance to which the member would have been entitled under the provisions of the abolished system if he had continued contributions at the amount in effect at the date of abolition of the Virginia Retirement System.

(d) Early retirement guarantee.—The retirement allowance payable upon early retirement to a former member of the abolished system who transferred his accumulated contributions to the retirement system as provided in § 51-111.41 and who has not withdrawn such contributions prior to retirement shall, *subject to the provisions of subsection (f) of this section*, not be less than the service retirement allowance determined in accordance with the provisions of the abolished system in the case of any member who would have qualified prior to his normal retirement date for such service retirement allowance if the Virginia Retirement System had not been abolished; provided, however, that the total retirement allowance payable in accordance with this subsection after any such member attains his sixty-fifth birthday shall be reduced by the amount of any primary social security benefits to which such member becomes entitled under the federal Social Security Act then in effect, but the retirement allowance shall in no case be reduced below the amount that would be payable to such member except for the provisions of this subsection, nor \* shall the combined retirement system allowance and primary social security benefit upon attaining age sixty-five be less than the retirement allowance payable, including increases provided by the General Assembly of Virginia, to former members retired under the provisions of the retirement acts in effect prior to March one, nineteen hundred fifty-two.

(e) Minimum service retirement allowance.—\* The amount of annual retirement allowance as determined under *paragraph (1) of subsection (a) \** of this section shall, *subject to the provisions of subsection (f)*

of this section, be at least an amount which when added to the primary social security benefits to which the member may become entitled under the federal Social Security Act in effect at his retirement date would equal twenty dollars times the number of years of creditable service of the member subject to a maximum of six hundred dollars.

(f) Determination of retirement allowance.—For the purposes of subsections (c), (d) and (e) of this section, the retirement allowance shall be determined on the assumption that the retirement allowance is payable to the member alone and that no optional retirement allowance as provided in § 51-111.60 is elected.

(g) Beneficiary serving in position covered by this chapter.—Should a beneficiary of a service retirement allowance under this chapter or the abolished system be at any time in service as an employee in a position covered for retirement purposes under the provisions of this or any chapter other than Chapter 3.1 (§ 51-111.1 et seq.) of this title, if the State contributes any of the employer costs, his retirement allowance shall cease while so employed.

§ 51-111.56. (a) Any member in service or within ninety days after termination of service who has ten or more years of creditable service may, at any time before his normal retirement date, retire on account of disability not compensable under the Virginia Workmen's Compensation Act upon written notification to the Board, made by the member or his employer, setting forth at what \* date the retirement is to become effective; provided that such effective date shall be after his last day of service but shall not be more than ninety days prior to the filing of such \* notification; \* provided, further that the Medical Board, after a medical examination of the member requesting disability retirement, shall certify that such member is, and has been continuously since such effective date if prior to the filing of such \* notification, mentally or physically incapacitated for the further performance of duty and that such incapacity is likely to be permanent and that such member should be retired.

(b) \* Any member in service or within ninety days after termination of service may, at any time before his normal retirement date, retire on account of disability from a cause compensable under the Virginia Workmen's Compensation Act, upon written notification to the Board, made by the member or his employer, setting forth at what date the retirement is to become effective; provided, that such effective date shall be after his last day of service, but shall not be more than ninety days prior to the filing of such notification; provided further that the Medical Board, after a medical examination of the member requesting disability retirement, shall certify that such member is, and has been continuously since such effective date if prior to the filing of such notification, mentally or physically incapacitated for the further performance of duty and that such incapacity is likely to be permanent and that such member should be retired.

(c) In the event no compensation is finally awarded under the Virginia Workmen's Compensation Act with respect to the disability of a member, due to legal proceedings or otherwise resulting in settlement from the person, or persons causing such disability, the Virginia Industrial Commission, upon request of the Board, shall for the purpose of this section determine whether such member's disability was from a cause compensable under the Virginia Workmen's Compensation Act.

§ 51-111.57. (a) Allowance payable on retirement.—Upon retirement as provided in § 51-111.56 on or after July one, nineteen hundred

sixty-six, a member shall receive an annual retirement allowance payable monthly during his lifetime and continued disability \* equal to one and three-eighths per centum of his average final compensation multiplied by the smaller of:

- (i) twice the number of his years of creditable service; or
- (ii) the number of years of creditable service he would have completed at age sixty if he had remained in service to that age, or in the case of a member who has already attained age sixty, the number of his years of creditable service at date of retirement;

subject, however, to the provisions of subsections (b), (c) and (d) of this section.

In the case of any beneficiary retired for disability on or after March one, nineteen hundred fifty-two and prior to June thirty, nineteen hundred sixty-six who has attained his sixty-fifth birthday prior to June thirty, nineteen hundred sixty-six, and whose retirement allowance has been recomputed as a service retirement allowance, the annual retirement allowance payable on and after July one, nineteen hundred sixty-six shall be equal to eleven-ninths of the allowance theretofore paid. In the case of any such beneficiary who has not attained his sixty-fifth birthday prior to June thirty, nineteen hundred sixty-six, and whose allowance is not computed under a specific provision relating to a "law enforcement officer disability allowance", the allowance payable after July one, nineteen hundred sixty-six shall be equal to the allowance theretofore paid subject to the provisions of subsection (c) of this section, until his sixty-fifth birthday. On and after the sixty-fifth birthday of such a beneficiary, the allowance payable shall be equal to the service retirement allowance for normal retirement determined in accordance with paragraph (1) of subsection (a) of § 51-111.55, except that subsections (c) and (e) of § 51-111.55 shall not apply, on the assumption that his creditable compensation on the date of disability retirement continued in the same amount up to his sixty-fifth birthday and on the assumption that years of creditable service at normal retirement included both the creditable service prior to disability retirement and the period of disability retirement.

(b) Disability retirement guarantee.—The disability retirement allowance payable \* to a former member of the abolished system who transferred his accumulated contributions to the retirement system and who has not withdrawn such contributions prior to such retirement, shall be at least an amount which, when added to the primary social security benefits to which the member may become entitled under the federal Social Security Act in effect at his retirement date, would equal the disability retirement allowance to which the individual would have been entitled under the provisions of the abolished system. \*

\* \* \*

(c) Minimum disability retirement allowance.— \* Notwithstanding the provisions of subsection (a) of this section, \* the amount of annual retirement allowance as determined under this section shall, effective six months after retirement date and subject to the provisions of subsection (e) of this section, be at least an amount which when added to the primary social security benefits to which the member may become entitled under the federal Social Security Act in effect at his retirement date would equal one thousand dollars or twenty-five per centum of average final compensation whichever is larger, \* provided further \* the annual amount of the combined retirement system allowance and primary social security



benefit for any member retired or retiring and credited with twenty or more years of service at the time of retirement shall, *effective six months after retirement date, and subject to the provisions of subsection (e) of this section*, not be less than the retirement allowance payable, including increases provided by the General Assembly of Virginia, to former members retired for disability under the provisions of the retirement acts in effect prior to March one, nineteen hundred fifty-two.

(d) *Special disability retirement guarantee.—Notwithstanding the provisions of subsection (a) of this section if a member retires after June thirty, nineteen hundred sixty-six for disability under the provisions of subsection (b) of § 51-111.56, the amount of annual retirement allowance as determined under this section shall, subject to the provisions of subsections (e) and (f), of this section, be at least an amount which when added to the primary social security benefits to which the member may become entitled under the federal Social Security Act in effect at his retirement date would equal two-thirds of the sum of the member's average final compensation plus twelve hundred dollars.*

(e) Determination of retirement allowance.—For the purposes of this section the retirement allowance shall be determined on the assumption that the retirement allowance is payable to the member alone and that no optional retirement allowance is elected.

(f) Reduction of allowance by amount of payments under Workmen's Compensation Act.—Any allowance payable to a member under this section shall be reduced by the amount of any payments \* under the Virginia Workmen's Compensation Act and the excess of the allowance, if any, shall be paid to such member. When the time for \* payments of the compensation \* under such act has elapsed, the member shall thereafter receive the full amount of such allowance payable monthly during his lifetime and continued disability. *Should the member accept reimbursement in lieu of compensation under the Virginia Workmen's Compensation Act, due to legal proceedings or otherwise resulting in settlement from the person or persons causing the member's disability, the compensation that would have been payable, except for such settlement, as determined by the Virginia Industrial Commission upon request of the Board, shall, for the purposes of this subsection, be assumed to have been payable.*

§ 52-111.58:1. (a) Should a member die at any time before retirement, \* *and if no benefits are payable under subsection (b) of this section*, the amount of his accumulated contributions, reduced by the amount of any retirement allowance previously received by him under this chapter or the abolished system, shall be paid to such person, if any, as he has nominated by written designation signed and acknowledged by such member before some person authorized to take acknowledgements and filed with the Board, otherwise to his executors or administrators. Any such designation may be changed by the member by the written designation of some other person, signed, acknowledged and filed as aforesaid.

(b) Should a member in service die at any time before retirement and after *either attaining his sixtieth birthday or completing at least thirty years of creditable service and if no benefits are payable under subsection (c) of this section* there shall be paid a retirement allowance to \* *the person nominated as provided in subsection (a) of this section if such person is the wife, husband, mother or father of the member; such*

retirement allowance shall be continued during the lifetime of \* such person \* and shall be, (1) in the case of a member who dies prior to attaining his sixty-fifth birthday, an allowance equal to one-half of the deceased retirement allowance that would have been payable to the member had the member retired *under the provisions of subsection (b) of § 51-111.53* on the date of his death after having elected to have his allowance payable under the joint and last survivor option described in subsection (a) (2) of § 51-111.60 so that one-half thereof would be continued after his death to such \* person, *assuming, in the case of a member who had not attained his sixtieth birthday at his date of death, that the requirement of having attained his sixtieth birthday was not included in the provisions of subsection (b) of § 51-111.53, and that the retirement allowance payable in such event would be reduced on an actuarial equivalent basis for the period by which the date of death preceded the date the member would have attained his sixtieth birthday*; or, (2) in the case of a member who dies after attaining his sixty-fifth birthday, an allowance equal to the deceased retirement allowance that would have been payable to the member had the member retired *under the provisions of subsection (a) of § 51-111.53* on the date of his death after having elected to have his allowance payable under the joint and last survivor option described in subsection (a) (2) of § 51-111.60 so that the same amount would be continued after his death to such \* person. Provided that \* in the determination of the allowance that would have been payable to the member had the member retired on the date of his death, the provisions of subsections \* (b), (c) and (d) of § 51-111.55 shall not apply; and provided further that \* if \* such \* person \* so electes in writing under seal and duly acknowledged, the amount of the member's accumulated contributions, reduced by the amount of any retirement allowance previously received by him under this chapter or the abolished system, shall be paid to \* such person \* in lieu of any other benefits under this subsection.

(c) *Should a member die in service at any time before retirement from a cause compensable under the Virginia Workmen's Compensation Act, an annual retirement allowance shall be paid to the widow or widower, if any, of such member. In the event no compensation is finally awarded under the Virginia Workmen's Compensation Act with respect to the death of a member, due to legal proceedings or otherwise resulting in settlement from the person or persons causing such death, the Virginia Industrial Commission, upon request of the Board, shall for the purpose of this section determine whether such member's death was from a cause compensable under the Virginia Workmen's Compensation Act. If such member leaves no widow or widower, or the widow or widower dies or remarries, then the child or children under the age of eighteen years, if any, of the deceased member, shall be paid an allowance until such child or children die or attain the age of eighteen years, whichever shall first occur. If more than one child survives the deceased member, the allowance shall be divided among them in such manner as the Board may determine. If the deceased member leaves neither widow, widower nor child or children under the age of eighteen years, then such allowance shall be paid to the member's parent or parents wholly dependent upon him for support, divided in such manner as the Board may determine, during the life or lives of such parent or parents.*

*The retirement allowance, payable hereunder to a qualifying survivor or survivors, shall be the annual amount, payable monthly, which when added to the social security benefit payable as result of coverage of the member under the federal Social Security Act and the compensation payable under the Virginia Workmen's Compensation Act for the death of the member, shall be equal to one-half of the sum of the member's average final compensation and twelve hundred dollars. Should no compensation*

*be payable under the Virginia Workmen's Compensation Act due to reimbursement in lieu of benefits thereunder, the compensation that would otherwise have been awarded, as determined by the Virginia Industrial Commission upon request of the Board shall, for the purposes of this subsection, be assumed to have been awarded.*

*Any beneficiary entitled to the entire amount of a retirement allowance under the provisions of this subsection as a result of the death of a member shall be entitled to waive his rights to such allowance by written notification to the Board within ninety days after the death of such member in order to make available a retirement allowance under the provisions of subsection (b) of this section.*

§ 51-111.60. (a) Each member shall have the right at any time, not subsequent to the later of the effective date of the member's retirement or the date of written notification to the Board of the retirement of the member, to elect to have his retirement allowance payable under \* one of the options set forth in this section in lieu of the retirement allowance otherwise payable to him upon retirement under any of the provisions of this chapter. The amount of any such optional retirement allowance shall be the actuarial equivalent of the amount of such retirement allowance otherwise payable to him. The member shall make such an election by written request to the Board and such an election shall be subject to the approval of the Board.

(1) Straight life option.—A member may elect to receive an increased retirement allowance in lieu of any death benefits as provided in § 51-111.59.

(2) Joint and last survivor option.—\* A member may elect to receive a decreased retirement allowance during his lifetime and have such retirement allowance (or one-half thereof if so designated) continued after his death to another person during the lifetime of such person; *provided, however, that if the member's retirement is for disability, the election of the retirement allowance to be continued after the member's death shall be limited to one-half of the decreased retirement allowance received by the member during his lifetime.* In case of such an election death benefits that might otherwise be provided under § 51-111.59 shall not be payable upon the death of the member. This option may not be elected by a member if the Social Security option of paragraph (a) (3) hereof has previously been elected.

(3) Social Security option.—If a member retires for service prior to his normal retirement date, he may elect to receive an increased retirement allowance up to his normal retirement date and a decreased retirement allowance thereafter, thereby providing a more nearly level retirement allowance when such decreased retirement allowance is added to his anticipated primary benefits under the federal Social Security Act. The election of this option shall automatically revoke any previous election under the joint and last survivor option of paragraph (a) (2) hereof.

(4) Other options.—Some other benefits \* *may* be paid either to the member or to such person or persons as he shall select.

(b) The election by a member of any one of the options stated in this section shall be null and void if the member dies prior to retirement, and the election of a member of the option stated in paragraph (a) (2) hereof shall be null and void if the designated person dies before the member's retirement.

(c) A member who has elected any one of the options stated in this section may, at any time prior to the later of the effective date of the member's retirement or the date of written notification to the Board of retirement of the member, revoke such an election by written notification to the Board.

§ 51-111.62. Whenever a beneficiary of a disability retirement allowance is prior to his normal retirement date engaged in, or is able to engage in, gainful occupation or work paying more than the difference between his disability retirement allowance and his average final compensation, the Board may reduce such retirement allowance to an amount which, together with the amount earnable by *\* the beneficiary* equals the amount of his average final compensation *\* or, at the option of the Board, equals the amount of his average final compensation adjusted to allow for increases in the cost of living since the date of retirement. In determining the net amount considered to be earnable by the beneficiary, the Board may take into account the amount of any medical expenses directly incurred by the beneficiary to reduce or eliminate the cause of disability.*

§ 51-111.67:4. (a) Each employee to whom this article applies shall, subject to the terms and conditions thereof, be eligible to be insured for an amount of group life insurance plus an equal amount of group accidental death and dismemberment insurance, in accordance with the following schedule:

If annual compensation is—

I Greater than—	II But not greater than—	III The amount of group life insurance shall be—	IV The maximum amount of group accidental death and dismember- ment insurance shall be—
0	\$ 1,000	\$ 1,000	\$ 1,000
\$ 1,000	2,000	2,000	2,000
2,000	3,000	3,000	3,000
3,000	4,000	4,000	4,000
4,000	5,000	5,000	5,000
5,000	6,000	6,000	6,000
6,000	7,000	7,000	7,000
7,000	8,000	8,000	8,000
8,000	9,000	9,000	9,000
9,000	10,000	10,000	10,000
10,000	11,000	11,000	11,000
11,000	12,000	12,000	12,000
12,000	13,000	13,000	13,000
13,000	14,000	14,000	14,000
14,000	15,000	15,000	15,000
15,000	16,000	16,000	16,000
16,000	17,000	17,000	17,000
17,000	18,000	18,000	18,000
18,000	19,000	19,000	19,000
19,000	20,000	20,000	20,000
20,000	21,000	21,000	21,000
21,000	22,000	22,000	22,000
22,000	23,000	23,000	23,000
23,000	24,000	24,000	24,000
24,000	25,000	25,000	25,000
25,000	26,000	26,000	26,000
26,000	27,000	27,000	27,000
27,000	28,000	28,000	28,000
28,000	29,000	29,000	29,000
29,000	.....	30,000	30,000

The Board may, with respect to employees while in service and under age sixty-five, increase the amounts of insurance set forth in Columns III and IV above for such period as may be specified by the Board if the

Board determines (1) that such increase can be made without exceeding the rate of employee contributions specified in §§ 51-111.67:5 and 51-111.67:6 and (2) that, after applying to the cost of such increase any reserve funds held by, or to the credit of the Board, resulting from the annual accounting required by § 51-111.67:7, such increase in amount of insurance can be made without increasing, during such specified period, the premiums, charges or portions thereof not paid for by employee contributions which would have been incurred had such increase in amounts of insurance not been made.

With respect to any employee who is re-employed and insured in accordance with the provisions of this article, the foregoing otherwise applicable amount of group life insurance shall be reduced by the amount of insurance provided by any policy of insurance issued under the conversion privilege of any policy issued pursuant to the provisions of this article.

Subject to the conditions and limitations of the policy or policies purchased by the Board under this article, the group accidental death and dismemberment insurance shall provide payments as follows:

Loss	Amount Payable
For loss of life	Full amount * <i>determined in accordance with the applicable schedule * or Benefit Formula of this section</i>
Loss of one hand or of one foot or loss of sight of one eye	One-half of the amount * <i>determined in accordance with the applicable schedule * or Benefit Formula of this section</i>
Loss of two or more such members	Full amount * <i>determined in accordance with the applicable schedule * or Benefit Formula of this section</i>

For any one accident the aggregate amount of group accidental death and dismemberment insurance that may be paid shall not exceed the maximum amount of group accidental death and dismemberment insurance \* *determined in accordance with the applicable schedule \* or Benefit Formula of this section.*

*Effective September one, nineteen hundred sixty-six, with respect to any employee whose death or dismemberment occurs while such employee is in service and under age sixty-five, the amounts of insurance shall be determined in accordance with the following Benefit Formula rather than in accordance with the schedule shown above.*

*Benefit Formula—The amount of group life insurance and the maximum amount of group accidental death and dismemberment insurance at the date of an employee's death or dismemberment shall be determined by multiplying the employee's annual compensation on such date, excluding such compensation in excess of thirty thousand dollars, by such employee's Age Factor, as shown immediately following. Where the amount of insurance so determined is not an even multiple of one thousand dollars, the amount of such insurance shall be increased to the next higher one thousand dollars.*

<i>Employee's Age</i>	<i>Age Factor</i>
<i>50 and Under</i>	<i>2.0</i>
<i>51</i>	<i>1.95</i>
<i>52</i>	<i>1.9</i>
<i>53</i>	<i>1.85</i>
<i>54</i>	<i>1.8</i>
<i>55</i>	<i>1.75</i>
<i>56</i>	<i>1.7</i>
<i>57</i>	<i>1.65</i>
<i>58</i>	<i>1.6</i>
<i>59</i>	<i>1.55</i>
<i>60</i>	<i>1.5</i>
<i>61</i>	<i>1.4</i>
<i>62</i>	<i>1.3</i>
<i>63</i>	<i>1.2</i>
<i>64</i>	<i>1.1</i>

(b) The amounts of life and accidental death and dismemberment insurance on employees who remain employed after age sixty-five shall be reduced by two per centum thereof at the end of each full calendar month following the date the employee attains age sixty-five; but such reduction shall not decrease the amount of insurance on an employee to less than twenty-five per centum of the insurance in force immediately preceding the first reduction therein; provided, that the amounts of life and accidental death and dismemberment insurance in force from time to time on an employee who becomes insured under this article after having attained the age of sixty-five shall be the same as would be in force had he been insured at age sixty-five and shall be based on the lesser of his annual compensation (1) at the time he becomes so insured, or (2) at age sixty-five provided he was eligible at that time to be insured under this article.

(c) The amount of life insurance on each employee who retires (i) for service on an immediate annuity shall be reduced by two per centum of the amount of insurance in force at such employee's age sixty-five, or other lesser age if so retired prior to age sixty-five, at the end of each full calendar month following the date the employee attains age sixty-five or other lesser age if so retired prior to age sixty-five or (ii) because of disability on an immediate annuity shall be reduced at the end of each full calendar month following the date such employee attains age sixty-five by an amount equal to two per centum of the amount of insurance in force on the date such retirement commenced, except if the employee by statute or Board regulation has pursuant to subsection (f) of this section, been construed to be in service to the beginning of the next school year the reduction, whether for age or retirement for service, or because of disability on immediate annuity, shall not apply until the beginning of such next school year. But such reduction shall not decrease the amount of life insurance on an employee to less than twenty-five per centum of the insurance in force immediately preceding the first reduction therein; provided, that the amounts of life insurance in force from time to time on an employee who becomes insured under this article after having attained the age of sixty-five and later so retires shall be the same as would be in force had he been insured and so retired at age sixty-five and shall be based on the lesser of his annual compensation (1) at the time he becomes so insured, or (2) at age sixty-five provided he was eligible at that time to be insured under this article; provided, that the Board may, in the case of a disabled retirant who returns to service in a position covered by this article, provide for the insuring of such person for an amount and in the same manner as if then originally employed but the insurance applicable to such person shall be

deemed to have been issued as of the time such person was first insured under the group insurance provided for in this article.

(d) All accidental death and dismemberment insurance on an employee shall cease upon his separation from service or twelve months (two months in the case of any employee on leave of absence for military, naval or air service) after discontinuance of his salary payments or upon his retirement, whichever is earliest.

(e) Except in case of service or disability retirement, all life insurance on an employee shall cease upon his separation from service or twelve months (two months in the case of any employee on leave of absence for military, naval or air service) after discontinuance of his salary payments, whichever first occurs, subject to a temporary extension of such life insurance for not more than thirty-one days and to the right of the employee to convert, without evidence of insurability and within such thirty-one days after such separation from service or end of such twelve months after discontinuance of his salary payments, whichever first occurs, and upon payment of the premium applicable to the class of risk to which he belongs and to the form and amount of the policy at his then attained age, his life insurance into a policy of life insurance without disability or other supplementary benefits in any one of the forms then customarily issued by the insuring company, except term insurance, in an amount equal to the amount of his life insurance under such group insurance policy at the time of such separation or discontinuance, whichever first occurs.

(f) Each employee of a State institution of higher education or of a local school board who remains in the service of such institution of higher education or local school board until the completion of the school year ending in June and who makes contributions required to provide insurance coverage under this article until service normally will be resumed the beginning of the next school year shall, for insurance purposes, be deemed to be in service as an employee through the period to which the payments apply; if during such period such employee is retired for service or disability or attains age sixty-five, contributions made by the employee, § 51-111.67:5 notwithstanding, shall be accepted and retained as proper.

§ 51-111.67:5. Each employee so insured shall contribute to the cost of such life insurance and accidental death and dismemberment insurance an amount to be determined, and within the time specified, by the Board but not to exceed the rate of seventy cents per month for each thousand dollars of such employees' \* *annual compensation, provided that where the amount of annual compensation is not an even multiple of one thousand dollars, annual compensation for the purposes of this section shall be considered to be the next higher one thousand dollars*; provided, however, that employees retired for service or disability and employees in service who have attained age sixty-five shall not be required to contribute to the cost of their life insurance except as otherwise provided in § 51-111.67:4(f); and further provided that if an employee is separated from the service of any State institution of higher education or of any local school board prior to completing a school year the premiums paid shall be accepted and retained as proper to date of separation.

§ 51-111.67:6. Notwithstanding any statute, law, regulation or rule presently in force, during any period in which an employed employee is insured under a policy of insurance purchased under the authority of this article, the Comptroller, in the case of all State officers and employees paid by warrants on the State Treasurer, and, in the case of any other State employee, the department, division, institution or agency by which the salary is paid, and the employer in the case of teachers and other employees, shall, except as otherwise provided in § 51-111.67:5 of this article, cause to be deducted from the salary of each employee for each

and every payroll period subsequent to the effective date of such insurance, an amount determined by the Board, but not to exceed the rate of seventy cents per month for each thousand dollars of *\* such employee's annual compensation, provided that where the amount of annual compensation is not an even multiple of one thousand dollars, annual compensation shall be considered to be the next higher one thousand dollars*; provided, that an employee who is paid on other than a monthly basis shall have an amount so deducted, determined at a proportionate rate, which rate shall be adjusted to the nearest cent. All amounts so deducted shall be retained in or paid into the treasury of Virginia to the credit of the Board and shall be available to the Board for the purpose of carrying out the provisions of this article.

\* \* \*

§ 51-111.70:1. (a) On and after July one, nineteen hundred and sixty-two the amount of the retirement allowance otherwise payable thereafter, including any increase in such allowance payable under § 51-111.70, to any former teachers or State employees retired under the provisions of Chapter 36 of the Code of 1919 as it existed immediately prior to July one, nineteen hundred and forty-two or the provisions of the repealed Virginia Retirement Act, and who, in the case of service retirement, have attained sixty-five years of age, shall be increased by twelve and one-half per centum.

(b) On and after July one, nineteen hundred and sixty-four each retired teacher and State employee included under paragraph (a) hereof shall have his retirement allowance increased by ten per centum of the total amount otherwise payable under paragraph (a).

(c) *On and after July one, nineteen hundred and sixty-six each retired teacher and State employee included under paragraph (a) hereof shall have his retirement allowance increased by twenty-two and two tenths per centum of the total amount otherwise payable under paragraphs (a) and (b).*

§ 51-114.2. Any county or city which has established prior to January one, nineteen hundred and fifty-nine, and is operating a local retirement system, which does not participate in the Virginia Supplemental Retirement System under Article 4 of Chapter 3.2 of Title 51 of the Code of Virginia, and which defines as "compensation" the full compensation payable or fees earnable by its county and city treasurer, attorney for the Commonwealth, commissioner of the revenue, clerk of court, sheriff, sergeant, and a deputy or employee of any such officer, may be reimbursed for a portion of the employer contribution on account of any such officer, deputy or employee as provided in this section; provided that at least once in every two years such political subdivision submits to the Board information required by the actuary of the Board for computing, at the expense of the employing political subdivision, the *\* employer normal contribution \* rate that would be applicable to such political subdivision if all such officers, deputies or employees thereof were members of the Virginia Supplemental Retirement System, on the assumption that no service prior to the computation date was creditable and that no assets were allocable to such members*, and such political subdivision shall be reimbursed by the Board on the basis on which the State pays the salaries of such officer, deputy or employee or shares or would share in the excess fees from the office.

2. This act shall be in force on and after July one, nineteen hundred and sixty-six.



*A BILL to amend the Code of Virginia by adding in Title 51 thereof sections numbered 51-143 through 51-158, to establish a contributory retirement system for State Police officers; and to repeal §§ 51-128 through 51-142 of the Code of Virginia and all amendments thereof, relating to the same matters and to provide for the effect of such repeal.*

Be it enacted by the General Assembly of Virginia:

1. That the Code of Virginia be amended by adding in Title 51 sections numbered 51-143 through 51-158 as follows:

#### STATE POLICE OFFICERS RETIREMENT SYSTEM

§ 51-143. Retirement system.—(a) There is created a retirement system (hereinafter sometimes referred to as “system”) for the State police officers of the Department of State Police (hereinafter referred to as “State police officers”).

(b) The provisions of this chapter shall be administered by the Board of Trustees of the Virginia Supplemental Retirement System. Except as otherwise provided in this chapter the provisions of the Virginia Supplemental Retirement Act are applicable and shall apply to and govern the operation of the retirement system established hereby.

§ 51-144. Definitions.—As used in this chapter unless a different meaning is plainly required by the context:

(1) “Board” means the board of trustees as provided by § 51-111.17;

(2) “Medical board” means the board of physicians as provided by § 51-111.26;

(3) “Employee” means a State police officer;

(4) “Member” means any person included in the membership of the retirement system as provided in this chapter;

(5) “Service” means service as an employee, or as an inspector of the Division of Motor Vehicles prior to July first, nineteen hundred and thirty-two;

(6) “Prior service” means service rendered prior to the date of establishment of the system for which credit is available under § 51-146;

(7) “Membership service” means service rendered while a contributing member of the system, except as provided in § 51-146;

(8) “Creditable service” means prior service plus membership service for which credit is allowable under this chapter;

(9) “Beneficiary” means any person entitled to receive benefits under this chapter;

(10) “Accumulated contributions” means the sum of all amounts deducted from the compensation of a member and credited to his individual account in the members’ contribution account, together with interest credited on such amounts and also any other amounts he shall have contributed or transferred thereto including interest credited thereon as provided in § 51-111.49;

(11) “Creditable compensation” means the full compensation payable to an employee working the full working time for his covered position

which is in excess of twelve hundred dollars per annum; in cases where compensation includes maintenance or other perquisites, the Board shall fix the value of that part of the compensation not paid in money;

(12) "Average final compensation" means the average annual creditable compensation of a member during his five highest consecutive years of creditable service or during the entire period of his creditable service if less than five years;

(13) "Retirement allowance" means the retirement payments to which a member is entitled as provided in this chapter;

(14) "Actuarial equivalent" means a benefit of equal value when computed upon the basis of such actuarial tables as are adopted by the Board; and

(15) "Normal retirement date" means a member's sixtieth birthday.

§ 51-145. Membership in system.—(a) Membership in the system shall be compulsory and shall consist of: all persons who were State police officers upon July one, nineteen hundred fifty, and all persons who became or may become State police officers or re-enter service as State police officers after July one, nineteen hundred fifty.

(b) The membership of any person in the system shall cease (i) upon the withdrawal of his accumulated contributions or (ii) upon retirement, or (iii) upon death.

(c) When membership ceases, except in the case of retirement, an employee shall thereafter lose all rights to any retirement allowance benefits under this chapter arising from service prior to the date of such cessation of membership, except as otherwise provided in subsection (c) of § 51-146.

§ 51-146. Creditable service.—(a) Prior service credit of any member shall include service rendered prior to July one, nineteen hundred and fifty except that prior service credit for those members who elected not to be included in membership of the Virginia Retirement System shall be subject to the provisions of subsection (b). The accumulated contributions of a member under the Virginia Retirement System shall, for purposes of this chapter, be considered to have been made hereunder.

(b) Any member who elected not to be included in membership of the Virginia Retirement System shall be credited with his period of service, if any, prior to July one, nineteen hundred and forty-two, but not for the period between that date and July one, nineteen hundred and fifty except by making a payment as provided in subsection (c), provided that if the member's contributions were withdrawn under § 51-109 of the Virginia Retirement System or § 51-155 or corresponding previous provisions of this chapter, credit for all of the member's service since July one, nineteen hundred and forty-two has been established or re-established as provided in subsection (c) of this section.

(c) Any member may be credited with prior and/or membership service which might otherwise have been credited except for one or more of the following:

(i) rejection of membership in the Virginia Retirement System;

(ii) cessation of membership under former § 51-49 of the Code and/or under § 51-145 or corresponding previous provisions of this

chapter because of withdrawal of his accumulated contributions under former § 51-109 of the Code or under § 51-155 or corresponding previous provisions of this chapter;

provided such member pays, while in service or within ninety days after termination of service, an amount equal to the contributions that he would have made during the entire period to be credited (exclusive of any such period prior to June thirty, nineteen hundred and forty-two and exclusive of any period subsequent to June thirty, nineteen hundred and forty-two during which the member was in the armed forces of the United States) on the assumption that the member contribution rate specified in § 51-147 as of the date of payment had been in effect during the entire such period and that his creditable compensation as of the date of payment (or as of the last date in service, if the member is not in service at date of payment) had been received during the entire such period, together with interest thereon at the rate of three and one-half per centum per annum compounded annually from the end of each respective fiscal year to which the contribution applies to the first day of the month during which payment is made. Four-sevenths of such interest payment, and the amount of contributions paid, shall be credited to the account of the member in the member's contribution account.

(d) In order for the additional service provided for in subsection (c) of this section to be considered in the computation of any retirement allowance payable in the event of a member's retirement under § 51-152, the member shall have submitted at the time payment or repayment is made, a medical report satisfactory to the Medical Board showing that the member was at such time of sound mind and body.

(e) An administrative charge of five dollars shall be paid by the member to the retirement system when requesting a cost estimate of the amount of any payment required under subsection (c) of this section.

(f) Any member who, after July one, nineteen hundred and fifty, entered or enters the armed forces of the United States on leave of absence from service, and who does not withdraw his accumulated contributions, shall be entitled to have included as creditable service his period of service in such armed forces provided his discharge therefrom was not dishonorable and he reenters service within one year after discharge. Any member who rejected membership in the Virginia Retirement System and subsequently, on leave of absence from service, entered the armed forces of the United States, shall be entitled to have included as creditable service his period of service in such armed forces provided his discharge therefrom was not dishonorable and he reenters service within one year after discharge and further provided the member purchases credit for all reject service on the purchase basis set forth in subsection (c) of this section.

(g) If within five years after ceasing to be employed as a State police officer, provided he has not been paid his accumulated contributions, the member accepts employment in a position not covered by this chapter but covered under the Virginia Supplemental Retirement Act, he shall be entitled to credit for his previous creditable service under this chapter upon transfer of his accumulated contributions to the members' contribution account in the Virginia Supplemental Retirement System. In such cases, future retirement rights shall be as set forth in the Virginia Supplemental Retirement Act.

(h) Any member in service who rejected membership in the abolished system and who, prior to July one, nineteen hundred sixty-six, was credited with service during the period of rejection upon payment of contributions and interest in accordance with § 51-111.41.1, shall, upon request to the retirement system, be refunded the portion, if any, of such payment attributable to service in the armed forces of the United States that would be creditable under the provisions of subsection (b) of this section. Four-sevenths of the interest payment included in such refund shall be paid from the retirement allowance account and the remainder of the refund shall be paid from the account of the member in the member's contribution account.

§ 51-147. Contributions of members.—(a) Each member shall contribute for each pay period for which he receives compensation five and one-half per centum of his creditable compensation.

(b) The members' contributions provided for herein shall be deducted and paid as provided in subsections (b), (c), (d), (e) and (g) of § 51-111.46.

§ 51-148. Contributions by the State.—(a) The State shall contribute annually an amount equal to the "normal contribution". The normal contribution for any period shall be determined as a percentage, equal to the normal contribution rate, of the total covered compensation of the members in such period, reduced by an amount calculated to be equal to the estimated excess, if any, of the net investment income during such period on the assets of the system over the amount of net investment income thereon assumed in the computation of the normal contribution rate.

(b) The normal contribution rate shall be determined as the percentage of the members' compensation payable during the members' periods of membership required to provide the difference between the total liabilities for retirement allowances not provided by the members' contributions and the amount of the assets in the retirement allowance account.

(c) The State's contribution shall be determined and paid as provided in subsections (c), (d), (e), (f), (g) and (h) of § 51-111.47 and in such other provisions of the Virginia Supplemental Retirement Act as may be applicable to employer contributions.

§ 51-149. Assets of system.—(a) The provisions of § 51-111.48, § 51-111.49, § 51-111.50, § 51-111.51 and § 51-111.52 shall be applicable to the assets of the system.

(b) The Board of Trustees of the Virginia Supplemental Retirement System shall be the trustee of the funds of the system, and the appropriate provisions of § 51-111.22 and § 51-111.24 shall apply. However, the Board shall maintain the assets of the system, for all intents and purposes, in separate funds from the assets of the Virginia Supplemental Retirement System.

§ 51-150. Service retirement.—(a) Any member in service at his normal retirement date shall be retired forthwith, unless the member has not at that time completed twenty-five years of creditable service, in which case he shall be retired upon the attainment of his sixty-fifth birthday or the completion of twenty-five years of creditable service, whichever first occurs.

(b) Any member in service on or after his fifty-fifth birthday may retire upon written notification to the Board, given by the member or

his employer, setting forth at what time the retirement is to become effective, provided that such effective date shall be after his last day of service and after the filing of such notice but shall not be more than ninety days subsequent to the filing of such notice.

(c) Any member having terminated service prior to July one, nineteen hundred and sixty-six, after fifteen or more years of creditable service, or subsequent to June thirty, nineteen hundred and sixty-six, after ten or more years of creditable service may retire under the provisions of paragraphs (a) or (b) above, provided that he shall not have withdrawn his accumulated contributions prior to the effective date of his retirement, and except that any requirements as to the member being in service shall not apply; provided further however that no member shall be entitled to the benefits of this paragraph if his employer certifies that his service was terminated because of dishonesty, malfeasance or misfeasance in office; any such certification may be appealed to the Board, and its decision shall be final.

§ 51-151. Service retirement allowance.—(a) Upon retirement as provided in § 51-150, on or after July one, nineteen hundred and sixty-six, a member shall receive an annual retirement allowance, payable monthly to him for life, subject to the provisions of subsection (e) of this section, determined in accordance with paragraph (1) or (2), whichever is applicable:

(1) Normal retirement under § 51-150(a).—An amount equal to one and three-eighths per centum of his average final compensation multiplied by his number of years of creditable service subject, however, to the provisions of subsections (b) and (c) of this section.

(2) Early retirement under § 51-150(b).—An amount which shall be determined in the same manner as for retirement at his normal retirement date with years of creditable service and average final compensation being determined as of the date of his actual retirement, and the amount of the retirement allowance so determined being reduced on an actuarial equivalent basis for the period that the actual retirement date precedes the normal retirement date subject, however, to the provisions of subsections (b) and (c) of this section; provided further that the retirement allowance of a member retiring on or after his fifty-fifth birthday and with at least thirty years of creditable service shall not be so reduced.

(b) In addition to the allowance payable under subsection (a) of this section, a member shall receive an additional annual allowance, payable monthly, for each month after his sixtieth birthday and prior to his sixty-fifth birthday, equal to one thousand six hundred twenty dollars.

(c) The retirement allowance payable under this section to any member who was in service on June thirty, nineteen hundred and sixty-six shall, subject to the provisions of subsection (d), be not less than an amount which, when added to the amount of any primary social security benefits to which the member becomes entitled under the federal Social Security Act, would equal, in the case of a member who retires on or after his normal retirement date, two per centum of the sum of the member's average final compensation plus twelve hundred dollars multiplied by his years of creditable service not in excess of twenty-five years or, in the case of a member who retires prior to his normal retirement date, an amount similarly determined but reduced on an actuarial

equivalent basis for the period by which the actual retirement date precedes the normal retirement date.

(d) For the purposes of subsection (c), the retirement allowance shall be determined on the assumption that it is payable to the member alone and that no optional form of retirement allowance as provided in § 51-111.60 is elected. If a beneficiary does not qualify for, or loses, primary social security benefits to which he is entitled under the federal Social Security Act because of his failure to make application therefor, entering into covered employment, or otherwise, such primary social security benefits shall nevertheless be considered as being received by such beneficiary for the purposes of subsection (c).

(e) Should a beneficiary of a service retirement allowance under this chapter be at any time in service as an employee in a position covered for retirement purposes under the provisions of this or any chapter other than Chapter 3.1 (§ 51-111.1 et seq.) of this title, if the State contributes any of the employer costs, his retirement allowance shall cease while so employed.

(f) In the case of any member retired prior to July one, nineteen hundred and sixty-six, for service, the retirement allowance payable on or after July one, nineteen hundred and sixty-six shall be equal to the larger of an amount or amounts computed in accordance with the preceding subsections of this section and the amount or amounts of the allowance that would have been payable except for the provisions of this subsection.

§ 51-152. Disability retirement.—(a) Any member in service or within ninety days after termination of service who has ten or more years of creditable service may, at any time before his normal retirement date, retire on account of disability not compensable under the Virginia Workmen's Compensation Act upon written notification to the Board, given by the member or his appointing authority, setting forth at what date the retirement is to become effective; provided that such effective date shall be after his last day of service but shall not be more than ninety days prior to the filing of such notification; provided further that the Medical Board, after a medical examination of the member requesting disability retirement, shall certify that such member is, and has been continuously since such effective date if prior to the filing of such notification, mentally or physically incapacitated for the further performance of duty and that such incapacity is likely to be permanent and that such member should be retired.

(b) Any member in service or within ninety days after termination of service may, at any time before his normal retirement date, retire on account of disability from a cause compensable under the Virginia Workmen's Compensation Act, upon written notification to the Board, made by the member or his appointing authority, setting forth at what date the retirement is to become effective; provided, that such effective date shall be after his last day of service, but shall not be more than ninety days prior to the filing of such notification; provided further that the Medical Board, after a medical examination of the member requesting disability retirement, shall certify that such member is, and has been continuously since such effective date if prior to the filing of such notification, mentally or physically incapacitated for the further performance of duty and that such incapacity is likely to be permanent and that such member should be retired.

(c) In the event no compensation is finally awarded under the Virginia Workmen's Compensation Act with respect to the disability of a member, due to legal proceedings or otherwise resulting in settlement from the person, or persons causing such disability, the Virginia Industrial Commission, upon request of the Board, shall for the purpose of this section determine whether such member's disability was from a cause compensable under the Virginia Workmen's Compensation Act.

(d) Any member in service who is totally and permanently disabled while on active duty as a result of the felonious misconduct of another, and who is not less than thirty years of age and has been in service not less than seven years, and whose disability has occurred since January one, nineteen hundred and sixty, may retire as provided in (b) above and the said member shall be entitled to maintenance and services at the Woodrow Wilson Rehabilitation Center without being liable to pay for the same.

§ 51-153. Disability retirement allowance.—(a) Upon retirement as provided in § 51-152 on or after July one, nineteen hundred and sixty-six, a member shall receive an annual retirement allowance payable monthly during his lifetime and continued disability equal to one and three-eighths per centum of his average final compensation multiplied by the smaller of:

- (i) twice the number of his years of creditable service; or
- (ii) the number of years of creditable service he would have completed at age sixty, if he had remained in service to that age;

subject, however, to the provisions of subsections (b) and (c) of this section.

In the case of any beneficiary retired for disability prior to July one, nineteen hundred and sixty-six who has not attained his sixtieth birthday as of that date, the allowance payable after July one, nineteen hundred and sixty-six shall be equal to the allowance theretofore paid, subject to the provisions of subsection (b) of this section, until his sixtieth birthday. On and after the sixtieth birthday of such a beneficiary, the allowance payable shall be equal to the service retirement allowance for normal retirement determined in accordance with paragraph (1) of subsection (a) of § 51-151, subject to the provisions of subsections (b) and (c) of § 51-151, on the assumption that creditable compensation on the date of disability retirement continued in the same amount up to his sixtieth birthday and on the assumption that years of creditable service at normal retirement included both the creditable service prior to disability retirement and the period of disability retirement.

(b) Notwithstanding the provisions of subsection (a) of this section, the amount of annual retirement allowance as determined under this section shall, effective six months after retirement date and subject to the provisions of subsection (d) of this section, be at least an amount which when added to the primary social security benefits to which the member may become entitled under the federal Social Security Act in effect at his retirement date would equal one thousand dollars or twenty-five per centum of average final compensation, whichever is larger, provided further the annual amount of the combined retirement system allowance and primary social security benefit for any member retired or retiring and credited with twenty or more years of service at the time of retirement shall, effective six months after retirement date, and subject to the provisions of subsection (d) of this

section, not be less than the retirement allowance payable, including increases provided by law, to former members retired for disability under the provisions of the retirement acts in effect prior to March one, nineteen hundred and fifty-two.

(c) Notwithstanding the provisions of subsection (a) of this section, if a member retires for disability under the provisions of subsection (b) of § 51-152, the amount of annual retirement allowance as determined under this section shall, subject to the provisions of subsections (d) and (e) of this section, be at least an amount which when added to the primary social security benefits to which the member may become entitled under the federal Social Security Act in effect at his retirement date would equal two-thirds of the sum of the member's average final compensation plus twelve hundred dollars.

(d) For the purposes of this section the retirement allowance shall be determined on the assumption that the retirement allowance is payable to the member alone and that no optional retirement allowance is elected. If a beneficiary does not qualify for, or loses, primary social security benefits to which he is entitled under the federal Social Security Act because of his failure to make application therefor, entering into covered employment, or otherwise, such primary social security benefits shall nevertheless be considered as being received by such beneficiary for the purposes of this section.

(e) Any allowance payable to a member under this section shall be reduced by the amount of any payments under the Virginia Workmen's Compensation Act and the excess of the allowance, if any, shall be paid to such member. When the time for payments of the compensation under such act has elapsed, the member shall thereafter receive the full amount of such allowance payable monthly during his lifetime and continued disability. Should the member accept reimbursement in lieu of compensation under the Virginia Workmen's Compensation Act, due to legal proceedings or otherwise resulting in settlement from the person or persons causing the member's disability, the compensation that would have been payable, except for such settlement, as determined by the Virginia Industrial Commission upon request of the Board, shall, for the purposes of this subsection, be assumed to have been payable.

(f) The payment of any disability allowance hereunder shall be subject to the provisions of § 51-111.61, § 51-111.62 and § 51-111.63 to the extent applicable.

§ 51-154. Optional benefits.—Each member shall have the right to elect to have his retirement allowance payable under an actuarially equivalent option as provided in § 51-111.60.

§ 51-155. Withdrawal before retirement.—If a member has ceased to be an employee, otherwise than by death, or by retirement under the provisions of this chapter, he shall be paid, on demand, but not later than ninety days thereafter, the amount of his accumulated contributions reduced by the amount of any retirement allowances previously received by him under any of the provisions of this chapter.

§ 51-156. Death before retirement.—(a) Should a member die at any time before retirement, and if no benefits are payable under subsection (b) of this section, the amount of his accumulated contributions, reduced by the amount of any retirement allowance previously received by him



under this chapter, shall be paid to such person, if any, as he has nominated by written designation signed and acknowledged by such member before some person authorized to take acknowledgements and filed with the Board, otherwise to his executors or administrators. Any such designation may be changed by the member by the written designation of some other person, signed, acknowledged, and filed as aforesaid.

(b) Should a member die in service at any time before retirement and after either attaining his fifty-fifth birthday or completing at least thirty years of creditable service and if no benefits are payable under subsection (c) of this section, there shall be paid a retirement allowance to the person nominated as provided in subsection (a) of this section, if such person is the wife, husband, mother or father of the member; such retirement allowance shall be continued during the lifetime of such person and shall be an allowance equal to one-half of the decreased retirement allowance that would have been payable to the member had the member retired under the provisions of § 51-150 on the date of his death after having elected to have his allowance payable under the joint and last survivor option described in subsection (a) (2) of § 51-111.60 so that one-half thereof would be continued after his death to such person. Provided that in the determination of the allowance that would have been payable to the member had the member retired on the date of his death, the provisions of subsections (b) and (c) of § 51-151 shall not apply; and provided further, that if such person so elects in writing under seal and duly acknowledged, the amount of the member's accumulated contributions, reduced by the amount of any retirement allowance previously received by him under this chapter, shall be paid to such person, in lieu of any other benefits under this subsection.

(c) Should a member die in service at any time before retirement from a cause compensable under the Virginia Workmen's Compensation Act, an annual retirement allowance shall be paid to the widow or widower, if any, of such member. In the event no compensation is finally awarded under the Virginia Workmen's Compensation Act with respect to the death of a member, due to legal proceedings or otherwise resulting in settlement from the person or persons causing such death, the Virginia Industrial Commission, upon request of the Board, shall for the purpose of this section determine whether such member's death was from a cause compensable under the Virginia Workmen's Compensation Act. If such member leaves no widow or widower, or the widow or widower dies or remarries, then the child or children under the age of eighteen years, if any, of the deceased member, shall be paid an allowance until such child or children die or attain the age of eighteen years, whichever shall first occur. If more than one child survives the deceased member, the allowance shall be divided among them in such manner as the Board may determine. If the deceased member leaves neither widow, widower nor child or children under the age of eighteen years, then such allowance shall be paid to the member's parent or parents wholly dependent upon him for support, divided in such manner as the Board may determine, during the life or lives of such parent or parents.

The retirement allowance, payable hereunder to a qualifying survivor or survivors, shall be the annual amount, payable monthly, which when added to the social security benefit payable as result of coverage of the member under the federal Social Security Act and the compensation payable under the Virginia Workmen's Compensation Act for the death of the member, shall be equal to one-half of the sum of the member's average final compensation plus twelve hundred dollars. Should no com-

pensation be payable under the Virginia Workmen's Compensation Act due to reimbursement in lieu of benefits thereunder, the compensation that would otherwise have been awarded, as determined by the Virginia Industrial Commission upon request of the Board shall, for the purposes of this subsection, be assumed to have been awarded.

Any beneficiary entitled to the entire amount of a retirement allowance under the provisions of this subsection as a result of the death of a member shall be entitled to waive his rights to such allowance by written notification to the Board within ninety days after the death of such member in order to make available a retirement allowance under the provisions of subsection (b) of this section.

§ 51-157. Death after retirement.—If a member dies after the effective date of his retirement under this chapter, the excess, if any, of his accumulated contributions as of the effective date of his retirement, over the total retirement allowances received by him shall be paid in the same manner as provided in subsection (a) of § 51-156 in the case of death before retirement unless the retirement allowance is then being paid in accordance with any of the options of § 51-111.60.

§ 51-158. Group insurance benefits.—The members of the system, through coverage under the group insurance contract or contracts provided for in § 51-111.67:1 are eligible for the insurance benefits described in § 51-111.67:4, subject to the employee contributions provided for in § 51-111.67:5 and § 51-111.67:6 and the other applicable provisions of Article 9 of Chapter 3.2.

2. §§ 51-128 through 51-142 of the Code of Virginia, and all amendments thereof, are repealed. The repeal of the sections is, however, subject to the following provisos: All funds contributed by State Police officers and the Commonwealth into the fund under the control of the Board of Trustees of the Virginia Supplemental Retirement System as provided in § 51-141 shall continue to be held by such Board and to be administered as provided in this act. Any benefits currently being provided under provisions of the repealed sections shall continue to be paid under the provisions thereof except as modified in this act. All service credited to any member of the State Police Officers Retirement System pursuant to the provisions of the repealed sections shall be credited to such member for the purposes of this act.

3. This act shall be in force on and after July one, nineteen hundred sixty-six.

# APPENDIX I

## ESTIMATED ADDITIONAL STATE COST FOR BIENNIUM 1966-68 RESULTING FROM ADOPTION OF RECOMMENDED AMENDMENTS

Item	State	Teachers	State Police	Total
1	\$6,959,000	\$12,719,000	*	\$19,678,000
2	571,000	1,144,000	*	1,715,000
3	*	*	*	*
4	*	*	*	*
5	299,000	679,000	\$— 28,000	— 1,006,000
6	*	*	0	*
7	**	**	**	**
8	*	*	*	*
9	91,000	72,000	.....	163,000
10	557,000	939,000	19,000	1,515,000
11	*	*	0	*
12	—2,351,000	— 3,963,000	†	— 6,314,000
13	—1,190,000	— 2,132,000	— 60,000	— 3,382,000
14	.....	.....	318,000	318,000
15	.....	.....	111,000	111,000
16	.....	.....	7,000	7,000
17	.....	.....	††	††
18	95,000	118,000	1,000	214,000
19	**	**	**	**
20	125,000	125,000	.....	250,000
21	**	**	**	**
22	*	*	*	*
23	*	*	*	*
24	*	*	*	*
25	*	*	*	*
26	*	*	*	*
27	*	*	*	*
28	*	*	*	*
29	**	**	**	**
Total	\$4,558,000	\$ 8,343,000	\$ 368,000	\$13,269,000
General Fund	\$2,940,000	\$ 8,343,000	.....	\$11,283,000
Special Funds	\$1,618,000	.....	\$ 368,000	\$ 1,986,000

\* Indeterminate small additional cost

\*\* Indeterminate small reduction in cost

† Included in amount for items 16, 17 and 18

†† Included in amounts for items 5, 6, 7, 12 and 15.

## APPENDIX II

### VIRGINIA STATE POLICE OFFICERS RETIREMENT SYSTEM

#### I. COMPARISON OF ESTIMATED COSTS FOR 1966-68 BIENNIUM (EXCLUDING COST OF GROUP LIFE INSURANCE)

	Present System	State Police Proposal	V.A.L.C. Proposal
State Cost .....	\$393,000	\$1,429,000	\$ 742,000
Members' Cost .....	491,000	702,000	526,000
Total .....	<u>\$884,000</u>	<u>\$2,131,000</u>	<u>\$1,268,000</u>

#### II. INCREASE IN COST OVER PRESENT SYSTEM

	State Police Proposal	V.A.L.C. Proposal
State Cost .....	\$1,036,000	\$349,000
Members' Cost .....	211,000	35,000
Total .....	<u>\$1,247,000</u>	<u>\$384,000</u>

### APPENDIX III

#### ANNUAL RETIREMENT BENEFITS—VIRGINIA STATE POLICE OFFICERS—RETIREMENT AT AGE 60

AVERAGE FINAL COMPENSATION .....	\$7,032				\$12,000				\$15,500			
	25	30	35	39	25	30	35	39	25	30	35	39
<b>PRESENT FORMULA</b>												
Until Age 65—System .....	\$3,516	\$3,516	\$3,516	\$3,516	\$6,000	\$6,000	\$ 6,000	\$ 6,000	\$7,750	\$ 7,750	\$ 7,750	\$ 7,750
After Age 65—System .....	\$1,910	\$1,910	\$1,910	\$1,910	\$4,394	\$4,394	\$ 4,394	\$ 4,394	\$6,144	\$ 6,144	\$ 6,144	\$ 6,144
Social Security† ....	1,606	1,606	1,606	1,606	1,606	1,606	1,606	1,606	1,606	1,606	1,606	1,606
Total .....	\$3,516	\$3,516	\$3,516	\$3,516	\$6,000	\$6,000	\$ 6,000	\$ 6,000	\$7,750	\$ 7,750	\$ 7,750	\$ 7,750
<b>STATE POLICE PROPOSAL</b>												
Until Age 65—System .....	\$3,516	\$4,219	\$4,922	\$5,485	\$6,000	\$7,200	\$ 8,400	\$ 9,360	\$7,750	\$ 9,300	\$10,850	\$12,090
After Age 65—System .....	\$3,516	\$4,219	\$4,922	\$5,485	\$6,000	\$7,200	\$ 8,400	\$ 9,360	\$7,750	\$ 9,300	\$10,850	\$12,090
Social Security† ....	1,606	1,606	1,606	1,606	1,606	1,606	1,606	1,606	1,606	1,606	1,606	1,606
Total .....	\$5,122	\$5,825	\$6,528	\$7,091	\$7,606	\$8,806	\$10,006	\$10,966	\$9,356	\$10,906	\$12,456	\$13,696
<b>V.A.L.C. PROPOSAL</b>												
Until Age 65—System* .....	\$3,625	\$4,026	\$4,427	\$4,747	\$6,000	\$6,075	\$ 6,818	\$ 7,412	\$7,750	\$ 7,750	\$ 8,502	\$ 9,288
After Age 65—System .....	\$2,005	\$2,406	\$2,807	\$3,127	\$4,394	\$4,455	\$ 5,198	\$ 5,792	\$6,144	\$ 6,144	\$ 6,882	\$ 7,668
Social Security† ....	1,606	1,606	1,606	1,606	1,606	1,606	1,606	1,606	1,606	1,606	1,606	1,606
Total .....	\$3,611	\$4,012	\$4,413	\$4,733	\$6,000	\$6,061	\$ 6,804	\$ 7,398	\$7,750	\$ 7,750	\$ 8,488	\$ 9,274

† Assuming Retirement in 1970.

\* Includes \$1,620 Supplement and Reflects 50% Guarantee.



APPENDIX IV  
ANALYSIS OF PROPOSED AMENDMENTS  
TO  
VIRGINIA STATE RETIREMENT SYSTEMS





BOWLES, ANDREWS & TOWNE

INC.

*Actuaries*

*Management Consultants*

Richmond, Virginia 23230

September 16, 1965

Mr. Charles H. Smith, Director  
Virginia Supplemental Retirement System  
Finance Building  
Richmond, Virginia

Dear Mr. Smith :

At your request, we have analyzed several proposals for amendments to the Virginia Supplemental Retirement System and the Virginia State Police Officers Retirement System. We have also reviewed the provisions of the Systems with a view toward making recommendations of our own for amending any aspects of either System that appear to be susceptible to improvement. The results of our work are reported on herein.

Our cost computations were based on personnel data as of June 30, 1964, the most recent available, adjusted for estimated increases in payroll to 1966-68.

Please let us know if any further information is needed.

Sincerely yours,

BOWLES, ANDREWS & TOWNE, INC.

By: KENNETH R. CAMPBELL, F.S.A.



## A. INTRODUCTION

This report presents the results of a critical analysis of the provisions of the Virginia Supplemental Retirement System and the Virginia State Police Officers Retirement System.

The most recent major amendments to the V.S.R.S. were those effected by the 1960 General Assembly. The most significant change since then was the 1964 amendment which provided that early retirement benefits would be computed without the usual actuarial reduction if the member had completed 30 or more years of service at time of retirement. The State Police System has remained unchanged in its major provisions since 1954, when major amendments, including the adoption of Social Security coverage, were adopted.

The 1964 General Assembly directed the Virginia Advisory Legislative Council to make a study of both Systems and to report its findings and recommendations. Various employee groups and organizations have submitted to the V.A.L.C. proposals for amendments to one or the other of the Systems. Most of these proposals are reviewed herein, along with several others suggested by the Director of the Systems and the authors of this report.

## B. SERVICE RETIREMENT BENEFITS

### 1. *Design of Benefit Formula*

The level of benefits payable to members who retire at the normal retirement age is the most important element in any retirement plan, and is usually the primary basis upon which different systems are compared. Under the Virginia System, normal retirement benefits are computed in accordance with the following formula:

$1\frac{1}{8}\% \times (\text{AFC} - 1,200) \times \text{YCS}$ , where AFC is the member's average final compensation (average of his five highest consecutive years) and YCS is the number of years of the member's credited service. The members' contribution rate is set at four times the benefit accrual rate; that is,  $4\frac{1}{2}\%$  of annual compensation in excess of \$1,200. Prior to 1960 the benefit accrual rate and the contribution rate were, respectively, 1% and 4% of compensation in excess of \$1,200.

The benefit formulas under most retirement plans, in order to provide a pattern of adequate, but not redundant, retirement benefits, reflect the fact that Social Security benefits are available with respect to all, or a portion of, each member's earnings. Social Security benefits, expressed as a percentage of earnings, are heavily weighted in favor of the lower-paid employees. Higher-paid employees, however, are generally thought to be entitled to total retirement benefits which, as a percentage of final earnings, should not be unreasonably lower than those applicable to employees at lower salary levels. Therefore, if a retirement plan is to supplement Social Security so as to provide about the same total benefits percentage-wise (plan benefits plus Social Security) for all earnings levels, the plan benefit formula must place additional emphasis on the higher salary ranges.

In many plans this is accomplished in the benefit formula by using a higher benefit accrual rate on earnings in excess of the Social Security

wage limit than on earnings up to that limit. For example, in the North Carolina and South Carolina state retirement systems, the basic benefit formula per year of credited service is 1% of the first \$4,800 of average final compensation plus 1½% of any excess over \$4,800. Similar "step-rate" formulas are in wide use in other governmental systems, and in retirement programs in business and industry. In the Virginia System, the coordination of System benefits with those payable under Social Security is achieved by excluding from the System's benefit base the first \$1,200 of annual compensation, leaving Social Security to provide the entire benefit with respect to such compensation.

The level of total retirement benefits, as a percentage of final earnings, that may be considered as adequate or desirable, is subject to various definitions. However, in modern pension planning, a retirement plan is usually considered as providing a satisfactory level of benefits if the resulting total retirement income (plan plus Social Security), for career employees, amounts to at least 55 to 65% of the employee's earnings in the period just before retirement. The percentage range would be lower than this for employees who had not spent the majority of their working years with their final employer, since the employer in such cases would not normally feel the same responsibility for providing in full for the employee's retirement years.

Although, as previously noted, employees at all salary levels are entitled to adequate benefits, many plans provide a somewhat higher percentage level of benefits for the extremely low-paid groups than for employees in the middle and upper salary ranges, since it is the actual dollar amount of income, and not a mathematical percentage, that is of paramount importance in the determination of a basic floor of adequacy.

It is the responsibility of each individual employer to make a decision as to what level of retirement benefits is adequate and appropriate for his own employee group, within the limits of his ability to meet the attendant costs. To the extent that this philosophy is accepted with respect to the Virginia System, undue importance should not be attached to a comparison of Virginia benefits with those available under the systems of other states. Such a comparison may be interesting and informative, but it should represent only one of many factors to be considered in any decision as to what changes, if any, in the Virginia System would be in the best interests of the State as a whole.

## *2. Possible Changes in Present Formula*

As previously mentioned the present benefit formula per year of service is 1⅛% of average final compensation in excess of \$1,200. The most obvious methods of increasing the formula, if such a step were considered desirable, would be by increasing the percentage accrual rate (as was done in 1960) and/or by removing the \$1,200 "exclusion" used in determining creditable compensation.

Perhaps even a better method would be by changing to a "step-rate" formula broken at the Social Security wage maximum (\$6,600, commencing in 1966), with a higher benefit accrual rate applicable to earnings in excess of that limit. However, the adoption of such a concept would represent a major departure from what has become understood and accepted among the members of the Virginia System; it might smack (illogically, to be sure) of undue favoritism toward the higher-paid employees and might present administrative difficulties. Moreover, it will not be until

the year 2004 that Social Security benefits to a male employee retiring at age 65 can be based on average earnings at the maximum level of \$6,600. This is so because in determining the "average monthly wage" for Social Security benefits, years prior to 1966 with maximum earnings levels of \$4,800 and \$4,200, must be taken into account. Accordingly, consideration in this study has been confined to benefit formulas involving a single benefit accrual rate, applied to total annual compensation, or to annual compensation in excess of \$1,200.

If an increase in the accrual rate were decided upon, the increased rate might or might not be applied to the entire credited service of all members retiring in the future. It would be possible to provide that the increased benefit accrual rate would apply only to service performed after the date of the amendment (assumed to be July 1, 1966) or after some intermediate date in the past (for example, March 1, 1952, the date of establishment of the present System).

If the new rate were not uniformly applied to all creditable service, the result would be that for many years in the future most members would retire with benefits somewhere between those under the present formula and those under the new formula. In effect, there would be a gradual change-over from the old formula to the new. This approach would result in a more gradual increase in the State's level of contributions, but would have the compelling disadvantage of treating retirees in the distant future more generously than those who will retire in the next few years. For the same level of State cost it would be more equitable to have a lower benefit percentage uniformly applicable to all service than a higher rate applicable only to future service. If the present retirement formula produces benefits that are too low, they are just as inadequate for members retiring in 1966 as those retiring in, say, 1986. There seems to be little justification for discriminating against the older members of the System who are currently near retirement age in favor of younger members who will retire in the more distant future. The fact that those younger members would share for a longer period in the increased cost through a prospective increase in the member contribution rate is not a persuasive argument; ever since the establishment of the old V.R.S. in 1942, the State has accepted the responsibility for making up retroactive "deficiencies" in members' contribution rates, as well as paying its share of the cost for benefits currently accruing.

In addition to its inherent defects as outlined above, the use of different benefit rates for different periods of service would present certain administrative problems in the computation of benefits and might give rise to employee misunderstanding. Nevertheless, because of current interest in this concept, benefits on this basis have been considered in the cost computations included in this study.

### *3. Comparison of Benefits Under Various Formulas*

Consideration has been given to eight different benefit formulas, including the present one. For each formula other than the present one, separate consideration has been given to applying the new rate to:

- (1) all creditable service
- (2) creditable service after 1952 only
- (3) future creditable service only.

The eight formulas are as follows:

- A.  $1\frac{1}{8}\%$  (AFC—1,200) (This is the present formula)
- B.  $1\frac{1}{4}\%$  (AFC—1,200)
- C.  $1\frac{3}{8}\%$  (AFC—1,200)
- D.  $1\frac{1}{2}\%$  (AFC—1,200)
- E.  $1\frac{1}{8}\%$  AFC
- F.  $1\frac{1}{4}\%$  AFC
- G.  $1\frac{3}{8}\%$  AFC
- H.  $1\frac{1}{2}\%$  AFC

In order to illustrate how the benefits under the present formula and each of the proposed formulas satisfy the criteria for a satisfactory program, and to compare the resulting benefit levels under the various formulas, the tables on the following pages present, for various combinations of average final compensation (\$4,200, \$6,000 and \$12,000) and service (20 years, 30 years and 40 years), indices which represent total retirement income (V.S.R.S. plus Social Security) as a percentage of AFC. Benefit percentages are shown for only service bases "1" (all service credited under new formula), and "3" (service up to 1966 under present formula, future service under new formula); benefits under service basis "2" (service up to 1952 under present formula, service after 1952 under new formula) are not shown, but would be intermediate between bases 1 and 3.

Since Social Security benefits under the 1965 amendments will vary in the future depending on year of retirement, and V.S.R.S. benefits will do likewise if a uniform benefit is not applied to all credited service, the percentages are shown for three different retirement years, 1966, 1976 and 1986. Finally, it should be pointed out that in estimating Social Security benefits, which are based on Social Security wages for all years since 1956, it was assumed that each member's total rate of compensation had increased by 10% from each past five-year period to the next.

**TOTAL RETIREMENT INCOME (V.S.R.S. PLUS SOCIAL SECURITY) EXPRESSED  
AS PERCENTAGE OF AVERAGE FINAL COMPENSATION**

	Years of Service	A.F.C. \$4,200			A.F.C. \$6,000			A.F.C. \$12,000		
		20	30	40	20	30	40	20	30	40
Year of Retirement										
Formula A (Present)										
1966 .....		50	58	66	45	54	63	34	44	54
1976 .....		49	57	65	46	55	64	35	45	55
1986 .....		47	55	63	45	54	63	36	46	56
Formula B-1										
1966 .....		52	61	70	47	57	67	36	47	58
1976 .....		51	59	68	48	58	68	38	49	60
1986 .....		49	57	66	47	57	67	38	49	61
Formula B-3										
1966 .....		50	58	66	45	54	63	34	44	54
1976 .....		49	57	65	47	56	65	36	47	57
1986 .....		49	56	65	47	56	65	38	48	58
Formula C-1										
1966 .....		54	64	74	49	60	71	38	50	63
1976 .....		52	62	72	50	61	72	40	52	65
1986 .....		50	60	70	49	60	71	40	53	66
Formula C-3										
1966 .....		50	58	66	45	54	63	34	44	54
1976 .....		51	59	67	48	57	66	38	48	58
1986 .....		50	58	66	49	58	67	40	51	60
Formula D-1										
1966 .....		56	67	77	51	63	75	40	54	67
1976 .....		54	65	75	52	64	76	42	56	69
1986 .....		52	63	73	51	63	75	43	56	70
Formula D-3										
1966 .....		50	58	66	45	54	63	34	44	54
1976 .....		51	59	67	49	58	67	39	49	59
1986 .....		52	60	68	51	60	69	43	53	63

**TOTAL RETIREMENT INCOME (V.S.R.S. PLUS SOCIAL SECURITY) EXPRESSED  
AS PERCENTAGE OF AVERAGE FINAL COMPENSATION**

Year of Retirement	Years of Service	A.F.C. \$4,200			A.F.C. \$6,000			A.F.C. \$12,000		
		20	30	40	20	30	40	20	30	40
Formula E-1										
1966 .....		56	68	79	50	62	74	37	48	59
1976 .....		55	67	78	51	63	75	38	49	60
1986 .....		53	65	76	50	62	74	39	50	61
Formula E-3										
1966 .....		50	58	66	45	54	63	34	44	54
1976 .....		52	60	68	49	58	67	36	46	56
1986 .....		53	61	69	50	59	68	39	49	59
Formula F-1										
1966 .....		59	72	84	53	66	79	39	52	64
1976 .....		58	70	82	54	67	80	41	54	66
1986 .....		56	68	80	53	66	79	41	54	67
Formula F-3										
1966 .....		50	58	66	45	54	63	34	44	54
1976 .....		53	61	69	49	58	67	37	47	57
1986 .....		54	62	70	51	60	69	39	49	59
Formula G-1										
1966 .....		62	76	90	56	70	84	51	55	70
1976 .....		60	74	88	57	71	85	53	57	72
1986 .....		58	72	86	56	70	84	53	58	72
Formula G-3										
1966 .....		50	58	66	45	54	63	34	44	54
1976 .....		53	61	69	49	58	67	37	47	57
1986 .....		55	63	71	52	61	70	39	49	59
Formula H-1										
1966 .....		65	79	94	58	74	89	44	59	74
1976 .....		63	77	92	59	75	90	46	61	76
1986 .....		61	75	90	58	74	89	47	61	77
Formula H-3										
1966 .....		50	58	66	45	54	63	34	44	54
1976 .....		53	61	69	50	59	68	37	47	57
1986 .....		56	64	72	52	61	70	40	50	60

The preceding tables at first glance may appear to present a confusing array of figures. However, the application of the previously given criteria for a satisfactory benefit formula is a means for systematic interpretation of them. Those criteria are essentially two-fold:

(i) the percentage for employees with 30 to 40 years of service should be no lower than 55%-65%; and

(ii) the percentages for the high-paid \$12,000 employee should be as close as possible to those for the low-paid \$4,200 employee.

Examination of the percentages under the present benefit formula (formula A) indicates that it satisfies the percentage criteria for the lower-paid employees but is deficient for the higher-paid. For the higher-paid it thus fails both tests, although the difference between the percent-



ages for the \$4,200 member and the \$12,000 member will decrease in future years due to the operation of the Social Security benefit formula. It is important that "fringe" benefits for the higher-paid employees be provided in order to attract and retain the high caliber of executive talent that is necessary to maintain an efficient state government.

Since the benefit formula is already too heavily weighted in favor of the lower-paid groups, it is obvious that removing the \$1,200 exclusion cannot effect any desirable improvement to the benefit structure. A change in this direction would have a proportionately greater effect on the benefits for lower-paid, in that it would merely add a flat dollar amount per year of service to all retirement allowances. The benefit illustrations show this clearly. Benefit formulas E-1, F-1, G-1 and H-1 would raise the benefits for \$4,200 employees to extremely redundant levels and would greatly increase the discrepancy in the percentages between the \$4,200 and the \$12,000 salary groups. Benefit formulas E-3, F-3, G-3 and H-3 would move toward the same undesirable result at a gradual rate.

The effect of the \$1,200 exclusion can also be seen by comparing the benefits under formulas D-1 and E-1. For the \$4,200 employee the two formulas produce very similar results, but for the \$12,000 employee the benefits under D-1 are much greater than those under E-1.

It thus appears that the \$1,200 exclusion should be retained in the benefit formula, and further consideration confined to formulas A, B, C and D. The arguments in favor of a uniform benefit rate applicable to all years of service have already been given; if they are accepted, the only formulas remaining under study would be A (the present formula), B-1, C-1 and D-1.

A choice between these four might well involve a compromise between what is desired and what can be afforded. However, if the benefit formula is to be increased with respect to all service at any time in the foreseeable future it would be well to make the change now rather than in some later year, so that the members will share in the increased cost to a greater extent.

The State's cost under each of the possible benefit formulas is shown in the following subsection. As respects the benefits themselves, formula C-1 seems to best satisfy the criteria of adequacy. For the lower-paid employees it would provide benefits that would be considered by most standards to be liberal, but not excessive; for the higher-paid employees it would provide benefits that should be adequate and competitive.

#### 4. *Costs Under Various Benefit Formulas*

The increase in the State's biennial contribution to the System that would be required by the adoption of any of the suggested new benefit formulas was computed on the basis of estimated 1966-68 biennial payroll and on these assumptions:

(i) the members' contribution rate would continue to be set at four times the benefit accrual rate so that under the various possible benefit formulas it would be—

- A. 4½% (SAL—1,200)
- B. 5% (SAL—1,200)
- C. 5½% (SAL—1,200)
- D. 6% (SAL—1,200)
- E. 4½% SAL
- F. 5% SAL
- G. 5½% SAL
- H. 6% SAL

(ii) under any benefit formula that gave additional credit for service prior to 1966, a corresponding increase would be made in the allowances of members already retired who are now drawing benefits under formula A;

(iii) the State's contribution rate would continue to be based on the actuarial assumptions and funding methods currently in use. (However, the immediate cost effect could be mitigated, if necessary, by applying thereto earnings in excess of actuarially assumed return.

Set out below are estimates of the *additional* employer costs (over and above the cost of the present System) that would be applicable for the 1966-68 fiscal biennium if one of the proposed benefit formulas were adopted—assuming no other changes to be made in the provisions of the System.

	Formula	State Employees	Teachers	Total
A.	1½% (AFC—1,200) .....	—0—	—0—	—0—
B.	1¼% (AFC—1,200) .....			
B-1	All service B .....	\$ 2,587,000	\$ 5,235,000	\$ 7,822,000
B-2	A to '52, B from '52 .....	1,900,000	3,517,000	5,417,000
B-3	A to '66, B from '66 .....	573,000	1,193,000	1,766,000
C.	1¾% (AFC—1,200) .....			
C-1	All service C .....	5,179,000	10,471,000	15,650,000
C-2	A to '52, C from '52 .....	3,802,000	7,035,000	10,837,000
C-3	A to '66, C from '66 .....	1,147,000	2,387,000	3,534,000
D.	1½% (AFC—1,200) .....			
D-1	All service D .....	7,766,000	15,702,000	23,468,000
D-2	A to '52, D from '52 .....	5,702,000	10,555,000	16,257,000
D-3	A to '66, D from '66 .....	1,718,000	3,580,000	5,298,000
E.	1½% AFC .....			
E-1	All service E .....	6,843,000	13,223,000	20,066,000
E-2	A to '52, E from '52 .....	5,012,000	8,935,000	13,947,000
E-3	A to '66, E from '66 .....	1,478,000	3,191,000	4,669,000
F.	1¼% AFC .....			
F-1	All service F .....	10,193,000	19,928,000	30,121,000
F-2	A to '52, F from '52 .....	7,470,000	13,445,000	20,915,000
F-3	A to '66, F from '66 .....	2,215,000	4,742,000	6,957,000
G.	1¾% AFC .....			
G-1	All service G .....	13,539,000	26,631,000	40,170,000
G-2	A to '52, G from '52 .....	9,928,000	17,957,000	27,885,000
G-3	A to '66, G from '66 .....	2,953,000	6,289,000	9,242,000
H.	1½% AFC .....			
H-1	All service H .....	16,889,000	33,338,000	50,227,000
H-2	A to '52, H from '52 .....	12,387,000	22,472,000	34,859,000
H-3	A to '66, H from '66 .....	3,691,000	7,835,000	11,526,000

Since any amendment to the benefit formula would also apply to political subdivisions, there would be an additional cost to the State with respect to its retirement contributions for constitutional officers and their employees. This additional cost is not reflected in the preceding cost illustrations.

## 5. Illustrations of Member Contributions

Set out below are illustrative total annual contributions that would be required from the members under the present and proposed plans. The total in each case includes both the contributions to the System and the F.I.C.A. taxes under Social Security, and is shown to the near dollar.

Benefit Formula	Annual Comp.	Year						1987 & Later
		1966	1967-68	1969-72	1973-75	1976-79	1980-86	
A	\$ 4,200	\$811	\$ 320	\$ 341	\$ 362	\$ 364	\$ 368	\$ 372
	6,000	468	480	510	540	543	549	555
	12,000	763	776	809	842	846	852	859
B	4,200	326	335	356	377	379	383	387
	6,000	492	504	534	564	567	573	579
	12,000	817	830	863	896	900	906	913
C	4,200	341	350	371	392	394	398	402
	6,000	516	528	558	588	591	597	603
	12,000	871	884	917	950	954	960	967
D	4,200	356	365	386	407	409	413	417
	6,000	540	552	582	612	615	621	627
	12,000	925	938	971	1,004	1,008	1,014	1,021
E	4,200	365	374	395	416	418	422	426
	6,000	522	534	564	594	597	603	609
	12,000	817	830	863	896	900	906	913
F	4,200	386	395	416	437	439	443	447
	6,000	552	564	594	624	627	633	639
	12,000	877	890	923	956	960	966	973
G	4,200	407	416	437	458	460	464	468
	6,000	582	594	624	654	657	663	669
	12,000	937	950	983	1,016	1,020	1,026	1,033
H	4,200	428	437	458	479	481	485	489
	6,000	612	624	654	684	687	693	699
	12,000	997	1,010	1,043	1,076	1,080	1,086	1,093

Total retirement contributions (System plus Social Security) much in excess of 10% of compensation might be considered too heavy a load for the members to bear. Benefit formulas C, D, E, F, G and H would ultimately require contributions over 10% for a \$6,000 member; formulas E, F, G and H would do so for the \$4,200 employee; none of the formulas would require a 10% contribution from a \$12,000 member under the present Social Security law.

## C. DISABILITY BENEFITS

### 1. Current Provisions

The principal provisions of the Virginia System, as they concern disability retirement, are as follows:

#### (a) ELIGIBILITY

A member may be retired on a disability allowance after 10 or more years of creditable service, provided that he obtains certification of the Medical Board that he is mentally or physically incapacitated for further performance of duty and that such incapacity is likely to be permanent and that he should be retired. Members first employed after July 1, 1960 may not be retired for disability until the completion of 15 years of service, unless, at the time they are employed, they submit a medical certification of good health.

**(b) AMOUNT OF ALLOWANCE**

The annual allowances payable in the event of disability retirement are computed as:

(i) Allowance Prior to Age 65:  $1\frac{1}{4}\%$  of the average final total compensation (without the \$1,200 exclusion), multiplied by the number of years of creditable service.

(ii) Allowance After Age 65: An amount determined in the same manner as for normal service retirement, assuming no change in creditable compensation after date of disability and counting years of disability as years of creditable service.

The annual allowance, together with the annual primary Social Security benefit, is guaranteed to be not less than the larger of (a) \$1,000.00 (\$1,262.28 if more than 20 years of service to correspond to the benefits being paid to pre-1952 retirees), or (b) 25% of the average final compensation.

In the case of any member who receives Workmen's Compensation payments, his disability retirement allowance is reduced by the amount of such payments while they last. Members retiring for disability have the right to elect to have their allowances paid under the joint and last survivor option.

**(c) CONTINUATION OF ALLOWANCE**

Provision is made for periodic medical examination of disability pensioners to ascertain whether they are still disabled. Any such person who refuses to be examined forfeits any further allowance payments. If a disability pensioner prior to his normal retirement date is engaged in, or is determined to be able to engage in, gainful occupation paying more, when added to his disability retirement allowance, than his average final compensation on which his disability allowance is based, his disability allowance may be reduced by the amount of the excess. If any disability pensioner returns to active service in a position covered under the System, his allowance stops, he resumes contributions, and his credited service includes the period of disability retirement.

Possible amendments to the System in all three categories—eligibility for, amount of, and continuation of disability allowances—are worthy of careful review.

**2. *Eligibility for Disability Retirement***

Prior to 1960, 15 years of service were required for disability retirement in all cases. At that time the current ten-year provision was adopted, but in order to protect the System against the cost effect of "pre-existing" conditions, it was required that all employees entering service after July 1, 1960 must prove their good health at date of employment in order to be eligible for disability benefits prior to the completion of 15 years of service.

On reconsideration of this point, it does not seem necessary to retain this "good health" requirement. It can be fairly safely assumed that most employees newly employed by the State or its subdivisions will be in reasonably good health and that any who are not will have terminated

employment within ten years. Moreover, the requirement is difficult to administer, confusing for the members to understand, and potentially inequitable in practice.

The good health requirement should be eliminated so that all members would be eligible for disability retirement in the case of disability after the completion of ten or more years of service. Any additional cost to the State would be insignificant.

### 3. *Amount of Disability Allowance*

In the formula for the computation of disability allowances payable prior to age 65, the member's total compensation is considered, whereas for service retirement allowances, only creditable compensation (compensation in excess of \$1,200 annually) is taken into account. This difference stems from the fact that in 1952 when the present System was established, Social Security benefits were not available until after age 65. The \$1,200 "exclusion" for service retirement allowances was to reflect the intention that they should "supplement" the Social Security benefits.

Now that Social Security benefits are available in most cases of disability retirement, the use of a different compensation basis for computing disability retirement allowances than for service retirement allowances represents an anachronism. The formula for disability allowances should be similar to that used for service retirement, since they both are intended to supplement Social Security benefits and both are payable to retired employees who presumably have lost their earning power (disability is sometimes likened to premature old age). Moreover, since there is no change in the disabled employee's needs nor in his Social Security benefits when he attains age 65, there is no logical justification for a recomputation of the V.S.R.S. benefit at that particular point in time.

There is, however, a distinction between the two types of benefits. When an employee retires at age 65 after only a short period of service as a member of the Virginia System, there is a presumption that he spent most of his working career elsewhere, and there is no responsibility on the State to provide him with as large a benefit as an employee who had devoted his whole career to State service. On the other hand, a young employee who becomes disabled after short V.S.R.S. service may not have worked anywhere else for any significantly long period. Accordingly, it would seem to be proper to pay a larger allowance to a member becoming disabled at, say, age 40 with 15 years of service than would be payable to another member retiring at age 65 with the same length of creditable service. At the same time, care must be taken, in designing a disability benefit formula, that the disabled employees are not so favorably treated that the service retirants are discriminated against.

To satisfy all the criteria mentioned, the System should be amended so that disability allowances would be computed by the same formula as service retirement allowances, except that the length of credited service to be assumed in cases of disability prior to age 60 would be the *smaller* of:

- (a) twice the actual period of credited service; or
- (b) the period of service the member would have completed at age 60 had he remained in service until that age.

For members becoming disabled after age 60, the actual period of credited service would be used.

Members already retired for disability who have not yet reached age 65 would continue to have their allowances recomputed at age 65, on the basis of the service retirement allowance formula in effect at the time they reached that age, using the present approach of including in creditable service the period of disability.

As compared to the present provision, the proposed change would provide larger disability benefits in some cases but lower in most, assuming the continued use of the present service retirement benefit formula. The differences are complex to schedule, since they depend on earnings level, age at entry into the System and age at disability; also there are different scales of comparison before and after age 65. Generally speaking, the benefits for members becoming disabled prior to age 50 would be higher under the proposed change than at present until age 65 and lower afterwards. For members becoming disabled at higher ages, the new formula would produce lower benefits both before and after age 65. A recent sample indicated that about 93% of all disability retirements occur at ages 50 and over.

To give a rough idea of the effect of the proposal, the following table shows for a disabled member with average final total compensation of \$6,000 annually the proposed benefit as a percentage of the present benefit before and after age 65 for various ages at disability.

<i>Age at Disability</i>	<i>New Benefit as Pct. of Present</i>	
	<i>Until 65</i>	<i>After 65</i>
30	144%	40%
35	144	52
40	144	66
45	132	73
50	114	76
55	91	74
60	72	72

The difference in the percentages before and after age 65 reflects the fact that under the present law the benefit usually increases at age 65, at least for disability retirements prior to age 60, while under the proposed amendment there would be no change in the allowance at age 65. The percentages for lower earnings levels would be somewhat lower than those shown, while for higher earnings the percentages would be higher, so that the proposal is slightly more advantageous to higher-paid members than to the lower-paid.

If the proposed change in the approach to computing disability benefits were made in conjunction with an increase in the basic service retirement benefit formula as discussed in Section B there would be fewer cases of absolute decreases as compared to the present benefit scale. However, the fact that some decreases would still exist should not be a deterrent to making the changes necessary to correct the present illogical pattern of benefits.

The present disability benefit formula includes certain guarantees as to the minimum amounts payable. These guarantees come into play in cases of disability retirement. They apply to months in which, for one reason or another, no Social Security disability benefit is payable, including the Social Security "waiting period" for cases which are approved

for Social Security disability. By the same token, if all V.S.R.S. disability retirees also received Social Security benefits commencing at date of retirement, there would be no need to have the guarantee provisions included in the law.

The proportion of cases in which Social Security benefits are payable is increasing. The 1965 Social Security amendments which relaxed the definition of "disability" will tend to accelerate the increase, and the guarantees will become of less and less practical importance on a long term basis, although they will still be applied retroactively for the six-month waiting period. Also, since for most short-service employees, the proposed new disability formula will produce larger benefits (until age 65) than the present formula, and it is these employees who are most likely to be affected by the guarantee, the guarantee itself will be less costly to the State if the disability formula is changed as proposed. Also, as the members' average salary increases from year to year, the guarantees will be applicable in fewer long-service cases (salary increases will have less effect in short-service cases).

If the present guarantees are to be retained, it would be preferable to defer their applicability until six months after the date of disability so that it can be ascertained with assurance whether or not Social Security benefits will be available, i.e., whether or not the guarantee provisions will have to be applied.

In addition to the defects in the present disability benefit formula itself, another aspect of the present arrangement is also potentially inequitable. Disability pensioners, upon retirement, may elect to have their allowances paid under the joint and survivor option. Not only is this costly to the State, since the factors of "actuarial equivalence" used in computing the amounts of optional allowances presuppose retirants in average health, and most disability pensioners are subject to heavier than normal mortality. It is also unfair to the member whose disability strikes so fast that he dies before he can retire and protect his survivors by the election of the option. The broad question of death benefits is considered in Section D of this report, and possible solutions to this inequity are therein presented. It might be preferable not to permit the election of the joint and survivor option in disability cases; if it is to be continued, the actuarial equivalent factors used in computing the amount of the reduced benefit should take into account the fact that the retiring member is not in normal health.

The proposed changes in the determination of disability benefits, since in general they will result in a lower level of V.S.R.S. benefits, would result in a lower annual cost to the State. If no change were made in the present service retirement benefit formula, the proposed changes with respect to disability would reduce the State's 1966-68 biennial cost by about \$1,841,000, of which \$591,000 is with respect to State employees, and \$1,250,000 for teachers. Under an increase in the service retirement formula, the reduction as compared to the present disability cost would of course be less. The biennial cost reduction under the various proposed service retirement formulas would be as follows, assuming the new formula to apply in each case to all service, past and future:

	<i>State Employees</i>	<i>Teachers</i>	<i>Total</i>
B	\$ 447,000	\$ 964,000	\$1,411,000
C	299,000	679,000	978,000
D	155,000	395,000	550,000
E	251,000	583,000	834,000
F	67,000	226,000	293,000
G	—115,000*	—134,000*	—249,000*
H	—299,000*	—491,000*	—790,000*

\* Increase in cost over present disability provision.

#### 4. *Continuation of Allowance*

At present, the continuation of disability allowances after their commencement is subject to the so-called "work-test". If the pensioner works, or is able to work, his allowance is subject to reduction. In principle, this is fair and equitable—the theory that disability allowances should be paid only to disabled employees is difficult to refute.

However, in practice, this approach has defects. In the first place, it is difficult to administer, especially when the pensioner has moved out of Virginia, or in cases where the pensioner is able to obtain gainful employment for only temporary periods. In the second place, the earnings limit which determines whether or not the disability allowance should be reduced is based on the member's average final compensation at time of retirement. As years pass and the cost of living steadily increases, the application of the limit may impose unwarranted hardship.

It has been proposed that the work-test be removed completely and that there be no restriction on a disabled pensioner's earnings. The disability allowance would continue literally unchecked unless the pensioner returned to work in a position covered by the Virginia System.

This approach would run counter to most concepts of disability income which hold that disability benefits should be restricted to disabled employees. It should be adopted only if the application of the work-test becomes administratively intolerable.

It would be preferable to retain the work-test but to apply it in a manner that would surmount the present practical difficulties in its application. For example, the limit based on average final compensation in any individual case might be increased from time to time to reflect increases in the cost of living. One possible aid to the administration of the work-test would be to ascertain whether or not Social Security disability payments were still being paid.

The continued use of a work-test provision should be decided on the basis of whether its admitted value in preventing abuses is worth the trouble and expense involved in its administration.

### D. DEATH BENEFITS

#### 1. *In General*

Under the System as it now stands, when a member dies prior to retirement his beneficiary is entitled to benefits of various kinds, including:

- (a) a refund of the member's contributions to the System, accumulated at 2% interest (unless a survivors' allowance is payable);



(b) if the member is aged 60 or over at date of death, an allowance to the wife, husband, father or mother of the member, whether or not such person is the member's beneficiary, equal to the allowance that would have been payable had the member retired, just before his death, under the joint and survivor option. If death occurs before age 65, the election of the "one-half to survivor" option is assumed; if death occurs after age 65, the election of the full survivor option is assumed. Only if no such person survives the member or if such person is the beneficiary and so elects is a refund of contributions made to the beneficiary;

(c) a lump sum benefit under the group life insurance program equal to approximately  $1\frac{1}{4}$  times the member's annual salary (including a "temporary" 25% dividend for members in service and under age 65). The benefit reduces by 2% a month after age 65 if the member remains in service, to a minimum of 25% of the benefit at age 65.

In addition to the System death benefits, survivor benefits may also be payable under the Social Security Act.

## 2. *Survivor Benefits*

The present survivor benefit was instituted in 1960 primarily to maintain equity between those members who, perhaps in contemplation of death, retired under the joint and survivor option and died shortly after retirement and those other members who, although eligible for early or normal retirement, died prior to retirement leaving as a System death benefit only a refund of their accumulated contributions. It was hoped that it would promote a tendency for employees eligible for retirement to remain in service rather than retiring merely to protect their dependents.

Accordingly, the survivor's benefit was made available only to those members who died after attaining eligibility for early service retirement, i.e., age 60. It has now been proposed that this age requirement be lowered to age 50.

There would be little reason for such an amendment except to make up for the lack of Social Security death benefits in the "black-out" period (between the time a male member's youngest child reached age 18 and the time his widow reached age 60), or to protect those members under age 60 possibly eligible for disability retirement, since upon such retirement they could protect their survivors under the joint and survivor option. Certainly such a provision could not be justified under the present rationale unless the early retirement age were also lowered from age 60 to age 50. If it were so lowered the retirement benefits (and survivor benefits) available at age 50 would be very small due to the application of the early retirement reduction factor of actuarial equivalence. If it is deemed desirable to lower the age requirement, a change only to age 55 would be preferable, in order to retain meaningful benefits. In either case, a decision would have to be made as to how to apply the early retirement reduction in the case of members who would be eligible for unreduced benefits after age 60 through having completed 30 or more years of service. A member employed at age 30, would if he survived, be eligible for "unreduced" benefits at retirement at any time after age 60, under the 1964 amendments to the Act. If the early retirement age were reduced to age 55 and such a member died or retired at, say, age 57, what early retirement actuarial reduction factor should apply? It might be assumed that the member was eight years from "normal" retirement at age 65, in which

case the reduction would be about 46%; on the other hand, the member would be only three years from "unreduced" retirement at age 60 so that on this basis the reduction would be only about 7%.

It is questionable whether it is necessary or desirable to attempt, in the Virginia System, to compensate for the Social Security black-out period. Presumably the reason behind the lack of benefits in this period is that the surviving widow with no family responsibilities should be able to support herself. A more difficult problem is presented in maintaining equity between members who die suddenly while still in active employment and those who are able to retire for disability under the joint and survivor option prior to death.

One method of forcing such equity would be to not permit the election of the joint and survivor option in cases of disability retirement. As presently applied, the election of the option prior to age 60 by disabled retirees constitutes adverse selection against the System, since the "actuarial equivalent" joint and survivor option factors are predicated on the assumption that the retiring member is in normal health for his age. This question of anti-selection is discussed elsewhere in this report.

A more satisfactory solution to the multi-faceted problem of survivor benefits in the case of members who die before attaining age 60 would include the following:

(a) In the case of death of any member prior to age 60 and after the completion of ten or more years of service, there would be paid to the surviving widow or dependent widower a monthly allowance equal to the monthly disability allowance which would have been payable after the death of the member had he retired for disability under the "50%" joint and survivor option. Any such allowance would be in lieu of a refund of the member's accumulated contributions.

(b) In the computation of the amounts of benefit payable under the joint and survivor option in disability cases, the actual disabled condition of the member would be taken into account, so that the effect of "anti-selection" would be minimized.

The additional cost to the State resulting from the adoption of such a program would depend on the benefit formula for disability allowances. There would be an offset to the cost resulting from the reduced anti-selection in the case of joint and survivor options elected by disability retirees. It is estimated that the additional biennial State cost would be about \$800,000.

The other proposal, previously mentioned, would retain the present pattern of survivor benefits but merely lower the early retirement age, to say, 55 so that survivor benefits would be available in the case of all deaths after age 55. Alternatively, there might be a service requirement instead of an age requirement so that, for instance, survivor benefits might be extended to all deaths before age 60 when the member had completed 30 or more years of service. If it were desired to maintain the present coincidence between the eligibility requirements for early retirement and those for survivors' benefits, the eligibility provision for early retirement should be similarly extended, although, of course, this would not have to be done if the present rationale for survivor benefits were abandoned. In computing the amounts of survivor allowances in cases of death

before age 60, the early retirement actuarial reduction might be applied from age 65 in all cases, or else, preferably, from the earliest age at which unreduced benefits would be available if the member had remained in service. Parenthetically, no matter what changes, if any, were made in the survivor benefit provision, it would be advisable to amend the present law so that *no* survivor allowance would be paid unless the survivor were also the member's designated beneficiary. This would avoid any possible conflict between the rights of a beneficiary to a refund and the rights of a survivor to an allowance.

The additional biennial State cost for survivor benefits if they were made available in the event of the death of a member before age 60 would be about the same whether the requirement were age 55 or whether it were 30 years of service. The cost would be about \$35,000 if age 65 were to be considered the "normal" retirement age in all cases, or about \$110,000 if 60/30 were the norm for members hired before age 35. These cost figures assume the continuation of the present basic benefit formula, and would be changed proportionately if the basic formula were changed.

### 3. *Group Life Insurance*

The V.S.R.S. group life insurance program provides, essentially, for active members under age 65, life insurance equal to one year's salary (taken to the next higher \$1,000), plus an equal amount for accidental death or dismemberment. When a member retires (other than for disability) or reaches age 65, whichever first occurs, his life insurance commences to reduce, levelling off at 25% in about three years. Accidental death and dismemberment insurance also reduces after age 65 if the member remains in service; it terminates upon a member's retirement. Active members under age 65 contribute to the cost of the program at the rate of 60¢ per month per \$1,000 of life insurance, and the State (and the other employers under the program) meet the balance of the total cost; no contributions are required from retired members or from active members over age 65.

Claim experience has been so favorable under the program that the insurance carrier has agreed, on a temporary basis, to increase the amounts of insurance in force on contributing members by 25% without additional cost to the State or the members. So long as this condition lasts, their insurance is actually costing the contributing members only 48¢ per month per \$1,000 of life coverage.

The favorable experience under the program, in addition to permitting an increase in the level of benefits, has also had the result of keeping the employer cost very low, at a level of about 20% of the members' aggregate contributions, in spite of a steady increase in the amount of retired life coverage for which the State bears the whole cost. In other words, the active members currently pay about five-sixths of the total cost and the State pays the remaining one-sixth. The State's share of the total cost would be expected to increase gradually over the years as the non-contributory coverage becomes a larger percentage of the total insurance in force.

Consideration should be given to an immediate increase in the State's level of contributions so as to bring them more nearly in line with the aggregate of the members' contributions. If member contributions were maintained at the present level, this would permit an increase in the scale of benefits provided under the program.

One approach would be to increase the benefits for active members under age 60 (who are not presently eligible under the V.S.R.S. survivors' allowance program) to 200% of annual salary. This would constitute an increase of 60% in the present 125% benefit and would provide a level of group life insurance that would compare favorably with currently accepted standards in business and industry.

Such an increase in benefits would likely cost the State approximately \$2,600,000 more during the 1966-68 biennium than if benefits were maintained at the current level. The cost increase could be reduced slightly by defining benefits as two times earnings, rounded to the higher \$1,000 instead of as earnings to the higher thousand, multiplied by two.

An alternative would be to restrict the 200% benefit to members under age 50, the benefits for members over age 50 being a reducing percentage of earnings depending on age, grading down from 200% at age 50 to 100% at age 65.

Another proposal in connection with the group insurance program would permit individual members to purchase, at their own expense, additional amounts of insurance equal to their basic coverage. On the presumption that members in poor health might be most likely to avail themselves of such an opportunity, the claim experience of the entire program would be somewhat less favorable in the future, and the State contribution rate might have to be increased. But not only the poor risks would take out additional insurance; there would also be a tendency for all members with dependents to do so, as compared to unmarried employees who might have little use for it. In this way, any additional cost to the State would be applied for the benefit of those members who needed the additional insurance rather than being indiscriminately spread over all members.

#### **E. MAINTAINING THE PURCHASING POWER OF RETIREMENT ALLOWANCES**

The continual erosion of the value of the dollar has an especially serious effect on pensioners whose income is at a fixed dollar level. Wage earners are not so directly affected by inflation since wage levels tend to reflect price levels, and vice versa. Since the V.S.R.S. provides for retirement allowances based on the average earnings of the member's five highest years, the System as it now stands adequately provides against inflation up to the time of a member's retirement.

After retirement, the situation is different. Members who retired prior to 1952 under the old V.R.S. when retirement benefits were generally lower than at present since no Social Security was available, have been granted periodic percentage increases in their allowances by the General Assembly on a more or less arbitrary basis. This is potentially unsatisfactory, since it requires overt action at each biennial legislative session, and a pattern of automatic increases would be preferable. However, members retired since 1952 have, in general, received no cost of living increases except to the extent that some have shared in the V.R.S. increases through the application of the guarantees. The only increase that most of these pensioners have received is that resulting from the 1960 liberalizations of the service retirement benefit formula and the disability benefit guarantee. Since these liberalizations also applied to active employees it cannot be said that they were a complete answer to the problem of inflation.

Since 1952, the U. S. Consumer Price Index has increased by approximately 18%. In other words, a pension that had, say, \$100 of purchasing power in 1952 is now worth only \$84.40. A retired worker is at the mercy of the economy unless he receives income sufficient to meet his needs. Many employers (including, as noted, the Commonwealth of Virginia with respect to pre-1952 retirees) have considered it necessary to supplement, or increase, from time to time, the pensions being paid to their retired employees. Similarly, there have been increases in Social Security benefits. These have all been in accordance with the view that a pension program to be really effective must provide a retired employee with adequate purchasing power rather than a predetermined number of dollars.

Pension planners in business and industry have begun to appreciate the importance of these problems. Several pension plans have been set up, or amended, to incorporate the variable annuity principle. Under this method pension funds are invested wholly or partially in common stocks and the amount of the pension payments varies in accordance with investment experience, i.e., investment income plus or minus capital gains or losses. Studies have shown that over a long period of time the common stock index varies closely with the cost of living index and thus pension payments which vary with common stock experience should follow cost of living changes. In pension plans which have adopted this approach pension payments have been usually split into two parts, one part that is a fixed dollar payment and the other part that varies with investment experience. This combination approach hedges any complete dependence on investment experience, and is in use in at least one state retirement system.

A few employers have attacked the problem more directly by incorporating into their pension plans an "escalator clause" whereby the amount of an individual's pension payable in any period bears a relationship to the amount paid in the preceding period corresponding to the change to one period from the preceding in the Consumer Price Index.

The Consumer Price Index has consistently increased over the years and there seems no concrete grounds for believing that any change in this trend will materialize, although admittedly such an attitude is pessimistic. If an employer is willing to accept the responsibility for maintaining the purchasing power of his pensioners' retirement income, it seems reasonable that some sort of escalator clause (or variable annuity clause) be written into the plan, to insure present and prospective pensioners that they will be insulated, at least partially, against the injurious effects of inflation. Such a procedure would merely formalize the increases that the employer would feel called upon to provide periodically after increases in the cost of living index had occurred.

It has been demonstrated actuarially that a percentage year to year increase in level of pensions has the same effect cost-wise as a corresponding decrease in the interest rate earned on invested funds. That is, a pension plan earning  $3\frac{1}{2}\%$  on its assets and paying flat dollar benefits would involve the same level of employer costs as a similar plan earning  $4\frac{1}{2}\%$  under which each annual pension payment was increased by 1% over that of the previous year. This leads to the conclusion that an escalator plan can be most conveniently financed when its funds are invested in such a way as to produce either or both of a high investment yield and a high degree of asset appreciation, which for pension funding purposes has the same long range cost effect as an increase in yield. The Virginia System is fortunate in that it is enjoying both to a considerable extent. As of

June 30, 1965, the invested assets had an indicated annual yield of 4.24% of cost, as compared with an actuarially assumed rate of 3½%, and the market value of its common stock investments was 7.75% higher than their cost value. Although at present stocks comprise only about 6.5% of the System's total investments, it is only since 1962 that investment in equities has been permitted by law, and as the years go by, appreciation will become a more and more important factor in overall yield. The percentage of stocks in the total portfolio should be increased as fast as is prudently possible, and the investment policy of the Board is wisely in line with this philosophy.

As previously implied, the "excess" interest yield and the appreciation on equities provide a logical source from which to provide periodic increases in allowances being paid under the System. Many possible approaches are available in devising a procedure for the application of the excess yield and appreciation to increase pensions. For example, the entire annual "excess" yield applicable to State employees and teachers, currently about \$1,700,000 a year, plus the unrealized appreciation (about \$1,200,000 at June 30, 1965) might be set aside in a separate fund to be used to supplement retirement pensions, in lieu of any increase in the basic formula. It would probably not be prudent or equitable to apply all of this amount immediately for the benefit of present pensioners. Part of it should be retained to provide additional retirement allowances for present active members after they retire. Only a proportional part of these funds would be paid out now to present pensioners.

Another approach would be to set aside only the pensioners' proportional share of the excess funds, and use all or a portion of the balance to offset part of the cost of liberalizing the basic benefit formula. In either event, the effect on present allowances might be about the same. Of the total assets of the System allocable to State employees and teachers, the actuarial reserves for pensioners comprise about 23%, so that the pensioners' share of the total annual excess yield of \$1,700,000 would be about \$391,000; this amount could be used to increase allowances paid during the coming year. In addition, about \$275,825 of the unrealized appreciation is allocable to pensioners. It would probably not be wise to apply all of this appreciation, since it has not been and will not be converted to cash during the year. However, on a reserve basis it can be thought of as the "purchase price" of additional allowances totaling \$28,000 annually for present pensioners. All told, allowances to be paid during the 1965-66 fiscal year could have been increased by about \$419,000, or about 7½% of the total allowances to be paid during the year. That is, the excess yield for 1965-66 allocable to pensioners could be used to increase each pensioner's monthly allowance during the year by an average of 7½%.

Of course it would not be equitable to apply a flat across-the-board percentage increase if the supplement is to be considered a defense against increases in the cost of living. Members just recently retired are receiving allowances based on recent salaries, so that their allowances presumably do not require a cost of living supplement. On the other hand, pensioners who retired in 1952 have suffered through a 19% increase in the cost of living since their retirement (June 1952 to June 1965).

Accordingly, the total allocable amount available to provide supplemental allowances should be split among pensioners in proportion to the percentage increases in the cost of living since their respective retirement. To facilitate administration, this could be handled on a biennium basis,

rather than annually. It would be possible to recompute the supplements at less frequent intervals, for instance every five years, but this procedure would have disadvantages. It would be less satisfactory in maintaining purchasing power and it would introduce complications in determining how much excess interest was available for application in any particular period. This would be especially true if each pensioner's supplement were to be recomputed at quinquennial anniversaries of his year of retirement, so that about one-fifth of all pensioners would be recomputed each year. If all pensioners were to be recomputed at the same time each five years, say in 1966, 1971, 1976, etc., there would be wide variations in the time after retirement when different pensioners received their first supplement. In any case, with five-year recomputations, most pensioners would receive only one or two adjustments during their whole period of retirement. More frequent adjustments, in smaller amounts, would likely be preferred by the pensioners. All in all it appears that regular biennial adjustments, geared to the State's biennial fiscal periods, would turn out more satisfactory than quinquennial recomputations.

The retirees of each fiscal biennium would be assigned a cost of living index based on the average Consumer Price Index over the five year period ending in the middle of the fiscal biennium, since System benefits are based in most cases on average earnings in the five-year period preceding retirement. This index would be compared with that applicable to the retirees of the most recent biennium to determine the appropriate increase percentage. For example, if the supplements were to commence July 1, 1966, the total allocable amount would be determined from the excess yield in the period July 1, 1963—June 30, 1965 and the appreciation as of June 30, 1965, and would be proportioned in accordance with cost of living increases as follows:

<i>Fiscal Biennium of Retirement</i>	<i>Five-Year Base for C.P.I.</i>	<i>Consumer Price Index</i>	<i>Pct. Increase to 1960-65</i>
3-1-52—6-30-54	7/48—6/53	87.7	21.1%
7-1-54—6-30-56	7/50—6/55	91.8	15.7
7-1-56—6-30-58	7/52—6/57	94.0	13.0
7-1-58—6-30-60	7/54—6/59	96.8	9.7
7-1-60—6-30-62	7/56—6/61	100.6	5.6
7-1-62—6-30-64	7/58—6/63	103.5	2.6
7-1-64—6-30-66	7/60—6/65	106.2	0.0

The percentages indicated would be applied to the portions of the total retirement payroll as of, say, June 30, 1965, to determine whether the total amount available for supplemental pensions (computed as described above) would be sufficient to provide the full cost of living increases. If so, each pensioner's allowance during the 1966-68 biennium would be supplemented by the percentage indicated, and any excess would be retained in reserve for application in the next (1968-70) biennium. If not, the supplement would be a proportional part of the cost of living increase percentage. Data sufficient to perform a complete analysis are not currently available but based on the increase percentages shown, and the fact that an average supplement of about 7½% would have been available in 1965-66, it is probable that full cost of living increases could be granted for 1966-68.

The procedure outlined above would be repeated every two years to determine the supplement available for distribution in the following fiscal biennium. The outline does not, of course, cover in detail the accounting

processes that would be required for the operation of the program of supplements. Probably it would be necessary to establish a third account in addition to the members' contribution account and the retirement allowance account. This third account—the "supplemental allowance account"—would receive from the retirement allowance account either the total excess interest yield or that part of it attributable to reserves on pensioners, and all realized capital gains, and would also contain all unrealized appreciation. It would be depleted by supplemental allowances paid and by realized capital losses.

Although only State employees and teachers have been considered in the numerical examples presented, the same increase procedure would, of course, also apply to members employed by political subdivisions. It probably could also be usefully extended to pre-1952 retirants being paid from Trust Fund "B".

The payment of supplements as proposed would have very little effect on the State's current annual costs under the System, since the supplements are being paid from "excess" funds—interest yields and asset appreciation greater than anticipated in the actuarial cost computations. However, it must be kept in mind that every additional dollar paid in benefits in the long run must cost another dollar in State contributions. If the excess yield were not applied to supplement pensions, it would eventually be available to reduce State contributions.

The establishment of a program of supplements would contribute a planned procedure for increasing retirement allowances rather than making necessary increases subject to the sentiment of future General Assemblies. It would have to be carefully explained to the recipients that although the supplement was expected to continue into the future, its amount would be subject to variation, up or down, every two years, depending on the System's actual investment experience and changes in the cost of living index. Nevertheless the implementation of the program would represent a bold and progressive step that would help to keep the Virginia System in a leading place among the various state systems.

## F. ADDITIONAL CREDIT FOR PRIOR SERVICE

### 1. *1952 Refunds*

At the time, in 1952, of the repeal of the old Virginia Retirement System and the establishment of the Virginia Supplemental Retirement System, members of the abolished system were given two alternatives with respect to their previous accumulated contributions:

(a) they could transfer their contributions to the new system, and by so doing they would be given credit under the new system for all prior service that was creditable under the old system, or

(b) they could take a cash refund of their V.R.S. accumulated contributions, and by so doing they would forfeit all rights to credit for service prior to March 1, 1952.

The alternatives and their consequences were explained in 1952 to all members of the abolished system, and each member who applied for a refund signed a statement signifying that he understood that he was forfeiting credit for his prior service. Nevertheless, from time to time since then it has been suggested that the members who accepted refunds in



1952 should be permitted to re-establish their prior service credits by repaying the refund. There are probably about 6,000 V.S.R.S. members who would be eligible to take advantage of such a provision; a much smaller number would be likely to do so.

It is doubtful that it would be equitable to permit members to re-establish their pre-1952 service credits simply by repaying the amount of the refund even with interest at, say,  $3\frac{1}{2}\%$  for the period since 1952. Employees who rejected the System in 1942 and later became members can be credited with service between 1942 and date of membership only by paying the V.S.R.S. member contributions for such period of service based on their *current* salary level at date of payment, together with interest at  $3\frac{1}{2}\%$ . It would seem that a case could be made for also requiring the "1952 Refunds" to pay for re-establishment of their pre-1952 service credits based on their current salary level at date of payment rather than on the amount refunded in 1952.

It is true that members who withdraw their contributions when they terminate employment and who later are re-employed may purchase credit for their prior period or periods of service by repaying the amount of the withdrawal, plus  $3\frac{1}{2}\%$  interest. However, this liberal provision was added to the System in the public interest primarily to encourage former teacher members to return to the profession at a time of a serious teacher shortage. The same consideration would not apply to the 1952 Refunds. Moreover, as suggested in the following subsection, the time may have come to remove the favorable treatment currently applicable in the case of former members who become re-employed.

The additional annual cost to the State that would result if the 1952 Refunds were permitted to re-establish their service credits on the basis suggested would depend on how many eligible members took advantage of the opportunity as well as, of course, what amendments, if any, were made to the basic benefit formula. The additional cost would likely be low enough so as not to be an important consideration in a decision as to whether the 1952 Refunds should be granted this privilege. A reasonable estimate of the resultant increase in the State's biennial cost would be \$200,000. Assuming the adoption of the purchase basis outlined above, it is recommended that the 1952 Refunds be permitted to re-establish credit for pre-1952 service.

## *2. Basis for Re-Establishment of Service Credit*

In the preceding subsection, it was recommended that the 1952 Refunds be permitted to re-establish pre-1952 service by the payment of a purchase price based on current earnings, similar to the treatment accorded 1942 Rejects.

To achieve uniformity of treatment it would be preferable to require that *all* purchases of credit for service after 1942, including those by former members who become re-employed, should be handled on the same basis. The conditions which led to the favorable treatment currently accorded these members probably do not apply to as great an extent as formerly. Under this approach, all purchases of service credit would be on the same basis as for 1942 Rejects, i.e., repayment on the basis of current salary levels and member contribution rates at time of purchase, together with interest at  $3\frac{1}{2}\%$ .

If this approach were to be applied, as suggested, to former employees who had received refunds at previous termination of employment, there would be added incentive for a terminating member to leave his contributions in the System instead of taking a refund. This might eventually add slightly to the State's cost under the System, but any such increase would not be significant and would be offset by the gain to the System resulting from the application of the higher repayment provision. Another point to be considered is whether it would be proper to give such an advantage to a terminating member who left his contributions in the System as compared to one who withdrew them; under the present law both types of members are treated similarly. It would appear that the advantage is justifiable.

### 3. *1942 Rejects in Military Service*

When the old Virginia Retirement System was established in 1942, membership was optional for State employees and teachers. Most employees joined the System, but some rejected membership. Of those who rejected V.R.S. membership in 1942, many have since joined the System. Since 1960, these 1942 Rejects have been able to purchase credit for the period when they could have been members, and over 200 have done so.

Employees who joined the old V.R.S. and then went on leave for military service, or joined upon return from service, were given service credit for the period of leave without having to make contributions. Employees who rejected the V.R.S. and did not join until their return from military leave must purchase credit for military leave on the same basis as other reject service. If it is intended that, by purchasing reject service credit, 1942 Rejects will be retroactively put in the same status insofar as military service is concerned as those employees who joined the V.R.S. when first eligible to do so, it would seem only fair that credit for such military leave should be granted without the necessity of the member paying for it, *if* the member purchases credit for reject service during which he would have had to contribute if he had been a member. The resultant extra cost to the State would be minimal.

A few 1942 Rejects have, since 1960, purchased reject service which included military leave, and under the present law their military leave was charged for on the same basis as regular employment. If, as proposed, the law is now changed to credit military reject service without additional charge, these few should be permitted to apply for a refund of the portion of the purchase price that represented the cost of credit for such leave.

## G. OTHER PROPOSED AMENDMENTS

Other possible changes to the Virginia Supplemental Retirement Act, not elsewhere discussed in this report would include the following:

### 1. *Vesting*

The System presently provides as a termination benefit the refund of the member's accumulated contributions plus interest. However, members who terminate service after having completed 15 years of credited service have the right to refuse the refund in order to be eligible to receive a deferred allowance to commence at retirement age based on their service up to date of termination.

It has been proposed to reduce the service requirement so that all members terminating after five or more years of service would be entitled to a deferred allowance if they did not withdraw their accumulated contributions.

A study of comparable provisions in the systems of all the other states indicates that Virginia is not badly out of line with its 15-year requirement. This survey (of state retirement systems covering teachers, with or without state employees also) showed the following:

<i>Service Requirement for Deferred Allowance</i>	<i>Number of States</i>
No Service Requirement	3
1 year	1
5 years	7
10 years	9
15 years	8 (including Virginia)
20 years	7
25 or more years	6
No Vesting Provision (except Early Retirement)	9

Although, as noted, the comparison shows that the Virginia provision is an intermediate one among the 50 states, a reduction in the service requirement from 15 years to, say, 10 years, might have merit.

The resultant additional cost to the State of such an amendment would be small since very few members would likely take advantage of it. Most employees who leave the System evidently place more value on cash in hand than on a deferred allowance. This is true of those who terminate after 15 years under the present provision and would be even more applicable to members quitting after between 10 and 15 years. A *maximum* estimate of the additional biennial cost would be that it would be between \$150,000 and \$200,000.

Accordingly, the decision as to whether or not such an amendment is to be made should turn on factors other than cost. These would include on the one hand the additional administrative detail in accounting for the deferred allowances and the slight possibility of inducing higher turnover rates and on the other, the beneficial effect on morale of liberalizing the System and the value in combating pressure for crediting out-of-State service, as discussed in the following subsection.

## 2. *Credit for Out-of-State Service*

Periodically, for many years, it has been proposed by teacher groups that teacher members of the System should be permitted to purchase credit for teaching service they have had in other states prior to their commencement of Virginia service. The proponents of such a provision argue that it would facilitate Virginia's hiring teachers away from other states.

This argument in favor of permitting credit for out-of-State service has always been outweighed by three counter-arguments:

- (a) if such a provision were made available to teachers, it should also be made available to State employees, whose prior experience in private industry or in governmental work elsewhere might well be just as valuable to Virginia as a teacher's out-of-State service. Obviously such a concept would involve problems of staggering complexity, if in no other aspect than in deciding what categories of prior service would be creditable;

(b) if all states had liberal vesting provisions, there would be no need for out-of-State credits, since the teacher moving to Virginia could retain the right to a deferred allowance in the system of the other state. The better way to preserve the pension rights of Teachers moving from state to state would be by providing immediate vesting in all state systems (at present only three states have such a provision); and

(c) the fact that Social Security credits are "portable" means that in any event a portion of the teacher's previous accrued benefits remain to his credit under the Virginia System, assuming that he had been covered under Social Security in his prior employment.

The resultant additional cost to the State if purchase of out-of-State credit were to be permitted is indeterminable in the absence of statistics as to how many members have out-of-State service and how much, and how many of them would be willing to purchase credit for it. If cost were the only problem, it could be avoided so far as the State were concerned, at least with respect to teachers, if the provision were handled on a local option basis with local school boards matching the member's purchase price. In any event, however, the State would have to bear the full cost with respect to State employees.

### *3. Leave of Absence Provision*

It has been suggested that the System be amended so as to permit members who go on approved leave of absence without pay (other than for service in the armed forces, which service is already credited under the act) to be given service credit for such period of leave.

This appears to be a reasonable proposal and merits consideration. It should perhaps be limited to leave for educational or similar purposes, not in excess of one year, to correspond to some extent with the provision in the act for the continuation of group life insurance coverage. Within, say, 90 days of return from leave, the member could establish credit for his period of leave by paying over to the System the member contributions he would have made during such period if he had remained on a contributory basis, based on his current rate of compensation.

### *4. Extension of "Service" After Retirement*

Under the present law, re-establishment of service credit by members who have previously received refunds upon termination of employment, or who were "1942 Rejects" or who have creditable pre-1942 service must be accomplished while the member is still "in service". It has been suggested that members be considered for administrative purposes to remain in service for 90 days beyond actual termination of service. Such a provision would give members who have paid little attention to their service record while in service additional time to establish or re-establish prior service credits by making application and any required payments during this extension period. It is thought that such an amendment would protect the interest of the members and would serve a useful purpose in the administration of the System.

### *5. Local Systems Covering Constitutional Officers*

The Code of Virginia, in § 51-114.2, provides for reimbursement by the State to any county or city which includes constitutional officers and

their employees in its local retirement system. It is intended that such reimbursement be in the same amount as would be provided for under § 51-111.36(b) if such employees of the county or city were covered under the Virginia System.

Unfortunately, the wording of § 51-114.2 is not precise in describing just how the amount of reimbursement is to be computed; it provides that the reimbursement shall be based on the employer contribution rate that would apply "if such officer, deputy or employee were covered under Article 4 of this chapter". In practice, the determination of the employer contribution rate for each participating subdivision involves consideration of the amount of funds previously accumulated to the credit of the subdivision in the members' contribution account and the retirement allowance account; no such accounts exist with respect to subdivisions not participating in the Virginia System, and it has been necessary for the actuary to base his computations under § 51-114.2 on arbitrarily determined hypothetical amounts of accumulated funds, roughly based on a proportion of the amounts actually accumulated under the local system.

It would be preferable if § 51-114.2 were to spell out a basis for the assumption that the actuary has to make in this respect. The most convenient and equitable assumption would be that the hypothetical funds exactly equalled the actuarial value of the V.S.R.S. benefits assumed to be accrued up to the computation date, so that the reimbursement would be computed, in effect, on the basis of future service only. In this way the State would not be required to pay for any of the unfunded accrued liability of the local system.

As things stand now, the more poorly that the local system has been funded, the more the State is required to pay by way of reimbursement. This inequitable situation would be corrected by the proposed amendment.

#### H. COVERAGE UNDER SOCIAL SECURITY ACT

In 1952, Virginia became the first state to implement Social Security coverage for the members of a state retirement system. Since that time, most other states have followed suit, so that now only a relatively few states do not have Social Security benefits for their employees and teachers.

At the time Social Security coverage was adopted in Virginia, extensive study was given to the ramifications of the step, and the decision to embark on the hitherto uncharted course was a carefully considered one. It was felt that the advantages to the State and the members of the Retirement System from adopting Social Security would outweigh the recognized disadvantages. The advantages had to do with the expectation of a lower immediate annual cost to the State (although it was realized that costs would later increase), and a program of survivor benefits for the members of the System which would not require the State to bear directly the considerable administrative expense involved. The primary disadvantage was and is the fact that a part of the overall retirement benefit program for System members would no longer be under State control, but would be the responsibility of the federal government.

Since 1952, the Social Security system has been amended many times. Many of the changes have been in the nature of liberalizing the benefit provisions as respects the limit on credited wages, disability benefits, and now medicare; the result has been a continual increase in the annual cost, shared in the case of the members of the V.S.R.S., by the

members and the State (or some agency or subdivision of the State). For example, for a State employee with annual wages of \$6,600, the F.I.C.A. tax levied on the State as the employer has increased and will increase over the years as indicated in the following table:

1952-53	\$ 54.00
1954	72.00
1955-56	84.00
1957-58	94.50
1959	120.00
1960-61	144.00
1962	150.00
1963-65	174.00
1966	277.20
1967-68	290.40
1969-72	323.40
1973-75	356.40
1976-79	359.70
1980-86	366.30
1987 & Later	372.90

The amounts of contributions shown for future years are those called for under the 1965 amendments; it is hardly likely that these rates will remain unchanged for very many years, let alone until 1987. The State's total OASDI cost for the 1966-68 biennium will run about 61% higher than for 1964-66—an increase of about \$17,500,000, although these figures include some employees who are not V.S.R.S. members.

The continual increase in the scope of Social Security benefits and the attendant increases in cost are apt to give rise to some second thoughts as to whether the considerations which led to the step taken in 1952 are still applicable. The dangers inherent in relinquishing the State's control over a portion of its employee benefit program perhaps have become more evident, and it would seem prudent to give consideration to the questions:

- (i) is the continuation of Social Security coverage in the best interest of the State and the members of the V.S.R.S., and if not,
- (ii) can the State take steps to reverse its 1952 decision and now withdraw the V.S.R.S. members from Social Security?

To address the second point first, it would appear to be possible, under the coverage agreement, for the State to terminate coverage on State employees and teachers by timely notice to the Social Security Administration, although such termination might not necessarily apply to employees of political subdivisions. Whether or not such termination should, in fact, be effected is a question of extremely far-reaching implications.

The pervasive argument in favor of terminating Social Security coverage has been outlined above—it would give back to the State complete control over the benefits and costs of the entire employee benefit program. On the other hand, there are many cogent points to be raised in favor of maintaining the status quo; some of these are included in the following:

- (a) Such a move would undoubtedly engender doubt and indecision among the members of the System. There would be fears,

even if groundless, that the State was unfairly depriving the members of benefits promised by the federal government.

(b) Presumably the State would have to provide for V.S.R.S. members some sort of health insurance plan akin to medicare, and dependents' and survivors' benefits parallel to those under Social Security. In addition to the cost of the benefits provided, the State would be faced with a very difficult job of administration, likely involving the necessity of regional offices in various parts of Virginia.

(c) The cost to the State of providing retirement benefits equal to those under Social Security would probably be more costly under V.S.R.S. than under Social Security because of the high percentage of females in State employee and teacher groups (approximately 61% of such V.S.R.S. members are females). As is well known, female pensioners show a greater longevity than males.

(d) The fact that employees of some political subdivisions

Social Security coverage would be so serious that an exhaustive study embracing only this one topic should be made before such a move were decided upon.

## I. STATE POLICE OFFICERS RETIREMENT SYSTEM

### 1. *Introduction*

The State Police officers of the Department of State Police are presently covered under a separate retirement system from State employees and teachers. The State Police System, although it is administered by the same Board of Trustees as the V.S.R.S. and is similar in several respects, is very much different from the V.S.R.S. in three principal aspects—retirement benefit formula, normal retirement age and member contributions.

For members retiring with 25 years or more of creditable service, the System retirement benefit is 50% of average final compensation reduced at age 65 by the primary Social Security benefit to which the member is entitled. The normal retirement age is 60 for members who have accrued 25 or more years of creditable service at that age, or upon the completion of 25 years of service if after age 60, but in no event later than age 65 at which age retirement is mandatory. Early retirement is permitted after age 55 with an actuarially reduced benefit. The member contribution rate is 4% of earnings up to the Social Security base (i.e.,

\$4,800 through 1965, \$6,600 commencing in 1966) plus 6% of any earnings in excess of the base.

In addition to these principal differences between the two Systems, the Police System provides additional benefits for death or disability in line of duty; benefits of this nature are not included in the V.S.R.S. The occupational death benefit is an allowance to the member's widow or children equal to 50% of the member's average final compensation, less any Social Security and Workmen's Compensation benefits that become payable as a result of the member's death. The occupational disability benefit is an allowance to the member equal to 66 $\frac{2}{3}$ % of his average final compensation less Social Security benefits after age 65 and less Workmen's Compensation benefits.

The V.S.R.S. provisions as to ordinary disability and refunds of contributions on death or other termination of employment before age 60 are the same as under the V.S.R.S., except that ordinary disability benefits are recomputed at age 60 instead of age 65.

## *2. Principal Defects of Present System*

The present provisions of the System contain several features which have given rise to complaint. Primarily these are:

(a) Although member contributions continue to retirement, for practical purposes only the first 25 years of a member's service are creditable for benefit purposes, so that the long-service employee to some extent must contribute for benefits he will not receive;

(b) The very fact that a long-service member will receive a benefit no larger than one retiring after the minimum period of 25 years is a defect in itself, regardless of the contributions aspect; and

(c) The application of the Social Security "integration" provision means that liberalizations in Social Security benefits before a member's retirement are not passed on to the member in the form of increased total retirement benefits, even though any increase in the Social Security tax rate results in higher total annual contributions by the member.

The current possibility of improvements in the V.S.R.S. benefits and the 1965 amendments to the Social Security law have highlighted the need for remedying the inequitable aspects of the State Police System.

## *3. Suggested Amendments to Formulas for Benefits and Contributions*

The most obvious methods of correcting the first defect mentioned above would be either to credit all years of service or to provide for a cessation of member contributions after 25 years. Crediting all years of service would also remove the second defect. As respects Social Security integration, the offset feature could be removed so that the State Police System would define benefits and contributions without reference to Social Security as does the Supplemental System.

Amendments of this nature have been proposed, but without modification they would result in a pattern of benefits that would be too liberal. For example, if benefits were to be computed as 2% of average final compensation per year of service, with no limit of creditable service, in addition to Social Security, a member retiring at age 60 in 1971 after 35 years of service with average final compensation of \$6,000 would have annual retirement benefits as follows:



State Police System .....	\$4,200
Social Security (after age 65) .....	1,619
<b>Total</b> .....	<b>\$5,819</b>

The total represents 97% of average final compensation, which is much higher than the recognized "norm" of 55-65% for career employees. For a similar employee with 39 years of service instead of 35, the percentage would have been 105%. Thus a simple change to credit all service and to "ignore" Social Security is not the answer.

Even if only 25 years of service were to be credited, with member contributions ceasing after 25 years, the total benefit after age 65 would amount to about 77% of earnings. Moreover, this arrangement would perpetuate the present defect of providing the same benefit for a retiree with 39 years of service as for one with only 25 years.

Accordingly, it is evident that the best solution to the present inequities will involve more than a simple adjustment to the current provisions of the System. Defects of the sort creating problems in the State Police System are not found in the Supplemental System. This indicates that the State Police System might be improved by bringing its provisions more in line with those of the Supplemental System. Moreover, there would be merit in treating all classifications of employees as nearly uniformly as possible. It is true that the nature of the work of the State Police may necessitate some divergence of retirement treatment between them on the one hand and State employees and teachers on the other; however, any differences are primarily in the age at which the employee becomes unable to perform his duties efficiently and not necessarily in the pattern of retirement benefits.

In light of these considerations, attention has been directed to the possibility of changing the provisions of the State Police System to correspond as closely as possible to those of the Supplemental System. In Section B of this report, several possible changes in the Supplemental System retirement allowance formula were considered. In the table below, the benefits produced under each of these formulas are compared with those available under the present State Police retirement formula, for extremes of average final compensation and various lengths of service. For purposes of determining the Social Security benefit offset after age 65, retirement in 1971 at age 60 has been assumed. The benefit figures are the annual allowances that would be paid under the System alone, in addition to Social Security.

Average Final Compensation .....	\$6,000			\$10,000		
Years of Service .....	25	32	39	25	32	39
<b>Annual Benefit</b>						
<b>Present S.P. Formula</b>						
— to age 65 .....	\$3,000	\$3,000	\$3,000	\$5,000	\$5,000	\$5,000
— after age 65 .....	1,381	1,381	1,381	3,356	3,356	3,356
<b>Present V.S.R.S. Formula .....</b>	<b>1,350</b>	<b>1,728</b>	<b>2,106</b>	<b>2,475</b>	<b>3,168</b>	<b>3,861</b>
1½% (AFC—1,200)						
<b>Proposed V.S.R.S. Formula B .....</b>	<b>1,500</b>	<b>1,920</b>	<b>2,340</b>	<b>2,750</b>	<b>3,520</b>	<b>4,290</b>
1¼% (AFC—1,200)						
<b>Proposed V.S.R.S. Formula C .....</b>	<b>1,650</b>	<b>2,112</b>	<b>2,574</b>	<b>3,025</b>	<b>3,872</b>	<b>4,719</b>
1⅜% (AFC—1,200)						
<b>Proposed V.S.R.S. Formula D .....</b>	<b>1,800</b>	<b>2,304</b>	<b>2,808</b>	<b>3,300</b>	<b>4,224</b>	<b>5,148</b>
1½% (AFC—1,200)						

With respect to benefits payable after age 65, the present Supplemental System is more liberal than the State Police System for all \$6,000 a year members with more than 25½ years of service and for all \$10,000 members with 34 or more years of service. For intermediate salary levels, the service "break-point" would be between 25 and 34. Thus for almost all of the State Police members, the present V.S.R.S. formula would produce larger benefits after age 65. If the V.S.R.S. formula were to be liberalized, there would be even fewer State Police members who would be better off under the present arrangement.

If the V.S.R.S. formula were to be applied to State Police officers there would have to be a modification applicable to the years between age 60 and age 65 before full Social Security benefits were available. The best way of handling this would be to pay a flat dollar supplement to all members from the later of retirement age or age 60 to age 65 in lieu of Social Security. This supplement should be derived from an approximation to the average Social Security benefit receivable by retiring State Police officers but should be the same for all members regardless of their actual Social Security credits; a benefit of \$135 a month (\$1,620 a year) would be appropriate. This would mean that a State Police officer retiring at age 60 would receive approximately the same total retirement income as a V.S.R.S. member retiring at age 65 with the same creditable service and average final compensation.

To protect those few members who might receive less under the V.S.R.S. formula than under the present State Police System, there would be a guarantee that the System benefit plus the actual Social Security benefit would have to at least equal 50% of average final compensation for all members who retire at age 60 or later.

If the V.S.R.S. benefit formula were to be applied to State Police officers, a decision would have to be made as to whether the V.S.R.S. member contribution rates would also apply. The State Police officers would have the benefit of an earlier retirement age, and a supplement until age 65, as well as their present line-of-duty death and disability benefits and a higher contribution rate than for State employees and teachers could perhaps be justified. However, the weight of argument seems to be in the other direction—the contribution rates should be the same for all members. The very fact of uniformity is a merit in itself; the same arguments for having a similar retirement formula would suggest the use of a similar contribution formula. The additional cost to the State should be considered as an extra measure of compensation to the State Police officers to reflect the arduous and hazardous nature of their duties; most of this additional cost is already being borne by the State under the present System. Finally, the earlier retirement age is not primarily for the benefit of the individual police officers; it is in the best interest of the State as a whole to replace these men when they are no longer able to perform their duties efficiently.

A comparison of the proposed member contribution rates with those applicable under the present System is shown below for several different salary levels. (These annual contributions do not include Social Security taxes.)

Annual Salary .....	\$4,800	\$6,000	\$7,500	\$10,000
<b>Annual Contributions</b>				
Present S.P. Formula .....	\$192	\$240	\$318	\$468
(for years after 1965)				
Present V.S.R.S. Formula .....	162	216	284	396
4½% (SAL—1,200)				
Proposed V.S.R.S. Formula B ..	180	240	315	440
5% (SAL—1,200)				
Proposed V.S.R.S. Formula C ..	198	264	347	484
5½% (SAL—1,200)				
Proposed V.S.R.S. Formula D ..	216	288	378	528
6% (SAL—1,200)				

Under proposed V.S.R.S. formula B, the contributions for most State Police members would be close to those required under the present State Police System. Their contributions would be reduced if the present V.S.R.S. formula were applied to them and would be increased somewhat under V.S.R.S. proposals C and D.

#### 4. *Other Proposed Amendments*

Aside from the proposed changes in the benefit and member contribution formulas to make them consistent with those under V.S.R.S., other changes affecting the State Police System should also be considered.

Some of these changes would become applicable more or less automatically if the Supplemental System were amended as proposed in the preceding sections of this report. These would include the modification of the formula for computing non occupational disability benefits and the proposal to supplement pensions to reflect changes in the Consumer Price Index.

At present early retirement under the State Police System is available between ages 55 and 60 with an actuarially reduced benefit. To parallel the 1964 amendment to the Supplemental System under which an actuarial reduction is not applied if the member has completed 30 or more years of service, unreduced benefits should also be available under the State Police System for members retiring between ages 55 and 60 with 30 or more years of creditable service. Since less than 10% of all members will *not* have completed 30 years of service by age 60, this amendment would have the effect of reducing the average "normal" retirement age from 60 to about 56. It might reduce the actual average retirement age to about 58, depending on how many members took advantage of the provision.

Whether or not the actuarial reduction were applied to early retirements, there is one other defect of the State Police System that should be rectified. The survivors' allowances under the Supplemental System are payable in the case of death after age 60 and prior to retirement. In the State Police System, the same age limits for survivors' allowances apply even though age 55 is the minimum early retirement age. The State Police System should be amended to provide that survivors' allowances would be payable in the case of the death of a member after age 55 rather than only after age 60. This change is necessary to maintain equity at all ages between members who die just before retirement and those who die just after retirement under the joint and survivor option.

Another aspect of the State Police System that has given rise to criticism is the requirement that Workmen's Compensation benefits, as

well as Social Security, must be deducted from allowances paid for line-of-duty death and line-of-duty disability. The point has been raised that in some cases Workmen's Compensation is not paid, as when, for instance, the disabled member is reimbursed directly by an insurance company, and in such cases the member does not suffer as large a reduction in his allowance from the System. The solution to this inequity would be to provide for a Workmen's Compensation deduction in such cases in the amount that would have been paid under the Workmen's Compensation provision if no other source of reimbursement had been available.

#### 5. *Additional State Cost Under Proposed Amendments*

The additional biennial cost to the State that would result from the proposed changes in the retirement provisions applicable to State Police officers would naturally depend on what combination of amendments were made.

For purposes of presentation, the proposed amendments to the State Police System can be thought of in four principal categories:

(1) Permitting early retirement without an actuarial reduction between ages 55 and 60 if the member has completed 30 years of service;

(2) Providing for survivors' allowances if a member dies between ages 55 and 60;

(3) Changing the benefit formula to correspond with that under V.S.R.S., either under the present formula or under whatever change were made in the V.S.R.S. formula. The present  $1\frac{1}{8}\%$  V.S.R.S. formula is denoted as formula A; the three alternate proposed formulas,  $1\frac{1}{4}\%$ ,  $1\frac{3}{8}\%$  and  $1\frac{1}{2}\%$  are denoted as B, C, and D, respectively;

(4) Changing the disability formula to the same basis as in (3), with adjustment in credited service as outlined in Section C.

The cost figures have been computed assuming no change in the benefits of State Police officers already retired; if any current pensions were to be increased, the cost increase would be a little greater.

Also, no cost computations were made for the State Police System with respect to several other minor items suggested for the V.S.R.S., such as survivors' allowances prior to early retirement age, liberalized vesting and repurchase of service credits.

Additional biennial costs were computed as follows :

		V.S.R.S. Benefit Formula			
		A	B	C	D
(1) Unreduced benefits					
after 55/30 .....	\$301,000				
(2) Survivors' allowance					
after age 55 .....	13,000				
(1) and (2) combined .....	\$314,000				
(3) Change to V.S.R.S. formula plus Social Security supplement for service retirement benefits .....		\$166,000	\$242,000	\$318,000	\$394,000
(4) Change to V.S.R.S. formula plus Supplement for retirement benefits with proposed new disability benefits ....		132,000	211,000	290,000	368,000
(1) and (3) combined .....		254,000	341,000	429,000	516,000
(2) and (3) combined .....		172,000	249,000	326,000	403,000
(1) and (2) and (3) combined .....		260,000	348,000	437,000	525,000
(1) and (4) combined .....		221,000	310,000	400,000	490,000
(2) and (4) combined .....		138,000	218,000	298,000	377,000
(1) and (2) and (4) combined .....		227,000	317,000	408,000	499,000

These additional costs may appear to be proportionately high when compared with the biennial cost that would apply if no changes were made, i.e., \$393,000. However, it should be kept in mind that the present low employer cost under the State Police System reflects not only the defects in the present provisions, but also a contribution rate that has decreased sharply as a percentage of payroll over the past decade, due to "actuarial gains" and the effect of the Social Security offset.

The State contribution rate derived from the most recent (1964) valuation is 3.36% of payroll; this rate would have been lower if the recent Social Security changes had been reflected. If all of the proposed changes were made, the resultant State contribution rates would be :

Under Formula A .....	5.30%
Under Formula B .....	6.07
Under Formula C .....	6.85
Under Formula D .....	7.63

These rates, although higher than the current (1966-68) rate of 3.36%, are not so far out of line compared with the applicable contribution rates in past years :

1954-56 .....	12.57%*
1956-58 .....	9.47*
1958-60 .....	5.40
1960-62 .....	4.77
1962-64 .....	2.69
1964-66 .....	2.62

\* Computed before members were covered under Social Security.

It would be expected that, for the same benefit formula, a System with a normal retirement age of 60 would require a larger total contribution rate than one with a normal retirement age of 65.

#### 6. *Conclusions*

Most of the present defects in the State Police Retirement System could be remedied by amending the benefit and contribution provisions to correspond to those under the Supplemental System. Just as in considering amendments to the Supplemental System, too much emphasis should not be placed on a comparison with the retirement provisions for police officers in other states. A supplemental benefit should be paid after age 60 until age 65 in lieu of Social Security.

Early retirement benefits without an actuarial reduction should be available if the member has attained age 55 and has completed 30 or more years of service. Survivor benefits should be available in the case of the death of a member after age 55.

Although not previously mentioned, there might be merit, if the provisions of the Police System were brought into line with the Supplemental System, to combining the two Systems into one, so that the same provisions of the law would apply to all employees uniformly, except for the difference in the definition of retirement age and the Social Security supplement. This would mean that line-of-duty benefits would also be available for State employees and teachers as they probably should be. A combination of the two Systems would tend to insure continued uniformity in future years in the treatment of all categories of civil servants.

