

The State Police Civic Association was organized in 1917 and officially incorporated under Pennsylvania Law in 1922.

Its objective was and is to accumulate and maintain a fund from dues paid by its members and from other sources with which to pay pensions, funeral expenses and provide artificial limbs and eyes to members of the Association. The primary purpose remains, the payment of pension.

After twenty-five years service with the Pennsylvania State Police an applicant is entitled to receive a maximum of \$150.00 per month. Between tenures of 20 to 25 years service, a member remains eligible for a service pension, but at a reduced rate. From 1917 to 1952, the objective was met simply because the funds constituting income of the Association exceeded its obligation to the pensioners. In order to meet the demands created by an increasing number of retirees, the rate of dues was raised at various stages. Prior to January 1, 1926, members contributed at the rate of 1% of salary not to exceed \$3,000. (This base salary has remained stable throughout the history of the Association. - That was the Commissioners salary at one time.)

Subsequent increases occurred in later years as follows:

1-1-1926	to	2-29-1936	2%
3-1-1936	to	1-31-1945	3%
2-1-1945	to	8- 1-1950	4%
8-1-1950	to	3- 1-1951	\$6 per year
3-1-1951	to	5- 5-1960	4%
5-5-1960	to	Present	8%

ALL OF \$3,000.

In 1957, the pension rolls numbered over 400 members, up from 166 in 1947. Today we have 825. In 1957, however, we were faced with a situation which indicated that the Association would begin and continue to pay out more than was being taken in. An unhealthy situation in any business. Therefore, an amendment to the By-laws resulted in the stipulation that pensioners would receive a percentage of their maximum dues, based on the income performance of the preceding year.

In 1960, the dues were increased to 8% of \$3,000., of which the additional 4% would be utilized only for the purchase of investments. The additional interest generated from these investments would be used for the payment of pensions. The theory was that as long as the principal remained untouched, the fund had to grow. Rightfully so. Unfortunately not as quickly as was possible. Article V, Section 1 of the Constitution limited investing to "registered obligations of states, territories, or any political subdivision thereof, Pennsylvania Municipal Authorities, and of the United States". In essence, Municipal Bonds and U. S. Treasury Securities.

A Municipal Bond or a U. S. Treasury Bond or Note, are tax exempt securities. Corporations or individual who wish to legally avoid or evade paying taxes on these securities can do so. The Association is a tax exempt Corporation operating under a non-profit structure. Any investment deemed prudent by law in any type security which ultimately results in a profit, was not, and presently is not, taxable income. Bonds are good short-term investments for the protection of capital against

intervening market fluctuations, but being fixed in value, they fail to participate in the growth of the economy or add protection against a dollar which has declined in purchasing power from its face value in 1939 to approximately 37¢ today.

The members of the Association realized this. By an overwhelming majority vote, the investment policy was changed to permit investing in common stocks, the investment vehicle used by most pension funds and institutional investors to keep pace with inflation.

In May, 1965, the Board of Directors moved to liquidate a Treasury holding, one \$500,000. bond, yielding 2 3/4% annual interest, and purchase a half million dollars worth of Dreyfus Mutual Fund. The liquidation carried a \$55,000. loss. By December of the same year the loss was recovered and a profit reflected in this holding. The next step was to move our 2 1/2 million in Municipal bonds, average yield 3.42% (approximate). In 1966 and the early part of 1967, all but \$50,000. municipal bonds were placed on bid and sold at a total loss of \$199,078. The proceeds were used to purchase higher yielding corporates and growth common stocks. Cash profits actually received to July, 1968, totalled \$406,340. Presently, 44.4% or \$2,109,000 of the portfolio consists of fixed securities. The average yield is now 5.93%.

With everything going so well, why should we concern ourselves with changes?

A PERSON DOESN'T PLAN TO FAIL - HE FAILS TO PLAN -

If you were to refer to Exhibit A, you will discover that 50% of the Pennsylvania State Police Force is under 30 years of age. Thirty years from now, these potential pensioners will be asking, "why hadn't someone realized that the pension rolls would be overcrowded to the point that the fund is unable to provide a decent return for their investments?"

If the State Police Civic Association membership is satisfied with a status quo operation, they cannot expect to derive benefits any greater in the next 30 years, than is presently being received. Comparing the benefits available under the Associations' structure with the State Employee's Retirement System or Social Security (collectible at age 65) can be disputed by a quick referral to Exhibit B. Comparatively, the cost becomes less to the individual, as his earning power increases under the State Police Civic Association

YOU PAY FOR WHAT YOU GET.

What innovations are to be made? A precursory step is to increase dues by an additional \$4.62 per man. The additional sum to be deposited to the investment fund for the purpose of assuring appreciation to the Fund. Secondly, an additional \$1.14 be deducted specifically for the purpose of creating an insurance fund from which either a direct payment be made to the designated beneficiary upon the death of the member or premiums be paid to a private insurance firm.

This represents a total bi-weekly deduction of \$15.00 per man or a total increase of \$5.76 over the present deduction of \$9.24. It also represents 13% of

\$3,000., the base recommended to be retained until such time that the fund reaches asset proportion to consider a higher pension benefit than \$150.00 per month - Actual percentage by today's salary standards are reflected in Exhibit C.

The State Policeman applying for pension presently, has contributed anywhere from \$3,500. to a maximum of \$4,200. into the fund over a twenty-five to thirty-nine year period of service. Even at \$90. per month, his investment is recovered in a relatively short time. However, if you enlisted after May 5, 1960, under the present rate of contributions, you can expect to pay \$6,000. into the Fund with twenty-five years service, and \$9,360., if you complete thirty-nine years service.

This is the way pensions are computed now:

During 1967 total income received from all sources	\$ 847,846.	
Total pensions to be paid in 1968 at maximum benefit	\$1,361,220.	= 62.29%

The Board moved that pensions for 1968 be paid at the rate of 62%.

If you retire with 25 years service your pension in 1968 will be computed as follows:

- A. "A calculation has been made indicating that your total salary for the past five years for pension purposes was \$15,000.; 60% of which is \$9,000. for sixty months, or \$150. monthly pension benefit. However, your service pension for the calendar year 1968 will be 62% of \$150. or \$92. monthly as per present By-laws."

The above formula remains unchanged with service over twenty-five years.

B. For service less than twenty-five years, the 60% is reduced one percent per year. Therefore, a twenty year retiree receives 55% of \$15,000. as a base - or \$8,250. or \$137.50 per month; or presently 62% of \$137.50 or \$85.25.

The inequity is obvious. At entry age of 25, with 20 years service, "B" contributes \$4,800., retiree receives \$85.25 until age 70 (assuming he lives that long) and is paid \$25,575. "A" on the other hand, leaves on mandatory retirement, after 35 years service. He contributed \$8,400. and receives \$93. monthly until 70, a total of \$11,160.

If "A" were to die when he reached age 59, and when still in the employ of the State Police, his beneficiary would receive \$2,500. death benefits, and \$500. funeral expenses. Assume "B" remained on the job with 20 years completed service and died. His beneficiary would receive the same. Neither would be entitled to a refund of any dues because they were both eligible for retirement.

If you enlisted prior to May 5, 1957, all your contributions to the investment fund would be returned if you cease to be employed by the State Police. After that date, you must have three years service completed before a refund can be made. If you enlisted after May 5, 1960, the first \$360. in the investment account is non-recoverable.

No dues contribution to the operating fund is recoverable.

INSURANCE

The Pennsylvania State Police has not experienced deaths either through natural causes or in the line of duty, at an unusual number. It is feasible to expect that in any given year would the possibility exist when eight deaths would occur.

Therefore, members contributing \$1.14 each pay would establish a fund of \$88,920 (based on 3,000 members) for the first year. This Fund would accumulate each year at an equivalent or higher rate thereby accommodating additional death benefits in future years.

It would be impractical to attempt to continue paying a \$10,000. death benefit after retirement. Therefore, a stipulation should be incorporated in the Bi-laws to reduce the death benefit from \$10,000. to \$1,000. - (up from \$125. presently).

What will an increase in dues accomplish? By July 1, 1969, the dues paying members will total approximately 3,000. At current rate of \$120. per year, new money for investment would generate at \$360,000. per year. Doubling this amount would permit the Fund to grow at the rate of \$720,000. each year. Extended twenty-five years from now, the fund has accumulated 18 million dollars rather than the 9 million presently projected. Add the approximate 5 million dollars to this total and figuring a 5% return on 23 million dollars, the retirees of 1990-92 will have \$1,150,000. to split up for pensions - about \$450,000. per year more.

Naturally, this is oversimplified. The force will not hold at 3,000 members. Exhibit D, displays a realistic projection over the next twenty-five years, and with appreciation taken into consideration, the net worth of the fund will be closer to 50 million dollars in 1992.

By the same token, increased demands will be called upon the fund to meet an anticipated exodus in the late 1970's and early 80's. The attractive salary structure presently being experienced has deterred retirements. However, this can only exist for a given period of time. If anything, mandatory retirement will add to the retirement rolls - plus the fact that in the next two decades the retirement age could be lowered to 55. Exhibit E takes this into account.

TO SUMMARIZE

- (1) Propose increasing dues structure from 8% of \$3,000. or \$240.00 per year - (\$9.24 bi-weekly)

to

13% of \$3,000. or \$390.00 per year (\$15.00 bi-weekly) an increase of \$5.76.

\$4.62 add to Investment Fund - \$1.14 Insurance Fund

AND RECEIVE IN RETURN

- (1) Raise Death Benefit to flat \$10,000.
- (2) Add 1/2% for each year service after 25 years
- (3) Increase artificial limbs and eye benefit to actual cost not to exceed \$1,000.
- (4) Liberalize refund policy to maximum permitted.

Why should you vote in favor of the proposal? If you are between the ages of twenty-one and thirty, the chances are 100 to 0 that you will be receiving maximum pension and possibly more. - Time will tell.

If you are between 30 and 40, the odds drop to 70-30, but it's unopposed that you will be getting closer to the maximum.

If you are between 21-60, you have added death benefits.

If you are not certain you want to make the State Police your career, you will be recovering more of your contributions should you decide to resign. A positive-negative approach.

In conclusion - No mention is made of the period of time beyond 1992. Be assured with this foundation the members going on retirement will not have to concern themselves with a sound State Police Civic Association. It will be there.

AGE GROUP -
PENNSYLVANIA STATE POLICE
1968 - BASE

<u>AGE</u>	<u>NO.</u>	<u>PERCENTAGE</u>
55 - 60	84	3.0
51 - 54	164	5.9
48 - 50	132	4.7
45 - 47	165	5.9
42 - 44	254	9.1
39 - 41	204	7.3
36 - 38	185	6.6
33 - 35	194	6.9
30 - 32	317	11.3
27 - 29	449	16.0
24 - 26	488	17.4
21 - 23	163	5.9
TOTAL	2799	100%

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COMPARISON OF DUES DEDUCTION

(AGE 25)

<u>ANNUAL SALARY</u>	<u>% ACTUAL SPCA</u>	<u>% 3,000. SPCA</u>	<u>5.51% SERS</u>	<u>% SOCIAL SECURITY</u>	<u>\$</u>
\$ 6,716.	3.57	\$240.	\$370.	4.8	\$322.
7,055.	3.40	240.	389.	5.2	367.
7,407.	3.24	240.	408.	5.2	385.
7,772.	3.08	240.	428.	5.65	441.
8,580.	2.79	240.	473.	5.65	441.
9,011.	2.66	240.	496.	5.65	441.
9,454.	2.54	240.	521.	5.65	441.
9,923.	2.41	240.	547.	5.7	445.
10,432.	2.30	240.	575.	5.7	445.
10,954.	2.19	240.	604.	5.7	445.
11,501.	2.08	240.	634.	5.7	445.
12,075.	1.98	240.	665.	5.9	460.

ACTUAL PERCENTAGE OF DUES DEDUCTIONS

\$390. per year - 13% of \$3,000.

<u>ANNUAL SALARY</u>	<u>PERCENTAGE</u>
6,716.00	5.81
7,055.00	5.53
7,407.00	5.26
7,772.00	5.01
8,163.00	4.77
8,580.00	4.54
9,011.00	4.33
9,454.00	4.13
9,923.00	3.93
10,432.00	3.74
10,954.00	3.56
11,501.00	3.39
12,075.00	3.23

TWENTY-FIVE YEAR PROJECTION

NET WORTH

PROJECTED MEMBERSHIP

<u>YEAR</u>	<u>NO</u>	<u>\$120 PRESENT</u>	<u>\$240. PROPOSAL</u>
Present		5,000,000.	5,000,000.
1968	2850	342,000.	684,000.
1969	3150	378,000.	756,000.
1970	3450	414,000.	828,000.
1971	3750	450,000.	900,000.
1972	4050	486,000.	972,000.
1973	4350	522,000.	1,044,000.
1974	4650	558,000.	1,116,000.
1975	4950	594,000.	1,188,000.
1976	5250	630,000.	1,260,000.
1977	5550	666,000.	1,332,000.
1978	5850	702,000.	1,404,000.
1979	6150	738,000.	1,476,000.
1980	6450	774,000.	1,546,000.
1981	6750	810,000.	1,620,000.
1982	6750	810,000.	1,620,000.
1983	6750	810,000.	1,620,000.
1984	6750	810,000.	1,620,000.
1985	6750	810,000.	1,620,000.
1986	6750	810,000.	1,620,000.
1987	6750	810,000.	1,620,000.
1988	6750	810,000.	1,620,000.
1989	6750	810,000.	1,620,000.
1990	6750	810,000.	1,620,000.
1991	6750	810,000.	1,620,000.
1992	6750	810,000.	1,620,000.
		<u>\$21,974,000.</u>	<u>\$38,946,000.</u>
Plus Projected Appreciation - 20 Yr. (Conservative)			<u>9,437,000.</u>
TOTAL ESTIMATED NET WORTH - 1992			\$48,383,000.

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ESTIMATED NO. PENSIONERS - BY YEAR

	<u>NO. PENSIONERS</u>	<u>MAXIMUM LIABILITY</u> <u>1800 PER YEAR</u>
1968	830	1,494,000.
1969	835	1,503,000.
1970	840	1,512,000.
1971	845	1,521,000.
1972	850	1,530,000.
1973	850	1,530,000.
1974	853	1,535,400.
1975	871	1,567,800.
1976	907	1,632,600.
1977	914	1,645,200.
1978	944	1,699,200.
1979	986	1,774,800.
1980	1038	1,868,400.
1981	1080	1,944,000.
1982	1139	2,050,200.
1983	1175	2,115,000.
1984	1176	2,116,800.
1985	1164	2,095,200.
1986	1169	2,104,200.
1987	1167	2,100,600.
1988	1148	2,066,400.
1989	1127	2,028,600.
1990	1115	2,007,000.
1991	1153	2,075,400.
1992	1175	2,115,000.

ESTIMATED INCOME FROM PRIMARY SOURCES

1968 to 1992

<u>YEAR</u>	<u>INCOME INVESTMENTS</u>	<u>INCOME DUES</u>	<u>INCOME FIELD MEET</u>	<u>TOTAL</u>	<u>EST. PENSION PER MONTH</u>
1968	220,000.	342,000.	300,000.	862,000.	90.00
1969	284,200.	378,000.	275,000.	937,200.	93.00
1970	322,000.	414,000.	350,000.	1,086,000.	105.00
1971	363,400.	450,000.	300,000.	1,113,400.	108.00
1972	408,400.	486,000.	300,000.	1,194,400.	112.00
1973	457,000.	522,000.	300,000.	1,279,000.	120.00
1974	509,200.	558,000.	300,000.	1,367,200.	127.00
1975	565,000.	594,000.	300,000.	1,459,000.	135.00
1976	624,400.	630,000.	300,000.	1,554,400.	140.00
1977	687,400.	666,000.	300,000.	1,653,400.	150.00
1978	754,000.	702,000.	300,000.	1,756,000.	150.00
1979	824,200.	738,000.	300,000.	1,862,200.	150.00
1980	898,000.	774,000.	300,000.	1,972,000.	150.00
1981	975,300.	810,000.	300,000.	2,085,300.	150.00
1982	1,056,300.	810,000.	300,000.	2,166,300.	150.00
1983	1,137,300.	810,000.	300,000.	2,247,300.	150.00
1984	1,218,300.	810,000.	300,000.	2,328,300.	150.00
1985	1,299,930.	810,000.	-0-	2,109,930.	150.00
1986	1,380,300.	810,000.	-0-	2,190,300.	150.00
1987	1,461,300.	810,000.	-0-	2,271,300.	150.00
1988	1,542,300.	810,000.	-0-	2,352,300.	150.00
1989	1,623,300.	810,000.	-0-	2,433,300.	150.00
1990	1,704,300.	810,000.	-0-	2,514,300.	150.00
1991	1,785,300.	810,000.	-0-	2,595,300.	150.00
1992	1,866,300.	810,000.	-0-	2,676,300.	150.00

*Current Deduction - 17.63
 4.62 current fund for
 13.00 invest.*