HEARINGS BEFORE THE COMMITTEE ON REFORM IN THE CIVIL SERVICE OF THE HOUSE OF REPRESENTATIVES UNITED STATES; RETIREMNT FUND FOR SUPERANNUATED EMPLOYEES IN THE CIVIL SERVICE; MARCH 10,11,13,20, AND 21, APRIL 13, 1908

Published @ 2017 Trieste Publishing Pty Ltd

ISBN 9780649501014

Hearings before the Committee on Reform in the Civil Service of the House of Representatives United States; Retiremnt Fund for Superannuated Employees in the Civil Service; March 10,11,13,20, and 21, April 13, 1908 by Various

Edited by Trieste Publishing Pty Ltd.
Cover @ 2017

www.triestepublishing.com

VARIOUS

HEARINGS BEFORE THE COMMITTEE ON REFORM IN THE CIVIL SERVICE OF THE HOUSE OF REPRESENTATIVES UNITED STATES; RETIREMNT FUND FOR SUPERANNUATED EMPLOYEES IN THE CIVIL SERVICE; MARCH 10,11,13,20, AND 21, APRIL 13, 1908

Trieste

2

HEARINGS

BEFORE THE COMMITTEE ON REFORM IN THE CIVIL SERVICE

OF THE HOUSE OF REPRESENTATIVES, UNITED STATES

670/141

RETIREMENT FUND FOR SUPERANNUATED EMPLOYEES IN THE CIVIL SERVICE

MARCH 10, 11, 13, 20, and 21, and APRIL 13, 1908

WASHINGTON
GOVERNMENT PRINTING OFFICE
1908

CONTENTS.

RETIREMENT FUND FOR SUPERANNUATED EMPLOYEES IN THE CLASSIFIED CIVIL SERVICE.

THE COMMITTEE ON REFORM IN THE CIVIL SERVICE,
Tuesday, March 10, 1908.

The committee this day met (Hon. Frederick H. Gillett in the chair) for the consideration of measures to establish a retirement fund for superannuated employees in the classified civil service. The measures immediately before the committee were the report of the subcommittee on personnel, of the Committee on Department Methods, the so-called Keep Commission, with an accompanying bill (Appendix B), and the bill suggested by Mr. Herbert D. Brown, of Chicago, formerly of the Department of Commerce and Labor, and introduced by Hon. F. H. Gillett (Appendix A).

There were present: Messrs. Herbert D. Brown, of Chicago; John W. Holcombe, Interior Department; A. Zappone, Department of Agriculture; George W. Leadley, Department of Commerce and Labor; and John C. Scofield, War Department, of the Committee on Department Methods.

The CHAIRMAN. Mr. Brown, will you kindly explain your scheme to the committee?

STATEMENT OF MR. HERBERT D. BROWN, OF CHICAGO.

Mr. Chairman and gentlemen of the committee, it may not be out of place to preface what I have to say in regard to the retirement plan I wish to present to you by a brief reference to some of the other plans of retirement that have been proposed, in order that the basis of this plan may be more easily understood. When I first came to Washington, five or six years ago, the subject of retirement for the aged Government employees was receiving much attention, and a number of plans had been proposed. The subject being kindred to that of insurance, I was naturally interested in it. I accordingly made an examination of the various plans, and, on analysis, I found that, in a general way, they fell into two classes:

First, those proposing the payment of annuities to the superannuated out of the Federal Treasury; and,

Second, those proposing a uniform deduction of a given per cent—more or less adequate for the purpose in view—from the salaries of all employees to create a general fund out of which to pay annuities to retiring employees. This second class may properly be subdivided into two divisions:

(*a*) Those proposing a uniform deduction of a given per cent from all salaries and the payment of annuities based upon length of service; and (*b*) Those proposing a uniform deduction of a given per cent from all salaries and the payment of a uniform annuity regardless of length of service.

The first group of plans—those proposing the payment of annuities out of the Federal Treasury—are, of course, civil pensions, and, in view of the public sentiment against such measures, need not be discussed.

The second group of plans—those proposing a uniform deduction of a given per cent from all salaries to provide a general fund out of which to pay annuities to employees—aside from their financial uncertainties, proved in every instance, on analysis, to be inequitable as between employees of different ages. This is true whether the annuity paid is uniform or is based on length of service.

To illustrate the unfairness of this group of plans, let us consider, first, the results of plans proposing a uniform deduction of a given per cent from all salaries and the payment of annuities based upon length of service. Let us see, for instance, if by making a uniform deduction of 5 per cent from salaries of $100 per month it will be possible to establish annuities for men entering the service at different ages on that salary, and what the annuities will amount to. Take two men entering the service, one aged 20 and the other aged 60, each receiving $100 a month, and deduct 5 per cent of that salary, or $5 a month, with the object of paying each man on retirement an annuity based on his length of service. Is it feasible? The man of 20 will have fifty years to serve before reaching the age of retirement and the man of 60 only ten years. Now, a deposit of $5 a month will earn much more interest in a period of fifty years than it will in ten years. Just what is the difference in this concrete case? Reference to an interest table shows us that a deposit of $5 a month for fifty years, improved by 4 per cent compound interest, amounts to $9,357.40, which is sufficient to purchase from most insurance companies a life annuity of $1,261.10, beginning at age 70, first payment in one year; but the same table shows also that a deduction of 5 per cent from the same salary beginning at the age of 60 years will provide a fund, on retirement at age 70, of only $735.90, and this amount would purchase an annuity at age 70 of but $99.18 a year, a sum too small to support any employee, however simple his needs. To make this plan practical it would therefore be necessary to put the deductions from all employees' salaries into a general fund and divide it among all the annuitants in proportion to their length of service. This arrangement would be exceedingly unfair, however, to the men who entered the service at an early age, as part of their savings would go to make up the annuities for the men already old in the service when the plan was put into operation, or who came into the service at an advanced age. Under such an arrangement the man who entered the service at 60 and served only ten years would be retired on more than $99.18 it is true, but to have it so, the man who had entered at 20 and worked for fifty years would have to give up part of the $1,261.10 his savings had earned and content himself with a smaller annuity, a plan that seems indefensible, as it actually takes the money of one man to put it into the pocket of another who is less meritorious, judged by the standard of length of service. (Appendix C, Table IV.)

Consider next the second class of plans under this group, namely, those proposing a uniform deduction of a given per cent from all salaries for the purpose of creating a general fund out of which to pay uniform annuities to all employees on retirement. This is still more unfair to the long-service men, as we shall see. Suppose it is desired to retire all employees receiving $1,200 salary on three-quarters pay, or $900 a year. The price charged by many of the insurance companies for a life annuity of $900 a year, beginning at age 70, first payment in one year, is $6,678. To accumulate $6,678 during a service of fifty years requires a monthly deduction from a monthly salary of $100 of but $3.57 if the deductions are improved by 4 per cent compound interest. That is all the man beginning at age 20 would have to set aside each month. But, on the other hand, to accumulate $6,678 during the ten years of service of a man who entered the service at 60, or who was already 60 years of age when the plan was put into operation, would require a deduction from a monthly salary of $100 a month of $45.37, or 45.37 per cent—an impossible deduction under any circumstance. To make this plan practical it is therefore necessary to decide upon a per cent to be deducted from all salaries which shall be sufficiently large to accumulate not merely annuities for those entering the service at an early age, but also to provide the amounts that the older men lack to retire themselves on the same annuity. It thus appears that this plan puts even a greater penalty than does the first on entrance into the service at an early age. (Appendix C, Table V.)

These illustrations are sufficient, I think, to show how impossible it is to devise an equitable plan as between all employees of various ages, based upon a uniform deduction of a given per cent from all salaries, either to pay annuities based upon length of service or to pay uniform annuities to all employees upon retirement at a given age.

Aside from the inequitable phase of all of these plans, there arises the very difficult and perplexing actuarial problem of what annuity could safely be paid where the fund is created by a uniform deduction of a given per cent from all salaries, or what per cent of salaries would be required to create the fund when more or less uniform annuities are paid. In many instances the uncertainty of these complex problems is further complicated by relying for a portion of the fund upon forfeiture of interest or principal, or both, by those who resign or die prior to reaching the retirement age, and if the establishment of the fund has any influence upon resignations, as it is intended to have, the very foundation of this estimate is entirely undermined. Besides, these plans usually put a premium on entering the service at advanced ages, since the total contributions by persons so entering are much less in proportion to the annuities they receive by reason of their shorter period of service, whereas the interests of the service demand that the reverse should obtain.

Since any error of judgment as to what might be accomplished in the way of annuities by a uniform deduction of a given per cent from all salaries would undoubtedly mean a call upon Congress for assistance, and possibly lead to the establishment of a civil pension, it seemed probable that any plan that contemplated the commingling of assets and that was dependent upon uncertain elements, such as length of service, resignations, salary increase, deaths, forfeitures, and the like, could not meet with favor on final analysis.

After considering all these facts, I came to the conclusion that any plan for the retirement of superannuated civil-service employees for which the approval of employees themselves and the public alike is desired must meet the following conditions:

(1) The funds necessary for the payment of the annuities must be furnished by the employees themselves without expense to the Government other than possibly the payment by the Government of a reasonable rate of interest on the money held by it and the payment of salaries to the clerical force required to keep the accounts and distribute the funds.

(2) Each employee must set aside the amount necessary to create his own annuity, without regard to the deposits of others, so that each employee may receive full return on the money set aside by him.

(3) The annuities to be paid employees on retirement must be graduated according to length of service and amount of salary, and in such manner that the monthly deposits required from employees for the creation of such annuities shall be in no case excessive.

(4) The annuities, if any, for services rendered prior to the adoption of the plan should be paid by the Government, rather than by any form of tax upon the younger employees.

(It was for this last reason I decided that the plan should be divided into two parts: That the first part, which is really the plan proper—since the operation of the second part will ultimately cease with the death or separation from the service of all the present employees—should provide annuities for employees rendering service from now on, and the second part should provide annuities for employees who rendered service prior to the adoption of the plan. This sharp division was made primarily in the interest of the long-service employee—and incidentally the public service also—so that every employee would receive the full benefit of his savings and every employee receive the same annuity as if his deposits had begun with his entrance into the service. Let us consider at present only the first part of the plan.)

Having adopted these principles as essential to an equitable plan of retirement, the practical question presents itself of what annuity may be thought reasonable for a person who has given his entire working life—from the age of 20 to 70 years—to the Government service. It seemed to me that such a person should be retired on at least "three-quarters pay," or 75 per cent of his salary. If this is a reasonable assumption, a convenient basis for computing annuities for periods of service longer or shorter than fifty years may be established by dividing 75 per cent by fifty years of service. This gives 1.5 per cent for each year of service as the basis for computing annuities for all other periods of service. For example, the annuity for forty years of service—that is, for a person entering the service at age 30 and retiring at age 70—would be determined by multiplying 40 by 1.5, which would give us 60 per cent of salary. For a person entering the service at age 40, and having thirty years to serve before reaching the retirement age, the annuity would be computed by multiplying 30 by 1.5, which would give us 45 per cent of salary. And so on down, so that a person entering the service at 60 years of age, and having ten years to serve, would provide an annuity for himself equal to 1.5 per cent of his pay for each of his ten years of service, or 15 per cent. This provision has the advantage of giving the largest annuity in proportion to salary to the employee serving the longest period.

The second practical question is to determine what per cent of salaries at various ages of entrance into the service would have to be set aside by each individual in order to provide himself with an annuity equal to 1.5 per cent of his salary for each year of service. To illustrate: If a person enters the service at the age of 20 years and retires at 70 years of age, he will have been in the service fifty years. To make the illustration simple, let us assume that he received a salary of $1,200 per annum straight through. One and one-half per cent of this annual salary is $18. By multiplying this amount, $18, by 50, his number of years of service, we have $900, or the amount of the annuity we wish to provide for on arrival of the employee at the age of retirement.

The price charged a male by many of the insurance companies for $100 annuity at the age of 70 years is $742. Therefore, on this basis the cost of an annuity of $900 beginning at age 70 would be 9 times $742, or $6,678. This last-named figure is accordingly the amount that the employee would be required to accumulate during his fifty years of service to purchase this annuity. Now, the next step in our calculation is to ascertain the amount the employee would be required to lay aside monthly in order to accumulate $6,678 during his fifty years of service. By referring to an interest table we find that a deposit of $1 a month improved by 4 per cent interest, compounded annually, in fifty years amounts to $1,871.48. Therefore it would require a deduction from this employee's pay of as many dollars a month as $1,871.48 is contained in $6,678, or $3.57 a month. Three dollars and fifty-seven cents being the deduction from a salary of $100, it also represents the per cent to be deducted from all other salaries of persons entering the service at 20 years of age where the retirement age is to be 70 years. This process of obtaining the required deduction from the employee's pay seems rather complicated, but in actual practice the operation is very simple, and may be further simplified by reducing the deductions from various salaries at all ages to a set of tables. The figures on this slip of paper are all that are necessary to determine the amount.

Mr. DOUGLAS. How do you get the divisor?

Mr. BROWN. The divisor, $1,871, is the amount of $1 per month compounded at 4 per cent per annum for fifty years. If you divide $6,678, the necessary amount to purchase the annuity, by $1,781, you get the monthly deduction.

Mr. DOUGLAS. What is the average length of service in the Departments?

Mr. BROWN. I have not any idea. That would be very difficult to tell.

Mr. DOUGLAS. I presume very few of the employees remain fifty years?

Mr. BROWN. That is almost the maximum. I might be able to ascertain the average length of service by making a study of the records of the Civil Service Commission, but so far I have not done that.

Mr. EDWARDS. The deduction amounts to $3.57 cents a month?

Mr. BROWN. Yes, sir; that is the deduction that would be made from the salary of a person entering the service at 20 years of age at a