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Office Of The President
A. Leslie Leonard
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July 9, 1971

Dr. Sidney Epstein
United States Department of Justice
National Institute of Law Enforcement
and Criminal Justice
633 Indiana Avenue
Washington, D. C. 20530

Dear Dr. Epstein:

MOBILITY OF LAW ENFORCEMENT OFFICERS
GRANT NI 70-072

As Project Director for Portable Pensions for Law Enforcement Officers: Feasibility Study, I am happy to forward to you the results of this study. It is our hope that the information set forth in this report, together with the recommendations, will be of assistance in the efforts of the Department of Justice to strengthen law enforcement throughout the country.

The data set forth in this report should provide the reader with a greater understanding of the present situation as it relates to the mobility of law enforcement officers. We believe that the alternative approaches suggested herein with the aim of improving police mobility will be useful in portraying the scope of possible solutions to the problem.

However, as requested, we have also set forth specific recommendations for attacking the problem. Your cooperation in working with us throughout the preparation of this report is very much appreciated.

Respectfully submitted,

A. Leslie Leonard

A. Leslie Leonard
President

ALL/lf
Encs.

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July 6, 1971

Dr. A. Leslie Leonard, President
The College of Insurance,
150 William Street,
New York, N.Y. 10038.

Dear Dr. Leonard:

MOBILITY OF LAW ENFORCEMENT OFFICERS

We have pleasure in furnishing herewith our report on the role of pension rights and expectations as related to the mobility of law enforcement officers throughout the United States, the need for action in improving the transferability of pension rights, and the steps which might best be taken to bring this about.

This report opens with a statistical review of the facts as they presently exist. This provides a necessary background for the discussion and evaluation of ten alternative approaches which are then presented.

Our conclusions and recommendations as to which of these provide the most practical and effective approach are presented on pages 81-4.

Greater detail as to several aspects of this whole matter is presented in the Appendix which includes statistical tables reflecting the status of present plans, and further discussions of vesting, portability, reciprocity, and transferability of pension rights and the respective roles of the federal and state governments in taking the steps which are necessary.

Respectfully submitted

ALEXANDER & ALEXANDER INC.

Geoffrey N. Calvert

Geoffrey N. Calvert,
Director of Personnel Coverages.

IMPROVING THE MOBILITY

OF

LAW ENFORCEMENT OFFICERS

THE ROLE OF PENSION RIGHTS AND EXPECTATIONS

PROPOSALS FOR TRANSFERABLE PENSIONS

INTRODUCTION

In the never ceasing battle against crime, the strengths and skills of 450,000 men are pitted each day against criminal and disturbing elements of every type throughout America.

The success of these dedicated men is only partial. Three quarters of all offenders in property crimes and 40% of those committing crimes of violence are never apprehended. The police, more than anybody, are frustrated by the wide gap between the task they are expected to perform and the methods at their disposal to perform it.

One serious limitation affecting the way in which these law enforcement officers are working arises from the fact that they are distributed among an extraordinarily large number of separate and independent units. Rather than constituting a single cohesive army engaged in a coordinated battle against crime on a nationwide basis, these law enforcement officers are employed by more than 40,000 separate agencies, each with its own internal organization, lines of authority, territorial boundaries, equipment, recruitment program, pay scale, fringe benefits, and prospects for promotion on the part of the individual officer. A law enforcement officer, wishing to advance his position by transfer of his employment from one agency to another, is faced with serious handicaps. Firstly, the agency to which he is interested in moving may not permit "lateral entry", that is employment (above the most junior level) of a man having experience with a different law enforcement agency. Secondly, he faces in many cases the loss of his accrued pension rights by reason of transfer to the other agency.

In the field of law enforcement, pension rights loom very large in the thinking of men whose work brings them into daily contact with danger of many kinds. In the areas where crime is at its worst, physical danger is correspondingly high, and working conditions often unpleasant, the thought of ultimate retirement on pension has a correspondingly greater appeal. Regardless of location, the relative value of the retirement pension is greater among law enforcement officers than among almost any other occupational group. The thought of losing this pension by reason of a change of position can, and does understandably prevent many a police officer from moving to a job in which his prospects are greater and his skills and strengths can be more effectively employed.

Not only are there a vast number of separate law enforcement agencies; the great majority of these have very small numbers of men employed. With a nationwide average of only 10 or 11 men per unit, the numbers in each agency range from 1-man and 2-man forces, of which there are many, all the way up to about 30,000 men in the largest city police force (New York). At the county level, only about 200 counties of the 3,050 in the United States have a Sheriff's staff of more than 50 officers. With these men so thinly distributed among so many separate and independent agencies, it is obvious that the best results from their total efforts can be achieved only if there is freedom of movement between agencies.

THE STIRRINGS OF PROFESSIONALISM

Throughout many parts of the law enforcement system, there exists a strong feeling that more should be done to encourage professionalism among law enforcement officers. Police science, college and university education, broader horizons for promotion, the need for access to bigger positions, a more complete expression of ideals, a search for greater challenges, the application of highly specialized technical knowledge, and the yearning for a greater recognition by the community of the essential role of the peace officer, all point toward the need for the establishment of a more professional status for law enforcement officers in the same way as for other professions. This professionalism, as it develops, must inevitably come right into conflict with the thousands of barriers separating the many small independent local government units which employ these men. A truly professional law enforcement group must be able to sweep across all of these barriers, so that the whole field of law enforcement will be open to all men engaged in this field.

In a survey conducted in 1966 by the Peace Officers Research Association of California, more than 1,100 peace officers of all ranks responded to a questionnaire, almost 70% of whom felt that inter-departmental transfers would benefit individual peace officers, and 82% felt that such transfers would benefit California law enforcement. A clear majority felt that inter-departmental transfers were a requirement before law enforcement could be professionalized.

A subsequent survey in 1969 conducted by the same association revealed that 60 of 226 responding agencies do in fact practice some form of lateral entry. 81% of the chief administrators stated that they favored the concept of lateral entry.

It is notable, however, that ordinances prohibiting lateral entry existed in one quarter of the jurisdictions and that certain opposition to the principle of lateral transfer was expressed by some of those who responded. This opposition reflected a fear of losing personnel to larger police departments, a concern for morale if the channels of promotion were not kept open exclusively for those within a department, and a concern as to lack of uniformity in wages, job classifications, and other requirements. Some of the less favorable replies were:

> "Morale factor is primary concern. If this was done statewide and pay scales equalled statewide, the morale consideration would be minimized."
>
> "Small departments have enough trouble keeping qualified personnel now. Lateral entry will encourage qualified personnel (trained by small departments) to move to larger, higher-paying departments."
>
> "I feel that lateral entry can benefit law enforcement in the future. I believe, however, that certain basic requirements must be standardized before such a major program is undertaken. Salary structure, fringe benefits, entrance requirements etc. must be standardized."

Among those who favor lateral entry, the following verbatim comments are of interest:

> "I think that lateral entry is a step towards professionalization."
>
> "It gives the men a better choice as to where they want to live and work."
>
> "Lateral entry is a desirable method to upgrade the police service."
>
> "Most professional chiefs agree lateral entry is good and will eventually come at all levels."
>
> "We think lateral entry will be good for law enforcement and it will be another step towards professionalization."
>
> "Good concept. Provides opportunity to increase exposure, experience, and knowledge."

"Primary means for professionalized law enforcement."

"Lateral entry on all levels should be permitted throughout the United States."

"If professionalization of the police field is to be a reality, lateral entry at every level is required."

"Retirement plans will cause major problem."

"We have had good experience with lateral transfers. Another method of helping to professionalize the police service."

"It would give the men greater incentive to pursue their education in order to qualify them for one of the supervisory positions. In my opinion, this would lead to standardization of educational requirements, wages, fringe benefits and working conditions of all police officers."

"We have used it to very good advantage. It is not the complete answer, but it is a source of manpower."

A MAJOR OBSTACLE TO LATERAL TRANSFER

In order to obtain a closer reading as to the individual motivations of law enforcement officers, we conducted a series of personal interviews with members of police forces in the vicinity of New York, Pittsburgh, Chicago, Los Angeles, and San Francisco. In all, 132 law enforcement officers located in New York, Pittsburgh, Chicago, Los Angeles, San Francisco, and the neighboring areas were interviewed personally. The first question which was placed before each man was as follows:

"If you were offered a job of increased responsibility or potential in the law enforcement field in another area or agency, what factors would lead you to ACCEPT the offer?"

The responses to this question were as follows:

Greater immediate pay	75
Greater pension benefits	59
Greater pay potential in the future	58
Improved living conditions in new area	45
Increased potential for advancement	43
Greater fringe benefit package	42
Increased responsibility and bigger challenge	38
Other reasons	8

While the strongest preference or motivation reflects immediate pay considerations, it is notable that the prospect of greater pension benefits ranks above all other considerations, and is the predominant factor subject only to the consideration of direct pay.

The second question which was discussed with individual police officers, was:

"If you were offered a job of increased responsibility or potential in the law enforcement field in another area or agency, what factors would lead you to DECLINE the offer?"

Responses were as follows:

Ties to present area	68
Loss of pension benefits already accrued	64
Loss of seniority	54
Cost or inconvenience of moving	22
All other reasons	15

Even more strongly than before, the pension factor shows itself in a formidable way as a major inhibitor of transfers from one position to another within the field of law enforcement.

Pursuing this factor more carefully, the next question which was put to these men was as follows:

"How big a consideration would expectation of retirement pensions be to you in making a decision?"

The responses were as follows:

Most important	15)	
Of major importance	63)	88
Important	10)	
Somewhat important	3)	
Of little importance	12)	44
Not important	29)	

88 of those questioned rated the expectation of retirement pensions to be important, of major importance or most important, as contrasted with only 44 who regarded pensions as of lesser or of little importance.

Since not all men understand the terms of the pension plans by which they are covered, we felt it would be helpful to ask those being interviewed whether they believed that they would retain the right to a portion of their pension accrued up to the time of leaving. 70 of those questioned stated that they believed they would retain the right to a portion of pension accrued up to that time. 62 believed that they would not.

Approaching the subject from another angle, we then put the following question:

"Would the loss of accrued pension rights be an influence in accepting or rejecting a job offer?"

A very clear answer came in response to this question, as follows:

Yes	107
Possibly	3
No	22

As a final question, to test the effect of removing impediments to job mobility insofar as this may improve the motivation of law enforcement officers for self-improvement, we asked the following question:

"If any existing impediments to job mobility were removed, and a wider field of job opportunities in other locations were thus opened up, would this lead you to acquire new skills or specialized knowledge that would qualify you for a higher paid and/or more responsible position?"

The response to this vital question was as convincing as that to the previous question. Replies were as follows:

Yes	109
Possibly	4
No	19

It is our opinion, after studying the results of these personal interviews with peace officers, that two things stand out very clearly indeed:

(1) Pension rights and expectations, and the fear of losing the right to pension credits accrued already, are prominent among the most serious impediments preventing freedom of movement among police officers between departments and law enforcement agencies, and thus constitute a major obstruction to the improved deployment of men such as would assist in the battle against crime throughout the United States.

(2) In the event that this impediment to job mobility were removed, there would be an immediate stimulation to the acquisition of new skills and specialized knowledge among peace officers, resulting in better overall performance, greater professionalism, greater competition for senior positions, and a general advance in capability on a nationwide basis in the battle against crime.

We have felt it important to establish this basic relationship at the outset between pension rights, job mobility, and professionalism. If there were no such linkage, or if this relationship were weak or inconclusive, there would be little to be gained in making the far-reaching changes recommended later in this report.

Since doubts have occasionally been expressed as to the reality of this power in pension rights and expectations to motivate employees either to move or to stay in their present positions, we have shown as Exhibit L in the Appendix some excerpts from a book published in 1965 by the Twentieth Century Fund which calls this in question. We believe that the findings summarized above, together with the further observations shown in Exhibit L, fully answer these questions and doubts as these relate to the law enforcement field.

Before proceeding with an examination of alternative approaches to the provision of mobility in this field, it is helpful to describe the main features of the pension plans presently in operation, as these relate to the matter under study.

FACTS AS TO POLICE RETIREMENT SYSTEMS

Just as there is an extraordinary number and variety of sizes of law enforcement agencies, representing cities, counties, townships, boroughs, villages, and special districts, so in the pension plan field, there is a vast variety - almost a wilderness - of types of pension plans, having eligibility rules, benefit formulas, retirement age arrangements, funding postures, actuarial bases, reciprocity arrangements or the absence of these, vesting rights or their absence, and other plan features in so many permutations and combinations as almost to defy tabulation.

In order to explore this whole field in close detail, we made enquiries as to 250 retirement plans in the law enforcement field, and eventually obtained plan details and funding information relative to 122 of these retirement plans. While these comprise only a relatively small sample taken from the field of peace officer retirement systems as a whole, they do cover a wide variety of typical plans in many geographical areas throughout the United States. The following will give a general understanding of how these plans arrange themselves with respect to certain key aspects which have a bearing on the question of mobility in one way or another.

Vesting Requirements.

A pension credit is "vested" when the right to receive the pension or the portion thereof which has accrued up to the time of termination, continues to attach to the employee who leaves his job and transfers his employment elsewhere. Among industrial pension plans, it would be typical, for example, for a pension to be vested when the employee has worked for ten years or has attained age 40 and completed 10 (or 15) years of service, prior to his termination. After that date, whatever pension rights have accrued to him will continue to be payable from the pension fund of the losing employer, commencing at the normal retirement date provided for under the plan.

The first and most astonishing fact which emerged from our study of these police retirement plans was that 66 of the total of 122 plans provide no vesting rights at all. If the police officer leaves his job for other employment,

whether or not with another law enforcement agency, he loses the pension rights which had accrued to him up to the time of his termination or transfer.

Only 22 of the plans studied provided for vesting rights within ten or less years of service. Only 11 provided vesting rights with service of less than ten years. None provided for immediate vesting. The minimum service requirement was five years (5 plans only). 16 plans called for a minimum of ten years of service, 3 for 12 years; 16 required 16 years of service; 13 required 20 years, and 2 required 25 years of service before any vesting occurred. As mentioned, the biggest figure by a long way represented plans which provided no vesting at all (66 plans).

Here, then is the background which lies behind the fear among police officers of losing their pensions in the event that they move elsewhere even within the law enforcement field.

Normal Retirement Age Arrangements

Most police pension plans require both a minimum period of service and also the attainment of a stipulated age before normal retirement on full pension. Within this broad framework, however, there is a great variety of combinations of age and service requirements. Of the 122 plans studied, 37 required a period of service only, regardless of age. Of these, 16 called for 20 years of service, 11 for 25 years of service, and 5 for 30 years of service, while 3 stipulated 35 years of service. There is, of course, a very wide contrast between a 20 years' service requirement and a 35 years' service requirement for normal pension. 19 of the 122 plans linked a service requirement with the attainment of age 50. Of these 19 plans, 3 called for 10 or less years of service, while 6 required 20 years' service, 2 required 25 years' service and 7 stipulated 27 years of service. Again, even with uniformity in requiring the attainment of age 50, there is wide variation among plans as to the years of service required.

29 of these police pension plans stipulated that age 55 be attained before normal retirement. Of these, 3 called for at least 10 years' service, 13 for 20 years' service, 10 for 25 years' service and 2 for 30 years' service.

19 plans stipulated that the peace officer shall have attained at least age 60 before normal retirement. Of these, 3 made no service requirement, 4 called for at least 10 years, 2 for 15 years, 3 for 20 years, and 6 for 25 years' service.

9 plans required that age 65 shall have been attained. Of these, 8 made no service requirement, and 1 called for at least 10 years of service.

This enumeration, though it may seem tedious, brings home the point that police pension plans are totally lacking in uniformity, one with another. When a police officer moves from one jurisdiction to another and carries with him a vested right to a pension, it is by no means clear that the time when he will become entitled to retire from his second position will in any way correspond with the time when the pension rights he carried with him will be due to commence.

Employee Contributions, Integration with Social Security, Other Service

Of the 122 plans analyzed, 104 made no reference to the integration of retirement benefits with Social Security benefits. This is probably due to the earlier retirement provisions which are typical among police pension plans. Whereas most industrial pension systems are either integrated directly or indirectly with Social Security benefits, or are so designed as to provide a reasonable supplement to the Social Security pension, commencing at or about the same age as entitlement to the Social Security pension begins, this is not true or typical of most plans for police officers, where the retirement age in many cases is 5, 10, or even 15 years before the Social Security age.

In the matter of employee contributions, it is to be recognized that the earlier retirement age among police pension plans generally results in far higher costs as a proportion of payroll than would be typical among industrial pension plans. In recognition of this, and in keeping with the tradition among local government pension plans generally, the great majority of these pension plans covering law enforcement officers call for employee contributions as well as very substantial contributions from the local authority supporting the plan. Of the 122 plans studied, 116 make provision for employee contributions.

At one time, it was a fairly widely accepted practice in designing industrial pension plans to provide that if the plan were contributory, i.e. partly supported from employee contributions, it also contained vesting provisions. The first generation of bargained industrial pension plans contained little or nothing in the way of vesting rights, but on the other hand, these plans were non-contributory, that is, paid for entirely by the employer. Where employees helped to meet the cost, vesting rights were very often provided. In later rounds of bargaining, vesting rights were added progressively to these non-contributory plans, so that the prevailing pattern today is for, by far the majority of these non-contributory plans to contain fairly liberal vesting arrangements. In marked contrast to this pattern among private plans, the majority of police pension systems are on the one hand contributory, but on the other hand contain little in the way of vesting rights. This is manifestly an area in which these plans are not operating satisfactorily.

In a parallel area, of the 122 plans reviewed, 89 make no provision for recognition of service in any other employment, including law enforcement or any other employment. The effect of this is that the peace officer who transfers from one system to another in the majority of cases loses whatever pension rights he had accrued at the time of his transfer, and receives no recognition in the system to which he moves for his prior law enforcement service.

HOW POLICE PENSION PLANS ARE BEING FUNDED

Just as there are many combinations of eligibility and retirement age arrangements in effect, and many vesting provisions and benefit formulas, so there are a wide variety of actuarial bases being used in the funding of these plans. In the one extreme we have found four plans still using the obsolete 1937 Standard Annuity table. At the other extreme 21 plans are using the GA-51 table "with projection", which makes allowance for future extensions in life expectancy. 7 plans use the fairly conservative A-1949 annuity table; 14 use the GA-51 table without projection, which is much less conservative.

As to interest rates, one plan uses a 2½% interest rate, 2 employ a 3% interest factor, 12 are using 3½%, 29 are using 4%, 8 are using 4½%, and 7 are using 5%. When it is considered that each ½ of 1% by which the rate of interest changes will produce a difference in funding requirements of 8% to 12%, the breadth of variation among rates being used obviously indicates a widely contrasting range of funding levels.

Perhaps more significant than any of these is the fact that 56 of these 122 plans are operating on a non-funded or "pay-as-you-go" basis. Under these plans there is no actuarial reserve fund at all. Peace officers must rely on future appropriations made currently on a year-to-year basis for their pensions. The most disturbing feature of these situations is that individual peace officers have themselves made their contributions. The local authority by which they are employed has failed to put up its contributions on a current basis. Ample actuarial studies and the operating records of numerous plans have demonstrated many times that plans of this kind eventually cost far more than those which are actuarially funded on a sound basis, and hence have substantial pension funds both to provide a greater measure of security to peace officers and also to generate investment earnings which are extremely helpful in reducing the cost of pensions when they arise. Funded plans, in other words, create less burden on the tax payer than these non-funded plans.

In pursuing further this matter of funding pension benefits on an actuarial basis, we found that of 63 plans for which funding information was available, 13 were less than one-quarter funded, 19 were less than 35% funded, 26 were less than one-half funded, and 34 were less than three-quarters funded. Interestingly, 17 of these 63 plans were more than 100% funded in relation to the value of currently accrued benefits on the basis of current (but not projected) pay levels.

Not only does the funding posture among these many plans thus vary greatly; the funding systems or methods being employed themselves fall into various types. Notwithstanding that benefits are based in nearly all cases on final earnings, or final-average earnings, 22 of these 63 plans employ the "unit credit" method of funding. This method is generally looked upon as being unsuitable for use in connection with benefits based on final or final-average earnings, although it is, of course, manifestly far superior to the use of terminal funding, pay-as-you-go, or similar methods of meeting pension costs which fall short of any recognized funding system. Even among these 22 plans using the "unit credit" funding method, 6 are less than one-half funded, and 12 are less than three quarters funded, while 5 are more than 100% funded according to that system of measuring funding requirements.

The other generally used funding method, namely the "entry age normal" method, has been employed with respect to 41 of the plans surveyed. Of these, 20 plans are less than one-half funded and 23 are less than three-quarters funded, while 12 are more than 100% funded under the more stringent requirements of this entry age method.

These facts should be considered not only as reflecting a wide variety of funding postures in themselves, but also, in conjunction with the variety of mortality and interest factors used, they serve to indicate the total lack of uniformity in funding standards and practices existing in America at this time with respect to police pension plans.

It is, of course, not to be expected that anything approaching complete uniformity would exist. A somewhat similar lack of uniformity also exists

among industrial retirement systems. In part, this traces back to the variety of times elapsed since the most recent plan improvements or liberalizations. Typically, past service costs inherent in these plan changes are funded over periods which may extend as far as 40 years into the future. Not all pension funds are invested with equal skill. There are some pension funds which have been generating investment yields ranging up to 10% annually and beyond. Others have been invested poorly, with an over-emphasis on bond investments (even tax-exempt bonds) which are vulnerable to inflation, and without access to proper investment advice. In many cases also the level of funding has reflected the ability or inability of the local authority concerned to meet its pension costs on an adequate and current basis.

Whatever the reasons, the facts are that the funding of police pensions in America presents a picture of wide and indeed extreme variations and contrasts as between one plan and another. Police officers moving between one local authority and another, and hence between one pension system and another, seldom enquire as to the security of the pension promise; in most cases they take this for granted. Since the type of governmental organizations which typically employ police officers generally have a taxing power, there may be some justification in the blind faith shown by police officers with respect to their eventually receiving the pensions provided for under these many and varied plans. We have, on the other hand, seen flagrant examples of cities getting into extreme financial difficulties due to a failure to fund their pension plans in prior years, or due to unwise or premature liberalizations of benefits without adequate regard to the cost of these benefits in future years, or how these costs are to be met.

New York City was reported in March 1971 to be facing one form of expenditure whose relentless growth could not be curbed, namely the snowballing cost of pensions which, ten years ago, cost $215,000,000 annually, but was forecast to reach $1.3 billions annually within the coming ten years. The New York State systems also, which were costing $93,000,000 annually in 1960, were forecast to reach a level of $1 billion or 35% of the payroll, by 1980. Much of these heavy cost increases are attributable to plan amendments permitting many classes of workers in non-hazardous occupations to retire after only 20 years of service at half their final years' salary. "This pension cost is an enormous, invariable piece of granite which is insensitive to priorities and policy", the New York City Budget Director is reported to have stated recently.

Just as pension costs constitute a very large and onerous cost item for local authorities, so also does the value of the pension to the individual represent a large proportion of the total reward for his labor.

Looking into this aspect as to plans for which sufficient information was available, we found that, when pension costs are measured on the basis of normal cost plus a sufficient payment on account of unfunded (past service) liabilities to amortize these over 15 years, the following distribution resulted:

Average Annual Contribution Per Police Officer	Percentage of Plans for which Information Available
More than $3,000 annually	6%
$2,500 to $3,000 "	3%
$2,000 to $2,500 "	12%
$1,500 to $2,000 "	26%
$1,000 to $1,500 "	15%
$500 to $1,000 "	15%
Less than $500 "	23%

With annual amounts ranging up to and, in some cases, beyond $3,000 annually at stake, it is not surprising that police officers see in their pension plans a very substantial portion of the total reward for their labors, and why it is that the prospect of losing their accumulated right to accrued pensions, upon transfer to another position, so severely inhibits and prevents their making these normal changes of employment or pursuing their careers in other fields of law enforcement work rather than remaining confined within the small group in which so many are presently working.

Size of Pension Funds

In the normal scale of things, the assets of pension funds represent some of the largest aggregations of invested assets to be found anywhere.

The scene is different, however, when police pension funds are considered. Just as the enforcement of laws in North America is in the hands of more than 40,000 often very small fragmentary agencies, so correspondingly the pension funds relative to law enforcement officers are fragmented into a very large number of relatively small aggregations of capital assets.

Checking 107 pension funds, we found that 41 had assets of less than $500,000; 17 had assets of between $500,000 and $1,000,000, and 10 had assets of between $1,000,000 and $5,000,000. While these amounts may seem substantial by some standards, they are very small in relation to pension funds existing in most major fields of employment. Generally speaking, the existence of a wide scattering of very small funds can mean only one thing, namely, higher investment and administrative costs, poor investment performance, and hence much higher pension costs than would exist under other circumstances.

At the other extreme, there are a few police pension funds which reach very substantial size. Of the 107 funds referred to, 7 had assets of between $10,000,000 and $25,000,000, 4 between $25,000,000 and $50,000,000, 4 between $50,000,000 and $100,000,000 and 4 had assets of more than $100,000,000. Funds of these sizes, under proper investment direction, should be capable of better investment performance, and hence of making major contributions toward lowering the cost of pensions and adding to the security of the peace officers covered by them. It is, of course, only the larger police departments which are in a position to support funds of this magnitude, and correspondingly it is these larger departments, generally speaking, which are able to provide a wider field of opportunities for experience, training, promotion, and full expression of the abilities of their included police officers.

RECIPROCITY AMONG POLICE PENSION PLANS

In an attempt to ease the pathway toward greater mobility of peace officers within some states, a variety of steps have been taken to provide "reciprocity" of pension rights as between various participating towns, counties, or other jurisdictions, or as between these and a state plan or plans having a wide (but not complete) coverage within the state.

There are certain states in which the state retirement system itself blankets all of the smaller jurisdictions insofar as police pension systems are concerned. Where this condition exists, it carries with it automatically the right to transfer between one jurisdiction and another without losing pension rights, and indeed, this arrangement does effectively remove all pension barriers to lateral transfers or mobility of law enforcement officers at least within the state itself.

How Reciprocity Systems Work

In examining the various systems of reciprocity presently existing in America, we have found great variety of approach. This whole subject is on the move at the present time. Many bills and legislative proposals exist, only some of which seem to have a good chance of acceptance.

In California, twenty counties out of a total of some fifty-eight counties have adopted a policy of reciprocity with respect to police pensions. This policy applies in the event that a police officer moves from one of these counties to another, or into any city covered by the State of California plan. This latter plan itself covers most of the other counties, but it does not cover Los Angeles. The reciprocity system does not apply in the event of transfers to or from jurisdictions which have not adopted this policy.

From the view point of the police officer, the California system has three major advantages:

(a) The contribution rate which he pays is determined by the age at which the police officer became employed in the first jurisdiction in which he became covered, not by his age at the time of his transfer of employment. This usually means a lower individual rate of contribution for his pension.

(b) He retains the right to credit for service to the former employer, regardless of how long he had served at the time of his transfer. In other words, this has the effect of immediate full vesting of his accrued pension rights at the time of his transfer of employment.

(c) In the event that his rate of pay increases during the period of his employment after leaving one jurisdiction to work in another, the earnings at the time of his ultimate retirement, or the final-average earnings computed at that time, will apply with respect to the service rendered to the first employer, even though he had long since left the service of that employer. The effect of this is that the pension he had earned in the first position continues to increase as his pay advances in the second location of employment. This is much better than a mere vesting of his accrued pension.

Under the California system, no money moves between jurisdictions. Both the employee money and the employer contributions (if any) remain in the custody of the jurisdiction or the retirement fund under which the police officer was first covered. When he retires, the cost of his final pension is pro-rated between employers in proportion to the length of his service with each. When the police officer retires from one jurisdiction, he automatically retires from the other also. Although separate records are kept by each, the fact of his retirement is known to the first employer because the final employer maintains a card record showing, among other details, the fact of his prior employment, and the need to notify the former employer of the retirement.

In order to activate this system in the case of an individual transfer, the police officer is required to notify the gaining employer of his prior employment within three months after taking up his new position.

In other states, other rules apply. In Massachusetts, employee contributions are transferred when the police officer transfers, but there are no other reserve funds in existence. Benefits are based on terminal pay and the cost is pro-rated back to the various employers to whom the retiring police officer rendered service.

In one county in New Jersey an employee hired from another state can receive credit for prior service in the other state if he brings his own contributions previously made to the retirement plan of the other state. Paradoxically, there is no other form of reciprocity available within the state, unless the employee or police officer is covered by the state retirement system.

In Texas, a constitutional amendment is needed to make reciprocity possible between the state plan and various city plans within the state. We comment more fully on the situation in each area later in this report.

Generally speaking, among the various systems presently providing reciprocity, employee contributions move with the employee and local authority contributions sometimes also move. There is little attempt made anywhere to transfer the actuarial reserve corresponding to the value of benefits which have accrued. There is probably a good reason for this. Many of these retirement systems are not actuarially funded, and there are no reserves. Where such reserves exist, there are many actuarial bases and methods of calculating these reserves so that there would be no uniformity of standards in determining the amount of the reserve to be moved. A convenient short-cut appears to be simply to transfer either the employee money alone or this plus corresponding employer contributions, regardless of whether these comprise an amount sufficient to fund the pension rights being transferred.

To all of these statements, there are exceptions. In one state it appears to be the rule that the lesser reserve is transferred, namely, that corresponding to the benefit accrued when the police officer made his move or that corresponding

to the benefit with which he will be credited under the new plan. Whichever actuarial reserve is the lesser, this is the amount which is transferred from the losing jurisdiction to the gaining jurisdiction.

Where all towns, counties, and similar jurisdictions within a state are covered under an all-embracing state retirement system, there is, of course, no need for reciprocity, transfers of contributions or reserves, or other administrative machinery of this kind. The employee simply continues to build his pension credits within the same overall retirement system. The State of Washington furnishes a highly interesting example of how this type of system operates. At one time, there were 103 small towns and sub-divisions each of which operated its own retirement plan. All of these have now been swept into and consolidated with the state retirement system, including credit for all service previously rendered. Individual police officers will have gained much advantage in being able to move freely between one jurisdiction and an other within this state without any question arising as to the continuity of their service for pension purposes. Because of its great significance to the problem under review in this report, we provide in later sections a good deal of the detail as to the exact steps taken in the State of Washington in bringing about the change to a single statewide plan.

Great as are the advantages of these statewide systems, it is important to notice that the city of Portland is not covered under the Oregon state retirement system, which does cover practically all other local authorities within the state. Nor are there any reciprocity arrangements. Neither Los Angeles nor San Francisco are included within the public employees' retirement system of the State of California which covers a large number of smaller jurisdictions. If, for example, a deputy sheriff from Los Angeles county wanted to transfer to the Los Angeles police department (which has an independent retirement system) he could not do so without loss of his retirement credits. However, he could transfer to the Ventura sheriff's office, for example, or to the Anaheim police department, which contracts with the public employees retirement system for retirement benefits, and upon his retirement he would receive a portion of his pension from each of the systems under which he had served. The portions received would be proportionate to the time served under each system. Both systems would compute their payment on the highest salary

earned, even though his total contributions to one of the systems was made at the lower salary.

Because the principle of reciprocity as to pension rights gets quite close to the heart of the problem of mobility of law enforcement officers at least with respect to movements within the state, we have felt it important to gather more information as to the status of this matter in as many states as possible.

THE STATUS OF RECIPROCITY THROUGHOUT AMERICA

The following is a summary of the results of enquiries made to states throughout America with respect to the matter of reciprocity or transferability of pension rights between the various retirement systems operating within each state, or as between states.

This summary, in view of its wide geographical scope, is necessarily brief. Since this information was gathered fairly rapidly, it is possible that corrections or clarifications would be needed in order to present the whole picture with complete accuracy. However, the following summary is felt to contain ample information of sufficient accuracy to convey a broad general understanding of the variety of practices which presently exist, the great lack of uniformity and the incompleteness of coverage which must be faced up to by law enforcement officers contemplating a change of position in many - indeed most - states, or as between states. As to those states for which we received no information, it would seem unlikely that, on the whole, provisions with respect to reciprocity are more complete than among the states listed below from which we received the following information. (Reference is made also in the Appendix (Exhibit L) to certain states not listed below.)

Alabama:

One retirement system apparently covers most officers in this state. There is complete portability within this state system, but none as between the state system and municipalities or other jurisdictions not covered by the state system.

Arizona:

There appears to be complete reciprocity within this state. Both employer and employee contributions are transferred. There is apparently no single state fund.

Arkansas:

This state has no reciprocity at all for law enforcement officers, although this principle does extend to teachers.

Connecticut:

There is a state system and a municipal system in this state. There is reciprocity in the event of transfer from the state system to the municipal system and within the municipal system. There is no portability, however, of pension rights in the event of transfer from the municipal system to the state system.

California:

Many local jurisdictions are covered under the Public Employees Retirement System, and hence provide freedom of movement between these participating jurisdictions. Twenty counties not covered by that retirement system also have reciprocity arrangements with it. The large cities of Los Angeles and San Francisco, however, do not participate in the state system and do not have reciprocity arrangements with it, or with other jurisdictions. This is a serious defect.

Delaware:

There is apparently no reciprocity or portability of pension rights in the state of Delaware.

Georgia:

Of the eight or nine separate state retirement funds, one covers law enforcement officers. However, this does not extend to municipal employee groups. Although reciprocity or portability of pension rights is favored in principle, there are apparently some small local units within the state for which there appears to be no portability. Georgia is one of the very few states which have treaties in operation with other states providing a measure of inter-state reciprocity.

Maine:

A large measure of reciprocity exists, with employer and employee contributions transferring with the officer who moves. Most, but not all local jurisdictions are participants in this system, under which the retiring employee receives the benefits and is governed by the rules of the last plan from which he retires.

Massachusetts:

This state appears to have a non-funded retirement system although employees contribute towards the cost of their pensions. Upon transfer, employee contributions go with the employee. Employer costs are determined when the employee retires and the cost is pro-rated to each employer according to service with that employer. Here again, the benefit is determined in accordance with the system from which the employee retires.

Maryland:

In this state, there is one comprehensive state retirement system which includes also the employees of about one-half of the counties. There are several separate municipal systems. There is apparently reciprocity between the various systems which are actuarially funded. Only employee money is transferred, with the final employer picking up balance of the cost. In discussion, it was felt that the substitution of a single statewide plan covering all local systems would be "ideal".

Nevada:

In this state, there appears to be a statewide plan covering most of the local authorities within the state, but not all. Within those covered by the state plan, there is complete transferability of pension rights and uniformity of benefit arrangements. There is no such portability or transferability with respect to those groups not covered by the state plan.

New Jersey:

With the prominent exceptions of Newark and Jersey City, where pensions are not funded, the state system of New Jersey covers most but not quite all of the local systems. There is portability within the coverage of the state system, but not as between this and either Newark or Jersey City.

In the teaching field, one county (Essex county) permits teachers who join its employment from out of state to deposit their employee contributions from the prior plan in another state, in which case Essex county gives credit for the prior service and picks up the whole cost of the employer-paid portion of the pension. In the case of transfers of police officers, a transfer of funds is made in an amount equal to the smaller of the prior employer contributions or the pension reserve of the gaining employer.

New York:

There is a state retirement system covering almost every local authority in New York state other than New York City itself. Within the state system, there is virtually complete portability. Transfer arrangements also exist as between the state system and that of New York City. The amount to be transferred along with the employee is determined by the losing system. As in some other states, there are complications due to the existence of alternative plans providing benefits of different levels and hence values.

North Carolina:

There is apparently no reciprocity or transferability of pension rights in this state.

North Dakota:

Unless both groups involved in the transfer are covered by the state retirement system, there is no reciprocity in North Dakota.

Oregon:

Almost all local authorities are covered by the state retirement system with the important exception of Portland. There is apparently no reciprocity as between Portland and the state system.

Pennsylvania:

There is apparently no reciprocity system at all operating in the state of Pennsylvania.

Rhode Island:

A state operated municipal retirement system covers most of the municipalities in this state. Some, however, are not covered. There is no reciprocity as between the state-supervised system and the independent plans operated by municipalities outside this system.

Tennessee:

There is apparently no reciprocity system operating in Tennessee.

Texas:

There are four widespread retirement systems operated by the State of Texas covering teachers, state employees, municipal systems and counties, and special districts. How reciprocity can be established as between these four systems is presently under serious discussion. There are still a few counties not included in any of these systems. Certain cities, including Dallas, do not appear to be included in any one of the state-operated systems mentioned. There is no reciprocity between these separate plans and any one of the four state systems.

Utah:

A public safety retirement system and a regular state employees' system covers almost all cities. There is, however, no reciprocity as between these systems, or with plans outside either one of these two statewide systems.

Vermont:

There is apparently no reciprocity in Vermont, either in or out of the state system. No credits are ever transferred although an employee can apparently bring with him the contributions he has made to another system, but no employer money is ever transferred nor does the employer pick up any liability for prior service within the state or elsewhere.

Virginia:

Again, there is apparently no reciprocity between the state system and the various cities which are not covered by it.

Although this review does not cover every one of the 50 states, it does cover enough to indicate the great disparities which exist as between states, when contrasted one with another, and the large number of states in which the principle of reciprocity or transferability of pension rights has not been established.

In discussing this matter personally with the administrators of many state systems, we found unanimous acceptance of the thought that a single state plan covering all of the political or administrative subdivisions within the state would work far better than a patchwork in which some local authorities are covered, some are not, some subscribe to the principle of reciprocity and some do not.

There was frequent criticism of the status or position of certain large cities which do not extend the principle of reciprocity to smaller local authorities within the state or to the state system. When we mentioned the steps which have been taken by the State of Washington, which has swept all

of the small local systems into a single statewide plan for law enforcement officers and fire-fighters, there was unanimous acceptance and praise of this as a more workable and successful arrangement than any other, at least as to transfers between law enforcement positions within a state. After reflecting upon all of the information which had come to us and the comments of the administrators of statewide retirement systems with whom we discussed this problem, we have reached the conclusion that a constructive basic approach would be for each state to take steps similar to those which have recently been taken by the State of Washington, thus ending completely the problem of impediments to lateral transfer between positions at least within the boundaries of each state.

If this policy is put into effect, and there no longer remain any problems resulting from job changes as between local authorities within any state, there will still remain the basic problem of dealing with transfers between one state and another.

TEN POSSIBLE WAYS TO RESOLVE THE PROBLEM

There would appear to be the following ten alternative ways of approaching the problem of improving police mobility by removing the obstacle which presently exists with respect to the loss of pension rights on transfer from one employment to another. These ten possible approaches are as follows:

(1) Improve vesting provisions among all police retirement systems, with vested portion of pension continuing to be an obligation of the pension plan of the losing employer.

(2) Create central reserve fund to which to transfer fragments of pensions to which transferring employees would continue to be entitled.

(3) Enlarge and expand coverage of existing systems of reciprocity within each state.

(4) Establish a system of full portability as between police retirement systems under which contributions and reserve amounts would move along with pension rights from the losing system to the gaining system as each officer transfers from one jurisdiction to the next.

(5) Establish a single nationwide central police retirement system, following the model of the Teachers' Insurance and Annuity Association, to which local authorities everywhere could elect voluntarily to join.

(6) Establish a central retirement system for law enforcement officers, patterned after the Railroad Retirement System, under which all authorities employing police officers and these officers themselves would be compelled to be covered.

(7) Merge all local police retirement systems into the state employees retirement system operating within each state.

(8) Having accomplished number 7 as before mentioned, establish a system of reciprocity between states.

(9) Establish a nationwide law enforcement retirement system, or separate systems in each state, but provide three or four categories within this plan, corresponding to the conditions existing in different classes of cities or other local authorities.

(10) Establish a nationwide plan or a series of statewide plans providing minimum benefits only, leaving each state or local authority to supplement these as it sees fit.

In the following sections of this report we will describe each of these alternatives more fully and will present a summary of the method of operation, the practical difficulties, and the conditions which would be required to be met in order that each could succeed in accomplishing the basic objective of increased mobility of law enforcement officers, and the general suitability of each approach as a means to this end.

Following this analysis, we present our basic recommendations as to the approach which would, in our opinion, be the most practical to implement and the most effective in achieving what needs to be done.

(1) IMPROVEMENTS IN VESTING

The term "vesting" means in this context the retention by a transferring police officer of his right to the benefit which he had accrued up to the time of his transfer of employment. To solve the problem of mobility effectively, an extremely liberal standard of vesting would have to be universally adopted, or even 100% immediate vesting - a course regarded as utterly impractical for private industrial pension plans. In reviewing this approach in the light of the types of retirement plans to which these men generally belong, there would be the following practical difficulties:

(a) It is not clear exactly what benefit would have vested. Pensions are generally determined on the basis of earnings at retirement, or within a few years close to the time of retirement. If, for example, a police officer moves from one jurisdiction to another after five years of service and at the age of 32, his rate of pay would probably be far less than that which he would receive at the time of his retirement which could be 20 or 25 years later. What, then, has he actually accrued by way of pension rights when he transfers? What, exactly, will have vested? Would his pension be calculated as though he were retiring at the time of his transfer? Would it be based on a retrospective or a prospective view of his earnings at the time of his transfer? In either case, it would be far short of the corresponding portion of his pension determined on the basis of his earnings close to his actual retirement at the time when he retires from the service of the jurisdiction to which he eventually transfers. The term vesting, however, does not normally imply that increases will be made in the pension after the date of termination or transfer.

(b) Further, what retirement age would apply? If he moves from a pension plan providing for retirement at age 50 with 20 years of service, but continues to work in another jursidiction in which normal retirement is at age 60 with considerably more service, at what time would he be entitled to commence receiving the pension from his first employer? Would this

commence at age 50 when he would have completed at least 20 years of service, or would it depend on his retirement from law enforcement activities of any and all types, and from a jurisdiction other than that in which he had accrued his vested pension?

(c) How would the losing retirement system keep track of his continued survival? Who is to notify the original retirement system for its records in the event of his death before attaining retirement age? In the case of a female police officer, what machinery exists for notification of change of name on marriage or remarriage long after she has left the employment of the original local authority, or changes of residence?

(d) Should the retention of the vested right depend upon continued employment in law enforcement work? Suppose the police officer concerned leaves the field of law enforcement altogether. Should the same extremely liberal vesting standards apply? When information is defective, what is the actuarial liability of the fund under which the transferring officer was formerly covered with respect to the vested fragment of his pension?

(e) How would this widespread implementation of very liberal vesting be enforced in all state and local government systems? Does the federal government have legislative power to enact laws to accomplish this? We are advised otherwise. Would inducements be needed in the form of federal cost subsidies to be made available if the required vesting standards are met?

There is considerable pressure at the present time for legislated minimum vesting standards throughout private industry. However, even the most liberal of these proposals would fall far short of providing the degree

of protection of pension rights which would be needed to accomplish a complete or virtually complete removal of barriers to lateral movement of law enforcement officers.

This is because most transfers of employment occur within the first few years of joining each organization. Vesting normally does not occur until after a qualifying period of service, such as 10 years, or attainment of a combination of age-plus-service, such as 50, or simultaneous qualification of separate age and service requirements, such as age 40 and completion of at least 10 years of service. Even the most liberal vesting requirements in existence such as a mere 5 years of service, seldom seen in industry, would still constitute a formidable barrier to the degree of freedom of lateral movement needed for law enforcement officers, especially in view of their highly fragmented employment among so many independent agencies.

These facts, combined with the freezing of the pension amount on the basis of the rate of salary at the time of transfer, plus all of the other problems enumerated, indicate in total that vesting of pensions on transfer of employment to another law enforcement agency would not provide a very satisfactory result.

After a full consideration of this alternative, we have concluded that this general approach does not provide the makings of a genuine solution to the problem of mobility of law enforcement officers. Under some systems already in existence, it would actually be a retrograde step. We are not recommending, therefore, that this approach be further pursued.

(See also the discussion entitled "Vesting versus Portability versus Reciprocity versus Single Statewide Plan" set forth as Exhibit M in the Appendix to this report.)

(2) CENTRAL FUND FOR FRAGMENTS OF VESTED PENSIONS

A concept has sometimes been put forward by those who advocate increased mobility of labor and the immediate vesting of all fragments of pensions, under which a central fund would be established, presumably by the federal government of the United States. When each member of a pension plan transfers his employment to an occupation not coverd by this pension plan, his accrued pension rights and the obligation to provide this fragment of his total pension at retirement would be transferred to the central fund. To this fund also would be transferred his past employee contributions and also the contributions or the actuarial reserve corresponding to his pension rights which had been contributed by the employer. As the employee moves on from one employment to another, his accruing pension rights and the funds from which these are to be paid would accumulate in this central fund. If the employee settles down for a lengthy period with one employer and retires eventually from the service of that employer, then his pension arising from that final period of employment would be paid from the pension fund of the last employer.

Such a proposal was seriously advanced in the province of Ontario during the time when portable pensions had recently been enacted, and prior to the establishment of the nationwide Canada Pension Plan. In the face of many protests from employers and criticisms from technicians and others, the government of Ontario did seriously contemplate the establishment of such a central pension fund.

Eventually, this proposal was dropped. It was felt that there were already sufficient alternatives available to accomplish what was needed. As to insured pension plans, the insurance company itself could provide paid-up fragments of annuities. Where the fund assets were held by a trustee, the vested pension could remain an obligation of the trust fund; alternatively, fund assets could be transferred from the trust fund of the losing employer to that of a successor employer having a pension plan. Another alternative would be for the fund assets corresponding to the accrued pension rights being withdrawn from the trust fund and applied to the purchase of a paid-up annuity commencing at the normal retirement age, or to a registered individual

retirement savings plan. In the face of these and similar alternatives, the government of Ontario decided not to proceed with the establishment of a central pension fund for this purpose.

In reviewing this proposal in the context of the present problem, we see in it a repetition of all of the same difficulties and pitfalls which arise in connection with the vesting of pensions, as described in the previous section of this report. Not only would there be great confusion as to a possible variety of retirement ages all applying to a single individual; in addition, there would be many conflicts among the conditions relative to the payment of benefits, the selection of optional forms of benefits, and the exact arrangements as to the dates of payment and termination of payment at the time of death following retirement; further, all of the problems involved in keeping track of the whereabouts and continued survival of each person having a contingent claim on fund assets would continue to haunt this type of central fund so that it could develop rapidly into an administrative nightmare, a record keeping montrosity, in which administrative costs would be out of all proportion to the benefits provided.

In an inflationary economy, the fragments of pensions represented by the liabilities of this fund would be insensitive to inflation, and would become progressively more meaningless to the individual, while prior employers would be unlikely to be in any way concerned about boosting fund assets to protect the purchasing power of pensions of those long since departed from their employment.

Another whole field of problems would arise from the fact that many of the pension funds or plans from which transferring police officers had made their exit are not funded, or are far from fully funded according to normal actuarial standards. In the case of pay-as-you-go plans, there would be no fund assets available to transfer into the central fund. What, then, would be the position of the local authority which had just lost the services of a law enforcement officer? Would this local authority be called upon to put up the actuarial reserve necessary to cover the pension credits accrued by the departing officer? Would this officer then receive

preferred treatment, as compared with those who had remained loyally in the service of the losing local authority? And as to the many plans which are only partially funded, would the departing officer rank ahead of all others in his claim on the inadequate assets of the pension fund, leaving it further weakened and diluted with respect to the remaining liabilities for the surviving members of the police department? Merely to ask these questions is to expose a vast area of weakness and difficulty which would lie in the pathway of this type of proposal. Where past service liabilities were in process of being funded over, for example, forty years, and where the transferring police officer is due to retire in eight or ten years, for example, would the funding of his past pension accruals have to be speeded up and completed by the time of his retirement? Would, instead, a stream of small partial payments on account of prior service continue to flow into the central fund for many years after the transfer of the officer from one plan to another?

The more we have probed and analyzed this proposal as a practical solution to a serious problem, the less we feel that it provides even the beginning of a solution. We therefore recommend that no further consideration be given to this proposal as a practical means of meeting the need for increased mobility of peace officers.

(3) MORE RECIPROCITY WITHIN EACH STATE

America at this time presents a patchwork of contrasting situations with respect to the matter of reciprocity. Some states have reciprocity arrangements currently operating; others have not. Within many of the states which have reciprocity arrangements, some local authorities are covered by the system while others do not participate in it. In some cases the biggest city in the state has no reciprocity as between its own retirement system and that of the state which usually covers many small local authorities. In other states, reciprocity arrangements have been established between the largest city and the state system. In some states, all of the local authorities within the state are covered by a single system, so that the whole concept of reciprocity has no application. The employee simply continues to be covered by the same retirement system, regardless of the jurisdiction in which he is working.

Standing out prominently from this complex picture of inconsistency and imcompleteness of coverage, is the fact there are many states having no reciprocity arrangements or other provisions for mobility whatsoever. It is from this fact that the whole problem arises which forms the subject of this study and which gave rise to it.

Within those states which have made some arrangements for reciprocity, there are various forms under which this principle is expressed. In California, for example, no money passes between local authorities when a peace officer moves from one to another. At his retirement, each local authority pays its share of his pension. In some other states the contributions of the employee, and in some cases those of the employer also move when the officer moves. In some cases, past contributions are transferred; in other cases, the actuarial reserve moves with the man. This may be a very different amount.

In searching for a solution to this whole problem, we have been giving great thought and consideration as to whether an "ideal" system of reciprocity should be proposed, and steps taken to encourage this to be adopted throughout the nation by each state as to those employed within its borders.

On the theory that a majority of lateral transfers probably take place wholly within a state, and only a minority involve crossing state lines, a program of this kind, if adopted uniformly throughout the nation, would go a long way toward solving the problem of mobility. Still to be dealt with, however, would be the principle of interstate reciprocity in order to deal with transfers across state lines. We understand that this could present some difficulties especially if funds were to move between plans prior to the retirement of the transferring officer. Further, we have been advised that the constitution of some states, as presently written, would bar the adoption of a system of reciprocity as between the public employees' retirement system of the state and other systems even within the same state. Much legal work and redrafting of state constitutional provisions as well as pension plan provisions would therefore seem to be required. We can visualize years of delay in getting reciprocity systems working satisfactorily in all states.

Two other aspects of the principle of reciprocity require consideration:

(a) Is it necessary for a uniform retirement plan, applicable to peace officers in every subdivision, to be adopted in order for this system to be workable?

(b) Can it be reasonably expected that reciprocity will ever satisfactorily resolve the mobility problem if left to operate piecemeal on a voluntary basis, with individual decisions as to whether or not to participate being made by each separate town, county, village, or other jurisdiction within each state?

As to the first of these, it would seem that the existence of a uniform plan would simplify the mechanics of a system of reciprocity. While it is not actually necessary in order for the system to work, the existence of uniformity would ease its operation from an administrative point of view.

This may not, however, be the overriding consideration. There are some areas in which congestion and crime are far more rampant than in other areas. The daily challenge faced by a police officer in the slum areas of a big city are in a different class entirely from those faced each day by the sheriff in a small rural township. Does it follow then that each of these two peace officers should retire at the same time, or receive pensions determined by the same formula? Does 20 years of service and the attainment of age 50 mean the same thing in a peaceful country setting as it does in an area of very heavy traffic, polluted air, rampant crime, and mortal danger on a day-to-day basis? Is it not rather a fact that the retirement age appropriate in the one situation may be as much as 10 or even 15 years apart from the retirement age which would make sense in the other situation?

It would seem inevitable that in the design of a plan intended to be as uniform as possible, and to cover all areas within a state, provision would need to be made for some separation of jurisdictions into classes, according to the size of population, crime rate, and similar factors. Perhaps only two or three such categories need be provided for. The smaller the number, the easier the administrative task. But without at least some separation of areas in this way, it would seem difficult or even unworkable to design a uniform plan which would be successful throughout all parts of each state. Alternatively, a flexible retirement age provision in the plan could meet the practical needs of contrasting situations within the same state.

It is notable that when a proposal for a uniform retirement plan was put forward recently in California, strong opposition to it came from the small peaceful rural areas in which it was claimed that the proposed plan was far more liberal and hence costly than these local authorities would be able to support. There is no question that there was merit in these objections. The solution, however, may not have been simply to abandon the idea of a uniform plan, but rather to redesign it so that it would be able to be applied satisfactorily both in large crime-ridden cities and also in the more peaceful setting from which these objections can be expected to arise. The later retirement ages, and hence much lower pension costs, which would

be normal in these rural settings will always give rise to this problem unless it is anticipated in the design of the plan itself.

Reciprocity has more to offer than has vesting in preserving manpower in the law enforcement field while providing better benefits and greater mobility and opportunity to the individual officer. But to be fully effective, all political subdivisions would have to be covered by the reciprocity agreement - a situation which is very rare today - and agreements would have to extend also across state lines. This whole approach has promise, but can be improved on, as shown later in this report.

Reciprocity as between federal and state retirement systems is also needed, as discussed later in this report.

(4) "FULL PORTABILITY" OF PENSION RIGHTS AND RESERVES

The concept implied here would contemplate the transfer, with the police officer, of all of his accrued pension rights from the losing employer to the gaining employer, along with the full actuarial reserve necessary to provide the accrued benefit.

It would differ from a widespread system of 100% immediate vesting in that the losing employer would no longer have any obligation to its former employee. There would be no need to maintain records as to his pension rights, or to enquire as to his continued survival, name, location, or retirement. All of these matters would be of concern to the gaining employer only.

Unlike the system of reciprocity as generally practiced, there would be no allocation of cost between employers at the time of retirement. The final employer would have all of the money and would be responsible for all of the cost of the pension.

When the matter is stated in this way, it would seem that this concept of full portability of pensions and reserves make good sense. However, there are at least as many pitfalls in this approach as in the other approaches described so far. These include:

(a) The complete absence of actuarial reserves in large numbers of local government retirement systems. This would in many cases create insuperable problems at one or both ends of the transfer. In large numbers of cases, the losing employer simply would not have the funds to transfer. In many other cases, the gaining employer would have no fund into which to place the transferred reserve, and hence no capability to earn the interest, absorb the mortality risk, capital fluctuations, and other experience fluctuations which are normal to the operation of a pension fund. When reduced down to a single individual, the actuarial reserve, which is calculated on the basis of large numbers and the operation of averages, would involve a financial hazard and little else. The gaining employer might gain or lose from the transaction.

(b) The commencement date of the pension and its form may or may not conform to that of the gaining employer. The odds are that it would not.

(c) The question of transfers outside the law enforcement field would have to be resolved. If the police officer is entitled to his accruing pension and its reserve value as a part of his compensation, and to have it move along with him, is he any less entitled to it if he leaves the law enforcement field and enters some other employment? If his right to the pension is absolute, regardless of the direction of transfer, then the concept of mobility-with-conservation-of-manpower within the law enforcement field is lost. Reciprocity systems do have the advantage of holding law enforcement manpower within this field.

(d) What would be the result of future pay increases after transfer? Generally, a fully portable pension does not change in value or amount after it is moved. The actuarial reserve does not grow otherwise than from investment earnings which are discounted in advance. There would be no machinery for recognizing the effects of inflation in eroding pension values either before or after retirement, or upgrading these when plans are liberalized. Transferred fragments of pensions would thus be quite vulnerable to inflation and hence would become obsolete and insufficient.

(e) The same problems that arise in determining the amount of vested pensions in the case of plans based on final or final-average earnings would apply equally to portable pensions, with the added complication that in determining the amount of the reserve to be transferred, an actuarial allowance for future pay increases may or may not have been made. If it had been made, would the transferring

officer be entitled to the transfer of that portion of his reserve arising from future pay increases that had not yet become effective? Thorny problems would arise in the choice of actuarial bases and methods, which would take on an entirely new significance.

Enough points have been made to indicate that the widespread establishment of fully portable pensions, along with related pension reserves, cannot be regarded as a practical approach to the resolution of this whole problem. The problems in getting 40,000 separate employers each to bring their pension systems into a soundly funded actuarial condition, which would have to precede the successful implementation of this approach, need only to be mentioned to cause this line of attack to be abandoned.

(5) TEACHERS' INSURANCE & ANNUITY ASSOCIATION: A PRECEDENT FOR LAW ENFORCEMENT?

In view of the spirit of professionalism which exists among teachers in institutions of higher education, and their freedom to circulate among these institutions, it is natural to look to the pension arrangements which apply to them for a precedent which might apply also to law enforcement officers. These pensions are provided largely through the Teachers' Insurance and Annuity Association.

Historical Review

It has been stated that when Andrew Carnegie became a university trustee in 1890, he was shocked to find how small were the salaries of the professors and concluded that for a professor to save for his old age was impossible. The problem made a deep impression on him, and he frequently discussed the matter with the prominent educators of the time.

In 1905, as a gift to higher education, he gave $10,000,000, the income of which was to provide retirement pensions for teachers of universities, colleges and technical schools in the United States, Canada, and Newfoundland. This was the origin of the Carnegie Foundation.

Early in 1906, the foundation reincorporated with a federal charter. By June 1906, 52 institutions were deemed acceptable for "free pensions" and 33 pensions had been granted to professors and widows.

The concept of treating pensions as "deferred compensation fully assured for the future" is the concept that was incorporated in the TIAA system which later evolved, and which employs the use of individual annuity contracts and full vesting of all retirement income contributions.

Unquestionably, the greatest single contribution to pension philosophy by the Carnegie free pensions was the concept of transferability. To qualify for a retirement allowance, it was not necessary that a teacher spend any specified length of time in any one of the associated institutions. In 1918 this concept of mobility was carried over to the much broader TIAA plan operating within the college world. In 1935, 30 years

after the Carnegie Foundation was organized, the federal Social Security Act established the principle of transferable pension benefits for most of the American working force.

As their experience with the free pension system had grown, the officers of the Carnegie Foundation realized that free pensions would give only a most limited service to education. Hence the Foundation began a search for a practical and durable pension system that would fully meet the needs of the entire college world. This search continued for several years and culminated in the organization in 1916 of a study commission, bringing together the best available sources of knowledge. Educational and actuarial representatives sought the solution of a problem that loomed large, not only for teachers but for all the colleges and universities in the country.

A statement of principles for college and university retirement planning was published by the Commission of Insurance and Annuities in its report of 1917. These principles included:

(a) A college retirement system should rest upon the co-operation and mutual contributions of the colleges and the teachers.

(b) For the assurance of the annuity, there must be set aside year by year enough to build up a reserve adequate to meet the ultimate benefit payments.

(c) The arrangement with the teacher should be put on a contractual basis.

(d) The greatest freedom of movement of the college teacher from one college to another should be provided for.

These recommendations were carried out by the establishment in 1918 of Teachers' Insurance and Annuities Association to provide fully vested annuities under a contractual and contributory system. It was felt that these provided "a just, feasible and permanent" solution to the retirement problem. In the next few decades, hundreds of educational institutions were to adopt TIAA retirement plans.

The purpose of TIAA was stated at the outset "to aid and strengthen non-proprietary and non-profit-making colleges, universities and other institutions engaged primarily in education and research by providing annuities, life insurance and sickness and accident benefits suited to the needs of such institutions and the teachers and other persons employed by them on terms as advantageous to the holders and beneficiaries as shall be practicable, and by counselling such institutions and their employees concerning pension plans or other measures of security, all without profit."

TIAA was incorporated under the New York State laws applicable to stock life insurance companies. The charter states explicitly that its business shall be done without profit. In 1938, the Carnegie corporation transferred the stock of the Association to an independent board designated as trustees of TIAA stock, a membership corporation created by a special act of the New York State legislature. As the sole stockholder of the Association, trustees of TIAA stock as a body elects the trustees of the Association, one of whom is nominated by policy holders for a four-year term.

The College Retirement Equities Fund (CREF), a fundamentally new approach to retirement planning, was founded in 1952 as a companion organization to TIAA. The two non-profit organizations play an important role in American higher education. Their special retirement and insurance arrangements, available only to educators, have strengthened the educational system and facilitated the attraction to teaching of capable and devoted men and women.

Since January 1, 1936, the contracts issued by TIAA have been self-supporting. Since 1918, TIAA has paid more than $785,000,000 to educators and their families as retirement income, death benefits, reimbursement for major medical expenses and income during long term disability. In 1968 benefits from TIAA and CREF amounted to about $98,000,000.

Over the years, many institutions have become participants in the TIAA benefit system. This growth is illustrated by the following table:

Year	Number of Institutions
1928	139
1938	267
1948	551
1958	898
1968	2,126

Highly significant in this picture of the continuous growth in the number of institutions participating in the TIAA plan is the fact that this is a voluntary system. There is no element of coercion, or compulsion by legislative act. Highly significant also is the fact that it has taken 40 years for the coverage to extend to the degree indicated by this table.

Turning to the College Retirement Equities Fund, this is a membership corporation created in 1952 by a special act of the New York State legislature. Control is vested in the seven members of CREF who are also the member trustees of TIAA stock. The purpose of the combined TIAA-CREF system is to link retirement income more closely with the growth and change of the American economy. Due to the presence and prospects of long-term inflation, a new approach to retirement income had been needed for some time. This system pioneered the variable annuity concept, benefits being purchased and paid out in units based on common stock investments.

The TIAA-CREF policyholder may allocate between 25% and 75% of his total concurrent annuity premium to CREF, with the remainder going to TIAA. The two parts of this system are designed to complement each other, the aim being to provide a hedge against both inflation and deflation.

As non-profit organizations with services limited to the educational world, TIAA and CREF provide annuites having features designed to meet the special requirements of the teaching profession.

An important feature of the American educational system is the academic mobility under which teachers, scientists and administrators more often than not serve a number of institutions during a single career. As the career advances in successive institutions, scholarship, experience, and talents develop and are refined. Teachers, and of course their students, benefit from the interchange of ideas stimulated by the movement of academic personnel among colleges, universities, research organizations, foundations, and government. The colleges and universities benefit by this free movement of professors and by their resulting acquaintance with the practices and standards of other institutions.

A retirement system that would limit or restrict the pattern of interchange of academic personnel would not properly serve education or the educator. The development of the scholarly interest of professors through the years often makes it logical for them to move from one institution to another. In recognition of this, TIAA-CREF provides immediately and fully vested annuities - the individual owns all the benefits purchased by his own and his employer's contributions from the time these contributions are made. This allows teachers, research personnel, and scientists to move freely among the 2,000 educational institutions that have TIAA-CREF plans. The individual may also take leaves of absence or enter business or government service and continue to pay premiums on his own. He may stop his payments altogether without losing previously accumulated benefits.

Although the individual has a vested interest in these annuity benefits and takes them with him if he changes employers, each employer is assured by the absence of cash or loan value provisions that contributions cannot be liquidated or mortgaged. The individual annuity can be used only for its intended purpose - to provide retirement income, or if the employee dies before retirement, death benefits for his family.

In 1956/7, TIAA initiated two new coverages for groups of staff members of educational institutions - major medical expense insurance and total

disability benefits. Introduction of this new service was made possible by a $5,000,000 appropriation by the Ford Foundation to TIAA to cover developmental expenses and to provide contingency reserves.

Neither TIAA or CREF have any sales agents. Counselling service to institutions is provided by TIAA through its institutional counselling department. Staff members will counsel by letter and telephone, and when requested and practicable, will arrange for conferences with college officers. Services are provided in connection with the designing of new college insurance and retirement plans, improvement and operation of existing plans, coordination of TIAA benefits with Social Security or other programs, and related administrative problems. Employee benefit studies are published from time to time in the educational press or as a separate study, providing guidance and information to those concerned with the design, establishment and administration of benefit programs of many kinds.

In considering whether this whole TIAA system would form a suitable model for the establishment of a retirement system for law enforcement officers, the following considerations stand out:

(a) The length of time which it has taken for TIAA-CREF to reach its present level of saturation has been 40 years. This would seem to be far too long a period. In the present stage of thinking and understanding about pensions, portability, and mobility of law enforcement officers, the new arrangements would have to be brought into full operation if possible in a very few years at the most.

(b) The fact that the adoption of TIAA-CREF is voluntary on the part of each employing institution is harmonious with the absence of jurisdiction over state and local government plans on the part of the federal government. It would

seem that whatever action is taken, must be taken on the basis of persuasion rather than legislation at the federal level. Legislation at the state level is, however, quite possible and could greatly speed up the realization of a sound solution.

(c) The TIAA system is soundly funded. Many of the local police retirement systems are not funded at all or are very poorly and inadequately funded. There is no question that whatever system is designed and implemented in replacement for the present inchoate congolomeration and patchwork of small separate systems should be placed on a sound actuarially funded basis.

(d) There are certain features peculiar to TIAA which would not work well in the context of police retirement systems:

i. The first of these is the fact that the TIAA plan itself operates on a money-purchase basis. Police retirement systems are almost universally based on final-average earnings. It would be a retrograde step to use the obsolete money-purchase approach in the context of police retirement plans.

ii. Similarly, the variable annuity concept which is the very essence of CREF has been greatly weakened in recent years by the concurrent accelerated inflation combined with a serious bear market. We do not believe that the variable annuity concept itself is anything which should be promoted as a vehicle for widespread use among police officers or their retirement systems. Where retirement plans of government agencies are adjusted to recognize the presence of inflation in eroding pensions to those already retired, the remedy is almost universally to adjust these in accordance with changes in the consumer price index. Where this approach is used, there is no place for the variable annuity.

(e) Although there are 2,000 separate educational institutions covered by TIAA-CREF, this number is far smaller than the

40,000 separate jurisdictions which employ law enforcement officers. It would be administratively difficult to deal separately with each of these 40,000 separate jurisdictions from one central point, except at great cost in relation to the amounts and numbers covered.

(f) Unlike the situation which existed when TIAA was first launched, almost all law enforcement officers are already covered by pension plans of one kind or another. What is basically lacking is not the existence of a retirement plan, but the provision of mobility between plans. A certain amount of progress has been made in some states toward this, though mainly with respect to mobility within the state itself.

It is striking to note the relationship between the professionalism among teachers and professorial staffs on the one hand and the interchange and circulation of the membership of this profession as between educational institutions on the other hand. To a real extent, the raising of standards within the teaching profession has gone hand in hand with the freedom of circulation of personnel which has been so largely assisted by the TIAA system.

While the TIAA model has much to offer in the direction of promoting the concept of mobility among law enforcement officers, we do not feel, in view of its voluntary membership and the widely scattered small fragmented nature of law enforcement employers, that a comparable degree of success would result from attempting to duplicate this system in the law enforcement field. Rather, a plan must be developed which recognizes the existing structure of benefits and which takes advantage of and does not cut across the existing state systems in attaining the goal of mobility far more rapidly than would be possible under the TIAA approach.

(6) CAN THE RAILROAD RETIREMENT SYSTEM SERVE AS A MODEL?

Coverage under the railroad social insurance system is confined to employees in, or closely affiliated with, the railroad industry. The railroad system is unique in that it is the only federally administered benefit program covering a single private industry. Also, it is the most comprehensive social insurance system of its kind, and has played a prominent role in the development of social insurance in the United States.

At the present time, the number of workers covered by the railroad social insurance system averages about 600,000. In the course of a year, however, approximately 800,000 individuals acquire credits for their railroad service and over 10,000,000 persons have earned such credits since the system started operating in 1937. Currently, over 1,000,000 individuals a year receive benefits of various types.

Historical Background

Private pension plans originated in the railroad industry in 1874 when the first formal pension plan in America was established. By 1927 over 80% of all railroad employees in the United States worked for employers which had formal plans in operation. Many of these plans had serious defects. Credits could not be transferred from employer to employer. Benefits were often inadequate; funding standards, where they existed at all, were poor, and plans could be terminated at will.

The great depression of the early 1930's gave impetus to demands for retirement plans on a national basis. Railroad employees had a special interest in this problem because their inadequately funded and non-funded private pension plans could not keep up with demands made on them by the general deterioration of employment conditions and by the great accumulation of older workers in the industry. This led to concerted efforts for the establishment of a national program which would provide immediate retirement benefits in reasonable amounts to aged and disabled railroad workers. Congress

recognized the special problems resulting from the interstate operations of the industry and enacted legislation for a special railroad retirement system.

The first legislation in this field was the Railroad Retirement Act of 1934, which set out to establish the first retirement system for non-governmental workers in the United States to be administered by the federal government. However, this Act was declared unconstitutional. The Railroad Retirement & Carriers Taxing Acts of 1935 were, therefore, enacted to avoid the constitutional difficulties encountered by the 1934 Act. These acts were also challenged in the courts. Before the appeal filed against the court ruling was heard, railroad management and labor formed a joint committee to negotiate the matter, from which resulted a memorandum of agreement which, in turn, led to the Railroad Retirement Act of 1937, and its companion bill, the Carriers Taxing Act, both of which became law in June 1937.

These 1937 acts set up a staff retirement plan which provided annuities to aged retired employees based on their creditable railroad earnings and service. The system was financed by a scale of taxes levied on employers and employees, applicable to the first $300 of monthly earnings.

Many amendments followed, extending the benefit arrangements and dealing with the coordination between this system and the federal Social Security system. Increases in benefit amounts, changes in tax rates, increases in the limits of creditable and taxable earnings, liberalizations in eligibility requirements for benefits and new forms of benefits have been added.

At the present time the Railroad Retirement system provides monthly benefits to employees who retire on account of old age or disability, and to the eligible wives or dependent spouses of such employees. In addition, it provides for monthly and lump-sum survivor benefits to wives, children and parents.

The Railroad Retirement system was conceived originally as a retirement plan which emphasized income benefits based on length of service and amount of earnings. Successive amendments gradually changed the character of the system as more and more features have been added taking into account the presumptive economic needs of the beneficiaries in terms of family composition, but benefits still tend to be related to the service and earnings of the employees themselves. Today, the system may be considered a social insurance program with some retirement plan features.

In computing amounts of survivors' insurance benefits, earnings covered by the Social Security Act are combined with earnings in the railroad industry. The amount of benefits to survivors is determined not only by the employee service and earnings, but also by the number and ages of his surviving dependents.

Under an agreement between labor and management, the 1966 amendments to the Railroad Retirement Act included provisions for a system of supplemental annuities to certain long-service employees awarded regular annuities after June 30th, 1966. This provision gave recognition to the fact that large numbers of workers covered under the Social Security system (for example, steel and automobile workers) were also covered by private pension plans; that is, it was designed to increase the retirement income of currently retiring railroad employees to amounts comparable to those available to other workers. This supplemental plan is financed entirely by employers by means of a special tax on man-hours paid for.

Coordination with Social Security System

The principal forms of coordination include:

(a) Jurisdiction over survivors' insurance benefits.

(b) Transfer to Social Security coverage of individuals with less than ten years of railroad service.

(c) Financial interchange arrangements.

(d) Provision establishing maximum spouse annuity.

(e) Offsets for dual benefit increases in 1966 and subsequent years.

(f) Earnings base and tax rate.

Under the financial interchange provision, the Railroad Retirement and Social Security systems are required to make annual determinations of the amounts which would place the Social Security trust funds in the same position as if the railroad service after 1936 had been covered under the Social Security system. As amendments have taken place in the Social Security system, provision has been made for each amendment to apply to beneficiaries under the Railroad Retirement Act. All Social Security provisions such as those for disability insurance benefits, earlier retirement benefits, and the relaxation of requirements for insurance status have formed a floor under the benefit structure of the Railroad Retirement system. Railroad employees are guaranteed to receive 10% more than would be payable under the Social Security system. Individuals can receive benefits simultaneously under both the Railroad Retirement and the Social Security systems. However, increases granted by the 1966 and subsequent amendments are reduced if the beneficiary is also receiving a Social Security benefit.

Through 1969, benefits under the Railroad Retirement system have been awarded to 1,100,000 retired employees, 500,000 wives and 1,400,000 survivors. At the end of 1969, there were about 968,000 beneficiaries on the rolls and benefits were being paid at the rate of more than $1½ billion annually.

In searching for a model or precedent which might serve as a guide for the development of a plan or system providing mobility for law enforcement officers, it is natural to look to this nationwide system covering a specific industry to see whether this contains the elements of a workable system for law enforcement officers. There are many contrasts and differences

between the conditions existing in the railroad industry and those presently existing in the law enforcement field. Some of these are as follows:

(a) Railroads comprise private industry; law enforcement is the business primarily of state and local governments. This requires a different legislative approach.

(b) Railroads generally operate across state lines; law enforcement, on the other hand, is administered through a fragmented series of local governmental agencies as well as state agencies, each confined within its own territorial limits.

(c) The private pension systems which existed at the time of the establishment of the Railroad Retirement system were in a serious financial condition and unable to withstand economic difficulties. State and local government systems, on the other hand, do have their taxing power as a basic financial resource.

(d) The constitutional difficulties which arose at the establishment of the Railroad Retirement system would probably have been less difficult to cope with than those which would arise if an attempt were made to establish a nationwide system by federal legislation for police officers, administered by the federal government.

(e) The Railroad Retirement system operates largely independently of the Social Security system as an alternative social insurance system. Many state and local government plans operate alongside and in addition to Social Security coverage, as do private plans, although this is not by any means universal with respect to police officers.

Subject to all of these limitations and contrasts, it is of course conceivable that a centrally-administered retirement system for law enforcement officers could be established under federal auspices. If this were done, it would seem more likely that its coverage would have to be extended piecemeal, with the initiative being taken separately in each area to bring state and local government units under the system. This would prove to be a most time-consuming process, laborious in the extreme, and unlikely to result except perhaps after many, many years, in full coverage under the nationwide system. Those local authorities presently the most afraid of losing personnel, and hence the least likely to be paying wages and benefits at a competitive standard, would be, for these reasons, the least likely to enter the nationwide system. It is these same local authorities which would be the most desirable, from the viewpoint of the national interest, to bring into the nationwide system.

After much reflection and enquiry, we have concluded that the idea of establishing a single nationwide retirement system, imposed upon all of those employing law enforcement officers by federal decree, is not a practical approach, and we would not, therefore, recommend that further consideration be given to this alternative. If the approach to a centrally administered system were through voluntary action on the part of each of the many thousands of local authorities, the result would not measure up to what is needed, either in the time it would take to achieve a worth-while result, the damage to existing systems, or in the ultimate coverage provided, unless heavy federal subsidies were provided. A more practical approach is available, as developed later in this report.

(7) A SINGLE STATEWIDE POLICE RETIREMENT SYSTEM

Because it provides the most direct and successful approach so far to the problem of mobility as between all local authorities within a single state, we present in some detail the following account of the position which has recently been reached in the State of Washington.

Full Portability of Pensions Comes to the State of Washington

In the year 1969, the Washington State legislature enacted far reaching legislation which swept into a single retirement system more than one hundred scattered pension plans of cities, towns, townships, counties, and other jurisdictions throughout the state.

The resulting statewide retirement system provides an excellent example of a solution which, if adopted by each and every state throughout the United States, would solve once and for all the problem of mobility of movement of law enforcement officers at least within the boundaries of each state. This legislation does not, however, resolve the problem of mobility as between states - a subject dealt with later in this report.

Following are key extracts from the Washington Law Enforcement Officers' and Fire-Fighters' Retirement System Act. Since this may well form a basis for the guidance of other states, we have felt it advisable to quote these sections verbatim, even though they contain some references to extraneous matters.

41.26.040 SYSTEM CREATED - MEMBERSHIP - FUNDS - TRANSFERS - AMORTIZATION OF UNFUNDED LIABILITIES

The Washington Law Enforcement Officers' and Fire-Fighters' Retirement System is hereby created for Fire-Fighters and Law Enforcement Officers.

(1) All Fire-Fighters and Law Enforcement Officers employed as such on or after March 1, 1970 on a full-time fully compensated basis in this state shall be members of the Retirement System established by this chapter with

respect to all periods of service as such, to the exclusion of any pension system existing under any prior act, except as provided in subsection 2 of this section.

(2) Any employee serving as a law enforcement officer or fire-fighter on March 1, 1970 who is then making retirement contributions under any prior act shall have his membership transferred to the system established by this chapter as of such date. Upon retirement for service or for disability or death of any such employee, his retirement benefits earned under this act shall be computed and paid. In addition, his benefits under the prior retirement act to which he was making contributions at the time of this transfer shall be computed as if he had not transferred. For the purpose of such computations, the employee's creditability of service and eligibility for service or disability retirement and survivor and all other benefits shall continue to be provided in such prior retirement act, as if transfer of membership had not occurred.

The excess, if any, of the benefits so computed, giving full value to survivor benefits, over the benefits payable under this 1970 Amendatory Act shall be paid. If the employee's prior retirement system was the Washington Public Employees' Retirement System, payment of such excess will be made by that system; if the employee's prior retirement system was the Statewide City Employees' Retirement System, payment of such excess shall be made by the employer which was the member's employer when his transfer of membership occurred; PROVIDED that any death in line of duty lump-sum benefit payment shall continue to be the obligation of that system as provided in R.C.W. 41.44.210; in the case of all other prior retirement systems, payments of such excess shall be made by the employer which was the member's employer when his transfer of membership occurred.

(3) All funds held by any firemen's or policemen's relief and pension fund shall remain in that fund for the purpose of paying the obligations of the fund. The municipality shall continue to levy the millage as provided in R.C.W. 41.16.060, and this millage shall be used for the purpose of paying the benefits provided in chapters 41.16 and 41.18 R.C.W. The obligations of chapter 41.20 R.C.W. shall continue to be paid from whatever financial sources the city has been using for this purpose.

(4) Any member transferring from the Washington Public Employees' Retirement System or the Statewide City Employees' Retirement System shall have transferred from the appropriate fund of the prior system of membership, a sum sufficient to pay into the Washington Law Enforcement Officers' and Fire-Fighters' Retirement System Fund the amount of the employees' and employers' contributions plus credited interest in the prior system for all service, as defined in this 1970 Amendatory Act, from the date of the employee's entrance therein until March 1, 1970. Except as provided for in subsection (2) such transfer of funds shall discharge said State Retirement Systems from any further obligation to pay benefits to such transferring members with respect to such service.

(5) All unfunded liabilities created by this or any other section of the chapter shall be computed by the actuary in his biennial valuation. Such computation shall provide for amortization of the unfunded liabilities over a period of not more than 40 years from March 1, 1970. The amount thus computed as necessary shall be reported to the Government by the Board of the Retirement System for inclusion in the budget. The legislature shall make the necessary appropriation to fund the unfunded liability from the State general fund beginning with the 1971/1973 biennium.

41.26.050 PUBLIC EMPLOYEES' RETIREMENT BOARD TO ADMINISTER SYSTEM - ADDITIONAL MEMBERS, ELECTION, TERMS

The Retirement Board shall be composed of the members of the Public Employees' Retirement Board established in chapter 41.40 R.C.W. Their terms of office shall be the same as their terms of office with the Public Employees' Retirement Board. The members of the Retirement System shall elect two additional members to the Board who shall be members of the Washington Law Enforcement Officers' and Fire-Fighters' Retirement System. These additional board members shall serve on the Retirement Board only for purposes of administering this chapter. One board member shall be a fire-fighter and shall be elected by the fire-fighter members and one shall be a law enforcement officer elected by the law enforcement members. These board members shall serve two year terms.... All administrative services of this System shall be performed by the Director and staff of the Public Employees' Retirement System with the cost of administration as determined by the Retirement Board charged against the Washington Law Enforcement Officers' and Fire-Fighters' Retirement Fund as provided in this chapter from funds appropriated for this purpose.

41.26.060 DUTIES - LIABILITY OF BOARD MEMBERS

The administration of this system is hereby vested in the Board of the Washington Public Employees' Retirement System persuant to Section 5 of this 1969 Amendatory Act and the Board shall:

(1) Keep in convenient form such data as shall be deemed necessary for actuarial valuation purposes;

(2) As of March 1, 1970, and at least every two years thereafter, through its actuary, make an actuarial valuation as to the mortality and service experience of the beneficiaries under this Act and the various accounts created for the purpose of showing the financial status of the Retirement fund;

(3) Adopt for the Retirement System the mortality tables and such other tables as shall be deemed necessary;

(4) Keep a record of its proceedings....;

(5) ....adopt such rules and regulations....for the administration of the provisions of this 1969 Amendatory Act....;

(6) Provide for investment, reinvestment, deposit and withdrawal of funds;

(7) Prepare and publish annually a financial statement....;

(8) Serve without compensation but be reimbursed for expenses....;

(9) Perform such other functions....;

(10) No members of the Board shall be liable for the negligence, default, failure of any employee or other member of the Board....but shall be liable only for his own personal default....;

(11) Fix the amount of interest to be credited at a rate which shall be based upon the net annual earnings of the fund....and make any necessary changes in such rate....;

(12) Pay from the Retirement Fund the expenses incurred in administration....;

(13) Perform any other duties prescribed....; all disability claims shall be submitted and approved or disapproved by the disability boards established by this 1969 Amendatory Act....

41.26.070 WASHINGTON LAW ENFORCEMENT OFFICERS' AND FIRE-FIGHTERS' RETIREMENT FUND CREATED - TRUSTEES

A fund is created and established in the State Treasury to be known as the Washington Law Enforcement Officers' and Fire-Fighters' Retirement Fund and shall consist of all monies paid into it in accordance with the provisions of this 1969 Amendatory Act, whether such monies shall take the form of cash, securities, or other assets. The members of the Retirement Board shall be the Trustees of these funds created by this 1969 Amendatory Act and the Retirement Board shall have full power to invest or reinvest these funds in the securities authorized by R.C.W. 41.40.071 as now or hereafter amended.

41.26.080 FUNDING TOTAL LIABILITY OF SYSTEM

The total liability of this system shall be funded as follows:

(1) Every member shall have deducted from each payroll a sum equal to 6% of his basic salary for each pay period.

(2) Every employer shall contribute monthly a sum equal to 6% of the basic salary of each employee who is a member of this Retirement System. The employer shall transmit the employee and employer contributions with a copy of the payroll to the Retirement System, monthly.

(3) The biennial actuarial valuation required by Section 6 (2) of this 1969 Amendatory Act shall establish the total liability for this System. This liability shall be divided into current service liability and prior service liability. The contributions required by (1) and (2) above shall be applied toward the current service liability to be appropriated from the State general fund. The prior service liability shall be amortized over a period of not more than 40 years from March 1, 1970. The amount thus computed shall be added to the current service liability to be appropriated from the State general fund.

This total amount shall be reported to the Governor by the Director of the Retirement System, upon approval of the Board, for inclusion in the budget. The legislature shall make the necessary appropriation from the State general fund to the Washington Law Enforcement Officers' and Fire-Fighters' Retirement Fund after considering the estimates as prepared and submitted. The transfer of funds from the State general fund to the Retirement System shall be at a rate determined by the Board of Trustees on the basis of the latest actuarial valuation. The total amount of such transfers for a biennium shall not exceed the total amount appropriated by the legislature.

(4) Every member shall be deemed to consent and agree to the contributions made and provided for herein, and shall receipt in full for his salary or compensation. Payment less said contributions shall be a complete discharge of all claims and demands whatsoever for the services rendered by such person during the period covered by such payments, except his claim to the benefits to which he may be entitled under the provisions of this chapter.

The remaining Sections of the Act contain a description of benefit rights and formulas. These are summarized immediately following these exerpts from the Act. The following Section is, however, of interest and is again quoted fully.

41.26.240 INCREASES OR DECREASES IN RETIREMENT ALLOWANCES TO BE DETERMINED BY RETIREMENT BOARD IN ACCORDANCE WITH CONSUMER PRICE INDEX

(1) "Index" shall mean for any calendar year, that year's average Consumer Price Index - Seattle, Washington area for urban wage-earners and clerical workers, all items (1957 - 1959 equals 100), compiled by the Bureau of Labor Statistics, United States Department of Labor.

(2) "Retirement Allowance" shall mean the retirement allowance provided for in R.C.W. 41.26.100 and 41.26.130, and the monthly allowance provided for in R.C.W. 41.26.160.

Effective April 1, 1971, and of each succeeding year, every retirement allowance which has been in effect for more than one year shall be adjusted to that dollar

amount which exceeds its original dollar amount by the percentage difference which the Board finds to exist between the Index for the previous calendar year and the Index for the calendar year prior to the effective retirement date of the person to whom, or on behalf of whom such retirement allowance is being paid; PROVIDED that no retirement allowance shall in any event be reduced to a dollar amount less than its original amount.

Whenever the amount of a benefit is to be recalculated because of a change in the number of children, the amount shall be calculated as if the new number of children had always been in existence.

Benefit Structure

The following paragraphs contain a convenient summary of the benefit provisions of the Washington Law Enforcement Officers' and Fire-Fighters' Retirement System. These benefits now apply to eligible employees of local authorities throughout the State of Washington in replacement of a variety of systems which previously existed. This summary was prepared by the consulting actuary to the new system.

SERVICE RETIREMENT

Member's Benefit

Eligibility: Age 50 and five years of service.

Benefit:

(a) Members with at least 20 years of service: 2% of final average salary for each year of service.

(b) Members with 10-20 years of service: 1.5% of final average salary for each year of service.

(c) Members with 5-10 years of service: 1% of final average salary for each year of service.

Survivor's Benefit

Eligibility: Unremarried spouse who was married to retired member for at least one year prior to the member's death or unmarried child of deceased member under eighteen.

Benefit:

(a) If eligible spouse, continuation of member's retirement allowance, plus 5% of final average salary for each surviving child, with a limitation on the combined allowances of 60% of final average salary.

(b) If no eligible spouse, 30% of final average salary for first child plus 10% for each additional child, subject to 60% of final average salary limitation.

Special Provision: If the member's contributions have not been exhausted at the point at which there are no remaining survivors, the balance goes to the member's legal heirs.

DISABILITY

Member's Benefit

Eligibility: Continued disability after six months waiting period (during which salary is paid by employer).

Benefit: 50% of final average salary plus 5% for each child up to a maximum of 60%.

Recovery from Disability:

(a) Upon recovery before age 50 member is restored to service with full credit for service while disabled.

(b) Upon recovery after age 50 member's benefit continues as the greater of his disability allowance and his service retirement allowance.

Survivor's Benefit

Eligibility: Unremarried spouse who was married to retired member for at least one year prior to the member's death or unmarried child of deceased member under eighteen.

Note: The one year period of marriage prior to death is not required for duty related disablements.

Benefit:

(a) If eligible spouse, continuation of member's disability allowance, plus 5% of final average salary for each surviving child, with a limitation on the combined allowances of 60% of final average salary.

(b) If no eligible spouse, 30% of final average salary for first child plus 10% for each additional child, subject to 60% of final average salary limitation.

Special Provision: If the member's contributions have not been exhausted at the point at which there are no remaining survivors, the balance goes to the member's legal heirs.

DEATH WHILE ON ACTIVE DUTY

Eligibility: Unremarried spouse who was married to an active member for at least one year prior to the member's disablement or unmarried child of disabled member under eighteen.

Benefit:

(a) If eligible spouse, 50% of final average salary, plus 5% of final average salary for each surviving child, with a limitation on the combined allowances of 60% of final average salary.

(b) If no eligible spouse, 30% of final average salary for first child plus 10% for each additional child, subject to 60% of final average salary limitation.

Special Provision: If the member's contributions have not been exhausted at the point at which there are no remaining survivors, the balance goes to the member's legal heirs.

VESTING

Eligibility: Termination of employment after five years of service.

Note: This does not relate to transfers of employment within the area covered by the system.

Deferred Benefit Commences at: Age 50

Benefit:

(a) Members with at least 20 years of service: 2% of final average salary for each year of service.

(b) Members with 10-20 years of service: 1.5% of final average salary for each year of service.

(c) Members with 5 - 10 years of service: 1% of final average salary for each year of service.

Death While Vested Prior to Commencement of Benefits: Member's accumulated contributions are paid in lump sum to heirs.

WITHDRAWAL PRIOR TO VESTING

Eligibility: Termination of employment with no other benefits payable.

Benefit: Return of accumulated contributions.

POST-RETIREMENT INCREASES

Type: Increase or decrease proportionate to the increase or decrease in the Consumer Price Index, with change computed annually. No benefit may decrease below original amount.

Applicability: All monthly benefits.

Further Information Relative to the Washington State System

The following extracts from the report of the consulting actuaries to the Washington Law Enforcement Officers' and Fire-Fighters' Retirement System may be of interest in clarifying further the manner in which this system operates.

> "The various local systems comprising the statewide plan have retained their responsibility for making retirement allowance payments to the (already) retired members of the local systems as of the valuation date. Accordingly, there were no calculations to be made in the first valuation with respect to persons then retired."

> "As to the costs of the system, the first actuarial valuation brought out a current service liability of 30.27% of the total annual salaries of members of the system. The corresponding contribution rate for amortizing the unfunded liability for prior service over the 40-year amortization period ending February 28, 2010, as required by law, was 14.89% of the total annual salaries. Thus the total required contribution from all sources was 45.16% of salary."

"Since each employee contributes 6% of his salary to the system, and since this is matched by the (local) employer, these amounts are deducted from the above percentage leaving a net contribution rate of 33.16% as an obligation of the State of Washington."

* * * * *

The foregoing information relative to the new statewide plan recently enacted by the Washington State legislature in replacement of more than one hundred local systems is put forward as an illustration of what can be done by each state to take care of its own situation. It does not deal with transfers between states, which are the subject of the next following section of this report (Section 8).

No comment or evaluation is made here as to the particular benefit structure adopted in Washington. The important point to notice is its breadth of coverage throughout the state. We do have certain refinements to suggest as to basic benefit design. These are described in Section (9) below. A backstop minimum benefit approach is outlined in Section (10). We are hopeful that there will be no need to resort to this, even though it would be a vast improvement over the present status in many states. We would, however, prefer to see an approach similar to those described in Sections (7) and (9) adopted by all states.

(8) RECIPROCITY BETWEEN STATES

While the absorption of all local government retirement systems into a single statewide system for law enforcement officers appears to provide the most feasible and effective resolution of the problem of lateral mobility within the borders of each state, and to be within the legislative power of the state to accomplish, this does not in itself resolve the problem of transfers across state lines.

Nor does the federal government apparently have the power to legislate the establishment of a single federal system which would sweep all of these state or local government systems into one overall law enforcement officers' plan which would cover all of the United States.

While the majority of transfers of employment would probably still occur within the borders of the state of residence the number of potential interstate movements is still very large and important in the overall development of professionalism, the effective deployment of available manpower, exchange of experience, filling of positions by men of the best caliber, and in the expansion of the fields of opportunity for the individual.

A solution must therefore be found to this problem of interstate transfers.

The following considerations apply:

(a) If all of the vast multitude of small and fragmented local systems can be reduced in number to fifty only, through absorption into a single system covering each state, as above described, then the establishment of reciprocity agreements between these fifty states would become a matter of practical feasibility. As between 40,000 separate existing local authorities, it is not. It is probable that a single form of agreement can be arrived at which would be capable of serving all or most of these fifty states.

(b) While under some reciprocity systems now in operation, no funds are transferred between local authorities, there would probably be a stronger case for establishing the principle of a transfer of funds in the case of movements between one state system and another.

(c) A uniform actuarial basis for arriving at the amount of reserves to be transferred would seem to be indicated, even though this may not and probably would not coincide with the actuarial reserve basis being used by the gaining or the losing state, or either.

(d) An alternative would be for each state system to pay its share of the final pension at retirement, with no transfers of reserve, just as is now done under some state reciprocity arrangements. Since the administrative work would be greater, and the distances longer, and the respective systems less easily coordinated one with another, we would lean toward the previously described method of transferring a reserve and thus finalizing the whole matter at the time of transfer of employment.

(e) Such transfers of reserve would not, in the relative size of the cash flows under non-funded systems, cause anything like the same problems for statewide systems that they would for the many very small systems now in existence. While the individual amounts may seem large in the value scale of the individual, and could cause severe financial strains in a small system, especially where this is non-funded or only partially funded, the same amount would be taken in stride by a large system, even when non-funded. This applies equally to inward and outward transfers. A large funded system would be even less disturbed.

(f) If this whole approach is adopted, the only transfers of reserve would be between states. There would be no transfers of reserve within any state because all law enforcement officers within each state would be free to move within that state and continue to be covered continuously under the one statewide retirement system.

(g) While the federal government cannot apparently impose either a single retirement system for law enforcement officers on all states or local authorities, it can and probably would wish to bring its powerful influence to bear in the following ways:

i. By convening a conference of representatives of the fifty states to consider the matters covered in this report with a view to encouraging legislation in each state to sweep all law enforcement retirement systems into a single statewide plan as has already been done in Washington; or to bring substantially equivalent arrangements into operation (as in New York).

ii. By providing a financial inducement to participate in a system of interstate reciprocity with respect to the preservation of pension rights, both by defraying the administrative cost of initiating this, and also by providing a portion (such as one-quarter or one-third) of the actual reserve amounts to be transferred between states.

By limiting any substantial amount of federal financial participation in this way only to the area of interstate transfers, a good balance would be maintained between the desirability of having each state clean its own house without federal involvement, on the one hand, and the need, on the other hand, to remove any resistance to participation in the broader principle of nationwide mobility.

As an inducement to the respective states to implement the internal steps referred to in (i), the payments described in (ii) could be made contingent on this step being taken, or could be increased where it has been taken or where substantially equivalent measures have been implemented (as in New York).

(h) The steps outlined herein need not be limited to pensions, disability, and survivor income benefits. The general administrative framework visualized herein could also very readily cover lump-sum death benefits if desired. We understand that proposals exist at present for federally subsidized lump-sum death benefits, under which a federal government agency would be dealing directly with each or with very large numbers of small scattered local authorities, such as 40,000 or even more local authorities. The approach herein outlined could very easily substitute relationships between the federal government and the fifty state governments only, with each state handling its own internal local authorities both with respect to retirement, disability, and survivors income benefits, and lump-sum death benefits also if desired. These various forms of benefits can probably be handled more efficiently in a single administrative and record system within each state. In the event of the death of a participating law enforcement officer, the fact of this death is of prime importance both to pension as well as to death benefit and survivors benefit administration. It would avoid duplication for contributions, pension and death benefit payments and transfers of location all to be cared for in one administrative center within each state.

Since there are a certain number of interchanges of employment as between federal and state or other local agencies which should not result in the loss of pension status, as we understand presently occurs, the federal government should itself enter into and become part of the reciprocity system along with each of the fifty states and the District of Columbia.

(9) A MULTI-LEVEL PLAN IN EACH STATE? OR A TAPERED FORMULA?

Living and working conditions for law enforcement officers are in sharp contrast as between heavy crime areas and peaceful hamlets in rural settings. Pay levels, fringe benefit standards, and the early retirement ages that are called for in congested cities suffering from crime, drug addiction, race problems, pollution, and a multitude of other social ills, are neither needed nor justifiable in the smaller population centers. High pension costs that go hand in hand with early retirement on full pension, as called for in many large urban concentrations, cannot easily be borne by rural populations, and have no logical place in quiet areas with very little crime.

To get the best out of a single statewide retirement system, when viewed from all angles, it would seem to be necessary to design this plan so as to cope successfully with the respective needs of all types of population densities and working conditions within the state.

This points toward either:

(a) The establishment of a multi-level plan, under which cities, towns, counties, and all other areas would be classified by reference to size of population, crime rate, or other criteria fairly judged to affect the normal working conditions of law enforcement officers. Those in the areas of maximum work strain would be entitled to retire on full pension at the earliest age and with the least service requirement (such as at age 50 with 20 years of service). Those in the areas of maximum tranquility would be expected, under the plan, to work through to a later normal reitrement age in order to qualify for full pension (such as until age 60 with 30 years of service, or 65 with any lesser period of service).

It would not be desirable to establish a large number of classes of employment areas for this purpose. Three or four would seem to be adequate.

Under this multi-level plan concept, the benefit accrual rate for each year of service would be greater in areas of heavy strain or larger concentrations of population than in small rural communities, so that the same amount of monthly pension relative to pay would be built up within a shorter service period. For example, the following benefit rates and retirement age arrangements could be visualized:

Employment Area	Eligibility for Retirement		Annual Pension Accrual Rate	Total Percentage Pension (Normal Retirement)
	Age	Service		
Class I	50	20	2.5%	50%
Class II	52	25	2.0%	50%
Class III	55	27	1.85%	50%
Class IV	60	30	1.67%	50%

*Each additional year worked in a Class I area would add 2.5% to the pension; in a Class II area, 2% would be added; in a Class III area, 1.85% would be added; in a Class IV area, 1.67%. There could be an absolute maximum of, say, 60% of final-average pay, or alternatively attainment of an age 5 years greater than shown above (regardless of service), after which no further pension would accrue.

Survivor, disability, death and other benefits would be proportionate to the basic retirement benefits outlined above.

Employee contributions would be graded similarly by class, and local employer costs presumably would match these, with the state making up the difference, as is now being done in Washington. There would be a very substantial difference in pension costs by area, expressing not only the higher benefit accrual rates in

one area as compared with another, but also the earlier normal retirement age in areas where the benefit accrual rate is highest and the greater ancillary benefits (disability, survivors, etc.).

There are precedents now for this multi-level concept in some states, but not in as fully developed or logical a form as now suggested. Where different benefit levels are now provided under a single statewide plan, this has resulted from the individual choice of the local authority concerned, or from bargaining pressures, not from the application of a principle based on the logic and factual background as suggested above.

In the event that a local authority were to wish to provide benefits more liberal than the standard benefits outlined herein, this could be done through a supplementary plan operated by the local authority outside the scope of the statewide plan. Vesting or transferability of the supplementary benefits would be a matter for decision. This subject is discussed in the next section of this report.

Transfers between jobs in employment areas of different classes would:

i. preserve continuity of all service credits;

ii. result in a change in future benefit accrual rates and employee contribution rates to those appropriate to the new position, with the new rates applying to future service only;

iii. create the need for an adjustment in already accrued benefits due to the change in retirement age (if earlier) where conditions in the new location require that retirement occur earlier than the normal retirement age applying to the prior location. This would be a very simple actuarial adjustment.

iv. continue to base all pension amounts on the final-average pay earned in the period immediately prior to actual retirement.

Where the transfer is to a law enforcement position in an area having a later retirement age, it would seem to be advisable to preserve the pension credits accrued (at the higher rate) in the former location, but not to increase these due to the later commencing age or to commence payments until final retirement from law enforcement work actually occurs. (This approach to the treatment of deferred retirement benefits has ample precedent. It avoids the unreasonable results that would follow if actuarial increases were provided due to deferred retirement where the normal retirement age is well below age 60 or 65.)

A multi-level plan operated along these lines would seem very workable on a statewide basis, would attain not only the goals of mobility and transferability of pension rights, but would also be tailored closely to fit the widely contrasting needs of diverse types of communities and geographical areas in states having these wide extremes to deal with in a single plan.

(b) As an alternative approach to the same problem the concept of a tapered formula could be employed.

This type of pension accrual formula is designed specifically to build the pension more rapidly in the earlier years of service, but to slow down the rate of increase in pension in the later periods of service (such as after the first 20 years).

For example, the following benefit accrual rates may be considered:

2¼% or 2½% of final-average pay for each of the first 20 years of service, plus 1% of final-average pay for each of the next 10 years of service, plus ½% of final-average pay for each of the years of service after 30, or some similar set of percentages decreasing with length of service.

The effect of this type of formula is to build rapidly toward a target rate of benefit suitable for a very high-density early-retirement area (such as half-pay at age 50 with 20 years of service), but then to slow down the rate of growth in the pension so that those situated in pleasant areas with low crime rates, and whose retirement normally occurs later and after longer periods of service, will not experience any unreasonable growth in benefits due to their inclusion in the same plan.

This approach avoids the need to classify local authorities into employment areas, as described in (a) above. All would be covered in the same plan, and with the same benefit formula.

The retirement age arrangements would similarly be identical for all parts of the state, and would presumably be stated in "flexible" terms, such as:

> "Each plan member who shall have attained <u>at least</u> age 50, and who shall have completed <u>at least</u> 20 years of service shall, upon his retirement from any and all law enforcement work, become entitled to a monthly pension for life in an amount based on his final-average earnings as defined herein, determined by the following formula: ....etc.....
>
> Retirement shall be mandatory, regardless of years of service completed, upon attainment of age .....etc."
> (For example, age 65).

The minimum age and service requirements would be those suitable for high-density areas; the mandatory retirement age would be suitable for rural areas. Between these limits, local administration (which need not be uniform) and individual choice would play their part, reflecting the conditions in each location.

Although pension costs would vary substantially, among both individuals and areas, as a percentage of payroll, with higher costs going hand in hand with earlier retirements after shorter periods of service, this type of plan would nevertheless call for a uniform rate of employee contributions throughout the entire state.

This rate of contribution would not vary with either age or years of service, nor would it be reduced when the annual benefit accrual rate steps down from one level to a lower level. The fact that the entire prior accumulation of credits is presumably moving up in amount and value with advancing pay levels, and that employee contributions are in any case normally sufficient to cover no more than a minor part of the cost of police pensions, should obviate any demands or need for complicated refinements. As before, the substantial contributions to be made by the state would effectively inundate and smooth over all local and individual differences.

There would be no complications as a result of transfers between big city and small township or the reverse; all would share the same plan, benefit formula, and retirement age requirements, and employee contributions rates. While the plan would not be as closely tailored to the features of each locality as described in (a) above, it would operate much better than a plan providing a flat uniform percentage of pay for each year of service, regardless of length of service; further it would be equally as effective as (a) in removing all obstacles to mobility of law enforcement officers within each state, insofar as pensions are involved.

Transfers of employment across state lines would be dealt with as described in the previous section of this report. There would be no incompatibility. It may be noted, however, that the tapered formula would tend to result in a somewhat more liberal pension than the multi-level plan in the case of a law enforcement officer who transfers across state lines from a quiet area

of small population after accruing benefit at the maximum rate for some years. An adjustment can be made, if desired, to pro-rate the benefit accrued on the basis of a longer period of service in the case of transfers across state lines.

A statewide plan designed along the lines of either the multi-level concept or the tapered approach as outlined herein, and linked to all other statewide plans by reciprocity arrangements as described in Section (8) above, would accomplish all of the objectives of mobility of law enforcement officers throughout the nation, consistently with a recognition of the need for attention to the very real differences in local working conditions in major cities as compared with smaller population centers and rural areas.

(10) A MINIMUM-BENEFIT STATEWIDE PLAN WITH LOCAL SUPPLEMENTS?

When the principle of portable pensions was enacted into law by the Ontario legislature in 1963, the approach used was to establish a basic minimum level of benefit which was to be fully vested almost immediately (that is, at age 30 with only one year of service), and to require fairly early vesting (no later than age 45 with 10 years of service) for any benefits in excess of this modest basic pension. This Ontario legislation was rescinded shortly thereafter when the fully portable nationwide Canada Pension Plan came into being.

We have a parallel in the United States in the sense that the nationwide Social Security system provides fully portable pensions up to a modest level for most employed persons, with private pension plans providing supplementary amounts of benefit subject to various degrees of vesting or portability.

Law enforcement officers are not all covered by the Social Security system, and their normal retirement ages are in very many cases several years earlier than the earliest commencement date possible under the Social Security system. Even more than most employees, they are thus exposed to serious problems due to the non-portability of their pension accruals where these are lost as a result of job changes. Unless they are engaged in moonlighting work, there is no Social Security pension building up to act as a cushion in easing the impact of this pension loss as it does in most other fields of employment.

The concept of a basic fully portable pension of modest amount operated on a statewide or nationwide basis, supplemented by whatever additional pension amounts are decided upon by local authorities or in the bargaining process, involves a principle that could at least improve the present situation materially.

It could perhaps avoid some possible resistance to the widespread adoption of a full-scale plan such as that which was adopted in Washington, or as visualized in the previous section of this report.

The basic fully portable pension referred to in this section would not be intended to provide all of the retirement income normally anticipated by a law enforcement officer who stays with one local authority throughout his career, or who moves only after meeting any vesting or similar requirements provided for in the local plan by which he is also covered.

Its function would be to enable an officer who makes many job changes, or two or three in quick succession, to continue to build and retain at least a substantial portion of his pension on a fully transferable basis. It would tend to remove the pension factor or shrink it down to a much smaller size in his evaluation of a potential new position in law enforcement work.

It would at the same time leave some inducement to stay with the present employer, in areas where full reciprocity or similar rights do not now exist. To that extent, it may satisfy the desire of certain local authorities to have at least this amount of inducement to hold on to their personnel.

As to the operation of this modest underlying fully portable pension plan on a statewide or on a nationwide basis, the same considerations would apply as before. As we understand the situation, the federal government simply does not have the power to impose even this type of plan on state or local authorities. The best it could do would be to set up the administrative machinery and provide financial inducements. After that, a long and exhausting campaign would be needed to secure even a partial coverage. The very local authorities that should above all be covered would stand out the longest, unless the standard of federal subsidy were to be set at a very high and hence costly level. The plan would conflict also with some state systems that already work quite well on the basis of transferring rights to the whole pension, not just a portion of it.

A program such as described in this section would have to be implemented separately by each state legislature, with each state enacting this type of plan if it appeared to meet the needs of the situation existing in that state, and if a more liberal standard of pension transferability did not already exist in the state.

If a statewide plan of this modest type were established, using any of the basic patterns of benefits described elsewhere in this report, a decision would have to be made by each local authority as to whether to provide vesting or reciprocity or other privileges with respect to any supplementary benefits also provided by the local employer, what funding method to adopt, and whether to maintain an independent administrative and record system locally for the purpose of providing these supplements.

The transition from the status existing prior to the time of implementation of the statewide plan to the new status would tend to be more complicated. Instead of all or most of the small local plans being swept under the coverage of the comprehensive statewide plan, and thereafter ceasing to operate at all at least as to future service, the more modest basic approach visualized in this section would contemplate the ongoing operation of all local plans with respect to amounts of benefit accrual in excess of the basic statewide plan. This would mean far more administrative work in the many local areas.

Complications would also arise in the matter of interstate transfers unless all states adopted uniform or reasonably uniform standards as to transferable benefits or unless these interstate transfers were based on the principle of transferring only the benefit which had accrued under the plan of the losing state, not what would have accrued with equal service under the plan of the gaining state.

On the whole, we feel that this concept of a minimum-benefit statewide plan, liberally and variously supplemented locally in large numbers of big and small populations centers, with only the minimum benefit being transferred for sure when the law enforcement officer moves to another job, has less appeal than the approaches described earlier. It may have a place as a compromise in overcoming resistance in small centers in a few states. It would represent a vast improvement over what exists now in many states. It could operate compatibly with the interstate reciprocity machinery outlined earlier in this report. It does merit consideration as one alternative which would greatly ease the basic problem which is the subject of this report.

FINAL RECOMMENDATIONS

1. An approach based merely on an improvement in vesting provisions in police pension plans would not, in our opinion, be effective in accomplishing what is needed either as to the mobility of law enforcement officers, or the conservation of present man-power in this field, or the eventual provision of retirement incomes in an amount which would not be impaired as a result of transfers of employment within this field.

2. Nor would the creation of a central reserve fund to which to transfer fragments of pensions in the event of change of employment prove to be advantageous.

3. Reciprocity systems within each state do a better job than vesting in protecting the interests of officers who change positions and in conserving man-power within the law enforcement field. As presently constituted, however, their coverage is patchy and incomplete. While this could be improved through an exercise of state legislative powers, there is a better approach available.

4. The concept of full portability of both pension rights and also the corresponding reserve funds from one employer to another does not offer any possibility of a solution.

5. The Teachers' Insurance and Annuity Association provides an interesting model of a centrally operated retirement fund to which local authorities could volunteer to join, but it does not, in our opinion provide the most advantageous solution to the problem at hand. The vast number of very small local authorities having only a handful of law enforcement officers, the many decades of time required to build the system to anything approaching a satisfactory coverage, the absence of federal legislative power to hasten this process, the conflict with present state plans already having extensive coverage within certain states, and other basic differences in structure as compared with police pension plans would seem to weigh heavily against this approach.

6. Nor does the concept of a federally imposed central retirement fund for law enforcement officers nationwide, along the lines of the Railroad Retirement system, offer a solution. Lack of federal legislative power in this field, and the other problems mentioned above, would seem to rule out this approach.

7. The approach which does, in our opinion, offer the best combination of practical feasibility and effectiveness of the result, at least insofar as transfers of employment within each state are concerned, is to take advantage of the legislative powers which do exist within each state in sweeping all local plans within each state into a single law enforcement officers' retirement system for the state. This would cut down the number of separate retirement plans from the present vast numbers to fifty only, and replace the present wilderness of contrasting and often conflicting approaches in major areas of detail in benefits and funding to something which can be tabulated, understood, and coordinated. A precedent already exists for implementing this approach. Costs would be shared between the state, the individual employee, and the local authority which employs him. Each law enforcement officer would be entirely free to move from one position to another anywhere within the state while continuing to build his pension under the one retirement system. No federal legislative powers or financial inducements would be involved with respect to these statewide systems.

8. Since the approach outlined in 7 above would not take care of transfers across state lines, and since the national interest requires that these be encouraged no less than transfers within each state, a system of reciprocity as between these fifty state systems be established as an immediate second stage, the commencement of which need not await the full completion of the state legislative processes necessary to implement the first stage described in 7 above.

It is in this area that the federal government should, in our opinion, logically become involved, both by:

i. convening a conference of state representatives to consider the matters outlined in this report with a view to initiating leglislation in each state to centralize all police pension systems statewide; also by

ii. providing some degree of financial inducement to assist in the process of interstate circulation or transfers of law enforcement officers to positions across state lines, such as by providing one-quarter or one-third of the reserves necessary to cover the pension costs in the case of these transfers, as well as the administrative cost of initiating and overseeing the successful operation of the interstate reciprocity system recommended herein. Such federal subsidy to be made available only with respect to states which have completed the basic steps outlined in 7 above, or equivalent steps having a similar effect on mobility within their own state borders.

Since there are a certain number of interchanges between state and federal employment, the federal government should participate in the reciprocity system outlined herein along with the fifty states.

9. As an improvement in the design of each statewide retirement system, and in recognition of the wide variations which exist as between working conditions for law enforcement officers in areas of heavy concentration of population and social problems at the one extreme and peaceful rural townships and districts at the other extreme, provisions should be incorporated in these state plans, as outlined earlier in this report, either to establish a multi-level benefit structure or a tapered benefit formula with a flexible retirement age capable of accommodating widely contrasting retirement needs within the one single plan. Such refinement in design would in no way interfere with the freedom of movement of officers between areas of employment of all types.

10. As a back-up recommendation, to be resorted to only if the adoption of a single statewide plan of full dimensions as described in 7 and 9 above is not possible for good reasons not presently foreseen, consideration might be given to the establishment of a basic modest minimum-benefit statewide plan, to be supplemented locally as seen fit, with full transferability applying at least to the basic plan.

APPENDIX

STATISTICAL SUMMARIES

Exhibit	
A	Personal Interviews with Law Enforcement Officers
B	Vesting of Pension Rights
C	Retirement Ages - Normal
D	Retirement Ages - Mandatory
E	Pay Base; Disability, Death and Survivor Benefits
F	Social Security Integration; Employee Contributions; Other Service
G	Actuarial Funding Bases
H - K	Ratio of Assets to Accrued Liabilities

FURTHER DISCUSSIONS

L	How Potent are Pensions in Blocking Transfers?
M	Vesting versus Portability versus Reciprocity versus Single Statewide Plan with Interstate Reciprocity

PERSONAL INTERVIEWS WITH LAW ENFORCEMENT OFFICERS

Following is a summary of the results of personal interviews with 132 individual law enforcement officers, representative of all ages and ranks, selected at random in the following areas:

New York and vicinity		33
Pennsylvania (Pittsburgh vicinity)		41
Chicago and vicinity		12
California:		
Los Angeles area	35	
San Francisco area	11	46
		132

Summary of Questions and Responses

1. If you were offered a job of increased responsibility or potential in the law enforcement field in another area or agency, what factors would lead you to:

Accept the offer?

	Number of Affirmative Answers	Percentage of Individuals with Affirmative Answers
		%
Greater immediate pay	75	57
Greater pension benefits	59	45
Greater pay potential	58	44
Improved living conditions in new area	45	34
Increased potential for advancement	43	33
Greater fringe benefit package	42	32
Increased responsibility and bigger challenge	38	29
Other	8	6

For example:

"Opportunity to increase job knowledge"
"Different type of work (i.e. F.B.I.)"
"Security of position"
"Smaller community"
"No race problems"

2. If you were offered a job of increased responsibility or potential in the law enforcement field in another area or agency, what factors would lead you to:

Decline the offer?

	Number of Affirmative Answers	Percentage of Individuals with Affirmative Answers
		%
Ties to present area	68	52
Loss of pension benefits already accrued	64	48
Loss of seniority	54	41
Cost or inconvenience of moving	22	17
Other	15	11

For example:

"Going to retire soon"
"My age (57) would rule out any move"
"Less pension than is offered in New York city"
"Ties to family in area"
"Less pay"
"Less professionalism"
"Los Angeles Police Department has what I want"
"Children in college"

3. How big a consideration would expectation of retirement pensions be to you in making a decision?

	Number of Affirmative Answers	Percentage of Individuals with Affirmative Answers	
		%	
Most important	15	11)	
Of major importance	63	48)	67%
Important	10	8)	
Somewhat important	3	2)	
Of little importance	12	9)	33%
Not important	29	22)	

4. If you did leave your present position, would you retain a right to the portion of your pension accrued to date?

	Number of Affirmative Answers	Percentage of Individuals with Affirmative Answers
		%
Yes	70	53
No	62	47

5. Would the loss of accrued pension rights be an influence in accepting or rejecting a job offer?

	Number of Affirmative Answers	Percentage of Individuals with Affirmative Answers
		%
Yes	107	81
Possibly	3	2
No	22	17

6. If any existing impediments to job mobility were removed, and a wider field of job opportunities in other locations were thus opened up, would this lead you to acquire new skills or specialized knowledge that would qualify you for a higher-paid and/or more responsible position?

	Number of Affirmative Answers	Percentage of Individuals with Affirmative Answers
		%
Yes	109	83
Possibly	4	3
No	19	14

Exhibit B

REQUIREMENTS FOR INITIAL VESTING OF ACCRUED PENSION RIGHTS IN THE EVENT OF TRANSFER OR TERMINATION OF EMPLOYMENT

Distribution of Plans According to Age and Service Requirements

Required Service (Years)	Required Minimum Age						
	None	40	45	50	55	Totals	Cumulative Total
5	5					5	5
8		1				1	6
10	15			1		16	22
12	3					3	25
15	14		1		1	16	41
20	11			1	1	13	54
25	2					2	56
Totals	50	1	1	2	2	56	
Cumulative Total	50	51	52	54	56		
No Vesting Provision at all						66	
Total of all Plans						122	

Exhibit C

NORMAL RETIREMENT AGE

Distribution of Plans According to Age and Service Requirements

Required Service (Years)	Minimum Age for Normal Retirement									Total All Plans	Cumulative Total
	None	46	50	52	55	58	60	62	65		
None			2		1		3	1	8	15	15
4							1			1	16
5			1							1	17
10			2		3	1	4		1	11	28
12										0	28
15	1		1				2	2		6	34
18										0	34
20	16	1	6		13		3			39	73
25	11		2	1	10		6			30	103
27			7							7	110
28	1									1	111
30	5				2			1		8	119
35	3									3	122
Total	37	1	21	1	29	1	19	4	9	122	
Cumulative total	37	38	59	60	89	80	109	113	122		

Exhibit D

MANDATORY RETIREMENT AGES

Distribution of Plans According to Age and Service Requirements

Required Service (Years)	Age at which Retirement is Mandatory								Totals	Cumulative Total
	55	56	60	62	63	65	68	70		
None	2		11	2	1	33	1	18	68	68
20			1						1	69
25		1	1						2	71
35						1			1	72
Totals	2	1	13	2	1	34	1	18	72	
Cumulative Total	2	3	16	18	19	53	54	72		

No Mandatory Retirements at all	50
Total of all Plans	122

PAY BASE USED FOR BENEFITS

Final pay	38
Final-average pay	74
Career-average pay	8
Base not function of pay	2
Total of all Plans	122

DISABILITY BENEFITS IN PLAN

Disability benefits provided	111
No disability benefits	11
Total of all Plans	122

PRE-RETIREMENT DEATH BENEFITS IN PLAN

*Death or survivor benefits provided	95
No death or survivor benefits	27
Total of all Plans	122

* Other than return of-employee contributions

OTHER PROVISIONS

INTEGRATION WITH SOCIAL SECURITY: EMPLOYEE CONTRIBUTIONS: RECOGNITION OF OTHER SERVICE

	Yes	No	Total
Integration with Social Security	18	104	122
Employee contributions required	116	6	122
Service recognized for pension purposes	33	89	122

ACTUARIAL FUNDING BASIS USED

Distribution of Plans According to Mortality Table and Interest Rates Used

Mortality Table Used	Interest Rate Used										
	2.50	3.00	3.50	3.75	4.00	4.25	4.50	4.75	5.00	5.50	Totals
1937 Standard			4								4
A-1949					3		2		1	1	7
GA-51 (no projection)		1	2		6	1			3	1	14
*GA-51 (projected)			2	1	11		4		3		21
Other or not shown	1	1	4		9	2	2	1			20
Total	1	2	12	1	29	3	8	1	7	2	66
Cumulative Total	1	3	15	16	45	48	56	57	64	66	

Non-Funded Plans: In addition to the above, 56 plans are not funded on an actuarial basis. Benefits are paid out of current revenue on a pay-as-you-go basis.

*Includes effects of projection whether directly or by use of age setbacks.

Exhibit H

RATIO OF FUND ASSETS TO LIABILITY FOR ACCRUED BENEFITS

(Pension Plans Funded Under Unit Credit System)

Percent Funded	Fund Assets ($millions) Less than 0.5	0.5 to 1.0	1.0 to 5.0	5.0 to 10.0	Over 10.0	All Plans	Cumulative Total
0 - 5%	1					1	1
5 - 10%							1
10 - 15%							1
15 - 20%			1			1	2
20 - 25%		1				1	3
25 - 30%							3
30 - 35%							3
35 - 40%							3
40 - 45%					1	1	4
45 - 50%			1		1	2	6
50 - 55%		1				1	7
55 - 60%	1			1		2	9
60 - 65%	1					1	10
65 - 70%	1	1				2	12
70 - 75%							12
75 - 80%							12
80 - 85%	1		2		1	4	16
85 - 90%	1					1	17
90 - 95%							17
95 - 100%							17
More than 100%		1	1		3	5	22
Total	6	4	5	1	6	22	
Cumulative Total	6	10	15	16	22		

Exhibit I

RATIO OF FUND ASSETS TO LIABILITY FOR ACCRUED BENEFITS*

(Pension Plans Funded Under Entry Age Normal Cost System)

Percent Funded	Fund Assets ($millions) Less than 0.5	0.5 to 1.0	1.0 to 5.0	5.0 to 10.0	Over 10.0	All Plans	Cumulative Total
0 - 5%	1					1	1
5 - 10%	1		1			2	3
10 - 15%							3
15 - 20%	2	1	1			4	7
20 - 25%	1	1	1			3	10
25 - 30%	3	1	1	1		6	16
30 - 35%							16
35 - 40%							16
40 - 45%	2		1			3	19
45 - 50%			1			1	20
50 - 55%							20
55 - 60%		1				1	21
60 - 65%							21
65 - 70%							21
70 - 75%	1					1	22
75 - 80%	1					1	23
80 - 85%		1		1		2	25
85 - 90%		1		1		2	27
90 - 95%			1			1	28
95 - 100%					1	1	29
More than 100%	4	2	1	1	4	12	41
Total	16	8	8	4	5	41	
Cumulative Total	16	24	32	36	41		

*Based on estimates of the liability for accrued benefits

Exhibit J

RATIO OF FUND ASSETS TO "ENTRY AGE NORMAL ACCRUED LIABILITY" FOR PENSION PLANS FUNDED ON THAT BASIS

Percent Funded	Fund Assets ($millions) Less than 0.5	0.5 to 1.0	1.0 to 5.0	5.0 to 10.0	Over 10.0	All Plans	Cumulative Total
0 - 5%	3					3	3
5 - 10%			1			1	4
10 - 15%	2	1	1			4	8
15 - 20%	2		2	1	1	6	14
20 - 25%	1	2		1		4	18
25 - 30%	1					1	19
30 - 35%							19
35 - 40%	3		2			5	24
40 - 45%							24
45 - 50%		1				1	25
50 - 55%							25
55 - 60%	1					1	26
60 - 65%	1	2	1	1	1	6	32
65 - 70%	1		1	1		3	35
70 - 75%							35
75 - 80%							35
80 - 85%	1	1	3			5	40
85 - 90%			1	1	1	3	43
90 - 95%		1			2	3	46
95 - 100%					1	1	47
More than 100%	3	1	3		2	9	56
Total	19	9	15	5	8	56	
Cumulative Total	19	28	43	48	56		

Exhibit K

RATIO OF FUND ASSETS TO LIABILITY FOR ACCRUED BENEFITS

(All Funding Systems Combined)

Percent Funded	Fund Assets ($millions) Less than 0.5	0.5 to 1.0	1.0 to 5.0	5.0 to 10.0	Over 10.0	All Plans	Cumulative Total
0 - 5%	2					2	2
5 - 10%	1		1			2	4
10 - 15%							4
15 - 20%	2	1	2			5	9
20 - 25%	1	2	1			4	13
25 - 30%	3	1	1	1		6	19
30 - 35%							19
35 - 40%							19
40 - 45%	2		1		1	4	23
45 - 50%			2		1	3	26
50 - 55%		1				1	27
55 - 60%	1	1		1		3	30
60 - 65%	1					1	31
65 - 70%	1	1				2	33
70 - 75%	1					1	34
75 - 80%	1					1	35
80 - 85%	1	1	2	1	1	6	41
85 - 90%	1	1		1		3	44
90 - 95%			1			1	45
95 - 100%					1	1	46
More than 100%	4	3	2	1	7	17	63
Total	22	12	13	5	11	63	
Cumulative Total	22	34	47	52	63		

HOW POTENT ARE PENSIONS AS A FACTOR IN BLOCKING TRANSFERS OF EMPLOYMENT?

Before launching into a full analysis of the pension arrangements presently applying to law enforcement officers, and how these can be modified in order to facilitate lateral transfers of position from one jurisdiction to another, we must first be sure that the pension factor does, in fact, loom large in the thinking of the individual police officer, and that the removal of impediments to change of job, insofar as these impediments involve pension rights, would in fact have a real or significant effect on the number of changes.

Insofar as public service employees generally are concerned (not law enforcement officers) there would seem to be good reason to question whether pensions really play a major part in individual decisions about changes of location or field of employment. In 1965, the Twentieth Century Fund published a book "Pensions and Employee Mobility in the Public Service" by Harold Rubin. Much of the material contained in that book would tend to throw doubt on the importance of pensions as a factor in individual decisions about whether to make a change of employment. For example, the following are extracts quoted directly from that book:

> "Some writers have....questioned whether the holding power of pension plans is as important as generally thought to be. Robert Tilove, while agreeing that private pension plans generally tend to restrain mobility, pointed out in 1959 that the continued strength of this tendency is in doubt. The restraint has little influence at the younger ages where mobility is high; and in the older ages, where its influence would presumably be effective, there are much more powerful factors."
>
> "A somewhat stronger position has been taken by William Haber. The danger to mobility said to be inherent in private pension plans is greatly exaggerated.... The age of the worker is probably much more important; older workers do not take the risks of seeking newer jobs....similar personal and social factors are probably much more important in discouraging mobility than pension plans, with or without vesting."

The following paragraphs taken from the same source may be of interest in throwing additional light on some of the subjects covered by this report:

"In its 1963 report the Advisory Commission on Inter-governmental Relations stated that eleven states had one major and comprehensive retirement system for the state, local and school employees, thereby facilitating intra-state change of employment without loss of retirement rights. Of the fifty states, seven provided for extensive reciprocity among retirement systems within a state, nineteen had some intra-state reciprocity and most of the others had none."

"In California there is full transferability between the state Employees' Retirement System and most county retirement plans but less than full transferability between the state Employees' Retirement System and the state Teachers' Retirement System."

"In Ohio, membership in the state Teachers' Retirement System, the Public Employees' Retirement System and the School Employees' Retirement System is cumulative in determining length of service; once a person has accumulated a sufficient number of years of membership to qualify for a pension, the system in which he has participated longest pays the retirement benefit."

"Under a plan similar to vesting, each system within a state, by reciprocal arrangement, provides the pensioner with a benefit related to his salary and also to the length of service in its system. Years of credit are cumulative; if through participation in two or more systems, an employee meets the minimum service requirement, each system pays him proportionately. For example, if the service requirement for retirement were fifteen years, five years in one system and ten in another would qualify him for a pension. This approach provides greater benefits than ordinary vesting, since an employee receives benefits for all his years of service whereas under vesting he may lose benefits for some years by changing jobs before he is eligible for vesting."

"Under the plan as adopted in Illinois, the total pension may be increased by basing the benefits in each reciprocating system on the employee's "final average salary" at retirement."

"In Michigan, all service in participating systems, no matter how little, is cumulative; the employee becomes eligible for a pension when he can meet the longest service requirement among those systems in which he has held membership."

"There are no provisions for transfer of pension credits between retirement systems in different states. A number of public institutions of higher education, however, provide their employees with freedom of movement without loss of retirement credit by participation in the Teachers' Insurance and Annuity Association. The Advisory Commission on Inter-governmental Relations reported that about 25% of public institutions of higher education were covered by the retirement plan of this non-profit legal reserve life insurance company."

"Another form of inter-state mobility is provided by permitting new members to "purchase" limited amounts of retirement credit for previous out-of-state teaching. The Advisory Commission on Inter-governmental Relations found that over one-half of the retirement systems for teachers permitted purchase of retirement credit for out-of-state teaching service, but only three general state retirement systems had such provision. The requirements varied widely. In some cases the teacher had to pay both the employee's and the employer's share; in effect, he simply purchased an annuity out of his own money. The New York state Teachers' Retirement System allows new members to obtain full retirement credit for up to ten years of out-of-state teaching provided they pay the employee contribution for those years. The employer's contribution for such years is paid on a pro-rated basis by all employers participating in the new system."

Reverting to his theme of downgrading the importance of pensions in making decisions about whether to change jobs, the author makes the following observations:

"Pension plans impede mobility only if employees feel that a change of jobs would mean a loss of benefits which they consider to be significant in value....There are indications, however, that employees do not fully appreciate the dollar value of future pension benefits. If this is so, the lack of vesting, transfer and early retirement provisions may be less of a bar to mobility than is sometimes supposed."

"Divesting: Vesting, where it is permitted, is usually optional with the employee. A worker who has the right to a vested benefit may choose to "divest" his right. He does so by withdrawing the accumulated contributions he himself has made (he cannot withdraw his employer's contributions). He thereby severs his membership in the system. The experience of public pension plans is that most employees who quit before retirement age do <u>not</u> take advantage of the opportunity to obtain a vested benefit. Employees have voluntarily surrendered prospeetive employer-paid benefits totalling thousands of dollars by the simple act of withdrawing their own

contributions. Such actions may indicate that the immobilizing effect of those plans without vesting is overstated."

"The experience of the Federal Civil Service Retirement System illustrates this. Under that plan, members with five or more years of service who leave before retirement age retain a right to a benefit at age 62 if they leave their contributions in the retirement system. A study of a sample of employees who left the Federal Civil Service indicated that:

(1) One-third had worked five or more years and were therefore eligible for vested retirement rights.

(2) Three-quarters of those eligible for vesting gave up their rights by withdrawing their contributions.

(3) Sex was not significant in the rate of withdrawal - 79% of the males divested and 74% of the females.

(4) Relatively fewer persons withdrew among those with greater years of service, age and salary. Nevertheless, more than one-third of the employees who quit after twenty or more years of service gave up their rights to a retirement benefit by withdrawing their contributions."

"Another study found that for those with twenty years of service, the value of the benefit at the time it was lost....was two to five times the amount of the lump sum they received."

"More than 86% of the employees under 40 years of age who quit and were eligible for a vested benefit withdrew their contributions. The rate for older employees was less but still substantial - 58% in the 50 - 59 age bracket and 52% in the 60 - 62 bracket."

"The availability of vesting rights, whether or not used, minimizes pensions as a factor influencing changes of employment. The fact that so large a portion of those who left federal employment voluntarily surrendered valuable pension rights indicated a lack of appreciation of, or concern for their monetary value."

"The various units of the State University of New York reported about 600 instances in which job offers were refused. In about one out of every eight cases, pensions were mentioned as a factor, either because past service credits were not transferable or because of the State University's long-standing requirement for vesting."

In the face of all of these statements, the general effect of which is to deemphasize and downgrade the pension factor as an element significantly affecting job mobility, the burden of proof would seem to lie with those who desire to change retirement systems for law enforcement officers, to show that these changes would indeed have a real and marked effect on mobility of law enforcement officers.

In this connection, the following very powerful considerations apply:

(a) The service life in most law enforcement fields is notably shorter than in public service generally. Retirement ages are generally earlier, service periods are shorter, and pension rights are correspondingly far more valuable and enter more powerfully into the thinking of a police officer than in the case of the average public service employee.

(b) The monetary value of the pensions of law enforcement officers is higher in relation to their pay than is the case in almost any other field of employment. This results more than anything else from the shorter service period, earlier retirement, survivor benefits, the basing of pensions on final-average earnings, and the generally liberal benefit provisions embodied in most police pension plans.

(c) A large part of the turnover which occurs throughout industry and public service positions generally is at the youngest ages with the shortest periods of service. Other similar positions are often not difficult to locate. The recruitment of law enforcement officers is generally a far more careful process. Of the many

applicants for police positions, a far smaller proportion are actually chosen and appointed for work in this field. Once in, the law enforcement officer tends to be more dedicated to his career, hence more stable, and at the same time, more conscious of his prospects for a full term of service and a pension after he has completed this term and reached the retirement age.

(d) Law enforcement officers are fragmented into many thousands of small units, much smaller than the large groups of employees in public service work generally. To have access to corresponding fields of advancement, the law enforcement officer is often faced in a much more serious way with the problem of movement from one local authority to another, and hence with the possible loss of his accrued pension.

(e) Because the retirement age of law enforcement officers is often ten or fifteen years earlier than the commencement date for a Social Security pension, there is a greater tendency for a law enforcement officer to look to the pension provided by the police pension plan than would be true of employees in other fields where Social Security benefits are generally available at the time of retirement whether or not the employee leaves his money with the pension fund of his previous employer and takes advantage of such vesting provisions as may be available.

In order to establish the facts as to the influence of the loss of pension rights in discouraging a full measure of mobility among police officers, we have conducted personal interviews with many law enforcement officers in New York, Pennsylvania, Illinois, and California. The results of these interviews are given elsewhere in this report. In our opinion, they leave no doubt at all as to the greatly accented importance of pension rights in the law enforcement field, as compared with most other fields of employment, in making decisions as to lateral movements between local authorities.

VESTING VERSUS PORTABILITY VERSUS RECIPROCITY VERSUS SINGLE STATEWIDE PLAN WITH INTERSTATE RECIPROCITY

It may be useful as a further clarification to review in greater detail and compare more closely in one section the generally accepted meanings of the words "vesting," "portability" and "reciprocity," and to show how each of these principles may be employed in bringing about greater mobility among law enforcement officers, and how the systems implied by each of these terms would relate to the alternative of having a single plan covering all law enforcement officers in each state.

Vesting:

The term vesting generally implies the retention of the right to a deferred pension at retirement, notwithstanding the termination of employment before even the earliest retirement age allowed under the plan. Under almost all systems of vesting, the accrued pension is frozen at the point of the departure of the employee, but remains the liability of the pension fund (if any) or of the losing employer. A typical vesting clause in a pension plan would require a minimum period of service to be completed before vesting occurs, such as five years, ten years, or more. Frequently, age and service requirements are both specified, such as the attainment of age 40 and completion of at least ten years of service. If the employee terminates prior to meeting all of the required qualifications, he would have no vested pension covering his service prior to termination.

The vested employee would be expected to claim his pension when he reaches the normal retirement age. The administration of the plan would include records of vested terminated employees, the whereabouts of whom would not always be known. In the event of the death of a vested terminated employee, it is not certain that the survivors or legal representatives of such deceased employee would notify the pension fund, so that there would continue to be a certain element of uncertainty about the whereabouts and survival of former vested employees.

The vesting of pension credits is widely practised throughout industry. Present legislative proposals would stipulate minimum vesting requirements for all tax-sheltered pension plans. For example, one proposal would require vesting at the point when age and service combined make a total of 50 (for example, age 40 plus 10 years, age 45 plus 5 years, etc.). Vesting may be graded progressively from less than 100% of accrued credits when vesting requirements are first met, increasing progressively to a full 100% of accrued credits, five years or ten years later. On the other hand, the plan may provide "one-shot" vesting, the effect of which is that all pension credits accrued to that time are fully vested at the first point when age and/or service requirements are first met.

In considering vesting as a possible solution for the promotion of mobility among law enforcement officers, one great draw-back of this approach would be the very substantial loss of accrued pension credits which would occur in the case of all transfers from one jurisdiction to another prior to meeting the age and service requirements of the plan. There would obviously be a large number of such cases, unless these vesting requirements were set at a very early point, approaching the situation of full portability next discussed. Other draw-backs include the problem of determining what has vested in a final-average pay plan, and the lack of coordination as to retirement ages and other benefit conditions which vary greatly between plans. Vesting does not tend to conserve law enforcement man-power in this field of employment; this concept applies equally to job changes in the other directions also.

Portability:

The term portability generally implies 100% immediate vesting of all accruing credits without any waiting period or minimum age or service requirements. It may also imply transfer of reserves from one plan to another when transfers of employment take place. In this memorandum, that meaning is assumed to apply.

The essential distinction between portability and vesting, however, lies in the fact that, under the portability concept, vesting would be full and immediate. An employee who worked very briefly in one job and then moved to another would have accrued a very small fragment of pension due to commence many years or

decades later, and the right to this small fragment would attach to him, with payment to commence at the normal retirement date.

The principle of full portability was put into practice during World War II in at least one major aircraft manufacturing company at a time when wage stabilization laws prohibited pay increases. In lieu of pay increases, portable pensions were granted. There was very high turn-over. Many of the employees were female. The subsequent record keeping job which arose from this situation can best be described as an administrative monstrosity. Astronomical numbers of microscopic pension amounts have had to be carried in the pension records of this plan ever since. Changes of location, changes of name, and above all, vast numbers of minute fragments of pensions have cluttered the record system during all of the ensuing years since the end of World War II. Administrative costs under this plan are many times greater than normal. This example serves to dramatize the impracticability of the principle of full portability of pension rights in the normal industrial pension plan.

In considering law enforcement officers, we are not dealing with the large numbers of transient employees in a rapidly mushrooming war industry. Transfers of employment would be relatively few and far between. On the other hand, this principle of portability, if applied in the normal way, would imply that nothing would be transferred with the employee other than his right to the pension he had accrued at the point when he terminated. Such elements as his final-average rate of earnings would be determined and recorded at the point of his transfer. In the event that his pay advanced in the new position, and he retired at a much higher level of earnings, his pension based on his earlier period of service would not reflect this continuing advance in the level of his pay. Portable pensions, like vested pensions, would thus be quite vulnerable to inflation and would not reflect the increasing seniority which the law enforcement officer would often expect to gain as a result of his change of position.

Neither the term vesting nor the term portability implies any restriction as to the direction of movement of the terminating or transferring employee. Under

both of these concepts, he would be free to enter any other field of employment, or to cease working altogether. He would continue to retain his right, upon reaching the normal retirement age, to the portion of his pension based on service prior to termination or transfer. He might leave the law enforcement field entirely and become a farmer, or a teacher, or establish his own business, for example. Neither portability nor vesting would specifically encourage him to remain within the field of law enforcement.

Reciprocity:

The principal of reciprocity is distinct from both vesting and portability in the following two respects:

(a) Movements or transfers of employment must occur within the group of employers who are bonded together through mutual reciprocity arrangements, one with another. Thus, twenty separate counties in California which, itself, covers many other counties, giving a wide field of possible employment within which a law enforcement officer can transfer his services. The city of Los Angeles is not, however, a part of this system nor is the city of San Francisco. A law enforcement officer cannot, therefore, transfer his employment between one of the counties referred to and the city of Los Angeles, and continue to build his pension as though his service were continuous. Similarly, if the police officer transferred his services to a law enforcement position in another state or to a field of employment outside law enforcement, his pension rights would not continue. Reciprocity, then, implies restriction as to the direction of movement, and generally, conservation of man-power within the group providing reciprocity rights.

(b) Subject to the above limitation, pension credits earned with the losing employer would continue to grow on the basis of advancing pay with the gaining employer. Provided the employee is prepared to remain within the group, therefore, he can enjoy very substantial advantages under a reciprocity system as compared with vesting or portability arrangements existing elsewhere.

It is not difficult to see that the concept of reciprocity contains some of the elements of a solution to the problem of mobility among law enforcement officers, whereas forced vesting or portability in the normal sense of those terms would not do so. Reciprocity both protects the rights of the transferring employee more effectively and also requires him to remain within the field of law enforcement or government service, depending on how the arrangements are made.

Reciprocity can take many forms. While the essential elements are as already described, there are variations depending on whether reserves are transferred along with pension rights, or whether employee contributions alone are transferred; whether the pension ultimately received is based on the benefit formula of the last employer, or on the plans operating in the various jurisdictions within which service was rendered. Sometimes, there are limits on the amount of prior service for which credit is given by the gaining employer. Coverage of reciprocity systems varies; there are many states in which some of the principal cities or other subdivisions are not members of the reciprocity plan.

Where a system of reciprocity has been well conceived it can work quite effectively. Approximately 5,000 transfers of employment have occurred under the reciprocity arrangements operating in California since these were established. These have not created any particular administrative problems. Shortcomings of reciprocity systems often tend to lie in lack of uniformity of benefit plans throughout the group participating in this system, incompleteness of coverage, and inability to cope with transfers across state lines.

Single Statewide Plan:

The final alternative of a single plan covering all law enforcement officers within a state represents the next logical stage of development in the preservation of pension rights and removal of obstacles to mobility. Where all of the smaller jurisdictions, including all cities, towns, townships, counties, and other subdivisions are members of a single retirement system covering law enforcement officers throughout the state, there is no further need for vesting, portability, or reciprocity in any way, as long as the law enforcement officer

transfers his employment between these various subdivisions within the same state. The State of Washington provides a good example of how such a system can be first implemented notwithstanding the prior existence of many plans in these many subdivisions.

If every state throughout the United States which does not already have a similar single plan covering all police officers throughout the state were to follow the example of Washington or to implement a single plan of alternative design as discussed elsewhere in this report, there would be no further need for reciprocity arrangements, or agitation about vesting, portability, or other steps to protect the pension rights of law enforcement officers, at least insofar as movements within the particular state are concerned.

All of this leaves open the question of transfers between states. Here, the two prima facie alternatives which present themselves are:

(a) To attempt to establish a single plan under federal auspices, to which all state and local government plans could be merged, giving a comparable freedom of movement across state lines. In the absence of direct federal legislative power, this would require substantial federal financial inducements in order to attain adequate coverage, and decisions by many thousands of separate local authorities.

(b) Under federal auspices, and with some financial encouragement, to establish reciprocity arrangements between states, enabling a law enforcement officer to transfer from one state to another while continuing to build his service credits and ultimate retirement benefits.

Of these two approaches, the second appears to hold the greater potential for an effective solution to the whole problem of mobility, since it would utilize state legislative powers to consolidate the many plans in each state, and would reduce down to practical dimensions the number of participants in a system extending across state lines.

While it would be simple and easy to put forward a suggestion that a single plan be established covering law enforcement officers throughout the nation, giving complete portability or transferability of pension rights across state lines in every direction, we believe that there would be considerable and probably insuperable legal difficulty in doing this. We are advised, for example, by the Advisory Commission on Inter-governmental Relations that the federal government is not empowered to legislate along these lines, whereas each state does have the legislative power to sweep into a single plan all of the smaller local authorities within its own borders.

An interesting parallel to this situation exists in connection with an insurance bill for police death benefits, which we understand is being sponsored by Senator Kennedy. In this situation, it is proposed that a subsidy be provided from the federal government to encourage either joining a federally designed and established group insurance plan, or continuing with a separate plan on the basis of federal subsidy, provided this meets certain standards established by the federal government. In other words, the suggested approach from the viewpoint of the federal government would not be to compel any particular action, but to provide financial inducements to either join a federally administered plan or to meet certain standards set by the federal government.

It might also be noted that when the Social Security system was first established, this did not automatically extend at once to state and local government employment. It was left for the voluntary action of state and local governments to elect to bring employees under the federal Social Security system.

The answer to this problem apparently must lie in the direction of convening a council of representatives of the fifty state governments, the District of Columbia and the federal government, the purpose of which would be to produce a Bill providing for reciprocity of pension rights as between these separate entities. This Bill would then apparently require to be enacted separately in each of the legislatures concerned. Since there can be no question that the interests of the nation as a whole will be advanced when better use is made of the skills, energies and talents of the more than 400,000 men and women presently engaged in the field of law enforcement, it would seem logical that some form of federal support or incentive might be provided toward the removal of barriers presently impeding the movement from one position to another on the part of those engaged in this highly important and socially essential task.