

STATE OF NEW JERSEY
PENSION SURVEY COMMISSION

REPORT No. 4

RECOMMENDATIONS
FOR THE SOUND FINANCING OF
PUBLIC EMPLOYEE PENSION
SYSTEMS IN NEW JERSEY

March, 1932

LETTER OF TRANSMITTAL

To the Governor, Senate and General Assembly of the State of New Jersey:

The Pension Survey Commission presents herewith its conclusions as to essentials in the sound financing of retirement systems for public employees and its legislative recommendations for the correction of evils in the existing pension situation in New Jersey.

The nature and extent of the financial insecurity of pension funds as now organized and the significance to employees and taxpayers of the present widespread lack of advance financing of promised pension benefits have been discussed in detail in Commission Report No. 3, "Analysis of Existing Pension Systems for Public Employees in New Jersey," submitted on January 12, 1932.

Since the Commission sought to have its recommendations on legislative changes based on the judgment not only of itself but of other interested groups as well, final determination was withheld until opportunity had been given all concerned to study existing conditions as disclosed in Report No. 3. Thus, it has become possible to submit a corrective program embodying the conclusions not of the Commission alone, but of many public officials and employees, representatives of business and civic organizations, and others with vital interest in seeing the pensioning of public employees in New Jersey put on a satisfactory financial basis.

Most of the major recommendations of the Commission have been included in five legislative bills, copies of which are contained in the appendix to this report. These bills were introduced in the Assembly on February 8, 1932, and may be identified as Assembly bills numbered 317, 318, 319, 320 and 368. Certain recommendations, especially those relating to the interests of

special groups of employees rather than to the state program as a whole, have been left for legislative drafting and presentation by the groups directly affected.

The Commission believes that its recommendations are sound, conservative and reasonable. If its legislation is enacted at the present session of the Legislature, the foundation will be laid for the sound financing of pension systems for public employees in New Jersey on a basis fair to both the employee and the taxpayer.

Acknowledgement is again made by the Commission of the valuable assistance of George B. Buck, consulting actuary, who has made the cost estimates and helped in the formulation of recommendations, and of Henry A. Williams, who as Commission counsel has drafted the legislation.

The presentation of the accompanying report completes the studies of pension systems for public employees in New Jersey and the formulation of legislative recommendations as to the future pension policy of the state, required under the joint resolutions of the 1930 and 1931 sessions of the Legislature creating and continuing the Pension Survey Commission. The final report in the Commission's studies of the operation of the dependency laws will be presented within the next few weeks.

Respectfully submitted,

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March 11, 1932.

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CHAPTER I

ESSENTIALS OF A SOUNDLY-FINANCED PENSION SYSTEM

Only two of the 152 existing pension plans for public employees in New Jersey have been found by the State Pension Survey Commission to be based on sound principles of finance. These two funds are, fortunately, the largest in the state—those for teachers and for state employees.

The others, in the judgment of the Commission, are in a most unsatisfactory condition. The reason for this is they have failed to take into consideration that their revenues must equal the benefits promised. Because this has not been done, these unsound funds are amassing millions of dollars a year in liabilities for which no current provision is being made. If the promised benefits are to be made good, and the resulting liabilities are to be met, they must be met by the taxpayers according to present laws. This introduces an element that makes the future of some of the more costly funds most uncertain.

In its Report No. 3, entitled "Analysis of Existing Pension Systems for Public Employees in New Jersey," the Commission has gone extensively into the condition of these retirement systems. An understanding of the findings in Report No. 3 is necessary to an appreciation of the recommendations and discussion embodied in this Report No. 4.

However, before going into a discussion of the recommended program for gradual reorganization of the weak systems of New Jersey, it is necessary to realize what are the essentials of any soundly-financed retirement system for public employees. The Commission has tried to present in the next few pages an interpretation of these essentials, especially as they affect an individual employee. This is designed so that a member of any retirement system may understand just what his relation to the whole situation may be.

The essentials of sound financing in a retirement system for public employees may be set forth in terms that are readily understandable. That these essentials have been so generally overlooked in New Jersey and elsewhere is no doubt due in large measure to the fact that current disbursements under a retirement system do not reveal the true costs of that system.

The true cost of a pension benefit and the essential principles involved in financing it on a sound basis may be illustrated by a simple example. Consider the case of a man who enters public employment at twenty-five years of age and receives a salary of \$1,000 per year. Assume that he continues at this rate of pay until he reaches age sixty, when he is retired on a life pension of one-half pay, or \$500 per year. During his thirty-five years of active service this employee will receive salary payments totaling \$35,000. At the time he is retired it is impossible to determine the exact cost of his pension, since it is payable as long as he lives and may be terminated within a few months or may continue for forty years. Mortality experience covering hundreds of thousands of similar cases shows that, on the average, a man retired at age sixty will live about fifteen years after that time. Let us assume that the employee in question will live exactly fifteen years after he is pensioned. The total amount of his pension payments then will be fifteen times \$500, or \$7,500. The major problem of a retirement plan is to develop a financial program which will guarantee that this substantial sum will be available when it is needed.

The only logical basis of providing such a retirement allowance is to accumulate it during the period of active service. If the employer, or the employer and employee jointly, were to set aside throughout the active service of this employee the amounts which, without the aid of interest, would produce \$7,500 at retirement, the annual contributions would amount to more than 21 per cent. each year of the employee's salary. But in practice, of course, the amount set aside each year should be invested conservatively and the income from this investment added to the fund.

It is fair to assume that such an investment should earn interest at the rate of at least 4 per cent. per year compounded annually. On this basis, \$1 set aside in the first year of the employee's service will accumulate to nearly \$4 at the time the employee is ready

to retire. A dollar set aside in each of the subsequent years will produce similar interest accretions, although the amounts will be less because of shorter periods of accumulation.

Furthermore, such interest accretions will not cease upon retirement, but continue during the remaining life of the pensioner, so that the amount of \$5,660, rather than \$7,500, in hand at the date of pensioning will be adequate to insure the payment of the \$500 pension for fifteen years. Reference to any sinking fund table will show that instead of 21 per cent. of the current salary, a contribution of about $7\frac{1}{2}$ per cent., or \$75 per year for thirty-five years, will be adequate with the aid of interest to produce this amount at date of pensioning.

Hence the total contributions on this basis will amount to thirty-five times \$75, or \$2,625, as compared with total contributions of \$7,500 on the non-interest basis. In other words, 65 per cent., or practically two-thirds of the cost of pensioning this man has been secured from interest accumulations alone. Thus, to set aside adequate contributions each year throughout the period of active service not only adds immeasurably to the likelihood that the employee will actually receive his pension as long as he lives after retirement, but operates to reduce very substantially the amount of direct contributions required.

So far only a single employee has been considered and it has been assumed that he would continue in service until granted a pension at age sixty and would receive the pension for exactly fifteen years thereafter. In actual practice, of course, not all employees who enter public service at age twenty-five will eventually qualify for retirement. Some will die, others will leave the service on account of resignation, dismissal or disability. Hence, for a large group of employees entering service at age twenty-five, a much lower rate of contribution applied year by year against the total payroll will be adequate to provide pensions for that portion of the group who will eventually receive them.

Consider the case of five employees entering service at age twenty-five and assume that one of them leaves the service at the end of the first year, a second at the end of the fifth year, a third at the end of the tenth year, a fourth at the end of the twentieth year, while the remaining employee continues in service until the completion of the thirty-fifth year, at which time he is retired on

a pension of one-half pay. The cost of the retirement allowance to the survivor of this group may properly be expressed as a level percentage of the payroll of the whole group throughout their entire service. If each of these employees receives \$1,000 a year while he continues in service, the aggregate payroll against which the contribution rate is applicable will amount to \$5,000 during the first year, \$4,000 during each of the next four years, and so on, diminishing to a level of \$1,000 per year for each of the final fifteen years. An ordinary interest calculation will show that, instead of 7.5 per cent. required in the case of a single individual, a contribution of 3 per cent. applied each year against the total payroll of the group and accumulated with interest will be sufficient to provide the pension for the single survivor. In other words, by making allowance both for interest accumulations and for separations from service prior to the granting of pensions, the cost of the simple plan above described is 3 per cent. of the payroll instead of the 21 per cent. which would otherwise be required.

In actual practice, pension and annuity plans often provide that in the event of death of an employee during active service certain benefits will be paid to his beneficiaries, and that if an employee leaves service prior to pensioning, his accumulated contributions will be returned to him. Provisions of this type will, of course, operate to increase the required rate of contribution. They do not change the fundamental characteristics of a sound financial plan, however, and have been omitted in the foregoing illustration merely for reasons of simplicity.

The illustration shows that to set aside contributions each year at a correctly determined rate and secure reasonable interest earnings on the resulting balance will, in the long run, prove far less costly than to postpone contributions until they are required to meet current disbursements.

Under normal conditions the required annual contributions during the earlier years of a pension plan will exceed the disbursements of those years and, as a consequence, a reserve balance will accumulate and be invested in securities. The existence of an invested reserve constitutes no proof, however, that annual contributions are in balance with the promised benefits. Even though the amount in hand may have been increasing, as happens to be the case in some of the municipal funds in New Jersey, the actuary may still find a condition of partial insolvency. The sole test

of the financial soundness of any pension plan is to determine, on the basis of the considerations above described, whether the reserve now in hand plus the present value of future contributions which have been pledged to the fund is or is not substantially in balance with the present value of the benefits which have been promised to present members and pensioners.

The purpose of the present report is to recommend procedures by which, without sacrificing any of the rights of present members and beneficiaries, the present unsatisfactory pension situation can be improved and the funds be brought gradually into a sound financial position.

CHAPTER II

DESIRABLE BENEFIT AND CONTRIBUTION PROVISIONS

In its study of the existing pension provisions of the State, the Commission analyzed and compared the detailed provisions of all the existing pension laws. The Commission found widely varying conditions governing the payment of benefits and varying degrees of liberality in the amounts of benefits payable. Similarly no uniformity in the means employed in financing the benefits was found. Almost every possible type of financial provision is illustrated by the various existing laws, including provisions for proper funding as employed by the State funds and the pure cash disbursement plans under many of the non-contributory laws.

The Commission felt that it could not undertake the task of passing upon the fairness or adequacy of so many varying provisions without some definite standard with which to make comparison. The Commission decided therefore that it would make better progress if it first studied the problem without reference to any existing fund and devised a set of retirement provisions which in its opinion would best suit the needs of the public and its employees throughout the State. After formulating a set of provisions of this kind which would serve as a standard against which existing provisions might be measured, it would be in a better position to state its conclusions in reference to existing plans.

With this end in view the Commission met for a number of times to discuss various possible types of retirement provisions for public employees and the detailed form of desirable benefit and contribution provisions. The conclusions reached at these meetings are briefly summarized below.

ADVANTAGES OF A JOINTLY CONTRIBUTORY SYSTEM

The jointly contributory system, or the system supported by the joint contributions of the employees and the public, appears

preferable to a system supported entirely by the public or a system supported entirely by employees. In this respect the Commission found itself in agreement with the conclusions reached by other similar commissions in New York City, New York State, Illinois, California and Connecticut. In fact, during the past ten years it has been generally agreed in the establishment of sound governmental systems that the jointly contributory system is the most suitable for a public service.

Some students believe that there is a question whether eventually the jointly contributory system is less costly than the other types of systems because it is claimed that the pension fund contributions are always taken into account in fixing salaries and that the employee receives the same total compensation whether it is all paid to him and then part paid by him to the retirement system, or whether the part required for the retirement system is set aside before fixing his immediate compensation.

However, it is generally agreed that the initial cost to the public is less when employees share the cost because, at the outset at least, salaries are not adjusted for the retirement system deductions and the public contributes less than it would if a non-contributory system were adopted. Furthermore, if employees contribute they are apt to value the benefits more highly and if they share in both the administration and support of the system a spirit of co-operation is engendered which is valuable to the service.

The Commission recommends that employees provide approximately fifty per cent. of the cost of benefits on account of membership service. The contributions will not be divided exactly evenly between employees and the public because, as described below, the Commission recommends that the employees contribute on a slightly different basis from the public in order that the contributions made by the individual employee may revert to him in some form under every contingency. The Commission recommends also that the public make additional contributions on account of prior service for a period following the establishment of a plan so that at the outset the public would contribute a greater part of the cost of the retirement benefits than employees. Ultimately the plan would operate on an approximately even division of the cost of retirement benefits between the public and employees.

SAVINGS BANK BASIS FOR EMPLOYEES' CONTRIBUTIONS

The Commission favors the so-called "Savings Bank" basis for employees' contributions. In the sound retirement systems for governmental employees established during the last ten years, the contributions of employees are made on a savings bank basis and this procedure has been generally recommended by the commissions which have studied the subject in other states. On this basis, an account is opened for each employee to which his contributions are credited just as if he were making the contributions to a savings bank. Interest is allowed on these contributions and the money standing to the credit of the employee is used for his own benefit under every contingency. If he leaves the service, the amount contributed is returned to him with interest; if he dies, the amount is paid to his dependents; if he remains in service until retirement, the amount which is standing to his credit is used to provide part of his benefit. This basis seemed to the Commission the fairest to the employee because under no circumstances does he forfeit any of his own contributions. To the young employees the system serves as a means of automatic saving and this appeals to them, while retirement benefits often seem very remote and not of special value.

The savings bank basis is not recommended for the contributions of the public because under the plan developed by the Commission the public provides special benefits in the case of the disability or accidental death of an employee which would not be possible upon the savings bank basis. The Commission recommends that the public make its contributions on the so-called group basis, that is, set aside a contribution for the group of employees as a whole which will be sufficient to provide benefits for those members of the group who will remain in service and become eligible for benefits. The contributions of the public under this plan would not be allocated to the individual accounts of the employees for whom they are made, but would be drawn upon to provide that part of the benefit for which the public is responsible.

IMPORTANCE OF SUFFICIENT RESERVES

The Commission recommends the operation of a retirement system upon the reserve basis described in the preceding chapter of this report. Under this plan the contributions of both employees and the public are so determined as to accumulate, during

the active service of employees, a fund which will be adequate to provide their benefits when they retire. Actuarial calculations are made to determine the cost of the benefits and the annual contributions are set to meet the cost. As the contributions are received by the retirement system they are invested and through the aid of interest accumulations a sufficient reserve is accumulated to take care of retirement benefits as they mature. On this basis the generation which receives the benefit of the employees' service makes provision each year for the ultimate pension of the employee. There is therefore no deferred charge which has to be taken over by a future generation of taxpayers. The Commission recommends this basis principally because it means greater security for both the employee and the public. The public knows what personal service is costing and is meeting the cost as it is rendered. The employee knows that provision is being made in advance for his pension and that he will not have to depend upon appropriations in the future to provide for his benefit.

Under the reserve basis smaller appropriations from the public and smaller contributions from employees are required in the long run than are required under the plan which allows the liability to accumulate at interest for future payment. Reserve systems seem more costly at the outset because they compel the true cost of the benefits to be taken into account, but this very condition will result in fairer and more conservative benefits and in keeping the obligations of both the public and the employees within reasonable limits.

SUMMARY OF DETAILED PROVISIONS RECOMMENDED

After determining the general principles which it favors the Commission gave its attention to the various detailed benefits which might well be included in any governmental plan. It reviewed the provisions of sound retirement systems now in operation in other states and had its actuary prepare figures indicating the comparative costs of various benefits. Finally it formulated a set of provisions which, of the various provisions studied, seem most nearly to meet the needs of the employees and the public.

The benefit and contribution provisions recommended are summarized below. Following the summary is a discussion of the reasons which influenced the Commission to select the provisions in the form given.

SERVICE BENEFIT

Condition for Allowance—Upon the demand of any employee who has attained the age of 60 a retirement allowance is to be granted. Retirement is compulsory at age 70, unless an employee is allowed to remain by affirmative action by the employer.

Amount of Benefit—The retirement allowance will be approximately 1/70 of the average annual salary of the employee for the last 5 years of service*, multiplied by the number of years of service rendered prior to the date of retirement.

The retirement allowance will consist of two parts, an annuity provided by the contributions of the employee, and a pension provided by the public.

The annuity will be exactly equal in value to the accumulated contributions of the employee at the time he retires. Employees' contributions are set to provide in the average case at the retirement age an annuity of 1/140 of average final compensation multiplied by the number of years of membership in the retirement system.

The pension will be 1/140 of the average final compensation of the employee multiplied by his years of membership, i. e., approximately equal to his annuity.

In addition, if an employee has had service before the establishment of the system the public will provide an additional pension of 1/70 of his average final compensation multiplied by the number of years of service prior to the establishment of the system.

DISABILITY DUE TO ORDINARY CAUSES

Condition for Allowance—Upon the occurrence of disability due to causes not the result of an accident in the actual performance of duty, an employee who has 10 years of service to his credit is to be granted a retirement allowance.

Amount of Benefit—The total benefit will be figured at 8/10 of the regular benefit to which an employee would be entitled after the same period of service were he retired upon a service allowance. A minimum allowance of 25 per cent. is provided with the exception that no allowance shall exceed 8/10 of the rate of allowance to which the member would have been entitled at age 60.

The contributions of the employee with interest are used to provide an annuity and the public provides a pension which with this annuity is sufficient to provide the total allowance.

DISABILITY DUE TO ACCIDENT IN THE ACTUAL PERFORMANCE OF DUTY

Condition for Allowance—Upon the occurrence of disability due to causes resulting from an accident in the actual performance of duty, a retirement allowance shall be granted regardless of the age or length of service of the employee.

Amount of Benefit—The retirement allowance shall consist of a pension

* The average salary of the employee for the last 5 years of service is hereinafter referred to as "average final compensation".

equal to 66⅔ per cent. of the average final compensation of the employee, and an annuity equal to the value of the contributions made by the employee together with interest, except that if the employee is eligible for service retirement the service retirement allowance shall be payable.

BENEFIT UPON DEATH DUE TO ACCIDENT IN THE ACTUAL PERFORMANCE OF DUTY

Condition for Allowance—Upon the death of an employee resulting from an accident in the actual performance of duty, his widow, or, if there is no widow, his children under 18 years of age, or if there are no children, his dependent parents, shall receive a pension from the retirement system regardless of the age and service of the employee.

Amount of Benefit—The accidental death benefit shall consist of a pension of 50 per cent. of the average final compensation of the employee payable to the widow or dependent parents until remarriage or death, or to the children until they attain the age of 18. In addition, all contributions made by the employee prior to his death plus interest accumulations shall be paid to his estate or designated beneficiary. If there is no widow, dependent parent, or child under 18 surviving the member, his death shall be treated as a death due to ordinary causes.

RETURN OF CONTRIBUTIONS

Upon the withdrawal or death of an employee prior to retirement, the entire amount of his contributions with interest accumulations figured at 4 per cent. shall be returned to him or to his estate.

SPECIAL PRIVILEGES UPON RETIREMENT

Employees upon retirement may elect to receive the actuarial equivalent of their retirement allowances in any one of the following optional forms:

Option 1—Reduced payments during life with the provision that in case of death before the annuity payments have equalled the amount of his accumulated contributions at the date of retirement, the balance shall be paid to the heirs or assigns.

Option 2—Reduced payments covering two lives with a provision that at the death of the employee the same retirement allowance shall be continued throughout the life of such other person as the employee shall have designated at the time of his retirement.

Option 3—Reduced payments covering two lives with a provision that at the death of the employee one-half of his retirement allowance shall be continued throughout the life of such other person as the employee shall have designated at the time of his retirement.

Option 4—Such other form of actuarial equivalent as may be certified by the actuary and approved by the administrative board.

CONTRIBUTIONS

By EMPLOYEES

Employees will contribute annually on a savings bank basis the percentage of salary required to provide approximately 50 per cent. of the superannuation benefit.

By PUBLIC

The public will contribute at a rate sufficient to provide 50 per cent. of the superannuation benefit and that part of the ordinary disability benefit which is not provided by the disabled employee's contributions. In addition, the public will provide pensions upon accidental disability and accidental death.

* Additional contributions will be made for a period of years following the establishment of a system to take care of the cost of pensions granted on account of service rendered prior to establishment.

ADMINISTRATION

The administration of the retirement system is to be vested in a board of trustees representative of the public and of the members. The chief duties of the board of trustees should consist of:

1. Collecting and accounting for contributions.
2. Investing and managing the reserve funds of the system.
3. Arranging for retirements and the payment of benefits.
4. Maintenance of records for actuarial purposes and arranging for actuarial checks.

PROVISION FOR SAFEGUARDING THE SYSTEM AND INSURING ITS PERMANENCY

Definite restrictions are to be placed upon the investments to insure a conservative investment policy.

Provisions are to be made in the retirement act to insure that the combined contributions by members and public will be adequate to cover the cost of the benefits proposed.

Provisions are to be included for guaranteeing the maintenance of proper reserves.

The systems are to be under the supervision of the Department of Banking and Insurance.

REASONS FOR RECOMMENDING ABOVE BENEFITS

The contingencies against which any individual has to provide are principally old age, disability and death. The public is concerned mostly that provision be made for the old age of the employee. It is

difficult, particularly in public service, to discharge a superannuated employee who has no adequate provision for his future needs especially if he has given most of his lifetime to the service. On the other hand, the retention of old employees in active service after they reach the age when they are unable to perform full service gives rise to a hidden pension roll which may prove much more costly than if the employees were released on part pay. An adequate provision for the retirement of superannuated employees appears to be necessary if the public service is to be maintained on an efficient and economical basis.

Next in importance to a superannuation arrangement comes the provision for disability which may occur before the employee is eligible for superannuation but which prevents him from performing service equal in value to the salary received. Provision for a death benefit is relatively less important from the viewpoint of the public because the death of an employee does not give rise to the problem of adjustment in compensation which the superannuation or disability of an employee causes.

Service Benefit

Various possible conditions for determining eligibility for superannuation retirement were considered by the Commission. The payment of a benefit upon the request of an employee after the attainment of a fixed age without any service limitation was believed preferable to the payment of a benefit after a definite period of service regardless of age or after the fulfillment of both a service and age condition.

The Commission found that the requirement of a period of service only, such as twenty, twenty-five or thirty years, without consideration of age is usually unsatisfactory from the public's point of view as it enables an employee who enters the service early in life to retire when he is still young and well able to give a few more years of service, whereas the employee entering at a later age may under such a provision be kept in service long past his period of greatest usefulness. The Commission decided that both a service limitation and an age requirement were not necessary since the plan provides that the amount of benefit be graded according to years of service.

The plan proposed by the Commission permits retirement at the request of the employee after the attainment of age sixty, regardless

of years of service. Retirement is made compulsory at age seventy. A compulsory retirement age appears necessary from the viewpoint of the public so that retirement after the fixed age will not be left solely to the employee's initiative and the service will be automatically freed of employees too old to give efficient service. Age seventy is the age at which retirement is usually made compulsory in governmental systems. The Commission recommends that it apply uniformly, unless some special action is taken to keep the employee in service by the body by which he is employed.

• The Commission fixed the retirement allowance as approximately $1/70$ of the average earnings for the last five years of service multiplied by the number of years of service. The amount of benefit is therefore related to the earnings upon which the employee has presumably based his standard of living prior to retirement and varies with his years of service. Employees with long terms of service receive proportionately larger benefits than employees with short terms of service. The provision gives approximately half pay after thirty-five years of service. Before adopting this benefit the Commission had figures prepared indicating the cost to employees and the public of more and less liberal benefits payable at age sixty and at earlier and more advanced ages. An earlier retirement age would increase the cost of the plan so materially that in the opinion of the Commission it would be impracticable for employees and the public to support. An increase in allowances to provide half pay after twenty-five or thirty years would also make the plan more costly than the needs of the service seem to justify.

The Commission found allowance of about half average salary at age sixty after thirty-five years of service is in line with the allowances under many of the sound governmental plans. Age sixty is used by New York State in its state employees' system which covers many of the county, municipal, town and village employees of the State, and by municipal plans such as those of Boston, Baltimore, Cincinnati and Newton. Very few of the governmental systems give a more liberal allowance than $1/70$ for each year of service.

The plan provides that at retirement the employee receives a retirement allowance consisting of two parts, an annuity payable from his own contributions and a pension payable from the contributions of the public. The annuity and pension on account of membership should be approximately equal but the annuity is figured a little dif-

ferently from the pension. The annuity in every case is figured as the exact benefit which the employee's contributions with interest will provide at retirement. Employee's contributions are set to provide $1/140$ of the average salary for the last five years of service multiplied by the number of years of service and in the case of the employee who has had average salary increases the annuity will be exactly $1/140$ of average salary per year of service. In the case of employees whose salary increases have been more or less than average, the contributions will provide more or less than the average allowance. The Commission preferred this method of figuring the annuity to a method giving a fixed allowance because it gives the employee the exact equivalent of his contributions with interest.

The pension on account of membership service which will be provided by the public will be definitely set at $1/140$ of average salary for the last five years of service multiplied by the number of years of service as a member of the system. In addition the Commission recommends a pension of $1/70$ of average final compensation for each year of service rendered prior to the establishment of the system.

Other methods of setting the retirement allowance might have been selected by the Commission. For example, in the Ohio Teachers' Retirement System and in the municipal systems of Boston, Newton and Somerville, employees contribute 4 per cent. of salary on a savings bank basis and at retirement the pension is planned to equal exactly the annuity provided by employees' contributions. While there would be less fluctuation in the rate of contribution of the public under a plan of this type if abnormal salary increases are received, nevertheless the Commission favors the setting of a definite percentage of average final salary as a pension because it believes that the pensions are more attractive on this basis and therefore facilitate to a greater extent the retirement of employees.

The Commission also studied plans which use the average salary over the entire period of service as a basis for the pension. While it believes that the average of the entire term furnishes a very conservative basis for the retirement system, it concluded that it is advisable to relate the pension more closely to the salary on which the employee is living at the time he retires in order that the financial adjustment at retirement may more easily be met by the employee. If retirement means too great a sacrifice, the public will not gain from the operation of a retirement system because employees will be inclined to remain

in service rather than retire when for the good of the service they should retire.

Disability Benefits

The majority of the sound governmental plans provide two separate disability benefits. One applies when disability is due to ordinary causes and the other, when disability is due to an accident in the performance of duty. The Commission has made this distinction in the proposed plan.

The Commission recommends that a retirement allowance in the event of disability due to ordinary causes be payable only in case the disabled employee has completed ten years of service. This service provision reduces the cost somewhat and it prevents employees in poor health from joining the service with the idea that shortly thereafter they may prove disability and retire on the minimum allowance. The Commission found that usually a requirement of from five to twenty years of service is included. New York City, Providence and San Francisco require ten years of service. Boston and New York State require fifteen years of service before payment of a disability benefit. Newton and Worcester require twenty years, whereas Baltimore requires only five years. The Commission feels that a ten year requirement properly protects the system against abuse.

The retirement allowance on ordinary disability is set at 8/10 of the rate of allowance payable upon superannuation retirement. The use of a slightly lower percentage allowance on disability retirement than on superannuation retirement has been found desirable as it furnishes an incentive for the employee to remain in service when able to do so and retire under the higher benefit. A minimum of 25 per cent. of salary is set in order to provide for those employees who may become disabled shortly after completing ten years of service when the straight allowance for each year of service would give them very small benefits. The minimum would not apply, however, in the case of employees who enter the service so late in life that they would receive less than 25 per cent. on service retirement.

The plan also provides for a benefit payable upon disability due to service accidents regardless of the years of service of the employee. The various committees and commissions which have studied the subject for other states and cities have usually agreed that disability occurring in the actual performance of duty calls for a benefit without limitation as to the service of the employee and as generous in amount

as the employer can afford. The Commission found that the number of permanent disabilities as a result of service accidents is usually small and that the benefit is not costly but at the same time it adds to the attractiveness of a plan from the employees' standpoint. The pension payable usually ranges from 50 per cent. to 75 per cent. of average final compensation. The Commission recommends a pension of $66\frac{2}{3}$ per cent. of average final compensation unless the employee is eligible for service retirement. If eligible for service retirement the service retirement pension is payable. In addition the employee's contributions with interest are returned in the form of an annuity.

Death Benefits

The Commission found that in respect to death a distinction is usually made between death due to accident in the actual performance of duty and death due to ordinary causes. Many of the public retirement systems make no payment upon death due to ordinary causes. While the Commission believes that a death benefit due to ordinary causes is attractive to the employees, it has concluded that such a benefit is not of the first importance from the standpoint of the public. The superannuation and disability benefits and provisions for accidental death are so much more important that the Commission is limiting its recommendations to these benefits. If a benefit upon death due to ordinary causes appears desirable it may be added later, if the public is willing to undertake the cost for the benefit.

In respect to death due to accident in the performance of duty, the Commission recommends that a pension of 50 per cent. of average final compensation be paid to the dependents of the deceased employee and that in addition all contributions made by the employee with interest be paid to his estate or beneficiary. In most of the governmental plans reviewed by the Commission it was found that a special benefit either of a pension or of a lump sum payment is made to the dependents of the employees killed in the performance of duty. The Commission's provision is in line with the corresponding provision in the outstanding governmental plans.

While many of the old type retirement plans provide for the continuation of the employee's pension to his dependents upon his death after retirement, the Commission found that the newer retirement systems for governmental employees were not including such a provision but were so arranged that at retirement an employee might have the option of providing for dependents upon death after retire-

ment by means of a reduction in the allowance received during his own lifetime. These optional benefits are offered without increasing the cost to the public. The Commission has included such benefits in its plan so that at retirement the employee may elect a smaller benefit for himself and a benefit payable after his death.

The amount of the optional benefits is so figured that the benefit payable after death, together with the employee's reduced allowance is equal in value to the straight retirement allowance. The Commission has in mind that many employees will reach the retirement age with life insurance and other assets which will be available on their death and that they would prefer the maximum allowance rather than to have this allowance reduced in order to have a death benefit payable upon death after retirement in all cases included in the plan.

RETURN OF CONTRIBUTIONS UPON RESIGNATION, DISMISSAL OR DEATH

Since employees' contributions are made on the savings bank basis a full return of the employees' contributions with interest is made in the event of withdrawal from service prior to attaining eligibility for a retirement allowance.

Upon the death of an employee full return is made to his legal representative. The plan does not provide for any payment to be made from the public contributions when an employee resigns or withdraws as such payments can not be made without either increasing greatly the cost of the plan to the public or else reducing the benefits of those who remain in public service to retire because of old age or disability.

CONTRIBUTIONS REQUIRED UNDER RECOMMENDED PLAN

Each member of the retirement system which the Commission has projected would contribute regularly from his salary to the fund at a rate determined actuarially. On each member's behalf the public also would contribute at a prescribed rate.

The Commission has not attempted to present contribution rates for the varied groups of public employees throughout the State because of the great task involved. However, in order to test the reasonableness of the contributions necessary for the sound financing of the benefit provisions offered as desirable, the Commission has had its actuary prepare certain figures which will serve to give an idea of the cost.

TABLE 1

CONTRIBUTIONS OF CERTAIN EMPLOYEE GROUPS UNDER
RECOMMENDED PLAN

<i>Age of Joining</i>	<i>Percentage of Salary from</i>			
	<i>Policemen</i>	<i>Firemen</i>	<i>Clerical and Administrative</i>	<i>Laborers</i>
20	3.85	3.87	4.11	3.54
21	3.90	3.90	4.11	3.56
22	3.94	3.93	4.12	3.59
23	3.98	3.96	4.14	3.62
24	4.02	4.00	4.17	3.66
25	4.06	4.04	4.21	3.71
26	4.10	4.08	4.25	3.76
27	4.15	4.12	4.29	3.81
28	4.20	4.16	4.34	3.87
29	4.25	4.21	4.39	3.93
30	4.30	4.26	4.45	4.00
31	4.36	4.31	4.51	4.08
32	4.42	4.36	4.58	4.16
33	4.48	4.42	4.65	4.24
34	4.54	4.48	4.72	4.32
35	4.60	4.54	4.79	4.41
36	4.66	4.60	4.86	4.50
37	4.73	4.67	4.94	4.59
38	4.80	4.74	5.02	4.68
39	4.87	4.81	5.10	4.77
40	4.94	4.88	5.18	4.87
41	5.01	4.95	5.26	4.97
42	5.08	5.02	5.34	5.07
43	5.15	5.09	5.43	5.17
44	5.23	5.17	5.52	5.27
45	5.31	5.25	5.61	5.37
46	5.39	5.32	5.70	5.47
47	5.47	5.40	5.80	5.58
48	5.55	5.48	5.90	5.69
49	5.63	5.56	6.00	5.80
50	5.71	5.64	6.10	5.91
51	5.79	5.72	6.21	6.04
52	5.87	5.81	6.33	6.17
53	5.95	5.90	6.46	6.30
54	6.04	5.99	6.59	6.43
55	6.13	6.08	6.72	6.56
56	6.21	6.18	6.85	6.69
57	6.30	6.27	6.98	6.82
58	6.39	6.37	7.11	6.95
59	6.49	6.46	7.24	7.09

Contributions by Employees

So that an employee in one of the general groups may determine what the cost to him would be, Table 1 has been set up. This shows the approximate percentage of salary that would be required of policemen, firemen, clerical and administrative employees and laborers. It will be noticed that these rates of contribution are determined by the age at which the employee joined the retirement system under discussion.

For instance, a policeman entering the retirement system at age twenty-five would contribute approximately 4.06 per cent. of his salary. His contributions would continue at this rate until age sixty. At age sixty he would be eligible for service retirement. When retired, the total amount of his contributions with interest, plus his share of the public's contribution, would be used to provide his service benefit.

The contribution rate payable by a member would remain constant throughout active service but the actual amount contributed from year to year would of course change if the salary changed, since the rate is a percentage and not a fixed sum of money.

For example, the policeman beginning to contribute at age twenty-five and having a salary of \$150 per month would pay 4.06 per cent. of his salary or \$6.09 per month. If his salary changed to \$160 per month he would still pay 4.06 per cent. of his salary but the sum would be 4.06 per cent. of \$160 or \$6.50 per month.

All contributions of a member are kept on deposit for him much as his funds would be kept in a savings bank, as has been previously described. If he leaves the service at any time before retirement, his contributions with interest will be returned to him.

Contributions by the Public

As explained earlier, the public would contribute regularly to the projected retirement system on behalf of each employee. This contribution would be based on actuarial calculations also.

The Commission has determined an average contribution by the public on the basis of the ages at which present employees entered the employ of the public. For policemen and firemen this would be 4.12 per cent. of salary. For members of the present general municipal pension funds this contribution rate would be 2.24 per cent. of

salary. For members of the present county pension funds the rate would be 2.02 per cent. of salary if they were carried over into the projected system.

However, qualifications must be placed on the rates here quoted for contribution by the public. That is, they represent only "normal" contributions. They would not cover the cost to the public in behalf of employees who may have been years in the government's employ before coming under the recommended benefit provisions.

For such entrants in a retirement system an "accrued liability" contribution from public funds is also necessary. The accrued liability contribution would be based on a valuation of the total liability of the public on account of the benefits payable to a group of employees. This contribution rate would vary for every group of employees included under the projected plan in accordance with the age and years of service of the individual members of that group.

Thus for an employee group containing employees advanced in age and with long periods of service, the accrued liability contribution would be much higher than for a group of young employees.

Illustration of the total accrued liability contributions which would be required for specific employee groups under the projected retirement system will be found in Chapter IV, which shows the saving to the public under the operation of a plan of the type discussed.

CHAPTER III

DIFFERENCES BETWEEN EXISTING AND RECOMMENDED PLANS

The benefit and contribution provisions of the various laws now authorizing pensions to various groups of public employees throughout the State are summarized in Report No. 3.

The important laws considered in detail in this report were as follows:

<i>Reference to Law</i>	<i>Employee Group Covered</i>
Chapter 160, P. L. 1920 as amended	Municipal Policemen and Firemen
Chapter 190, P. L. 1927 as amended	Other Municipal employees
Chapter 122, P. L. 1929	County employees
Chapter 80, P. L. 1919 as amended	Teachers and other school employees
Chapter 109, P. L. 1921 as amended	State employees.

These laws were listed as important not only because of the large number of employees covered but also because the Commission considered their provisions representative of the pension policy of the State to date, and indicative of the type of provisions to be expected in future legislation covering additional groups of employees, unless a new State policy in pension legislation be inaugurated.

The Commission has reviewed the benefit and contribution provisions of these laws in comparison with the provisions which it decided as the result of its investigation should be recommended as desirable in the establishment of retirement systems for public employees.

The following sections show the nature and extent of the differences between present provisions for the various employee groups and those advocated by the Commission.

SERVICE OR SUPERANNUATION BENEFITS

The principal pension laws permit the retirement of a member upon a service or superannuation benefit at his own request, provided he fulfills specified conditions. The municipal police and firemen's plans grant this benefit after the attainment of age fifty and

the completion of twenty years of service. The other municipal and county plans require the member to be age sixty and to have completed twenty years of service. The State plan for teachers requires a member to be age sixty-two, although an exception is made in the case of teachers who were in service when the system was established, and who are permitted to retire after thirty-five years of service. The State Employees' Retirement System requires a member to be age sixty and includes no service limitation.

The Commission's plan does not require any period of service as condition for payment of service or superannuation benefit. As previously discussed, the Commission eliminated the service requirement which the municipal and county plans include, because the amount of the benefit has been made proportional to years of service and when this is done, a service requirement is not customary. The Commission's plan therefore is a little more favorable to the employee than the existing municipal and county plans. It permits every employee to retire at age sixty, no matter how short the period of service.

The minimum superannuation retirement age of sixty, recommended by the Commission, is the same as that set in the State Employees' Retirement System, in the municipal plan for employees other than police and firemen, and in the county plan, but is higher than that included in the municipal police and firemen's plans. The Commission studies show that an earlier age would increase the cost very materially and at the same time would not give any special advantage to the public. The disability provision takes care of employees who are unable physically to continue in service until age sixty. If the employee who is capable of continuing is permitted to retire on a pension at a time when his experience is most valuable to the public, the public loses rather than benefits from the operation of the pension plan.

In the retirement laws covering municipal and county employees, a benefit of one-half pay is granted upon superannuation retirement regardless of the length of service of the employee. Under the State plan for teachers and the State employees' plan the benefit is graded according to years of service. The Commission's plan is similar to the State plans in this respect. The graded benefit recommended by the Commission gives the employee one-half salary after thirty-five years of service and a proportional increase thereafter. Under the existing plans, except those for the State employees and teachers,

there is no particular incentive for the employee to remain in service after he attains the minimum age of eligibility for retirement because his benefit does not increase. The employee who enters at a very young age receives the same benefit as the employee who enters at a much older age. Under the recommended plan the employee who has given his entire lifetime to the service receives a more liberal benefit than the employee who enters public service later in life. The plan therefore gives special recognition to long service and yet is not unfair to the employees with short service as it gives uniformly the same benefit per year of service.

* The recommended plan therefore provides a liberal retirement allowance to the employee after reaching age sixty, but it does not provide any payment to the employee who desires to retire while in good health at an earlier age, except the accumulated value of his own contributions. By reason of this fact the cost to the public is very much lower under the Commission's plan than under present police and fire pension plans with their earlier retirement age.

DISABILITY BENEFITS

The principal pension laws all contain provisions for the payment of benefits upon the disability of an employee. The laws for municipal employees and county employees are not very definite in setting forth the conditions under which a disability benefit is payable. Apparently the intent is that the benefit be payable in case an employee is injured in the performance of duty or is permanently disabled through illness contracted in connection with the performance of duty. No service requirement is set as a condition for eligibility for disability retirement. In the State employees' plan a distinction is made between disability occurring due to an accident in the actual performance of duty and any other disability. The State teachers' plan covers all cases of disability arising after 10 years of service.

The plan favored by the Commission would differ from the existing municipal and county plans in that it would make a definite distinction between cases occurring in the actual performance of duty and ordinary cases. There would be no service requirement to be met in the case of disability occurring in the performance of duty. These cases would be treated as generously as under any existing fund in the State.

In respect to disability due to ordinary causes the Commission favors a minimum requirement of ten years of service as this will reduce the cost to the public, and at the same time will take care of the cases of employees who have been with the public long enough to merit special treatment upon the occurrence of ordinary disability. A somewhat broader definition of disability is included than under the existing municipal and county laws, as after ten years of service all employees incapacitated for future service are eligible for benefits.

The existing laws, except those for State employees and teachers, set the benefit upon disability retirement as a flat 50 per cent. of the final compensation. The Commission's plan increases this benefit to two-thirds average final compensation in the case of disability in the performance of duty. In the case of ordinary disability a graded benefit is provided which will be slightly less than that payable upon service retirement. In this respect the Commission's plan provides a benefit that is lower than that provided under the municipal and county plans, but is similar to that provided under the law for State employees and teachers.

The Commission's plan, therefore, is more liberal to the employee who is disabled in the performance of duty and less liberal to the employee who incurs disability from ordinary causes.

BENEFITS UPON DEATH IN ACTIVE SERVICE

The present pension law for municipal police and firemen permits the payment of a benefit following the death of any member in active service due to any cause. A pension is payable to the widow and is continued to the children under age 16 upon the death of the widow. In the event that there is no widow a benefit is paid to dependent parents, if any. The law for other municipal employees provides an accidental death benefit similar to the death benefit under the police and firemen's law, but requires a member to have five years of service before a death benefit due to ordinary causes is payable. In that event a pension is payable to the widow or dependent children but at a slightly lower rate than in the case of accidental death. The county law has no provision for the payment of any benefit upon the death of an employee in active service. The State teachers' law is similar to the county law in this respect. The State employees' law permits the payment of a pension upon the death of an employee in active service due to service accidents only.

The plan favored by the Commission would provide for the payment of a pension of 50 per cent. of average final compensation in the event of the death of a member in active service due to causes connected with the actual performance of duty, regardless of years of service. In this respect therefore the plan is as liberal as that provided under any existing law. The Commission's plan does not include any benefit payable upon ordinary causes, but is so arranged that an ordinary death benefit may be added if the public desires to undertake the cost. The amount of death benefit under the existing plans is set at one-half of the final salary of the employee with a maximum of \$1,000, except under the State employees' plan where the benefit is one-half of average final compensation without any maximum limitation. The Commission believes that, if an ordinary death benefit were added, it should be on a basis similar to that included under the State Employees' Retirement System, that is that there should be no maximum limit. In the case of the death of a member in active service due to causes connected with the actual performance of duty, the Commission plan provides for the continuation of benefit payments to dependent children to age eighteen, instead of age sixteen as is the case under the municipal plans.

The Commission's plan is comparatively liberal in the case of an employee killed in the performance of duty but it gives only a return of the employees' contributions with interest in the event of ordinary death. This difference results in a very great saving in cost to the public in comparison with the death benefits now being provided to policemen, firemen and other municipal employees under existing laws.

BENEFITS UPON DEATH AFTER RETIREMENT

Under the municipal police and firemen's pension law the employee's benefit is continued to dependents upon the death of the employee after retirement, except that a maximum of \$1,000 is placed on the amount. Similarly, under the plan for other municipal employees and under the plan for county employees, the benefit is continued to dependents upon the death of the pensioner. Under the State employees' law there is no benefit provided for payment upon the death of an employee after retirement, but the fund includes the so-called optional benefits which permit an employee to elect at retirement to take a smaller payment himself, if he so desires, and arrange for the continuation of his benefit or for the payment of some other benefit upon his death after retirement.

The Commission's plan contains a similar provision so that it gives the employee freedom to arrange his benefit according to his needs at retirement. When the benefit is fixed as it is in the municipal plans the cost for it has to be met in spite of the fact that some of the employees will never benefit from such a provision inasmuch as after retirement they are without dependents eligible to receive a continuation of their pension payments. Such employees, under the Commission's plan, may receive the maximum benefit during their lifetime and will not have been required to contribute towards a benefit without value to themselves.

While the Commission's plan provides a death benefit after retirement only in cases where the employee has arranged for such a benefit, it permits the married man to provide in this way for his wife or other dependents after his retirement. The omission of the pensions granted on the death of all retired employees greatly reduces the cost of the Commission's plan below those now in force for municipal and county employees.

RETURN OF CONTRIBUTIONS

As a rule the existing laws for municipal and county employees do not make any return of the employee's contributions if the employee leaves the service prior to attaining eligibility for a retirement benefit. The only exception to this practice occurs in the law for municipal employees other than police and firemen which permits a return of the contributions without interest if the employee is dropped from service without fault or delinquency. The State employees' and the State teachers' plan provide full return of the contributions made by the employee with an interest allowance should he leave the service without a retirement benefit. The Commission follows the State employees' plan exactly in this respect. Under no condition does the employee forfeit his savings. Provision for return of contributions under every contingency is provided in the Commission's plan by reason of the savings bank arrangement for employees' contributions.

PLAN OF FINANCING

Under the existing municipal and county plans certain contributions are required of employees and of the public and certain miscellaneous income is set aside for the funds, but the income of these funds was

set without definite knowledge of what the cost of benefits might be. The public is required under the laws to raise by taxes a sum sufficient to meet the temporary requirements of the fund if at any time the income available from the regular sources is insufficient to meet current benefit payments. While this may be a guarantee, the future of any fund is uncertain when the extent of the liabilities of the public is unknown and dependence is placed upon future tax levies to meet the pension roll. Under funds of this kind the current income is paid out to meet current disbursements. When present members become eligible for retirement, if their contributions are exhausted and the contributions of the members then in service are not sufficient, the public is called upon to make appropriations adequate to meet disbursement needs. The uncertainty as to the future involved in funds of this type has been removed under the State employees' and State teachers' systems by arranging that the joint contributions of the public and members shall be fixed so as to provide the benefits promised and that no employee's contributions shall be used for the benefit of any other employee.

The Commission's plan is similar to the State plans in this respect. It calls for definite payments by both public and employees to meet the cost of pensions accruing on account of each year's service. Additional contributions to take care of the liabilities on account of service rendered in the past are to be made. Every employee is assured under such a plan that his contributions are not being used for the present pension roll and that his own benefit will not be dependent upon the generosity of the taxpayers of the future.

The Commission's plan does not provide for the payment into the fund of any miscellaneous sources of income, such as fines upon members, absence deductions, fees and taxes paid by foreign insurance companies. These sources of revenue, which are not related to the needs of the retirement system, are subject to a wide variation in amount from year to year. If there is a growing membership in the fund, the miscellaneous income may not grow in proportion to the membership. When the support of the fund is dependent upon miscellaneous income, factors in no way related to the fund itself may reduce or change the income so that a fund might for the time operate on a sound basis and thus later accumulate an unexpected deficit. The commissions charged with the reorganization of unsound plans in other states have arranged for the payment of such income into the public treasury and for the direct payment to the fund of the

contributions needed. This is the course favored by this Commission.

Under the Commission's plan contributions will be so arranged that in the future, as employees grow older, no increase in the contributions of the employees or of the public will be necessary. Under the existing plans, with the exception of the State employees' and State teachers' plans, increases in the rates of the public or both the public and employees will be necessary. The Commission's figures indicate that ultimately the public will have to pay from four to five times as great a percentage contribution as the level contribution required of the public under a plan such as is proposed by the Commission.

From a comparison of existing retirement plans with its recommended plan, the Commission believes that benefit and contribution provisions such as it proposes would correct many of the uncertainties and inconsistencies of present provisions for municipal and county employees, to the advantage of both the taxpayers and the employee. The State teachers' and the State employees' plan already have benefit and contribution provisions similar in many respects to those considered by the Commission to be especially desirable.

CHAPTER IV

SAVING TO THE PUBLIC BY ADOPTION OF RECOMMENDED PROVISIONS

As a test of the practicability of its plan for use as a guide in the future establishment or reorganization of retirement systems for public employees, the Commission had its actuary prepare figures showing the cost to the public of present benefit provisions for municipal police and firemen, general municipal employees and county employees, in comparison with the cost for the same groups of employees under the plan of benefits recommended by the Commission. As the retirement plans which now exist for teachers and State employees are similar in so many ways to the type of plan favored by the Commission and are already soundly financed, no calculations as to comparative cost were made for these two groups of public employees.

The determination of the cost of the Commission's plan when applied to municipal and county employees also had value because of the fact that most public employees in the State not now covered by jointly contributory retirement provisions are among the municipal and county employees. (Table 1, p. 10. Report No. 3.) Retirement provisions in the future for these employees will probably be like the existing provisions unless new policies are developed. The Commission's plan is suggested as a guide or standard in the development of new policies. The saving which would result to the public under the benefit provisions advocated by the Commission are therefore shown in this chapter for both employees covered and not covered by jointly contributory pension plans.

Before presenting these figures, the Commission wishes to emphasize the fact again that the figures as they would apply to various groups of employees are given, not because the Commission is recommending an immediate change in benefits under existing plans, but as a means of helping interested persons toward a better understanding of the effect on the pocketbook of the employee and the taxpayer of the substitution of the benefit and financing provisions here advocated.

COST OF BENEFITS FOR MUNICIPAL POLICE AND FIREMEN

There are 11,159 municipal police and firemen in the State who are members of jointly contributory funds organized, with one exception, under Chapter 160, P. L. 1920, as amended. The findings in the Commission's detailed analysis of funds operated under this law will be found in Report No. 3. In calculating the cost of benefits, the Commission first determined the cost per new member or the "normal" contribution necessary and then determined the additional contribution required for present members on account of their past service or the "accrued liability" contribution. For comparison the corresponding costs under the plan of benefits recommended by the Commission have been determined for the group of employees now included in the membership of pension funds.

The normal cost of the benefits payable under Chapter 160, P. L. 1920, was found to be 15.67 per cent. of the payroll. This means that a contribution of 15.67 per cent. of the payroll will support the plan for all new employees. The accrued liability contribution is 10.27 per cent. of payroll. For a period of possibly thirty years in the future a contribution of this percentage of the payroll is needed to liquidate that part of the liability arising out of prior service of present members. Thereafter, a contribution at the normal rate only would be required.

Under the Commission's recommended plan of benefits the corresponding normal cost would be 8.21 per cent. To determine the accrued liability contribution, a valuation was prepared showing the total liabilities on account of benefits which would be payable to present members if the recommended plan were to be applied in the future. Benefits to present pensioners and pensioners' dependents were valued on the same basis as under the existing law. The results of the valuation in comparison with the liabilities and contributions under the existing plan are shown in Table 2.

TABLE 2

COMPARISON OF LIABILITIES AND CONTRIBUTIONS FOR PRESENT
MEMBERS OF POLICE AND FIRE FUNDS UNDER PROVISIONS
OF CHAPTER 160, P. L. 1920 AS AMENDED,
AND RECOMMENDED PROVISIONS

	Existing Provisions	Recom- mended Provisions*
<i>Liabilities</i>		
Present value of:		
Pensions to pensioners now on pension roll.....	\$ 21,481,777	\$21,481,777
Prospective pensions to dependents of present pen- sioners	4,263,784	4,263,784
Prospective pensions to present members after mak- ing allowance for those who will resign or die without becoming eligible for pensions.....	64,446,740	48,020,990
Prospective pensions to dependents of members now in service who will die in active service.....	18,166,114	2,635,083
Prospective pensions to dependents of members now in service who will die when on pension roll.....	19,826,795
Total Liabilities	\$128,185,210	\$76,401,634
<i>Contributions</i>		
Assets available to meet the liabilities:		
Funds in hand.....	\$ 3,269,450	\$ 3,269,450
Present value future contributions of members.....	8,168,045	11,949,791 *
Present value future contributions of public at pres- ent rates	17,202,845	17,202,845
Additional contributions required to support benefits....	99,544,870	43,979,548
Total Contributions	\$128,185,210	\$76,401,634

* The value of the employees' contributions which will be returned upon withdrawal and death before retirement under the proposed plan has been omitted in both the benefit and contribution items in this table because the employees provide the entire cost of the return features and no liabilities would be assumed by the public on this account.

This table shows that liabilities under the funds established in accordance with the present law would be reduced from \$128,185,210 to \$76,401,634, if the plan of benefits favored by the Commission should apply in the future. To meet the liabilities there would be the funds in hand, the future contributions of members and the future contributions of the public. The funds in hand amount to \$3,269,450. The members' contributions under the existing plan have a present value of \$8,168,045 and under the proposed plan a value of \$11,949,791. The Commission's plan would require provisions for the remainder of the liabilities by contributions from the public. But as a basis for comparison it is helpful to show separately the amount the public would contribute at its present rates and the additional contribution required. On this basis we may assign a value of \$17,202,845 to the contributions payable by the public under both plans. The liabilities under the existing plan which are not covered by the assets so determined amount to \$99,544,870. The corresponding figure under the proposed plan is \$43,979,548. This means that the deficits in the funds established in accordance with Chapter 160, P. L. 1920, as amended, would be reduced by approximately 55 per cent. by the adoption of the benefits proposed by the Commission. In other words, the savings to the public would be approximately \$55,565,322 should the proposed plan of benefits be substituted for the existing plan.

To finance the proposed plan on a reserve basis the public would have to make contributions which with the employees' contributions would meet the normal cost of the plan, that is, 8.21 per cent. of the payroll. These normal contributions by or in behalf of present employees would have a value of \$26,303,113. The additional contributions required, or the value of the accrued liability contribution, would be \$46,829,071. The annual accrued liability contribution necessary to liquidate the accrued liability would be 6.76 per cent. of payroll. Therefore, total annual contributions under the Commission's plan would consist of the normal contribution of 8.21 per cent. plus the accrued liability contribution of 6.76 per cent., or a total contribution of 14.97 per cent. The corresponding contribution required under Chapter 160, P. L. 1920, as amended is 25.94 per cent. Table 3 shows in comparative form the annual contributions required under Chapter 160, P. L. 1920, as amended, and under the plan recommended by the Commission.

TABLE 3

COMPARISON OF ANNUAL CONTRIBUTIONS REQUIRED FOR PRESENT
MEMBERS OF POLICE AND FIRE FUNDS UNDER PROVISIONS
OF CHAPTER 160, P. L. 1920 AS AMENDED,
AND RECOMMENDED PROVISIONS

	<i>As Percentage of Payroll</i>		<i>Amount Based on Present Payroll</i>	
	<i>Existing Provisions</i>	<i>Recom- mended Provisions</i>	<i>Existing Provisions</i>	<i>Recom- mended Provisions</i>
Normal Contributions	15.67%	8.21%	\$4,343,982	\$2,275,947
Accrued Liability Contribu- tions	10.27	6.76	2,847,013	1,873,983
Total Required to Support Funds	25.94%	14.97%	\$7,190,995	\$4,149,930
Contributions of Members.....	2.17%	4.09%	\$ 601,560	\$1,133,816
Contributions of Public at Present Rate	5.00	5.00	1,386,082	1,386,082
Additional Contributions of Public	18.77	5.88	5,203,353	1,630,032
Total	25.94%	14.97%	\$7,190,995	\$4,149,930
Annual Saving in Contribu- tions of Public Under Rec- ommended Provisions	12.89%		\$3,573,321	

Members' contributions which average 2.17 per cent. under existing provisions will average 4.09 per cent. under the recommended plan. If the public continues its present direct and indirect contributions it will make an annual payment of 5.00 per cent. of payroll. The additional contributions required under the proposed plan will therefore be 5.88 per cent. of payroll as compared with 18.77 per cent. of payroll under the existing law. There is therefore a saving equivalent to 12.89 per cent. of the payroll, or \$3,573,321 per annum.

Under the existing law there is a deficit accumulating in the funds at the rate of 18.77 per cent. of the payroll or at the rate of \$5,203,353 per annum. Should the proposed plan be used in the future, no further deficit will be accumulated but payment at the rate of 5.88 per cent. of the payroll, or \$1,630,032 per annum, will be required to liquidate past deficiencies.

If municipalities which have not yet adopted Chapter 160, P. L. 1920, as amended later determine to set up a pension plan and follow the provisions recommended by the Commission, there will be a material saving in the contributions payable by the public. Since these municipalities have not begun to contribute and employees are not yet making any payments, the municipalities may be considered as accruing a liability of the entire cost of the retirement benefits for the 4,254 policemen and firemen not now in funds, under the plan which they will eventually adopt. If the plan is that provided under Chapter 160, P. L. 1920, as amended, the liability is accruing at the rate of 25.94 per cent. of the payroll of \$10,015,477 per annum for these employees, or \$2,598,015 per annum. If a plan like that recommended by the Commission should be adopted a liability is now accruing equivalent to that part of the total cost which covers pension benefits. The cost of the return of contributions to employees upon withdrawal and death is not involved until employees begin to contribute. On this basis the cost is accruing at the rate of 13.63 per cent. of the payroll, or \$1,365,110 per annum. There would therefore be a saving in the accruing cost under a plan like that proposed by the Commission of \$1,232,905 per annum. ,

COST OF BENEFITS FOR GENERAL MUNICIPAL EMPLOYEES

The previous report of the Commission shows that there are 2,283 municipal employees, other than police and firemen, who are members of jointly contributory funds. The majority of these employees are

TABLE 4

COMPARISON OF LIABILITIES AND CONTRIBUTIONS FOR PRESENT
MEMBERS OF FUNDS FOR GENERAL MUNICIPAL EMPLOYEES
UNDER PROVISIONS OF CHAPTER 190, P. L. 1927 AS
AMENDED, AND RECOMMENDED PROVISIONS

	Existing Provisions	Recom- mended Provisions*
<i>Liabilities</i>		
Present value of:		
Pensions to pensioners now on the pension roll (none retired)		
Prospective pensions to dependents of present pensioners (none retired)		
Prospective pensions to present members after making allowance for those who will resign or die without becoming eligible for pensions.....	\$ 5,930,805	\$ 4,493,217
Prospective pensions to dependents of members now in service who will die in active service.....	2,783,068	219,880
Prospective pensions to dependents of members now in service who will die when on the pension roll....	2,385,545	
Contributions to be returned to employees who will be dropped from service without fault or delinquency	16,069	
Total Liabilities	\$11,115,487	\$ 4,713,097
<i>Contributions</i>		
Assets available to meet liabilities:		
Funds in hand.....	\$ 834,000	\$ 834,000
Present value of future contributions of members.....	1,188,873	768,765 *
Present value of future contributions of public at present rates	1,180,556	1,180,556
Additional contributions required to support benefits.....	7,912,058	1,929,776
Total Contributions	\$11,115,487	\$ 4,713,097

* The value of the employees' contributions which will be returned upon withdrawal and death before retirement under the proposed plan has been omitted in both the benefit and contribution items in this table because the employees provide the entire cost of the return features and no liabilities would be assumed by the cities on this account.

covered by Chapter 190, P. L. 1927, as amended. The normal cost of the benefits payable under this law is 11.54 per cent. of the payroll. The accrued liability contribution is 6.97 per cent. of the payroll. The corresponding normal rate for the same group of employees under a plan like that proposed by the Commission would be 6.68 per cent. of payroll. To determine the corresponding accrued liability contribution a valuation was prepared showing the total liabilities on account of benefits which would be payable to present members if the proposed plan were to be applied. The results of the valuation are shown in Table 4 in comparison with the liabilities and contributions under the existing law.

As shown in this table, the liabilities under the present law would be reduced from \$11,115,487 to \$4,713,097, if a plan of benefits similar to that favored by the Commission should apply in the future. To meet the liabilities there would be the funds in hand, the future contributions of members and the future contributions of the public. The funds in hand amount to \$834,000. The members' contributions under the existing plan have a value of \$1,188,873. Under the Commission's plan the corresponding value would be \$768,765*.

If the public continues at its present rate its future contributions under either plan would have a value of \$1,180,556. The additional contributions required to support the benefits would therefore be \$7,912,058 under the existing plan and \$1,929,776 under the proposed plan. This means that the deficits in the funds established under Chapter 190, P. L. 1927, as amended, would be reduced by approximately 75 per cent. by the adoption of the benefits proposed by the Commission. In other words, the savings to the public will be approximately \$5,982,282 if a plan such as recommended by the Commission should be substituted for the existing plan.

To finance the proposed plan on a reserve basis, the public would have to make contributions which with the employees' contributions would meet the normal cost of the plan, that is, 6.68 per cent. of the payroll. These normal contributions by or in behalf of present employees would have a value of \$1,405,098. The additional contributions required, or the value of the accrued liability, would be \$2,473,-

*Attention is called to the fact that future contributions will be actually larger than this amount, but any excess over this amount will be returned upon withdrawal and death and therefore has not been shown in the statement.

TABLE 5

COMPARISON OF ANNUAL CONTRIBUTIONS REQUIRED FOR PRESENT
MUNICIPAL EMPLOYEES IN FOUR PENSION PLANS UNDER
EXISTING AND RECOMMENDED PROVISIONS

	<i>As Percentage of Payroll</i>		<i>Amount Based on Present Payroll</i>	
	<i>Existing Provisions</i>	<i>Recommended Provisions</i>	<i>Existing Provisions</i>	<i>Recommended Provisions</i>
Normal Contributions	10.30%	6.68%	\$546,298	\$354,298
Accrued Liability Contributions	6.91	2.51	366,497	133,127
Total Required to Support Funds	17.21%	9.19%	\$912,795	\$487,425
Contributions of Members.....	3.10%	4.44%	\$164,420	\$235,492
Contributions of Public at Present Rate	4.07	4.07	215,868	215,868
Additional Contributions of Public	10.04	.68	532,507	36,065
Total	17.21%	9.19%	\$912,795	\$487,425
Annual Saving in Contributions of Public Under Recommended Plan	9.36%		\$496,442	

999. The annual accrued liability contributions necessary to liquidate the accrued liability would be 2.51 per cent. of payroll. Therefore, total annual contributions under the Commission's plan would consist of the normal contributions of 6.68 per cent. plus the accrued liability contribution of 2.51 per cent., or a total contribution of 9.19 per cent. The corresponding contribution required under Chapter 190, P. L. 1927, as amended is 18.51 per cent.

There are several smaller groups of general municipal employees under three other jointly contributory plans. Table 5 has been prepared to show in comparative form the cost if all general municipal employees now under jointly contributory plans were brought under a plan like that recommended, and the corresponding cost of the existing provisions.

This table shows that the total cost of the proposed plan would be 9.19 per cent. of payroll as compared with 17.21 per cent., the cost of the existing jointly contributory plans for general municipal employees. Members' contributions, which average 3.10 per cent. under the existing plan, will average 4.44 per cent. under the proposed plan. If the public continues its present direct and indirect contributions it will make an annual payment of 4.07 per cent. of payroll. The additional contributions required under the proposed plan will therefore be .68 per cent. of payroll as compared with 10.04 per cent. of payroll under the existing laws. There is therefore a saving equivalent to 9.36 per cent. of payroll, or \$496,442 per annum.

Under the existing laws there is a deficit accumulating in the funds at the rate of 10.04 per cent. of the payroll or at the rate of \$532,507 per annum. Should the proposed plan be used in the future, no further deficit will be accumulated but payment at the rate of .68 per cent. of the payroll, or \$36,065 per annum, will be required to liquidate past deficiencies.

If municipalities which have not yet adopted jointly contributory plans for their general municipal employees later determine to set up a pension plan and follow the plan proposed by the Commission, there will be a material saving in the contributions payable by the public. Since these municipalities have not begun to contribute and employees are not yet making any payments, the municipalities may be considered as accruing a liability of the entire cost of the retirement benefits for the 10,614 municipal employees not now in funds

TABLE 6

COMPARISON OF LIABILITIES AND CONTRIBUTIONS FOR PRESENT
MEMBERS OF FUNDS FOR GENERAL COUNTY EMPLOYEES
UNDER PROVISIONS OF CHAPTER 122, P. L. 1929,
AND RECOMMENDED PROVISIONS

	Existing Provisions	Recom- mended Provisions*
<i>Liabilities</i>		
Present value of:		
Pensions to pensioners now on the pension roll (none retired)		
Prospective pensions to dependents of present pensioners (none retired)		
Prospective pensions to present members after making allowance for those who will resign or die without becoming eligible for pensions	\$4,346,878	\$3,326,489
Prospective pensions to dependents of members now in service who will die when on pension roll	2,081,013	107,787
Total Liabilities	\$6,427,891	\$3,434,276
<i>Contributions</i>		
Assets available to meet the liabilities:		
Funds in hand	\$ 203,452	\$ 203,452
Present value of future contributions of members ..	639,656	576,052*
Present value of future contributions of public at present rates	639,656	639,656
Additional contributions required to support benefits	4,945,127	2,015,116
Total Contributions	\$6,427,891	\$3,434,276

* The value of the employees' contributions which will be returned upon withdrawal and death before retirement under the proposed plan has been omitted in both the benefit and contribution items in this table because the employees provide the entire cost of the return features and no liabilities would be assumed by the counties on this account.

under the plan which they will eventually adopt. If the plan should be of the same type as the existing plans, the liability is accruing at the rate of 17.21 per cent. of the payroll of \$18,222,970 for these employees, or \$3,136,173 per year. If a plan like that recommended by the Commission should be adopted a liability is now accruing equivalent to that part of the total cost which covers pension benefits. The cost of the return of contributions to employees upon withdrawal and death is not involved until employees begin to contribute. On this basis the cost is accruing at the rate of 6.14 per cent. of the payroll, or \$1,118,890 per annum. There would therefore be a saving in the accruing cost under a plan like that proposed by the Commission of \$2,017,283 per annum.

COST OF BENEFITS FOR COUNTY EMPLOYEES

There are 2,224 county employees who are members of jointly contributory funds. The majority of these funds are covered under Chapter 122, P. L. 1929. The normal cost of the benefits payable under this law is 6.07 per cent. of payroll. The accrued liability cost is 6.97 per cent. The corresponding normal rate for the same group of employees under a plan like that proposed by the Commission would be 6.46 per cent. of the payroll. To determine the corresponding accrued liability contribution a valuation was prepared showing the total liabilities on account of benefits which would be payable to present members if the proposed plan were to be applied. The results of the valuation are shown in Table 6 in comparison with the corresponding liabilities under the existing law.

This table shows that the liabilities under the present law would be reduced from \$6,427,891 to \$3,434,276, if a plan of benefits similar to that favored by the Commission should apply in the future. To meet the liabilities there will be the funds in hand, the future contributions of members and the future contributions of the public. The funds in hand amount to \$203,452. The members' contributions under the existing plan have a value of \$639,656. Under the Commission's plan the corresponding value would be \$576,052*.

If the public continues at its present rate its future contributions under either plan would have a value of \$639,656. The additional contributions required to support the benefits would therefore be

*Attention is called to the fact that future contributions will be actually larger than this amount, but any excess over this amount will be returned upon withdrawal and death and therefore has not been shown in the statement.

TABLE 7

COMPARISON OF ANNUAL CONTRIBUTIONS REQUIRED FOR PRESENT
COUNTY EMPLOYEES IN ELEVEN PENSION PLANS UNDER
EXISTING AND RECOMMENDED PROVISIONS

	<i>As Percentage of Payroll</i>		<i>Amount Based on Present Payroll</i>	
	<i>Existing Provisions</i>	<i>Recom- mended Provisions</i>	<i>Existing Provisions</i>	<i>Recom- mended Provisions</i>
Normal Contributions	8.69%	6.46%	\$464,694	\$345,446
Accrued Liability Contribu- tions	7.28	3.17	389,295	169,514
Total Required to Support Funds	15.97%	9.63%	\$853,989	\$514,960
Members' Contributions	2.79%	4.44%	\$149,194	\$237,427
Contributions of Public at Present Rate	3.24	3.24	173,258	173,258
Additional Contributions of Public	9.94	1.95	531,537	104,275
Total	15.97%	9.63%	\$853,989	\$514,960
Annual Saving in Contribu- tions of Public Under Rec- ommended Plan	7.99%		\$427,262	

\$4,945,127 under the existing plan and \$2,015,116 under the proposed plan. This means that the deficits in the funds established under Chapter 122, P. L. 1929, would be reduced by approximately 60 per cent. by the adoption of the benefits proposed by the Commission. In other words, the saving to the public will be approximately \$2,930,011 if a plan such as recommended by the Commission should be substituted for the existing plan.

To finance the proposed plan on a reserve basis, the public would have to make contributions which with the employees' contributions would meet the normal cost of the plan, that is, 6.46 per cent. of the payroll. These normal contributions by and in behalf of present employees would have a value of \$990,817. The additional contributions required, or the value of the accrued liability, would be \$2,240,007. The annual accrued liability contributions necessary to liquidate the accrued liability would be 3.17 per cent. of payroll. Therefore, total annual contributions under the Commission's plan would consist of the normal contributions of 6.46 per cent. plus the accrued liability contribution of 3.17 per cent. or a total contribution of 9.63 per cent. The corresponding contribution required under Chapter 122, P. L. 1929, is 13.04 per cent.

There are several smaller groups of county employees under ten other jointly contributory plans. Table 7 has been prepared to show in comparative form the cost if all county employees now under jointly contributory plans were brought under a plan like that recommended, and the corresponding cost of the existing provisions.

This table shows that the total cost of the proposed plan would be 9.63 per cent. of payroll as compared with 15.97 per cent., the cost of the existing jointly contributory plans for county employees. Members' contributions, which average 2.79 per cent. under the existing plan, will average 4.44 per cent. under the proposed plan. If the public continues its present direct and indirect contributions it will make an annual payment of 3.24 per cent. of payroll. The additional contributions required under the proposed plan will therefore be 1.95 per cent. of payroll as compared with 9.94 per cent. of payroll under the existing laws. There is therefore a saving equivalent to 7.99 per cent. of payroll, or \$427,262 per annum.

Under the existing laws there is a deficit accumulating in the funds at the rate of 9.94 per cent. of the payroll or at the rate of \$531,537 per annum. Should the proposed plan be used in the future no further deficit will be accumulated but payment at the rate of 1.95 per

cent. of the payroll, or \$104,275 per annum, will be required to liquidate past deficiencies.

If counties which have not yet adopted jointly contributory plans for their county employees later determine to set up a pension plan and follow the plan proposed by the Commission, there will be a material saving in the contributions payable by the public. Since these counties have not begun to contribute and employees are not yet making any payments, the counties may be considered as accruing a liability of the entire cost of the retirement benefits for the 5,016 county employees not now in funds under the plan which they will eventually adopt. If the plan should be of the same type as the existing plans, the liability is accruing at the rate of 15.97 per cent. of the payroll of \$8,682,174 of these employees, or \$1,386,543 per year. If a plan like that recommended by the Commission should be adopted a liability is now accruing equivalent to that part of the total cost which covers pension benefits. The cost of the return of contributions to employees upon withdrawal and death is not involved until employees begin to contribute. On this basis the cost is accruing at the rate of 6.55 per cent. of the payroll, or \$568,682 per annum. There would therefore be a saving in the accruing cost under a plan like that proposed by the Commission of \$817,861 per annum.

SUMMARY OF ANNUAL SAVING TO PUBLIC

The figures on the saving to the public presented in the preceding sections have been brought together for comparative use in Table 8.

If the benefit and contribution provisions recommended by the Commission were substituted for those now in operation under existing pension plans for municipal policemen and firemen, general municipal employees and county employees, there would be an annual saving to the taxpayer of \$4,497,025, an important item in present days of difficulties in county and municipal financing.

Inclusion of present policemen and firemen, general municipal and county employees who are not now members of funds under the recommended benefit and contribution provisions instead of those in existing plans would result in a saving of \$3,250,188 in municipal contributions and \$817,861 in county contributions, or a total of \$4,068,049.

The combined saving to the public from the recommended provisions if applied to present members and non-members of funds would amount to \$8,565,074.

TABLE 8

SUMMARY OF ANNUAL SAVING TO PUBLIC THROUGH SUBSTITUTION
OF PROVISIONS RECOMMENDED BY COMMISSION FOR THOSE
IN EXISTING PENSION PLANS

	<i>Saving in Public Contributions for Employees in Pension Funds</i>	<i>Employees Not in Pension Funds</i>	<i>Total Employees</i>
Municipal Policemen and Firemen.....	\$3,573,321	\$1,232,905	\$4,806,225
Other Municipal Employees	496,442	2,017,283	2,513,725
County Employees	427,262	817,861	1,245,123
Total Annual Saving to Public.....	\$4,497,025	\$4,068,049	\$8,565,074

CHAPTER V

SUMMARY OF FINDINGS AND RECOMMENDATIONS

The Commission investigation shows that there are approximately 70,424 public employees in New Jersey, of whom 48,101 are members of the 152 pension funds now organized under existing laws.

About two-thirds of the 48,101 employees covered are in the soundly operated systems for State employees and teachers. In both of these systems the members pay about 50 per cent. of the total cost. Contributions from the public are so arranged that after the liability covering the period prior to the establishment of the system has been met, the public will not be called upon to pay over 3 per cent. of the payroll of active members in the fund.

This cost the Commission believes is a reasonable charge to be met by the public and a charge for which it gets adequate return in the saving which results from the retirement of old and disabled employees from the service.

The other employees now covered are in funds which may appear to be less costly than the sound plans but which in reality are not collecting adequate contributions to cover their benefits. The contributions that are being made are in the main adequate to cover only a small part of the normally accruing cost. The public is expected to pay the balance but since the funds have not taken steps to determine their liabilities and since their pension payments on account of those now retiring are very low, the public is not paying the cost for which it is responsible, but is allowing a liability to accumulate to an enormous amount.

The Commission finds that the reason many of the funds are tending toward such high costs is not because the hazards of the service or the particular needs of the service require such heavy obligations to be assumed by the public in order to enable the service to function efficiently, but because employees have sought benefits which appeal to them, and because the public not knowing the cost has been ready to meet their demands.

The provisions which the Commission believes would be reasonable would not permit employees to retire except in case of disability at ages before sixty, and would not provide for the payment of pensions or insurance unless the death of the employee was due to causes connected with the performance of duty.

The Commission would provide benefits as generous as any of the existing funds of the State to protect the wife and family of a man killed in the performance of duty and furnish a substantial pension to the man disabled in the performance of duty, and would have the public pay the entire cost of these benefits. A pension of about half salary on service retirement and a pension upon disability from any cause after ten years of service is advocated, with the employee expected to pay half the cost of such benefits. If the employee left the service, died or was discharged, the employee's contributions would be returned with interest. If more liberal benefits are desired, they may be added at the expense of the employee or the public but with the extra cost known in advance and paid as it accrues.

As shown in Table 8 on page 51, the substitution of the benefit and contribution provisions recommended by the Commission would make possible a saving to the taxpayers of New Jersey which may be conservatively estimated as \$8,565,074 annually.

The Commission, however, does not advocate an immediate change to the recommended plan. There are now 2,114 municipal policemen and firemen, 66 other municipal employees and 45 county employees to or for whom pension benefits are now being paid under pension plans which the Commission investigation shows are financially unsound. The Commission believes that the rights of present pensioners to promised benefits should be carefully safeguarded in any reorganization program, and that no change should be made in the amounts of benefits now being paid to pensioners.

The Commission also believes strongly in the importance of safeguarding the pension rights of the 11,159 municipal policemen and firemen, 2,283 other municipal employees and 2,224 county employees now in unsound funds, and that no change should be made in contributions or benefits unless the majority of the members of the fund so vote. The Commission would require, however, that if a contribution from the public of 15 per cent. of the payroll of active members is insufficient to meet the cost of benefits in a particular fund, the

contributions of members be raised or the plan of promised benefits adjusted, as it considers that the public should not be asked to contribute in excess of 15 per cent. of the pay roll for benefits promised present employees under existing plans.

Public employees not now in pension plans the Commission believes should be allowed to enter only such funds as are on a sound financial basis, or if included in a fund not in sound financial condition, should have their contributions and benefits properly adjusted and their payments kept separately from those of present members.

RECOMMENDED PROGRAM

The Commission recommendations from its extensive studies of the existing situation in New Jersey and the desirable features of retirement systems as developed in other states are briefly as follows:

1. The Commission recommends that the laws of New Jersey which now make it permissive for a municipality or a county to adopt a pension plan on an unsound financial basis be suspended to the extent that communities desiring to establish funds in the future will establish only funds for which the cost is known and which are on a sound financial basis from the outset. The adoption of this recommendation will prevent the further establishment of unsound plans.

2. The Commission recommends making available to any municipality or county the right to permit its employees to participate in the State Employees' Retirement System, if it decides locally that this course is desirable. While the adoption of this recommendation will not preclude the operation of a local system, it will be of substantial advantage to many communities desiring to handle retirement problems through participation in a central system.

3. While the Commission is not recommending legislation to dissolve or discontinue the operation of any existing pension fund of the State, it does realize that the Commissioners and other bodies responsible for their management should have the same safeguards placed upon the operation of their funds for the protection of members and the public that is placed on funds held by insurance companies for the payment of annuities, and it therefore recommends that the funds determine their financial position periodically and be subject to the supervision of the Department of Banking and Insurance of the State. The adoption of this recommendation will extend to all of the funds of the State the guidance of the technical staff of the Department of Banking and Insurance. The State funds have always operated under this supervision as do all other insurance organizations having charters from the State.

4. The Commission recommends that legislation be passed enabling any municipality or county now operating a fund which it finds to be on an unsound basis, to reorganize the fund on a better basis in respect to new members and with the consent of a majority of the existing members, to reorganize it in respect to existing members. The adoption of this recommendation will permit those funds which desire to change to a better basis to do so by changes approved locally.

5. The Commission recommends that the contributions of the public to pension funds shall be limited to 15 per cent. of the active payroll. The adoption of this recommendation will limit the obligations to be placed on the public but will not prevent the operation of a fund which is very liberal.

6. As the simplest solution of the problem in respect to pensions for policemen and firemen, the Commission recommends the establishment of a State retirement system into which all new policemen and firemen of the State will be required to enter, and into which existing members may enter if they vote as a body to enter and thereafter individually elect to become members. The adoption of this recommendation is believed by the Commission to be the quickest and probably the best solution of the problem of pensions for policemen and firemen of the State.

7. The Commission makes a number of other recommendations concerning changes of a specific character, such as the recommendations that no pensioner shall receive a pension while drawing salary in a public office, and certain changes in the existing funds which are designed to protect members or to extend the benefits to certain groups of employees.

The Commission believes that the adoption of these recommendations, the majority of which it has embodied in the five legislative bills which it has presented for introduction in the legislature, will result in a permanent solution of the problem of the retirement of public employees from active service. The adoption of these bills will be of permanent benefit both to taxpayers and to employees and will place the State of New Jersey among the leaders in solving this important problem.

EFFECT OF RECOMMENDATIONS ON EXISTING FUNDS

Limitation of Public Contribution

No immediate change in the benefit and contribution provisions of the present membership of the existing jointly contributory funds is proposed. Under the legislation recommended by the Commission the existing funds may continue on their present basis, the only proviso being that the contribution payable by the public shall not exceed 15 per cent. of the active payroll of the membership unless a larger contribution or appropriation is needed to continue the payment in full of benefits to pensioners now on the roll. The Commission wishes to protect the benefits of existing pensioners and therefore according to its recommendations the limit on the contributions payable by the public will apply only so far as it will not cause a reduction in benefits already granted. The present specified percentage contribution of the public plus the average receipts of miscellaneous revenues under the existing funds which are not operating on a reserve basis is less than 5 per cent. and therefore the public would be called upon to make materially increased contributions before this limit would apply. In

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fact, the public could, in the average case, triple these specified rates of payment before the 15 per cent. limit would apply. If in the future, through the application of this limit, any fund is unable to pay benefits at the rates fixed by the existing law a pro rata reduction in benefits may be made or some other reduction which meets with the approval of members and which will bring the cost of benefits within the contributions available. The fact that benefits several times as liberal as those of many sound funds which cover police, firemen and other employees can be financed with less than a 15 per cent. contribution shows that in spite of the limit a very liberal pension plan may be maintained.

*In the sound governmental funds in other states the contributions of the public are far less than this limit. The Commission did not desire to recommend a reduction of the benefits below what would still be regarded as liberal and more than liberal in many communities, and so this high limit was selected. Without any limit the whole burden of the cost of the future benefits might in some instances be beyond the power of the public to meet, and it does not seem fair to ask the public to shoulder an increasing burden without any limit being placed on the extent of its responsibilities. It is not expected that this limit on the contributions payable by the public will apply for some time and it need never apply in the majority of the funds if employees and the local authorities decide on retirement provisions within lower cost limits.

Supervision by the State Department of Banking and Insurance

For the protection of both the members and the taxpayers the Commission recommends that the existing funds be placed under the supervision of the State Department of Banking and Insurance. The New Jersey State Employees' Retirement System and the Teachers' Pension and Annuity Fund are both under the supervision of the Department of Banking and Insurance and the Department can render a very valuable service to the other funds throughout the State. The insurance companies of the State are under similar supervision. When an organization collects and holds the money of employees and the public to be disbursed in benefits many years hence, it is in the position of a trust fund with great responsibilities. Its failure means loss and disappointment, often in old age when the opportunity to save and provide in other ways has been lost to the member. The

Department of Banking and Insurance has been organized in the State to give supervision which will tend to keep organizations of this kind on a sound basis and the Commission feels that the members and taxpayers who are contributing to the many funds throughout the State are entitled to the protection which supervision by the Department will give. Such supervision does not mean the placing of local funds under State control any more than the business of insurance companies or savings banks is placed under State control by such supervision.

The Commission recognizes that in many local districts there would be considerable objection to any attempt to require local funds to reorganize on a sound reserve basis just as the management of an assessment insurance organization sometimes resists any attempt to place its organization on a sound basis for the benefit of its members. To this end the Commission is not requiring any local fund to change any of its existing provisions as to present members or pensioners, but if the fund is found to be increasingly insolvent, the local commissions or other bodies in charge of the operation of these funds are to be required to hold the money contributed by and on account of new members of their funds separately and to adjust the benefits and contributions for such new members so that they will be in balance and will not add to the deficits which already exist in some of the funds. While this course will not interfere with the present management of the funds it does give to the managers a means whereby they may eventually put their own funds on a sound basis.

Aside from the limit placed upon the contributions of the public and the placing of the funds under the supervision of the Department, the Commission makes no recommendations for changes in relation to existing funds as far as the present membership is concerned. However, the Commission anticipates that in some instances the members of existing funds will wish to reorganize their funds on a reserve basis or enter the membership of a retirement fund which is operating on a reserve basis. For the assistance of such members the Commission's proposals make possible several courses.

Local Reorganization on a Reserve Basis

The Commission recommends that if the majority of the existing members of any fund desire, and the chief executive officer or body by which they are employed approve, new benefit and contribution

provisions may be prepared and filed with the Commissioner of Banking and Insurance. If the Commissioner finds that the new provisions will better protect the employees and the public and tend to improve the financial condition of the system from an actuarial viewpoint, he may then approve the provisions and henceforth they will apply. Provision for continued supervision by the Department is recommended and for further revision of the provisions if later any unsound conditions develop. By this means, therefore, any existing group of members may reorganize their own fund on a sound basis acceptable to them and the public, the only condition being that the reorganized fund operate on a financial basis approved by the Commissioner of Banking and Insurance and that the benefits be so arranged that the normal contributions payable by the public for their support shall not exceed 5 per cent. of payroll. The normal cost of the two reserve systems in the State is within this limit.

Merging Local Funds With State Employees' Retirement System

There may be groups of members and their employers who desire to be covered by a sound retirement system but rather than reorganize their own fund may prefer to associate themselves with other employees throughout the State in the operation of a common fund. For the benefit of these employees, the Commission recommends that membership in the New Jersey State Employees' Retirement System be opened. To facilitate this the Commission proposes an amendment to Chapter 261, P. L. 1924, which extends membership in the State system to employees in municipalities and counties of the State. Under the amendment proposed by the Commission if the majority of the members of an existing county or municipal fund elect to enter the State system and if the governing body of the county or municipality approves, they may thereafter participate in the State system just as if they were State employees and their employer will make the contributions in their behalf corresponding to the contribution payable by the State. The pension roll will be payable from the State system. Any assets in the fund will be transferred to the State system and the part of the assets representing the contributions of members will be credited to their accounts. The remainder will be used to pay the obligations of the municipality or county.

There are many advantages to be secured particularly by small groups of employees through participation in a central system,

specially because the cost of administration would be much less than under an individual fund. A similar provision in New York State has proved very valuable. The New York State Employees' Retirement System was originally established only to cover State employees and then the law was amended to bring in the employees of the counties, cities, towns, and villages when the employees so desired and when the political subdivision was willing to pay the cost. The small community is able to secure in this way the advantages of participation in a large system on a very economical basis. To date forty-five counties and ninety-seven cities, towns and villages have come voluntarily under the system in this way, which indicates the value of a provision extending such a privilege to them.

Under the two courses outlined, the Commission believes that all groups of employees now covered by jointly contributory provisions who desire to come under sound provisions may arrange to do so, either through reorganizing their own fund or entering the State system and discontinuing their own fund. No course is forced upon any group of employees. The Commission's proposals only open the way to those who may desire the advantages of participation in a reserve fund.

Merging Police and Fire Funds With Statewide System

In addition there is a third course proposed which would apply only to members of existing funds who are police and firemen. The Commission recommends the establishment of a central statewide system to be known as the State Police and Firemen's Retirement System of New Jersey, which shall be open to the present members of any existing fund provided a majority of members vote to discontinue their local fund within a year following the date of the establishment of the State fund. Upon the discontinuance of the local fund the pension roll becomes an obligation of the municipality and any assets in the fund over and above the amount needed to pay the pension roll are distributed among members up to the amount with interest which has been paid in by members. Each employee in service at the time of the discontinuance of the local fund would be permitted to elect whether he desired to enter the State fund. This central fund would operate on a reserve basis with provisions like those favored by the Commission and described in Chapter II. Membership in this fund would give the communities the opportunity of placing their police and firemen under sound provisions at reasonable

cost in a fund specially organized to cover this class of employees. The cost to municipalities of participating in the Statewide system proposed is indicated by Table 3 on page 40, which shows in comparative form the annual payments required under Chapter 160, P. L. 1920, and under a plan of the type recommended by the Commission. Communities having heavier accrued liabilities than the average would probably have heavier contributions than indicated but the table gives a fairly good indication of the comparative costs of the existing plan and a plan like that proposed by the Commission.

PROVISION FOR PRESENT EMPLOYEES NOT IN FUNDS

The Commission feels that the existing enabling acts, under which jointly contributory plans may be established for employees who are not now covered by such plans, should not be used in the future since the analysis of the funds already established under them shows that they provide costly and unsound plans. Therefore the Commission proposes that legislation be adopted prohibiting the use of any existing act for the establishment of new systems.

If a community desires to have its employees enter the State Employees' Retirement System, this may be arranged under an amendment to the State Employees' Retirement System recommended by the Commission. To accomplish this the governing body of the county or municipality needs to vote to cover its employees under the State system. Each present employee in service may then elect as to whether he desires to become a member. The employee receives full credit for service prior to July 1, 1932, and one-half prior service thereafter to date of adoption of the act. He pays contributions just as if he were a State employee and contributions are payable in his behalf by the community.

Another course is open to present police and firemen who are not now covered by pension provisions. They are permitted to come into the proposed State Police and Firemen's Retirement System previously described. Membership is optional with present employees but any police or firemen who enter during the first year of operation of the system are entitled to credit for service rendered prior to its establishment.

There is a small group of present employees not now included under jointly-contributory systems because they entered the service after the passage of Chapter 104, P. L. 1930, which excluded them from membership in the retirement system to which they would have otherwise been eligible, because they were over age forty at entering public service. The Commission recommends that if these employees entered services which would make them eligible for membership in a retirement system operating on a reserve basis, they now be permitted to enter the retirement system to which they would have otherwise been eligible. Without such a change these employees will eventually give rise to pensions for which they will make no contributions.

PROVISION FOR NEW EMPLOYEES

The Commission has prepared special recommendations regarding new employees entering services that are now covered by jointly contributory retirement systems. Under its proposal, all existing retirement systems will be placed under the supervision of the Department of Banking and Insurance. If reports issued by the systems to the Department indicate unsound conditions, the Commissioner is authorized to report these conditions to the chief executive of the community and to the managing board and thereupon new provisions are to be developed for employees entering the services in the future which will operate on a sound basis. If the new provisions are subsequently found to be unsound, then new employees will automatically be included in the State Employees' Retirement System. The Commission therefore proposes that no new employees will be covered by provisions known to be unsound. By such a proposal, the group of employees covered by unsound retirement provisions becomes limited and gradually the unsound provisions will be replaced by sound provisions.

In the case of new members who are police and firemen the provisions described above will not apply. Instead, new police and firemen both where there are existing funds and where there are no existing funds will automatically be included in the membership of the State Police and Firemen's Retirement System, which has been previously described.

The provisions covering general employees entering services in the future which are not now covered by retirement provisions will, of course, depend upon what action the communities and present em-

ployees take. If communities eventually elect to enter the New Jersey State Employees' Retirement System, new employees would automatically become members of that system.

Under the proposal of the Commission, employees hereafter entering the service over age forty will be permitted to become members of retirement systems if the service which they enter is covered by a reserve system.

SPECIAL RECOMMENDATIONS

4 The Commission has had submitted to it various proposed amendments to existing retirement acts and proposals for retirement systems for new groups. The Commission has been unable to prepare specific recommendations covering all the propositions which have been submitted to it for consideration. Many of the proposals have been such that they should be referred to the managing board of the retirement system affected. In reference to certain of the proposals, the following recommendations have been prepared:

That the payment of benefits to a retired employee be suspended during any period of employment by a public body.

That a waiting period be required when any benefit involving life contingencies is involved.

That the amount of payments in case of accidental disability occurring after eligibility for service retirement be limited to the amount of the service retirement benefit.

That the limits on salary which apply in the State Employees' Retirement System be removed to make the plan uniform in its application to all members.

APPENDIX
COMMISSION BILLS PRESENTED TO
1932 LEGISLATURE

ASSEMBLY, NO. 317

INTRODUCED FEBRUARY 8, 1932

By MR. E. E. BROWN

(By Request)

Referred to Committee on Claims and Pensions

AN ACT concerning the pension and retirement laws of the State of New Jersey; limiting future obligations to be assumed by the State and the counties and municipalities thereof under any and all pension and retirement acts and suspending the operation of said acts as herein provided.

BE IT ENACTED by the Senate and General Assembly of the State of New Jersey:

1. On and after the passage of this act, no new retirement system, pension fund, annuity fund or other plan for the retirement of public employees on regular allowances or for payments to their beneficiaries at the expense of the taxpayers of the State or any county or municipality thereof, and hereafter referred to as retirement systems, shall be created under the provisions of any existing laws of the State of New Jersey, anything to the contrary notwithstanding, and all enabling acts providing for the creation of any such retirement systems are hereby suspended to the extent that they permit the creation of such retirement systems on and after this date.

2. No existing retirement system, pension fund or other plan shall be affected by the provisions of section one of this act and any such existing retirement system may continue operation in accordance with the law under which it is now operating unless modified by a future act of the Legislature, except that no such retirement system shall receive a contribution in excess of fifteen per centum of the active payroll of the membership of the system from sources other than contributions of employees, interest on reserve funds or donations, unless a larger contribution or appropriation is needed to continue the payment in full of the pensions now being disbursed at the rates now payable. Should any such system at any time be unable to pay its obligations without increasing the contribution of the public from direct and indirect sources to an amount exceeding fifteen per centum of the current active payroll of the members of such system, then the benefits payable by such system to those not retired at the date of the passage of this act shall be reduced pro rata or in such manner as the pension commission or the managing board of such retirement system shall deem fair and equitable to the members; *provided*, that the manner of reduction in the latter case shall have the approval of at least a majority of the active members of such system.

3. The provisions of chapter one hundred and four of the laws of one thousand nine hundred and thirty, being entitled "An act concerning the employment of persons by the State of New Jersey, or of any county or municipality thereof," so far as they disqualify employees of the State or any municipality

or county or other subdivision thereof from participating in any retirement system operating on a reserve basis subject to the approval of the Banking and Insurance Department of the State of New Jersey, are hereby suspended. Persons who because of the operation of chapter one hundred and four of the laws of one thousand nine hundred and thirty have not been eligible to membership in such funds shall now be eligible for membership and required to become members as of the date of the passage of this act of the fund in which membership previously would have been compulsory except for the operation of chapter one hundred and four of the laws of one thousand nine hundred and thirty.

4. No retirement system or pension fund of the State of New Jersey which offers to sell to members thereof insurance benefits, survivorship benefits or any other benefits in return for deductions from pensions, annuities or other benefits which would be regularly payable to employees shall offer such benefits or permit such benefits to be sold unless the member making application therefor shall pass a medical examination showing him to be in good health or unless the benefit be granted only after the lapse of such waiting period following the application therefor and the retirement of the member from service as the managing board shall approve; *provided*, such period shall not be less than thirty days, nor more than ninety days, next following the date of retirement or the date of application whichever may be last.

5. No new retirement system for public employees shall be hereafter established in this State unless such system shall be authorized by specific act of the Legislature, and ratified by a referendum to the voters of the local district in which such system is to operate.

6. If any provision, section or part of any section of this act is declared to be unconstitutional, the same shall not be held to affect any other section or provision of this act, and the remainder of this act shall in no wise thereby be invalidated. All acts and parts of acts, general, special or local, so far as they are inconsistent with the provisions of this act are hereby repealed to the extent of such inconsistency.

7. This act shall take effect immediately.

STATEMENT

This act is designed to prevent the establishment of any further pension funds on unsound financial basis by repealing the existing enabling acts so far as they permit the establishment of new pension funds for public employees without legislative action. This provision does not affect any existing pension fund or retirement system.

The act is designed to remove from any municipality, county, or other subdivision of the State any mandatory requirement of law to contribute to any retirement system at a rate greater than fifteen per centum of the active payroll of its employees.

This provision is so worded that it does not reduce the pension of any person now on pension. The provision does not affect any existing system unless that system is so liberal that it will call for a contribution from the public of over fifteen per centum of the active payroll in addition to contributions from employees, interest on reserves and donations.

The bill is designed to protect the existing systems by safeguarding the reserves from unfavorable selection and to permit and require employees who enter service over forty years of age to contribute toward the systems.

ASSEMBLY, NO. 318

INTRODUCED FEBRUARY 8, 1932

By MR. E. E. BROWN

(By Request)

Referred to Committee on Claims and Pensions

AN ACT to amend and enlarge the provisions of an act entitled "An act extending the application of an act entitled 'An act for the establishment of an employees' retirement system for the employees of the State of New Jersey,' approved March thirty-first, nineteen hundred and twenty-one, to the employees of the several municipalities and counties of this State," approved March fourteenth, nineteen hundred and twenty-four.

BE IT ENACTED by the Senate and General Assembly of the State of New Jersey:

1. Section one of the act to which this act is amendatory, is hereby amended so as to read as follows:

1. Subject to the limitations hereinafter contained, the provisions of an act entitled "An act for the establishment of an employees' retirement system for employees of the State of New Jersey," approved March thirty-first, nineteen hundred and twenty-one, are hereby extended and hereafter shall be construed to apply to the employees of the several counties and municipalities, including cities, towns, boroughs and villages, of this State as fully and completely as though the same had been included in the title and body of said act; *provided*, that this act shall not become effective in any county or municipality until the governing body of such county or municipality shall by resolution [direct that the question of its adoption by such county or municipality shall be submitted to the qualified voters thereof at a general election and a majority of such qualified voters, voting on such question at such election shall have voted in favor of the adoption of] adopt this act.

2. Section two of the act to which this act is amendatory is hereby amended so as to read as follows:

2. In the event of the adoption of this act as provided in the preceding section, the act shall become effective in the county or municipality adopting it on June thirtieth of the following year. Membership in the State employees' retirement system shall be optional with the employees of the county or municipality in the service on the day the act so becomes effective. Any such employee who shall elect to become a member within one year after the act so takes effect shall be entitled to a prior service certificate covering service rendered to the county or municipality prior to June thirtieth, nineteen hundred and [twenty-five] thirty-two, and half of the service rendered after such date and prior to the date the act so becomes effective. Membership shall be compulsory for all employees entering the service of the county or municipality after the date the act so becomes effective.

3. Section six of the act to which this act is amendatory is hereby amended so as to read as follows:

6. Nothing in this act contained shall affect any policeman, firemen or county or municipal employees contributing to any pension fund, operating under any

other law of this State, unless a majority of the members of any such pension fund, hereafter referred to as a local pension fund, elects to become members of the State employees' retirement system, by a petition duly signed by such members, in which event the participation of such members in the retirement system may be approved as provided in paragraph one as though such local pension fund were not in operation and the provisions of this act shall also apply, except that the existing pensioners of the local pension fund who were being paid pensions on the date of the approval shall be continued and paid at their existing rates by the State employees' retirement system and the liability on this account shall be included in the computation of the accrued liability and provided for in the rates of contributions payable by the county or municipality as provided by paragraph four. Any cash and securities to the credit of the local pension system shall be transferred to the State employees' retirement system as of the date this act becomes effective in such county or municipality. The trustees or other administrative head of the local pension system as of the date this act becomes effective, shall certify the proportion, if any, of the funds of the system that represents the accumulated contributions of the members, and the relative shares of the members as of that date. Such shares shall be credited to the respective annuity savings accounts of such members in the State employees' retirement system. The balance of the funds transferred to the State employees' retirement system shall be offset against the accrued liability before determining the accrued liability contribution to be paid by the county or municipality as provided by paragraph four. The operation of the local pension fund shall be discontinued as of the date the act becomes effective in respect to such local pension fund.

4. This act shall take effect immediately, and all acts or parts of acts inconsistent with this act are hereby repealed.

STATEMENT

The purpose of this act is to permit any municipality, county or other subdivision of the State to allow its employees to participate in the State employees' retirement system on payment by them and by their employer of the contributions which would be payable if they were State employees.

The act allows the members of any existing fund that desire to join the State system to do so by a majority vote of the members and approval by the employing body.

ASSEMBLY, NO. 319
INTRODUCED FEBRUARY 8, 1932

By MR. E. E. BROWN

(By Request)

Referred to Committee on Claims and Pensions

AN ACT to extend the supervision of the Department of Banking and Insurance of the State to all public pension funds and retirement systems authorized to hold funds, and to provide a manner in which all such pension and retirement plans may be ultimately placed on a reserve basis.

BE IT ENACTED by the Senate and General Assembly of the State of New Jersey:

1. On and after the first day of January, one thousand nine hundred and thirty-three, every State, municipal or county pension fund, retirement system, annuity fund, or similar organization providing for the payment of pensions, annuities, retirement allowances or other benefits to public employees or their beneficiaries and hereafter referred to in this act as retirement systems shall be subject to the supervision of the Department of Banking and Insurance of the State of New Jersey.

2. At least once in each three-year period beginning with the first day of January, one thousand nine hundred and thirty-three, and not more frequently than once each year in such years as the Commissioner of Banking and Insurance shall approve, each such retirement system shall report to said commissioner, in such form as he shall prescribe or approve, a complete statement setting forth the present value of all prospective pensions or other benefits which may become payable from such retirement system on account of the active members and beneficiaries of such system and the amount of all funds in hand and the present value of all prospective contributions to be received on account of such active members at the rates currently payable by and on account of such members.

3. The commissioner shall review such statements and make such verification and audit thereof as he may deem proper. Should any such statement indicate that the liabilities of the retirement system to which it applies are substantially in excess of its present and prospective income, on the basis of the income being currently received by such retirement system then the commissioner shall report to the board of trustees, or the commission or other body charged with the operation and management of such retirement system, which is hereafter referred to in this act as the retirement board, the fact that such condition is indicated, together with such recommendations, if any, as he may deem appropriate in respect to the financial need of the retirement system in order to place it in a condition of solvency on the basis of its regular revenues. A copy of such report shall be made available to the members of the retirement system by the retirement board in such manner as it may deem proper. The Commissioner of Banking and Insurance shall mail a copy of his report directly to the chief executive officer, or body corresponding thereto, of the State, municipality, or county by which the members are paid and from whom contributions to the fund are received or may be receivable.

Following the receipt of such report, the retirement board shall prepare or

cause to be prepared a plan of benefits and contributions so arranged that contributions by and on account of persons thereafter entering the membership of the retirement system shall be actuarially determined, as a constant percentage of the active payroll of such persons, to be sufficient to cover during the active service of such persons all liabilities of the retirement system for such benefits and to accumulate reserves which shall be adequate to pay the amount of such benefits. The benefits so arranged and the contributions payable by and on account of such persons shall be definitely set forth in a set of rules and regulations which shall be formulated by such retirement board, and if the contribution payable from public funds does not exceed five per centum of the payroll and if the rules and regulations are approved by such board they shall be submitted to the chief executive officer, or corresponding body, of the State, municipality, or county by which the members are to be employed. If approved by such officer or body a copy of such rules shall be forwarded to the Commissioner of Banking and Insurance and filed in his office.

Thereafter the benefits applicable to such new members of the retirement system and the contributions paid by and on account of such persons shall be in accordance with such rules and regulations, notwithstanding the provisions of any existing law, or laws, and in respect to such new members the benefit and contribution provisions of any existing laws inconsistent with this act are repealed.

All contributions received by the retirement system on account of such new members, and all interest and other earnings thereon shall be held on account of such members and shall be disbursed only on account of such members. The reserves so created shall be held by the treasurer, or corresponding officer of the system, and shall be invested by the retirement board; *provided, however*, that such board shall be limited by the terms, conditions, limitations and restrictions imposed by law upon savings banks of the State, in the making and disposing of their investments.

4. In making subsequent reports to the Commissioner of Banking and Insurance, as provided in section two of this act, the retirement board shall cause to be shown separately the assets and liabilities of the retirement system on account of such persons as shall have been admitted to the membership of the system since the adoption of rules applicable to new members, and the assets and liabilities on account of the remaining membership. If after review, the commissioner shall conclude that on the basis of such data as he may secure, the liabilities on account of the members added to the system since the date of the adoption of the rules are being covered by the present and prospective assets apportionable to them then such retirement system shall be deemed to be approved, so far as its new membership is concerned and he shall file such report and need take no further action. If however, the second report as required under the provisions of section two of this act, or any subsequent report shows that the members who have entered the system since the date of the preceding report are developing a liability for benefits which is not being covered by the contributions being accumulated on their account, he shall again report to the retirement board and the chief executive officer, or corresponding person or body of such State, municipality or county by which such members are employed, and if such condition is not rectified by a change in the benefit provisions and the contribution provisions applying to such members, either or both, by the time the next report is required, then the Commissioner of Banking and Insurance shall declare such retirement system closed to further members. Thereafter the persons entering the service who would otherwise become members of the retirement system shall become members of the State Employees' Retirement System and shall pay such contributions as such system may require under the provisions of law and the State, municipality or county by which such members are employed shall pay to the State Employees' Retirement System such contributions as would be payable by the State on their

account, were they otherwise eligible to join the State Employees' Retirement System as State employees. The members of the retirement system who became members after the commissioner first reports the retirement system to be unsound and before the closing of the system to further entrants, shall become members of the State Employees' Retirement System and shall thereafter contribute and the State, municipality or county shall likewise contribute to the State system on their behalf as though they had entered as State employees. In addition, the accumulations on their account in the retirement system from which they are transferred shall be transferred to the State Employees' Retirement System and they shall be given such credit for service prior to the date they become members of the State Employees' Retirement System as the amounts transferred on their account will provide.

5. Should any retirement board fail to file a report as required by section two of this act, or should it request the commissioner to cause such report to be prepared for their account, the Commissioner of Banking and Insurance is authorized and empowered to cause such a report to be prepared by such person or persons as he shall designate, and all expenses incident to the preparation of such report shall be a charge against the retirement system involved and the retirement board shall pay from the funds of the retirement system to the Commissioner of Banking and Insurance the amount necessary to reimburse him for the expenses so incurred.

6. Nothing in this act shall affect the benefits and contributions of the members of the retirement systems at the time of the passage of this act, or their beneficiaries. However, should a majority of such members vote at any time to change the benefit and contribution provisions of the retirement system, either or both, as they apply to them, and the chief executive officer, or corresponding body, of the municipality or county by which they are employed approve, then such new provisions shall be definitely set forth in rules and regulations and filed with the Commissioner of Banking and Insurance. If he shall find that such changes are of a nature which will better protect the members and their employer and tend to improve the financial condition of the retirement system from an actuarial viewpoint, he is authorized to issue his approval of such revised provisions, and thereafter such rules and regulations shall apply to such members. Thereafter the benefits and contributions of such members shall be continued as revised and the Commissioner of Banking and Insurance shall review the reports required under section two to assure that the retirement system does not become less solvent than it was at the time of the revision. Should it show a lower percentage of solvency than that indicated by previous reports, he shall notify the retirement board and the chief executive officer, or other body of the State, municipality, or county by which they are employed, and modifications shall then be made in the rules and regulations sufficient to restore the previous standard of solvency. No benefits shall be payable from the retirement system after the expiration of ninety days next following such notification until the solvency of the system has been restored and any person making or permitting such payment to be made by his authority shall be guilty of a misdemeanor and shall be personally liable for the amount of any such payment made.

7. If any provision, section or part of any section of this act is declared to be unconstitutional, the same shall not be held to affect any other section or provision of this act and the remainder of this act shall in no wise thereby be invalidated. All acts and parts of acts, general, special or local, so far as they are inconsistent with the provisions of this act are hereby repealed to the extent of such inconsistency.

8. This act shall take effect immediately.

STATEMENT

The two largest retirement systems in the State are now subject to the supervision of the Department of Banking and Insurance. This act is designed to place the remaining retirement systems under similar supervision for the protection of the members and the public.

The act further provides a means whereby any pension fund in the State which is not on a sound financial basis may adjust its contributions and benefits for new entrant members and if a majority of the existing members approve, it may also adjust the contributions and benefits for existing members, provided that such changes are made on a sound financial basis. The act is designed to encourage local funds to adopt a sound system of financing as rapidly as possible without requiring them to adopt any specific plan of benefits or contributions.

ASSEMBLY, NO. 320
INTRODUCED FEBRUARY 8, 1932

By MR. E. E. BROWN
(By Request)

Referred to Committee on Claims and Pensions

AN ACT concerning the pension and retirement laws of the State of New Jersey; limiting future obligations thereunder, and providing for the suspension of the payment of retirement allowances, pensions, annuities, and other benefits thereunder, under certain conditions as herein provided.

BE IT ENACTED by the Senate and General Assembly of the State of New Jersey:

1. From and after the passage of this act, any retired employee or official, who is a beneficiary of any State, county or municipal pension fund, retirement system, annuity fund, or similar organization providing for the payment of pensions, annuities, retirement allowances or other benefits to public employees or officials, or their beneficiaries, or who is the recipient of any pension, annuity or retirement allowance direct from the State, county or municipality under any special or general act, resolution or ordinance, shall not, while receiving and accepting any such benefit, hold any salaried public office or position.

2. All future payments of any and all benefits aforesaid, to any such public employee or official heretofore or hereafter appointed or elected, shall be immediately terminated and remain suspended throughout the term of his or her continued employment or tenure of office, such suspension of payments to be lifted only upon final termination of such public employment, whereupon such payments shall be resumed, but under no circumstances shall any such suspended benefits as aforesaid covering the period of such public employment be at any time collected or collectible.

3. Any such public employee or official receiving a payment of any such pension, annuity, retirement allowance or other such benefit, during his or her term of employment or tenure of office, as aforesaid, shall within thirty days of receipt of such payment, return the same to the board of trustees or treasurer of the retirement system, pension fund, annuity fund, or other fund, against which any such payment was drawn, and shall at the same time notify said board of trustees or treasurer of his or her public office or position and the term or tenure thereof.

4. Any person who wilfully violates any of the provisions of this act shall be guilty of a misdemeanor, and punished accordingly.

5. If any provision, section or part of any section of this act is declared to be unconstitutional, the same shall not be held to affect any other section or provision of this act, and the remainder of this act shall in no wise thereby be invalidated. All acts and parts of acts, general, special or local, so far as they are inconsistent with the provisions of this act are hereby repealed to the extent of such inconsistency.

6. This act shall take effect April thirtieth, one thousand nine hundred and thirty-two.

STATEMENT

The purpose of this act is to require suspension of pensions, retirement allowances and similar benefits to public employees and officials during their occupancy of a public office or position. It is part of the legislative program recommended by the Pension Survey Commission in the interests of justice and economy.

ASSEMBLY, NO. 368
INTRODUCED FEBRUARY 8, 1932

By MR. E. E. BROWN

(By Request)

Referred to Committee on Claims and Pensions

AN ACT for the establishment of a police and firemen's retirement system for the police and firemen of the State of New Jersey.

BE IT ENACTED by the Senate and General Assembly of the State of New Jersey:

1. Definitions.

The following words and phrases as used in this act unless a different meaning is plainly required by the context shall have the following meanings:

(a) "Retirement system" shall mean the retirement system of the State of New Jersey for police and firemen as defined in section two of this act.

(b) "Employee" shall mean any member of the active service of any police or fire department of any county, municipality or agency of the State of New Jersey, including all police officers having supervision or regulation of traffic on county roads.

(c) "Member" shall mean any policeman or fireman included in the membership of the system as provided in section three of this act.

(d) "Board of Trustees" shall mean the board provided for in section six of this act to administer the retirement system.

(e) "Medical board" shall mean the board of physicians provided for in section six of this act.

(f) "Service" shall mean service as an employee as described in subdivision (2) of this section and paid for by the local district.

(g) "Prior service" shall mean service rendered prior to the date of establishment of the retirement system for which credit is allowable under section four of this act.

(h) "Membership service" shall mean service as an employee rendered while a member of the retirement system.

(i) "Creditable service" shall mean "prior service" plus "membership service" for which credit is allowable as provided in section four of this act.

(j) "Beneficiary" shall mean any person in receipt of a pension, an annuity, a retirement allowance or other benefit as provided by this act.

(k) "Regular interest" shall mean interest at the rate of four per centum per annum compounded annually.

(l) "Accumulated contributions" shall mean the sum of all the amounts deducted from the compensation of a member and credited to his individual account in the annuity savings fund, together with regular interest thereon as provided in section eight of this act.

(m) "Earnable compensation" shall mean the full rate of the compensation that would be payable to an employee if he worked the full normal working time. In cases where compensation includes maintenance, the board of trustees shall fix the value of that part of the compensation not paid in money which shall be considered under this act.

(n) "Average final compensation" shall mean the average annual earnable compensation of an employee during his last five years of service as an employee, or if he had less than five years of service, then his average earnable compensation for his total service.

(o) "Annuity" shall mean payments for life derived from the "accumulated contributions" of a member. All annuities shall be payable in equal monthly installments.

(p) "Pension" shall mean payments for life derived from money provided by the local districts. All pensions shall be payable in equal monthly installments.

(q) "Retirement allowance" shall mean the sum of the "annuity" and the "pension," or any optional benefit payable in lieu thereof.

(r) "Retirement" shall mean withdrawal from active service with a retirement allowance granted under the provisions of this act.

(s) "Annuity reserve" shall mean the present value of all payments to be made on account of any annuity or benefit in lieu of any annuity computed upon the basis of such mortality tables as shall be adopted by the board of trustees, and regular interest.

(t) "Pension reserve" shall mean the present value of all payments to be made on account of any pension or benefit in lieu of any pension computed upon the basis of such mortality tables as shall be adopted by the board of trustees, and regular interest.

(u) "Actuarial equivalent" shall mean a benefit of equal value when computed upon the basis of such mortality tables as shall be adopted by the board of trustees, and regular interest.

(v) "Local district" shall mean any county, municipality or agency of the State of New Jersey having on its active payroll any employee or employees to whom this act applies.

2. A retirement system is hereby established and placed under the management of a board of trustees for the purpose of providing retirement allowances and other benefits under the provisions of this act for policemen and firemen of the State of New Jersey. The retirement system so created shall be established as of July one, one thousand nine hundred and thirty-two. It shall have the power and privileges of a corporation and shall be known as "The State Police and Firemen's Retirement System of New Jersey" and by such name all of its business shall be transacted, all of its funds invested, and all of its cash and securities and other property held.

3. The membership of this retirement system shall be composed of the following:

(1) All persons who shall become employees after the date as of which the retirement system is established, shall become members of the retirement system as a condition of their employment.

(2) All persons who are employees on the date as of which the retirement system is established, except those specifically excluded under subdivision (3) of this section, shall become members as of that date unless within a period of thirty days next following, any such employee shall file with the board of trustees on a form prescribed by such board a notice of his election not to be covered in the membership of the system and a duly executed waiver of all present and prospective benefits which would otherwise inure to him on account of his participation in the retirement system.

(3) Employees who are members of any fund operated for the retirement of policemen and firemen by a local district of the State of New Jersey shall not be entitled to membership in this retirement system unless on or before a date not more than one year next following the establishment of this retirement

system a majority of the members of such fund shall indicate by a notice filed with the board of trustees on a form prescribed by the board that they vote to have the privilege to participate in this retirement system. Should a majority of the members of any such fund so vote, then the board of trustees of this retirement system shall announce by a notice duly filed with the persons in charge of the administration of such fund, that on and after a certain date to be set by the board of trustees of this retirement system not less than thirty nor more than ninety days next succeeding the date of the majority vote, but not prior to the date this system is established, all members of that fund shall be eligible to participate in this retirement system. All members of said fund shall then become members of this system on such date, unless within thirty days next succeeding they shall elect not to become members. Any employee eligible to participate who shall elect not to become a member of this system shall file with the board of trustees on the form prescribed by the board an election not to be covered in the membership of the system and a duly executed waiver of all present and prospective benefits which otherwise would inure to him on account of his participation in the retirement system.

If the majority of the members of a retirement or pension fund do vote to enter this retirement system as described above, the local fund shall be discontinued within thirty days next succeeding the date of the majority vote, but not prior to the establishment of this retirement system, the payment of all pensions to members on the pension roll as of the date of discontinuance shall remain an obligation of the local district in which the fund was operated and shall be continued and paid by such local district. The moneys and securities of the fund, not exceeding the present value of the payments to be made on account of all pensions to the pensioners on the rolls of the fund as of the date of discontinuance shall be available to the said local district as an offset to the payments required for the existing pension roll; and the amount of the excess of the moneys and securities of the fund over and above the present value of the payments to be made on account of all pensions to pensioners shall be distributable among the active members of the fund at the time of its discontinuance in proportion to the respective contributions which they had previously made to the fund, provided that no member shall receive more than his accumulated contributions. If the distributable funds are more than sufficient to provide each member with his accumulated contributions, the excess shall be transferred to the said local district.

(4) An employee whose membership in the retirement system is contingent on his own election and who elects not to become a member, may thereafter apply for and be admitted to membership; but no such employee shall receive prior service credit unless he becomes a member within the first year following the establishment of the retirement system.

(5) The board of trustees may, in its discretion, deny the right to become members to any class of policemen or firemen whose compensation is only partly paid by the local district or who are serving on a temporary or other than per annum basis, and it may also in its discretion, make optional with members in any such class their individual entrance into membership.

(6) Should any member in any period of four consecutive years after last becoming a member be absent from service more than two years, or should he withdraw his accumulated contributions, or should he become a beneficiary or die, he shall thereupon cease to be a member.

4. (1) Under such rules and regulations as the board of trustees shall adopt each member who was an employee at any time during the year immediately preceding the establishment of the system and who becomes a member during the first year of operation of the retirement system, shall file a detailed statement of all service as an employee rendered by him prior to the date of establishment for which he claims credit.

(2) The board of trustees shall fix and determine by appropriate rules and regulations how much service in any year is equivalent to one year of service, but in no case shall more than one year of service be creditable for all service in one calendar year, nor shall the board of trustees allow credit as service for any period during which the member was absent without pay unless such service is allowed for retirement purposes, at the time said leave of absence was granted by both the local district and the board of trustees.

(3) Subject to the above restrictions and to such other rules and regulations as the board of trustees may adopt, the board of trustees shall verify, as soon as practicable after the filing of such statements of service, the service therein claimed.

(4) Upon verification of the statements of service the board of trustees shall issue prior service certificates certifying to each member the length of service rendered prior to the date of the establishment of the retirement system, with which he is credited on the basis of his statement of service. So long as membership continues a prior service certificate shall be final and conclusive for retirement purposes as to such service; *provided, however*, that any member may, within one year from the date of issuance or modification of such certificate, request the board of trustees to modify or correct his prior service certificate.

When membership ceases such prior service certificate shall become void. Should the employee again become a member, such employee shall enter the system as an employee not entitled to prior service credit except as provided in section five, subdivision (7), paragraph (a) of this act.

(5) Creditable service at retirement on which the retirement allowance of a member shall be based shall consist of the membership service rendered by him since he last became a member, and also if he has a prior service certificate which is in full force and effect, the amount of the service certified on his prior service certificate.

SERVICE RETIREMENT BENEFIT

5. (1) (a) Any member in service may retire upon written application to the board of trustees setting forth at what time, not less than thirty days nor more than ninety days subsequent to the execution and filing thereof, he desire to be retired; *provided*, that the said member at the time so specified for his retirement shall have attained the age of sixty, and notwithstanding that, during such period of notification, he may have separated from service.

(b) Any member in service who has attained the age of seventy shall be retired forthwith, except that with the approval of his local district and the board of trustees, his period of service may be extended for a period of not to exceed one year from the date of the last extension and not more than five extensions shall be permitted nor shall any extension be made after the year one thousand nine hundred and forty.

ALLOWANCE FOR SERVICE RETIREMENT

(2) Upon retirement for service a member shall receive a service retirement allowance which shall consist of:

(a) An annuity which shall be the actuarial equivalent of his accumulated contributions at the time of retirement; and

(b) A pension, in addition to his annuity, which shall be equal to one-one hundred and fortieth of his average final compensation multiplied by the number of years of his service since he last became a member; and

(c) If he has a prior service certificate in full force and effect, an additional pension which shall be equal to one-seventieth of his average final compensation multiplied by the number of years of service certified on his prior service certificate.

ORDINARY DISABILITY RETIREMENT BENEFIT

(3) Upon the application of a member in service or of his employing body, any member who has had ten or more years of creditable service may be retired by the board of trustees, not less than thirty and not more than ninety days next following the date of filing such application, on an ordinary disability retirement allowance; *provided*, that the medical board, after a medical examination of such member, shall certify that such member is mentally or physically incapacitated for the further performance of duty, that such incapacity is likely to be permanent, and that such member should be retired.

ALLOWANCE ON ORDINARY DISABILITY RETIREMENT

(4) Upon retirement for ordinary disability a member shall receive a service retirement allowance if he has attained the age of sixty, otherwise he shall receive a disability retirement allowance which shall consist of:

(a) An annuity which shall be the actuarial equivalent of his accumulated contributions at the time of retirement, and

(b) A pension which, together with his annuity, shall provide a total retirement allowance equal to eighty per centum of one-seventieth of his average final compensation multiplied by the number of years of his creditable service, if such retirement allowance exceeds one-quarter of his average final compensation; otherwise a pension which, together with his annuity, shall provide a total retirement allowance equal to one-quarter of his average final compensation; *provided, however*, that no such allowance shall exceed eighty per centum of one-seventieth of his average final compensation multiplied by the number of years which would be creditable to him were his service to continue until the attainment of the age of sixty.

ACCIDENT DISABILITY RETIREMENT BENEFIT

(5) Upon the application of a member or of his employing body any member may be retired by the board of trustees, not less than thirty and not more than ninety days next following the date of filing such application, on an accident disability retirement allowance; *provided*, that the medical board after a medical examination of such member shall certify that such member is physically or mentally incapacitated for the further performance of duty, that such disability was the natural and proximate result of an accident which occurred at some definite place within the year immediately preceding, while the member was in the actual performance of duty, that such incapacity is likely to be permanent and that such member should be retired.

ALLOWANCE ON ACCIDENT DISABILITY RETIREMENT

(6) Upon retirement for accident disability a member shall receive a service retirement allowance if he has attained the age of sixty, otherwise he shall receive an accident disability retirement allowance which shall consist of:

(a) An annuity which shall be the actuarial equivalent of his accumulated contributions at the time of retirement, and,

(b) A pension, in addition to the annuity, of two-thirds of his average final compensation.

RE-EXAMINATION OF BENEFICIARIES RETIRED ON ACCOUNT OF DISABILITY

(7) Once each year during the first five years following retirement of a member on a disability retirement allowance, and once in every three-year period thereafter, the board of trustees may, and upon his application shall, require any disability beneficiary to undergo a medical examination, such examination to be made at the place of residence of said beneficiary or other place

mutually agreed upon, by a physician or physicians designated by the board of trustees. Should any disability beneficiary refuse to submit to at least one medical examination in any such year by a physician or physicians designated by the board of trustees, his allowance may be discontinued until his withdrawal of such refusal, and should his refusal continue for one year, all his rights in and to his pension may be revoked by the board of trustees. .

(a) Should the medical board report and certify to the board of trustees that such disability beneficiary is engaged in or is able to engage in a gainful occupation paying more than the difference between his retirement allowance and his average final compensation, and should the board of trustees concur in such report, then the amount of his pension shall be reduced to an amount, which, together with his annuity and the amount earnable by him, shall equal the amount of his average final compensation. Should his earning capacity be later changed, the amount of his pension may be further modified; *provided*, that the new pension shall not exceed the amount of the pension originally granted nor an amount, which, when added to the amount earnable by the beneficiary together with his annuity, equals the amount of his average final compensation. A beneficiary restored to active service at a salary less than the average final compensation upon the basis of which he was retired shall become a member of the retirement system and shall be entitled to his previous total service credit, but on his subsequent retirement, he shall not receive a greater pension on account of his service rendered before his previous retirement than he was entitled to receive at the time of his restoration, anything to the contrary notwithstanding.

BENEFIT UPON ACCIDENTAL DEATH

(8) Upon the accidental death of a member before retirement, provided that evidence shall be submitted to the board of trustees proving that the natural and proximate cause of such death was an accident which occurred while the member was in the performance of duty at some definite time and place during the year immediately preceding; *and further provided*, that such death was not the result of willful negligence on the part of the deceased member, an accidental death benefit shall be payable as follows:

(a) The amount of his accumulated contributions to such person as he shall have nominated by written designation duly executed and filed with the board of trustees, and

(b) A pension of one-half of the average final compensation of such member to be paid to his widow, if he leaves a widow to continue until her death or remarriage; or

(c) If there be no widow or if the widow dies or remarries before the youngest child of such deceased member shall attain the age of eighteen, then to his child or children under eighteen, if he leaves children, a pension of one-half of the average final compensation of such member, divided in such manner as the board of trustees in its discretion shall determine, until every child dies or attains the age of eighteen; or

(d) If there be no widow, or children under the age of eighteen years surviving such deceased member, then to his dependent father or dependent mother as the deceased member shall have nominated by written designation duly executed and filed with the board of trustees, or if there be no such nomination then to his dependent father or to his dependent mother as the board of trustees in its discretion shall direct, a pension of one-half of the average final compensation of the member to continue until death or remarriage; or

(e) If there be no widow, children under the age of eighteen, or dependent parents then there shall be no benefit payable under paragraphs (b), (c) and (d) immediately above, unless, in the judgment of the board of trustees a lump sum payment not in excess of the average final compensation of the member should be made to some dependent relative.

RETURN OF ACCUMULATED CONTRIBUTIONS

(9) Should a member cease to be an employee except by death or retirement under the provisions of this act he shall be paid such part of the amount of the accumulated contributions standing to the credit of his individual account in the annuity savings fund as he shall demand.

OPTIONAL ALLOWANCES

(10) With the provision that no optional selection shall be effective in case a beneficiary dies within thirty days after retirement, and that such a beneficiary shall be considered as an active member at the time of death, until the first payment on account of any benefit becomes normally due, any member may elect to receive his benefit in a retirement allowance payable throughout life, or he may elect to receive the actuarial equivalent, at that time, of his retirement allowance in a reduced retirement allowance payable throughout life with the provision that:

Option 1. If he dies before he has received in payments of his annuity the present value of his annuity as it was at the time of his retirement, the balance shall be paid to his legal representatives or to such person as he shall nominate by written designation duly acknowledged and filed with the board of trustees; or

Option 2. Upon his death, his reduced retirement allowance shall be continued throughout the life of and paid to such person as he shall nominate by written designation duly acknowledged and filed with the board of trustees at the time of his retirement; or

Option 3. Upon his death, one-half of his reduced retirement allowance shall be continued throughout the life of, and paid to such person as he shall nominate by written designation duly acknowledged and filed with the board of trustees at the time of his retirement; or

Option 4. Some other benefit or benefits shall be paid either to the member or to such person or persons as he shall nominate; *provided*, such other benefit or benefits, together with the reduced retirement allowance, shall be certified by the actuary to be of equivalent actuarial value to his retirement allowance, and approved by the board of trustees.

6. (1) The general administration and responsibility for the proper operation of the retirement system and for making effective the provisions of this act are hereby vested in a board of trustees which shall be organized immediately after three of the trustees provided for in this section have qualified and taken the oath of office.

(2) The board shall consist of five trustees as follows:

(a) Two members to be appointed by the Governor.

(b) The State Treasurer, *ex-officio*.

(c) One policeman and one fireman who shall be members of the system and who shall be elected by the members of the system for a term of four years according to such rules and regulations as the board of trustees shall adopt to govern such election; *provided, however*, that the term of office of the first two trustees so elected shall begin immediately following their election and shall expire July one, one thousand nine hundred and thirty-four, and July one, one thousand nine hundred and thirty-six, in the order named.

(3) If a vacancy occurs in the office of a trustee, the vacancy shall be filled for the unexpired term in the same manner as the office was previously filled.

(4) The trustees shall serve without compensation, but they shall be reimbursed from the expense fund for all necessary expenses that they may incur through service on the board.

(5) Each trustee shall, within ten days after his appointment or election, take an oath of office that, so far as it devolves upon him he will diligently and honestly administer the affairs of the said board, and that he will not knowingly violate or willingly permit to be violated any of the provisions of law applicable to the retirement system. Such oath shall be subscribed by the member making it, and certified by the officer before whom it is taken, and immediately filed in the office of the Secretary of State.

(6) Each trustee shall be entitled to one vote in the board. Three votes shall be necessary for a decision by the trustees at any meeting of said board.

(7) Subject to the limitations of this act the board of trustees shall, from time to time, establish rules and regulations for the administration of the funds created by this act and for the transaction of its business.

(8) The board of trustees shall elect from its membership a chairman and shall by a majority vote of all its members appoint a secretary, who may be, but need not be, one of its members. It shall engage such actuarial and other service as shall be required to transact the business of the retirement system. The compensation of all persons engaged by the board of trustees, and all other expenses of the board necessary for the operation of the retirement system shall be paid at such rates and in such amounts as the board of trustees shall approve, from moneys in the expense fund.

(9) The board of trustees shall keep in convenient form such data as shall be necessary for actuarial valuation of the various funds of the retirement system, and for checking the experience of the system.

(10) The board of trustees shall keep a record of all of its proceedings which shall be open to public inspection. It shall publish annually on or before the first day of January a report showing the fiscal transactions of the retirement system for the preceding year, the amount of the accumulated cash and securities of the system, and the last balance sheet showing the financial condition of the system by means of an actuarial valuation of the assets and liabilities of the retirement system.

LEGAL ADVISER

(11) The Attorney-General of the State of New Jersey shall be the legal adviser of the board of trustees.

MEDICAL BOARD

(12) The board of trustees shall designate a medical board to be composed of three physicians not eligible to participate in the retirement system. If required, other physicians may be employed to report on special cases. The medical board shall arrange for and pass upon all medical examinations required under the provisions of this act, shall investigate all essential statements and certificates by or on behalf of a member in connection with an application for disability retirement, and shall report in writing to the board of trustees its conclusions and recommendations upon all matters referred to it.

DUTIES OF ACTUARY

(13) The board of trustees shall designate an actuary who shall be the technical adviser of the board of trustees on matters regarding the operation of the funds created by the provisions of this act, and shall perform such other duties as are required in connection therewith.

(14) Immediately after the establishment of the retirement system the actuary shall make such investigation of the mortality, service, and compensation experience of the members of the system as he shall recommend and the board of trustees shall authorize, and on the basis of such investigation he shall recommend for adoption by the board of trustees such tables and such rates as are required in subdivision (15), paragraphs (a), (b) and (c) of this section. The board of trustees shall adopt tables and certify rates, and as soon as practicable thereafter the actuary shall make a valuation based on such tables and rates, of the assets and liabilities of the funds created by this act.

(15) In the year one thousand nine hundred and thirty-five and at least once in each five-year period thereafter, the actuary shall make an actuarial investigation into the mortality, service and compensation experience of the members and beneficiaries of the retirement system, and shall make a valuation of the assets and liabilities of the funds of the system, and taking into account the result of such investigation and valuation, the board of trustees shall:

(a) Adopt for the retirement system such mortality, service and other tables as shall be deemed necessary;

(b) Certify the rates of contribution payable by members under the provisions of this act, and

(c) Certify the rates of contribution payable by the local districts on account of new entrants at various ages;

(16) On the basis of such tables as the board of trustees shall adopt, the actuary shall make an annual valuation of the assets and liabilities of the funds of the system created by this act.

7. (1) The board of trustees shall be the trustees of the several funds created by this act as provided in section eight and shall have full power to invest and reinvest such funds, subject to all the terms, conditions, limitations and restrictions imposed by the laws of New Jersey upon savings banks in the making and disposing of their investments; and subject to like terms, conditions, limitations and restrictions, said trustees shall have full power to hold, purchase, sell, assign, transfer, and dispose of any of the securities and investments in which any of the funds created herein shall have been invested, as well as the proceeds of said investments and any moneys belonging to said funds.

(2) The board of trustees annually shall allow regular interest on the mean amount for the preceding year in each of the funds with the exception of the expense fund. The amounts so allowed shall be due and payable to said funds, and shall be annually credited thereto by the board of trustees from interest and other earnings on the moneys of the retirement system. Any additional amount required to meet the interest on the funds of the retirement system shall be paid by the local districts and any excess of earnings over such amount required shall be deductible from the amounts to be contributed by the local districts.

(3) The Treasurer of the State of New Jersey shall be the custodian of the several funds. All payments from said funds shall be made by him only upon vouchers signed by two persons designated by the board of trustees. A duly attested copy of a resolution of the board of trustees designating such persons and bearing on its face specimen signatures of such persons shall be filed with the treasurer as his authority for making payments upon such vouchers. No voucher shall be drawn unless it has previously been authorized by resolution of the board of trustees.

(4) For the purpose of meeting disbursements for pensions, annuities, and other payments there may be kept available cash, not exceeding ten per centum of the total amount in the several funds of the retirement system on deposit in one or more banks or trust companies of the State of New Jersey, organized

under the laws of the State of New Jersey, or of the United States; *provided*, that the sum on deposit in any one bank or trust company shall not exceed twenty-five per centum of the paid-up capital and surplus of such bank or trust company.

(5) Except as otherwise herein provided, no trustee and no employee of the board of trustees shall have any direct interest in the gains or profits of any investment made by the board of trustees, nor as such receive any pay or emolument for his services. No trustee or employee of the board shall, directly or indirectly, for himself or as an agent in any manner use the same, except to make such current and necessary payments as are authorized by the board of trustees; nor shall any trustee or employee of the board of trustees become an endorser or surety, or in any manner an obligor for moneys loaned or borrowed from the board of trustees.

8. All of the assets of the retirement system shall be credited according to the purpose for which they are held to one of five funds, namely, the annuity savings fund, the annuity reserve fund, the pension accumulation fund, the pension reserve fund and the expense fund.

(1) ANNUITY SAVINGS FUND

(a) The annuity savings fund shall be a fund in which shall be accumulated contributions from the compensation of members to provide for their annuities. Upon the basis of such tables as the board of trustees shall adopt and regular interest, the actuary of the retirement system shall determine for each member the proportion of compensation which, when deducted from each payment of his prospective earnable annual compensation prior to his attainment of age sixty and accumulated at regular interest until his attainment of such age shall be computed to provide at that time an annuity equal to the pension to which he will be entitled at that age on account of his service as a member. Such proportion of compensation shall be computed to remain constant.

(b) The proportion so computed for a member age fifty-nine shall be applied to a member who attains a greater age before he becomes a member of the retirement system. The board of trustees shall certify to the chief fiscal officer of each local district, and such officer and all officers responsible for the payment of salaries in each local district shall cause to be deducted from the salary of each member on each and every payroll of such local district for each and every payroll period the proportion of earnable compensation of each member so computed. But such officers of any local district shall not have any deduction made for annuity purposes from the compensation of a member who elects not to contribute if he has attained age sixty, and has completed thirty-five years of service. In determining the amount earnable by a member in a payroll period, the board of trustees may consider the rate of annual compensation payable to such member on the first day of the payroll period as continuing throughout such payroll period, and it may omit deduction from compensation for any period less than a full payroll period if an employee was not a member on the first day of the payroll period, and to facilitate the making of deductions it may modify the deduction required of any member by such an amount as shall not exceed one-tenth of one per centum of the annual compensation upon the basis of which such deduction is to be made.

(c) The deductions provided for herein shall be made notwithstanding that the minimum compensation provided for by law for any member shall be reduced thereby. Every member shall be deemed to consent and agree to the deductions made and provided for herein and shall receipt for his full salary or compensation, and payment of salary or compensation less said deduction shall be a full and complete discharge and acquittance of all claims and demands whatsoever for the services rendered by such person during the period covered by such payment, except as to the benefits provided under this act. The chief fiscal officer of each local district shall certify to the board of trustees

on each and every payroll or in such other manner as the board of trustees may prescribe, the amounts to be deducted; and each of said amounts shall be deducted, and when deducted shall be paid into said annuity saving fund, and shall be credited, together with regular interest thereon to the individual account of the member from whose compensation said deduction was made.

(d) In addition to the contributions deducted from compensation as hereinbefore provided, subject to the approval of the board of trustees, any member may redeposit in the annuity savings fund by a single payment or by an increased rate of contribution an amount equal to the total amount which he previously withdrew therefrom as provided in this act, or any part thereof; or any member may deposit therein by a single payment or by an increased rate of contribution an amount computed to be sufficient to purchase an additional annuity, which, together with his prospective retirement allowance, will provide for him a total retirement allowance of not to exceed one-half of his average final compensation at age sixty. Such additional amounts so deposited shall become a part of his accumulated contributions except in the case of disability retirement, when they shall be treated as excess contributions returnable to the member in cash or as an annuity of equivalent actuarial value. The accumulated contributions of a member withdrawn by him, or paid to his estate or to his designated beneficiary in event of his death as provided in this act, shall be paid from the annuity savings fund. Upon the retirement of a member his accumulated contributions shall be transferred from the annuity savings fund to the annuity reserve fund.

(2) ANNUITY RESERVE FUND

The annuity reserve fund shall be the fund in which shall be held the reserves on all annuities in force and from which shall be paid all annuities and all benefits in lieu of annuities, payable as provided in this act. Should a beneficiary retired on account of disability be restored to active service his annuity reserve shall be transferred from the annuity reserve fund to the annuity savings fund and credited to his individual account therein.

(3) PENSION ACCUMULATION FUND

(a) The pension accumulation fund shall be the fund in which shall be accumulated all reserves for the payment of all pensions and other benefits payable from contributions made by local districts of the State of New Jersey and from which shall be paid all pensions and other benefits on account of members with prior service credit. Contributions to and payments from the pension accumulation fund shall be made as follows:

(b) On account of each member there shall be paid annually into the pension accumulation fund by the said local districts, for the preceding fiscal year an amount equal to a certain percentage of the earnable compensation of each member to be known as the "normal contribution," and an additional amount equal to a percentage of his earnable compensation to be known as the "accrued liability contribution." The rates per centum of such contributions shall be fixed on the basis of the liabilities of the retirement system as shown by actuarial valuation.

(c) On the basis of regular interest and of such mortality and other tables as shall be adopted by the board of trustees, the actuary engaged by the board to make each valuation required by this act during the period over which the accrued liability contribution is payable, immediately after making such valuation, shall determine the uniform and constant percentage of the earnable compensation of the average new entrant, which if contributed on the basis of compensation of such new entrant throughout his entire period of active service would be sufficient to provide for the payment of any benefit or pension payable on his account. The rate per centum so determined shall be known as the "normal contribution" rate. After the accrued liability contribution has ceased to be payable, the normal contribution rate shall be the rate per centum of the earn-

able salary of all members obtained by deducting from the total liabilities of the pension accumulation fund the amount of the funds in hand to the credit of that fund and dividing the remainder by one per centum of the present value of the prospective future salaries of all members as computed on the basis of the mortality and service tables adopted by the board of trustees and regular interest. The normal rate of contribution shall be determined by the actuary after each valuation.

(d) Immediately succeeding the first valuation the actuary engaged by the board of trustees shall compute the rate per centum of the total annual compensation of all members which is equivalent to four per centum of the amount of the total pension and death benefit liability on account of all members and beneficiaries which is not dischargeable by the aforesaid normal contributions made on account of such members during the remainder of their active service. The rate per centum originally so determined shall be known as the "accrued liability contribution" rate. The accrued liability contribution applicable to any local district having members of the retirement system who entered under the provision of section three, subdivision three of this act, shall be computed separately for such local district, should a valuation indicate that such rate of contribution would be more than ten per centum higher for the members from such local district alone, than the average for those districts showing no such members.

(e) The total amount payable in each year to the pension accumulation fund shall be not less than the sum of the rate per centum known as the normal contribution rate and the appropriate accrued liability contribution rates of the total compensation earnable by all members during the preceding year; *provided, however*, that the amount of each annual accrued liability contribution shall be at least three per centum greater than the preceding annual accrued liability payment, and that the aggregate payment by the local districts shall be sufficient, when combined with the amount in the fund to provide the pensions and other benefits payable out of the fund during the year then current.

(f) The accrued liability contribution shall be discontinued as soon as the accumulated reserve in the pension accumulation fund shall equal the present value, as actuarially computed and approved by the board of trustees, of the total liability of such fund less the present value, computed on the basis of the normal contribution rate then in force, of the prospective normal contributions to be received on account of persons who are at that time members.

(g) All pensions, and benefits in lieu thereof, with the exception of those payable on account of members who receive no prior service allowance, payable from contributions of the local districts shall be paid from the pension accumulation fund.

(h) Upon the retirement of a member not entitled to credit for prior service an amount equal to his pension reserve shall be transferred from the pension accumulation fund to the pension reserve fund.

(4) PENSION RESERVE FUND

(a) The pension reserve fund shall be the fund in which shall be held the reserves on all pensions granted to members not entitled to credit for prior service and from which such pensions and benefits in lieu thereof shall be paid. Should such a beneficiary retired on account of disability be restored to active service his pension reserve shall be transferred from the pension reserve fund to the pension accumulation fund. Should the pension of any such disability beneficiary be reduced as a result of an increase in his earning capacity the amount of the annual reduction in his pension shall be paid annually into the pension accumulation fund during the period of such reduction.

(5) EXPENSE FUND

The expense fund shall be the fund to which shall be credited all money provided by the local districts to pay the administration expenses of the retirement

system, and from which shall be paid all the expenses necessary in connection with the administration and operation of the system. Annually, the board of trustees shall estimate the amount of money which shall be deemed necessary to be paid into the expense fund during the ensuing year to provide for the expense of operation of the retirement system and such amount shall be paid to the expense fund for this purpose, by pro rata contributions from the local districts on the basis of the payroll of their members.

(6) CONTRIBUTIONS BY LOCAL DISTRICTS

The board of trustees shall certify to the chief fiscal officer of each local district the amount which will become due and payable from such local district to the retirement system during the year next following. The amount certified by the board of trustees as payable by the local district shall be included in the next budget subsequent to the certification by the board of trustees and levied and collected in the same manner as any other taxes are levied and collected for the payment of the salaries of members.

The treasurer or corresponding officer of the local district shall pay on or before the twenty-seventh day of December in each year to the State Treasurer the amount so certified, and shall pay monthly to the State Treasurer the amount of the deductions from the compensation of the members who are employees of the local district; and the State Treasurer shall credit such amount to the appropriate fund, or funds, of the retirement system.

Prior to the receipt of contributions from the local districts, any moneys in the funds of the system may be used temporarily to cover disbursements, but such moneys shall be restored to their proper funds on receipt of the first contributions. The sum of twenty thousand dollars is made creditable to the expense fund during the period prior to the receipt of such funds from moneys in the treasury of the State. The same shall be restored to the treasury of the State as soon as funds have been received from local districts.

9. The creation and maintenance of reserves in the pension accumulation fund, the maintenance of annuity reserves and pension reserves as provided for, and regular interest creditable to the various funds as provided in section eight of this act, and the payment of all pensions, annuities, retirement allowances, refunds and other benefits granted under the provisions of this act, and all expenses in connection with the administration and operation of this retirement system are hereby made obligations of the local districts of the State of New Jersey. All income, interest and dividends derived from deposits and investments authorized by this act shall be used for the payment of the said obligations of the said participating local districts of the State. Any amounts derived therefrom which, when combined with the regular amounts, otherwise contributable by the local districts of the State of New Jersey, as provided under the provisions of this act, exceed the amount required to provide such obligations, shall be used to reduce the regular appropriations otherwise required.

10. The right of a person to a pension, an annuity or a retirement allowance, to the return of contributions, the pension, annuity or retirement allowance, itself, any optional benefit or death benefit, any other right accrued or accruing to any person under the provisions of this act, and the moneys in the various funds created by this act, shall be unassignable.

11. Any person who shall knowingly make any false statement or shall falsify or permit to be falsified any record or records of this retirement system in any attempt to defraud such system as a result of such act shall be guilty of a misdemeanor and shall be punishable therefor under the laws of the State of New Jersey. Should any change or error in the records result in any member or beneficiary receiving from the retirement system more or less than he would have been entitled to receive had the records been correct, the board of

trustees shall correct such error, and as far as practicable, shall adjust the payments in such a manner that the actuarial equivalent of the benefit to which such member or beneficiary was correctly entitled shall be paid.

The various funds created by this act shall be subject to the supervision of the Department of Banking and Insurance of the State of New Jersey.

12. If any provision, section or part of any section of this act is declared to be unconstitutional, the same shall not be held to affect any other section or provision of this act, and the remainder of this act shall in no wise thereby be invalidated. All acts and parts of acts, general, special, or local, so far as they are inconsistent with the provisions of this act are hereby repealed to the extent of such inconsistency.