BOARD OF EDUCATION RETIREMENT SYSTEM
(New Benefit - Spring, 1950)

To: MEMBERS OF THE BUREAU OF ATTENDANCE

Ladies and Gentlemen:

Relative to the matter of sending letters asking: "How much will it cost?"; we can't answer that now. We must give our full time to the matter of making calculations of the applications filed by individuals. We are making the calculations in the order in which the applications are received. We can't stop to answer letters asking how much it is going to cost each person.

I would like the Supervisors to instruct the Officers to file their applications at once. We will process them and forward a statement of cost in each case. We can't answer communications such as mentioned or any of a like nature at this time.

I would like to say a word about the new amendment to the rules! Under the new amendment an increased pension allowance is provided if the member will agree to accept an increased rate of contribution and pay the arrears that will produce for him an increased annuity. When a person retires he receives a retirement allowance. This is made up of the pension allowance provided by the City and the annuity allowance provided by the member. The sum of the two allowances constitutes the retirement allowance. When we speak of retirement allowance, we refer to it only in terms of the Straight or Maximum allowance. When a person chooses the Maximum allowance, the payment is made for life to the pensioner with no residue payable to any other person at death of the pensioner, regardless of how soon death occurs after retirement. Most persons prefer an Option. In that case the pensioner selects an Option. It is a form of insurance.

Option #1 - You get a reduced retirement allowance. The difference between the Maximum and Option #1 represents the premium for the insurance. As an illustration - a person retires. His reserves amount to $30,000 - that is the City's portion plus his own contributions. He receives an allowance of $3,000 a year, which is payable for as long as he lives. In the event of death, if the total reserve of $30,000 has not been consumed, the difference will be paid to his beneficiary in a lump sum. For instance, in two years he will have collected $6,000. When death occurs, the difference between $6,000 and $30,000, or $24,000 will be paid to the beneficiary.

Option #2 - The pensioner receives an allowance for life. The same allowance, after death, is then paid to the beneficiary for his life. However, if beneficiary pre-deceases the pensioner, no new beneficiary may be named. Payment of the retirement allowance ends with the death of the pensioner.

Option #3 - The terms and conditions are similar to Option #2 except that the pensioner receives a somewhat larger allowance. The beneficiary, at death of pensioner, will receive one-half of the allowance paid to the pensioner.

New Amendment

Under the provisions of the amendment to Sections 12 and 14 of the Rules - if you elect the increased rate of retirement contribution, then the City will provide a pension allowance, at retirement, of 1% of final compensation multiplied by the number of years of subsequent service (all allowable service after August 31st, 1921). If the member, at the time of this election, has been contributing on the basis of the 1/6th, then his retirement rate will be increased 20%. The arrears that he will owe to the Retirement System will be 20% of his total annuity fund and interest credited to the account of the member at the time the increased rate Becomes effective. If a person selects the increased rate and is presently contributing on the basis of the 1/6th increased benefit, and if his present rate is 6%, that rate will be increased by 1.2% so that the new rate will be 7.20%. If a person has credited to his account $5,000, he will owe arrears amounting to $1,000. If the person does not have the 1/6th rate then his present rate, if he selects the new benefit, will be increased by 40%, and if he has $5,000 in the fund, the arrears due will be $2,000.

Prior Service - means service credited before September 1st, 1921. Such individuals will receive a pension allowance based on prior service. If a person has the 1/6th, it will be based on 1/120th. This is the service fraction provided for members who have selected the 1/6th increase. If a member does not have the 1/6th increase, then the pension allowance will be based on 1/140th. If you select this new increase your pension allowance, for subsequent service, will be based on 1/100th.

Arrears - For those people who can pay the arrears in a lump sum, I think it would be to their advantage. The reason is that the moment you make payment, you will receive interest at 4%. If you pay it on an installment basis, then you have to pay the interest. The point is, your money, in a lump sum, will be drawing interest; otherwise you pay the interest. If you choose the installment plan, and this goes for all, the maximum time that we allow for payment on an installment basis is 8 years. If a person has only 3 years of allowable service, then the maximum time would be 36 months. We can't extend the time, on installment basis, beyond the number of months of creditable service. In no instance, however, can it be in excess of 8 years.

Now the question with respect to the amount of retirement allowance you would receive at retirement if you select this increased rate.

Your pension allowance, I think, can be easily calculated by each of you. It is a simple arithmetic problem. You take your final compensation, your average salary during the 5 year period immediately preceding retirement - take 1% of that an multiply by the number of years of service between September 1st, 1921 and the date of your retirement. If that period is 25 years and 7 months, then it would be 25-7/12ths multiplied by 1% of your final compensation.

Your annuity allowance cannot be calculated as easily. When you retire we take the total amount credited to your account and we divide that by a factor which is directly related to life expectancy. If a person retires at the age of 60, the factor is going to be quite different than for a person who retires at the age of 70. If you make the contribution for the 1/5th, or 2/5ths of the arrears due, you can figure that your final gross or maximum retirement allowance, after 25 years of service, would be approximately 70% of your final compensation.

Questions & Answers:

Question: Would it be profitable to every member to accept this retirement offer, regardless of age and service, if presently in service?

Answer: Yes! The member does not pay the entire cost for the additional benefit. He only pays half, the City pays the other half. If you don't make the selection of the increased rate, then you release the City from its obligation.

Q.: An Officer eligible to retire now, expects to retire in a year or two, is he entitled to participate in this plan if he pays back the amount?

A.: Yes.

Q.: About the 4% interest from September 1st, 1921; is 1/120th credited to prior service?

A.: No, it is not 1/120th. When the Retirement System first came into existence, September 1st, 1921, the City, under the law, was obligated to provide two service fractions for each year of prior service, prior to September 1st, 1921. The City provides one service fraction, for each year of subsequent service. The member's contribution provides one service fraction for subsequent service. For those members who selected the increased rate for the additional 1/6th, the City provides 2/120ths for each year of prior service and 1/120th for each year of subsequent service. For members who did not select the 1/6th, the City provides 2/140ths for each year of prior service and 1/140th for each year of subsequent service.

Your question, I believe, is on the matter of the pension allowance for prior service. For a person who retires and who has prior and subsequent service, two calculations will be required in order to arrive at the pension allowance; one under the new heading which will be 1% of the final compensation - for the years of service between September 1st, 1921 and retirement. In addition, such member will receive a pension allowance based on service prior to September 1st, 1921 but that calculation will not be on the basis of 1%. It will be on the basis of either the service fraction 1/120th (with the 1/6th) or 1/140th (without the 1/6th). When the 1/6th came into existence, the City undertook to pay the entire amount for prior service; you paid nothing on account of prior service.

Questions & Answers:

Q.: If a person chooses to pay over a period of 8 years and decides to retire before then, what happens?

A.: The individual, regardless of the amount or the period of time elected to pay on the installment basis, may come in at any time and liquidate the entire arrears by payment of the value, at that time, in full. No person can receive the benefit of the increased pension allowance unless the arrears are paid in full at the time of retirement. He would receive a slightly larger amount for annuity due to the increased payment.

Q.: Could a person withdraw excess contributions in case of retirement before full payment?

A.: That depends on what you mean by excess contributions. If you mean that at the time of retirement he had made a partial payment of the arrears, but not in full, - no, he cannot withdraw the excess payments.

Q.: If a person changes retirement from age 70 to age 60, and he is paying a rate of 1/2 plus 1/6th to retire at the age of 60 with half pay - how does this affect it?

A.: He would be required to pay 1/5th of the total contributions credited to his account in the Annuity Savings Fund at the time he elects this increase.

Another point - to those of you who, at the present time have completed more than 35 years of service, and have continued to pay your normal contributions to the Retirement System, I think you are in a very enviable position. The reason I say this is - you may elect to pay the arrears due by applying your excess contributions after 35 years of service. In most cases the amount of excess contributions credited to the individual may enable him to realize the increased benefit without paying any additional money; however, his normal rate will be increased by 20% or 40%. I would not, however, give this information too readily. It may be confusing. It applies only to those members with more than 35 years of service.

Q.: If a member has sufficient funds already paid in that he could borrow, to take advantage of the 70%, is he permitted to pay in full?

A.: Yes, but if you borrow from the Retirement System, the repayment of that loan must be made within two years. It cannot be extended beyond that time. If the amount of arrears is a sizable figure, it may be difficult to pay back in two years. It may be easier to pay the arrears on an installment basis in 4 years, or 5 years, or 8 years.

Q.: In the case of a veteran:- While in the Army, out of his monthly check he paid into his pension allowance. After, a ruling was made that the money did not have to be paid (The City paid it, I think). Now the veteran says he has an excess. Can the excess amount be used?

A.: No. Under the rules a person granted a leave of absence, who made contributions that he was not required to pay may apply for a return of the excess. The return of excess contributions can be made only by refraining to decut normal contributions for the period required to equal the amount of excess contributions.

Note: A person is eligible to retire whenever he wishes, either at age 60 or 35 years of service. If he is 60 years of age and has 33 years of service, theoretically, if he selects the increase, the allowance will be based:

pension - 33%
annuity - 33% - the retirement allowance would be 66%. If he waits until 35 years of service, it would be 70%.

Q.: A Substitute Officer has asked if he may contribute, just put the money in, without benefit of annuity.

A.: No; Substitutes are not eligible to membership in the Retirement System.

Q.: With regard to the question of Life Expectancy. If a person is 65 years of age and his wife is 55 and he picks Option #2, does she continue receiving pension in event of death?

A.: Yes, under Option #2.

Q.: In a case where the man and wife are within one year of eachother in age, would there be much of a difference?

A.: Of course. Under Options 2 and 3, from a practical standpoint, you take the age of the pensioner and the age of the beneficiary ---say, 66 and 64, a total of combined ages - 130 - divided by 2 we arrive at a single life of 65. Then you arrive at the factor of the life expectancy of 65. In that way the amount of retirement payment is calculated. A widower aged 60, with a daughter aged 30 named as beneficiary under Option 2 - the combined age is 90. The single life there would be 45. The life expectancy is far greater than at 65 which would cut the allowance considerably.

Q.: The question of loans; do we receive interest when we take a loan? Are we receiving interest on the money while it is out?

A.: Principal follows interest. If there is no principal, there is no interest. You can't have your cake and eat it, too.

Q.: Due to the recent court decision on salaries, our maximum jumped. Does our pension automatically continue?

A.: That is a good question. The schedule of retirement rates are calculated to provide a retirement allowance and to cover salary rates that are considered normal increases within the schedule. I would say that an increase from $4620 to $6000 is an abnormal increase. However, I do not suggest that you apply for an amended rate now that would give you an increase on the basis of your new basic rate. Anything that you do along those lines will not be matched by the City. Under the amendment to the Rules you are just as well off to let things stand and concentrate on the payment of the increased rate. The difference otherwise, I assure you, is not worth the expenditure of further payments on the basis of increased salary rates.

Q.: About a year ago I became a Supervisor and asked for an increase to retire on half pay. Am I to understand that I should ignore the $5520 to $6000 increase and expect 70% on retirement?

A.: The question is whether it is worth it to you. You do not know now the form of retirement you are going to take. An individual may take Option 2 or 3. If he and his beneficiary should die shortly after retirement all such additional contributions are just lost. If you want increased allowances you have to pay for them; the question is - is it worth it?

The rate that the City fixes when you take membership remains constant. Contributions are based on the amount of salary. As your salary increases, your amount of contribution is increased accordingly.

Q.: If you want to retire with half pay would the original rate carry with the abnormal increases?

A.: No, the City would not match it but you will retire with more than half pay. Let me show you. A person comes into service at 35. At the end of 25 years of service, if he selects this increase the annuity will be 1%, the pension will be 1%. His allowance will be 50%. The difference, if you pay an increased rate due to the abnormal increases in salary, really is not too large but you alone pay the additional money. The question still remains, is it worth it, when there is no guarantee; as for example, under Option #1?

Q.: I don't understand what is meant by "abnormal increases". Do we pay automatically on this?

A.: Yes. The amount of contribution, to build up your annuity, will be based on a normal salary range. If there is an abnormal increase there would be a slight difference because you have not made the contributions on the higher rate. The rates are calculated only on the basis of normal increases in the salary schedule. Regardless of how abnormal the increase is, your pension will be based on the average rate.

Q.: If the 1/6th has not been fully paid, then what?

A.: The individual will be required to continue making payments on installment until the 1/6th is fully paid. Your increase, then, in the amount of arrears would be 20%. The 20% payment of arrears is based on the assumption you have the 1/6th. You do not have it until it is fully paid. That does not mean the 1/6th must be fully paid by June 30th, 1950.

When your application is in, we will make the calculations of the amount of arrears that are due in a lump sum. We will also indicate in the statement to you what each installment will amount to, if you decide to pay it on the installment plan. When you get a statement from us, there will be a form enclosed on which you may indicate to us the way you wish to pay, either in a lump sum or in installments. We will act accordingly.

Q.: Suppose you elect to pay on the installment and then decide to withdraw. Can this be done?

A.: You are not obligated to follow-through after you make application. But you must withdraw before the first payment.

March 29th, 1950

EUGENE O. CAVANAGH
Acting Director

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