

Response to Questions on the FY 2006 Advertised Budget Plan

Request By: Chairman Connolly

Question: What would it cost to eliminate the 64 percent Social Security offset for disabled retirees enrolled in the Uniformed Retirement System?

Response: Elimination of the Social Security benefit offset for members of the Uniformed Retirement System who retire due to a service-connected disability would require a 1.32 percent increase in the employer contribution rate, raising the rate from 24.30 percent to 25.62 percent. The fiscal impact of this change would be approximately \$1.8 million annually. It should be noted that this estimate is based on an actuarial analysis performed in FY 2004 using the July 1, 2003 actuarial valuation. A breakdown of the impact on the employer contribution rate by the various classes of disabled retirees is provided below.

Impact on Employer Contribution Rate of Elimination of Social Security Offsets for Service-Connected Disability Retirements

	Pre-1996 Service-Connected	Service-Connected	Severe Service-Connected	Total
Employer Contribution Rate Change	1.02%	0.00%*	0.30%	1.32%
Fiscal Impact	\$1,393,879	\$0	\$409,965	\$1,803,844

* No change because assumption was made that those retiring on a service-connected disability are not severely disabled enough to receive a Social Security disability benefit.

Background:

A majority of the expense is associated with those members who retired before disability benefits were changed in 1996. Before the change, the service-connected disability benefit was 66-2/3 percent of salary at retirement. However, the benefit was changed as of December 9, 1996 to a 40 percent service-connected disability benefit and a 90 percent severe service-connected disability benefit. A summary of the various benefit provisions is displayed below.

Benefit Provisions of Service-Connected Disability Retirements

	Pre-1996 Service-Connected	Service-Connected	Severe Service-Connected
Salary Replacement	66 2/3%	40%	90%
Workers Compensation Offset (\$ for \$)	Yes	Yes	Yes
Social Security Disability Offset (64%) *	Yes	Yes	Yes
Social Security Retirement Offset (64%)	Yes	No	Yes

* There is no offset for Social Security disability payments related to a disability other than the disability that served as the basis for the award of service-connected disability retirement.

The 1996 changes in the disability benefits were put into effect because the system was experiencing a high number of service-connected disability retirements. The tax-free benefit of 66-2/3 percent of salary was often better than the benefit for a normal service

retirement. As a result, the plan design was changed by reducing the salary replacement percentage and implementing a severe disability benefit.

Comparative Analysis:

The issue has arisen that the Social Security offset penalizes retirees once they reach Social Security age and causes undue financial hardships. However, the offset for Social Security does not harm disabled retirees. In fact, most members who retired on disability prior to 1996, experience benefits better than those they would have received had they completed a 25-year career with the County and left under a normal retirement, since normal retirement benefits are subject to taxation whereas disability benefits are not. A summary of the income replacement ratios of normal retirement and pre-1996 service-connected disability retirement are listed below. For example, on an after-tax basis, a disabled retiree has a 51.5 percent benefit while a regular retiree would have a benefit ranging from 34.3 to 47.6 percent.

**Normal and Pre-1996 Service-Connected Disability Retirement
Benefit Levels as a Percent of Final Pay in Uniformed Retirement System**

	Normal Retirement (25 years of service)				Pre-1996 Service- Connected Disability
	Plan A	Plan B	Plan C	Plan D	
Basic Benefit *	42.9%	42.9%	59.5%	59.5%	66.7%
<i>Pre-Full SS Age Supplement</i>	4.8%	4.8%	7.1%	7.1%	0.0%
<i>Pre-Age 55 Supplement</i>	0.0%	11.9%	0.0%	0.0%	0.0%
Total pre-Age 55 Benefit	47.6%	59.5%	66.7%	66.7%	66.7%
After Tax **	38.1%	47.6%	53.3%	53.3%	66.7%
<i>Age 55 to Age 62 Supplement</i>	23.8%	23.8%	0.0%	0.0%	0.0%
Total Age 55 to 62 Benefit	71.4%	71.4%	66.7%	66.7%	66.7%
After Tax **	57.1%	57.1%	53.3%	53.3%	66.7%
<i>Reduction at Age 62 ***</i>	-23.8%	-23.8%	0.0%	0.0%	-15.2%
Total after Age 62 Benefit	47.6%	47.6%	66.7%	66.7%	51.5%
After Tax **	38.1%	38.1%	53.3%	53.3%	51.5%
<i>Reduction at Full SS Age</i>	-4.8%	-4.8%	-7.1%	-7.1%	0.0%
Total after Full SS Age Benefit	42.9%	42.9%	59.5%	59.5%	51.5%
After Tax **	34.3%	34.3%	47.6%	47.6%	51.5%

* Benefits are expressed in terms of percentage of average final salary in order to make the comparisons to disability benefits. While the relationship between final average pay and final salary varies, a 5 percent difference was assumed.

** Service-connected disability benefits are tax-free. Normal retirement benefits are taxable (20 percent assumed).

*** Disability benefits are reduced by 64 percent of Social Security. Normal retirement benefits are reduced by 100 percent of the Social Security-based supplement.