

SUPPLEMENT TO BACKGROUND

Mr. Fred Davies, Jr., of the Legislative Budget and Finance Committee, formerly Secretary of the Municipal Employees Retirement System, commented that he sees no objection to an increase of the regular interest from 3 1/2% to 4%. He observed that, since interest rates fluctuate, raising the interest to 4 1/2% may meet a turn in the market and may involve overpayment of accounts requiring supplemental payments from the counties or invasion of the principle of the retirement fund.

As precedent, he cited the recent rise in the interest rate for the Municipal Employees Retirement System from 3 1/2% to 4%.

Incidentally, counties may elect to have employees covered under the Municipal Employees Retirement System instead of under the county system.

The conclusion as to benefits is that the increase would accrue to the benefit of each member. In contrast, the State Employees Retirement System has an "equalizing component," which provides that if a member's annuity is not as great as the state's annuity, the state will add a supplement to equalize the amount. The employer's annuity is figured on the best five-year average, whereas the member's annuity is based on actual contributions. Consequently, Mr. Davies concludes, the increase to meet earnings in the state system will not go to the individual account.

Mr. Davies also discussed the matter with an actuary, who found no objection to the increase.