Principles governing the retirement of public employees

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INTRODUCTION

The problem of providing for the retirement of public employees when they are no longer able to perform the duties of their positions is deceptive. It has an appearance of simplicity. At any one moment, the number of employees of advanced age in a government service is small as compared with the total number; and it seems but a simple matter to grant them suitable pensions, to be paid like salaries out of the current revenues of the state, and to fill their places with young and active successors. Frequently retirement systems have had their origin in just such simple provisions.

The history of such devices is always more or less the same. At the outset, the payments in the form of pensions amount in the aggregate to only a small sum, a mere fraction of the total payment for salaries. Each succeeding year, however, adds its new quota to the roll of pensioners, and although a few pensioners die, this new quota increases the total number. The aggregate amount of the pension payments therefore increases, and after a comparatively few years, the pension payments form a very considerable percentage of the total for salaries. The legislature and the public begin to realize that what in its beginning seemed an inexpensive method of providing for aged employees constitutes in fact a serious drain on the resources of the state. Attempts will then be made, especially in times of financial pressure, to curtail the amount of the expenditure for pension purposes. The reformers will encounter vested interests. Employees will advance the unanswerable argument that they were promised pensions, and they will ask if the state will break its promise to its employees and deny them what they have regarded as part of their compensation for services.
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The legislature establishing the pension system in the first instance will probably hear many claims for pensions advanced on the ground that the old employee has grown gray in the service and that the government owes some special consideration to the man who has given the best years of his life to its work. Not infrequently these arguments will be supplemented by the recitation of specific cases in which faithful government servants have ended their days in poverty and distress, because of some calamity which forced them out of the service without any provision for their support. Moved by an appreciation of the deserts of some of the faithful old employees and by compassion for those who have suffered from want of any suitable provision, the legislature will adopt a pension system.

Surprise is frequently manifested by legislative committees sitting a few years after the establishment of the system when they find that the employees of their day and generation refuse to regard the pensions as benevolent grants for meritorious services or for deserving cases, but insist upon considering them as something which they have earned as of right and to which they are as much entitled as they are to their pay. "Deferred pay" may become a general expression to define the nature of the payments.

Not only will the employees demand that the payments shall be made as of right and not as of grace, but they will also demand that in the event of certain contingencies, they shall receive allowances from the system, although it may be pointed out to them that such allowances are not of any special advantage to the government or even that they are directly contrary to its supposed interests. The employees will not be satisfied with the answer, because they will frequently hear of cases in which the system has resulted in hardship or injury to one of their number or his dependents, and they will agitate for change.

Under a retirement system adopted without study and forethought, the government will thus ultimately be confronted viii
with two serious problems, the maintenance of proper relations with its employees, and the financing of so expensive a device as any retirement system must inevitably be. In facing these problems it will find its freedom of action impeded in almost every direction by the vested interests that have been created through the action of past legislatures and by the enormous liabilities that have been incurred.

All these difficulties, or at least almost all, can be avoided by forethought. The economic, social, and administrative questions involved can be clearly recognized by a study of the experience of governments that have developed retirement systems by the process of evolution and have left in their archives records showing the operation of those processes. The financial questions can be clearly foreseen by the experienced actuary. Methods of applying actuarial science to these questions have already been carried to a high state of development, and the legislative body which today adopts a retirement system without fairly accurate information regarding its future cost is guilty of neglect of its obvious duties to the public.

The object sought in preparing the present book has been primarily to set forth the principal economic, social, administrative and financial questions involved in establishing a retirement system and then, in so far as possible in limited space, to summarize the more important arguments for and against alternative lines of action.¹ In the presentation of the argu-

¹ So far as is known this book is the first of its scope. The following extracts from "A Comprehensive Plan of Insurance and Annuities for College Teachers," by Henry S. Prichett in Bulletin No. 9 of the Carnegie Foundation for the Advancement of Teaching, New York, 1916, p. 9, is of interest in this connection:

"The literature dealing with these pension systems is extensive, but it is devoted almost exclusively either to a description of the systems themselves or to a consideration of the actuarial and financial problems that are involved. In all cases it is assumed that pensions are desirable and are in the interest of the class or social group for which they have been planned, provided the pension system adopted is financially sound.

For this reason those who seek to deal with the problems of pen-
ments the bias of the writer must inevitably at times become apparent, and occasionally a question may have been seen from too narrow a point of view. Clear recognition of the questions involved has seemed, however, of far more importance than the attempted answer of a single student of the subject. Sound answers must be the product of many minds.

No attempt has been made to outline an ideal retirement system. In the course of the discussion the statement is made that the ideal retirement system is one that is equitable as between the government, the employees and the public, that meets the special needs of the service, and is financially sound. Many general principles may be laid down by which an ideal system for a particular service may be developed, but they have to be applied in the light of facts regarding that particular service. An ideal retirement age for policemen and firemen, for example, would not be an ideal age for a clerk. A uniform "flat" pension alike for all might be an ideal provision for a homogeneous service in which all enter young, serve about the same length of time, and progress at a practically uniform rate of salary advancement, but it would be anything but ideal as applied to a complex service. In retirement legislation, therefore, there is no one best device, though unquestionably there are many which may be recognized as best for a particular purpose.

In studying past experience to learn what questions are involved and what arguments are advanced under each, attention has been given in the main to the rich material contained

sions in a democracy like the United States gain scant help from this large mass of literature, for back of these actuarial and financial questions lie others still more fundamental which concern themselves with the inherent wisdom and fairness of the pension system itself. Such an enquirer desires to be assured that a pension system will do good rather than harm, and to ascertain whether the pensioning of a particular class or group tends to demoralize or to stimulate. Upon such questions this mass of pension literature throws little light. Before one undertakes actuarial and financial computations, however, before he makes the assumptions upon which his pensions are to be predicated and frames the rules on which they are to be conferred, these questions must be met in one form or another."