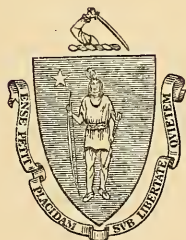

REPORT

OF THE

STATE BOARD OF RETIREMENT.

JANUARY, 1918.



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BOARD OF RETIREMENT.

CHARLES L. BURRILL, *Chairman.*

CARL A. RAYMOND.

JOHN E. FISH, M.D.

The Commonwealth of Massachusetts.

BOARD OF RETIREMENT,
STATE HOUSE, BOSTON, April 3, 1918.

HON. CHANNING H. COX, *Speaker of the House of Representatives, State House, Boston, Mass.*

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, 1917.

Very truly yours,

C. L. BURRILL,
Chairman, Board of Retirement.

The Commonwealth of Massachusetts.

REPORT.

BOARD OF RETIREMENT,
STATE HOUSE, BOSTON, MASS.

To the Honorable Senate and House of Representatives.

The Board of Retirement presents for your consideration its sixth report of successful operation under the same personnel as the preceding year.

On Dec. 1, 1916, there were 5,448 members of the Retirement Association. On Dec. 1, 1917, there were 5,573 members. During the year 1,361 individuals have joined the association, and 1,201 have forfeited membership therein by reason of death or resignation before becoming eligible to a retirement allowance. In addition, 35 have been retired, 14 by reason of reaching the age of seventy years, 1 for permanent disability, and 20 at their own request, at the age of sixty or over. The membership of the association was increased 1,361 by the compulsory entrance of employees who have entered the service since Dec. 1, 1916, 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 those who have died, who have resigned and who have been retired we find a net increase in membership of 125.

Since the law became operative on June 1, 1912, 197 employees have been retired, of whom 36¹ were retired during the past year; 30 annuitants and 2 non-members have died since retirement, so that retirement allowances are now being paid to 165 former employees. Of this number, 58 were retired at the age of seventy or over, 5 for permanent disability, 2 non-

¹ Retired non-member included.

members for the good of the service, upon the request of the department in which they were employed, and 100 retired of their own volition.

The total amount paid to these retired employees during the year ending Dec. 1, 1917, as pensions was \$43,944.47, as compared with \$36,672.76 during the year ending Dec. 1, 1916; the largest yearly amount payable to any individual was \$1,150; the number of those who received the maximum retirement allowance, *i.e.*, one-half of the average cash salary for the ten years preceding retirement, was sixty-nine. The average retirement allowance paid to the whole number who benefited by the system during the year was \$305.

During the year an examination of the annuity fund was made by the Massachusetts Insurance Department in accordance with the law, and a distribution of the surplus to the individual accounts of members authorized. The total credited amounted to \$6,923.74, and was equal to \$1.50 upon each \$100 of each account as it stood on Sept. 30, 1916.

The accumulated savings refunded to members who left the service was \$49,355.99, and the amount refunded to the heirs or estates of deceased members was \$4,195.44.

The retirement system has 275 members who may voluntarily retire at age sixty or over during the next fiscal year, and 9 who must retire at age seventy, the compulsory retirement age. The number who will voluntarily retire is uncertain. The Board has submitted its estimates for appropriations upon the experience it has gained that 7 per cent. of the voluntary eligibles will retire. This will require about \$6,440 in addition to \$45,560, the amount of pensions in force on Nov. 30, 1917. The expenses of administration of the system for the year were: salaries, \$6,228.56; contingent expenses, \$673.86; reimbursement to institutions for making deductions from members' wages, etc., \$2,518.73. The reimbursement to State institutions is purely a bookkeeping transaction to show the probable cost of operating the system.

In compliance with a request from the commissioners appointed under chapter 43 of the Resolves of 1916 to consolidate the laws of the Commonwealth, the Board has suggested the following changes in order to correct ambiguity and inconsistency, and make clear the existing law.

STATE RETIREMENT ACT.

Chapter 532, Acts of 1911, and Amendments and Additions thereto.

Section 3. — Amend by striking out paragraph (3) and substituting the following: —

No officer elected by popular vote may become a member of the association, nor any employee who is or will be entitled to a non-contributory pension from the commonwealth; but if such employee leaves a position for which such a pension is provided before becoming entitled thereto, and takes a position to which this act applies, he shall thereupon become a member of the association.

The act seems to make no provision for employees holding positions for which non-contributory pensions are provided, like members of the district police and prison officers, who are transferred to positions to which the act applies. The Board, however, treats such employees as members of the association.

Amend paragraph (4) by inserting after the word "employed", in the fifth line, the words: — or, in case of members appointed by the governor, upon recommendation of the governor and council, — so that said paragraph shall read as follows: —

(4) Any member who reaches the age of sixty years and has been in the continuous service of the commonwealth for a period of fifteen years immediately preceding may retire or be retired by the board of retirement upon recommendation of the head of the department in which he is employed, or, in case of members appointed by the governor, upon recommendation of the governor and council, and any member who reaches the age of seventy must so retire.

A member of the State Retirement Association reaching sixty years, who has been in the continuous service of the Commonwealth fifteen years, may be retired upon the recommendation of the head of the department in which he is employed.

The Attorney-General has ruled (1913, Op. A. G. 101) that the chairman of a commission is not the head of a department in the sense that he may recommend the retirement of his fellow members, although members of commissions are within the retirement law. We therefore suggest that such officials be subject to retirement under the law, upon the recommendation of the Governor and Council.

Section 4. — Amend by striking out paragraph (3) and substituting the following: —

(3) Subject to the approval of the board of retirement, the treasurer and receiver-general shall have charge and control of the funds of the system and any and all unappropriated income thereof, and shall invest and reinvest the same when not required for current disbursements, in accordance with the provisions of chapter one hundred and ninety-two of the General Acts of nineteen hundred and sixteen.

The original paragraph provides that the State Treasurer shall invest the funds of the State Retirement Association in investments that are legal for savings banks, with a preference for investments that are legal for the sinking funds of the Commonwealth. The latter class of investments covers so wide a field that the former, in so far as they differ from the latter, are never resorted to.

Section 5. — Amend by striking out (2) *B (b)* and substituting the following: —

(b) Each year the commonwealth shall contribute such amount as is necessary to guarantee regular interest and make good any deficiency in the annuity fund, as of the preceding thirty-first day of December.

The first requires the Commonwealth to contribute each year in January an amount equal to the surplus arising from annuity deposits; the second requires it to make good any deficiency in them. In case the invested deposits should yield less than 3 per cent. there would be to that extent a deficiency in the annuity fund, and it is to take care of such deficiency that the second provision of the paragraph is inserted.

Under the retirement act every dollar paid in annuities from the annuity fund is matched by another contributed by the Commonwealth by way of pension. It was originally intended that the Commonwealth annually in the month of January should turn into the treasury of the association a sum adequate for the payment of pensions; in other words, a sum equal to the annuity fund, herein referred to as the surplus. In the passage of the measure through the Legislature this policy was abandoned, and provision was made for monthly payments by the Commonwealth to the pension fund. Through oversight

the provision for an annual payment by the Commonwealth was retained.

Section 6. — Amend (2) *B (b)* by striking out the words “regular interest” in the fourth and fifth lines, and inserting in place thereof the following: — such interest as shall have been earned thereon, — and by adding at the end thereof the following: — provided that this form of annuity shall not be paid unless the amount of his accumulations will provide an annuity of one hundred dollars or more, — so that said paragraph shall read as follows: —

(*b*) A life annuity, payable monthly, with the provision that in the event of the death of the annuitant before receiving payments equal to the sum, at the date of his retirement, of his deposits under section five (2) *A*, with such interest as shall have been earned thereon, the difference shall be paid to his legal representatives, provided that this form of annuity shall not be paid unless the amount of his accumulations will provide an annuity of one hundred dollars or more.

The original section 6 (2) relates to the distribution of annuity and pension funds of the State retirement system in the shape of refunds, annuities and pensions. As originally drawn such distribution was to include “regular interest” (3 per cent. as defined by the act), but section 1, chapter 582, Acts of 1914, amended (2) *A (a)* of said section, relative to refunds, by striking out the words “regular interest” and substituting “such interest as shall have been earned thereon.” The same change was made by section 2, chapter 582, Acts of 1914, (2) *B*, relating to the payment of annuities, but through oversight was not made in (2) *B (b)* relating to payments to the annuitant’s legal representatives. The first of the above amendments makes the necessary correction. The second of the above amendments is rendered necessary by reason of giving a retired member of the State Retirement Association who chooses the smaller annuity, with a remainder over to his estate, a pension equivalent to the pension he would have received had he chosen the larger annuity (6 (2) *B (a)*) without such remainder. The act provides that in no case shall a retired member receive less than \$200 annually, consisting under option (*a*) of \$100 by way of annuity and \$100 by way of

pension. By choosing a rate of annuity less than \$100 a year, a member might compel the Commonwealth under section 6 (2) *E* to pay the difference up to the stated minimum, and at the same time entitle his estate to receive at death the difference between his deposits and his total annuity payments.

Amend (2) *C* (*a*) by inserting after the word "annuity," in the fourth line, the words: — to which he would be entitled if his annuity were figured under (2) *B* (*a*) of this section, — and by adding at the end thereof the following: — For the purpose of computing the pension for subsequent service of any member who has left a position in the service of the commonwealth for which a non-contributory pension is provided to take a position subject to this act, he shall be credited with regular accumulated contributions to the annuity fund during his period of service in said former position since June first, nineteen hundred and twelve, — so that said paragraph shall read as follows: —

(*a*) Pensions based upon subsequent service. Any member entitled to an annuity under paragraph (2) *B* of this section shall receive in addition thereto a pension for life payable monthly, equivalent to that annuity to which he would be entitled if his annuity were figured under (2) *B* (*a*) of this section, to be paid out of the fund contributed by the commonwealth under the provisions of section five, (2) *B* (*a*). For the purpose of computing the pension for subsequent service of any member who has left a position in the service of the commonwealth for which a non-contributory pension is provided to take a position subject to this act, he shall be credited with regular accumulated contributions to the annuity fund during his period of service in said former position since June first, nineteen hundred and twelve.

The law allows a member the option between two forms of annuity. A member choosing option (*b*) receives a smaller annuity payment than he would have received if he had chosen option (*a*), but there is a death benefit payable to his legal representatives, if he dies before receiving annuity payments, equal to the amount which he had in the annuity fund at the time of retirement. In the end, therefore, he or his estate receives the total sum to which his contributions entitle him by way of annuity.

The theory of the act is that a retiring member shall receive by way of pension the equivalent of his receipt by way of annuity. Accordingly, the law provides that pension instalments shall equal the annuity instalments, but it omits to provide a death benefit from the pension fund equal to the death benefit from the annuity fund. A member choosing option (b) therefore receives less from the pension fund than he would be entitled to receive if the theory of the act were consistently followed. This inconsistency is doubtless an oversight, and is remedied by the above amendment.

The second of the above amendments is made to supply an omission in respect to a member of the State Retirement Association who is transferred from a position entitled to a non-contributing pension to a position subject to the retirement act.

Amend (2) *C* (b) as amended by chapter 363, Acts of 1912, by inserting after the word "average", in the third line of the fourth paragraph, the words:— annual rate of, — so that said paragraph shall read as follows:—

If the accumulated contributions of any employee retired under the provisions of this act exceed the amount required to provide an annuity equal to one fourth of the average annual rate of wages or salary of such employee during the last ten years prior to his retirement, the excess above that amount shall be paid to such employee in a lump sum with the first monthly payment on the account of his retiring allowance.

This change is made to correspond with the change in description of maximum as provided in (2) *E*.

Amend by striking out (2) *E* and substituting the following:—

E. Minimum and Maximum Payments.— In no case shall the total monthly payment to a member be at a rate less than two hundred dollars per year, or at a rate more than one half the average annual rate of salary or wages of such member during the ten years prior to his retirement.

The original paragraph prescribes as the maximum payment to a retired member of the State Retirement Association one-half the amount of the average salary or wages received by him during the ten years prior to his retirement. If during such ten years he has lost a considerable amount of salary by reason

of illness his maximum allowance is materially reduced. This unintentional injustice is remedied by taking as the measure his average rate of salary or wages rather than the average of the total receipts.

Chapter 419, Acts of 1914.

Section 1. — Amend by striking out this section 1 and substituting the following: —

SECTION 1. Any employee of the commonwealth subject to and affected by chapter five hundred and thirty-two of the acts of nineteen hundred and eleven and amendments thereof may, after fifteen years of continuous service be retired for permanent disability at a yearly rate of not more than one half of his salary, based on the average annual rate of salary received during the last ten years of service: *provided, however,* that the minimum amount be not less than two hundred dollars and that the tables now or hereafter in use by the board of retirement be used in determining the amount to be paid, and the board of retirement may employ a physician to assist it in determining the degree of disability. The decision of the board of retirement shall be final.

The above changes the present law providing retirement allowances for disabled State employees by taking as a basis their average yearly rate of salary for the last ten years of service instead of their average salary, rendering it consistent with the State retirement act (1911, 532, section 6 (2) *E*). The present law empowers the Retirement Board to call upon the surgeon-general of the militia of the Commonwealth to assist it in determining the degree of disability. In view of his possible absence in the discharge of his military duties the Board believes such contingency will be corrected by the suggested change.

REPORT AND RECOMMENDATIONS.

The Board of Retirement was directed, under authority of chapter 106, Resolves of 1917, as follows: —

RESOLVE PROVIDING FOR AN INVESTIGATION BY THE BOARD OF RETIREMENT RELATIVE TO THE PENSIONS AND ANNUITIES OF EMPLOYEES WHO RECEIVE BOARD OR LODGING AS A PART OF THEIR COMPENSATION.

Resolved, That the board of retirement is hereby authorized and directed to make an investigation and to report to the next general court as

to a basis for determining the value of board, lodging, and other considerations which are a part of the compensation of certain employees in the institutions of the commonwealth, with drafts of such legislation, if any, relating to the said subject, as the board may deem expedient. [*Approved May 18, 1917.*]

Pursuant to the directions contained in the above resolve, the Board of Retirement, after careful investigation, reports as follows:—

1. That inequality in retirement allowances results from the operation of the existing law between employees who receive full compensation in cash and those who receive in addition to cash some other form of compensation.

2. That retirement allowances under the State contributory system are proportionate to the basis upon which assessments are made.

The Board finds no justification for a discrimination in the retirement allowances between the two classes, but at the same time it is impressed with the fact that considerable discontent might be created among certain persons who would be inconvenienced by increasing the retirement assessments in cases where an established rate has prevailed for some time and their expenses have been regulated from a small wage. The Board therefore hesitates to make a recommendation for placing all employees upon the basis of having deductions made from the estimated salary or wages, including both cash and maintenance, as such action might tend to increase the difficulties of our institutions in their employment problem, which has already reached an acute state due to the scarcity of persons desiring that kind of employment.

It may be advisable to provide by law that new employees entering the service on a basis of part maintenance should be required to contribute to the retirement system upon an estimated amount to cover both cash and maintenance, and that all allowances for prior service be figured upon an estimated basis to include maintenance at a fixed rate.

The Board has accumulated certain statistics in relation to the members affected and the value of maintenance as estimated by the different institutions. From statistics supplied by 29 institutions the Board finds that only 604 out of a total

of 5,440 employees receive full compensation in cash. There are 4,420 who receive in addition to cash entire maintenance, 69 who receive entire maintenance for themselves and their families, and 347 who receive cash plus the following forms of partial maintenance: —

56 cash plus full meals.
29 cash plus two meals.
179 cash plus dinners.
56 cash plus house or cottage.
27 cash plus tenement.

Only two State institutions — the State Prison and the Massachusetts Reformatory — pay total compensation in cash to their employees.

The highest valuation placed upon total maintenance by any institution is \$416, while the lowest, \$216, is supplied by several. The average value of total maintenance found from the various rates is \$265, or about \$5 per week.

The query naturally arises as to just what proportion the cash payment bears to the theoretical maintenance valuation. The answer is found in the following table which shows the number of employees who receive in addition to total maintenance the following rate of cash per annum: —

\$250 and less,	235
\$350 and less,	2,005
\$400 to \$500,	1,284
\$500 to \$600,	369
\$600 to \$700,	153
\$700 to \$800,	83
\$800 to \$900,	98
\$900 to \$1,000,	76
\$1,000 to \$1,100,	31
\$1,100 to \$1,200,	47
\$1,200 to \$1,300,	15
\$1,300 to \$1,400,	18
\$1,400 to \$1,500,	16
\$1,500 to \$1,800,	6
\$1,800 to \$2,000,	23
\$2,500,	10
\$3,000,	7
\$3,500,	2
\$4,000,	11

It is evident that while the scope of the subject is of considerable importance to a great many members, it is probable that comparatively few will remain in the service long enough to be retired. If a value is placed upon maintenance it should be uniform, but it is probable that a value which is reasonable to-day might not be considered so at some future date.

Adjustments in cases where employees receive cash plus partial maintenance are too difficult to be considered in any general valuation.

The matter should be confined to total maintenance, which for the period of time prior to June 1, 1912, might be \$5 per week, with provision for changes in valuation by the Board at certain intervals.

CHARLES L. BURRILL, *Chairman.*
CARL A. RAYMOND.
JOHN E. FISH, M.D.

Comparative Financial Statement, as of November 30.

YEAR.	Net Accumulated Deposits.	Yearly Deposits.	Interest credited Members' Accounts. ¹	REFUNDS. ²		AMOUNT EXPENDED.				Expense of Administration. ³
				Death.	All Others.	Annuities.	PENSIONS.		Subsequent.	
							Prior.	Subsequent.		
1912.	\$46,430 70	\$47,500 76	-	\$22 73	\$1,313 21	\$2 29	\$5,341 42	\$2 29	\$5,082 66	
1913.	144,271 66	105,438 37	\$1,227 73	354 54	6,540 04	72 34	17,563 97	72 34	6,619 37	
1914.	265,090 87	130,667 73	5,901 06	915 90	13,983 79	189 74	24,728 84	189 74	7,996 22	
1915.	385,530 94	139,391 66	8,926 22	2,674 81	23,057 30	405 93	30,027 98	405 93	8,999 45	
1916.	512,240 80	157,684 94	16,312 68	2,644 37	39,164 70	802 69	35,870 07	802 69	9,725 32	
1917.	633,013 12	161,902 50	21,680 12	4,195 44	49,355 91	1,393 80	42,550 67	1,393 80	9,421 15	

¹ Includes surplus.

² Includes interest accumulations.

³ Includes salaries, contingent expenses and reimbursement to State institutions.

Comparative Statement of Membership, as of November 30.

YEAR.	Admitted during Year.	REFUNDS.		NUMBER RETIRED.			MEMBERSHIP.			Accounts payable. ¹
		Death.	All Others.	Disability.	Voluntary.	Compulsory.	Non-members.	RETIRED.		
								Active.	Mortality.	
1912.	181	12	337	-	20	25	-	3,121	3	42
1913.	1,522	21	568	-	26	8	2	4,020	3	75
1914.	1,630	19	820	-	7	7	-	4,783	5	98
1915.	1,686	29	1,017	-	13	8	-	5,391	3	119
1916.	1,445	30	1,353	2	15	10	1	5,448	9	138
1917.	1,389	33	1,198	1	20	14	1	5,573	9	165

Membership Feb. 1, 1912, 3,324.

¹ Unclaimed accounts of members who have left the service.

Recapitulation of Yearly Pension Cost under Non-contributory and Contributory Pension Systems.

YEAR.	NON-CONTRIBUTORY.				CONTRIBUTORY.	
	Judges.	POLICE.		Prison Officers.	Veterans.	Teachers (Chapter 532, Acts of 1913).
		Metropolitan Park Commission.	District.			
1913.	\$14,779 44	\$1,735 75	\$750 00	\$7,923 60	\$53,395 54	\$17,576 31
1914.	19,434 68	1,940 50	750 00	9,709 46	59,755 30	24,918 58
1915.	31,404 72	2,296 25	750 00	12,453 56	64,074 33	30,433 91
1916.	30,539 92	2,532 00	1,599 12	14,766 64	65,160 10	75,608 38
1917.	35,610 50	4,598 01	1,213 71	16,100 00	63,592 01	91,747 22

Under contributory system the figures represent only the amount paid by the State; the annuities paid from members' contributions are not included.

¹ Pension payment began July 1, 1914.

Comparison of Average Yearly Pensions granted under Non-contributory and Contributory Pension Systems, as of November 30.

YEAR.	NON-CONTRIBUTORY.				CONTRIBUTORY.	
	Judges.	POLICE.		Prison Officers.	Veterans.	Teachers (Chapter 532, Acts of 1913) as of Dec. 31.
		Metropolitan Park Commission.	District.			
1917.	\$6,482 00 (7)	\$574 75 (9)	\$875 00 (1)	\$702 00 (25)	\$863 21 (94)	\$362 70 (287)
						\$295 90 (165)

The figure at the right of each column shows the number of pensioners under each system; under contributory systems the figures represent *only the amount paid by the State*; the annuities paid from members' contributions are not included. Annuities will be as large as the pension paid by the State. Teachers with fifteen years of service on July 1, 1914 (five preceding retirement), minimum, \$390. Minimum of \$290 to all under chapter 532, Acts of 1911.