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*Ed Gray*

**PRESS** ★

**FEASIBILITY STUDY  
TO TERMINATE SOCIAL SECURITY COVERAGE  
FOR STATE EMPLOYEES**

**DRAFT PRELIMINARY REPORT**

**APRIL 1, 1972**

**FEASIBILITY STUDY  
TO TERMINATE SOCIAL SECURITY  
COVERAGE FOR STATE EMPLOYEES**

**DRAFT PRELIMINARY REPORT**

**Prepared for  
Agriculture and Services Agency**

**Prepared by  
Social Security Task Force**

**April 1, 1972**

## MEMBERSHIP

### Social Security Task Force

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Al Reis	Agriculture and Services Agency
Charles Hobbs	Department of Social Welfare
Robert Bishop	Department of Social Welfare
Beverly Gaffney	Public Employees' Retirement System
Kisuk Yang	Public Employees' Retirement System
Steve Jablonsky	Department of Finance
Dale Flournoy	Department of Finance

This draft preliminary report contains no recommendations. The advantages and disadvantages to termination contained on pages 5 through 10 are generally based on specific assumptions as stated on pages 1 and 2.

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## I. INTRODUCTION AND CONCLUSION

A Governor's Cabinet Issue on the subject of a task force study of the State's withdrawal from social security was approved on February 8, 1972. The Cabinet Issue paper, which outlines the specific charge to the task force, is appended as Exhibit I.

The task force attempted to gather and evaluate all the data relative to the subject within the time constraints allowed. This report summarizes a review of this data under a topical arrangement paralleling the specific charges made to the task force.

This report does not necessarily reflect each individual member's view but rather a general consensus of the group.

The data presented in this report demonstrate that advantages can be gained by both the State and most of its employees (which includes legislators and constitutional officers) by state withdrawal from social security with the following assumptions:

1. That PERS benefits, augmented to substitute in general terms those now provided by social security, are entirely adequate. However, some employee's ultimate benefit would be less than in a coordinated program.
2. The actual cost savings to the State and its employees are dependent on the method of financing substitute benefits.
3. The actual impact on social welfare has not been determined and would require further study.

4. That the Social Security program is financed under present statutes or HR I in its current form generally.
5. That if a significant change in the method of financing the Social Security program occurs in the future, such as general revenue financing, sufficient grounds would be available to seek state reentry into the Social Security program.

There are four courses of action that can be pursued at this time:

1. Do nothing and continue with PERS and social security coverage.
2. Enact legislation directing the Public Employees' Retirement System to notify the Social Security Administration of California's desire to terminate its employees from social security coverage. Included in this legislation should be appropriate substitute benefits to become effective upon actual termination.
3. Enact legislation as in No. 2 above but with the understanding that the social welfare aspects will be studied further during the two-year notice requirement period.
4. Enact legislation seeking termination with further study of the entire issue during the two-year notice requirement before termination becomes effective with the understanding that the termination notice could be withdrawn.



The task force believes that if a decision to terminate is made, alternatives two or three are much more desirable. This re-  
presents a positive solution to the problem of providing maximum retirement benefits at the most economical cost, and would not leave state employees in a quandary for the interim two-year period.

It is hoped that the discussions and data contained in this report facilitate the decision on the issue of state withdrawal from social security coverage.

CABINET ISSUE MEMODECISION  
DISCUSSION

To: Governor Ronald Reagan

Date: Feb. 4, 1972

From: Agriculture and Services Agency

No. AS 72-6

Signed  
by

Earl Coker, Secretary

Originated  
by

A. J. Reis, Assistant Secretary

SUBJECT: TASK FORCE TO STUDY STATE WITHDRAWAL FROM SOCIAL SECURITY

ISSUE: COMPOSITION AND DUTIES OF TASK FORCE

CONCLUSION: ▶ ASSIGN TASK FORCE COORDINATOR: AL REIS, AGENCY ASSISTANT SECRETARY

## ▶ APPOINT TASK FORCE MEMBERS:

- STEVE JABLONSKI DEPARTMENT OF FINANCE
- ~~TOM MEMORIKAT~~ HUMAN RELATIONS AGENCY
- KISUK YANG PUBLIC EMPLOYEES RETIREMENT SYSTEM CHIEF ACTUARY
- BEVERLY GAFFNEY PUBLIC EMPLOYEES RETIREMENT SYSTEM SOCIAL SECURITY EXPERT

## ▶ CHARGE TO THE TASK FORCE:

- COMPLETE STUDY AND SUBMIT REPORT BY MARCH 10.
- DOCUMENT SOCIAL SECURITY COVERAGE PATTERNS IN PUBLIC EMPLOYMENT GENERALLY AND IN CALIFORNIA STATE SERVICE PARTICULARLY.
- INVESTIGATE AND EVALUATE WITHDRAWAL EXPERIENCE OR PLANS OF OTHER PUBLIC EMPLOYERS; DETERMINE ANY TRENDS.
- MAKE PRESENT COMPARISONS AND FORECASTS OF COSTS AND BENEFITS OF PERS COMBINED WITH SOCIAL SECURITY AS CONTRASTED WITH PERS ALONE.
- SPELL OUT WITHDRAWAL PROCEDURES, ACTION AUTHORITIES, FINALITY OF COMMITMENT, AND REQUIRED LEGISLATION.
- ASSESS IMPACT OF WITHDRAWAL ON STATE EMPLOYEES, PUBLIC INTEREST, FEDERAL ADMINISTRATION, OTHER PUBLIC EMPLOYERS, AND THE SOCIAL SECURITY SYSTEM.
- IDENTIFY LONG TERM IMPLICATIONS AND DANGERS OF WITHDRAWAL AND ASSESS THE RISKS
- SUMMARIZE AND WEIGH THE ADVANTAGES AND DISADVANTAGES OF WITHDRAWAL.
- STATE BOTH THE CASE FOR WITHDRAWAL AND THE CASE FOR RETAINING SOCIAL SECURITY FOR DECISION BY CABINET
- GIVE SPECIAL CONSIDERATION TO EXISTING AND POTENTIAL FUTURE SOCIAL WELFARE ASPECTS OF THE QUESTION

## II. ADVANTAGES AND DISADVANTAGES OF WITHDRAWAL FROM SOCIAL SECURITY

### Summary

The advantages and disadvantages of termination from social security are as follows:

### Advantages:

1. Immediate dollar savings to the State depend upon the financing of substitute or improvement in PERS benefits.
2. Immediate increase in takehome pay for approximately 100,000 state employees (those now covered by social security).
3. Substitute benefits (not necessarily dollar-for-dollar equivalent) for social security coverage can be purchased for less money in the Public Employees' Retirement System.
4. Substitute benefits for Medicare coverage can be funded within the savings from social security termination.
5. Substitute benefits could apply to all state employees regardless of prior social security coverage.
6. State control over future retirement benefit improvements and costs.
7. Approximately 39 percent of the state work force are women who, if married, can already qualify for social security benefits based on the earnings of their retired husbands.

8. Many state employees, both currently employed and those hired in the future, can be eligible for some social security benefits based on minimum quarter coverage under social security.
9. Some state employees pay a disproportionate share of social security costs because social security favors the lower paid employees and California employees are considered to be higher paid than those located in other states.
10. As the wage base for social security coverage continues to expand, the supplemental portion of social security cost and benefits expands due to the offset provisions of the coordinated program being fixed at annual base of \$4,800.
11. The pressure for continued improvements in state retirement benefits will continue even under the current coordinated plan, and termination would allow improvement in PERS benefits from savings in social security contribution.

Disadvantages:

1. Noncareer employees lose the advantage of continuous social security coverage during their total employment career.
2. If Federal General Tax Revenue is used in the future to fund social security benefits, state employees would be contributing towards the cost of a benefit for which they could not participate.
3. Use of social security reserves could increase benefit payments without increasing the employee's and employer's cost for some period of time.
4. It is difficult to replace the spouse cash benefit in social security with an equivalent PERS benefit.
5. Maximizes total retirement benefits when attendant contribution costs are not a serious consideration.
6. Employees may attribute a higher degree of security to benefits provided by social security than to benefits provided by PERS.
7. Social security disability benefits will cease after five years from termination.
8. It is possible to withdraw retirement contributions from the public employees retirement system in lieu of a retirement allowance, exhaust such contributions, and then qualify for welfare.
9. Testimony from advocates of coordination contended that lack of social security coverage disadvantages the State in recruiting personnel from private industry.

10. Assuming termination from social security is coupled with an increase in PERS benefits, a subsequent reentry into social security in the future could further increase state costs beyond the current system.
11. It is not practical to replace social security benefits on a dollar-for-dollar basis; therefore, some employees' ultimate benefits will be less as a result of termination.

#### Discussion and Facts

##### Advantages:

It is possible for California to terminate its participation in social security and realize immediate dollar savings upon termination to both the employer (state) and the employee (Exhibit 2). Savings which accrue from termination can be used in part to improve both retirement benefits in PERS as well as possibly other staff benefits for all state employees. Significant savings could result to enable California to provide equivalent health care benefits to match the Federal Medicare Program for state employees when needed at some future date. Termination would eliminate the undesirability of paying into two different retirement systems at the same time. Social security represents a federally mandated program for both the State and its employees with cost increases over which California has no control.

Disadvantages:

It is difficult for any change in a retirement system to affect all members of the plan in the same way. If the State was to terminate its contract for social security, noncareer employees would lose the advantage of social security coverage for their total employment career. It is impossible to calculate the affect of the break in social security coverage for an individual unless his total employment and salary history is known. It is possible that an interruption in social security coverage may reduce a person's final compensation level from social security. This may affect transient employees. Termination should not prove detrimental to career employees if substitute benefits are provided in PERS to supplement the 1/50th formula.

Social security is currently funded on a 50/50 basis by the employer and employee. If significant funding changes were made so that Federal general tax revenues were used to fund future social security benefits, the state employee could be funding the cost of this program with his Federal taxes and be excluded from participating in the benefits of the system.

If existing social security reserves are used to increase benefit payments without increasing employer or employee taxes, the cost/benefit savings which are mentioned in this report, based on existing Federal statutes may not materialize. Such a situation would diminish the present cost/benefit advantage for termination.

It is extremely difficult to replace social security benefits in PERS on a benefit-for-benefit basis. For instance, social security provides a dependent spouse a retirement benefit at age 65 equal to one-half of the fully insured member's allowance even though she did not contribute to social security. It is this kind of specific benefit that would be exchanged for other benefits of equivalent value in PERS. Some employees could view this action as a loss of a desirable retirement asset even though another substitute benefit was provided which had an equal or greater total dollar value.

There are also some employees who are primarily concerned with retirement benefit levels. The cost of those benefits may be of secondary concern. To this employee, termination from social security could be viewed as a decrease in his total retirement benefit level, even though other substitute benefits were being provided within the PERS.

Certain employees may also attribute a higher degree of security or safety to those retirement benefits which are provided through social security versus benefits provided by PERS. To this employee, the social security benefit is backed by the full faith and credit of the Federal Government, and he may not necessarily attach the same level of reliance to PERS benefits.



## ANTICIPATED SAVINGS DUE TO SOCIAL SECURITY TERMINATION

(Projected annual cost: 1975--possible  
date of actual termination)

	Present Social Security Law (millions)	HR-1 (millions)
1. Employer Contributions	\$61.3	\$74.9
2. Employee Contributions	<u>61.3</u>	<u>74.9</u>
Total savings	\$122.6	\$149.8
3. Substitute-type Benefits in PERS to Replace Social Security <sup>a</sup>		
A. Elimination of the social security modification which applies to the PERS benefit	\$6.9	
B. (a) 50 percent of retired members' allowance to surviving spouse (active members only)	33.4	
(b) 15 percent increase to retirement benefit for retired members who chose option 3 or 4	4.8	
	<u>\$38.2</u>	
C. Extension of 1959 Survivor Benefits to members now covered by social security:		
(a) Member pays \$2/month	\$7.2	
(b) Additional if State pays \$2.00/month	4.0	
D. Post retirement Death Benefits:		
Increase post retirement benefit from \$500 to \$750	<u>\$0.5</u>	
Total cost	<u>\$56.8</u>	<u>\$56.8</u>
Potential immediate savings to the State and its employees	\$65.8	\$93.0

<sup>a</sup>Excludes cost of replacing future Medicare benefits. For a more complete discussion of this topic, see page 40.

### III. RISKS IN WITHDRAWAL FROM SOCIAL SECURITY

Withdrawal from the Social Security System involves some long-term risks to the employee. These include:

1. The possibility of using General Tax Revenue to fund at least a portion of future social security costs.
2. The fact that current Federal statute does not permit a state to reenter the Social Security Program after termination.
3. The loss of uniform retirement coverage for noncareer employees moving between state service and other employment.

#### Discussion

In the discussion on the topic of potential future changes in financing the Social Security Program (Chapter VI), the possibilities of contingency reserve financing and general revenue financing are discussed.

The risk here is that the state employee may end up supporting social security through Federal taxation without being eligible to receive benefits. Another possibility is that the increased benefits could be funded for a period of time from Trust Fund reserves. Once social security has been terminated, the State may not again extend social security coverage to employees in the coverage group under current provisions.

Some employees may feel that social security benefits could be improved at a faster rate than PERS benefits. A noncareer employee who leaves state service with less than five years has no vested right under PERS and would be entitled to social security benefits (and possibly another retirement plan, if any) only through other employment.

The task force believes that general revenue financing represents a major departure from the current method of funding. It is therefore probable that sufficient grounds would be available to warrant the State to reenter the Federal program should this occur. Termination with subsequent reentry would increase costs over the current system because social security would become fully supplemental with possibly some duplication of PERS benefits.

#### IV. IMPACT OF TERMINATION ON INTERESTED GROUPS

##### Summary

The impact of termination is difficult to assess. Opposition to termination from interested groups would probably be minimal if (1) adequate substitutes for social security benefits were provided and (2) a proposal for termination clearly delineates the fact that an adequate state retirement system exists.

##### Discussion

1. State employees--Equality of treatment for member groups is difficult to achieve when considering changes to a program such as retirement. During deliberation of SB 249/1971 (PERS 1/50 retirement formula), those employees who retired just prior to its enactment were very unhappy and the benefit increase to a 69-year old employee was far less than a 60-year old employee.

The impact on state employees should probably be viewed from at least two vantage points, the career type (who works at least 15-20 years or more) and the noncareer employee. It should be noted that surveys on the subject of termination have not been stratified by these two categories of employees.

If adequate substitutes are provided for social security benefits, the majority of career employees are expected to favor termination. This assumption is based not only on economies, but also by the

fact that past surveys, which include noncareer employees, favored termination without addressing themselves to substituting social security benefits. The employees' association has since 1963 favored termination without clearly identifying substitute benefits, although their position has been to utilize all savings to the State to improve benefits generally. It should also be noted that many employees receive very little benefit from the State's (and their own) social security contributions. For example, a substantial but unknown portion of the State's social security costs represent payments in behalf of its female employees (a group constituting approximately 39 percent of the state work force) many of whom, if married, are already eligible for a social security benefit based on the earnings of their retired husbands.

The impact of termination on noncareer employees varies depending on the individual situation. Those working for the State for a relatively short period of time, particularly at the end of their working life, and not having accrued a vesting right to another retirement system by virtue of other employment would feel the most adverse effect of termination from social security. Others, particularly those accruing retirement benefits in other employment, would merely incur a break in social security coverage which may, or may not, have a significant adverse effect. With practically no data available on the characteristics of the non-career employees, it is not possible to evaluate the impact of terminating social security coverage for short-term state employees.

2. Legislature and Constitutional Officers--Current members of the Legislature and constitutional officers can participate in social security on an individual optional basis. Chapter 1300, Statutes of 1971, mandatorily requires social security coverage for those who first take office on or after May 1, 1972. Because these officials are regarded as state employees for social security purposes, termination will also remove them from coverage. The question of terminating social security coverage has not been pursued with these officials.
3. Other Public Employers--Should California seek termination from social security coverage, other public employers would most likely be interested in reviewing such action. The mere fact that California is the most populous state would probably motivate other states, with adequate retirement plans of their own, to consider similar action.

In California, some small public agencies contracting with PERS have already terminated or are awaiting termination from social security coverage. If termination from social security coverage for state employees were sought, the review of this issue by public agencies (both small and large) would be intensified, particularly those contracting with PERS since Chapter 170, Statutes of 1971 (1/50th formula) also increased the retirement formula for contracting agencies.

4. Social Security System--One might conclude that termination from social security coverage may have a fiscal impact on the social security system. Only a cursory review, however, tends to dispel this conclusion.

The 1971 Statistical Abstract of the United States shows that in 1969, there were 93 million workers reported with taxable earnings including seasonal and part-time workers. Also in 1969, 6.3 million social security numbers were issued and 6.2 million workers reported taxable earnings for the first time.

At the present time, approximately 100,000 state employees are covered by social security, a very negligible portion of all workers covered by the Social Security System. It should be noted that the two-year notice to terminate requirement allows the Social Security System to plan for any cash flow change which may result.

5. Federal Administration--The task force did not have an opportunity to evaluate the impact on the Federal Administration should termination of social security coverage for state employees be sought. It is felt that any concern would probably be political and at the minimum, termination notice should identify the fact that an adequate state retirement system exists.
6. Public Interest--It is believed that the impact of terminating social security coverage for state employees would be negligible as far as the general public is concerned if the proposal clearly delineates the fact that a very adequate state retirement system already exists. It would be unfortunate if any pronouncement of termination were made without the latter explanation and thus cause any shadow of doubt about the fiscal soundness or integrity of the Social Security System.

V. COSTS AND BENEFITS OF PERS AND SOCIAL SECURITY AS CONTRASTED  
WITH PERS

SUMMARY

The costs and benefits of the two retirement systems are obviously greater than one alone. The following material attempts to focus on this issue in several ways to provide some perspective of costs and benefits.

Discussion:

Discussions regarding retirement benefits and cost usually fall short of describing the situation in an unbiased fashion. This report attempts to avoid the criticism of either the employer or employee groups by illustrating the costs and benefits of PERS and social security in several different forms.

Included below is a list of the various ways in which retirement costs can be viewed.

1. Estimated State Costs (Employer Only) for Social Security from 1970-71 through 1979-80 (Exhibit 3).
2. Social Security Contribution Schedule (Employer or Employee) (Exhibit 4).
3. Maximum Social Security Tax (Employers or Employees).
  - A. Chart Form (Exhibit 5).
  - B. Tabulation (Exhibit 6).
4. Comparison of Benefits: PERS Versus PERS--Social Security Coordinated.
  - A. Narrative Comparison (Exhibit 7)
  - B. Dollar Comparison (Exhibit 8)



**5. PERS and Social Security Employee Costs by Types of Employee.**

**A. Clerk II**

1. Chart Form (Exhibit 9).
2. Tabulation (Exhibit 10).

**B. Assistant Analyst**

1. Chart Form (Exhibit 11).
2. Tabulation (Exhibit 12).

**C. Senior Analyst**

1. Chart Form (Exhibit 13).
2. Tabulation (Exhibit 14).

Estimated State Costs for Social Security  
(1970-71 through 1979-80)

<u>Fiscal year</u>	<u>Employees covered</u>	<u>Present Law</u>		<u>HR 1</u>	
		<u>Maximum tax per employee</u>	<u>State<sup>a/</sup> cost in millions</u>	<u>Maximum tax per employee</u>	<u>State<sup>a/</sup> cost in millions</u>
1970-71.....	106,161	\$405.60	\$35.0 (actual)	-	-
1971-72.....	110,407	468.00	44.7	-	-
1972-73.....	114,823	508.50	51.4	\$550.80	\$56.2
1973-74.....	119,415	508.50	53.7	550.80	58.8
1974-75.....	124,191	508.50	56.2	632.40	71.5
1975-76.....	127,917	526.50	61.3	632.40	74.9
1976-77.....	130,477	526.50	62.7	754.80	92.4
1977-78.....	133,087	526.50	64.1	754.80	94.5
1978-79.....	135,749	526.50	65.5	754.80	96.5
1979-80.....	138,464	535.50	68.1	754.80	98.5

a/ Employer only--covered employees contributing an equal amount.

SOCIAL SECURITY CONTRIBUTION SCHEDULE  
(Employer or Employee)

I. Current Federal Law

<u>Years</u>	<u>Covered Wage</u>	<u>Percent of Salary</u>
1951-53	\$3,600	1.5%
1954-55	3,600	2.0%
1955-56	4,200	2.0%
1957-58	4,200	2.25%
1959-60	4,800	2.5%
1960-61	4,800	3.0%
1962-63	4,800	3.125%
1963-64	4,800	3.375%
1964-66	4,800	3.625%
1966-67	6,600	4.2%
1967-68	6,600	4.4%
1969-70	6,600	4.8%
1971	7,800	5.2%
1972	9,000	5.2%
1973	9,000	5.65%
1974	9,000	5.65%
1975	9,000	5.65%
1976-79	9,000	5.85%
1980-86	9,000	5.95%
1978+	9,000	6.05%

II. Proposed Federal Legislation (HR 1)

1972	10,200	5.4%
1973	10,200	5.4%
1974	C.P.I. <sup>1/</sup>	5.4%
1975		6.2%
1976		6.2%
1977+		7.4%

<sup>1/</sup> Covered wage changes as the consumer price index increases over 3 percent.

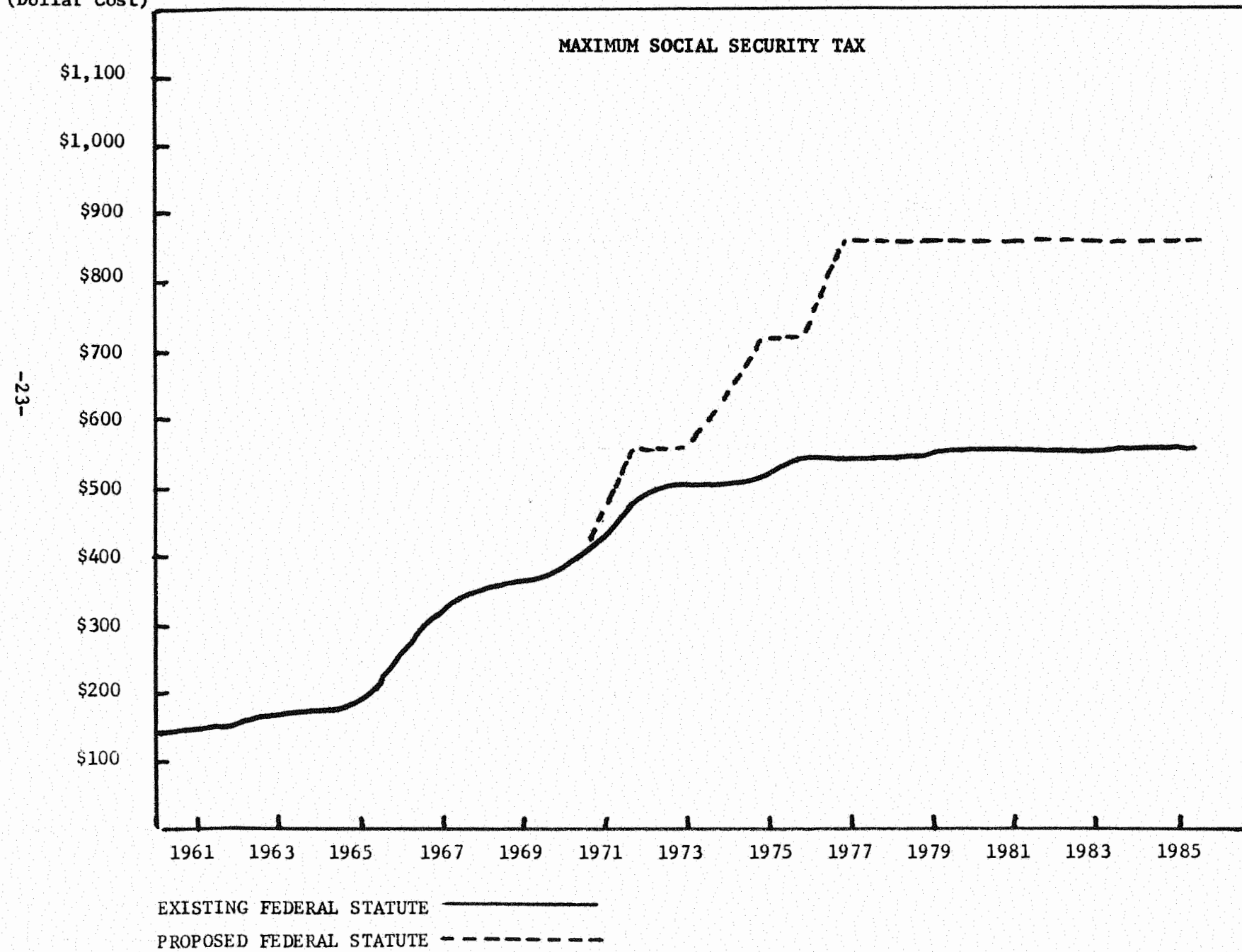
## MAXIMUM SOCIAL SECURITY TAX

(Employers or Employees)

Year	<u>Existing Federal Statute</u>			<u>Proposed Federal Statute</u>		
	<u>Covered Wage Base</u>	<u>Contribution Rate (percent)</u>	<u>Annual Maximum Employee Tax</u>	<u>Covered Wage Base</u>	<u>Contribution Rate (percent)</u>	<u>Annual Maximum Employee Tax</u>
1961	\$4,800	3	\$144.00			
1962	4,800	3.125	150.00			
1963	4,800	3.375	162.00			
1964	4,800	3.625	174.00			
1965	4,800	3.625	174.00			
1966	4,800	4.2	201.60			
1967	6,600	4.4	290.40			
1968	7,800	4.4	343.20			
1969	7,800	4.8	374.40			
1970	7,800	4.8	374.40			
1971	7,800	5.2	405.60			
1972	9,000	5.2	468.00	\$10,200	5.4	\$550.80
1973	9,000	5.65	508.50	10,200	5.4	550.80
1974	9,000	5.65	508.50	11,425 <sup>1/</sup>	5.4	616.95
1975	9,000	5.65	508.50	11,425	6.2	708.35
1976	9,000	5.85	526.50	11,425	6.2	708.35
1977	9,000	5.85	526.50	11,425	7.4	845.45
1980	9,000	5.95	535.50	11,425	7.4	845.45
1985	9,000	5.95	535.50	11,425	7.4	845.45

<sup>1/</sup> Covered wage related to the consumer price index when CPI is greater than 3 percent.

(Dollar Cost)



COMPARISON OF BENEFITS  
PERS VS PERS--SOCIAL SECURITY COORDINATED  
(Miscellaneous Members)

Item	PERS	PERS Social Security Coordination	Substitute Benefits
I. Service Retirement Allowance (Nondisability)  A. Member Benefit	The allowance depends on length of service, age at retirement and final compensation. For example: $2.4\% \times \text{years of service} \times \text{final compensation}$ (highest 3 consecutive years) at age 63.	The allowance for the coordinated member consists of two parts: A benefit from PERS and one from Soc. Sec. The PERS allowance is computed as indicated in the column to the left, less a certain amount (\$2.67 at age 60; \$3.22 at age 65) for each year of service since Jan. 1, 1956. The social security benefit is based on average monthly wage under covered employment--since 1956 for most state employees.	Restore full formula under PERS for future service. The total allowance of employee under coordination generally exceeds the allowance of the employees under PERS only; the differential is greatest for those who retire in near future. There is no precise way to achieve equivalency.
B. Wife's Benefit	None	In addition to the above, the wife of the coordinated employee may be entitled to a wife's benefit equal to one-half of the employee's social security retirement benefit. If she is also entitled to a social security benefit on her own account she receives the highest one but not both.	Add comparable benefit to PERS.
C. Children's	None	If the retiree has dependent children under age 18, some additional social security retirement benefits are payable.	Add comparable benefit to PERS.

Item	PERS	PERS Social Security Coordination	Substitute Benefits
II. Disability Retirement	If incapacitated for performance of his job, an employee may retire for disability. The benefit is 1½ percent of final compensation for each year of service with an improvement in some cases to one-third of final compensation if credited service exceeds ten years.	The coordinated member is entitled to the same benefit from PERS without reduction. In addition he may be entitled to a disability retirement benefit from social security. The social security definition of disability is more rigorous than that of PERS. Benefits are also payable by social security for dependents of the disabled worker.	Increase disability benefit to 1.8% of final compensation for each year of service. Also consider adding family benefits
II. Survivor Benefits			
A. Benefits on Death Prior to Retirement			
1. Lump Sum Death Benefit (burial benefit)	The designated beneficiary receives a sum equivalent of one month's salary for each completed year of service to a maximum of six (paid by employer) and return of the employee's accumulated contributions.	The beneficiary receives the same benefit from PERS (the amount of the accumulated contributions will be less since the rate of contribution to PERS is reduced by one-third on the first \$400 of salary). Social security pays a lump sum burial benefit of up to \$255.	Add burial benefit on death before retirement.

Item	PERS	PERS Social Security Coordination	Substitute Benefits
Benefits on Death Prior to Retirement (cont'd)			
2. 1959 Survivor Benefit	In addition to the basic death benefit, an eligible beneficiary (widow age 62, dependent child alone) is entitled to \$180 a month; two beneficiaries, \$360; three or more, \$430.	In lieu of the PERS benefit, the beneficiaries of the coordinated member receive comparable survivor benefits from social security.	Provide 1959 survivor benefit to all employess.
3. 1957 Survivor Benefit	The widow or dependent widower of a member age 55 with at least five years service may accept in lieu of the basic death benefit above a life-time monthly allowance equal to one-half the member's service retirement allowance. The 1959 Survivor Benefit is payable in addition.	The same 1957 benefit is payable from PERS on death of a coordinated member. (The amount of the benefit will be smaller since the PERS service retirement benefit the member would have been entitled to receive is reduced.) The social security death and survivor benefits referred to above are payable in addition.	Restore full formula under PERS for future service.
B. Benefits on Death after Retirement	None, unless member reduces service retirement allowance by selecting an option.	Social security survivor benefits are payable plus any benefits payable from PERS if member has selected an option.	Provide 50% post-retirement survivor allowance for active members. Also consider 15% increase in retirement benefits for retired members.
1. Survivor Benefits			



Item	PERS	PERS Social Security Coordination	Substitute Benefits
B. Benefits on Death After Retirement (cont'd)	2. Burial Benefit    On the death of a retired member, PERS provides a benefit of \$500.	The PERS benefit is also payable on the death of a retired member who was under the coordinated plan. In addition, he is covered by the social security lump sum benefit of up to \$255.	Add benefit provided by social security.
IV. Health Insurance	No comparable benefits.	Hospital benefits--Part A Medicare (Estimated value \$31 per month).	Provide comparable benefits under Meyers-Geddes Plan.

# PUBLIC EMPLOYEES' RETIREMENT SYSTEM

## Comparison of Allowance Results 1/50th to 1/50th Modified and Social Security\*

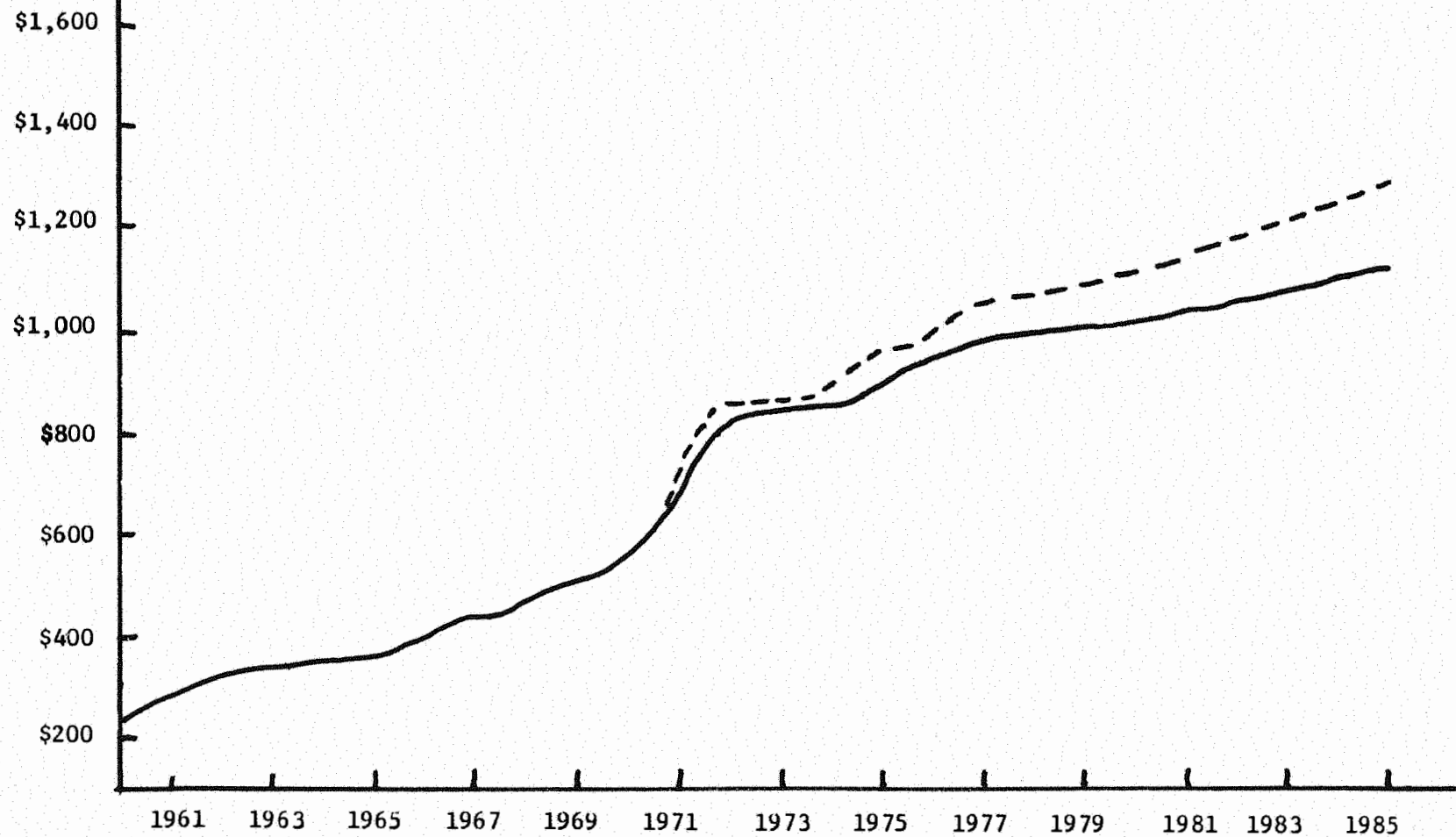
Assumptions -- Male, age 65, retiring 7/1/72 with female beneficiary, age 62  
 Final Compensation -- \$500.00, \$700.00, \$900.00, and \$1,500.00  
 Service -- 5 years, 10 years, and 20 years.

Service	Final Compensation	1/50th Formula	Retired 1/50th Modified Formula and Social Security					
		System's Unmodified Allowance to Member	Total System and Social Security Allowance		System's Unmodified Allowance	Social Security Benefits		
			Without Wife's Ben.	With Wife's Ben.		Total	Man	Wife
1. 5 years	\$ 500.00	\$ 60.45	\$232.83	\$311.83	\$ 44.33	\$267.50	\$188.50	\$79.00
2. 5 years	700.00	84.63	257.01	336.01	68.51	"	"	"
3. 5 years	900.00	108.81	281.19	360.19	92.69	"	"	"
4. 5 years	1,500.00	181.35	353.73	432.73	165.23	"	"	"
5. 10 years	500.00	120.90	277.16	356.16	88.66	"	"	"
6. 10 years	700.00	169.26	325.52	404.52	137.02	"	"	"
7. 10 years	900.00	217.62	353.88	452.88	185.38	"	"	"
8. 10 years	1,500.00	362.70	518.96	597.96	330.46	"	"	"
9. 20 years	500.00	241.80	377.11	456.11	188.61	"	"	"
10. 20 years	700.00	338.52	473.83	552.83	285.33	"	"	"
11. 20 years	900.00	435.24	570.55	649.55	382.05	"	"	"
12. 20 years	1,500.00	725.40	860.71	939.71	672.21	"	"	"

\* Assumes maximum social security benefits.

(Dollar Cost)

**CLERK II  
PERS AND SOCIAL SECURITY COSTS**



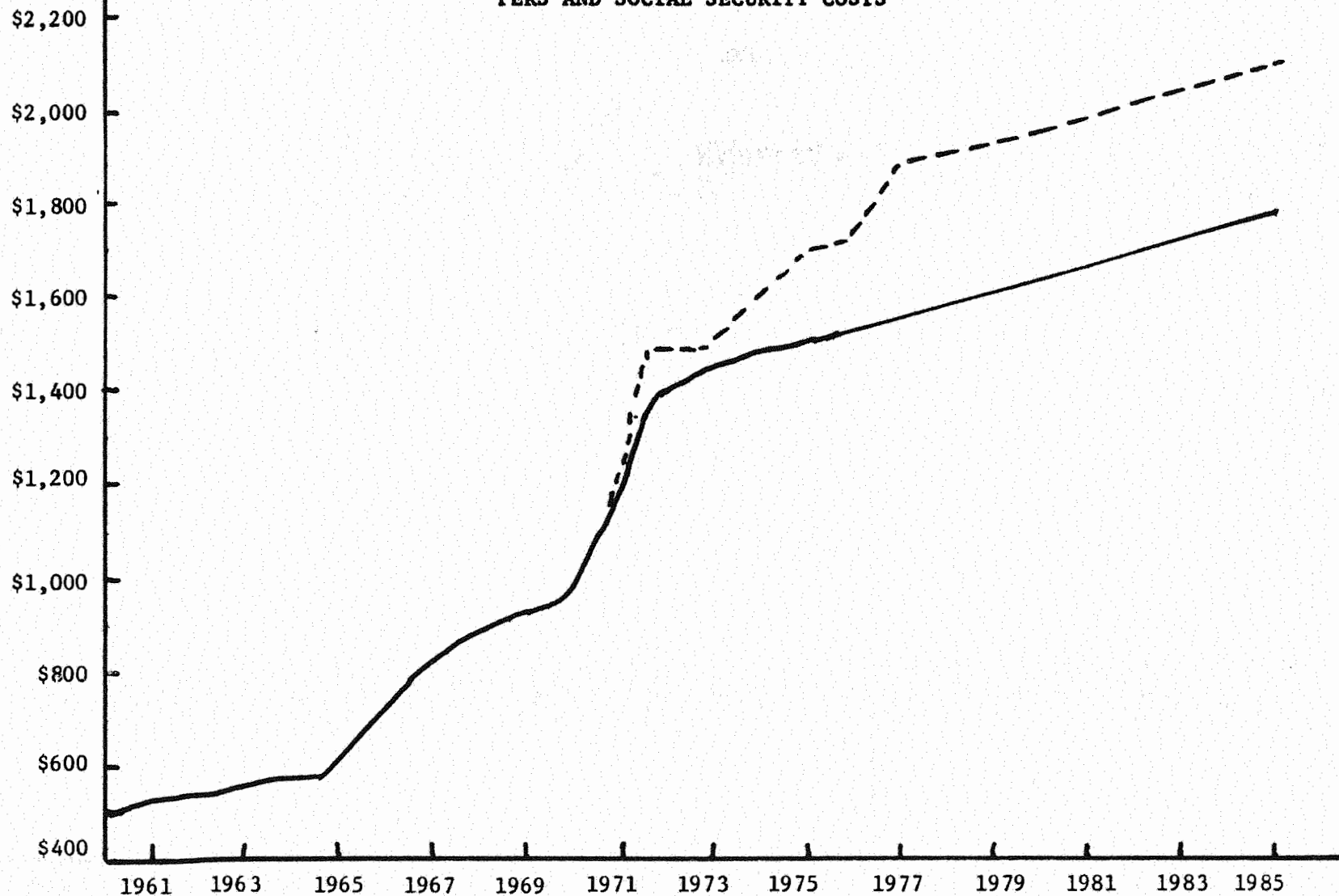
EXISTING FEDERAL STATUTE —————  
PROPOSED FEDERAL STATUTE - - - - -

CLERK II  
PERS AND SOCIAL SECURITY COSTS

Monthly Wage	Annual Wage	Year	Current Federal Statute			Proposed Federal Statute		
			PERS	Soc. Sec.	TOTAL	PERS	Soc. Sec.	TOTAL
\$358	\$4,296	1961	159	129	288			
395	4,740	1962	175	148	323			
395	4,740	1963	175	160	355			
419	5,028	1964	190	174	364			
419	5,028	1965	190	174	364			
429	5,148	1966	197	202	399			
440	5,280	1967	204	232	436			
458	5,496	1968	216	242	458			
480	5,760	1969	231	276	507			
505	6,060	1970	247	291	538			
530	6,360	1971	299	331	630			
556	6,672	1972	467	347	814	467	360	827
556	6,672	1973	467	375	842	467	360	827
570	6,840	1974	478	386	864	478	369	847
584	7,008	1975	491	396	887	491	434	925
598	7,176	1976	502	420	922	502	445	947
613	7,356	1977	515	430	945	515	544	1,059
660	7,920	1980	554	471	1,025	554	586	1,140
747	8,964	1985	627	533	1,160	627	663	1,290

dollar Cost)

ASSISTANT ANALYST  
PERS AND SOCIAL SECURITY COSTS



EXISTING FEDERAL STATUTE

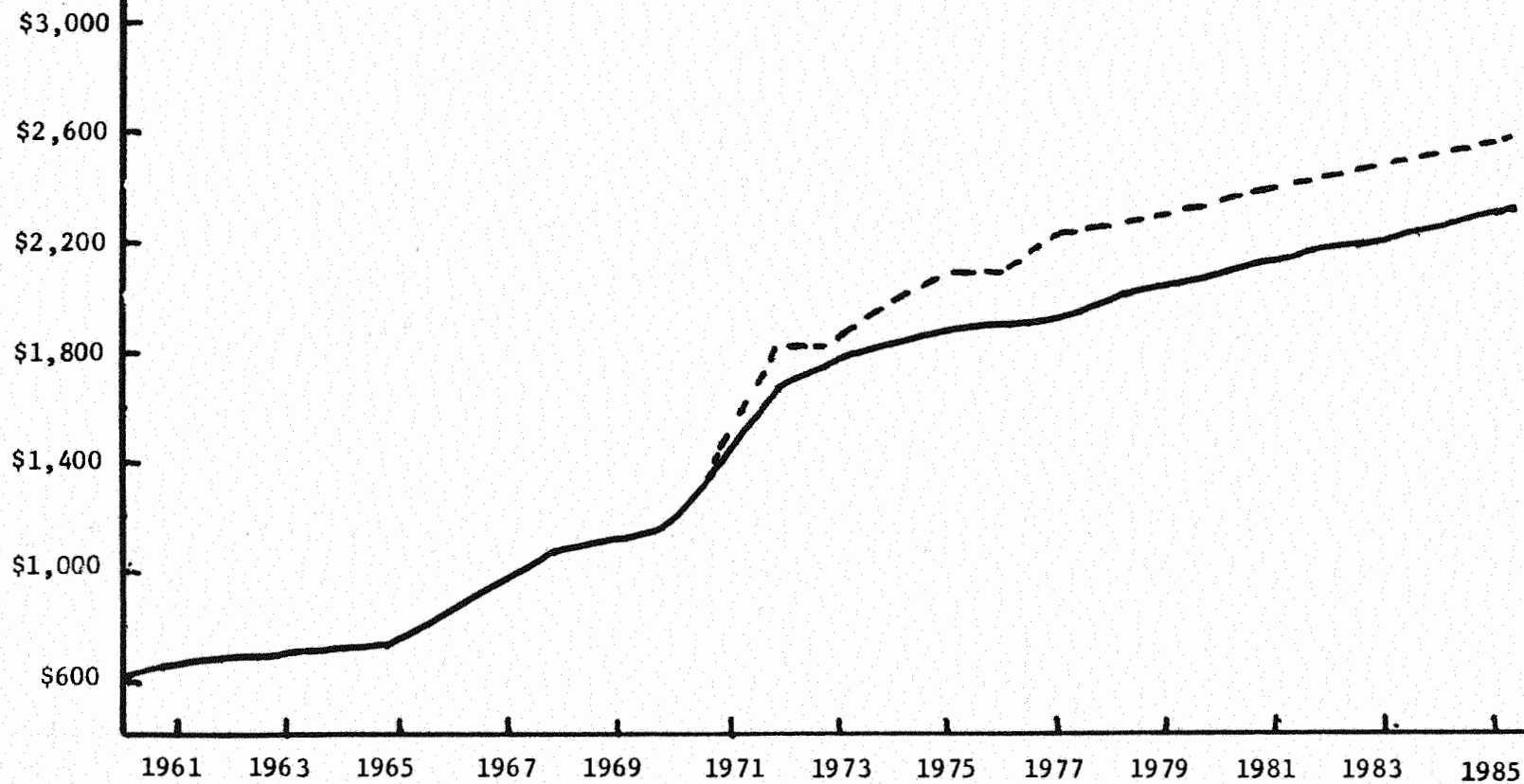
PROPOSED FEDERAL STATUTE

**ASSISTANT ANALYST  
PERS AND SOCIAL SECURITY COSTS**

Monthly Wage	Annual Wage	Year	Current Federal Statute			Proposed Federal Statutes		
			PERS	Soc. Sec.	TOTAL	PERS	Soc. Sec.	TOTAL
\$644	\$7,728	1961	340	144	484			
676	8,112	1962	361	150	511			
676	8,112	1963	361	162	523			
717	8,604	1964	388	174	562			
717	8,604	1965	388	174	562			
790	9,408	1966	433	202	635			
829	9,948	1967	463	290	753			
863	10,356	1968	485	343	828			
905	10,860	1969	513	374	887			
950	11,400	1970	543	374	917			
998	11,976	1971	651	406	1,057			
1,048	12,576	1972	880	468	1,348	880	551	1,431
1,048	12,576	1973	880	509	1,389	880	551	1,431
1,074	12,888	1974	902	509	1,411	902	617	1,519
1,100	13,200	1975	924	509	1,433	924	708	1,632
1,128	13,536	1976	948	527	1,475	948	708	1,656
1,156	13,872	1977	971	527	1,498	971	845	1,816
1,245	14,940	1980	1,046	536	1,582	1,048	845	1,893
1,408	16,896	1985	1,183	536	1,719	1,183	845	2,028

(Dollar Cost)

SENIOR ANALYST  
PERS AND SOCIAL SECURITY COSTS



EXISTING FEDERAL STATUTE —————  
PROPOSED FEDERAL STATUTE - - - - -

**SENIOR ANALYST  
PERS AND SOCIAL SECURITY COSTS**

Monthly Wage	Annual Wage	Year	Current Federal Statute			Proposed Federal Statute		
			PERS	Soc. Sec.	TOTAL	PERS	Soc. Sec.	TOTAL
\$950	\$11,400	1961	543	144	687			
998	11,976	1962	575	150	725			
998	11,976	1963	575	162	737			
1,058	12,676	1964	615	174	789			
1,058	12,696	1965	615	174	789			
1,166	13,992	1966	687	202	889			
1,225	14,700	1967	726	290	1,016			
1,275	15,300	1968	759	343	1,102			
1,337	16,044	1969	800	374	1,174			
1,405	16,860	1970	845	374	1,219			
1,475	17,700	1971	1,010	406	1,416			
1,548	18,576	1972	1,300	468	1,768	1,300	551	1,851
1,548	18,576	1973	1,300	509	1,809	1,300	551	1,851
1,587	19,044	1974	1,333	509	1,842	1,333	617	1,950
1,627	19,524	1975	1,367	509	1,876	1,367	708	2,075
1,668	20,016	1976	1,401	527	1,928	1,401	708	2,109
1,710	20,520	1977	1,436	527	1,936	1,436	846	2,282
1,842	22,104	1980	1,547	536	2,083	1,547	846	2,393
2,082	24,984	1985	1,749	536	2,285	1,749	846	2,595



## VI. POTENTIAL FUTURE CHANGES IN FINANCING THE SOCIAL SECURITY PROGRAM

### Summary

It is nearly impossible to predict what the future method of financing the Social Security program will be. Yet, future cost and benefits of the Social Security program should be considered in determining termination of social security coverage. The most commonly discussed changes are encompassed in HR 1 (the major social security bill now pending in the U. S. Senate). Other possible future changes are contingency, reserve financing and general revenue financing.

### Discussion and Facts

#### A. HR 1 (the major social security bill now pending the Senate).

Under Federal legislation (HR 1), which has already passed the House and is now being considered by the U. S. Senate Finance Committee, the social security wage base will be raised from \$9,000 to \$10,200 and the tax rate will be increased in scheduled increments from 5.2 percent in 1973 to 7.4 percent in 1977, at which time the maximum employer-employee contribution would be \$1,509.60. A major feature of HR 1 is a provision for automatic increases in social security allowances equal to the percentage of change in the cost of living if the cost-of-living index increases 3 percent or more in a year. Both the taxable wage base and tax rates are subject to automatic upward adjustment to fund the cost-of-living increases. If HR 1 is enacted with possibly some change in its present form, employer and employee costs would escalate at an even greater rate than in the past.

B. Contingency-Reserve Financing

Use of contingency-reserve financing for the Social Security program has also been discussed. Under this financing arrangement, contribution rates would be set no higher than the level needed to pay current benefits and administrative expenses, and to maintain the trust funds at approximately the level of 1 year's benefit payments. (Present law provides for a schedule of increasing contribution rates which build up interest-earning trust funds. However, in the past and before these trust funds have accumulated, Congress has either postponed increases in the contribution rates or has increased benefits.) Under contingency-reserve financing, benefits could be adjusted to increases in the cost of living (as long as maximum creditable earnings are also increased as wages rise), but contribution rates would not have to be increased until about the year 2010, when the retired population will be larger relative to the employed population since those born during the high-birth-rate years following World War II will have reached age 65.

C. General Revenue Financing

A possible future change, which would substantially increase the value of social security protection in relation to social security contributions, is the financing of a substantial part of the protection from general revenues. Under present law, general Federal revenues are used to finance: (1) special transitional age-72 payments for uninsured people; (2) noncontributory wage

credits for servicemen; (3) transitional hospital insurance benefits for uninsured workers who become age 65 before 1975; and (4) one-half of the cost of the supplementary medical insurance program. Major considerations for using general Federal revenues to help finance regular social security benefits are that full-rate benefits are provided for people who were already older when their work was first covered by the program and who will not contribute to the program over a full working lifetime, and that social security benefits are weighted in favor of workers with lower average covered earnings.

VII. COST OF REPLACEMENT RETIREMENT BENEFITS DUE TO TERMINATION FROM  
SOCIAL SECURITY

Summary

Generally, existing social security benefits can be replaced with comparable benefits in PERS.

The estimated cost of substitute type benefits in PERS is \$56,800,000 in 1975 when termination could become effective.

Discussion and Facts

State employees with social security coverage receive a greater retirement benefit than those who are not covered by social security.

In order to reduce the effect of benefit impairment due to termination from social security, it may be necessary to improve benefits under PERS for those employees who were previously covered by social security. It should be emphasized that replacement benefits may not necessarily be dollar for dollar benefit equivalents to what social security provides. Nevertheless, at least the first four of the benefits listed below could be viewed as a substitute for social security benefits.

	<u>Retirement Rate Increase</u>	<u>Annual Cost</u>	<u>Projected Annual Cost</u>
		1972	1975
1. Elimination of the social security modification which applies to the PERS benefit.	0.427%	\$5,900,000	\$6,900,000
2. (a) 50 percent of retired members allowance to surviving spouse (active members only)	2.073	28,800,000	33,400,000
(b) 15 percent increase to retirement benefit for retired members who chose option 3 or 4.	0.300 <u>2.373%</u>	4,200,000 <u>\$33,000,000</u>	4,800,000 <u>\$38,200,000</u>
3. Extension of 1959 Survivor Benefits to members now covered by social security			
(a) Member pays \$2.00/month	0.450%	\$6,300,000	\$7,200,000
(b) Additional if state pays \$2.00/month	0.250	3,500,000	4,000,000
4. Post retirement death benefits:			
Increase post retirement benefit from \$500 to \$750	<u>0.033</u>	<u>500,000</u>	<u>500,000</u>
Sub Total 1 through 4	3.533%	<u>\$49,200,000</u>	<u>\$56,800,000</u>
5. 12 months pay for preretirement death	0.210%	\$2,900,000	\$3,400,000
6. Increase disability retirement benefits from 1.5% of pay per year of service to 1.8%	0.028	400,000	500,000
7. Increase cost of living adjustment to 3 percent per year			
(a) Assume 2½ percent average	0.7	9,500,000	11,300,000
(b) Assume 3 percent average	1.4	19,000,000	22,500,000

## VIII. SUBSTITUTE FOR MEDICARE COVERAGE

### Summary

Most of the State's current health plans would have to increase benefit levels to meet the current level of care provided by Part "A" (hospital) of Medicare. This would not be an immediate cost because state employees retiring within the next 10-15 years already meet the minimum requirements for Medicare coverage.

At some future point in time, State would have to increase its contribution towards the cost of a health benefit plan for persons age 65 or older. In 1972-73, the State pays \$16 per month towards the cost of health plans. Social security-supported Medicare (Part "A") currently costs approximately \$31 per month.

### Discussion and Facts

Medicare Part "A" (Exhibit 15) represents the hospital insurance portion of the plan and is funded by the social security premium. Currently, a person must have a certain number of quarters of social security coverage to participate in Medicare Part A. The number of social security quarters needed for Medicare varies by year of birth. However, a person born after 1909 needs the same number of quarters coverage for Medicare as for the social security cash benefits.

Medicare Part "B" (Exhibit 15a) is the medical insurance portion of the program; coverage is optional to persons over 65 years old (no social security coverage required).

The Social Security Administration currently estimates that Medicare benefit under Part "A" for a person covered by social security costs approximately \$31.00. California during the 1972-73 fiscal year will contribute up to \$16/month towards the health insurance coverage for an active employee or an annuitant.

If the State were to terminate social security coverage, there could be a need for an improvement to the benefits in some of the Meyers-Geddes Health Plans in the future. PERS reports that the plans currently available for state employees which would meet the current level of care provided under Medicare are Kaiser North and Kaiser South. Roos-Loos plans would come close to meeting the benefit levels, and with some improvements in benefits, the California Western/Occidental Statewide Indemnity plan plus major medical and the Blue Cross-Blue Shield plan plus major medical would relate closely to Medicare. This would also be true of the County Foundation plan.

In terms of the state's responsibility and relationship with its employees, should social security be terminated and thereby eliminate the element of Medicare, the following premises should be noted:

1. Employees who did not coordinate with social security would have no eligibility for Medicare other than through non-state covered employment.
2. Employees who did coordinate with social security would in all likelihood have adequate quarters to be eligible for Medicare and therefore, no responsibility

would be required of the State other than continuation of its own health plans.

3. State employees hired since social security coordination have all been required to be members of social security, therefore, in many instances these employees would have adequate number of quarters of coverage to be eligible for Medicare.
4. For continuing new employees, some means would need to be developed to bring the state plans up to the level of Medicare if this were a requirement of dropping social security. It is impossible at this time to either determine the number of these people or the money affect.

In conclusion, there is no responsibility for the noncoordinated employee; the coordinated employee will have adequate number of quarters of social security coverage; employees hired since the State contracted for social security will in the main also have developed adequate quarters of coverage. It does not appear that this is a major problem for the group of employees who may not have established sufficient quarters to be eligible for Medicare and the need for some provision of additional state benefits is perhaps 15 years away. It is impossible at this time to predict what will happen to Medicare or any other Federal-type or even state health program.



MEDICARE HEALTH PLAN BENEFITS  
TITLE 18 OF THE SOCIAL SECURITY ACT

I. Hospital Insurance (Part A)

A. Benefits

1. Subject to deductible of \$68.00 per spell of illness.
2. 90 days' room and board per spell of illness, regular benefit (first 30 days paid in full, 61st through 90th day co-pay of \$17.00 per day).
3. 60-day lifetime room and board benefit (\$34.00 per day co-pay).
4. 190-day lifetime room and board benefit for psychiatric care.
5. Christian Science limited as hospital or Extended Care Facility (90 days as hospital plus 30 days as Extended Care Facility). Medicare pays only \$2.75 per day during the lifetime reserve.
6. Semi-private room.
7. Nursing care, regular and intensive.
8. Drugs furnished by the hospital.
9. Laboratory tests.
10. X-ray and radiology.
11. Medical supplies (splints, casts, etc.).
12. Operating room charges.
13. Appliances (wheelchairs, crutches, etc.).
14. Medical social services.

B. Exclusions - Hospital

1. Personal comfort or convenience items.
2. Private-duty nursing.
3. Private room, unless medically indicated.
4. Doctors' services.
5. Custodial care.
6. Non-participating and non-qualifying hospitals have other limitations.

C. Post-Hospital Extended Care

1. 100 days per spell of illness.
2. Co-payment of \$8.50 per day for the 21st through the 100th day.
3. Semi-private room.
4. General nursing care.
5. Physical, occupational and speech therapy.
6. Drugs ordinarily furnished.
7. Medical supplies, splints, casts, etc.
8. Medical services.
9. Diagnostic services.
10. Therapeutic services.

D. Exclusions - Post-Hospital

1. Physicians' fees.
2. Services not generally provided.
3. Institutions excluded by definition.
4. Drugs and biologicals not usually provided.

E. Post-Hospital Home Health Care

1. 100 days between benefit periods, provided within 365 days after discharge from hospital or Extended Care Facility.
2. Part-time nursing care.
3. Physical, occupational or speech therapy.
4. Medical supplies (no drugs).
5. Use of medical appliances.

F. Exclusions - Post-Hospital Home Health Care

1. Doctors' visits.
2. Drugs.

MEDICARE HEALTH PLAN BENEFITS  
TITLE 18 OF THE SOCIAL SECURITY ACT

II. Medical Insurance (Part B)

A. Benefits

1. Subject to deductible of \$50.00 annually. 20 percent co-payment thereafter.
2. Services of Physicians, Podiatrists, Osteopaths, Pathologists, Radiologists and Anesthesiologists.
3. Dental surgery or treatment for fractures.
4. Home health visits up to 100 per calendar year.
5. Out-patient diagnostic, X-ray and laboratory benefits.
6. Therapy X-ray, radium, radioactive isotopes.
7. Surgical dressings, splints, casts, etc.
8. Ambulance.
9. Purchase or rental of durable equipment.
10. Prosthetic devices other than dental.
11. Braces, artificial arms, legs, eyes, etc.
12. Blood (after first three pints).
13. Out-patient psychiatric care up to \$250.00 or 50 percent after deductible, whichever is smaller (per calendar year).
14. Out-patient diagnosis and treatment.
15. Physical therapy.

B. Exclusions

1. Personal and comfort items.
2. Routine check-up.
3. Glasses or routine examinations for glasses.
4. Hearing aids or examinations for hearing aids.
5. Routine immunizations.
6. Orthopedic shoes.
7. Cosmetic surgery.
8. Routine dental and foot care.
9. Self-administered drugs.
10. Private-duty nursing.
11. Services by government agencies.
12. Services by relative or member of household.
13. Cases eligible for Workman's Compensation.

## IX. AGE AND SALARY CHARACTERISTICS OF THE STATE EMPLOYEE WORK FORCE

### Summary

In 1968, the majority of male state employees were earning between \$600 and \$1,000 per month. The salary range for female employees was slightly lower--\$400 to \$800 per month.

The greatest number of employees were grouped around the 40-year age bracket and had accumulated approximately 10 years of state service.

Noncareer state employees generally terminate their employment during the first five years.

### Discussion and Facts

In 1968, most state employees earned a monthly salary which ranged from \$400 to \$1,000. (Exhibits 16 and 17). However, over 50 percent of the state work force at that time earned \$750 or less per month. The 1968 data compiled by the State Personnel Board is the latest information accumulated in this manner. In viewing this 1968 data, one should bear in mind that salary increases were granted in 1969 and 1970. The State Personnel Board reports that in 1971 the average salary for state civil service employees was \$851 per month. (Exhibit 18). The 1968 data is presented, however, to provide some insight into the salary and age characteristics at the State's work force at a point in time.

For the employee that earns \$750 or less per month, retirement contributions by both PERS and social security are computed on his total salary. The contribution to PERS is 7 percent of total salary; the social security rate for 1972 is 5.2 percent of the first \$9,000 of earnings. Only the rate of contribution continues to increase under the current social security statute. Both the rate of contribution and the covered wage in the Social Security Program will increase under the proposed Federal Statute HR-1. For the lower paid employee, total retirement contributions currently approximate 11 percent of his gross salary.

The greatest number of state employees fall in the 30-55 age bracket. (Exhibit 19). The retirement system reports that only about 20 percent of the work force enters state service at an early age and stays with the State until retirement. The greatest amount of state employee turnover appears to occur during the first five years of state service. (Exhibits 20-23).

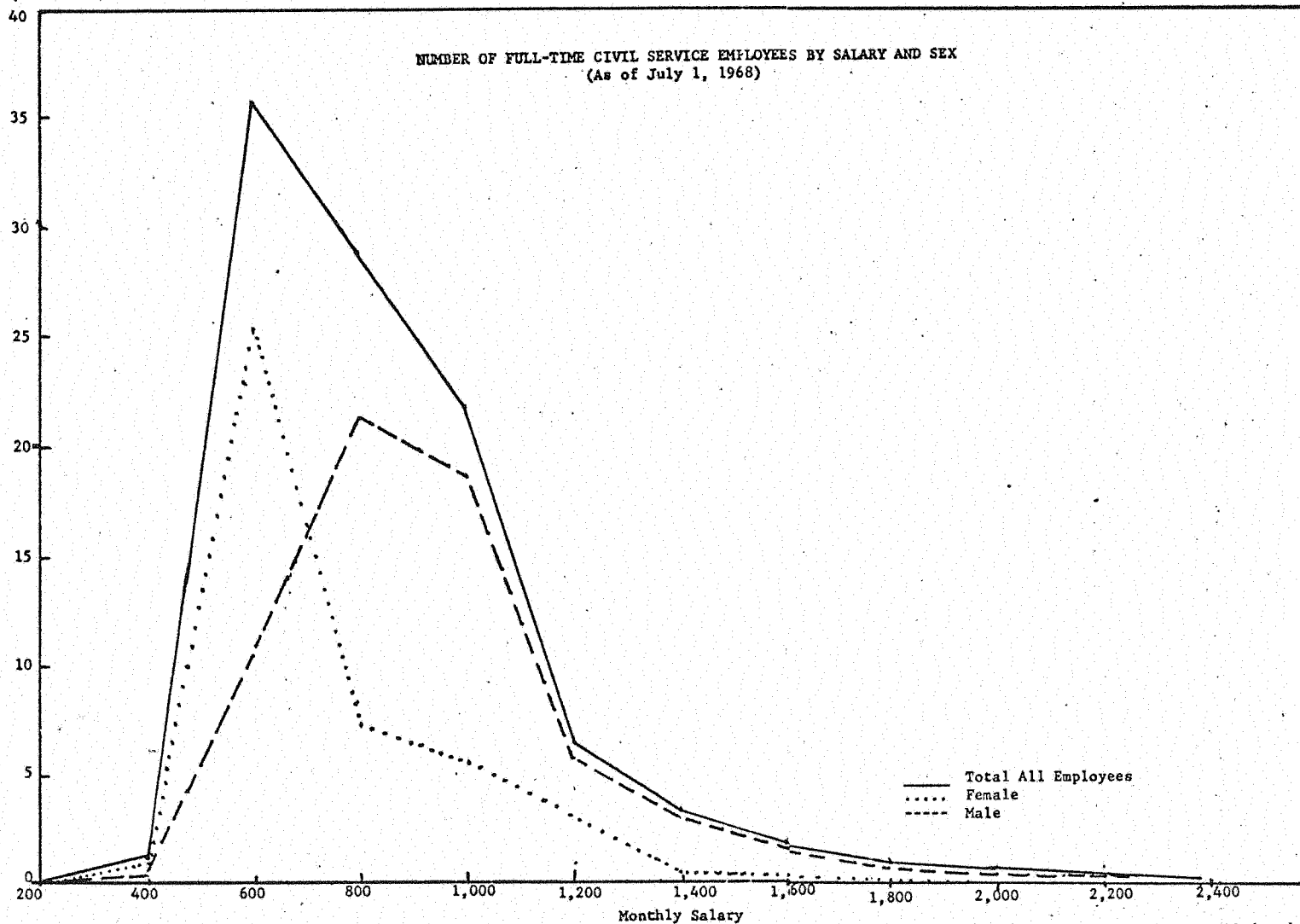
## NUMBER OF FULL-TIME CIVIL SERVICE EMPLOYEES BY SALARY, AGE, AND SEX

(AS OF JULY 1, 1968)

Monthly Salary	Sex	Age Groups in Years						Total
		18-24	25-34	35-44	45-54	55-64	Over 65	
\$200 and under \$400	Male	151	33	15	15	9	1	224
	Female	664	113	60	56	16	1	910
	TOTAL	815	146	75	71	25	2	1,134
\$400 and under \$600	Male	1,593	3,108	1,762	2,094	1,574	198	10,329
	Female	3,450	4,904	4,985	7,229	4,409	394	25,371
	TOTAL	5,043	8,012	6,747	9,323	5,983	592	35,700
\$600 and under \$800	Male	1,133	7,620	4,442	5,118	2,778	212	21,303
	Female	315	1,196	1,483	2,641	1,729	111	7,475
	TOTAL	1,448	8,816	5,925	7,759	4,507	323	28,778
\$800 and under \$1,000	Male	88	4,715	6,259	4,954	2,401	193	18,610
	Female	42	633	641	966	729	64	3,075
	TOTAL	130	5,348	6,900	5,920	3,130	257	21,685
\$1,000 and under \$1,200	Male	0	614	1,896	2,013	1,077	98	5,698
	Female	0	32	149	275	233	29	718
	TOTAL	0	646	2,045	2,288	1,310	127	6,416
\$1,200 and under \$1,400	Male	1	268	1,120	1,027	497	35	2,948
	Female	0	24	28	66	47	4	169
	TOTAL	1	292	1,148	1,093	544	39	3,117
\$1,400 and under \$1,600	Male	0	36	511	704	432	49	1,732
	Female	0	1	16	24	24	8	73
	TOTAL	0	37	527	728	456	57	1,805
\$1,600 and under \$1,800	Male	0	22	211	342	276	49	900
	Female	0	0	5	7	14	0	26
	TOTAL	0	22	216	349	290	49	926
\$1,800 and under \$2,000	Male	0	6	111	153	168	41	479
	Female	0	0	7	7	12	6	32
	TOTAL	0	6	118	160	180	47	511
\$2,000 and under \$2,200	Male	0	2	50	86	104	40	282
	Female	0	0	3	6	8	1	18
	TOTAL	0	2	53	92	112	41	300
\$2,200 and under \$2,400	Male	0	0	31	50	48	14	143
	Female	0	0	0	1	2	1	4
	TOTAL	0	0	31	51	50	15	147
TOTALS	Male	2,966	16,424	16,408	16,556	9,364	930	62,648
	Female	4,471	6,903	7,377	11,278	7,223	619	37,871
	TOTAL	7,437	23,327	23,785	27,834	16,587	1,549	100,519

Source: California Personnel Statistics, compiled and released by California State Personnel Board, 1968

Number of Employees  
(Thousands)



Source: California Personnel Statistics Compiled and Released  
By California State Personnel Board, 1968

Exhibit 17

## AVERAGE SALARY FOR STATE CIVIL SERVICE EMPLOYEES

July 1, 1961 - July 1, 1971

<u>Year</u>	<u>Number Full-Time Employees*</u>	<u>Weighted Average</u>
1961	79,501	\$507
1962	82,044	545
1963	87,005	549
1964	90,637	590
1965	93,794	625
1966	98,462	656
1967	99,180	707
1968	101,363	751
1969	102,429	793
1970	101,789	841
1971	100,688	851

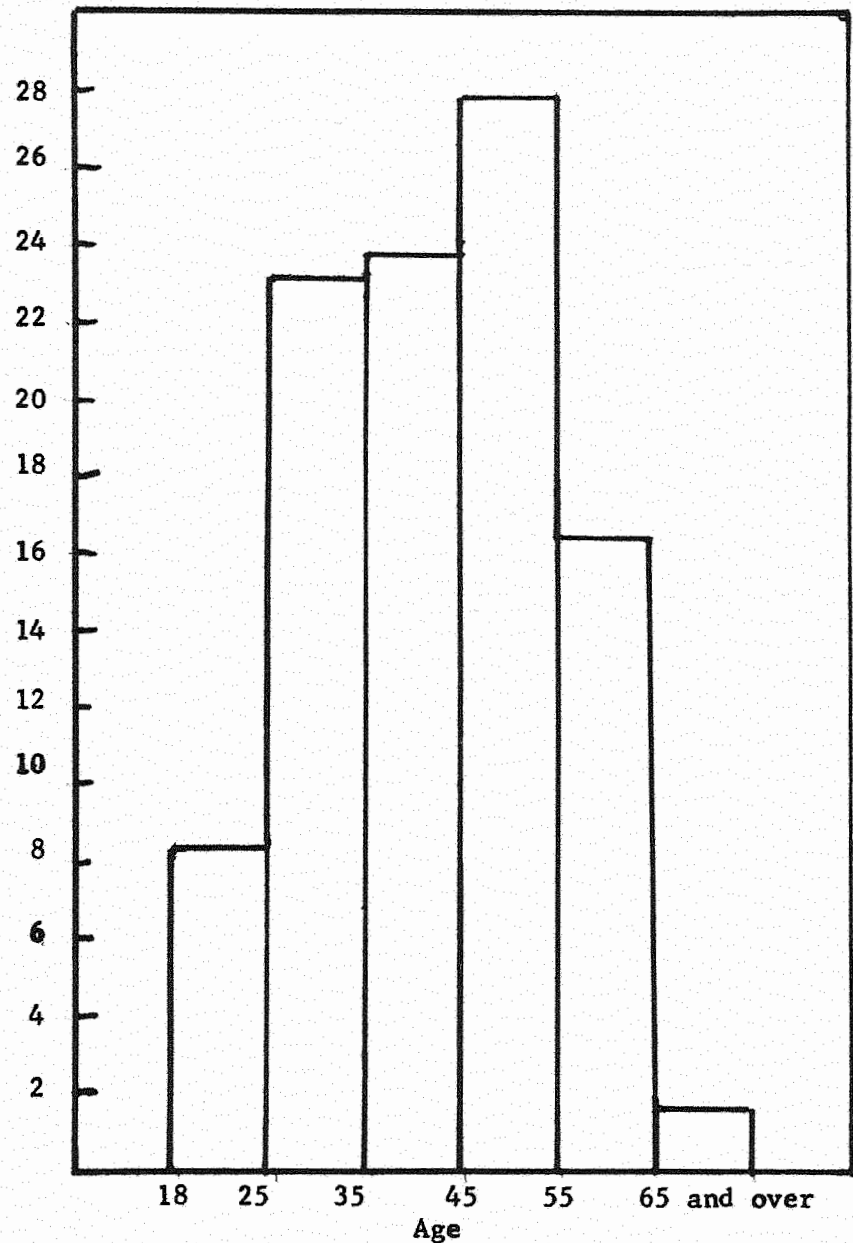
\* Does not include trade rate employees or employees receiving only maintenance for self.

Source: Statistical Supplement to SPB 1971 Annual Report



NUMBER OF FULL-TIME CIVIL SERVICE EMPLOYEES BY AGE  
(As of July 1, 1968)

Thousands



Source: California Personnel Statistics Compiled and Released  
By California State Personnel Board, 1968

LENGTH OF STATE SERVICE OF MALE AND FEMALE FULL-TIME CIVIL SERVICE EMPLOYEES  
(AS OF JUNE 30, 1968)

<u>Months of Service</u>	<u>Male</u>	<u>Female</u>	<u>Total</u>	<u>Cummulative Total</u>
0 - 5	2,585	2,204	4,789	4,789
6 - 11	2,270	1,769	4,039	8,828
12 - 17	1,502	1,130	2,632	11,460
18 - 23	2,660	2,152	4,812	16,272

Years and Months of Service

2 - 2/11	4,896	3,320	8,216	24,488
3 - 3/11	4,223	2,510	6,733	31,221
4 - 4/11	3,988	2,380	6,368	37,589
5 - 9/11	15,878	10,056	25,934	63,523
10 - 14/11	10,994	6,176	17,170	80,693
15 - 19/11	6,918	3,436	10,354	91,047
20 - 24/11	3,984	1,592	5,576	96,623
25 and over	2,750	1,146	3,896	100,519

Source: California Personnel Statistics, compiled and released by California State Personnel Board, 1968.



## STATE OF CALIFORNIA

## PERSONNEL STATISTICS

Compiled and released by

CALIFORNIA STATE PERSONNEL BOARD

TABLE 11

LENGTH OF STATE SERVICE OF MALE AND FEMALE FULL-TIME CIVIL SERVICE EMPLOYEES  
AS OF JUNE 30, 1968

<u>MONTHS OF SERVICE</u>	<u>MALE %</u>	<u>FEMALE %</u>	<u>TOTAL %</u>	<u>CUMMULATIVE TOTAL %</u>
0-5	3.5	5.2	4.1	4.1
6-11	3.6	4.7	4.0	8.1
12-17	2.4	3.0	2.6	10.7
18-23	4.3	5.7	4.8	15.5
<u>YEARS AND MONTHS OF SERVICE</u>				
2-2/11	7.8	8.8	8.2	23.7
3-3/11	6.8	6.6	6.7	30.4
4-4/11	6.4	6.3	6.3	36.7
5-9/11	25.2	26.5	25.7	62.5
10-14/11	17.6	16.3	17.1	79.6
15-19/11	11.0	9.1	10.3	89.9
20-24/11	6.4	4.2	5.6	95.4
25 AND OVER	5.1	3.7	4.6	100.0

PERCENTAGES MAY NOT TOTAL TO 100.0 DUE TO ROUNDING

YEARS OF STATE SERVICE OF MALE AND FEMALE FULL-TIME CIVIL SERVICE EMPLOYEES COMPARED  
WITH MEDIAN YEARS ON THE JOB OF ALL PERSONS EMPLOYED IN THE U.S.

<u>FULL-TIME STATE CIVIL SERVICE</u>	<u>MALES YEARS OF SERVICE</u>	<u>FEMALES YEARS OF SERVICE</u>
FIRST QUARTILE	3.5	2.7
MEDIAN	7.7	6.5
THIRD QUARTILE	14.0	12.0
<u>* ALL PERSONS EMPLOYED IN THE U.S.</u>		
MEDIAN	5.7	3.0

Number of Employees  
Thousands

NUMBER OF FULL-TIME CIVIL SERVICE EMPLOYEES BY LENGTH OF SERVICE AND SEX  
(As of July 1, 1968)

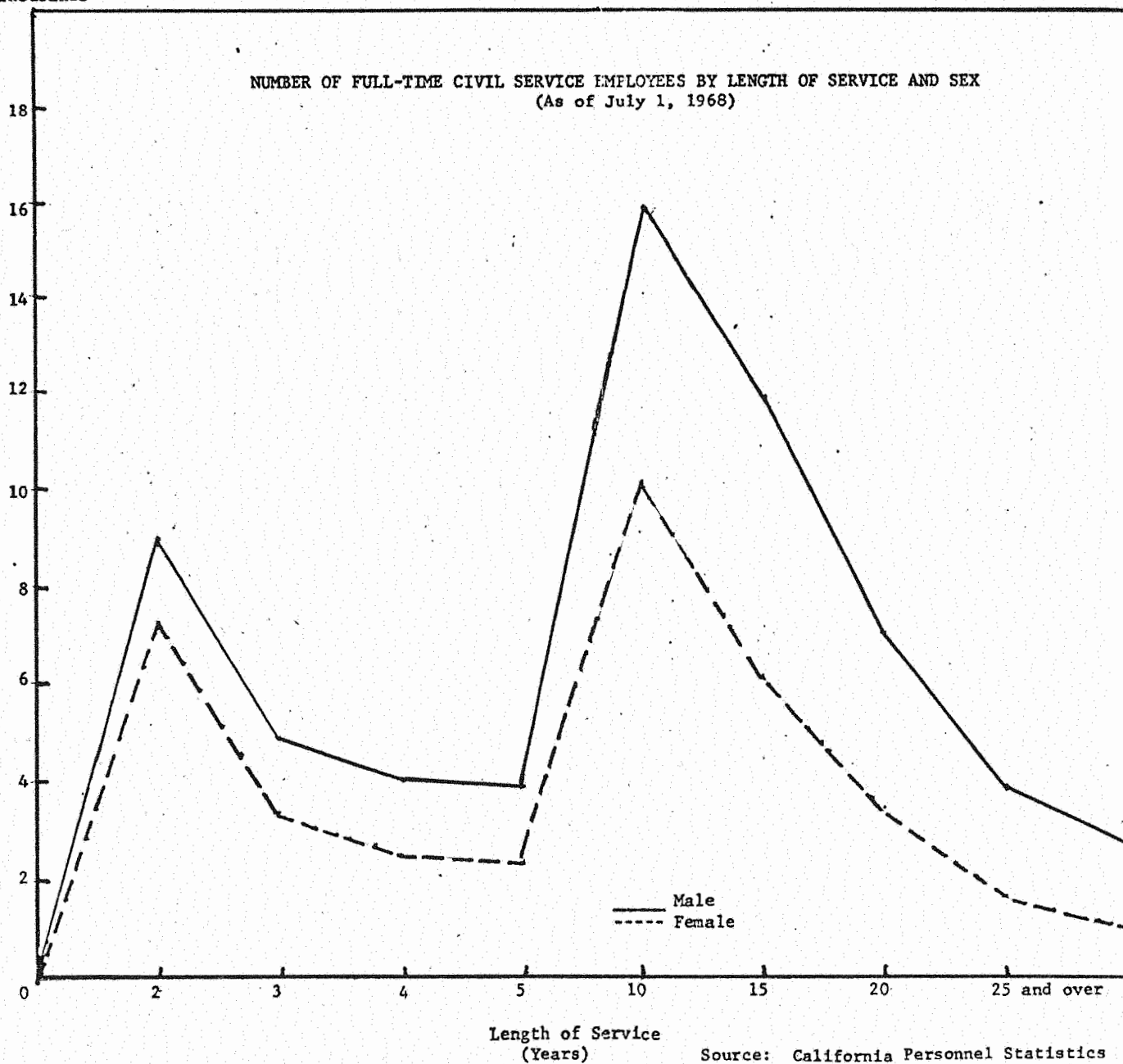


Exhibit 22

Source: California Personnel Statistics  
Compiled and Released by California  
State Personnel Board, 1968



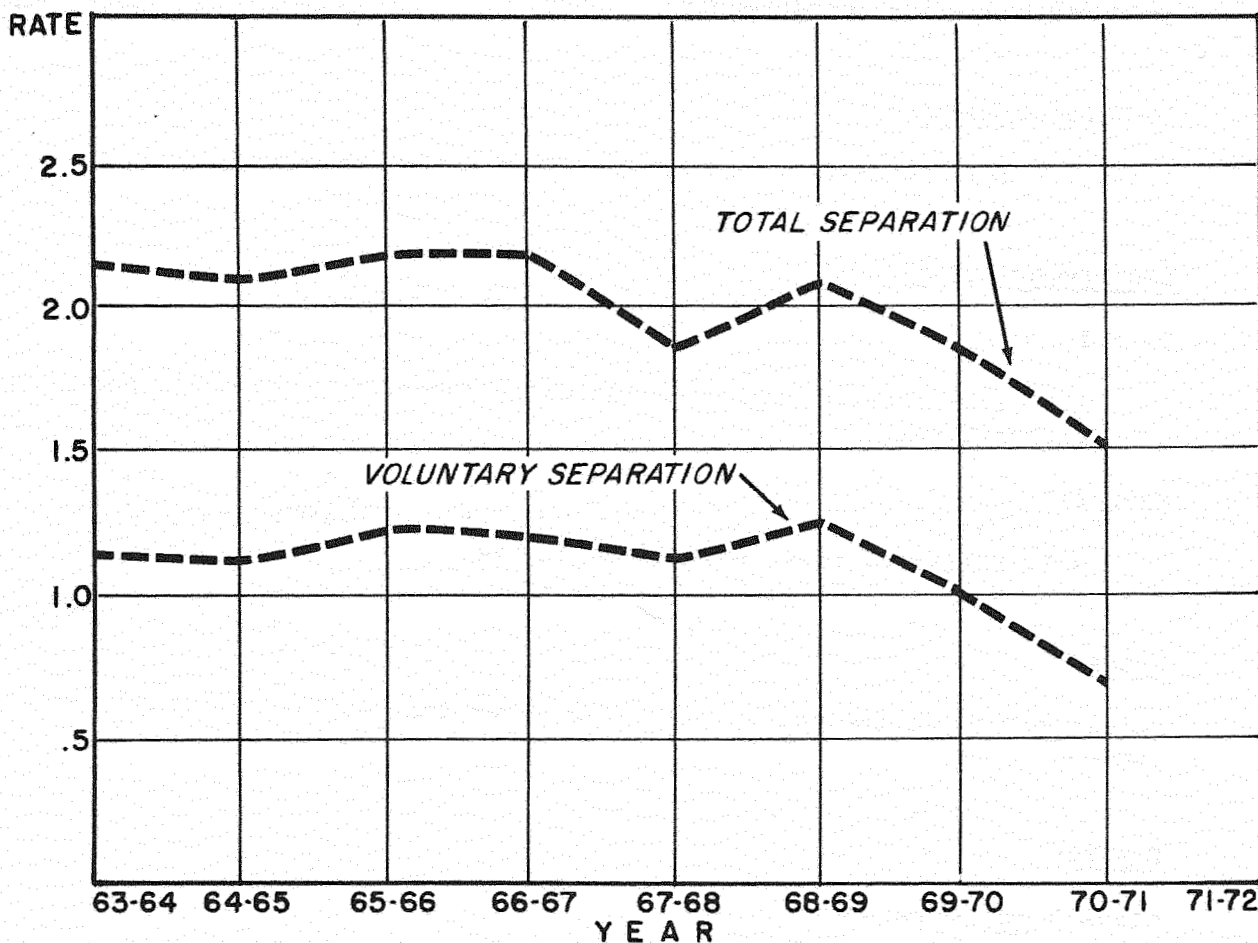
# STATE OF CALIFORNIA PERSONNEL STATISTICS

COMPILED AND RELEASED BY - CALIFORNIA STATE PERSONNEL BOARD

Table 20  
SEMIANNUAL REPORT OF:  
SEPARATIONS FOR CALIFORNIA STATE EMPLOYEES  
FOR THE PERIOD JANUARY 1, 1971 THROUGH JUNE 30, 1971

ISSUED: August 11, 1971

## COMPARISON OF AVERAGE MONTHLY SEPARATION & VOLUNTARY SEPARATION RATES FOR THE FISCAL YEARS 1963-64 THROUGH 1970-71



X. SCOPE OF SOCIAL SECURITY COVERAGE FOR PUBLIC EMPLOYEES IN CALIFORNIA AND OTHER STATES

The U.S. Department of Health, Education, and Welfare reports that as of March, 1968, approximately 68 percent of the 9.2 million employees of state and local governments in the 50 states were covered under social security. It is the belief of the Public Employees' Retirement System that new requests for social security coverage are leveling off in California and in other states because agencies which desired coverage have now joined the system. New requests for coverage relate primarily to agencies that do not have other retirement systems and to public agencies that have recently come into existence.

Discussion and Facts

A. California

As of June 30, 1971, 2,631 public agencies and 457,509 public agency employees were covered by social security in California (See Exhibit 24)

There are approximately 6,000 public agencies in the State of California. 55 (94 percent) counties out of 58 counties are covered under social security. 304 (74.8 percent) cities out of 406 cities are covered under social security; all noncertificated school districts employees in the State are covered under social security. Only the school teachers who belong to the San Francisco Retirement System are covered by social security.

In the last five years on an average, an additional 25 public agencies have extended social security coverage to their employees each year. Exhibit 25 shows the trend of covered employees since 1959.

B. Other States

The U.S. Department of Health, Education, and Welfare reported in 1968 that of the 2.4 million state employees, 11 percent were covered under social security only while 61 percent were covered under social security and another retirement plan. The Department of Health, Education, and Welfare also reports that employment in state and local governments has continued to rise at an average annual rate of about 5 percent. Predictably, social security coverage has increased at about the same rate.

The Public Employees' Retirement System conducted a separate survey in 1971 of other state retirement plans. Thirty-eight other states and one U.S. Territory responded to the questionnaire. The survey indicated that 9 (23.6 percent) states did not participate in social security. Twenty-nine (76.3 percent) of the states contracted for social security coverage. The survey further illustrated that 26 states treated social security as a fully supplemental benefit to the state retirement allowance; 3 states credited the social security benefit as a partial or full offset to the state retirement benefit. California regards the social security benefit as a partial offset to the PERS retirement allowance. A tabulation of this survey, including retirement formulae, employee contribution percentage, final compensation base, and age is included in Exhibit 26.

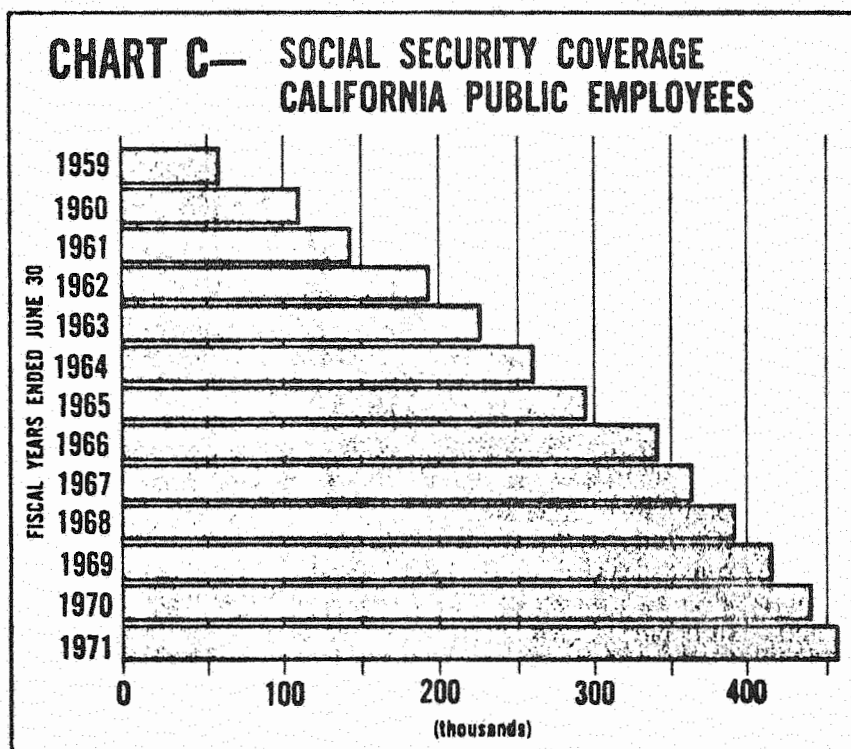
PUBLIC EMPLOYEES' RETIREMENT SYSTEM  
EMPLOYERS AND EMPLOYEES COVERED, JUNE 30, 1971

	Number of Employers	Number of Employees
<b>By Public Employer</b>		
State of California.....	1	99,955
University of California.....	1	3,507
Cities.....	304	43,536
Counties (Including San Francisco City and County).....	55	145,680
School Districts.....	1,096	124,321
Other Public Employers.....	1,174	40,510
Totals.....	2,631	457,509
<b>1. By Retirement System</b>		
Public Employees' Retirement System		
State		
State.....	1	99,955
University of California.....	1	3,507
Total.....	2	103,462
Public Agencies		
Cities.....	181	27,344
Counties.....	34	31,856
School Districts <sup>1/</sup> .....	1,095	118,579
Other Agencies.....	230	12,274
Total.....	1,540	190,053
1937 Act County Retirement Systems		
Counties.....	18	101,308
Other Agencies.....	61	1,835
Total.....	79	103,143
Other Retirement Systems		
Cities.....	51	14,626
Counties (including San Francisco City and County).....	3	12,516
School District (San Francisco Unified)	1	5,742
Other Agencies.....	132	14,705
Total.....	187	47,589
Total Covered by Retirement System	1,808	444,247 <sup>2/</sup>
<b>2. Employers and Employees Covered--Not in a Retirement System</b>		
Cities.....	72	1,566
Other Agencies.....	751	11,696
Total.....	823	13,262
Grand Total.....	2,631	457,509

<sup>1/</sup>Adjusted for inactive districts.

<sup>2/</sup>Includes nonmembers in positions covered by retirement systems.





RETIREMENT ALLOWANCES--OTHER STATES

State	Employee Contr. Rate %	Retirement Rate %	Final Compen. Base Yrs.	SOCIAL SECURITY		Offset to State Retirement Allowance
				Supple- mental	No Coverage	
Alabama	4	1½	5	x		
Alaska	3½	2	3	x		
Arizona				x		
Arkansas	5	1½	5	x		
California	7.17	2	3			Partial
Colorado	7	2.5	5		x	
Connecticut	5	2	3			Partial
Delaware	Non cont.	1/60th	5	x		
Florida	6	2	highest	x	x	
	4		10			
Guam	6	1½-2½	average		x	
Hawaii	6	2	5	x		
Illinois	7½-3½	1/60th				Full
Indiana	3	1.17 + annuity	average	x		
Iowa	3½	1.45	not known	x		
Kansas	4	1.25	not known	x		
Kentucky	4	1½	5	x		
Louisiana	6	2	5		x	
Maine	6.14	1/60th	3		x	
Maryland	sex-age	1/60th	5	x		
Massachusetts	5	2½	3		x	
Michigan	3-5	1-1½	5		x	
Mississippi	4½	1½	5	x		
Missouri	4	1	5	x		
Montana	5-3/4	1/70th	5	x		
Nevada	6	2½-1½	3	x		
New Hampshire	sex-age	1/60th +	5	x		
New Jersey	sex-age	1/60th	5	x		
New Mexico	5	2	5			
New York	non cont.	1/60th	5	x		
N. Carolina	5-6	1½	5			Partial
Ohio	7.7	1.9	5		x	
Oklahoma	4	1½	5	x		
Rhode Island	5	1.7-2.4	3	x		
S. Carolina	4-6	1-1½	3	x		
S. Dakota	3-5	1			x	
Tennessee	7	1-3/4	5	x		
Texas	5	1½-1-3/4	5	x		
Utah	4-3/4	1	5	x		
Vermont	sex-age	1/70th	5	x		
W. Virginia	4½	2	3	x		

## XI. WITHDRAWAL EXPERIENCE OF PUBLIC EMPLOYERS--TRENDS

### Summary

From personal contacts by the Public Employees' Retirement System's staff with public agencies considering termination of coverage, it appears the prime concern is the dollar savings. Annually, the Legislature considers numerous proposals to extend "safety" coverage to additional state employee groups. Historically, the pattern has been to withdraw social security coverage for groups granted safety membership in PERS.

There is no requirement in either Federal or state law for an election among the employees to terminate social security coverage.

### Discussion and Facts

#### A. Other States

As of March 1, 1972, no state employees (excluding firemen and policemen) in the various states that provide social security coverage have withdrawn from social security coverage.

#### B. California Public Agencies

In California, 51 public agencies have withdrawn from social security coverage affecting 5601 employees. Forty public agencies with 5390 employees have requested termination and are now in the two-year waiting period before termination of coverage is effective.

The agencies requesting termination of coverage include 37 cities and 36 fire districts. The pattern is for the employee groups to request the employer to terminate coverage to permit the agency to use the dollar savings to extend safety member benefits to the

policemen and/or firemen classifications in the agency.

Some agencies contract for retirement plans and apply the savings from the termination of social security to the cost of the retirement plans. Since the enactment of Chapter 170, Statutes of 1971 (SB 249) some agencies have indicated that since they were mandatorily covered under the increased retirement formula, they look to the termination of social security to make up the dollar difference in costs of fringe benefits.

Some of the agencies covered under PERS that have terminated social security coverage are amending their contracts to add the half continuance payments to surviving spouses. The agencies under PERS are also adding the 1959 survivors coverage if they do not already have it.

Exhibit 27 indicates the agencies that have terminated coverage or are in process of terminating coverage. Exhibit 28 also indicates the termination activity by fiscal year.

C. California State Employees

There is a historical pattern for state employee groups granted safety membership in PERS to withdraw from social security coverage. Federal regulations permit such withdrawal when employees are designated as policemen or firemen positions for social security purposes. At the present time, safety members still covered by social security are Corrections and Youth Authority employees which were granted safety membership in 1971, Institutional Firemen which were granted safety membership in 1972, and Lifeguards.

The primary difference between the safety and miscellaneous member of PERS concerns earlier retirement, survivors and disability benefits. The safety member is covered by more liberal benefits which are financed by the employers contributions to the retirement fund.

It is difficult to evaluate the motivation to seek termination from social security coverage by the safety membership groups. It can be assumed that the major motivation is: (1) the earlier retirement age allows post retirement employment in some form or another under social security coverage to at least earn some social security benefits; and (2) the improved benefits, particularly the post retirement survivor benefit, is considered sufficient so as to realize the savings to the employee from discontinuing social security contributions.

Exhibit 29 shows the various safety groups, their retirement formulas, contribution rates, and social security status.

SCHEDULE OF CALIFORNIA PUBLIC AGENCIES REQUESTING  
VOLUNTARY TERMINATION OF SOCIAL SECURITY

	<u>COMPLETED</u>	<u>PENDING</u>	<u>TOTAL</u>
COUNTIES	1		1
CITIES	19	18	37
FIRE DISTRICTS	17	19	36
OTHER AGENCIES	<u>14</u>	<u>3</u>	<u>17</u>
TOTAL	51	40	91

SCHEDULE OF CALIFORNIA PUBLIC AGENCIES REQUESTING  
VOLUNTARY TERMINATION OF SOCIAL SECURITY

<u>AGENCY</u>	<u>EFFECTIVE DATE</u>	<u>NUMBER OF EMPLOYEES</u>
Rodeo Fire Prot. District	9/30/59	3
Vista Local Fire District	6/30/63	13
Spring Valley Local Fire Dist.	6/30/65	22
Anza Fire Prot. District	6/30/66	3
Danville Fire District	6/30/67	28
Brentwood, City of	9/30/67	40
Vallejo Sani. & Flood Control	9/30/67	40
Montclair, City of	3/31/68	99
Novato, City of	3/31/68	66
Ashland County Fire Prot. Dist.	3/31/68	16
Encinitas Fire Prot. District	3/31/69	30
Barstow, City of	6/30/69	321
Castro Valley Co. Fire Prot. Dist.	6/30/69	40
Tehama County Mosq. Abate. Dist.	9/30/69	5
Oxnard, City of	9/30/69	360
Sylvan Cemetery District	9/30/69	3
Tustin, City of	9/30/69	107
South Coast County Water Dist.	9/30/69	11
South Laguna Sani. District	9/30/69	13
Cherryland Fire Prot. District	9/30/69	14
Palos Verdes Estates, City of	12/31/69	70
San Dieguito Irrigation Dist.	3/31/70	39
Point Montera Fire Prot. Dist.	3/31/70	5
Greater Vallejo Rec. District	3/31/70	33

Voluntary Terminations  
Social Security

<u>AGENCY</u>	<u>EFFECTIVE DATE</u>	<u>NUMBER OF EMPLOYEES</u>
West Covina, City of	3/31/70	360
Santa Clara County Flood Cont. & Wtr.	6/30/70	226
Claremont, City of	6/30/70	136
Los Altos, City of	6/30/70	216
Live Oak Fire Prot. Dist.	6/30/70	16
Half Moon Bay Fire Prot.	9/30/70	12
San Rafael, City of	9/30/70	365
Belmont Fire Prot. Dist.	12/31/70	34
Idyllwild Fire Prot. Dist.	12/31/70	5
Orange Co. Wtr. Wks. Dist. #8	12/31/70	3
Mountain View, City of	12/31/70	237
Santa Rosa, City of	12/31/70	602
Napa, County of	6/30/71	492
Stanton, City of	6/30/71	114
Benicia, City of	6/30/71	110
Pleasant Hill, City of	6/30/71	79
Orange County Law Library	6/30/71	9
Estero Muni. Improve. Dist.	6/30/71	141
Waterloo-Moranda Rural Co. Fire	6/30/71	10
Area E Civil Defense & Disaster	9/30/71	2
Chino, City of	9/30/71	115
Orange, City of	9/30/71	612
Carmichael Fire District	9/30/71	53
Sanitary Dist. #6 of Marin Co.	9/30/71	16
Baldwin Park, City of	12/31/71	216



Voluntary Terminations  
Social Security

<u>AGENCY</u>	<u>EFFECTIVE DATE</u>	<u>NUMBER OF EMPLOYEES</u>
Mojave Water Agency	12/31/71	6
Salinas Rural Fire District	12/31/71	33
Buena Park, City of	3/31/72	492
Paradise Fire Prot. District	3/31/72	28
Bonita-Sunnyside Fire Prot.	3/31/72	12
Aptos Fire Prot. District	6/30/72	14
Seal Beach, City of	6/30/72	217
Tahoe City Fire Prot. Dist.	9/30/72	13
Placentia, City of	9/30/72	227
Napa, City of	9/30/72	100
Washington Fire Prot. Dist.	9/30/72	6
Davis, City of	12/31/72	156
Yucca Valley Co. Fire Prot.	12/31/72	11
North Highlands Village Fire	12/31/72	12
Scotts Valley Fire Prot.	12/31/72	7
Santee Fire Prot. Dist.	12/31/72	25
Chino Rural Fire Prot. Dist.	12/31/72	21
Milpitas, City of	12/31/72	158
Woodbridge Rural County Fire	3/31/73	15
Freedom Fire Prot. Dist.	3/31/73	4
Campbell, City of	3/31/73	118
Vallejo, City of	3/31/73	324
Kelseyville-Big Vly Fire	3/31/73	5
Bell Gardens, City of	3/31/73	78
Glendora, City of	3/31/73	93

Voluntary Terminations  
Social Security

<u>AGENCY</u>	<u>EFFECTIVE DATE</u>	<u>NUMBER OF EMPLOYEES</u>
Rancho Cordova Fire Prot.	6/30/73	61
Fruitridge Fire Prot. Dist.	6/30/73	9
Westminster, City of	6/30/73	319
Auburn, City of	6/30/73	47
Fairhaven Fire District	9/30/73	2
North Bay Coop. Library Dist.	9/30/73	33
Fairfield, City of	9/30/73	329
San Rafael Sani. Dist.	9/30/73	15
Westlands Water Dist.	9/30/73	39
La Habra, City of	9/30/73	297
Lemon Grove Fire Dist.	9/30/73	19
Citrus Heights Fire Dist.	12/31/73	174
Sunnyvale, City of	12/31/73	680
Rio Linda Fire Prot. Dist.	12/31/73	9
Escondido, City of	12/31/73	320
Garden Grove, City of	12/31/73	764
Cypress, City of	12/31/73	<u>137</u>
	TOTAL	10,991

SCHEDULE OF PUBLIC AGENCIES REQUESTING VOLUNTARY TERMINATION OF  
SOCIAL SECURITY BY FISCAL YEAR

<u>FISCAL YEAR</u>	<u>NUMBER OF PUBLIC AGENCIES</u>
1959-60	1
1963-64	1
1965-66	1
1966-67	1
1967-68	6
1968-69	1
1969-70	14
1970-71	11
1971-72	18
1972-73	20
1973-74	17

# Safety Retirement Formulas Under PERS<sup>1/</sup>

Group	Original Formula			Current Formula				
	No. of Members	Formula	Year Effective	Formula	Year Effective	Member	Employer	Social Security
Highway Patrol	5,622	1/2 pay at 55	1935	2% at 50	1969	9%	27.51%	No
Fish and Game Wardens	286	1/2 pay at 60	1945	1/50th safety	1971	7%	15.38	No
Forestry	3,873	1/60th safety	1947	2% at 55	1970	7%	15.00	No
Corrections	4,017	1/60th safety	1947	2% at 55	1971	7%	18.97	Yes
		(Prison member)						
Narcotic Enforcement	200	1/60th safety	1951	1/2 pay at 55	1963	5.64%-12.55%	18.97	No
Criminal Iden. & Invest.]		1/60th safety	1951	1/2 pay at 55	1963	5.64%-12.55%	18.97	No
Life Guards	6	1/2 pay at 55	1968	1/2 pay at 55	1968	5.64%-12.55%	18.97	Yes
State Police	127	1/2 pay at 55	1968	2% at 55	1972	7%	18.97	No (eff. '72)
Youth Authority	1,625	2% at 55	1971	2% at 55	1971	7%	18.97	Yes
Institutional Firemen	50	2% at 55	1972	2% at 55	1972	7%	18.97	Yes
TOTAL	15,806							

<sup>1/</sup>Table 1 does not reflect the fact that (1) different formulas may be applicable to members of the same group because individual members were given the option of remaining under the old formula, and (2) the formulas have different normal and compulsory retirement ages.

XII. EXISTING AND POTENTIAL FUTURE SOCIAL WELFARE ASPECTS OF TERMINATING SOCIAL SECURITY COVERAGE FOR STATE EMPLOYEES

Summary

Termination of social security coverage for state employees could result in some increase in welfare costs. The Task Force generally believes, however, that the impact on welfare would be negligible. However, the Department of Social Welfare feels that further study is necessary to document the potential effect on the welfare program.

Discussion and Facts

Presently, persons aged 65 and over may receive an Old Age Security (OAS) grant, supplementing their income, to provide up to \$206 per month (unless there is need for an additional expenditure for attendant care). These persons are also eligible for a comprehensive scope of health care from the Medi-Cal Program. The State General Fund (effective July 1, 1972) pays for 25 percent of OAS costs and 50 percent of Medi-Cal costs. It is presently not possible to determine the number of persons, without other sources of income, who would fall below \$206 per month at age 65 if coordination between social security and PERS was discontinued (this requires consideration of all income sources). It can be assumed that this would occur when an employee spent his entire career in a very low salary structure or spent only a relatively short period of time in state employment without working in other employment accruing other retirement benefits. In either case, other sources of income would still be a consideration.

It should also be noted that, under PERS, it is possible for a person to resign and withdraw his retirement contributions, exhaust

those funds and then qualify for OAS. The likelihood of this occurrence could increase when potential retirement income is near to the OAS grant line. One could argue, however, that any other assets could be deteriorated in the same manner by a potential welfare recipient.

XIII. POSITION OF OTHER INTERESTED GROUPS (CSEA, LEGISLATIVE ANALYST) IN SOCIAL SECURITY

Summary

The Legislative Analyst recommends that: (1) the state notify the Federal government of our desire to terminate social security coverage. (2) the state should thoroughly study the desirability of termination during the interim two years before termination would take affect.

The California State Employees Association reaffirmed its previous policy position at their 1972 State Legislative Convention to seek termination from social security. The membership requested the CSEA leadership to seek the assistance of PERS in the development of legislation to accomplish termination.

Discussion and Facts

1. Legislative Analyst:

The Legislative Analyst recommends in his analysis of the 1972-73 Budget Bill that legislation be enacted in 1972 directing the PERS Board of Administration to notify the Federal Government of California's intention to withdraw from social security. Federal law requires a two-year notice before public entities are permitted to terminate their participation in the program. He also recommends that PERS then conduct a detailed study and report to the 1973 Legislature on the feasibility of discontinuing social security coverage. He suggests that improvements could be made in PERS survivor, disability, and hospital benefits through utilization of present and projected employer contributions to social security

and up to one-half the present and projected employee contributions to that Federal system.

The analyst states that should the study conclude that social security be retained, the previous notification could be withdrawn prior to the two-year effective date.

## 2. California State Employees Association (CSEA)

On a number of occasions, state employees have been polled on the question of social security coverage. (Exhibit 30). In general, most state employees did not favor coordination with social security, and when given an opportunity to join social security chose to remain outside the system. In a 1967 CSEA poll on the question of social security termination, approximately 50 percent of those voting voted for termination, 40 percent voted against termination, and approximately 8.9 percent did not vote or had no opinion. (Exhibit 31). As early as 1963, the CSEA General Council adopted a policy position to seek termination. This organization reaffirmed its previous policy position at its October 1971 General Council (Exhibit 32). CSEA leadership is now working with the staff at PERS to develop legislation on this subject to seek termination. It is impossible to know at this time the form of that legislative proposal.

## 3. Other Interested State Departments

Both the State Personnel Board and the Public Employees' Retirement System supported the proposal in 1961 to adopt social security coverage for state employees. The task force did not



have an opportunity to contact these two organizations regarding the termination question. In light of the increased costs for social security coverage as well as the improvement in PERS retirement benefits, these organizations may reexamine their previous position on the issue.

STATE OF CALIFORNIA

RONALD REAGAN, Governor

## PUBLIC EMPLOYEES' RETIREMENT SYSTEM

1416 NINTH STREET, P. O. BOX 1953  
SACRAMENTO, CALIFORNIA 95809STANLEY B. FOWLER, President  
OTTO PALOMBO, Vice PresidentDR. LESTER BRESLOW  
DONALD GALLAGHER  
ROBERT R. HEADLEY  
A. W. "JOE" HISLOP  
WILLIAM G. MAAS  
LUCY E. RITTER  
JAMES A. TAYLOR  
CASPAR W. WEINBERGER  
JOSEPH L. WYATT, JR.

Reply to Section 2 - SOC. SEC.

October 6, 1969

Mrs. Roberta Chock, Secretary  
Joint Legislative Retirement Committee  
c/o Assemblyman Richard Barnes  
State Capitol  
Sacramento, California 95814

Dear Roberta:

Bill Payne asked me to send you the statistics on the results of the referenda, division, and transfer procedures conducted among State employees on the question of Social Security coverage. The following are the results of the various actions taken:

1955 Referendum conducted among State and University employees on the full offset plan.

Eligible to vote . . . . .	68,202
Total voting . . . . .	56,364
Members voting "yes" . . . . .	12,860
Members voting "no" . . . . .	43,203
Voided ballots . . . . .	301
	<u>56,364</u>

1959 Referendum conducted among State and University employees.

Eligible to vote . . . . .	99,885
Total voting . . . . .	75,714
Members voting "yes" . . . . .	32,303
Members voting "no" . . . . .	43,411
	<u>75,714</u>

1961 Division of the Public Employees' Retirement System.

Total eligible State and UC Members	131,000
Members choosing Social Security	33,390

Jt. Legislative Retirement Committee  
October 6, 1969  
Page 2

1965 additional opportunity to transfer to the group covered under  
Social Security.

Eligible members . . . . .	68,870
Members choosing Social Security . .	4,900

If you need additional information, please feel free to contact us.

Very truly yours,

*Beverly J. Gaffney*  
(MISS) BEVERLY J. GAFFNEY, CHIEF  
SOCIAL SECURITY DIVISION

BJG:cg

TABLE II

OVERALL RESPONSE

To the question: Should the Coordination  
of the State Employees' Retirement System  
with Social Security (OASDI) be Terminated?

<u>Opinion</u>	<u>Number</u>	<u>Percent</u>
YES	29,372	50.9
NO	23,200	40.2
NO OPINION	4,927	8.5
NO RESPONSE	234	0.4
	<hr/>	<hr/>
Total	57,733	100.0



## CALIFORNIA STATE EMPLOYEES' ASSOCIATION

1108 "O" STREET

SACRAMENTO, CALIFORNIA 95814

PHONE (916) 444-813

## REPRESENTING

people who serve the people

October 15, 1971

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ROBERT W. GREEN

AARON M. REUCK

LUCKETIA COUGH

GENERAL MANAGER

LOREN V. SMITH

Mr. William E. Payne  
Executive Officer  
Public Employees' Retirement System  
1416 Ninth Street  
Sacramento, California 95814

Dear Bill:

CSEA's General Council this year modified Association policy with respect to termination of Social Security coverage for state employees.

Our previous policy, you will recall, required that all elements of Social Security coverage (e.g. wife's benefit, disability benefits) be continued under PERS and that coordinated employees, their dependents, survivors, and beneficiaries, be guaranteed benefits equivalent to that they would have been entitled to receive had Social Security not been terminated.

The new policy eliminates the guarantee provision and simply requires that the total savings derived from termination of social security coverage be used for additional benefits under PERS.

The resolution adopted by our General Council (copy attached) also requests that we work with you to develop the necessary legislation.

This is to request your assistance in developing this legislation.

Sincerely,

Loren V. Smith  
General Manager

mc

Resolution Adopted  
by the  
California State Employees' Association  
October 11, 1971

R 32/71

SUBJECT: OASDI TERMINATION

SUBMITTED BY: 20 Delegates

WHEREAS, (1) CSEA introduced legislation in 1969 (AB 1949) and in 1970 (AB 178) to accomplish the intent of policy 3 B 5.3, and

WHEREAS, (2) AB 1949 was referred to interim study during 1969 and AB 178 failed to receive a do pass vote from the Assembly Ways and Means Committee in 1970, and

WHEREAS, (3) opposition to these bills centered on the guarantee of all future OASDI benefits to those coordinated employees who elected such benefits and a contention by the PERS that the bills in their present form would be difficult to administer, and

WHEREAS, (4) it has become apparent that if termination from the social security agreement is to be achieved a more flexible bill must be developed, one which does not include a tie to all future social security changes, and

WHEREAS, (5) representatives from the PERS have indicated an acceptable bill could be developed which did not provide for social security type benefits and which could be administered by PERS, and

WHEREAS, (6) SB 249 was passed in 1971, giving all state employees the 1/50th retirement formula, and

WHEREAS, (7) passage of SB 249 provided an even greater opportunity than in past years to terminate the OASDI contract and apply the savings toward better retirement benefits for all members, and

WHEREAS, (8) projected cost increases for OASDI will place an even greater hardship on coordinated employees, and particularly those younger employees paying increased PERS contributions due to passage of SB 249, now therefore be it

RESOLVED, (a) that policy 3 B 5.3 be amended to read:

3 B 5.3 The Association shall seek legislation to terminate the coordination of social security with PERS, with all savings derived from termination to be applied to increasing retirement benefits through PERS for all state employees and state annuitants of PERS, both coordinated and non-coordinated with OASDI.

and be it further

RESOLVED, (b) that in order to assure workability of the proposed legislation, CSEA shall request that PERS develop the required legislation, which need not be patterned after social security type benefits, and be it further

RESOLVED, (c) that legislation be introduced early in the 1972 legislative year for accomplishment of the policy, and be it further

RESOLVED, (d) that this be the continuing policy of the Association.

XIV.     WITHDRAWAL PROCEDURES, ACTION AUTHORITIES, FINALITY OF COMMITMENT  
          AND REQUIRED LEGISLATION

Summary

Procedures are available to terminate social security coverage for employees of the State and University of California. Termination action would include constitutional officers and members of the Legislature. Once social security coverage for state employees is terminated, the state may not again extend social security coverage to its employees under the present provisions of the Social Security Act.

The primary action necessary is for the State Legislature to pass legislation requesting termination of social security coverage.

Discussion and Facts

The provisions for termination of coverage under the Federal-State Social Security Agreement are included in Section 218(g) of the Social Security Act and Section 22310 of the California Government Code. Exhibits 33 and 34 contain the cited sections of the Federal and state law. The statutes provide that a public agency must be covered under social security five years before a request for termination of coverage may be filed. The state meets this requirement. At least two years' advance notice, in writing, must be given to the Department of Health, Education and Welfare before termination of coverage can be accomplished.

The State Legislature may pass legislation requesting termination



of social security coverage as it relates to employees of the state and employees of the University of California. The request for termination will also affect members of the Legislature who are included under the terms of coverage relating to the Public Employees' Retirement System and those who will be included in the terms of coverage as members of the Legislators' Retirement System. The action would also affect employees of the Industries of the Blind who are not eligible for membership in PERS, but who are covered under social security as state employees.

The request for termination of coverage should indicate the effective date of termination desired.

The effective date of termination must be:

1. The last day of a calendar quarter (i.e., March 31, June 30, September 30, or December 31) and
2. No earlier than two years after the Federal Government accepts the state notification of the request for termination.

The legislation should direct the appropriate state official to notify the Department of Health, Education and Welfare of the provisions of the termination request.

The employees of the State would continue to be covered under the terms of the social security agreement until the effective date of termination. During the two-year period between the notice of termination and the effective date of termination, the Legislature may pass legislation to cancel the request for termination. Such action

would have to be taken in advance of the proposed termination date with sufficient time to allow for a notice to the Department of Health, Education and Welfare to cancel the termination request.

Under the provisions of Section 218(g)(3) of the Social Security Act, once social security coverage is terminated with respect to state employees and University employees, the State may not again extend social security coverage to employees in the coverage group.

(A) to which an agreement under this section is made applicable, and

(B) with respect to which the agreement, or modification thereof making the agreement so applicable, specifies an effective date earlier than the date of execution of such agreement and such modification, respectively,

the agreement shall, if so requested by the State, be applicable to such services (to the extent the agreement was not already applicable) performed before such date of execution and after such effective date by any individual as a member of such coverage group if he is such a member on a date, specified by the State, which is earlier than such date of execution, except that in no case may the date so specified be earlier than the date such agreement or such modification, as the case may be, is mailed, or delivered by other means, to the Secretary.

(3) Notwithstanding the provisions of paragraph (2) of this subsection, in the case of services performed by individuals as members of any coverage group to which an agreement under this section is made applicable, and with respect to which there were timely paid in good faith to the Secretary of the Treasury amounts equivalent to the sum of the taxes which would have been imposed by sections 3101 and 3111 of the Internal Revenue Code of 1954 had such services constituted employment for purposes of chapter 21 of such Code at the time they were performed, and with respect to which refunds were not obtained, such individuals may, if so requested by the State, be deemed to be members of such coverage group on the date designated pursuant to paragraph (2).

#### Termination of Agreement

(g)(1) Upon giving at least two years' advance notice in writing to the Secretary of Health, Education, and Welfare, a State may terminate, effective at the end of a calendar quarter specified in the notice, its agreement with the Secretary either—

(A) in its entirety, but only if the agreement has been in effect from its effective date for not less than five years prior to the receipt of such notice; or

(B) with respect to any coverage group designated by the State, but only if the agreement has been in effect with respect to such coverage group for not less than five years prior to the receipt of such notice.

(2) If the Secretary, after reasonable notice and opportunity for hearing to a State with whom he has entered into an agreement pursuant to this section, finds that the State has failed or is no longer legally able to comply substantially with any provision of such agreement or of this section, he shall notify such State that the agreement will be terminated in its entirety, or with respect to any one or more coverage groups designated by him, at such time, not later than two years from the date of such notice, as he deems appropriate, unless prior to such time he finds that there no longer is any such failure or that the cause for such legal inability has been removed.

(3) If any agreement entered into under this section is terminated in its entirety, the Secretary and the State may not again enter into an agreement pursuant to this section. If any such agreement is terminated with respect to any coverage group, the Secretary and the State may not thereafter modify such agreement so as to again make the agreement applicable with respect to such coverage group.