Appendix A

Glossary

Occasionally one of the words or phrases contained in this glossary will be used in a context which will cause it to have a somewhat different meaning than that given below. For example, the phrase *public employee retirement system,* as used in this book, excludes federal plans; elsewhere the term may or may not be so limited. The text will often amplify the meaning of a term. The index should be consulted for any word or phrase requiring additional definition.

A glossary containing additional pension terms of general usage has been published by the Accounting Principles Board of the American Institute of Certified Public Accountants as Appendix B of its *Accounting for the Cost of Pension Plans* (New York, 1966). This may be supplemented by reference to the terms approved by the Committee on Pension and Profit Sharing Terminology as a result of a joint undertaking of the Pension Research Council and the Committee on Insurance Terminology of the American Risk and Insurance Association. Definitions of terms arising commonly in public employee retirement system operations will be found in a publication of the Municipal Finance Officers Association entitled *Public Employee Retirement Terminology* (Chicago, 1956).

Accrued Benefit Cost Method—The accrued benefit cost method (sometimes called the unit credit cost method) is one of the actuarial cost methods. Actuarial costs under this method are based directly on benefits accrued to the date of cost determination, as determined either by the terms of the benefit program or by some assumed allocation of total benefits to years of service.

Accrued Benefit Funding Method—The accrued benefit funding method is a funding method analogous to the accrued benefit cost method.

Actuarial Assumptions—Actuarial assumptions are those used in actuarial calculations to forecast uncertain future events or experience.

Actuarial Cost—A cost is characterized as actuarial if it is derived through the use of present values. An actuarial cost is often used to associate the costs of benefits under a retirement system with the approximate time the benefits are earned.

Actuarial Cost Method—An actuarial cost method is a particular technique for establishing the amount and incidence of the actuarial cost of retirement system benefits, or benefits and expenses, and the related actuarial liabilities.

Actuarial Equivalent—An actuarial equivalent is a benefit having the same present value as the benefit it replaces.

Actuarial Gains and Losses—An actuarial gain or loss is either an *actuarial experience gain or loss* or an *actuarial revaluation gain or loss.*

Actuarial Experience Gains and Losses—Actuarial experience gains or losses are the effects on actuarial costs of deviations between the past events predicted by actuarial assumptions and the events that actually occurred.

Actuarial Liability—The actuarial liability of a retirement system at any time is the excess of the present value of all benefits thereafter payable under the system over the present value of future normal costs.

Actuarial Revaluation Gains and Losses—Actuarial revaluation gains or losses are the effects on actuarial costs of adopting different actuarial cost methods or making changes in actuarial assumptions as to future events.

Ad Hoc (Postretirement Adjustment)—An ad hoc postretirement adjustment is one establishing a schedule of nonrecurring increases in retirement allowances.

Age Retirement—Age retirement is normal retirement dependent upon attainment of a specified age.

Annual Supplemental Cost—The annual supplemental cost for a given year is the portion of the supplemental cost and interest on it allocated to such year.

Annuity—An annuity is a series of periodic payments, usually for life, payable monthly or at other specified intervals. The term is frequently used to describe the part of a retirement allowance derived from a participant's contributions. Compare Pension.

Annuity Conversion Rate—An annuity conversion rate is a factor used to determine the amount of annuity payable for each dollar of a participant's contributions accumulated to the date of retirement. Annuity conversion rates generally vary by age and sex.

Antiselection—Antiselection is the tendency of a person to recognize his health status in selecting the option under a retirement system which is most favorable to himself. In insurance usage the term generally refers to the tendency of a person in an impaired health status to apply for an insurance contract favorable to himself and detrimental to the insurance company.

Automatic (Postretirement Adjustment)—An automatic postretirement adjustment is a program providing for recurring adjustments in retirement allowances on a regular basis.

Bond-swapping—Bond-swapping is a method of valuing bonds which are purchased to replace similar bonds of lower yield. Bond-swapping minimizes the reduction in bond book values which might otherwise occur with sales and purchases at prices below par.

Canada Pension Plan—The Canada Pension Plan is one of the social security programs in Canada. See Social Security.

Career Average Salary—Career average salary is that measure of a participant's level of earnings which is based on his entire period of service with a retirement system. A participant's career average salary may be one of the factors used in determining the amount of his benefits.

Conditional Vesting—Conditional vesting is that form of vesting under which entitlement to a vested benefit is conditional upon the nonwithdrawal of the participant's contributions.

Conglomerate System—A conglomerate system is one encompassing several governmental units, such as the cities and towns of a state.

Consumer Price Index—The consumer price index is the name given in both the United States and Canada to the series of numbers whose ratios measure the relative prices at various times of a selected group of goods and services which typify those bought by urban families.

Contributory—A retirement system is contributory if its members must aid in its financing by making periodic contributions, usually as a payroll deduction.

Cost of Living—Cost of living is the average cost of the goods and services required by a person or family. Compare Living Standard.

Current Disbursement Cost Method—The current disbursement cost method (sometimes called pay-as-you-go) is a method of recognizing the costs of a retirement system only as benefits are paid.

Defined Benefit—A benefit program uses defined benefits if benefits to be received by employees after retirement are predetermined by a formula. The employer's contributions under such a program are determined on the basis of the benefits which are thus payable.

Defined Contribution—A benefit program uses defined contributions when the rate of contribution of the employer (or employee) is fixed and the benefits to be received by employees after retirement are dependent to some extent upon such contributions. The type of defined contribution program most common among public employee retirement systems is the money purchase benefit program.

Disability Retirement—Disability retirement is a termination of employment, generally involving the payment of a retirement allowance, as a result of an accident or sickness occurring before a participant is eligible for normal retirement.

Early Retirement—Early retirement is a termination of employment involving the payment of a retirement allowance before a participant is eligible for normal retirement. The retirement allowance payable in the event of early retirement is often lower than the accrued portion of the normal retirement allowance.

Entry-Age Normal Cost Method—See Projected Benefit Cost Method.

Equity Annuity—An equity annuity (sometimes called a variable annuity) is a benefit whose payments vary from year to year depending upon the value of a portfolio of securities (usually common stocks).

Final Average Salary—Final average salary is that measure of a participant's level of earnings which is based on his average rate of salary for a specified period of time, usually the 3, 5, or 10 years immediately preceding retirement. A participant's final average salary may be one of the factors used in determining the amount of his benefits.

Funding—Funding is a systematic program under which assets are set aside in amounts and at times approximately coincident with the accruing of benefit rights under a retirement system.

Leapfrogging—Leapfrogging is the practice by each of two or more retirement systems (often in the same state or province) of obtaining in rotation better benefits for its members than those of the other systems.

Living Standard—Living standard is a measure of the average cost of goods and services consumed by a person or family. Living standard differs from cost of living in recognizing the changes in consumption which arises from increases in wages and productivity.

Mechanism (of Postretirement Adjustment)—The mechanism of a program of postretirement adjustments is the technique used to determine the amount of the adjustment. The mechanism may involve a formula which is based on salaries, investment yields, or other indexes.

Member—See Participant.

Modified Refund Annuity—A modified refund annuity is a form of retirement allowance which provides a benefit upon the death of a retired employee equal to the excess, if any, of the amount of his own contributions over the total retirement allowance payments he received prior to his death.

Money Purchase—A money purchase benefit program is a type of defined contribution benefit program. Under such a program, the employer's or employee's contributions are usually accumulated to the employee's benefit and the retirement benefit payable to him is the actuarial equivalent of the sum so accumulated.

Noncontributory—A retirement system is noncontributory if no contributions are required of its members to aid in its financing.

Normal Cost—Normal cost is the cost assigned under an actuarial cost method to any year after the inception of a retirement system. Normal cost does not include any portion of the supplemental cost, but may include adjustments for actuarial experience gains or losses.

Normal Retirement—Normal retirement is a termination of employment involving the payment of a regular formula retirement allowance without reduction because of age or service and without special qualifications such as disability.

Normal Retirement Date—The normal retirement date is the earliest date at which a participant qualifies for normal retirement.

OASDHI—OASDHI means Federal Old-Age and Survivors Disability, and Health Insurance, the social security program in the United States. See Social Security.

Old Age Security Plan—The Old Age Security Plan is one of the social security programs in Canada. See Social Security.

Participant—A participant (sometimes called a member) in a retirement system is an employee or former employee who may become eligible to receive or is receiving benefits under the system.

Pay-as-you-go—See Current Disbursement Cost Method.

Pension—A pension is a series of periodic payments, usually for life, payable monthly or at other specified intervals. The term is frequently used to describe the part of a retirement allowance financed by employer contributions. Compare Annuity.

Political Subdivision—A political subdivision of a state or province is a lower governmental unit, such as a city, county, school district, or utility district.

Postretirement Adjustment—A postretirement adjustment is a change (usually an increase) in the amount of a retirement allowance after its commencement to reflect changes or anticipated changes in cost of living or living standards.

Present Value—The present value (sometimes called actuarial present value) of an amount or series of amounts payable or receivable in the future is their current worth after discounting each such amount at an assumed rate of interest and adjusting for the probability of its payment or receipt.

Prior Service Cost—A prior service cost is a type of supplemental cost arising under some actuarial cost methods because of benefits provided for service prior to the establishment of a retirement system.

Projected Benefit Cost Method—The projected benefit cost method (sometimes called the entry-age normal cost method) is one of the actuarial cost methods. Actuarial costs under this method are based upon total prospective benefits, whether or not they are associated with any specific periods of service. The actuarial cost determination assumes regular future accruals of normal cost, generally in a level amount or percentage of earnings.

Projected Benefit Funding Method—The projected benefit funding method is a funding method analogous to the projected benefit cost method.

Public Employee Retirement System—A public employee retirement system is an organization providing a formal program of retirement benefits for employees of states, provinces, or their political subdivisions.

Quebec Pension Plan—The Quebec Pension Plan is one of the social security programs in Canada. It is comparable to the Canada Pension Plan, with which it is closely coordinated. The Quebec Pension Plan operates in the province of Quebec; the Canada Pension Plan operates in the rest of Canada. See Social Security.

Ratchet Effect—The ratchet effect is the result of a legal prohibition, often constitutional in nature, against a legislative body's reducing the rights of a participant to benefits under a public employee retirement system.

Refund Annuity—A refund annuity is a form of retirement allowance which provides a benefit upon the death of a retired employee equal to the excess, if any, of the amount of his own contributions over the total annuity payments (derived from these contributions) he received prior to his death.

Retirement Allowance—A retirement allowance is a series of payments, usually for life, payable monthly or at other specified intervals. The term is used to describe the entire benefit payable, including both the annuity derived from the participant's accumulated contributions and the pension financed by the employer's contributions.

Scope (of Postretirement Adjustment)—The scope of a program of postretirement adjustments defines the program's applicability (as to persons and benefits) and whether the adjustments are *ad hoc,* automatic, or both.

Service Retirement—Service retirement is normal retirement dependent upon completion of a specified period of service. In some usages, the term has the same meaning as *normal retirement.*

Social Security—Social security is a federal program of old-age and related benefits covering most workers in the country. In the United States, social security benefits are provided by OASDHI. In Canada they arise from the Old Age Security Plan (which provides benefits for essentially all old-age persons) and the Canada and Quebec Pension Plans (which cover workers and their families).

Spouse's Benefit—A spouse's benefit (sometimes called a widow's benefit) is a retirement allowance payable to the spouse of a participant following his death before retirement.

Supplemental Cost—A supplemental cost is a separate element of actuarial cost which results from future normal costs having a present value less than the present value of the total prospective benefits of the system. Such supplemental cost is generally the result of assuming that actuarial costs accrued before the establishment of the system. A supplemental cost may also arise after inception of the system because of benefit changes, changes in actuarial assumptions, actuarial losses, or failure to fund or otherwise recognize normal cost accruals or interest on supplemental cost.

Thirteenth Check—A thirteenth check is an annual supplemental retirement allowance arising from earnings on the investments of a system in excess of those determined as needed for other purposes.

Unfunded Actuarial Liability—The unfunded actuarial liability (sometimes called the unfunded liability) of a retirement system at any time is the excess of its actuarial liability at that time over the value of its cash and investments.

Unit Credit Cost Method—See Accrued Benefit Cost Method.

Variable Annuity—See Equity Annuity.

Vested Benefits—Vested benefits are those whose payment is not contingent upon a participant's continuation in specified employment.

Widow's Benefit—See Spouse's Benefit.

Withdrawal—Withdrawal is the termination of employment prior to becoming eligible for any benefits. The term sometimes refers to subsequent termination of membership in a system by withdrawal of the employee's available accumulated contributions from the system.

Appendix B

Excerpts from Booklet Describing the California Public Employees' Retirement System

INTRODUCTION

EMPLOYEES of the State of California have enjoyed a system of retirement, disability, and death benefits since 1931. In 1939 the system was extended to public agencies in California on a contractual basis. Each year the legislature makes many changes in the laws pertaining to the system. One of the most important changes was enacted in 1971, when the long-standing "1/60th formula" for miscellaneous employees was changed to a "1/50th" (or 2 percent) formula.

This booklet is intended to provide a general discussion of the benefits available as of July, 1971. Since the explanation must be general, this booklet is informative only.

The statements in this booklet are general and simplified as much as possible, consistent with accuracy. The law is both specific and detailed. Regardless of any inferences any reader may draw, the law must be obeyed. If there is any conflict, the law takes precedence.

All numerical values have also been generalized and, where possible, simplified so as to enable the typical employee to make a close estimate of the factors that affect him. However, only a review of your record can determine the exact facts in any individual case.

MEMBERSHIP

PERS members fall into two classes—"miscellaneous members" and "safety members." A safety member, very generally, is an employee engaged in the maintenance of law, fire suppression, or activities in which disorder may be an important factor. All other members, the majority, are "miscellaneous members," for whom this booklet is primarily intended.

Virtually all employees become members of PERS when they are hired. Most of the exceptions are those who work less than half time. There are exceptions, however, even to the exceptions. Under many conditions, membership in the system continues even though employment is not continuous or with the same employer.

If there is any doubt, ask your supervisor or appointing official.

In addition to becoming a member of PERS on the date of your appointment, you will probably be covered under the Federal Social Security System. If you are not certain, ask your employer.

Excepting for a minor adjustment to your retirement benefits, described later in this booklet, the two systems are independent.

While a member of PERS you will receive a yearly statement of retirement contributions, interest earned, and years of service credited to your account.

Information pertinent to your Social Security account can be obtained only through application to the Social Security Administration.

CONTRIBUTIONS

PERS is a funded system; in other words, the money is on deposit to meet obligations when they come due. The funds derive from three sources—your contributions, employer contributions, and earnings from investments.

The money you contribute is yours. It is earmarked in an individual account that draws interest at a rate established periodically by the PERS Board of Administration. If you leave before retirement age and do not take a job with an agency that is covered by the PERS system, you can have your money refunded, with interest. The contributions of your employer, however, will not be refunded.

Your contribution will be 7% of your gross pay. If you are covered by Social Security the 7% will apply to only a part of your pay. The law states that only ⅔ of the normal contribution rate will apply to the first $400 of your monthly pay. Since ⅔ of $400 is 266.67, the net effect is the same as if your gross pay minus $133.33 was multiplied by 7%.

Refund of Contributions. If you leave state and other covered agency service before reaching retirement age, either to take a job with an employer who is not covered by the system or to remain at home, your contributions may be refunded with earned interest. If you have a total of five years of credited service with one or more employers covered by PERS you have the right to leave your contributions on deposit in return for a retirement allowance when you reach retirement age.

If you have worked for less than five years, your contributions, with earned interest, must be refunded to you in a lump sum.

Interest is paid to the last day of the preceding fiscal year. Contributions withdrawn as of July 1 will, therefore, receive all accumulated interest. Those withdrawn as of June 29 would, in effect, lose a year's interest. As of July 1, 1971 the interest rate credited to employee accounts was 4¾%.

RETIREMENT BENEFITS

The retirement benefit structure administered by PERS is very simple, but the exceptions, modifications, and options to the basic formula can be complex and subtle. Remember, therefore, that this pamphlet can be used for estimating your retirement benefits, but only an analysis of your records by a qualified Retirement Officer can establish the exact amount of your benefits.

The "normal" retirement age, upon which all calculations are based, is 60. Minimum retirement age is 55. At present the mandatory retirement age is 70. As of October 1, 1971, this will drop to age 69. On October 1, 1972 the mandatory age will drop to age

68. On October 1, 1973, the mandatory age will drop to age 67, where it will remain. Eligibility for retirement before the compulsory retirement age is reached, requires at least five years of service credit.

Retirement at the mandatory age must take effect on the first of the month following the date at which a member reaches such age.

The basic formula of "1/50th at age 60" makes for easy estimation of retirement benefits. Since 1/50th is 2%, multiplication of the number of years of credited service times 2% times monthly pay gives the amount you will receive as an unmodified allowance if you retire at age 60.

The monthly pay used in this calculation will be the average pay earnable during the last 3 years of service, unless the member notifies the system of a consecutive three-year period during which his pay was higher. This figure is referred to as "final compensation."

The retirant at age 60 who has 10 years of credited service will have an unmodified allowance of 20% of his final compensation. For 20 years he will have 40%; for thirty years he will have 60%.

TABLE B-1
Estimated Service Retirement Allowance as a Percentage of Final Compensation* (2% at 60 formula benefits, male members)

	Age at Retirement								
Years' Service	*55*	*56*	*57*	*58*	*59*	*60*	*61*	*62*	*63 and Older*
10	14.1	15.1	16.2	17.3	18.6	20.0	21.3	22.7	24.2
15	21.2	22.7	24.2	26.0	27.9	30.0	32.0	34.1	36.3
20	28.2	30.2	32.3	34.7	37.2	40.0	42.7	45.4	48.4
25	35.3	37.8	40.4	43.4	46.6	50.0	53.4	56.8	60.5
30	42.4	45.3	48.5	52.0	55.9	60.0	64.0	68.2	72.5
35	49.4	52.9	56.6	60.7	65.2	70.0	74.7	79.5	84.6

* Highest average monthly compensation earnable by a member during any period of three consecutive years during his membership in the System.

		Examples— Male Employee	*Your Case*
1. Age at retirement	59	64	
2. Total service to retirement	25 yrs	35 yrs.	yrs.
3. Final compensation	$600.00	$800.00	$
4. 2% at 60 benefit as percent of compensation	46.6%	84.6%	%
5. Amount of 2% at 60 benefit (line 3 times line 4)	$279.60	$676.80	$

At ages other than 60, there are reductions and augmentations. If you retire before age 60 your unmodified allowance will be reduced; if you retire after age 60 it will be augmented. The augmentation increases with each year of age up to age 63. After that age the augmentation factor remains constant.

The percentages of final compensation payable as an unmodified allowance at selected ages and number of years of service are shown in Tables B-1 and B-2. Note that the percentages differ slightly for males and females; use the appropriate table in finding the value that applies to you.

TABLE B-2
Estimated Service Retirement Allowance as a Percentage of Final Compensation* (2% at 60 formula benefits, female members)

	Age at Retirement								
Years' Service	*55*	*56*	*57*	*58*	*59*	*60*	*61*	*62*	*63 and Older*
10	14.6	15.5	16.5	17.6	18.7	20.0	21.3	22.6	24.0
15	21.9	23.3	24.8	26.4	28.1	30.0	31.9	33.9	36.0
20	29.2	31.0	33.0	35.2	37.5	40.0	42.6	45.2	48.0
25	36.5	38.8	41.3	44.0	46.9	50.0	53.2	56.6	60.0
30	43.8	46.6	49.5	52.7	56.2	60.0	63.8	67.9	72.0
35	51.1	54.3	57.8	61.5	65.6	70.0	74.5	79.2	84.0

* Highest average compensation earnable by a member during any period of three consecutive years during her membership in the System.

MODIFIED BASIC FORMULA

Most employees who are PERS members are now covered under Social Security. The formula for calculating retirement benefits for members under coordinated coverage must, therefore, be modified to take account of this fact. Under the formula, the full, unmodified allowance, is reduced for the period of service covered by Social Security.

Table B-3 shows the dollar reduction in the unmodified allowance (which you've just figured from Table B-1 or B-2) for coordinated coverage with Social Security. Notice that Table B-3 is in terms of dollars, whereas Tables B-1 and B-2 are in percentages.

TABLE B-3
Approximate Dollar Reduction in Unmodified Allowance for Members Coordinated with Social Security (based on $400 monthly minimum earning, male and female)

Years' Service under Social Security	*Age at Retirement* 55	56	57	58	59	60	61	62	63 and Older
10	18.83	20.13	21.55	23.12	24.83	26.67	28.45	30.29	32.24
15	28.24	30.20	32.32	34.68	37.24	40.00	42.68	45.44	48.36
20	37.65	40.27	43.09	46.24	49.65	53.33	56.91	60.59	64.48
25	47.07	50.33	53.87	57.80	62.07	66.67	71.13	75.73	80.60
30	56.48	60.40	64.64	69.36	74.48	80.00	85.36	90.88	96.72
35	65.89	70.47	75.41	80.92	86.89	93.33	99.59	106.03	112.84

Example: Male employee—Suppose your "final compensation" is $600. You plan to retire at age 64 and will have 30 years of credited service at that age. Your retirement is coordinated with Social Security and you will have a total of 10 years service under Social Security by the time you retire.

	Example	*Your Case*
1. Age at retirement	64	
2. Total service at retirement	30 years	
3. Final compensation	$600 per month	
4. Benefit per Table B-1 (72.5% x $600)	$435.00	
5. Reduction per Table B-3 (10 years of Social Security) ...	$ 32.24	
6. Unmodified monthly allowance	$402.76	

Cost of Living Adjustment. Provision for an annual "cost of living" adjustment to retirement allowances was incorporated into the retirement law in 1968.

On April 1st of each year, each account is adjusted to reflect the change, if any, in the California Consumer Price Index. In practice, this is taken as the average of the Los Angeles-Long Beach and San Francisco-Oakland area cost of living indices, published by the Bureau of Labor Statistics of the United States Department of Labor. The adjustment is subject to the following limitations:

1. No adjustment will be made in years for which the adjustment to the member's base allowance would be less than 1%. "Base allowance" is the member's monthly allowance minus accumulated cost of living increases already granted.
2. Allowances may not be reduced below the base allowance.
3. Increases will commence in the second calendar year following the year of retirement and may not exceed 2% per year, compounded from the base year. The "base year" is the year of retirement.

4. The increase applies to nearly all members and beneficiaries receiving a monthly allowance from the System.
   It *does not* apply to benefits payable under the 1959 Survivor Allowance or to the basic death benefit.

The member does not have to apply for these increases. They are calculated and granted automatically, and appear, when applicable, in the May 1st allowance payment.

TABLE B-4
Temporary Annuity to Age 62 or 65* (reduction of monthly life income from the retirement system for each $10.00 of the temporary monthly annuity payments)

	Temporary Annuity to:			
	Age 62		*Age 65*	
	Male	*Female*	*Male*	*Female*
55	$4.81	$4.11	$6.40	$5.47
56	4.30	3.67	6.01	5.12
57	3.75	3.18	5.58	4.73
58	3.14	2.65	5.11	4.31
59	2.47	2.07	4.58	3.85
60	1.72	1.44	4.00	3.35
61	0.90	0.75	3.36	2.80

* Applies only to members whose employment was covered under Social Security.

The temporary annuity is not available if the member on the date of retirement is entitled to receive Social Security Program benefits.

Example: A male employee who is covered under Social Security retires at age 60 with an unmodified life allowance of $250 from the Retirement System. He is "fully insured" under Social Security and his estimated primary Social Security benefit will provide an additional monthly income of $100.00 if he waits until 65 to begin receiving it. He elects to take the temporary annuity payments to age 65. At age 60, his monthly life income will be reduced by $4.00 for each $10.00 of temporary annuity payments to age 65. His $250 allowance will be reduced by a total of $40.00 ($4.00 times 10) to $210.00. The Retirement System would then pay a total of $310.00 ($210.00 plus $100) until he reaches age 65, at which time his System allowance would be reduced to $210.00 for the remainder of his life. He can now, however, begin receiving his Social Security benefit.

Temporary Annuity Payment. Should you elect to retire before Social Security payments can begin, you may elect to take a *temporary annuity payment*. Under this plan, your allowance will be converted into a reduced life allowance, which is somewhat less than the unmodified allowance. To this life allowance, will be added the estimated monthly sum you will receive from Social Security when you reach age 62 or 65. At that age, when Social Security payments begin, the Retirement System will continue to pay you only the reduced life allowance. The plan, in effect, provides you with a higher income than you would otherwise have received at the time of retirement before age 62, thus encouraging early retirement for those who could not otherwise afford to do so.

Table B-4, and the example, illustrate this plan.

OPTIONS

The unmodified allowance ceases at the death of the retired member. Four options, the chief purpose of which is to protect survivors, are available. The first three are exercised by a great many, the fourth being used only in special cases. Each option reduces the amount of the unmodified allowance, in return for benefits after the retired member's death.

Option No. 1: Option No. 1 guarantees that the retired member's contributions and interest will be returned to his beneficiary, if the retired member dies before they are disbursed.

Table B-5
Option No. 1—Reduction in Unmodified Allowance for Each $1,000 of Employee's Accumulated Contributions

Age at Retirement	*Male*	*Female*
55	$0.84	$0.52
60	1.05	.63
65	1.38	.81
70	1.91	1.12

	Example: Male Employee	*Your Case*
1. Age at retirement	60	
2. 2% unmodified allowance (from Table B-1)	$ 279.60	$
3. Estimated contributions at retirement	$4,000.00	$
4. Option 1 reduction factor	$ 1.05	$
5. Reduction .... 1.05 x 4 =	$ 4.20	$
6. Option 1 monthly allowance	$ 275.40	$

Since a portion of the monthly allowance is purchased by employer contributions, the member's account diminishes by considerably less than the monthly benefit paid him. The remainder of the member's account, if there is any, will be paid to the survivor either in a lump sum or monthly payments.

In return for this "insurance," there is a slight reduction in monthly benefits. Table B-5 shows the amount of reduction (the premium) for this option at various ages at retirement. The example will show you how to figure your premium.

Option No. 2: This option provides for a reduced income during the life of the retired member, with the same amount continuing for the life of the beneficiary named at the time of retirement. For a table of reductions, see Table B-6.

TABLE B-6
Option No. 2—Percentage of Unmodified Allowance Payable to Male Member with Same Amount to Continue to Female Beneficiary

Age of Female Beneficiary	*Age of Retiring Member*			
	55	*60*	*65*	*70*
50	76.4	69.7	62.0	53.3
55	79.5	73.0	65.3	56.4
60	82.8	76.7	69.3	60.2
65	86.2	80.8	73.8	65.0
70	89.5	85.0	78.9	70.5

Example: Male employee—Suppose that you are retiring at age 65 with an unmodified monthly retirement allowance of $300. Your wife, who is your beneficiary, is age 60. You elect to take Option No. 2. A male employee retiring at age 65 with a female beneficiary, age 60, would receive 69.3% of his unmodified retirement allowance under this option.

69.3% of $300 = $207.90, your Option No. 2 monthly allowance. If you should die before your wife, this same amount would be paid to her for the rest of her life.

TABLE B-7
Option No. 3—Percentage of Unmodified Allowance Payable to Male Member with One-Half (½) the Amount to Continue to Female Beneficiary

Age of Female Beneficiary	*Age of Retiring Male Member*			
	55	*60*	*65*	*70*
50	86.6	82.2	76.6	69.5
55	88.6	84.4	79.0	72.1
60	90.6	86.8	81.8	75.2
65	92.6	89.4	84.9	78.8
70	94.5	91.9	88.2	82.7

Example: Male employee—Suppose that you are retiring at age 65 with an unmodified monthly retirement allowance of $300. Your wife, who is your beneficiary, is age 60. You elect to take Option No. 3. A male employee retiring at age 65 with a female beneficiary, age 60, would receive 81.8% of his unmodified retirement allowance under this option.

81.8% of $300 = $245.40, your Option No. 3 monthly allowance. If you should die before your wife, one-half (½) of this amount or $122.70 would be paid to her for the rest of her life.

Option No. 3: This option provides for a reduced income during the life of the retired member, with the beneficiary named at the time of retirement receiving *one-half* the amount of the annuitant's allowance after the death of the retired member. Because the survivor will receive a smaller allowance, the allowance paid to the retired member during his life is larger than under Option No. 2. Table B-7 shows the effect of this option.

Option No. 4: A member, at retirement, may elect, with the approval of the Board of Administration, to receive such other joint life benefits as are the actuarial equivalent of his retirement allowance. This option is exercised very seldom. It is provided for those few special cases not satisfied by any of the three standard options.

OTHER BENEFITS

In addition to service retirement benefits, your retirement system provides other benefits. Among these are disability benefits, death benefits, and survivor benefits.

Disability Benefits. If, through injury or illness, you cannot perform the duties of your position and if you have five or more years of credited service you *may* be eligible for a monthly disability allowance. The factors used in computing disability allowances are final compensation and years of service.

Unlike the service retirement, however, there are provisions in the law for the granting of extra years of credited service, minimum allowances, and limitations on the percentage of final compensation that may be paid for disability retirements.

In brief, every application for a disability retirement is handled as an individual case, on its own merits, in accordance with law.

Death Benefits. *Basic Death Benefit.* The law provides for statutory beneficiaries for the Basic Death Benefit, unless otherwise designated. These beneficiaries are in the following order of priority:

1. Your spouse (wife or husband).
2. Your children (share and share alike).
3. Your parents (share and share alike).
4. Your estate.

If you wish to name different beneficiaries, or list them in a different order of priority, you must fill out a State Form 241, which your employer has. If you file such a form, and your personal circumstances change (through marriage, remarriage, the birth or death of children, divorce, or other personal event) you should fill out a new State Form 241.

The basic death benefit is payable to the beneficiary of active members who die before retiring. The benefit consists of the member's contributions and interest plus an employer furnished benefit equal to one month's salary for each year of service credited, to a maximum of six years of service.

1957 Survivor's Benefit. If, at the time of your death, you had reached 55 years of age, and had five or more years of service, your widow may elect to take the 1957 Survivor's Benefit in lieu of the basic death benefit. The 1957 benefit is payable as a monthly allowance to the surviving widow (or dependent widower) or to children until they reach 18. The amount of the 1957 benefit is one-half of the unmodified allowance, computed as if you had retired on the date of your death.

1959 Survivor's Benefit. This benefit is optional for each employer. Employees working as of the effective date of the exercise of the option by the employer will be given the choice of being covered under this benefit or not; those hired after that date will automatically be covered by the 1959 Survivor's Benefit. The benefit is available only to those NOT covered by Social Security. Members covered by Social Security have similar survivorship protection through the federal program. A premium of $2.00 per month is charged directly to the member. Benefits payable under the 1959 Survivor's Benefits are payable only for death while in an employment status before retiring. Current benefits are:

To an eligible surviving widow (or dependent widower) until remarriage with two or more eligible children; or three eligible children only	$250 monthly
To an eligible surviving widow (or dependent widower) with one eligible child; or two eligible children only	$180 monthly
To a surviving widow at age 62 (or dependent widower at age 65), until remarriage; or one eligible child only	$ 90 monthly

Dependent parents may also be eligible.

This benefit is payable in addition to the 1957 Survivor Benefit or the basic death benefit, as the case may be.

Retired Death Benefit. At the death of a retired member, a $500 death benefit is paid in a lump sum to his statutory or designated beneficiary. The lump sum payment is in addition to any benefit under any optional settlement the member may have selected at retirement.

Service Credit. Prior to 1961 employees were required to serve six months before becoming members of the System. You have the right to receive credit for this "pre-membership" service by making the necessary contributions to the System. Other types of service or absences which you may receive credit for are:

Absence on military service.

Time during which you were absent from service without salary, because of injury or illness arising out of and in the course of your employment and during which time temporary disability payments were received.

Time spent in "public service." Such service includes a wide variety of situations involving the federal government, the university, some nonfederal public agencies, the judicial system, war relocation leave, and others. The exact details and restrictions pertinent to each kind of leave for which the employee may elect to purchase service credit vary. Full details pertinent to a particular case may be obtained from PERS Retirement Officers or the headquarters of the System.

Reinstatement after Retirement. After you have retired and are receiving an allowance from the System, you may not be employed by the State of California, the University, or any public agency under contract with the Public Employees' Retirement System unless you are first reinstated from retirement. There are, however, limited exceptions to this rule. Your employer can advise you regarding these exceptions.

You may return to a contracting public agency (or State) employment if you have been on a voluntary service retirement for at least a year. You must first make application to the Retirement System for reinstatement from retirement. If you meet health, age, and other requirements for reinstatement and return to employment, your retirement allowance will cease. When you again retire, your allowance will include credit for both your earlier service and your service after reinstatement.

APPLYING FOR BENEFITS

Retirement Allowance. Submit your Application for Retirement to the Public Employees' Retirement System about 90 days in advance of your intended retirement. This is done on Retirement Form 369 which your employer will have. Remember that normally your retirement cannot be effective earlier than the first of the month in which your application is received by the System. If you want computations of optional settlements 2 and 3, the name, birth date, and sex of your intended beneficiary must be shown on the application.

The System will advise you of the allowance payable and will furnish the necessary forms and instructions for your retirement.

Death Benefit. Notice of the death of an active member is usually sent to the Retirement System by the employer, or of a retired member by letter from relatives, friends, or other person concerned.

The Retirement System will send an affidavit to the beneficiary for signature with a request for a certified copy of the death certificate. In certain cases, birth or marriage certificates may be required to establish eligibility for survivor benefits.

Refund *(Withdrawal)* of Contributions. As explained above if you have five or more years of credited service at the time you separate from employment, you have the right to elect to leave the accumulated contributions on deposit and apply for an allowance when you reach retirement age. If you elect to have your contributions refunded, you must fill out a form that authorizes the PERS to release the money and submit the completed document through your employer. The proper form is available at your employer's office.

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