Port Authority Retirees Association

P.O. Box 919 • Island Heights, NJ 08732-0919

NEWSLETTER NO. 4 NOVEMBER 1988

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See Page 4, No. 1

Membership Dues Renewal for June 1988-May 1989

After we reissued the May 1988 Newsletter and mailed it first class, membership renewals flowed in. Obviously the bulk mail distribution leaves much to be desired. However, if you did not receive the May 1988 Newsletter, or perhaps overlooked renewing your membership, use the form on page 2.

It Must Be An Automatic COLA

At the November 22nd meeting of the Alliance of Public Retirees' Organizations, Comptroller Edward V. Regan came out vigorously for an automatic cost-of-living adjustment. While outlining his position on this long sought goal, he identified the need for an **automatic** COLA, offered an actuarially sound proposal to provide this benefit to both active public employees and retirees, and identified his leading role in cultivating a consensus to bring about the necessary legislation.

ɩespecting the need for supplementation, the Comptroller alluded to a 5% inflation rate imbedded in our economy and widely accepted by business people, storeowners, and wage earners alike. In his view, all retirees are deserving of some assurance their pensions will not be severely eroded in this kind of economic environment. On this latter point, he referred to the battle waged for the last ad hoc pension supplement and said "The COLA must be automatic! I was appalled at what you went through for over a year and a half. And for peanuts!. . . While costs (for retirement contributions) were being reduced 50 million a year, 100 million a year, 150 million a year, you've had to fight for crumbs. . .It's appalling! Society, and those who govern, can no longer say we're doing well in our pension system when in fact we know, based on the current law, your pension checks will be cut in half, in terms of purchasing power, in the first ten years. . . We can no longer say New York provides adequate pensions."

Comptroller Regan was careful to point out that any automatic COLA would have to be modest and actuarially sound. Also, when describing a feasible funding method for active people, and using himself as an illustration, he said "treat it like a regular pension contribution: collect **all** pension costs in advance over the working time of the -ker. Where moneys were not collected in advance for ɔlementation he suggested "carve out a piece from the very well funded pension systems."

The Comptroller said it would be necessary to develop a consensus for this approach in a manner similar to his talks, meetings, press releases, etc. in support of the most recent ad hoc supplement and he would take the same lead on automatic COLAs. He thought this essential consensus building process would require "a couple or maybe three years."

There was one ominous thread woven through Comptroller Regan's talk: the state deficit might prompt efforts to divert pension funds and threaten the opportunity to fund supplementation. As he put it "You can't spend a dollar twice."

Mr. Regan's views were obviously well received at the gathering of retiree organization representatives. It is, therefore, important to note he made essentially the same points respecting pension improvements in a recent address to the Public Employee Conference in Saratoga Springs, New York.

Synopsis of the Buck Consultants Report

On September 27th Comptroller Regan received the Buck Consultants report on pension supplementation, of which we have a copy, and we will try to pass on to you those sections which would be of interest.

As might be expected, the report is technical in nature and of interest primarily to actuaries; a part of it is historical; a comparison to other public employee pension systems is made; and several recommendations are offered. For those who prefer to read the bottom line first and then wade through the other material, we quote from the covering letter from the actuarial consultant: "Reports and analysis previously prepared by the retirement systems amply demonstrate the need for supplementation increases for the vast majority of your pensioners." Though we could have told them that a long time ago, it's gratifying to hear that from a professional in the industry.

The consultant made a study of the New York state and local employees' and police and fire retirement systems as

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P.O. Box 919, Island Heights, NJ 08732-0919

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☐ Retired

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Address ____________ Town ____________ State ____________ Zip ____________

CHECK (✓):

☐ Enclosed is $5.00 Annual Membership Dues (June 1988 through May 1989)

☐ Enclosed is $________. I would like to contribute as a sponsor.

$5.00 MEMBERSHIP FEE FOR THE YEAR JUNE 1988 THROUGH MAY 1989 IS NOW DUE.

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well as 23 other systems. Referring to New York, one of the more important observations was that "there is no clear state policy on pension supplementation." Furthermore, based on their review of other public retirement systems and the principles that should guide a pension supplementation program, the consultant recommended that the New York system consider adopting a program with the following features:

1. Increases in supplemental retirement allowances should be directly tied to increases in the Consumer Price Index (CPI), subject to a cap or other limitation.
2. Once granted, increases should be permanently guaranteed.
3. Increases should not be provided automatically, but on an ad hoc basis.
4. Increases could continue to be funded on a pay-as-you-go basis or, alternatively, funded on a more level basis.
5. The present $10,500 cap used for purposes of applying supplementation rates should be increased to $25,000.

While the consultant felt that annual CPI-indexing on an automatic basis would appear to be the most appropriate means of protecting the purchasing power of retirees against inflation, this approach is not recommended because the immediate increase in required funding for the systems is immense, the committment is irrevocable, and long-term costs are subject to significant variables.

Note was also taken of the special problems faced by employees eligible to retire, regardless of age, after 20 or 25 years of service. (Port Authority Police fall into this category.) Considering 48 an average retirement age for this group, there is a 14 year time lag between retirement and the first COLA payment.

However, since this group is normally employed in retirement, the consultant did not recommend any change in the supplementation eligibility age unless retirement is due to disability.

As we mentioned earlier, the consultant also did a survey of supplementation programs in 23 other large state public employee retirement systems. The most significant findings were that more than half the programs were actuarially funded and the CPI is the most commonly used yardstick to trigger increases. For example, New Jersey provides a COLA equal to 60% of the CPI, and California grants automatic increases based on the CPI and capped at 2%. (California has a generous though somewhat complex system for pension adjustments which are covered in a special report.)

Unfortunately space will not allow us to bring you all the interesting material contained in the Buck report. However, we will refer to it in future Newsletters as it relates to efforts to achieve realistic pension improvements.

Report from California

In an earlier **Newsletter** we compared the NYSERS benefits with those of retirees participating in the New Jersey State pension system. In this **Newsletter** California was selected because Buck Consultants Incorporated also had selected it. If they believed the California system important, we thought PARA members would like to be more familiar with it. With this in mind and at our request, Dave Glickman, a fellow retiree and professional economist now living in California, prepared a comprehensive report on the California system. Of necessity we've condensed the report to the section on COLAs. On behalf of all PARA members we express our appreciation to Dave and we're confident his efforts will assist us in Albany.

California Public Employees Retirement System

The basic law governing cost-of-living adjustments in this system was enacted in 1968 and reads as follows: "It is the purpose of the Legislature in enacting this article to provide for the preservation of the purchasing power of benefits under the Public Employees' Retirement Law through a system of adjustments in benefits based on changes in living costs." Pursuant to this broad mandate subsequent legislation provided for four types of COLA increases:

1. Permanent Ad Hoc COLA Increases
Between 1968 and 1979, ten statutes were enacted. One provided for benefit increases of not more than $12.00 per month; one provided for a 5.0 percent across-the-board increase; two provided for 4.00 percent across-the-board increases; and six provided percentage increases which varied depending on the year of retirement. There were no upper limits on the dollar amounts of existing benefits to which the percentage increases applied.

2. Automatic Permanent Adjustments
Legislation enacted in 1977 and amended in 1981 provides for automatic permanent increases of 2.0 percent per year, compounded, or the rate of inflation, whichever is less, to all retired members. The legislation further provides that some public agencies may provide COLA increases of 3.0, 4.0, or 5.0 percent, instead of 2.0 percent. There is no upper limit on the dollar amounts of baseline benefits to which the increases apply. The annual adjustments are based on the Consumer Price Index, subject to certain limitations.

3. Temporary Ad Hoc Adjustments
Legislation enacted in 1980 and 1982 provided temporary ad hoc increases equal to 10.0 percent of monthly pension benefits as of October 1980 during the period October 1980 - December 1983. This was the period of double-digit inflation. Unlike all of the permanent ad hoc increases, these increases were not subject to the automatic annual COLA benefit increases.

4. Investment Dividend Disbursement Account (IDDA)
The IDDA enabling legislation, enacted in 1982 and amended in 1985, provides for an account to which certain excess earnings of the System would be credited annually. The account would be utilized "to increase all monthly allowances to an amount equal to a maximum of 75% of the purchasing power—of the initial monthly allowances received by every retired person"—or a lesser amount, depending on the funds available. The law established a specific time period during which IDDA is to remain in effect, July 1982 - December 1993.

Legislation has already been introduced to extend the sunset date beyond 1993 and to increase the current 75% maximum rate to 80 and 85 percent of base year purchasing power. Also, studies are underway to make the IDDA pension supplements permanent and to raise the benefit level to 100% of base year purchasing power.

This record of action taken by the state of California to preserve the purchasing power of the pensions of its retirees stands in sharp contrast to the minimum action taken by the state of New York. In New York, there have been infrequent, ad hoc temporary adjustments each with unrealistically low dollar limits to which temporary ad hoc increases were applied. Also, there is no annual or automatic COLA adjustment to counteract continually rising living costs and no structured plan of action for retirees to share in some of the excess earnings of the system's investment portfolio on a systematic basis.

New York City Police Guaranteed Pension Escalator

During the past year negotiations between New York City and the PBA provided for a guaranteed annual "escalating pension" for all members who retired on service credit on or after October 1968. **This payment is in addition to regular pension benefits and will be paid regardless of age.** Annual "escalating pension" payments are:

Year	Amount	Year	Amount	Year	Amount
1988	$2500	1995	$6000	2002	$ 9500
1989	$3000	1996	$6500	2003	$10000
1990	$3500	1997	$7000	2004	$10500
1991	$4000	1998	$7500	2005	$11000
1992	$4500	1999	$8000	2006	$11500
1993	$5000	2000	$8500	2007	$12000
1994	$5500	2001	$9000		

While the contract has been approved and necessary legislation passed, there are different viewpoints on the merits of the guaranteed "escalating pension" versus its predecessor, the Variable Supplement fund. Under the latter plan, which was enacted into law in 1970, funds were transferred from the Patrolmen's pension fund to the Variable Supplement fund based on favorable equity experience. Monthly benefits have been paid from the Variable Supplement fund to service credit retirees since January 1976 and are currently at the rate of $150 per month.

The foregoing brief report is of interest to us, particularly to active and retired Port Authority Police, because it offers another opportunity to compare retirement benefits provided by the New York state systems and those enjoyed by others. In the case of the New York City Patrolmen's pension fund, **sharing** the excess earnings of a pension fund with retirees has been the practice for many years. Too, these additional retirement benefits have been paid regardless of age and without regular pension dollar limits. Moreover, while retirees entitled to the new benefits from the guaranteed "escalator pension" forgo **future** state mandated supplements, they will continue to receive prior supplements. In summary: total retirement allowance equals base pension, plus prior state supplementation, plus guaranteed "escalator pension". Now that helps keep pace with inflation!

Federal Catastrophic Health Care Law May Be More Costly Than Expected*

by Harvey Randall

The recently enacted federal Catastrophic Health Care Law (CHC) has been touted by some as a significant benefit for individuals age 65 or more...especially those on a fixed income. As most retirees are on a fixed income, it is important for them to consider how this new measure will affect their health insurance coverage. After viewing some of the changes imposed by CHC, a number of commentators have concluded that if this law is a friend, who needs enemies. The most significant impact of this measure is to immediately increase the cost of health insurance for those employees and retirees (and their dependents) age 65 or over.

Let's hold discussion of the relationship of the benefits provided under CHC and those provided by the retiree's health insurance plan to a future article and limit our consideration to CHC's cost to the individual and his or her spouse.

According to a report by Prentice Hall, the first effect resulting from CHC will be the increase in the personal income tax liability of those over 65. This will amount to about $15 for each $100 of federal personal income tax paid in 1989. In other words, health insurance protection has just become more expensive. By 1993 the mandatory t for the "supplemental premium" for catastrophic health care will amount to a 28% surtax. There are presently caps on CHC charges. For the single tax payer, the CHC cap is $800 in 1989. It increases by fifty dollars each year through 1992 and then to $1050 in 1993. This cap is twice the amount for married taxpayers filing a joint income tax return. However, Congress has also increased the "voluntary premium" for Medicare Part B. The "voluntary premium" will be $122 for each person covered by 1993. For those on fixed income, these increases in the cost of health insurance protection are significant.

This has prompted some employee organizations to consider including demands that the employer provide CHC contributions for employees and their dependents age 65 or more in their negotiations. Claims that CHC will reduce the employer's cost for its regular plan have been offered as justification for requiring that the employer pay the cost of catastrophic health insurance coverage for its workers and retirees.

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To approximate your supplemental premium for 1989 refer to the table below.
Also, the definition of "Income" is noteworthy.

ESTIMATED SUPPLEMENTAL PREMIUM AMOUNTS, 1989

Prepared by Congressional Joint Committee on Taxation

SINGLE PERSONS

Income**	Supplemental Premium per Beneficiary per Year
$ 0-15,000	$ 0.00
15-20,000	78.12
20-25,000	197.88
25,30,000	306.96
30-35,000	370.68
35-40,000	678.36
40-and up	800.00

MARRIED PERSONS

Income**	Supplemental Premium per Beneficiary per Year
$ 0-20,000	$ 0.00
20-25,000	32.88
25-30,000	65.52
30-35,000	103.32
35-40,000	155.64
40-45,000	228.96
45-50,000	326.28
50-75.000	563.16
75-and up	800.00

**"*Income is defined as adjusted gross income plus untaxed income from:* untaxed social security benefits; tax exempt interest; employer contributions for health plans and life insurance; inside build-up on life insurance; worker's compensation; contributions to IRA and Keogh accounts; and minimum tax preferences in excess of passive losses and passive losses not included in adjusted gross income."

Reflecting on the Medicare Catastrophic Coverage Act of 1988, if the intent was to reduce medical costs for enrollees, why does a Port Authority retiree have to pay additional premiums and discriminatory surcharges for a plan that overlaps much of the major medical coverage he or she already has? On your behalf, PARA posed that question in personal letters to the entire New Jersey Congressional Delegation. May we suggest you write your own senators and/or representative and share your thoughts and suggestions with them.

Straight From the Shoulder

CANDID REPORTS ON YOUR ASSOCIATION

1. Reaching members continues to be a problem. As one improvement PARA will use first class mail while we examine alternatives. Also, incorrect names and/or addresses still show up. If there is any doubt about your correct name and/or address, including zip code, write: Port Authority of NY and NJ, Administrative & Employees Benefits Division, Personnel Department, One World Trade Center, 61 South, New York, NY 10277-0133. PARA uses mailing labels furnished by the Port Authority and Port Authority records — names and addresses can be changed only by the individual concerned. Also, you can help by calling another retiree and spreading the word.

2. Salvatore Mirenda of Forked River, NJ has agreed to serve PARA as benefits advisor and, considering his knowledge, experience and expertise in the field, we're delighted to have him. Sal also worked on this Newsletter and will be looking at ways to communicate with the membership on a more frequent, effective basis.

3. The Alliance of Public Retirees' Organizations met in Albany on three occasions and PARA representatives were in attendance.

4. On August 17th Bernard Gelman, Port Service Club President, Salvatore Mirenda and I met with Personnel Director Edward J. O'Malley. On September 21st a second meeting with Mr. O'Malley was held with Salvatore Mirenda and myself representing PARA.

Harold A. Milley, Acting President