

**Interim Report of the Select Task Force to Study  
Cost-of-Living Adjustments and Benefit Funding  
for the State and School Retirement Systems**



**General Assembly of the Commonwealth of Pennsylvania  
JOINT STATE GOVERNMENT COMMISSION**

**October 1979**



INTERIM REPORT OF THE SELECT TASK FORCE TO STUDY  
COST-OF-LIVING ADJUSTMENTS AND BENEFIT FUNDING  
FOR THE STATE AND SCHOOL RETIREMENT SYSTEMS

General Assembly of the Commonwealth of Pennsylvania  
JOINT STATE GOVERNMENT COMMISSION  
Harrisburg, Pennsylvania  
October, 1979

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The Joint State Government Commission was created by act of 1937, July 1, P.L. 2460, as amended, as a continuing agency for the development of facts and recommendations on all phases of government for the use of the General Assembly.

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SELECT TASK FORCE ON STATE AND SCHOOL RETIREMENT  
SYSTEM COST-OF-LIVING ADJUSTMENTS AND BENEFIT FUNDING

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JOINT STATE GOVERNMENT COMMISSION

ROOM 108 - FINANCE BUILDING  
HARRISBURG 17120

October 15, 1979

TO THE MEMBERS OF THE GENERAL ASSEMBLY:

This report presents the initial recommendations of the Select Task Force on State and School Retirement System Cost-of-Living Adjustments and Benefit Funding, under the distinguished leadership of Senator Henry C. Messinger. The study was authorized by 1979 Senate Resolution Serial No. 6, adopted on February 5.

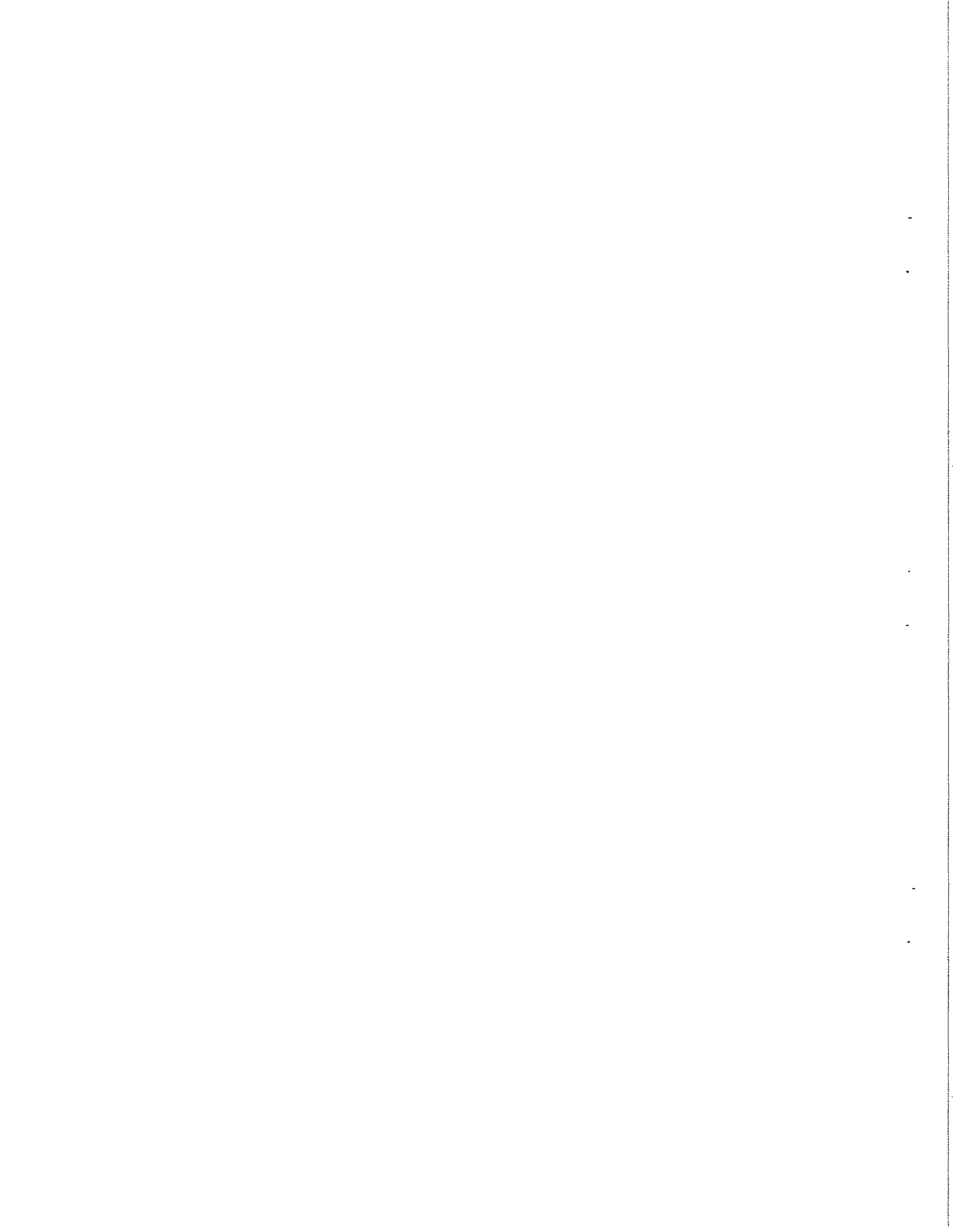
As are all proposals of Joint State Government Commission task forces, each recommendation has been approved by a majority of the task force members, even though approval was not unanimous in every case. The recommendations are incorporated in legislation amending Title 24 and Title 71 of the Pennsylvania Consolidated Statutes.

The Commission recognizes with appreciation the assistance provided in this study by the staffs of the Public School Employees' Retirement Board and the State Employees' Retirement Board.

Respectfully submitted,

A handwritten signature in cursive script that reads "Fred J. Shupnik".

FRED J. SHUPNIK  
Chairman  
Joint State Government Commission





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## I. SUMMARY OF RECOMMENDATIONS

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After reviewing the funding and benefits of the State and public school employees' retirement systems, the task force at this time recommends that the General Assembly amend the retirement laws to provide:

1. A 32 percent catch-up cost-of-living increase beginning July 1, 1980 for annuitants of both systems who retired prior to July 1, 1973. The percentage increase is one-half the increase in the consumer price index between June 1973 and June 1979.
2. Catch-up cost-of-living increases beginning July 1, 1980 ranging from 23.5 percent to 5.5 percent for those who retired between July 1, 1973 and July 1, 1978. The percentage increase an annuitant would receive would be equal to one-half the increase in the consumer price index between the June following retirement and June 1979.
3. Future annual automatic cost-of-living increases for all annuitants who have been retired for at

least 24 months beginning July 1, 1981. These increases would be determined as the lesser of one-half the increase in the consumer price index over the preceding year and 2 percent.

4. A one-half percent increase in the contribution rate for members of both retirement systems to offset a portion of the costs of the automatic adjustments.
5. A mandatory biennial study of benefits in light of purchasing power, retirement fund earnings and changes in the consumer price index.
6. Revised disability provisions that
  - conform the definition of disability to that of the Social Security Administration and adopt a similar waiting period of five months.
  - permit only members with at least five years of continuous service in the system immediately prior to application to receive benefits.
  - waive the service requirement for disabilities which are shown to be service connected.
  - delete the guaranteed minimum disability payment to members entering the system after July 1, 1975 and determine the annuity on service record and final average salary as though the member had attained superannuation age.

Because of the complexity and far-reaching effects of actuarial assumptions relating to such matters as expected earnings of the retirement fund and future salary increases, the task force agreed to postpone further recommendations pending additional study and actuarial analysis.



## II. ANALYSIS OF RECOMMENDATIONS

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### Catch-up Cost-of-Living Increases

#### RECOMMENDATIONS:

1. A 32 percent catch-up cost-of-living increase beginning July 1, 1980 for annuitants of both systems who retired prior to July 1, 1973. The percentage increase is one-half the increase in the consumer price index between June 1973 and June 1979.
2. Catch-up cost-of-living increases beginning July 1, 1980 ranging from 23.5 percent to 5.5 percent for those who retired between July 1, 1973 and July 1, 1978. The percentage increase an annuitant would receive would be equal to one-half the increase in the consumer price index between the June following retirement and June 1979.

Annuitants of the State and school retirement systems received one-shot cost-of-living increases in 1974 and 1975, respectively, bringing their buying power up to the 1973 level. During the subsequent six years, inflation has reduced the value of the 1973 dollar to 61 cents--a 39 percent decrease. Table 1 shows the changes in the consumer price index between June 1973 and June 1979.

The cost-of-living adjustments recommended by the task force, while not fully compensating for the erosion

Table 1

CHANGES IN CONSUMER PRICE INDEX  
(UNITED STATES AVERAGE ALL ITEMS)  
June 1973-June 1979

Month and year	Consumer price index <sup>1</sup>	Percentage increase to June 1979	One-half percentage increase <sup>2</sup>
June 1979	216.6	0	0
June 1978	195.3	10.91	5.5
June 1977	181.8	19.14	9.5
June 1976	170.1	27.34	13.5
June 1975	160.6	34.87	17.5
June 1974	146.9	47.45	23.5
June 1973	132.4	63.60	32.0

1. Based on 1967=100.

2. Percentage increase rounded to nearest one-half percent.

SOURCE: U.S. Department of Labor, Bureau of Labor Statistics.



of inflation, would increase the purchasing power of the annuity of the employee who retired prior to July 1, 1973 to 80 percent of its value in 1973.

Tables 2 and 3 include data useful in evaluating the characteristics of the annuitant population of each system and the impact of the recommended catch-up increases for each year of retirement since 1973. Table 2, presenting for both the State and school systems distributions of annuitants expected to be living July 1980 by the fiscal year of retirement and the average annuities, shows that the size of the average annuity has decreased since 1974. There are several factors causing this decrease. Employees are retiring at earlier ages and with fewer years of service. In addition, increasing numbers in the school system are electing to receive a reduced annuity providing some type of survivor benefits. In both systems, many retirees are electing to withdraw portions of their retirement accounts as lump sums, thus accepting a reduction of 10 percent to 20 percent in their annuities.

Table 3 shows the costs to the retirement systems of the catch-up increases for each year of retirement since 1973. These liabilities represent the amount of money required to pay for the increases for the entire life expectancy of the annuitants.

Table 2

## PROJECTIONS TO JULY 1980 OF CURRENT ANNUITANTS AND ANNUITIES BY YEAR OF RETIREMENT

Year of retirement	State Employees' Retirement System			Public School Employees' Retirement System		
	Number of annuitants	Sum of annuities (in millions)	Average annuity	Number of annuitants	Sum of annuities (in millions)	Average annuity
Prior to July 1973	16,300	\$53	\$3,200	33,610	\$182	\$5,400
July 1973-July 1974	2,700	11	4,200	3,755	22	5,835
July 1974-July 1975	3,000	12	3,900	3,575	21	5,850
July 1975-July 1976	3,400	13	4,000	4,240	24	5,695
July 1976-July 1977	4,100	16	3,800	4,630	23	5,060
July 1977-July 1978	4,800	20	4,200	4,735	24	5,120

SOURCE: Estimates based on information provided by the Pa. State and public school employees' retirement boards.

Table 3

ESTIMATED COST OF COST-OF-LIVING INCREASE BASED ON ONE-HALF OF INCREASE IN CONSUMER PRICE INDEX FROM JUNE 1973 OR YEAR OF RETIREMENT TO JUNE 1979 AND PAYABLE JULY 1980

Year of retirement	Increase in consumer price index	One-half of increase in consumer price index	Present value of proposed cost-of-living increase (in millions)	
			State system	School system
Prior to July 1973	63.595%	32.0%	\$144	\$496
July 1973-July 1974	47.247	23.5	26	49
July 1974-July 1975	34.869	17.5	22	36
July 1975-July 1976	27.337	13.5	20	34
July 1976-July 1977	19.142	9.5	17	24
July 1977-July 1978	10.906	5.5	13	15
		Total additional liability	\$242	\$654
		Percent of payroll,* twenty-year funding		
		Level percent	--	1.4%
		Level dollars	1.03%	--
		First year payment	\$19	\$37

\*State payroll equal to \$1,889 million and school district payroll equal to \$2,622 million.

SOURCE: Estimates based on information provided by the Pa. State and public school employees' retirement boards. Payroll and funding costs provided by the systems' actuaries.

The difference in costs in the two systems is due not only to the dissimilar characteristics of the annuitants, such as sex and age distributions, but to the methods used by the actuaries to fund the liabilities. The actuaries for the State system have calculated a constant dollar amount required to be paid by the State each year for 20 years to fund the entire liability. The actuaries for the school system have calculated the cost on the assumptions that a constant percent of payroll would be paid into the fund each year for 20 years and that the payroll will increase by at least 4 percent a year. In other words, the State would be expected to pay \$19 million annually--but a decreasing percent of payroll. The school system would charge the school districts and the Commonwealth, which share the employer cost, each .7 percent of payroll annually until the liability is funded. The first-year aggregate payments for each would be \$18.5 million.

Annual Automatic Cost-of-Living Adjustments and Increased Contribution Rate

RECOMMENDATIONS:

3. *Future annual automatic cost-of-living increases for all annuitants who have been retired for at least 24 months beginning July 1, 1981. These increases would be determined as the lesser of one-half the increase in the consumer price index over the preceding year and 2 percent.*
4. *A one-half percent increase in the contribution rate for members of both retirement systems to offset a portion of the costs of the automatic adjustments.*

The task force recommends the automatic increases for two reasons. First, the steady month-by-month increases in consumer prices significantly reduce the value of fixed pensions from year to year. Second, if six or seven years elapse between the enactment of one-shot cost-of-living adjustments, the costs are of necessity quite large and present unanticipated funding difficulties.

Table 4 lists the 25 states that now provide automatic adjustments for state retirement system annuities along with information on the average annuities and limits on annual increases. As shown in the second grouping on the table, Pennsylvania is one of the 23 states that provide irregular increases. It is notable that of the 25 states with automatic annual increases, all have limitations but only 5 have limits as low as 2 percent or less. Nine permit annual automatic increases up to 4 or 5 percent.

Because of the high costs associated with any automatic increases, the task force recommends an annual limit of 2 percent and a one-half percent increase in the employee contribution rates to partially offset the costs.

Actuarial estimates of the costs of automatic increases of 2 percent are shown on table 5. The costs in the two systems are different due to the

Table 4  
 POST RETIREMENT ANNUITY ADJUSTMENTS OF STATE EMPLOYEES  
 BY STATE AND TYPE OF ADJUSTMENT

States with automatic increases				States with irregular increases		States with no provisions for increases	
State	Average annuity	Year of establishment	Limit on annual increase	State	Average annuity	State	Average annuity
South Dakota	\$136	1974	2%				
Washington	266	1972	3			North Dakota	\$273
				Nebraska	\$522		
				Missouri*	1,083		
				Kansas	1,371		
				Wyoming	1,387		
				Iowa	1,504		
				Wisconsin	1,579		
Arkansas	1,613	1979	3	Kentucky	1,633		
				Indiana	1,673		
				Oklahoma*	1,695		
Oregon	1,761	1972	2	New Mexico	1,933		
				Arizona	1,967		
Utah	1,996	1975	4	Minnesota	2,191	West Virginia	2,024
				New Hampshire	2,206		
Idaho	2,381	1977	a	New Jersey	2,419		
Mississippi	2,519	1968	b	Montana	2,584		
				Michigan*	2,716		
Vermont	2,757	1973	5				
Ohio	2,769	1976	2				
Illinois	2,970	1979	3				
California	2,993	1968	2	Alabama	3,005		
Tennessee	3,019	1972	3				
Maryland	3,062	c	c				
Colorado	3,321	1973	3				
North Carolina	3,342	1969	4				
South Carolina	3,343	1970	4				
Florida <sup>1</sup>	3,347	1971	3				
				New York	3,363		
				Texas	3,444		
				Delaware	3,500		
Georgia	3,578	1978	4	Pennsylvania	3,672		
Virginia	3,743	1978	5				
Maine	4,021	1977	4				
Louisiana	4,153	1969	3				
Nevada	4,573	1975	5				
Rhode Island	4,912	1971	3				
Connecticut	4,985	1978	5				
Massachusetts	5,053	1971	3	Alaska	6,127		

1. Noncontributory system.

a. One percent automatic increase and an additional 5 percent increase annually determined by board based on assets and consumer price index.

b. One special annual check based on 1-1/2 percent times number years retired times annual retirement benefit.

c. Before reform bill for 1980, annual increase had no limitation based on consumer price index; reform bill sets a 3 percent ceiling but introduces a noncontributory system.

NOTE: Hawaii not included, no data provided.

SOURCE: Survey of State Retirement Systems, a report of the National Association of State Retirement Administrators, Montgomery, Ala. (June 30, 1978).

Table 5

FIRST-YEAR COST ESTIMATES  
 AUTOMATIC COST-OF-LIVING INCREASES  
 LIMITED TO TWO PERCENT

	Contributions			
	State system		School system	
	Percent of payroll <sup>1</sup>	First year dollar amount (millions)	Percent of payroll <sup>1</sup>	First year dollar amount (millions)
Total cost for automatic 2 percent increases	2.84%	\$54	4.17%	\$110
Employer contributions	2.39	45	3.72	98
Employee contri- butions less refunds to employees	.45	9	.45	12

1. State payroll equal to \$1,889 million and school district payroll equal to \$2,622 million.

SOURCE: Cost calculations are estimates furnished by the systems' actuaries. The State system's accrued liability is funded over 30 years for active members and annuitants. The school system's accrued liability is funded over 30 years for active members and 20 years for annuitants.

characteristics of the annuitants and different methods of funding. As noted earlier, the employer contributions are made entirely by the Commonwealth in the State system and shared equally by the Commonwealth and the school districts in the school system. Of the first-year employer cost of \$98 million for the school retirement system, \$49 million would be funded by the State and \$49 million by the districts.

Although the employee contributions would be increased by one-half percent, it is assumed that 10 percent of this contribution would be refunded to members of the system who withdraw their contributions before becoming eligible for annuities. The employee contribution rate would be increased to 5.5 percent for the State system and to 5.75 percent for the school system.

#### Funding

##### RECOMMENDATION:

5. *A mandatory biennial study of benefits in light of purchasing power, retirement fund earnings and changes in the consumer price index.*

While actuarial estimates are necessary to understand the total effect on liabilities of cost-of-living increases, it is also helpful to consider expected cash flow under the funding schedule recommended by the actuaries. Estimates of the cash flow are shown



in tables 6 and 7. The last column in each presents the estimated excess millions of dollars contributed each year to the fund and available for investment at today's yields. While yields from equities currently purchased are as low as 4 percent, government and corporate bonds are yielding in the 8- to 10-percent range. The average yields of the funds since 1971 are shown on table 8. At the end of the ten-year period shown on the tables at earnings of 8 percent per year (2-1/2 percent above the actuarial assumption of 5-1/2 percent), the State fund would have accumulated \$86 million in excess of the amount needed to fund both the catch-up and automatic cost-of-living increases. Similarly, the school fund would have accumulated an excess of \$143 million.

It is generally recognized that a large part of automatic cost-of-living increases may be financed by appreciation in an investment portfolio. The actuary of the State Employees' Retirement System, in advising the secretary of the board concerning the costs of automatic cost-of-living increases, wrote in a letter dated December 24, 1971:

Even though a limited CPI based increase may be desirable, it will be

Table 6

CASH FLOW ESTIMATES UNDER ACTUARIALLY PROPOSED FUNDING  
STATE EMPLOYEES' RETIREMENT SYSTEM, 1980-1990  
(in millions)

Fiscal year	Basic annuity	Cost-of-living increases			Contributions				Annual excess to be invested
		Catch-up to July 1980	Automatic	Total	Employer		Employee	Total	
					Catch-up	Automatic			
1980-1981	\$168.27	\$26.02	0	\$26.02	\$19.45	\$45.15	\$8.50	\$73.10	\$47.08
1981-1982	186.04	25.00	\$3.30	28.30	19.45	46.95	8.84	75.24	46.94
1982-1983	203.54	23.75	6.79	30.54	19.45	48.83	9.19	77.47	46.93
1983-1984	222.17	22.56	10.47	33.03	19.45	50.78	9.56	79.79	46.76
1984-1985	240.70	21.21	14.25	35.46	19.45	52.81	9.94	82.20	46.74
1985-1986	260.39	19.94	18.21	38.15	19.45	54.93	10.34	84.72	46.57
1986-1987	280.18	18.54	22.19	40.73	19.45	57.13	10.76	87.34	46.61
1987-1988	300.30	17.06	26.16	43.22	19.45	59.41	11.19	90.05	46.83
1988-1989	320.84	15.52	30.12	45.64	19.45	61.79	11.63	92.87	47.23
1989-1990	342.10	13.96	34.09	48.05	19.45	64.26	12.10	95.81	47.76

## ASSUMPTIONS:

Payroll 1979-1980 = \$1,889 million.

Active member payroll increasing at 4 percent per year.

Annuitant payroll increasing at 6 percent per year.

Employer catch-up contributions funded by level dollars over 20 years; employer costs for accrued liabilities for automatic increases funded by level percent over 30 years.

SOURCE: Estimates based on information provided by the Pa. State Employees' Retirement Board; payroll and funding costs provided by the system's actuary.

Table 7

CASH FLOW ESTIMATES UNDER ACTUARIALLY PROPOSED FUNDING  
PUBLIC SCHOOL EMPLOYEES' RETIREMENT SYSTEM, 1980-1990  
(in millions)

Fiscal year	Basic annuity	Cost-of-living increases			Contributions				Annual excess to be invested
		Catch-up to July 1980	Automatic	Total	Employer		Employee	Total	
					Catch-up	Automatic			
1980-1981	\$344.52	\$73.70	0	\$73.70	\$37.32	\$97.52	\$11.76	\$146.60	\$72.90
1981-1982	357.60	71.04	\$7.56	78.60	38.81	101.42	12.23	152.46	73.86
1982-1983	371.30	68.20	15.20	83.40	40.37	105.45	12.72	158.54	75.14
1983-1984	383.31	64.79	22.56	87.35	41.98	109.70	13.22	164.90	77.55
1984-1985	395.88	61.55	29.90	91.45	43.66	114.09	13.75	171.50	80.05
1985-1986	406.84	57.86	37.09	94.45	45.41	118.65	14.30	178.36	83.91
1986-1987	416.42	53.81	43.33	97.14	47.22	123.40	14.88	185.50	88.36
1987-1988	427.23	50.04	49.64	99.68	49.11	128.33	15.47	192.91	93.23
1988-1989	437.26	46.04	55.43	101.47	51.07	133.47	16.09	200.63	99.16
1989-1990	446.54	41.89	60.39	102.29	53.12	138.81	16.73	208.66	106.37

## ASSUMPTIONS:

Payroll 1979-1980 = \$2,622 million.

Active member payroll increasing at 4 percent per year.

Annuitant payroll increasing at 6 percent per year.

Employer catch-up contributions funded by level percent over 20 years; employer costs for accrued liabilities for automatic increases funded by level percent over 20 years for current annuitants and over 30 years for active members.

SOURCE: Estimates based on information provided by the Pa. Public School Employees' Retirement Board; payroll and funding costs provided by the system's actuary.

Table 8

AVERAGE YIELDS OF STATE AND PUBLIC SCHOOL  
EMPLOYEES' RETIREMENT FUNDS, 1971-1978

State fund	School fund
Fiscal year 1971 - 5.73%	Fiscal year 1971 - 5.14%
" 1972 - 5.80	" 1972 - 6.27
" 1973 - 6.23	" 1973 - 6.30
Calendar year 1974 - 7.15	" 1974 - 6.48
" 1975 - 6.55	" 1975 - 6.39
" 1976 - 6.46	" 1976 - 6.54
" 1977 - 6.36	" 1977 - 6.60
" 1978 - 6.52	" 1978 - 6.73

SOURCE: Staff, Pa. Public School Employees' Retirement Board;  
annual reports, Pa. State Employees' Retirement Board.

seen that the additional costs will probably be large and growing. Consequently the Legislature and the Administration should be aware of this problem before such legislation is enacted. It is true that, in the long run, it is generally anticipated that such cost-of-living plans may be financed in large part by appreciation in an investment portfolio containing substantial proportions of equities, but such investments are not presently permitted in the Pennsylvania retirement systems. Consequently, even if the law is changed, several years would elapse before these additional costs could be financed, even partially, in this manner.

Act No. 31 (1974) provided to the board the right to invest in equities to a limited degree. These investments together with the increases in yield from corporate industrial bonds can be expected to provide increasing investment yields. It is to be expected that the overall average earnings will be over 7.5 percent by 1980-1981 and continue at least as high as long as current inflationary rates persist. This is an excess of 2 percent in earnings over the 5.5 percent earnings assumed for valuation purposes.

On the other hand, if inflation slows down this excess would, of course, diminish. In view of these facts, the task force recommends that there should be a biennial study and reevaluation of the status of the buying power of annuities and the earnings of the funds.

## Disability

### RECOMMENDATION:

6. Revised disability provisions that
  - conform the definition of disability to that of the Social Security Administration and adopt a similar waiting period of five months.
  - permit only members with at least five years of continuous service in the system immediately prior to application to receive benefits.
  - waive the service requirement for disabilities which are shown to be service connected.
  - delete the guaranteed minimum disability payment to members entering the system after July 1, 1975 and determine the annuity on service record and final average salary as though the member had attained superannuation age.

Definition of Disability--The definitions used to determine eligibility for a disability annuity vary widely from one retirement plan to another. The Pennsylvania State and school systems are generous in that the member need only be disabled to the extent that he is unable to carry out the duties of his current job. This means a recipient of a disability annuity from the State or school system may be gainfully employed in another type of work. The current law requires that any earnings be reported and, if the sum of the earnings and disability annuity is greater than the member's final salary, his annuity be reduced.

The task force recommends that the definition be revised to conform with that used by the Social Security Administration in order to reduce the number of members entitled to receive disability annuities as well as eliminate and simplify administrative procedures. Indiana, New York, North Dakota and Oklahoma have all adopted Social Security certification as the basis for eligibility for disability payments.<sup>1</sup> Disability annuities, in the same manner as Social Security disability pensions, would become payable only after a five-month waiting period. This amendment would eliminate benefits for short-term disability which in most instances can be covered by sick-leave pay.

The disability pension under Social Security, like the State and school disability annuity, is dependent upon a medical determination. This determination for Social Security is made for Pennsylvania by the Bureau of Vocational Rehabilitation in the Department of Labor and Industry using criteria provided by the Social Security Administration. The bureau also determines the need and time for reexamination and termination of disability status for medical reasons. If it is determined that the recipient has not improved medically but

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1. Les Strickler, "State Disability Retirement Plans: How Good Are They?", a paper presented at the 1979 annual meeting of the American Risk and Insurance Association, Toronto, August 14, 1979.

desires to try a new vocation, he may have a 9-month trial work period and receive benefits for up to 12 months.

Eligibility for disability benefits under Social Security is also dependent on the inability of the applicant to be substantially gainfully employed. The Social Security Administration makes determinations based on earnings; substantial gainful activity for the year 1979 is considered as earnings of \$280 or more per month. For earnings of more than \$70 and less than \$280 per month, the administration must make a determination--\$70 or less per month is not considered substantial gainful activity.

Pension authorities have recommended that public disability plans be administered similarly to the Social Security plan. For example, Howard E. Winklevoss and Dan McGill in Public Pension Plans, recommend:

In the interest of uniformity of definition and administration, we propose that the Social Security definition of disability be used and that no disability benefits be granted under the plan unless the individual qualifies for Social Security disability benefits (when covered). The current Social Security definition is: "Inability to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment" which is expected to last at least 12 months or to result in death in less than 12 months. The words of this definition would suggest that it contemplates "an any occupation" test but in practice the adjudicating agencies seem to be applying a more liberal criterion.



It would save administration costs if the plan were to accept the Social Security adjudication of the claim of disability and not conduct its own investigation. We would recommend this procedure if it is permissible under the laws of the jurisdiction in which the plan operates.<sup>2</sup>

Service Requirements--Current Pennsylvania law allows an employee considerable latitude in meeting the service requirements for disability benefits. After several years of service, a member may purchase credit for military service and use this credit toward the five years required for eligibility for a disability annuity. Another member with less than five years continuous service prior to disability may be eligible because he has had State or public school service sometime in the past. In some cases a member with credit in both State or school systems may have as little as one or two years in the particular system in which he applies for a disability annuity.

To reduce the number of disability annuitants, the task force recommends the requirement of at least five years of continuous service in the system immediately preceding application for a disability annuity. It is proposed, however, that all service requirements be waived in the event the disability is service connected.

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2. (Homewood, Illinois: Dow Jones-Irwin, 1979), p. 130.

Guaranteed Minimum Benefit--Under current law, a member who is determined to be entitled medically as well as by years of service to receive a disability annuity has a guaranteed minimum benefit determined as the lesser of one-third of his final average salary or the annuity he could have earned were he to continue working at his current salary until his superannuation retirement age.

The task force proposes that the minimum guarantee be eliminated for all members who do not have five years of credited service by June 30, 1980.<sup>3</sup> The member who entered the system after June 30, 1975 would have a disability annuity calculated on the basis of his years of service and final average salary as though he had attained superannuation age. This is parallel to the Social Security system which calculates the benefit as though the worker had attained age 65.

This proposal would generate a future increasing savings. Table 9 shows the effect of the amendment had it been applied to the members who were awarded disability annuities in the State system in the calendar years 1974 through 1978. The first column

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3. A guaranteed minimum was included in the original enactments of both the State Employees' Retirement System in 1923 and the Public School Employees' Retirement System in 1917. In 1957 the State and school employees became eligible for coverage under the Federal Social Security Act.

Table 9

EFFECT OF ELIMINATION OF THE GUARANTEED MINIMUM DISABILITY ANNUITY  
STATE EMPLOYEES' RETIREMENT SYSTEM

Effective year of retirement	Annual reduction	Total number of annuitants	Total number of annuitants affected	Percent of disability annuitants affected	Average reduction
1974	\$114,760	207	145	70%	\$791
1975	142,413	220	159	72	896
1976	182,209	279	203	73	898
1977	231,484	358	254	71	911
1978	302,694	378	282	75	1,073

SOURCE: Pa. State Employees' Retirement Board.

indicates the total savings in payments for the first year of disability if all the members retiring in the specified year had not had the guaranteed minimum applied to the determination of their benefit. The savings in the accrued liability could be as much as 12 times this annual savings when the amendment would become fully effective. Those annuitants who have had 16-2/3 or more years of service would not be affected by the proposed amendment.