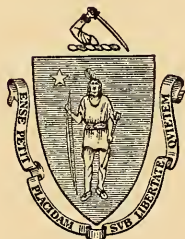


REPORT

OF THE

BOARD OF RETIREMENT.

JANUARY, 1914.



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BOARD OF RETIREMENT.

ELMER A. STEVENS, *Chairman.*

CARL A. RAYMOND.

CHARLES A. ANDREWS.

The Commonwealth of Massachusetts.

BOARD OF RETIREMENT,
STATE HOUSE, BOSTON, Jan. 13, 1914.

HON. GRAFTON D. CUSHING, *Speaker of the House of Representatives.*

DEAR SIR:— I transmit to you herewith for the use of the Legislature the annual report of the Board of Retirement for the year ending Nov. 30, 1913.

Respectfully yours,

ELMER A. STEVENS,
Chairman, Board of Retirement.

The Commonwealth of Massachusetts.

REPORT.

BOARD OF RETIREMENT,
STATE HOUSE, BOSTON, Jan. 15, 1914.

To the Honorable Senate and House of Representatives.

By the enactment of chapter 532 of the Acts of the year 1911 the Commonwealth established a retirement system for her employees not included in retirement or pension systems previously established. This act went into full effect on June 1, 1912. The report submitted by the Board of Retirement last year, therefore, covered a period of operation of only six months. The report now submitted covers a full year and affords the first review upon which can be based any reasonable conclusions as to the probable future development of the retirement system and of its scope and cost.

On Dec. 1, 1912, there were 3,121 members of the Retirement Association. On Dec. 1, 1913, there were 4,020 members. During the year 1,522 individuals have joined the association and 589 have forfeited membership therein by reason of death or resignation before becoming eligible to a retirement allowance. In addition, 34 have been retired, 8 by reason of reaching the age of seventy years, and 26 at their own request, at the age of sixty or over. In addition to those, retirement allowances have been voted to 2 employees who had declined membership in the association but who were, nevertheless, eligible to retirement upon the minimum allowance of \$200. By chapter 310 of the Acts of 1913 there was extended to those in the service on Jan. 1, 1912, who had declined membership in the association, another opportunity to join the association at any time previous to Jan. 1, 1914. This legislation was not requested by the Board of Retirement, although the matter was discussed in its last annual report. Many had declined membership because of a failure to appreciate the requirements,

benefits and obligations of membership. By virtue of this act 160 have joined the association; of these, 93 are employed at the institutions and 67 in the State or metropolitan departments. The membership of the association was increased 1,362 by the compulsory entrance of employees who have entered the service since Jan. 1, 1912, and, who had, during the past year, completed a probationary period and have thus become "permanent and regular" employees within the meaning of the law. By deducting from this number the number of those who have died, who have resigned and who have been retired we find an increase in membership of 739. This indicates with considerable accuracy the expansion of the State service during the past year.

Since the law became operative on June 1, 1912, 81 employees have been retired, of whom 36 were retired during the past year; 6 annuitants have died since retirement so that retirement allowances are now being paid to 75 former employees. Of this number 27 were retired at the age of seventy, and 48 retired of their own volition.

The total amount paid to these retired employees during the year ending Dec. 1, 1913, as pensions was \$17,576.31; the largest yearly amount payable to any individual was \$905.14; the number of those who received the maximum retirement allowance, *i.e.*, one-half of the average of salary for the ten years preceding retirement, was 19; and the average annual retirement allowance paid to the whole number who benefited by the system during the year was \$290.52.

The funds of the association have increased from \$47,500.76 on hand Dec. 1, 1912, to \$151,426.93 one year later. No distribution of surplus to the individual accounts has been made, since the accrued surplus is too small to divide satisfactorily among more than 4,000 participants.

The essential facts as to the membership and the finances of the Retirement Association appear in the following tables:—

Comparative Statement of Membership, as of November 30.

YEAR.	REFUNDS.		NUMBER RETIRED.			MEMBERSHIP.				Key Number.
	Death.	All Others.	Voluntary.	Compulsory.	Non-members.	November 30.	3 Per Cent. Basis.	5 Per Cent. Basis.	Mortality among Pensioners.	
1912,	12	327	20	25	-	3,121	-	-	3	3505
1913,	7	582	26	8	2	4,020	2,630	1,390	3	5027

Membership, Feb. 1, 1912, 3,324.

Comparative Financial Statement, as of November 30.

YEAR.	Gross Deposits.	Income on Investments.	Interest credited Members' Accounts.	REFUNDS. ¹		AMOUNT EXPENDED.				Expense of Administration. ²
				Death.	All Others.	Annuities.	PENSIONS.		Subsequent.	
							Prior.	Subsequent.		
1912,	\$47,500 76	\$198 36	-	\$22 73	\$1,343 21	\$2 29	\$5,341 42	\$2 29	\$5,082 66	
1913,	151,426 93	3,197 22	\$1,227 73	354 54	6,540 04	72 34	17,503 97	72 34	6,619 37	

¹ Includes deposits and interest.

² Includes salaries and contingent expenses.

It can be seen that the retirement system is now fully established; that it covers a large percentage of employees; that it both makes possible and necessary retirement from the service at a time when inefficiency is likely to be in evidence; and also it affords to those retired, at least in part, a living income. There is in the law no general disability clause allowing the retirement of any individual before he has become sixty years of age. The Board has not specifically studied the matter of the probable effect of the insertion of such a provision, though it has heard of individual cases where persons are kept in the service though largely incapacitated, apparently because of the real hardship which would follow dismissal. If the retirement system exists chiefly for the benefit of the service, as we believe it does, the question of retirement for disability is likely to arise at any time, and will in our judgment merit careful consideration.

In other pension systems it is claimed to have been found that because of approaching retirement certain employees have relaxed their efforts for good service in the belief or knowledge that even so they will be continued in the service until the retirement age arrives. No evidence of such a situation among the members of the Retirement Association has been brought to our attention. It is not likely to exist in the class of employees in most of the departments and institutions for the reason that such habits of attention and effort as have been formed by long years of employment must in general have a compelling force upon their possessors, and because in general there is an excellent standard of discipline in the several departments and institutions.

The retirement system established by chapter 532 of the Acts of 1911 is not the only pension system affecting State employees. For the judges, members of the metropolitan park police, members of the district police, prison officers and instructors, and for veterans of the civil war in the State service separate pension systems have been established and are in operation. In none of these systems does the contributory principle prevail; in each of them retirement upon half pay or more is possible upon the reaching of a stated age or upon the completion of a stated period of service;

in some of them retirement for disability is possible; and in at least one there is provision for a pension to the widow and young children of the deceased employee who loses his life in the performance of his duty. The following table shows the amounts paid by the Commonwealth during the past year to pensioners under each of those five systems, the number of persons in each system who receive the pensions, together with similar figures for the Retirement Association.

Comparison of Monthly Pensions paid Preferred Pensioners with those retired under the General Retirement Act, Chapter 532, Acts of the Year 1911.

MONTH.	Judges.	POLICE.			Prison Officers.	Veterans. ¹	Total.	Under Chapter 532.
		Metropolitan Park Commission.	District.					
December,	\$1,631 25 (4)	-	\$62 50 (1)	\$649 19 (11)	\$4,652 99 (85)	\$6,995 93	\$1,111 39 (47)	
January,	1,447 78 (4)	-	62 50 (1)	649 15 (11)	4,740 39 (86)	6,899 82	1,178 90 (50)	
February,	1,193 75 (3)	-	62 50 (1)	649 16 (11)	4,827 99 (87)	6,733 40	1,213 16 (50)	
March,	1,193 75 (3)	-	62 50 (1)	649 16 (11)	4,719 66 (85)	6,625 07	1,230 61 (51)	
April,	1,193 75 (3)	-	62 50 (1)	649 15 (11)	4,809 13 (87)	6,714 53	1,395 73 (57)	
May,	1,181 66 (3)	-	62 50 (1)	669 99 (12)	4,935 88 (88)	6,850 03	1,444 79 (60)	
June,	1,156 25 (2)	-	62 50 (1)	670 03 (12)	4,911 75 (87)	6,800 53	1,527 62 (61)	
July,	1,156 25 (2)	-	62 50 (1)	669 98 (12)	4,879 12 (87)	6,767 85	1,567 97 (65)	
August,	1,156 25 (2)	-	62 50 (1)	669 99 (12)	4,952 16 (88)	6,840 90	1,653 98 (67)	
September,	1,156 25 (2)	-	62 50 (1)	669 99 (12)	5,036 73 (90)	6,925 47	1,693 10 (69)	
October,	1,156 25 (2)	-	62 50 (1)	669 98 (12)	5,005 77 (92)	6,894 50	1,763 83 (74)	
November,	1,156 25 (2)	\$1,738 75 (4)	62 50 (1)	670 06 (12)	4,983 97 (91)	8,611 53	1,795 33 (75)	
Cancellations,	\$14,779 44	\$1,738 75	\$750 00	\$7,935 83 12 23	\$58,455 54 150 00	\$83,659 56 162 23	\$17,576 31	
Total,	\$14,779 44 (32)	\$1,738 75 (48)	\$750 00 (12)	\$7,923 60 (139)	\$58,305 54 (1,053)	\$83,497 33 (1,284)	\$17,576 31 (726)	
Average pension,	\$5,542 29 (3)	\$434 69 (4)	\$750 00 (1)	\$634 05 (12)	\$664 45 (88)	\$780 35 (108)	\$290 52 (61)	

¹ Includes veterans, Massachusetts Soldiers' Home.

The figure at the right of each column in parentheses shows the number of individual pensions paid under each system; "Under chapter 532," the figures represent only the amount paid by the State; the annuities paid from members' contributions are not included.

According to the best information we can secure there are now in the service in the five preferred classes 670 individuals. The average number retired from these five classes and receiving pensions during the year of 1913 is 108, and the total annual cost of pensions to these persons is \$83,497.33. This is an average of \$780.35. The smallest annual payment is one-half of the salary at the date of retirement, the largest is three-fourths of such salary. With reference to all of these pensions no contribution by the individual was made during his period of service, and none is provided for to be made by persons now employed in any of these five classes.

As compared with this, we find that in the Retirement Association there is an average of 61 receiving retirement allowances, and that the total annual cost to the Commonwealth on account of these persons is \$17,576.31. This is an average of \$290.52. Under this system the maximum payment is one-half the average of salary for the ten years preceding retirement, and the smallest is \$200. Thus among the five preferred classes the number retired is 16 per cent. of the number now in the service, while in the general retirement system this percentage is only $1\frac{1}{2}$. Again, in the former, the average pension is \$780.35 and in the latter only \$290.52. In the former the pension is at one-half salary at the retirement date, or, in the case of certain judges, three-fourths of such salary; in the latter, the retirement allowance is never more than one-half of an average salary, and in the case of only 19 of the 75 persons now receiving retirement allowances is the amount paid equal to this one-half. The total annual expense to the Commonwealth under the general retirement system in the first full year of its operation is undoubtedly less than it will be later. To some extent, therefore, a comparison of this item with a similar item for the five preferred systems, all of which have been in operation some years, is unfair. But the comparison of averages appears to be just to all systems. The conclusion is correct, therefore, that the general retirement system, established by chapter 532 of the Acts of 1911, does and will afford retirement allowances small in comparison with those to be found in the five preferred classes.

It is to be borne in mind, also, that the net cost to the Commonwealth of maintaining the five preferred systems will always equal the total amount of pensions, and that while a similar situation with reference to the general retirement system exists at its beginning, the proportion of the total retirement allowance to be paid by the Commonwealth under this system will constantly decrease until it becomes only one-half of such amount. Judged by the standards previously established in the five preferred systems, therefore, the general retirement system is restricted in character and is found to be moderate in cost.

There are at present in the Retirement Association 237 persons who, by virtue of having reached the age of at least sixty years, will be eligible to retirement during the coming year. For 4 of them retirement will be obligatory at the age of seventy. How many of the others will retire is of course not now known. The system is not yet old enough to afford an experience in this matter from which any reliable estimate can be made. The Board has therefore submitted its estimate for appropriations with considerable uncertainty as to the amount likely to be needed, conscious of the fact that it cannot accurately substantiate its request. Since the establishment of the association the membership has increased from 3,324 to 4,020.

The work of the Board and its expense of administration has been substantially constant, and need not be expected to increase largely during the coming year.

RECOMMENDATIONS FOR LEGISLATION.

Section 6 (2) of chapter 532 of the Acts of 1911 provides for payments in the three following cases and amounts:—

First—To a member of the association who leaves the service before becoming entitled to retirement, the amount of his deposits “with regular interest.”

Second.—To the estate of a member of the association who dies before becoming entitled to retirement, the amount of his deposits “with such interest as shall have been earned on such deposits.”

Third. — To a member who retires or is retired “an annuity to which the sum of his deposits . . . with regular interest shall entitle him. . . .”

“Regular interest” is defined in the act as “interest at three per cent. per annum.”

It appears from the above that in the first and third cases the member of the association will receive no benefit from any surplus credited to his account, while in the second case the estate of a deceased member will receive such surplus in full. If a member is to receive no benefit from the surplus at his retirement there appears to be no adequate reason why the surplus should ever be distributed to the individual accounts, since at the retirement of a member the surplus which has been charged up to his account will necessarily revert to the funds of the association. In this case there will have been an intricate system of bookkeeping with nothing accomplished thereby. Neither does there appear to be sufficient reason for depriving a member who leaves the service, as in the first case above, of a part of the earnings of his deposits. The Board is of the opinion that in all three of the above cases the treatment of the surplus should be similar, and that the individual should receive the full benefit therefrom. Accordingly, we have prepared a bill making such amendments as the facts seem to warrant. It is to be observed that no inequalities have arisen because of the anomaly of the present law, since no surplus has been credited to individual accounts.

ELMER A. STEVENS.

CARL A. RAYMOND.

CHARLES A. ANDREWS.