State of Minnesota

Report of

EMPLOYEE RETIREMENT SYSTEMS INTERIM COMMISSION

A

Legislative Commission

To Study

Public Employee Retirement Systems

Submitted to the 1965 Legislative Session of the State of Minnesota

State of Minnesota
Employee Retirement Systems
Interim Commission
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GLENN A. BLOMQUIST, Secretary

March 25, 1965

The Honorable Karl F. Rolvaag, Governor,
and Members of the Legislature of the
State of Minnesota:

The work of the Interim Commission on Employee Retirement Systems has been conducted as authorized under Chapter 888, Minnesota Session Laws of 1963.

A summary of the Commission's report and recommendations is hereby respectfully transmitted.

EMPLOYEE RETIREMENT SYSTEMS
INTERIM COMMISSION

By Fay Geo. Child
Fay George Child
Chairman

FGC:dh

LEGISLATIVE INTERIM COMMISSION

TO STUDY

PUBLIC EMPLOYEE RETIREMENT SYSTEMS

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PRINCIPLES OF PENSION POLICY

Had all pension plans been required to conform with a sound set of basic principles a considerable number of the problems that have confronted this Commission and all three of the previous pension study interim commissions would not have arisen. A considerable proportion of the problems involving a feeling of discrimination by groups of employees or by the membership of one fund as contrasted to another would not have arisen had there been more uniformity of treatment.

This Commission recommends to the Legislature as a constructive guide in all pension legislation the following set of principles, most of which were also adopted by each of the preceding Public Retirement Study Commissions:

There should be uniformity as to pension treatment of the various groups of public employees.

Historically, extra public-financed benefits added to one fund have led to discontent and demands for similar extra treatment for members of other funds. This compounds inequities, disrupts financing, and leads to demands on the legislature for "equivalent benefits."

Equity should be established and maintained within each Pension Fund.

The benefit "formula" and provisions should not be such that some members receive "considerably more for their money" than others with resultant extra deficits to the fund.

Age 65 should be considered the normal age for retirement.

Beside being the OASDI age, the "employability" of the average person plus the considerably higher costs of providing a reasonable level of pensions at a lower age all indicate 65 as the best age around which to build retirement goals for general employees.

In all cases of optional retirement at ages less than 65, benefits should be on a basis of full acutarial discount.

No employee should receive a "bargain" at the expense of other employees and the fund because of early retirement, except insofar as it may be desirable to modify this principle with respect to safety employees. This has been a material cause of additional deficits to many pension funds.

Thirty years should be considered the minimum period of service necessary for a pension plan to provide the "normal level" of pension benefits.

The government has no obligation to provide a lifetime level of retirement to an employee for only a few years of public service.

Fifty per cent of covered average salary is a fair "normal level" of benefits for a pension fund to provide for an employee of 30 years' service, except that it should require fewer years of service for certain law enforcement and safety employees to reach this level.

Pension plans were not intended to provide by government subsidy the level of retirement an employee might desire. Some area of private responsibility should remain.

Governmental employer support of normal level pension costs should not exceed equal matching of the employee's contribution to his pension, except as to certain law enforcement and safety employees.

To provide a greater share of the benefits at governmental expense tempts employees to work for extra benefits and marginal benefits because the cost to the employee is small. Pensions should not become "hidden extra salary."

Future pension obligations of all retirement funds in the state should be financed on a basis of Entry Age Normal Level costs during the working lifetime of covered members.

If this is done:

Labor costs of current services will not be postponed to a future generation of taxpayers.

Retired former employees would have, as security for their pension, assets accumulated during their employment rather than an amendable, repealable law.

A funded method will quickly reflect actual costs of further "liberalization" of pension benefits. Deferred financing masks costs of unsound liberalizations.

Considerably smaller long-range dollar costs are required because current funds for future pensions are invested at interest. The actual dollar outlay may be cut by as much as 50% if funds are regularly set aside in advance and invested at interest to meet pension obligations before they fall due.

If this is not done:

Taxpayers and legislators a generation hence may not feel obligated to keep the unfinanced promises of a previous generation.

Complementary to the previous recommendation that pension plans in the future be currently funded, the Commission further recommends that the laws heretofore enacted be continued or, if necessary, be amended, so as to amortize the unfunded accrued liability not later than by the year 1997. This is 40 years after the 1957 session discovered deficits and started a program as to amortization.

An extended period of amortization will, in time, accomplish the necessary objectives and will facilitate financing of unfunded liability within a containable level of annual cost.

A period of greater than 40 years approaches the level of perpetual interest on the deficit.

Deficits as to retired people should not be financed over a greater period than the life expectancy of retired persons.

Raises in pension benefits to retired persons should be recognized as a form of assistance and not disguised as pensions. Such grants should in all instances be separately financed and never charged to the pension funds.

Benefits of this type are purely a form of assistance, neither foreseen nor financed by employees or employers in the normal operation of a pension plan.

Unless additional adequate financing accompanies any grants of such assistance benefits, they would constitute a raid on the pension fund through extra deficits and would be to the detriment of the fund.

Unless the merit of such grants is sufficient to warrant separate financing, the tendency of "something for nothing now and someone pay later" would invite financial chaos in all the pension funds.

Policy as to Proposed Pension Changes

No increase in pension benefits in regard to any public employee pension fund should be granted until:

(a) There is established adequate financing to cover the normal level cost of the present level of benefits plus at least enough financing to prevent the increase in any deficit that exists in the fund; and

(b) Adequate measures to finance any proposed increase in normal level costs and increased deficits, if any, are enacted concurrently with any increase in benefits.

Adherence to sound pension policy cannot be accomplished unless each contemplated change in pension benefits or financing can be measured against fundamental principles.

Each contemplated change in benefits or financing should be analyzed as to its direct result and, in addition, its effect on the pension plan generally. This would be impossible except by the use of actuarial and legal analysis and consideration of the human elements involved. Many of the inequities in present laws have resulted from the Legislature having to rely on superficial, inaccurate estimates as to the significance of contemplated amendments to the pension laws. *Partial information in many instances is more misleading than out-and-out misinformation.*

Among the most difficult problems of the Public Retirement Study Commission, and ultimately the Legislature, is the fact that increases in benefits of one pension fund invariably result in similar requests from the other funds, thus compounding the costs and the problem.

The Commission submits the following recommendations as furthering a constructive approach to pension changes:

Every proposed change in any pension plan for public employees should be submitted to the Commission for study and analysis at a sufficiently early date to allow the Commission ample time for

study, analysis, and report to the Legislature. Local bills should be channelled through the Commission so that an analysis could be made available to the governing body of the subdivision of government and the Legislature.

Any proposed change involving or affecting the cost of any of the various pension systems should be accompanied with an estimate of the financial effect of such proposed change prepared by an approved actuary as defined by statute.

VITAL IMPORTANCE OF ACTUARIAL SURVEYS

An adequate actuarial survey is the only method by which the liabilities of a pension fund can be measured and actual long range costs can be determined. In no other way is it possible to measure costs of component features of a total benefit schedule or to determine whether or not the financial income of the fund is greater or less than the increase in liabilities.

Those who attempt to brush away or oppose requirements for actuarial surveys fall generally into two classes: 1) they wish important facts to remain hidden at least for the time, or, 2) they fall into the category of the business man who thinks an audit is a waste of money if, for the moment, there is cash in the till.

Many states in recent years have raised the plane of financing and responsibility of their public employee pension funds. Even so, a decreasing majority of jurisdictions have not yet faced up to the reality of pension financing. *Minnesota is one of the states that, beginning with 1957, have made considerable strides in the direction of pension responsibility.* The situation generally, however, can well be described by a quotation from a book entitled "Concepts of Actuarial Soundness in Pension Plans" published by the Pension Research Council and affiliated with the Wharton School of Finance and Commerce. This book, on page 145, has the following quotation:

> "These governmental plans in theory are subject to the same actuarial costs and tests for soundness as in the field of private plans. In practice, however, it is an entirely different matter, as we shall see. Actuarial precepts are frequently either legislated out of the reckoning or ignored in the plan's operation. **Who is to blame for this, if any blame is warranted, is unclear. Whether it be the employees covered (seeking bigger benefits), the taxpayer (seeking minimized current taxes), or the elected politician (seeking votes, and deferring the unpleasantness of costs for his successor)** cannot be demonstrated; probably because it is all of them together, putting off until tomorrow what many believe belongs with today's bills." (Emphasis supplied)

The enactment by the 1957 session of the legislature requiring all public pension funds to have an actuarial survey was the first general Minnesota legislative step designed to learn authoritatively the condition of public employee pension funds in the state. The tabulation and analysis of the actuarial reports required by the 1957 session included in the report of the Public Retirement Study Commission to the 1959 session was the first such general measurement and collective report issued in the state of Minnesota. The enactments of the 1957 and 1959 sessions of the legislature considerably improved the financing and revised the benefit provisions of the major pension plans under legislative jurisdiction.

To summarize the findings of these actuarial surveys, the report to the 1959 legislature states that as of January 1, 1958, the following significant facts were true:

> $619 million was the total net pension liability of all pension funds for public employees, both local and statewide, at that time. Assets accumulated against these liabilities, therefore, of 57 local and statewide pension funds exceeded the then available assets by over $438 million. Stated simply, this means, pension credits of $438 million had been earned and therefore accrued but had not been covered by financial support.

The Legislature, in 1957 and 1959, provided considerable additional financial support for the funds directly under the state's jurisdiction. But only experience and the passage of time can measure the degree of adequacy as to the financing of each fund. First, the initial 1958 surveys were limited by the fact that several of the funds did not have as complete records and data as would be necessary to accurately measure trends as to employee turnover, incidence of retirement, mortality, and similar factors. Second, the legislature has amended the pension benefit programs at each session since 1957 with consequent changes in rate of accrual of pension liabilities.

This Commission recognized at once upon organization that a current series of actuarial surveys was of paramount importance.

Just as industry cannot be judged by an outdated audit and as trends can only be measured by comparing a series of audits, in the same manner and for similar reasons, it was essential that actuarial surveys measure the current condition of the funds.

Type of Actuarial Survey Required

Actuarial studies of pension funds can vary from limited analysis of some phase of a pension fund to a thorough analysis of the long range liabilities and costs of all of the component parts of a pension fund. But for the purpose of informing the public and the legislature of all of the factors concerning benefits, accrual of liabilities, degree of financing needed, and possible improvement, only a *complete analysis of the long range accrual of liabilities and level of financing required to meet these liabilities would suffice.*

The 1957 session had in mind, when it enacted Chapter 11, Laws of 1957, ordering actuarial surveys of all public employee pension funds, that all surveys would be done in accord with what is known as the Normal Level Cost, or synonymously, the Entry Age Normal Cost Method. The language in the law turned out to be sufficiently flexible so as to allow at least one fund's actuary to rationalize the use of a method of actuarial study that did not show the long range financing necessary but only determined the rate of temporary "get-by" financing. This Commission, in requesting actuarial surveys, as pointed out elsewhere in this report, used explicit language to augment the language of Chapter 11, Laws of 1957, so as to prescribe the Normal Level Cost (Entry Age Normal Cost Method) for surveys to be delivered in 1964. This Commission, like the previous Commission, was of the opinion that the public and the legislature are interested in the total picture and hence insisted on an actuarial approach that revealed the total financing required and the total liabilities accrued and to be accrued. **The Commission adheres strongly to the opinion that the Entry Age Normal Cost Method be the required basis of all actuarial surveys of funds using benefit formulas**

Objections are sometimes raised that actuarial surveys are costly. **However, to argue against actuarial surveys on the grounds of cost would be comparable to arguing against adequate audits for a business.** When it is noted that one amendment to one pension law added several millions of dollars to the liabilities of the fund, the cost of analyzing the fund pales into insignificance.

In the case of the actuarial surveys in 1958 and, to a lesser, but material, extent in 1964, one of the principal costs was not the surveys by the actuary but the cost to the fund of putting their records and statistics in shape suitable for study by the actuary. This having been done, if records are kept in the future in the manner required, the cost of actuarial surveys themselves will be less in the future. The use of computer facilities for records and accounts would considerably reduce the cost and facilitate analysis.

One of the most important advantages of periodic actuarial surveys is the comparison with previous surveys prepared on identical principles. This will reveal trends on such important factors as mortality, interest earned on investments, withdrawal experience, average age of retirement, etc. As a consequence, the actual value from actuarial surveys made to date wil not be realized unless two things occur, 1) they are followed by succeeding surveys at later dates, and 2) they are studied and analyzed for the legislature by some agency or authority commissioned to do so. Even though the cost of a complete actuarial survey each year would be a very minor fraction of the general cost of administration of the major pension funds, a concession toward saving of expense would arise if an *actuarial valuation* in lieu of a complete *actuarial survey* were permitted for some years, provided that a complete survey were required at periodic intervals. The difference would be that an actuarial valuation would arrive at calculations of normal cost for accrued liabilities without analysis or examination of the assumptions as to mortality, rates of interest, withdrawal incidence, and so forth, which would be required for a complete survey.

Therefore, with reference to SERA, PERA, TRA, Highway Patrolmen's Retirement Association and State Police Officers Association, the Commission recommends that:

At the end of the fund's fiscal year each fund be required to procure an actuarial valuation showing condition of the fund as of the end of the fiscal year.

At the end of each fund's fiscal year occurring in 1967, and every fourth year thereafter, in addition to an actuarial valuation, a complete actuarial survey shall be procured by each fund.

Each survey or valuation must measure all aspects of the fund in accordance with such changes in benefit plans, if any, as will be in force during the following fiscal year.

Not later than 6 months following the end of each fund's fiscal year, each survey or valuation shall be filed with the Secretary of the Senate and the Chief Clerk of the House of Representatives, and a copy shall be delivered to any existing committee or commission of the legislature dealing with retirement plans.

No actuarial balance sheet shall include as an asset any amount representing the present value of contributions to be made for the purpose of amortizing the deficit in the fund.

Each valuation or survey shall be performed by an approved actuary. Such approved actuary is herein defined to be any actuary with at least 15 years of service to major public employee funds or who is a Fellow in the Society of Actuaries or any firm retaining such an actuary on its staff. Each survey or valuation shall contain a certification by such approved actuary that it has been compiled in accordance with the provisions of the law.

Each actuarial valuation or survey shall be in accordance with the Entry Age Normal Cost (Level Normal Cost) Method.

Any actuarial valuation or survey made by or at the request of any such fund shall comply with the provisions of paragraphs 3 through 7, both inclusive, above.

FUNDING OF PENSION PLANS

By GERALD G. TOY,
Commission Actuary

The "funding" of a pension plan is simply a scientific, orderly method of financing future benefits to be paid out by the plan. In the case of Minnesota plans operating on a statewide basis, these benefits are provided by Minnesota Statutes.

The benefits accrue during an employee's working lifetime. Therefore, it is good business and prudent planning to finance these accruing benefits over the same period in an orderly manner. As will be seen in what follows, there is also a very substantial saving in taxes by advance funding.

An example of what is meant by "funding" can be illustrated by a family situation. Consider yourself to be the father of a newborn child and that you plan for this child to have a college education. Consider further that a college education costs $2,500 a year for four years or $10,000, and that you want to provide for this ultimate "liability" while the child is growing up rather than waiting until the child is ready to enter college before facing up to the necessary financial obligation. If you are to follow this prudent course, you will set aside each year (or possibly monthly) an amount which will accrue to the required $10,000 at the child's age 18.

If we ignore interest earnings entirely, then it takes $555.56 a year for 18 years to total $10,000 at the end of 18 years. The table below illustrates the amount that you would have on hand if you followed such a funding course without any interest being earned on the money you have set aside.

If, on the other hand, you can earn 3% interest on your money, the amount required each year to accumulate to $10,00 is considerably less. The amount required each year would be $427.09. The table below shows the amount which your fund would accumulate to each year up to the end of 18 years, at which time the necessary $10,000 would be accumulated.

Year	Accumulated Fund (Accrued Liability) No Interest	3% Interest
1	$ 556	$ 427
2	1,111	867
3	1,667	1,320
4	2,222	1,787
5	2,778	2,267

6	3,333	2,763
7	3,889	3,273
8	4,444	3,798
9	5,000	4,339
10	5,556	4,896
11	6,111	5,470
12	6,667	6,061
13	7,222	6,670
14	7,778	7,297
15	8,333	7,943
16	8,889	8,609
17	9,445	9,294
18	10,000	10,000

If you have not followed a "funding" course and at the child's age 8, for example, realize that you want to start providing for the ultimate financial need, with no interest earnings, of course, the required deposit each year would be $1,000 for 10 years to accumulate to $10,000 by the child's age 18. Another way of looking at the same problem would be to get yourself back on the track of funding from birth so that you would have to pay in only $555.56 a year. This would require your getting a lump sum of $4,444 from some source so that you would be "on schedule" with regard to your accrued liability as of the child's eighth birthday. This lump sum needed is analogous to an "unfunded accrued liability" in pension planning. In other words, once you have set upon a course of funding for a specific ultimate liability, anytime that you have less assets in your fund than the funding schedule calls for, you have an "unfunded accrued liability." Since the accrued liability is shown as a definite schedule, you simply have to match the assets which you have set aside for this purpose with the schedule of accrued liabilities to see how you stand. If you have more assets than is called for by the schedule, you have a "surplus." If you have less assets, you have a "deficit."

The above simplified illustration gives considerable insight into the problems faced by the State of Minnesota in regard to its Public Employee retirement plans. For many years there was little or no funding toward the ultimate benefits to be received by employees. In 1957 the Legislature took great strides toward rectifying the situation and authorized levying to start building funds to match the accrued liabilities.

The "deficits" currently shown in the Minnesota plans are largely the result of low contributions to the funds in the past before the Legislature recognized the need for advance funding.

In the case of pension planning, for each male employee who retires at age 65 with a $100 monthly pension, the amount to be paid out over his lifetime is approximately $17,300. For a woman, due to greater longevity, the approximate amount is $21,000. The funding method which the Commission feels is most desirable to meet ultimate financial obligations of pension plans is called the "Entry Age Normal Cost Method," which is a scientific, orderly method of providing for the ultimate liabilities. Discounts are made for withdrawals from service before retirement as well as interest earnings, and all of the complicated factors which enter into providing for the ultimate liabilities are taken into account.

However, the situation is exactly analogous to the simplified college funding example given above: we need to provide money which ultimately will be required. We should do so while the services are being rendered by the employee in order both to save the State tax money and also to provide additional security to employees.

In the matter of saving tax money, it can be seen readily from the college funding example above that interest earnings under an advance funding program are a potent factor in reducing the aggregate amount of money which is required for the college education. The required amount with 3% interest is $2,300 *less* than the $10,000 which is required if no interest is earned by advance funding. Of course, if the interest earnings are greater than 3%, then the reduction in actual outlay is reduced even further. Also, the advance funding period for pension obligations is on the average much greater than 18 years ago so that the savings from interest earnings are proportionately much greater than is shown by the college funding example. Over a 30 year period, interest earnings at 3% reduce required outlays by 37% as compared to a program of no advance funding.

It is for these reasons that the Commission has repeatedly recommended the use of the Entry Age Normal Cost Method (Level Cost) of advance funding whereby orderly provision is made for the ultimate financial responsibility of providing the benefits under the Public Employee plans. An additional reason is that this method gives the clearest picture of long-term cost of a pension plan.

INTEREST RATE ASSUMPTION

By GERALD G. TOY,
Commission Actuary

The interest yield assumed to be earned on investments of a pension fund is of vital importance in planning the financing of benefits of the plan.

As can be seen in the section of the final report entitled "Funding of Pension Plans," the difference in cost can be 58% or more between a financing program under which no interest is earned (pay-as-you-go financing) and an advance funding method under which 3% interest is earned.

The question may be asked why the Commission decided to require a 3% interest assumption in calculation of future liabilities and Entry Age Normal Costs in actuarial surveys of the Minnesota Public Employee pension plans. It may be thought, since current investment earnings in various media are considerably in excess of 3%, that the Commission should recommend a higher assumed rate of interest.

The reason that the Commission chose not to do so (after a great deal of consideration of this subject), is that only the *long term* estimate of interest yield can be considered. Interest yields have fluctuated widely over long periods of time; and the Commission feels strongly that due to the nature of these trust funds, only a conservative long term view is in order. The financing of pension funds is of a very long term nature, extending over the entire working and retired lifetimes of employees.

Life Insurance Companies, whose reserve liabilities are in the same nature as those for Minnesota Public Employee pension plans, generally use 3% or a lower rate for their reserve liabilities. There are very few exceptions to this throughout the country as far as these companies are concerned.

The "assumptions" made in determining the liabilities and costs of a pension plan include the best possible estimates of future experience in regard to the following: interest earnings, mortality, disability, withdrawal and retirement rates. As can be seen, the interest rate is only one of several important assumptions. It is only actual experience which shows *in the aggregate* whether the assumptions prove to be appropriate. Therefore, the conservatism, if any, in one assumption may prove in the light of actual experience to cover the lack of conservatism in another assumption. For example, the actual mortality of retired employees may prove to be lower (thus increasing liabilities and costs) than is assumed in the calculations of such liabilities and costs. Unforeseen medical advances could cause this to happen.

It is for these reasons that the Commission has recommended that the Legislature require for purposes of actuarial valuations and surveys that a 3% interest assumption be used.

The long term history of the Farmers & Mechanics Savings Bank as far as interest on savings deposits is concerned, is shown in the following table. This is not to be considered a representative picture of investment return on a portfolio of investments for a pension plan. It is shown as a demonstration that interest rates have fluctuated widely over long periods of time.

Years (inclusive)	Annual Interest Rate	
1964-1962	3.75%	(1)
1961 to 1960	3.50	(2)
1959 to 1958	3.25	increased 10-1-59
1957	3.00	
1956 to 1955	2.50	increased 7-1-56
1954 to 1953	2.25	increased 7-1-54
1952 to 1950	2.00	increased 7-1-52
1949 to 1946	1.50	increased 7-1-49
1945 to 1944	2.00	decreased 7-1-45
1943 to 1936 (8 years)	2.00	
1935	2.50	decreased 4-1-35
1934 to 1933	3.00	decreased 4-1-34
1932	3.50	
1931 to 1924	4.00	decreased 7-1-31
1923 to 1918	4.50	
1917 to 1915	4.00	

NOTES:

(1) 4.25% paid on multiples of $1000
(2) 4.00% paid on multiples of $1000
(3) 1.50% paid on balance over $2000

It can be seen from this table that although the highest current rate is 4¼%, there have been several "swings" in the rate below this return. For example, the rates in the 1930's and 1940's were down to 2% and even lower rates for some periods. It can be seen from the table also that over the long term a much lower average rate than the current rate has been paid. This is an illustration of the important point made earlier: since financial planning for pensions plans is of a long term nature, only the average interest earnings over many years can be considered to be meaningful, rather than the current interest yield. The yields on the invested funds of Minnsota Public Employee pension plans were less than 3% for many years before changes in investment policy (which were recommended by the retirements Commission) were adopted by the Legislature.

The Commission recommends:

It must be recognized that interest rates less than 3% in the past caused increased deficits in the funds and, therefore, interest rates in excess of 3% must be used to offset those prior losses until such time as long term higher rate can be established.

FINANCIAL REPORTS OF PENSION FUNDS

The wisdom of requiring each government-supported pension fund to prepare an annual report for the information of public officials the public and its members is virtually self-evident.

Unless the report of each fund each year complies with *identical and adequate specifications as to content and manner of presentation,* much of the value of such reports will be lost.

Comparison between funds will not be readily available.

Comparison on a valid basis with previous years' reports will certainly not be reliable.

Unless each report includes an actuarial balance sheet of all assets and liabilities as prescribed for actuarial surveys and valuations, it will have as limited value as would an audit of a business enterprise which did not include all of the assets and liabilities of the business.

Annual reports of pension funds are often given wide publicity. Such reports can be extremely misleading unless they are based upon accurate evaluation of all liabilities as well as assets.

THE COMMISSION RECOMMENDS:

Each of the five state-wide pension funds that are required to have prepared an actuarial survey or valuation each year shall prepare an annual report as soon as reasonably possible following the close of each fiscal year.

Each annual report shall promptly be delivered to the same officers and committees or commissions of the legislature as are stipulated by law to receive actuarial surveys or valuations.

A copy of each fund's annual report or a synopsis complying with minimum requirements herein set forth shall be distributed to the members of the fund and to the governing body of each political subdivision which is responsible for employer contributions to the fund either directly or by levy.

Each annual report must include an exhibit as to assets and liabilities meeting the requirements for actuarial surveys or valuations including a statement by the actuary of the fund certifying that the required reserves for any benefits provided under a benefit formula are computed in accordance with the "Entry Age Normal Cost" (Level Normal Cost) method.

That part of the exhibit dealing with assets will show at least the following items of actual assets:

Assets

Cash in office
Deposits in banks
Accounts Receivable:
  Members contributions
  Employer contributions
  Other
Accrued interest on investments
Dividends on stocks, declared but
  not yet received
Investement in bonds at amortized cost
Investment in stocks at cost
Investment in real estate
Equipment at cost, less depreciation
Other

TOTAL ASSETS __________
UNFUNDED ACCRUED LIABILITIES __________

In addition there must be included a statement of the unfunded accrued liability of the fund, except that, should the assets of the fund exceed the liabilities, then such excess shall be listed as surplus, following the exhibit as to reserves.

Such exhibit shall include a footnote showing accumulated member contributions without interest.

In the exhibit as to current liabilities, at least the following items must be shown:

Liabilities and Reserves

Current:
- Accounts payable
- Annuities payments
- Survivor benefit payments
- Refundment to members payable
- Accrued expenses

TOTAL CURRENT LIABILITIES ________

Suspense items ________

In the exhibit as to accrued necessary reserves there must be included an item for the required reserves as follows:

"TOTAL RESERVES REQUIRED as per attached schedule." ________

"TOTAL LIABILITIES AND RESERVES" ________

The required attached schedule shall contain the following exhibit of the TOTAL RESERVES REQUIRED:

1. For active members
   a. Retirement benefits
   b. Disability benefits
   c. Refundment liability due to death or withdrawal
   d. Survivors' benefits
2. For deferred annuitants
3. For former members without vested rights
4. For annuitants
   a. Retirement
   b. Disability annuities
   c. Widows' annuities
   d. Surviving children's annuities

In addition to the above required reserves, separate items should be shown for additional benefits, if any, which may not be appropriately covered by the items listed above.

Nothing in the above requirements shall preclude additional schedules or exhibits which will facilitate a true interpretation of the financial condition of the system, except that the term "surplus" or the term "excess of assets" shall not be used except as specifically provided herein, nor shall any representation of assets and liabilities other than herein provided be included in such statement.

Each financial report shall also include an income statement on an accrual basis showing all INCOME and all DEDUCTIONS FROM INCOME for the year. Such statement must show separate items for employee contributions, employer regular contributions, employer additional contributions, if provided by statute, investment income, profit on the sale of investments and other income, if any. Deductions from income shall include the following separate items for benefit payments: retirement benefits, disability benefits, widows' benefits, surviving children's benefits, refundments to members terminating employment, and refundments due to death of members and due to death of annuitants. Other items to be included are: the increase in total reserve required, general expenses incurred, loss on sale of investments and any other deductions.

Nothing in the foregoing shall preclude more detailed itemizations showing the condition of the fund and changes in the condition of the fund or membership thereof, except that no such additional information or exhibits shall be at variance with the required items of exhibit.

THE FUNDS' PROBLEMS WITH ACTUARIES

This Commission, on October 30, 1963, as its first major act upon organization, requested PERA, SERA, TRA, the Minnesota Highway Patrolmen's Association and the State Police Officers 'Association to "furnish to the Commission an actuarial survey showing the condition of each fund as of aJnuary 1, 1964."

Key provisions from the Commission's detailed specifications were:

'That each such actuarial survey shall be performed by an approved actuary as set forth in Chapter 11, Special Session Laws of 1957" . . . and ". . . shall include the information set forth in Sec. 2 of Chapter 11 . . ." The survey "shall be calculated on a level normal cost basis (entry-age-normal cost method) except for funds on a money purchase basis."

"The interest rate to be assumed is 3% . . ."

"Each such survey should be delivered to this Commission on or before June 1, 1964."

Each of the five pension funds promptly agreed in writing to comply with the Commission request and specifications.

This was extremely important since actuarial surveys on a comparable basis had not been required of all five funds since 1958 and a number of amendments to each fund had been enacted at intervening sessions of the Legislature.

Relying on the agreements of the five pension funds to deliver actuarial surveys as specified by June 1, 1964, the Commission on April 17, 1964, adopted the following self-explanatory motion:

> "That the Executive Secretary be authorized and directed to advise the various pension funds and other organizations concerned with pension provisions that any proposals be submitted as soon as possible, and in no event later than September 1st, and that each such fund or organization be advised that if such proposals are not submitted, it will be difficult, if not impossible, for this Commission or the Civil Administration Committees of the House and Senate to give them the consideration which they deserve."

The Commission also specified that proposals for legislation, if involving costs, be accompanied by an adequate actuarial calculation of cost.

The only actuarial survey delivered by June 1, 1964, was that of the State Police Officers' Association. This survey complied with all specifications.

The TRA survey reached the commission June 18, 1964. It was in substantial compliance with the Commission specifications.

The SERA actuarial survey reached the Commission July 13 and the PERA survey reached the Commission August 11, 1964. In the covering material included in each survey, the actuary for PERA and SERA stated categorically that in each instance he followed the Commission specifications. The Commission's actuary, upon analysis, discovered that the actuary for PERA and SERA had not followed the Commission specifications in that he calculated each survey on a different cost method than entry-age-normal and used a 3½% interest rate assumption instead of the specified 3% rate.

When this actuary was informed by letter of his misrepresentation, he wrote the Commission stating he "had erred," promising to furnish the Commission with corrections of each survey. An unsatisfactory correction as to SERA reached the Commission September 22, 1964, and a month later an equally unsatisfactory correction as to PERA was received.

The survey for the Highway Patrolmens' Association, by a different actuary than SERA and PERA, was received in November, 1964, and was unsatisfactory in that he used a 3½% interest assumption and did not use the entry-age-normal cost method. A correction of the survey was not delivered to the Commission until December, 1964, and the actuary persisted in his use of a 3½% interest assumption. As of March 15, 1965 a correction of this deficiency has not been received.

The Commission chairman called an emergency meeting on October 6, 1964, to determine action necessary to deal with the non-performance and mis-performance of the actuaries for the four pension funds. The Commission concluded:

(1) Even if it proved possible to force eventual compliance with the Commission specifications, the fact that at that time surveys were already more than five months overdue made it doubtful that the Commission would have even limited time to analyze the returns.

(2) The risk that reliable surveys might not be eventually forthcoming was too great for the Commission ot take in view of the non-compliance with specifications.

This emergency meeting of the Commission ordered the Commission actuary to proceed to perform independent surveys of SERA and PERA as soon as possible. At this emergency meeting the Commission also ordered a survey of TRA as to the cost of its request to change to the formula benefit plan. TRA had not furnished this survey in accordance with the Commission's rules.

Because of these extra surveys by the Commission actuary, an estimated additional $8500 cost will be incurred. This was deemed to be absolutely essential if the responsibilities of the Commission were to be discharged.

The Commission directed at the April 17th meeting that proposals for legislation be submitted to the Commission by September 1, 1964. They were to be accompanied by an actuarial valuation of costs of the proposals. The only effective compliance was on the part of the State

Police Officers' Association. Other funds submitted proposals ranging from specific requests to generalized requests, some with unsatisfactory actuarial valuations. It is obvious, however, that, since the actuarial surveys were not complete as specified, the evaluations of requests could not be analyzed or related to non-existent actuarial surveys. *Consequently, the Commission has been deprived of both the time and information necessary to adequately consider or evaluate the significance of many legislative requests.* It is only now, as the Commission finishes its work, that complete and reliable actuarial surveys from the Commission actuary are reaching the Commission. The members of the Commission deplore the fact that the 1965 session of the Legislature will be confronted with legislative requests which in many instances will not have had adequate background information and analysis.

The Commission calls attention of the Legislature to the fact that an increasing number of legislatures in other states are, by statute, rule or policy, refusing to consider proposed pension legislation until it has been thoroughly analyzed by an advisory body and evaluated as to costs by a competent actuary.

In view of the disregard of Commission specifications, the Commission recommends LEGISLATION BE ENACTED TO INSURE THAT:

if any actuarial survey or analysis is found to vary from the specifications set forth by the Commission or the statutes, the committee or commission should be empowered to select its own actuary to perform an independent survey, the cost of which shall be paid by the fund involved.

NEED FOR A PERMANENT PENSION STUDY AGENCY

A continuing agency of the Legislature for the purpose of accurately informing that body concerning the pension funds and the effect of pension proposals has never been so clearly demonstrated as by the unfortunate delays and confusion in obtaining suitable actuarial surveys and analysis encountered by this Commission. These delays and the resulting confusion have resulted in this Commission's spending a great deal of time and money without reaching much-needed conclusions. Much important material remains for future study and cannot be knowledgeably handled at this time. Continuity of this Commission is impoartant to the effectiveness of future Commissions.

Pension plans are extremely complicated as to operations. Pension systems to be understood require considerable study. Pension changes frequently have serious unanticipated side effects. Pension changes in one fund almost invariably generate requests for similar changes in other funds often compounding past mistakes. Increases in pension benefits are, practically speaking, well nigh irreversable.

These facts have led many states to set up continuing and permanent agencies to study, analyze and report to the Legislature concerning all pension matters. Such continuing agencies are available during the sessions of the legislature as well as during interims. Their fact gathering and reports are cumulative and eliminate much delay or confusion.

The state of Minnesota has made considerable progress toward soundness of pension plans. Financing has been improved dramatically. Improved benefits are being made each session. A few ill advised amendments could reverse the trend. A number of states have found their pension systems in such poor condition that drastic reorganization has become necessary with attendant hardship, sometimes on members, sometimes on taxpayers, sometimes on both.

The state of Minnesota has spent and will spend in the future many millions of dollars for public employee pensions. It is mandatory that we should have adequate legislative and actuarial checks made on these funds.

THIS COMMISSION RECOMMENDS That the Legislature establish a permanent pension study commission cloaked with sufficient authority to require full disclosure of accounts and records by each fund under legislative jurisdiction. Such Commission should serve as a source of information and advice to the Legislature during sessions and a processing agency for study of pension matters between the sessions.

Escalator Provisions in Pension Funds

In all walks of life people seek to protect themselves from the adverse consequences of economic inflation while enjoying the favorable results. Many devices, including investment in stocks, real estate and other equities of various kinds are tried. All such devices have been successful to a degree and for a period of time, but all have a degree of risk to about the same extent as their favorable possibilities. All have built in attributes that in adverse circumstances could lead to defeat of purpose or even more severe loss. Members of the public have available no complete or certain hedge against the adverse effects of inflation. Full escalator provisions in pension funds for governmental employees are designed to guarantee that pension benefits both at retirement and thereafter will be increased automatically with each increase in inflation.

A pension is escallated just to retirement when the pension is based on final salary rather than the average salary on which the employee and employer contributed.

A pension is completely escallated when not only is it escallated to retirement but in addition the pension is automatically increased thereafter and in the same percentage each time the pay of the employee's former position is increased.

Escallation can also be applied to widows, children, disability and other benefits. It can be limited or modified or attached to cost of living indexes instead of salary.

The salient principle of escallation is that the employer is made liable for the extra costs of inflation since employees are never assessed for additional benefits of this type and always contribute on actual salary as earned.

The new deficits that escallation causes after each inflationary step (usual wage increase) are difficult to predict, vary from time to time and are practically never covered by advance financing.

The Commission recommends that escallation provisions should be avoided in all publically financed pension plans. To liberalize pension plans from time to time and provide orderly financing each time is sounder practice than to resort to a "masked liberalization" leading to periodic "after fact" financing problems.

INCREASE IN SALARY LIMIT FOR PENSION PURPOSES

An increase in the present $4800 per year maximum as to salary from which pension credits are determined and deductions made has become the subject of requests from the five state wide pension funds and a large majority of the members of these funds.

Steadily rising salaries, costs and the standard of living cause pensions developed from the $4800 per year of salary to be a diminishing proportion of actual salary for those earning over $4800 per year.

As to persons now receiving under $4800 per year, that limit prevents contemplation of increases in pension commensurate with expected future salary raises.

At this time it is generaly expected that the salary limit as to OASDI will soon be increased materially.

Most of the requests received by the Commission sought to have all salary limits removed. The Commission, however, arrived at the conclusion that the circumstances herein discussed warrant an increase in pension purpose salary limits but do not necessarily indicate the removal of all limits.

A $6,000 per year salary limit at present rates of contribution will increase the total contributions by employees and by employers as illustrated below:

Increase in yearly contributions caused by raising the salary ceiling for pension purposes from $4800 to $6000 per year applied to data as of January 1, 1964

(Amounts in Millions of Dollars)

	SERA	TRA	Highway Patrol	State Police
Employee contributions $6000 salary limit	$3.41	$6.76	$ .16	$ .056
Employee contributions $4800 salary limit	$3.12	$5.79	$ .13	$ .047
Increase in annual employee contributions	$ .29	$ .97	$ .03	$ .009
Employer contributions $6000 salary limit	$5.68	$9.01	$ .23	$ .104

Employer contributions				
$4800 salary limit	$2.50	$7.73	$ .19	$ .087
Increase in annual employer contributions	$ .48	$1.28	$ .04	$ .017

State Employer One-Year Contributions

	Present $4800 Limit	$6000 Limit
SERA	$5,200,000	$5,680,000
TRA	7,730,000	9,100,000
Highway Patrol	190,000	230,000
State Police Officers	87,000	104,000
Total State One-Year Contribution	$13,207,000	$15,114,000

PERA employer contributions are principally met by the subdivisions and will be estimated in the PERA chapter.

THE COMMISSION RECOMMENDS:

Effective July 1, 1965, and for service thereafter for pension credit and deduction purposes, the salary limit should be $6,000 per year.

STATE EMPLOYEES RETIREMENT ASSOCIATION

SERA, for all practical purposes, is completely coordinated with Social Security. This is due to the fact that in 1957, when SERA adopted coordination, the federal requirement was for all or none, not individual option as to coordination. Approximately 50 employees who are not eligible for Social Security remain on the benefit program in force before coordination.

No significant changes were made in SERA from the coordination with OASDI in 1957 until the 1963 session of the Legislature when a material increase in the SERA benefit formula was enacted.

The 1963 session increased the rate of accrual of pension benefits by 60% for the first ten years of service and by 14.3% for service during the second decade of employment. No increase in the rate of benefit for service after 20 years was made. Thus, after an employee has served 20 years his future service under the 1963 law will earn the same additional pension as it would have before 1963. The 1963 session was advised by the SERA actuary that increased interest earning on SERA invested assets would finance the pension increase. The 1963 change materially increased the SERA deficit, as will be discussed later.

SERA Actuarial Problem

The Commission was stymied when it sought to obtain reliable information as to the fundamental facts of SERA, such as:

What is the current condition of the fund?

How does this condition compare with the condition of the fund in 1958 following legislative adoption of the principle of adequate financing?

What were the financial results of the 1963 amendments to the SERA law?

What financing will be adequate in the future?

The Chapter in this report relative to the "Funds' Difficulties with Actuaries" recounted the Commission's instructions as to the nature and content of the actuarial surveys and the request for June 1, 1964, delivery agreed to by the pension funds. That chapter set forth the frustrations that led the Commission to order its own actuary to make an actuarial survey of SERA and PERA.

It is essential that this report summarize as to SERA the information resulting from the survey of the Commission actuary and essential parts of the background developments.

The SERA survey ordered for June 1, 1964, was delivered July 13, 1964. *It stated that the survey was prepared in accordance with Commission instructions.* Surprisingly, this survey did not reflect an increase in the SERA deficit due to the 1963 amendment to its benefit formula. The Commission had specified the "entry age normal cost" actuarial method because of its adequacy to reveal all facets as to the condition of a pension fund including long range level costs.

Failure of the SERA survey to show an obvious effect of the 1963 law and other deficiencies caused the Commission actuary to ask for supporting data. Subsequent developments revealed:

1. The survey was not "in accordance with the directive of the interim commission" as represented.
2. The SERA actuary admitted he "had erred" in violating instructions and that he had used the "unit credit" actuarial method.
3. When some other discrepancies raised ad-

ditional questions, the SERA actuary replied that as a matter of judgment he had made arbitrary adjustments due to "variables" and "imponderables" in the plan.

Subsequently it developed that *the previous* SERA actuarial surveys were also not in accordance with the "entry age normal cost" method, even though the Public Retirement Study Commissions reporting to the 1959 and 1961 sessions had so accepted them. In those instances no obvious discrepancies had caused the Commission actuary to question the basis of the survey, especially since the format of presentation was satisfactory.

On September 22, 1964, the Commission received from SERA its actuary's "correction" to the "entry age normal cost" method. This "correction" obviously is not a valad "entry age normal cost" survey because it has two characteristics *that could not occur if the universally professionally recognized "entry age normal cost" technique had been followed.*

1. The entry age normal "correction" survey shows a smaller deficit than the "unit credit" method of the original survey.
2. The "correction" fails to reflect an increase in deficit due to the 1963 amendment to the SERA formula.

RESULTS OF ACTUARIAL VALUATIONS

	COMMISSION ACTUARIES VALUATIONS (EANC METHOD)			SERA ACTUARY'S VALUATIONS	
				Present Law; $4800 Limit	
	I Present Law; $4800 Lim.	II Previous Law; $4800 Lim.	III Present Law; $6,000 Lim. *	Unit Credit 3%	EANC (1937 SA, 3%)
No. Active Employees	28,171	28,171	28,171	28,187	28,187
Covered Payroll	$103.965 Mill	$103.965 Mill	$113.601 Mill	$103.965 Mill	$103.965 Mill
Normal Cost	$ 5.538 Mill	$ 4.850 Mill	$ 6.068 Mill	$ 6.843 Mill	$ 7.912 Mill
Normal Cost as Percent of covered Payroll	5.33%	4.66%	5.34%	6.582%	7.61%
Reserves					
Active Employees	$ 80.606 Mill	$ 70.542 Mill	$ 85.184 Mill	Not Supplied	
All Other	30.667	30.667	30.667		
Total Reserves	$111.273 Mill	$101.209 Mill	$115.851 Mill		
Current Liabilities	.039	.039	.039		
Total Liab. & Reserv.	$111.312 Mill	$101.248 Mill	$115.890 Mill	$ 91.358 Mill	$ 89.599 Mill
Total Assets	70.652	70.652	70.652	70.652	70.652
Unfund. Accr. Liab.	**$ 40.660 Mill**	**$ 30.596 Mill**	**$ 45.238 Mill**	**$ 20.706 Mill**	**$ 18.947 Mill**
Min. Contrib. (% of Cov. Payroll)	6.50%	5.54%	6.54%	7.18%	8.16%
Amort. Contrib. (% of Cov. Pay.)	7.18%	6.05%	7.22%	7.53%	8.47%

*Normal Cost and Reserves found on basis of $4,800 salary for service to 7-1-65 and $6,000 salary thereafter.

NOTE: Unfunded accrued liability is commonly called the "deficit."

The principal members of the firm of actuaries serving the Commission are all "Fellows" or "Associates" of the Society of Actuaries. They cannot find any technical process whereby the "entry age normal" method can result in a smaller deficit than the "unit credit" method.

The SERA actuary has practiced for many years but is not a member of the "Society of Actuaries." His letterhead shows no professional affiliation.

The Commission actuary, having been ordered to perform a survey of SERA in accordance with Commission specifications, arrived at results considerably at variance with the SERA actuary. A discussion of some of these points will follow the table showing results of the actuarial surveys of SERA by the Commission actuaries and the SERA actuary.

Important Indications from Actuarial Results

The deficit of SERA was increased $10,064,000 by passage of the 1963 amendment to the benefit formula. In addition, the level "normal cost" was by the same action increased from 4.66% of payroll to 5.33% of payroll. (Compare columns I and II.)

This same increase in deficit obviously is not reflected in the SERA actuary's entry age normal cost valuation results.

This same increase in deficit obviously is not included in the SERA actuary's first submitted survey shown in the column now identified as "Present Law" "Unit Credit 3%." This is one reason that led to the discovery that this survey was not "entry age normal cost" as to method.

The SERA actuary's valuation shown in the column EANC (1937 SA, 3%) is his submitted "correction" to the "entry age normal cost" method. The fact that his finding of an $18.947 million deficit is less than his deficit of $20.706 million under his "Unit Credit" method is the fact mentioned above as being at variance with any professionally recognized technique as to the "Unit Credit" method contrasted to the "Entry Age Normal cost" method.

If the salary ceiling for pension purposes of SERA members is raised from the present $4800 per year to $6,000 per year effective July 1, 1965, the condition of the fund that will occur is shown in column III. By comparing column III with column I it is apparent that this action will require the prescribed rate of employer and employee contributions on just less than $10 million more covered payroll. The normal level cost will be relatively unchanged (increased by 1/100 of 1%). *The deficit will, however, be increased by $4.57 million.*

The main results of the first "entry age normal cost" actuarial valuations ever made of SERA may be summarized as follows:

Present deficit	$40,660,000
Total deficit if salary ceiling is raised to $6000 per year	45,238,000

Funding ratios (ratio of assets to total liabilities) are frequently used as indications of the degree of financing of a pension fund.

Funding ratios of SERA under the entry age normal surveys as shown in the foregoing tabulation are:

Funding Ratio present law (column 1)	63%
Funding Ratio under the pre-1963 law (column II)	69%
Funding Ratio if $6000 salary limit is adopted shown in column III	61%

Questions left unanswered due to previous actuarial surveys not being "entry age normal cost":

1. What was the comparable deficit of SERA as of January 1, 1958, and January 1, 1960, previously published?
2. What has the actual progress been in financing SERA since the 1957 session?

The delays, equivocations and evasions that obstructed the Commission in its search for valid information have led to two serious results.

1. Considerable extra expense was made necessary when the Commission was forced to order an actuarial survey of SERA by its own actuaries.
2. The delay caused the Commission to lose most of the time necessary to analyze the information and develop constructive recommendations for the Legislature.

This Commission has been deprived of sufficient time to develop proposals as to how to deal with the $10 million deficit from the 1963 amendment to SERA and how to deal with the $4.57 million new deficit if salary ceilings are increased at the 1965 session. In addition, proper analysis and development of a sound policy as to the surprisingly large turnover recovery in recent years should have early attention. If the legislative policy of adhering to financial soundness started in 1957 is to continue, these problems will require early analysis.

In view of the great effect of turnover assumptions on the results of actuarial valuations, **THE COMMISSION RECOMMENDS that the Legislature view the results of the 1964 survey valuation results for SERA with caution. A formal resolution was adopted: "The normal cost shown in this survey should be viewed with caution because the turnover factor used, while reflecting the recent actual experience of the Fund, is higher than might be expected over a period of years in the future."**

TEACHERS RETIREMENT ASSOCIATION

The Teachers Retirement Fund, prior to the 1957 session of the Legislature, consisted primarily of teachers' accumulated contributions plus the promise in the law that the state would biennially provide enough money on a pay as you go basis to enable payment of retirement annuities as due. No employer contributions were accumulated toward providing for anticipated retirement of active teachers.

On this minimum financing basis the tax levy for TRA provided $767,000 from taxes payable in 1957.

The 1957 session increased the tax support to $4,993,000 payable in 1958. Each succeeding session of the Legislature has further increased support until the tax levy payable in 1964 is given in the TRA financial report to be $9,520,504.59. Progress and condition of the fund will be discussed later.

TRA is essentially a "money purchase" pension system with various modifications to be described later. This means that instead of a formula relating to years of service, salary subject to pension credit, and so forth, the retirement annuity is determined by accumulating the teachers' contributions at interest, adding the prescribed state matching funds, then applying the total to an annuity table. The money purchase principle applies to both the Basic and Coordinated TRA plans.

Teachers under the Basic plan contribute 6% of not to exceed $4800 pay per year. These contributions accumulate at interest and are equally matched by the state for the purpose of providing a retirement annuity. During the years of active teaching, disability and survivors benefits are also provided. If 3% interest is credited to the accumulated deductions (1964 rate of interest 3.75%), pension annuities at age 65 after 30 years of service are for men slightly more than one-half of the average salary from which deductions were contributed, and for women on the same basis the annuities are slightly less than one-half of average salary. Higher interest credited increases the annuity provided.

The Basic plan applies only to teachers in service during 1959 who chose to remain on this plan when given the option to adopt the coordinated plan. 10,800 active teachers were on the Basic plan as of January 1, 1964.

Teachers under the Coordinated plan contribute 3% of not to exceed $4800 pay per year. In addition, these teachers also contribute to and are covered by Social Security (OASDI). TRA accumulated contributions are matched equally to determine retirement annuity and, in addition, the state pays the employer Social Security tax through the machinery of TRA. The coordinated plan now costs more than the basic plan to both teacher and the state as follows:

TRA contribution—3% of pay up to $4800 per year

OASDI tax—3 5/8% of pay up to $4800 per year

Total yearly cost—6 5/8% of pay up to $4800 per year

The OASDI tax is scheduled to increase to 4 1/8% in 1966 and again to 4 5/8% in 1968 and thereafter.

Coordinated retirement benefits, TRA plus OASDI, will, on the present basis, exceed the retirement benefits of the basic plan at most lengths of service.

The coordinated plan applies to those teachers in service during 1959 who chose this plan plus teachers entering service or returning after a break in service since 1959. 22,586 active teachers were on the coordinated plan as of January 1, 1964.

TRA Benefits

TRA pays benefits considerably in excess of those that would be provided if the pension law adhered strictly to the principle on which it is based. This principle is that the state will equally match the teachers' accumulated deductions to provide an annuity twice the size that the teachers' money, plus interest, would buy.

The complaint that even after many years of service some teachers retirement annuities are small is the result of several causes.

> Long tenure teachers retiring now often have a number of years of service when salaries were very small as compared to present standards.
>
> Membership in TRA was optional so that many teachers did not make contributions for all of their service. Many have also not availed themselves of the opportunities to make up contributions not made concurrent with service.
>
> From the beginning in 1931 to 1951 TRA contributions were limited to 5% of not to exceed $2,000 of pay per year.
>
> In 1951 the contribution rate of 5% was allowed on pay up to $3500 per year.
>
> In 1953 the rate of contribution was finally raised to 6% of pay on not to exceed $3600 per year.
>
> The present basis of contribution on up to $4800 per year of salary was not adopted until 1955.

The TRA board prior to 1957 attempted to compensate for the limitations on the amount of contribution a teacher could accumulate by using an annuity table so unrealistic that after the state matched the teachers accumulated contributions the size of the annuity would cause a deficit equal to 60% of the state's contribution. For TRA to make good on these annuities the state has to contribute $1.60 for each teacher's $1.00.

The 1957 session of the Legislature required that for service thereafter TRA use an accurate annuity table. The use of the old annuity table as to contributions accumulated to 1957 was continued in consideration of the limitations on teachers' opportunity to build pensions during earlier years.

The 1959 session provided as to teachers electing to remain on the Basic plan for the state to still further increase pensions for pre-1957 service by adding an additional 50% matching of the teachers' accumulated deductions as of June 30, 1957.

Under the Basic plan and for accumulated contributions as to service prior to June 30, 1957, the state provides $2.10 of matching money for each teacher's dollar, or $3.10 worth of pension per teacher's dollar.

This supplemental pension enacted in 1959 (additional 50% matching) was estimated by the actuary to have a value of $9,900,000, including the 25% matching provided as to pre-1957 service for teachers under the coordinated plan.

The 1959 session substantially improved retirement benefits for a considerable number of teachers when it enabled each teacher in service at that time to choose coordination of TRA and OASDI (Social Security) or to continue on the Basic plan.

Those teachers selecting coordination came under OASDI retroactively through 1956, giving them maximum coverage commensuate with actual salary up to the Social Security limit. This substantially increased retirement income for a number of teachers. Coordination was especially beneficial to:

> Teachers with relatively few years of service who thus acquired full coverage under OASDI.
>
> Teachers with many years of service who had stayed out of TRA until recent years.
>
> Teachers who had small accumulated deductions because many years of small salary as a basis for deductions.
>
> Teachers with a dependent spouse who would receive OASDI benefits without reducing the teacher's pension.

The improvement in teachers retirement benefits provided by the last five sessions of the Legislature is, to say the least, substantial. This Commission in this report will propose additional improvement.

TRA Financial

The three actuarial surveys of the Teachers Retirement Fund disclose considerable improvement in the financial condition of the fund and provided justification for the Commission proposal for an increase in retirement annuities. The three surveys show the condition of the fund as of January 1, 1958, June 30, 1959, and January 1, 1964. The detail material in the surveys has been and will be essential to future study and analysis of the fund, but a summary of balance sheet footings by the Commission actuary shows the progress of the fund.

Comparison of Balance Sheet Footings from Actuarial Surveys
(Amounts in Millions of Dollars)

	Actuarial Survey as of: Jan. 1, 1958	June 30, 1959	Jan. 1, 1964
Total Liability	$111.1	$117.0	$138.9
Assets	38.7	56.7	102.8
Unfunded Accrued Liability	$ 72.4	$ 60.3	$ 36.1

The unfunded accrued liability, commonly referred to as the "deficit," has been decreased since June 30, 1959, principally by two significant factors.

1. As of June 30, 1959, 6,823, or 28% of the active teachers were on the coordinated plan, whereas on January 1, 1964, 22,586, or 68% of the active teachers were on the coordinated plan. TRA active membership had increased by 8,706 teachers, but the actual number of active teachers on the basic plan had decreased by 7,057. Each teacher changing from the basic to the coordinated plan reduced the liability of TRA and in effect transferred the liability to Social Security. The state also acquires future liability for increased employer social security taxes.
2. The turnover gain (employers matching contributions released by teacher withdrawals) has considerably exceeded the cost of survivors and disability benefits.

The Funding Ratios (ratios of assets to total liabilities) shown by the three actuarial surveys is a further measure of the progress in recent years toward funding of TRA.

SURVEY	FUNDING RATIO
Jan. 1, 1958	35%
June 30, 1959	48%
Jan. 1, 1964	74%

Full funding of the pension liabilities of this fund can only be attained if currently accruing liabilities are financed as they accrue and, in addition, the already accrued unfunded liability (deficit) is also paid into the fund.

The 1957 session of the Legislature strongly recommended that all then existing deficits be financed so as to be eliminated not later than 1997.

To amortize the $36.1 million TRA deficit by 1997, assuming a long range average interest return of 3%, will require amortization payments of $1,707,000, or approximately 1.2% per year of the $145,012,000 present annual participating teacher payroll for TRA members. This annual amount would be in addition to the states equal matching of teachers deductions.

If the Legislature should enact the recommendation of this Commission to increase the employer matching of each teacher's dollar of accumulated deductions from $1.00 to $1.20 for each teacher dollar, the above cited conditions of the Teachers Retirement Fund will be changed approximately as follows:

Total liability will become	$147.3 million
Total assets will remain	102.8 million
Unfunded accrued liability will become	$ 44.5 million

The above cited Funding Ratio will decrease to 70%.

To amortize the $44.5 million deficit by 1997 will require $2.1 million per year, which is approximately 1.5% of the covered payroll.

Present law provides for financing of the deficit at the following rates:

On the $97.3 million coordinated plan payroll, 1.5% of pay.

On the $47.8 million of basic plan payroll, 1.0% of pay.

This rate of financing is not sufficient when applied to present covered payroll to amortize the larger deficit by 1997, but if the other Commission recommendation to increase the salary ceiling to $6,000 per year is adopted and these rates of financing are applied to the larger covered payroll, the increased financing is almost equal to the amount required.

Increasing to $6000 per year the salary limit for pension purposes will not increase the deficit of TRA, but employee contributions will be increased approximately $970,000 per year. Employer contributions will be increased approximately $1,280,000 per year.

The effect of following the Commission's recommendation as to $1.20 employer "matching" contribution for every $1.00 of employee contribution at retirement will, of course, have the effect of increasing the Normal Cost of the TRA plan because the benefits paid will be higher. The effect of the proposal is to increase the total approximate Normal Cost to the total *contribution* rates (12% for the basic plan and 6% for the coordinated plan, shared equally by employer and employee in both cases). Stated in another way, the employees will gain from turnover in the future rather than having the turnover gains revert to the employer and thereby reduce his costs as is now the case under present law.

Problems Caused by Pension Proposals

This Commission in April 1964 made the following important requests of the Teachers Retirement Fund Board, of the Minnesota Education Association and of the Minnesota Federation of Teachers:

1. All proposed legislation should be submitted for study as early as possible.
2. No proposals for legislation should be submitted later than September 1, 1964, or there would not be adequate time for study any analysis.
3. All such proposals that would involve changes in benefits affecting costs should be accompanied by an actuarial analysis of all costs involved.

At the August 21 meeting of the Commission the TRA Board submitted a set of sweeping proposals seeking to change TRA from a "money purchase" pension system to a "formula" system, using the formula of SERA for teachers under coordination and the PERA formula for teachers under the Basic plan.

The changes sought were so complete and far-reaching that the actuarial survey of TRA as now constituted would be of virtually no value toward determining the condition of the fund and esential costs in case the proposals were adopted.

The TRA Board stated they did not feel justified in expending the money to finance a complete new actuarial survey for these proposals.

Without a complete actuarial survey, neither the Legislature nor anyone else could expect to even come close to an accurate estimate of the costs, financing required, or initial deficit of the proposed new TRA system.

The Commission deemed an actuarial survey so essential to legislative consideration of the requested sweeping change in TRA that it ordered such a survey at Commission expense.

In January, 1965, after the Legislature was in session, TRA submitted a new formula proposal completely different from the first proposal.

This rendered irrelevant the nearly completed Commission ordered actuarial survey of the first formula proposal.

> The newer proposed formula is markedly different from the first proposal and obviously would be more costly to support.
>
> It will be impossible for the Legislature at this session to have available reliable knowledge of vital questions concerning the new proposal.

This Commission strongly urges the Legislature not to adopt sweeping changes in TRA or any other pension fund until it is in possession of authoritative information as to the initial deficit that would be caused by the change, the annual financing that would be required in the future, a thorough analysis of whether the change would be equitable as to all members of the fund and whether other side effects would result from the proposed change.

The Commission recommends that the question of changing TRA to a formula pension system be thoroughly studied by an interim commission during the next biennium.

The Commission proposes two measures designed to increase the benefits of TRA.

Commission Proposals for TRA

The Commission proposals are designed to increase retirement benefits under the present "money purchase" pension system. Therefore, they can be related to the actuarial survey of the present system. Teachers who are familiar with the present system should find the proposals easy to understand.

For the service prior to June 30, 1957, TRA retirement annuities are substantially larger than employer matching of the teachers' contributions would provide. This is shown in the preceding section on "TRA Benefits."

The actuarial survey of TRA shows that on the basis of current experience the turnover gain (employers contributions released by teacher withdrawals) will be sufficient to finance a provision as to service after July 1, 1957, and that for the purpose of determining retirement annuities the state will provide $1.20 for each teacher's $1.00 instead of the equal matching presently provided.

Significant features of this proposal are:

1. Even though continuing the "money purchase" principle the turnover gain would

be used to increase benefits as in the case with the SERA, PERA formulas.

2. The flat rate guarantee of increased matching would be certain and would not fluctuate due to changing turnover experience.
3. This would continue the advantage of the money purchase system whereby TRA interest earning above the guaranteed rate is credited to each member's retirement account, thus increasing the annuities. For instance, in 1964 3.75% interest was so credited.
4. The separate annuity rates for each sex are retained.

The Commission recommends on retirement each teachers accumulated deductions, including interest credited due to service after July 1, 1957, be augmented by 120% for the purpose of determining the total retirement annuity.

Teachers organizations and the TRA board have requested that the maximum salary from which pension deductions are made and pension credit earned be raised beyond the present $4800 per year limit. This is discussed as to all funds in a section of this report on "Salary Ceilings for Pension Purposes." Pursuant to that discussion

The Commission recommends that as to TRA members deductions for pension purposes at the present rate be made from all salary up to a maximum of $6000 per year commencing on July 1, 1965.

PUBLIC EMPLOYEES RETIREMENT ASSOCIATION

The 1957 and 1959 sessions of the legislature saved PERA from financial disaster, vastly improved its financing, provided a more rounded benefit program at a normal level cost basis of 12.2% of pay which was substantially equal to the 6% employer plus 6% employee contributions provided for by the 1957 session.

The first public retirement study commission which reported to the 1957 session of the legislature, found the 24 year old PERA to be on the verge of acute financial trouble.

No actuarial survey was available. Statistical data and records were inadequate to enable a survey.

Employees contributed 4% on pay up to $4800 per year. Employers contributed nothing.

PERA, although 24 years old, was in effect a very young pension fund since it had only 8,971 members in 1947 and therefore most of its growth was recent.

As of June 30, 1956, PERA had:

36,470 active members
1,420 retired annuitants
Total assets were $18,574,127.89
Members accumulated deductions equaled $18,198,574.24

To pay pensions to the 1,420 annuitants and cover the accrued pension liabilities of the 36,470 active members, PERA had total assets above employees accumulated deductions of only $364,721.57. It was obvious that within a year or two PERA would not be able to disburse annuities to retired persons without appropriating the accumulated deductions of active members.

The PERA annual report one year later as of June 30, 1957, shows that if the legislature had not acted at the 1957 session, some accumulated deductions of active members would have had to be used to pay the annuities disbursed in the year July 1, 1956, to June 30, 1957.

The 1957 session provided support to PERA as follows:

Employee contributions beginning July 1, 1957, were raised to 6% from the previous 4%. Employers contributions at 4% of pay were required to apply retroactively to the year from July 1, 1956, to June 30, 1957. The 1957 report shows that this retroactive employer contribution made possible, in the June 30, 1957 report, to include a receivable item for employers contributions of $3,935,800.65. Had it not been for this receivable item to be subsequently collected through tax levy payable by December, 1958, the PERA financial statement would have had to show $61,749.10 less assets than the total amount of members accumulated deductions plus other minor liabilities.

During this first interim (1955-57) PERA provided the first actuarial survey of its fund. This showed the unfunded liability (deficit) of PERA amounted to $128.1 million. This revealed that PERA was accumulating liabilities at the rate of 14% of employee pay per year in accordance with its benefit plan on a level normal cost basis, while total financing as heretofore mentioned was at the rate of 4% per year.

The 1957 and 1959 sessions took a number of steps that considerably improved the financial condition of PERA:

Employee deductions were increased to 6%

Employer financing instituted at a 4% rate for the year ending June 30, 1957, was increased to 5%, the following year 6% for the year ending June 30, 1959, and continuing thereafter for subsequent years at 6% of pay for normal support.

An additional 2½% of pay employer contributions toward financing the deficit was added for each year commencing July 1, 1959.

"Bargain provisions" whereby some members of PERA received benefits out of proportion to other members and out of proportion to employee contributions were discontinued as a part of the plan, thus reducing the normal level cost.

A savings clause was added by the 1957 session, which increased the deficit of PERA and was estimated by the actuary to cost approximately $13½ million on a capitalized basis.

The actuarial survey of PERA as of January 1, 1958, ordered by the 1957 Legislature was the only survey of PERA showing the condition of the fund after the 1957 session instituted the level of financing just described. A 1964 survey in the light of more experience and better records was essential to learn the progress of the fund.

The chapter of this report on the "Funds' Difficulties With Actuaries" describes the specifications set forth and the experiences encountered following the Commission request for an actuarial survey from each pension fund under study.

PERA Actuarial Problem

PERA engaged the same actuary as SERA had been retaining for years. The Commission's experience as to PERA was similar to that with SERA.

The actuarial survey was delivered to the Commission on August 11, 1964, instead of June 1, 1964. This survey, like the SERA survey delivered earlier, was not in compliance with the Commission's specifications in several respects.

Contrary to specifications, the survey was prepared using the "unit credit" method rather than the "entry age normal cost" method.

There were no findings as to the PERA Police and Fire Fund.

The effect of violating instructions was to make it impossible for the Commission and the Legislature to make valid comparisons with the previous survey (as of January 1, 1958) and thus measure the progress or lack of progress in the financing of the fund.

An unsatisfastory "correction" to the "entry age normal cost" method was delivered to the Commission in mid-October.

This "correction," like the similar "correction" as to SERA, shows a $10 million smaller deficit than the "unit credit" survey first delivered. As explained in the SERA chapter, none of the highly qualified members of the firm of actuaries serving the Commission can find any technical process whereby the "entry age normal cost" method can result in a smaller deficit than the "unit credit" method, *provided that* the same assumptions are used as to future experience. Obviously, without the same assumptions, the comparability of results of two simultaneous actuarial valuations loses validity.

The Commission, as in the case of SERA, found it necessary to order its own actuary to make a survey of PERA in accordance with specifications. It took so long for PERA to supply the actuary with all of the essential data needed and for proper analysis thereof that this report could not be completed until March 12, 1965—two months after this report should have been completed.

Fortunately, in the case of PERA, the January 1, 1958, survey was in accordance with the "entry age normal cost" method so that, unlike SERA, there is a valid basis for comparison of the two surveys.

Actuarial Survey Balance Sheet Totals—PERA

Commission Actuary 1963—and 1958 Survey of PERA

Balance Sheet Totals	As of June 30, 1963 Commission Actuary	As of January 1, 1958
Total Required Reserves (Net pension liabilities)	$204.5 million	$161.6 million
Present Assets	$100.2 million	$ 26.1 million
Unfunded Accrued Liabilities (Deficit)	$104.3 million	$135.5 million

The funding ratio of Assets to Reserves and Liabilities is often cited as to pension funds.

Pera funding ratio as of January 1, 1958, was 16%

PERA funding ratio as of June 30, 1963, was 49%

Neither the Commission actuary or the PERA actuary included the PERA Police and Fire Fund in their computations. Both actuaries reported that PERA was unable to furnish the necessary data as to members of this fund in time for adequate analysis.

The $31.2 million reduction in the PERA deficit between January 1, 1958, and June 30, 1963, indicates improvement in the financial condition of the fund far in excess of previous expectations. Many factors have contributed to this result, some recurring and perhaps some nonrecurring. A careful analysis in the next interim is clearly indicated.

Additional significant items from the current survey are:

Normal level cost is found to be 9.4% of the covered payroll, now $139 million per year.

On this $139 million payroll it will, at 3% interest, require 3.5% of pay per year to amortize the $104.3 million deficit by 1997, the date set in 1957 for paying off the deficit.

If the present rate of financing—6% employee plus 6% of employer plus 2½% additional employer (total 14½%) contributions is continued, the deficit can be amortized in approximately twenty yaers.

The above results can be expected if there are no significant changes in pension costs or in factors such as turnover gain, interest return on investments or other factors.

As was noted in the case of SERA, the results of the PERA valuation should be viewed with caution since the assumed turnover rates are based on recent experience which may be higher than can be expected over a period of years in the future.

PERA LEGISLATIVE REQUESTS

PERA has recurrently sought the extension of the "savings clause" to more of its members. This clause, adopted in 1957 when the PERA benefit formula was changed by certain additions and reductions, provides that any member of PERA with ten or more years service on June 30, 1957, may, when he retires, elect to have his benefits computed in accordance with the benefit schedule in effect before that date, rather than the current schedule.

PERA sought to have this clause amended so as to cover all members of the fund as of June 30, 1957. This would extend this clause to 14,249 additional members at an estimated increase in the PERA deficit of $40.8 million.

The Commission considered the fact that membership in PERA had not been made mandatory until after the 1951 session of the Legislature so that presumably most members of the fund that joined before that date had voluntarily sought to plan for their retirement.

The Commission actuary has estimated, from the preliminary results of his valuation of PERA, that if the savings clause were extended to offer the option to all members who had five or more years of service on June 30, 1957, such extension would apply to 5,488 additional persons and would increase the PERA deficit by approximately $15.7 million.

THE COMMISSION RECOMMENDS That the savings clause of PERA be modified to apply to all members who had five or more years of service on June 30, 1957, and that any retired former member who would have been eligible to the extended option, had it been available on his retirement, should have the right to have his retirement benefits recomputed in accordance with the extended savings clause.

The Commission considered the PERA request for extension of buy-back privileges permitting members to purchase credit for service prior to becoming members of the fund. A limited degree of such buy-back was deemed to be of value in remedying some injustices that have occurred.

THEREFORE, THE COMMISSION RECOMMENDS That a "buy-back" privilege be extended solely to persons who have been deprived of some period of membership in PERA as the result of action or inaction on the part of an employer. Such buy-back shall be on the basis of 6% employee contributions plus 6% employer contributions plus 4% interest per year from the time such contributions should have been made to the date of remittance to PERA.

Increase in Salary Limit For Pension Purposes

Another chapter of this report discussed the reasons why there should be an increase in the limit on salaries from which pension deductions and benefit credit are permitted. PERA records do not include data as to total salaries but only those amounts subject to pension credit. It is necessary, therefore, to estimate from some very limited samples as to the probable results of an increase in the salary limit to $6000 per year.

Total PERA membership as of June 30, 1963, amounted to 42,013 persons, including 40,416 regular members and 1,597 members of the Fire and Police Fund.

On the present $4800 per year limit

Total covered payroll	$141,000,000
Total employer contributions	11,710,000
Total employee contributions	8,460,000

Estimated increases if salary limit is raised to $6,000:

Estimated increase in covered payroll	$8,200,000
Estimated increase in employer contributions	710,000
Estimated increase in employee contributions	490,000

The increase in the deficit that will result from the proposed increase in salary limit cannot be accurately measured as was the case with SERA. The deficit will increase, however, in the same manner as for SERA.

If an increase in salary limit is adopted, it would be important that there be an actuarial measurement in the following biennium as soon as the new data becomes available.

THE COMMISSION RECOMMENDS That for PERA the salary limit for pension purposes be increased from $4800 per year to $6000 per year, effective July 1, 1965, and applicable only to service thereafter.

PERA Collection of Employer Contributions

Prior to July 1, 1957, there were no employer contributions payable to PERA. When the 1957 sessions of the legislature provided for employer contributions to commence for employee service beginning with July 1, 1956, they did so for the reason that PERA was at the point of being unable to actually disburse the year's annuities to retired persons unless active employees' accumulated deductions were diverted to this purpose. Thus, if the legislature had provided for employers' contributions to be credited to occruing service after July 1, 1957, PERA would not have been able to show the first year of employers' contributions as a receivable asset in its 1957 statement. *Had the provision been to credit the employer money to current service after July 1, 1957, but on certification of estimated future needs, there would have been no difference in the dates of actual receipt of the money by PERA.* The final receipt of tax levy certified in 1957 would have been December, 1958, exactly the same as did occur when the employers' contributions were credited to the earlier year. This process of delayed employer receipts continues and is one of the causes for the confusion of PERA collections.

As of June 30, 1964, there were 1,445 governmental units with employee members of PERA. PERA advises that as of December 28, 1964:

a) 114 of these units are paying their employer contributions currently with employee service.

b) 701 governmental units have paid their employer contributions upon certification for tax levy, making the levy unnecessary. This means those 701 units have paid approximately three months after the entire year of employee service involved, but 14 months earlier than they would be required to remit if they had used the levy method instead of payment.

c) This leaves approximately 630 governmental units where the remittance will ultimately reach PERA through receipts of tax levy a year and 3 months after certification and 18 months after the end of the year of service.

The significance as to each of these three groups can be demonstrated by showing when each group will pay the employers' contribution for the month of July, 1964. *No employer contributions for service in this month will actually be delinquent until after December, 1966:*

a) The 114 units of government that remitted in August, 1964,—2 years and 4 months before they would be considered delinquent—will thus have lost 28 months of interest they could earn on this money.

b) The 701 units will pay for July, 1964, service in September, 1965, on certification for levy. This is 1 year and 2 months after the service. This group will lose 15 months interest on their employer contributions if held until the due date.

c) The 630 units will remit in December, 1966, 28 months after July, 1964, but will be on time and will not have lost any possible interest.

The collective result of the PERA collection system accounts for the fact that the PERA statement as of June 30, 1964, includes as assets $8,636,084.41 of employer contributions receivable chargeable to the year ending June 30, 1963, and includes as a further asset $12,163,776.44 receivable and chargeable to the year ending June 30, 1964.

These figures show that 2/3 of PERA employer contributions in amount of money are not paid currently as in a) above or on certification as in b) above but are remitted as in c) above after the full delay of the present tax collection system.

So long as the present collection method continues, PERA financial statements will show a considerable receivable asset which will be of no practical value to the fund for the purposes of investment and interest earnings.

The coordination of PERA and OASDI enacted for the hospitals under Chapter 793, Laws of 1963, further illustrated the confused situation. PERA had to advance for each hospital employers' Social Security taxes retroactive for one year upon coordination in 1963 and the first half of 1964. The tax levy process will not repay PERA for over a year. Much of this confusion would have been eliminated had Chapter 744, Laws of 1961, enacted at the regular session, not been repealed by Chapter 50 of the Extra Session, Laws of 1961.

The interim commission reporting to the 1961 legislature, pp. 90 to 94, set forth reasons for a system providing that employer contributions under PERA would be remitted concurrently with employee contributions which are remitted after each month of service. The Minnesota League of Municipalities has submitted to this Commission a proposed bill substantially in accordance with Chapter 744, Laws of 1961. This bill, or one substantially in accordance with Chapter 744, Laws of 1961. This bill, or one substantially similar, if enacted, would place all employer contributions on a current basis as of January 1, 1966. The following attributes of such an action should be noted:

All contributions not remitted within fifteen days after each month of service would incur an interest penalty at the rate of 6% per year.

All employer contributions covering service under PERA up through June 30, 1964, have presumably already been covered by tax levy payable in 1965, and would be received by PERA through December, 1965, exactly as scheduled at present. No employing subdivision under PERA would be liable for employer contributions to PERA due to the period from July 1, 1964, through December 31, 1965. Each subdivision would be required, in October, 1965, to levy or otherwise provide for estimated employer contributions payable monthly on a current basis for the entire year 1966. Thus, no subdivision using the tax levy method of meeting PERA contributions would miss any levy, the only difference being that 1966 and subsequent service would have been provided for in advance of the service.

The financial effect on those subdivisions that have been paying PERA earlier than necessary and without resort to tax levy will be as follows, referring to groups a) and b) previously described:

a) Those units that have been paying employer contributions currently with employee service (114 units on December 28, 1964) will, on January 1, 1966, have with PERA a credit toward future service of the amount paid for service from July 1, 1964, to December 31, 1965.

b) Those units not paying PERA currently but on certification after the entire year of service would find in the fall of 1965 that instead of paying PERA for the past year, the amount of money involved would be on hand to start paying PERA currently with service beginning January 1, 1966.

The effects on PERA would be:

The financial statement of June 30, 1965, would not show as an asset something over $12 million of receivable contributions still payable 17 months after the date of the statement.

The financial statement of June 30, 1966, would show 6 months of employer contributions actually received in that year. This statement would not show receivable items that were not currently payable to PERA. Overdue payables would be accumulating interest.

By June 30, 1966, the assets in hand of PERA would actually be larger by nearly one-half years employer contributions than would be the case under the present system. The levy placed in 1965 that would not reach PERA until December, 1966, would instead start flowing into PERA in January, 1966.

Thus, the only adverse result to PERA would be that its financial statement on surface appearance would be deprived of a receivable item of over a year before the item would be collected.

In case of further coordination of PERA and OASDI, PERA from a cash position would be adversely affected only by the disbursements of employers' taxes to OASDI from the small proportion of its 1445 governmental units that have been paying on a current basis.

The proposed provision that PERA would be entitled to 6% interest on all funds not remitted on time and currently would not only be of financial value to PERA but would probably remedy most of the collection problems of PERA that might remain after the establishment of a current employer contribution basis for the fund.

The Commission recommends that:

Beginning on January 1, 1966, each employer subdivision should be required to remit the employer contributions due to PERA monthly along with the presently required monthly remittances of employee deductions from pay. It should be further provided that any employee or employer contribution not so remitted within the presently allowed 15-day grace period provided for remittances of employee contributions should be considered overdue, with a requirement that subsequent remittances should include 6% interest from the date remittance was due to the date remittance was actually made, and that interest on both employer and employee overdue contributions shall be an obligation of the employer. Any remittance due PERA that is six months or more overdue shall be deemed delinquent. PERA administration should so notify any such subdivision that has become delinquent. At the end of each fiscal year PERA should give final notice by mail to any subdivisions that may be delinquent as to remittances to PERA. Thirty days after the mailing of final notice to any delinquent subdivision, but not later than September 30 of each year, PERA should certify to the appropriate county auditor, or, if appropriate, to the State Auditor, the total amount due from any subdivision that is delinquent. The county auditor should make appropriate provision for including in the tax levies applied to property in the jurisdiction of such delinquent subdivision a tax levy which will be adequate to cover the delinquent amount certified by PERA plus 6% interest to the estimated date of remittance to PERA plus such estimated levy in excess of the amount thus determined as may be necessary to provide actual tax receipts equal to the total amount due PERA. The county auditor, upon collection of the amount due to PERA as described above, shall remit directly to PERA the amount due and shall apply any balance that may exist toward additional delinquencies from the same subdivisions as may have been certified by PERA; or if there be no such certification, shall remit the balance to the political subdivision with the provision that such funds may only be expended toward current or overdue contributions to PERA.

Any employee contributions that have not been remitted upon the effective date of the act shall be added to the employee contributions next due and be subject to all of the provisions regarding such contributions.

Any amount paid to the association by an employer for contributions on salaries paid to its public employees between July

1, 1964, and December 31, 1965, shall be credited to the employer's account for its contributions payable on salaries paid after December 31, 1965.

Any amount due to the association by an employer for contributions on salaries paid to its employees prior to July 1, 1964, shall be due and payable along with the employer's first monthly contribution after December 31, 1965, and shall be subject to all other provisions of the act in the same manner as said monthly contribution. Nothing in the act shall be construed as waiving any amount due the association except as expressly provided herein.

Any time after the first day of the year following the making of the tax levy provided for, the governing body of any subdivision may issue certificates of indebtedness in anticipation of the collection of the tax thus levied. Such certificates shall be payable no later than the first day of January of the year following the year of issuance. The total amount of such certificates, with interest thereupon until maturity, shall not exceed the amount of the levy thus anticipated.

PERA AND COORDINATION WITH SOCIAL SECURITY

Whether or not PERA should be coordinated with Social Security has been a matter of controversy within the Interim Commission.

A majority of the members of this Commission are of the opinion that subject to proper provisions, PERA and Social Security should be coordinated. They offer the following specifications and reasons for this conclusion.

The "split system" of coordinaiton, allowing each present PERA member to remain on the present "basic" system or to choose as an individual option to coordinate, is the only basis acceptable. This is identical with the TRA coordination option extended to teachers in 1959.

The coordination option should be extended to all of the PERA membership eligible for Social Security. Various proposals that local subdivisions be allowed to decide whether or not their employees be extended the privilege of selecting coordination would cause such administrative confusion and controversy that this procedure should not be considered. This is accented by the fact that such confusion would continue many years into the future. The Commission unanimously rejected subdivision autonomy.

One thing appears especially clear; the question of coordination should be settled at the 1965 session. The proportion of PERA members who would benefit by selecting coordination will diminish with the passage of time.

Social Security limits retroactive coverage so as not to exceed six years, yet average earnings are in effect determined on covered earnings back to January 1, 1956. Hence, average Social Security benefits will diminish for each additional year that coordination is delayed.

In spite of the fact that coordination would have been more favorable to large numbers of PERA employees in 1961 or 1963 than at the present time, a majority of the members will still benefit by the Social Security option if six years retroactivity is provided.

a. Employees with less than ten years service at retirement age will receive OASDI benefits even though not eligible to PERA benefits.
b. The coordinated total income of OASDI plus PERA reduced benefits will at any period of service exceed the PERA basic level of benefits.
c. Many employees whose PERA basic benefits equal or exceed the coordinated total as to themselves alone will find that the family total of OASDI benefits will make coordination advantageous.

The importance of point a) above is demonstrated by the fact that PERA has repeatedly sought legislation to provide minimum pensions at employer expense for employees with from five to ten years of service. Such proposals have all called for more than a pro rata benefit of the

PERA regular pension on ten years of service. If coordination is adopted, the need for such requests will disappear.

The very considerable number of PERA members who enter public employment relatively late in their employed life and those who move back and forth between public and private employment will with very few exceptions be benefitted by coordination. Such persons will maintain their Social Security credit as to level of benefits rather than have their level of benefits reduced by periods of non-coverage under Social Security as is the present case with PERA members. The actuarial survey of PERA found a very considerable turnover rate of membership illustrating the sizeable proportion of short term employees under that fund.

Individual option coordination would preserve for each PERA member his right to continue on the present basis without coordination. Such persons in most instances will be persons covered by the "Savings Clause" who in many instances will receive benefits in excess of the present "basic" PERA formula. New employees, all of whom would have to be under coordination, are not eligible to the savings clause and could not suffer.

Financilly, PERA and the governmnetal subdivisions who are financing the deficit of PERA would benefit financially, at least for many years, from coordination which would reduce the deficit of the fund as to each member selecting coordination. The presently scheduled employer taxes for OASDI are higher than the proposed 3% of pay reduction in employer contributions to PERA, but the lessening of the deficit will reduce either the amount of or the duration of the present extra employer contributions toward financing of the deficit.

The fact that Social Security now covers most of the employed people in the United States is not the least important reason that coordination should be adopted for PERA. Over seventy-five million employed persons, including self-employed people, are now under Social Security. With SERA and TRA coordinated, PERA is the only statewide governmental pension fund that is eligible but has not been coordinated. Nearly every new public employee now and in the future will already have Social Security credit. The trend in recent years has been to extend Social Security to more and more groups. We have been unable to learn of any reversals of this trend.

The following tables prepared and circulated by the League of Minnesota Municipalities are designed to give illustrations of comparative benefits under PERA as presently constituted and as the combined benefits would be under the proposal for coordination:

Salary: $300 Per Month

		PERA Only		PERA-OASDI		
Years in PERA	Retirement Date	Basic	Savings Clause	Single*	Husband Wife*	Maximum Family
Less than 10**	1/1/66	$ 0.00	N.A.	$ 80.00	$120.00	$146.40
	1/1/68	0.00	N.A.	84.00	126.00	161.60
	1/1/72	0.00	N.A.	89.00	133.50	180.00
	ultimate	0.00	—	105.00	157.50	240.00
10	1/1/66	$ 30.00	N.A.	$ 98.75	$138.75	$165.15
	1/1/68	30.00	N.A.	102.75	144.75	180.35
	1/1/72	30.00	N.A.	107.75	152.25	198.75
	1/1/76	30.00	N.A.	111.75	158.25	213.95
	ultimate	30.00	—	123.75	176.25	258.75
20	1/1/66	$ 90.00	$150.00	$125.00	$165.00	$191.40
	1/1/68	90.00	N.A.	129.00	171.00	206.60
	1/1/72	90.00	N.A.	134.00	178.50	225.00
	1/1/76	90.00	N.A.	138.00	184.00	240.20
	ultimate	90.00	—	150.00	202.50	285.00

25	1/1/66	$127.50	$157.50	$149.90	$189.90	$216.30
	1/1/68	127.50	157.50	153.90	195.90	231.50
	1/1/72	127.50	157.50	158.90	203.40	249.90
	1/1/76	127.50	N.A.	162.90	209.40	265.10
	ultimate	127.50	—	174.90	227.40	309.90
30	1/1/66	$165.00	$165.00	$174.80	$214.80	$241.20
	1/1/68	165.00	165.00	178.80	220.80	256.40
	1/1/72	165.00	165.00	183.80	228.30	274.80
	1/1/76	165.00	165.00	187.80	234.30	290.00
	1/1/96	165.00	N.A.	193.80	243.30	312.40
	ultimate	165.00	—	199.80	262.30	334.80
35	1/1/66	$210.00	$172.50	$201.05	$241.05	$267.45
	1/1/68	210.00	172.50	205.05	247.05	382.65
	1/1/72	210.00	172.50	210.05	255.55	301.05
	1/1/76	210.00	172.50	214.05	261.55	316.25
	1/1/96	210.00	N.A.	220.05	270.55	339.65
	ultimate	210.00	—	226.05	279.55	361.05

*At age 65. **No PERA annuity. Accumulated contributions refunded without interest.

Salary: $400 Per Month

		PERA Only		PERA-OASDI		
Years in PERA	Retirement Date	Basic	Savings Clause	Single*	Husband Wife*	Maximum Family
Less than 10**	1/1/66	$ 0.00	N.A.	$ 93.00	$139.50	$195.20
	1/1/68	0.00	N.A.	98.00	147.00	213.60
	1/1/72	0.00	N.A.	105.00	157.50	240.00
	ultimate	0.00	—			
10	1/1/66	$ 40.00	N.A.	$118.00	$164.50	$220.20
	1/1/68	40.00	N.A.	123.00	172.00	238.60
	1/1/72	40.00	N.A.	130.00	182.50	265.00
	1/1/76	40.00	N.A.	135.00	190.00	279.00
	ultimate	40.00	N.A.	152.00	215.50	279.00
20	1/1/66	$120.00	$200.00	$153.00	$199.50	$255.20
	1/1/68	120.00	N.A.	158.00	207.00	273.60
	1/1/72	120.00	N.A.	165.00	217.50	300.00
	1/1/76	120.00	N.A.	170.00	225.00	314.00
	ultimate	120.00	—	187.00	250.50	314.00
25	1/1/66	$170.00	$210.00	$186.20	$232.70	$288.40
	1/1/68	170.00	210.00	191.20	240.20	306.80
	1/1/72	170.00	210.00	198.20	250.70	333.20
	1/1/76	170.00	N.A.	203.20	258.20	347.20
	ultimate	170.00	—	220.20	283.70	347.20
30	1/1/66	$220.00	$220.00	$219.40	$265.90	$321.60
	1/1/68	220.00	220.00	224.40	273.40	340.00
	1/1/72	220.00	220.00	231.40	283.90	366.40
	1/1/76	220.00	220.00	236.40	291.40	380.40
	1/1/96	220.00	N.A.	244.40	303.40	380.40
	ultimate	220.00	—	253.40	316.90	380.40

35	1/1/66	$280.00	$230.00	$254.40	$300.90	$356.60
	1/1/68	280.00	230.00	259.40	308.40	375.00
	1/1/72	280.00	230.00	266.40	318.90	401.40
	1/1/76	280.00	230.00	271.40	326.40	415.40
	1/1/96	280.00	230.00	279.40	338.40	415.40
	ultimate	280.00	230.00	288.40	315.90	415.40

*At age 65. **No PERA annuity. Accumulated contributions refunded without interest.

N.A. Savings clause protection not available. Savings clause is available only to those PERA members having 10 years allowable service prior to July 1, 1957.

Ultimate—Benefits available to new employees coming under PERA coverage. Also to old PERA members with outside coverage

A MAJORITY OF THE COMMISSION RECOMMENDS Coordination of PERA and Social Security in conformance with the specifications of previous interim Commissions as to specific provisions and in addition recommends the individual option should be extended to each eligible member on the maximum retroactivity basis of six years.

If enacted, provision should be made for PERA current income to be kept liquid by investment in short term securities until the amount necessary for OASDI retroactive taxes is determined to be adequately covered.

A minority of the Commission dissents as follows:

The undersigned *members of the Commission* respectfully *dissent* from the recommendation of the Commission *that PERA be coordinated* with the Federal Social Security System.

Those of us who dissent do not imply that the Social Security program as such is without merit, nor do we deny that certain advantages could accrue to at least some employees in PERA if coordination would come about. *We* do *feel,* however, *that the State of Minnesota has primary responsibility to provide a retirement system especially suited to the problems* inherent in and unique to employment by a local unit of government. *We feel* that the *Social Security by its nature is not the most fair way to reward and encourage career service* to a local unit of government, nor do we feel that the system of financing the social security benefits are suitable for use by local government or are fair to the employee. In support of the above conclusions and in support of our decision to enter our dissent to the recommendation of the Commission, *the following comments are submitted*:

(1) *Social Security does not seek or intend to provide benefits for each individual in proportion to his or her service and contributions.* Therefore *two persons* who contribute the same amount during their service to the local unit of government *may get a different retirement benefit* or on the other hand, one person who contributes for 20 years may get the same benefit as he who contributes for 10 or 15. This same disparity of course exists as to employer contributions. In other words, social security benefits are merely reflective of the current Congress's views on what pension is socially desirable, not of what amount was contributed or how much service was rendered. To the extent, then, that the public employee's pension is a social security benefit, the unit of government loses its opportunity to use the pension system as an incentive program to encourage employees to remain in public service.

(2) The annual *cost of coordination* to both employee and employer *will be greater* than the level normal cost of the present PERA basic system if the deficit is paid.

The current *Normal support of PERA,* once the deficit is financed (and a good share of the deficit must be financed whether or not there is coordination) *is* 6% employee contribution and 6% employer contribution, or *12% of covered payroll.*

The *cost of the coordinated PERA*-OASDI pension plan ignoring the deficit would be a 3% PERA contribution by both employee and employer and a 3 5/8 social security contribution by employer and employee resulting in a total cost of *13¼% of covered payroll.*

After 1968 the cost of social security is scheduled to go up and the total cost of covered payroll would be *15¼%*

(3) *As the cost of Social Security climbs in the future,* more and *more local units of government are going to feel unable to pay the cost of both Social Security and PERA* and the only possible adjustment that can be made will be the reduction of contributions to PERA. It should be kept in mind that the *increase in costs of Social Security may NOT* result in a higher pension for the particular employee paying it because of the characteristic of Social Security whereby one's benefits are not related to his contribution.

Furthermore. many local units of government and their employees would be making payments to Social Security which would in no way increase benefits. For example, a public employee under coordinated PERA who had outside employment so that his total deductions exceeded $4,800.00, would force the unit of government to make a contribution to Social Security which they could not get back and which would add nothing to the man's pension benefits.

(4) *Future persons entering public service could not choose the basic PERA plan* even if they wished to, or if it was to their advantage, because by Federal Law, all new employees must come under Social Security once there is coordination.

(5) *The Legislature has no control whatever of the Federal Social Security System.* Since the system is funded by current tax receipts rather than on an accrual of liability basis, it could be tempting for a future Congress to modify, cut or even suspend benefits in a different political atmosphere than the one we take for granted today. In any event, it is hard to argue that the Legislature is meeting its responsibility to provide a pension for public employees when it delegates the setting of benefits and collecting of taxes to a body over which it has no influence or control.

Signed by

Thor Anderson
Graham Fuller
Edward J. Tomczyk

STATE POLICE OFFICERS RETIREMENT FUND

The 1955 session of the Legislature established the Game Wardens Retirement Association by separating its membership from SERA.

The 1961 session changed the name of the fund to State Police Officers Retirement Fund and the officers of the Bureau of Criminal Apprehension were separated from SERA and added to this fund.

In both instances the members of the new fund brought with them their SERA accumulated deductions and their service credit but no employer contributions were transferred so that the new fund had a substantial deficit upon inception.

The benefit formula of this fund, like the Highway Patrolmens Association, is similar in characteristics to policemens' and firemens' funds both in Minnesota and many other states. Age 58 is the normal retirement age with a minimum of 10 years of service and pension amount based on 2% of covered pay.

The actuarial survey of this fund is the only survey that met all Commission specifications in that it was delivered to the Commission on June 1, 1964, and was prepared by the "entry age normal cost" method.

The actuarial survey as of January 1, 1958, was made of the Game Wardens Retirement Association when that fund was only two and one-half years old. Their fund then had 144 members and 12 annuitants. The balance sheet showed the following:

Accrued liability	$2,345,662
Assets	424,933
Unfunded accrued liability (deficit)	$1,920,729

The 1961 session changes in membership, benefit formula and financing reduce the value of direct comparison with the present fund.

Results of Actuarial Survey as of January 1, 1964

This survey was submitted showing the condition of the fund if the salary limit for pension purposes were increased to $6,000 per year as well as the condition of the fund on the present $4800 salary ceiling.

Summary of membership and survivors of deceased members:

Status	Number		
Active members	164	Disabled members	0
Deferred annuitant members	3	Widows of deceased members	16
Retired members	33	Children of deceased members	10

Summary of Results of Survey at 3% Interest

ITEM	$4800 LIMIT	% PAYROLL	$6000 LIMIT	% PAYROLL
Covered payroll	$ 787,200		$ 938,484	
Accrued liabilities	2,617,556		2,739,125	
Assets in fund	963,463		963,463	
Deficit	$1,654,093		$1,775,662	
Normal level cost per yr.	107,119	13.6%	120,399	12.9%
Normal cost plus amortization by 1997 (per yr.)	185,394	23.6%	204,427	21.8%
Normal cost plus interest on deficit per yr.	156,742	19.9%	173,669	18.5%

Present rate of financing:

Employee contribution rate	6% of pay
Employer regular contribution rate	9% of pay
Employer additional contributions	2% of pay
Total rate of financing	17% of pay

To keep the deficit from increasing but not reducing it will require financing of 19.9% of pay.

To amortize the deficit by 1997 will require annual financing of 23.6% of pay.

The comparable rates of financing required if the salary limit is raised to $6,000 per year as shown on the above table are slightly lower in percentage of pay but are applied to a larger payroll.

If the request of the State Police Officers Association is granted, that the duty disability benefit rate be increased to 55% of covered pay from the present rate of 40% of pay, the above tabulation on the $6,000 limit basis should be changed as follows:

Increase the deficit by $8,283 to $1,783,905.

Increase the normal level cost rate from 12.9% to 13% of pay.

Increase the normal cost plus amortization rate 21.8% to 22% of pay.

Increase the normal cost plus interest on deficit rate 18.5% to 18.7%.

In line with the Commission's recommendation for all five funds under study (see section of this report re increase on salary ceiling)

THE COMMISSION RECOMMENDS
That the salary limit for pension purposes be increased to $6000 per year for service after July 1, 1965.
The Commission further recommends that the duty disability rate be increased from 40% of covered pay to 55% of covered pay.

These two recommendations would increase the deficit of the fund by $129,812. This increase in deficit, unlike the present deficit, would not be due to the state's failure to provide employer contributions at past times. This represents an increase in benefits, the cost of which should be shared by the employer and the employees.

The request of the officers of the fund for the addition of a widows benefit for wives of retired members who subsequently become widows is not recommended by the Commission. The present provision that on retirement a joint pension can be selected by married retirees should be continued. This request is for the type of benefit the Highway Patrolmens Association has paid in recent years under doubtful authority and which this Commission is recommending be prohibited.

HIGHWAY PATROLMEN'S RETIREMENT ASSOCIATION

This pension fund was established by the 1943 session of the legislature by severing membership of Highway Patrolmen from SERA.

Many of the legislative sessions have increased the benefits of this fund including addition of disability and widows' and children's beneftis. For instance, primary retirement benefits were increased 50% in 1953 and again an equal dollar amount in 1957.

The factor most responsible for the financial deficiencies of this fund is not the increase in benefits per se, but the fact that these increases have been made retroactive, not just to those in active service, but also to those members who were on retirement and even to members who resigned with deferred pension credit. None of the other statewide pension funds have followed this practice.

The 1961 session adopted amendments to the Highway Patrolmen's Association law which corrected some of the most costly of the unfinanced benefits.

Automatic escalation of pension benefits after retirement was prohibited and a number of costly provisions with regard to deferred pensions were corrected.

On the other hand, additional benefits were provided for years of service after minimum pension qualification, and disability and minor children's benefit were increased.

Problem of an Actuarial Survey

The first report of an actuarial survey delivered to the Commission on June 16, 1964, was on a 3% basis but was not done precisely according to the "entry age normal cost" method, nor did it cover all of the benefits being paid by the Association. The actuary had been misinformed by the Association as to its practice regarding widow's benefits *after an employee's retirement.*

A revision of the survey to an "entry age normal cost" basis with regard to liabilities was not delivered until just before the December 18 meeting of the Commission. The revised normal cost was not furnished until March 12, 1965.

The actuary for the Highway Patrolmen's Association has concurred by telephone in the Commission actuary's adjustment of his survey on an aproximate basis with regard to normal cost of 19.5% of covered payroll.

Statistical Data from Actuarial Survey

Membership	As of Jan. 1 1958	As of Jan. 1, 1964
Active members	329	378
Deferred Annuitants	22	15
Retired members	15	44
Disabled members	2	2
Widows of deceased members	4	12
Children of deceased members	0	5
Participating Payroll	$1.582 million	$1.814 million

Actuarial Balance Sheet in Millions of Dollars

Membership	As of Jan. 1 1958	As of Jan. 1, 1964
Total liabilities	$4.014	$6.870
Assets	1.227	2.718
Unfunded accrued liability (deficit)	2.787	4.152

During six years the deficit (unfunded accrued liability) of this has increased by $1,365,000.

The normal level cost has increased from 17.5% of covered payroll in 1958 to 19.5% of covered payroll in 1964.

To amortize the present deficit by 1997 will require annual payments equal to 10.8% of payroll.

To simply provide 3% interest on the deficit to prevent its increase but not to amortize it will require 6.9% of payroll.

Normal level cost plus amortization of the deficit in 34 years will require 30.3% of payroll.

Normal level cost plus interest to prevent an increase in the deficit will require 26.4% of payroll.

Financing now being provided:

- Employee contributions, 7.0% of covered payroll
- Employer contributions 10.5% of covered payroll
- Total rate of financing 17.5% of covered payroll.

At the present rate of financing the deficit will increase at the approximate rate of 8.9% of pay which is $162,000 per year.

Post Retirement Widows Benefits

The Highway Patrolmen's Fund is the only one of the five state-wide retirement funds that pays a full widow's pension to the widow of a retired employee in the same manner as a widow's benefit is paid if an employee dies before retirement. In the various funds there are joint and survivor optional pensions paying a smaller pension but covering the lifetime of the retired person and spouse, which an employee may elect if he chooses to do so. These are actuarially equivalent to single life pensions and not an additional provision.

It appears certain that it was never intended that the Highway Patrolmen's fund should pay regular widow's benefits to widows of retired patrolmen. The fund actuary did not so interpret the law and prepared his first survey on the assumption that such benefits were not included in the plan.

When the fund actuary was informed that the fund *was actually paying such benefits,* he recalculated his survey and found that this type of benefit, if continued, would add $707,458 to the deficit. This is slightly more than half the increase in deficit in six yaers.

The fund has not produced any authority for the legal basis of such payments.

In view of the underfinanced condition of this fund and the high normal level cost of the level of benefits,

THE COMMISSION RECOMMENDS That the Highway Patrolmen's Association law be amended to clearly prohibit post retirement payment of "surviving spouse" benefits but that those payments that have actually been made be validated to the extent that recovery of the amounts disbursed will not be required.

Change in Salary Limit

In accordance with the reasons set forth in a separate chapter on this subject, the Commission is of the opinion that this fund be treated in the same manner as the other statewide funds.

The statistical data as to contributions is included in that chapter except for the effect such a change would have on the deficit of this fund.

Because even at this late date full actuarial data has not been furnished the Commission by this fund, it is necessary that the Commission actuary estimate the increase in deficit that will result if the salary limit is raised to $6,000 per year.

This estimated increase in the deficit resulting from this change amounts to $300,000.

THE COMMISSION RECOMMENDS That, as to service after July 1, 1965, the salary ceiling for pension purposes as to the Highway Patrolmen's Retirement Association be increased to $6,000 per year. No retroactive extension of the increased salary ceiling is to apply to service prior to that date.

Due to the financial condition of this fund and its present high level of cost, the incomplete nature of the actuarial material furnished the Commission with regard to new proposals and the fact that such data as was furnished was received too late to allow proper study and analysis.

THE COMMISSION RECOMMENDS That the remaining requests for legislative change in this fund be deferred for study during the ensuing interim before the 1967 session. It should be noted carefully that among the Association proposals is one to re-establish in this fund escalation of benefits. The 1961 session of the legislature removed all provisions as to escalation of benefits.