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A history of California teacher retirement laws

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A HISTORY OF CALIFORNIA TEACHER RETIREMENT LAWS

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by

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CHAPTER I

INTRODUCTION

Before 1869 only a few informal mutual benefit plans protected the American teachers, while today every state in the union has an organized formal type of retirement system. During the intervening years countless changes have taken place which have developed into the broad modern program of teacher welfare and retirement.

As actions of bygone days blend into the present, questions such as these might come to mind regarding the retirement benefits of California teachers. What were their origin and how did they develop and grow? Who were the people, the organizations, and the forces responsible for their direction and growth? How much do the state and the individual contribute to the system? What are the benefits to the teacher for service or disability?

This study is an attempt to answer questions such as these about the public school teachers' retirement system in California from its origin until 1957.

I. THE PROBLEM

This thesis deals largely with the history of teacher retirement in California. It covers the period from the close of the Civil War to June 30, 1957. Some background data were developed in the early American history of teacher retirement in order to understand better the early conditions in California.

The ultimate objective of the study is to show that California laws as they exist today are the results of continuous action for improvement of teachers' retirement. This has been done by reviewing several areas of retirement history. These are mainly the era of mutual aid societies, early retirement legislation in the United States, early California history of teacher retirement, the progress of California teacher retirement legislation from 1895 through the legislative action of 1957, and the attitudes and actions of governors, legislators, professional organizations, and individuals as they influenced the changes in retirement practices.

II. IMPORTANCE OF THIS INVESTIGATION

Such a study has several values. First, some of the information is becoming misplaced or lost. Old time participants pass away and their first-hand information is gone. Certain records have been destroyed by people who did not realize their values, while others have been destroyed because their need no longer exists for statutory purposes. In some cases records have already become impossible to locate. Thus, of value is the recording of historical events before they are completely lost.

Another value is in having a single source to which reference may be made. As it is now, in order to locate certain information about the California Teachers' Retirement System, one might have to refer to many sources. To many such a task is discouraging and is needless if some individual collects the information and makes it available for all.

Still another value is to understand the past and to realize that California's retirement benefits as they exist today are the products of yesterday. Such progress was evolutionary and each step of the way was introduced by changes in the social and economic patterns of the country. To appreciate the steps of such progress one must examine the past.

This study, therefore, is justified on the basis of three factors: first, the preservation and collection of historical data, secondly, the compilation of these data into one source, and finally, the presentation of the past for the full realization of the present.

III. SOURCES OF MATERIALS

On account of the nature of the subject, sources of materials were widely scattered. Leo J. Reynolds, Executive Officer of the California Teachers' Retirement System, and

Louise Beyer Gridley, Executive Secretary, Bay Section, California Teachers Association, permitted the writter complete access to the history of their respective organizations. These included minutes of various retirement committees of both the State of California and the California Teachers Association. Both Mrs. Gridley and Mr. Reynolds were most helpful in personal interviews and able to offer names of people and places as sources of additional material.

The Stanislaus County Law Library offered access to the Statutes and Amendments to the Codes from 1895 to the present.

Various legislative bills, both those that passed and those that failed, were secured from the California State Library in Sacramento.

Records of the local retirement systems were obtained from the office of the County Superintendent of Schools in Alameda County, San Francisco Unified School District Library, and certain storage areas of the California Teachers' Retirement System.

The McHenry Library in Stanislaus County aided in securing some general works on retirement, life insurance data, and pensions.

Mrs. Gridley provided the use of her private library which included books and pamphlets that are out of print, and in some cases, the existence of duplicate copies are unknown.

Numerous personal contacts were made with leaders in the retirement field both past and present. An interview with Nellie Sullivan, a former San Francisco teacher, revealed the continued activity of the San Francisco Teachers' Mutual Aid Society. This information was given to the San Francisco Unified School System which had no recorded knowledge of the organization.

To these people and organizations and particularly to Mrs. Gridley and Mr. Reynolds, a debt of gratitude is hereby acknowledged. Their willingness to offer information has aided greatly in the writing of this thesis.

IV. ORGANIZATION OF STUDY

This study is divided into nine sections. The first chapter introduces and explains the problem, its limitations, the need for the study, sources of information, and organization of the materials.

Chapter II presents background material of early teacher retirement practices in the United States. It discusses mutual aid societies, sick benefit associations, old age and disability associations, and the early retirement legislation. This chapter covers a period that extends from 1869 to the close of the nineteenth century.

Chapter III includes those phases of California's history in teacher retirement that were not incorporated under a mandatory state plan. The first was the Mutual Aid Society of San Francisco followed by three local retirement systems that were permissive under the Enabling Act of 1895.

The next four chapters point out the development of a retirement system in California. Here is mentioned the system's beginning in 1913 with the organization of a flat pension fund. A controversy is then described over changing the system to an annuity plan. These discussions lasted for the next twenty-two years and led to the addition of an annuity savings plan in 1935, which was financed entirely by the teachers. The controversy was continued for another nine years and resulted in the laws of 1944 that changed the system to a partial annuity system. The next eleven years were devoted to improving the plan. However, there was always an underlying current that the system should be based entirely on an annuity that would provide adequate benefits for a retiring teacher to meet the current costs of retirement. Finally, this goal was achieved in 1955 with a system which met that criterion.

Chapter VIII describes the underlying forces that have brought about the phenomenal changes in the teacher retirement system. Here the forces are described that have changed the attitudes, the mores, and the philosophy of the American people, and resulted in a state retirement system where none existed less than fifty years ago.

Chapter IX offers a brief summary of the study, followed by several recommendations for areas of further research.

CHAPTER II

EARLY AMERICAN HISTORY OF TEACHER RETIREMENT LAWS

The first formal movements for teacher retirement in America followed closely after the Civil War. Such plans consisted of assurance and mutual aid associations that offered only sick and death benefits. In the late part of the nineteenth century, movements began to secure retirement legislation but with little regard for sound actuarial principles.[1]

I. MUTUAL AID ASSOCIATIONS

For years teachers had collected money intermittently amongst themselves to aid certain colleagues during times of emergency. It was not until 1869 that a Mr. Vanderbilt, a New York City teacher, felt that:

> Instead of soliciting voluntary contributions each time a death occurred, it would be far better to organize an association in which each member would pledge himself to contribute one dollar whenever called upon and would also be assured that a similar benefit would be paid upon his death by a similar assessment upon all other members.[2]

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[1] Paul Studensky, *Teachers' Pension Systems in the United States* (New York: D. Appleton and Company, 1920), p. 3.

[2] *Ibid.*, p. 4.

He called a meeting of teachers and they established the New York City Teachers' Mutual Life Assurance Association. This was the first teachers' organization that was established in America, whereby a member not only helped to defray the burial expense of another but secured the right of a similar benefit for himself.

Similar plans were developed in other areas. The Brooklyn Teachers' Life Assurance Association was established in 1871. In 1880 Jersey City, followed by the Camden teachers in 1885, established mutual benefit associations. All of these plans devoted their benefits to death but ignored disability or sickness.

The assurance and benefit associations were financed by assessments on call which ranged from fifty cents to one dollar. None of them had annual dues or a regular income nor did they contribute any benefits for sickness. The amount of benefit varied due to the size of membership in cases of small organizations and to bylaws in large cities. In general, the range of benefits was from \$120 to \$500 with the median about \$300.[3]

II. SICK BENEFIT ASSOCIATIONS

The leaders of the mutual aid movement for death benefits

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[3] *Ibid.*, p. 5.

soon realized that their program was incomplete. The kind of relief that could be offered those members who were sick became a much discussed question.

The results of these discussions culminated in the teachers of Detroit establishing an association in 1888 with both sick and death benefits. This action was quickly followed by similar organizations in St. Paul, Chicago, Des Moines, Buffalo, Cleveland, New York, Baltimore, and many others from 1888 to 1897.[4]

Income for the sick benefit and life assurance associations was gained from annual dues that ranged from $.50 in Patterson, New Jersey, to $7.20 in New York City. Many of the societies also had the additional privilege to levy assessments on call if the amount raised by annual dues became inadequate. Benefits for sickness varied from $.50 to $1 per day.[5]

Probably the greatest contribution of these sick benefit associations was the change developed in the matter of financing. To eliminate the dependence upon the sporadic levies of assessments, a regular income was set up by the establishment of dues. This development assisted materially in

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[4] _Ibid_., p. 6.

[5] Elizabeth A. Allen, "Teachers' Pensions - The Story of a Woman's Campaign," _The Review of Reviews_, 15:711, June, 1897.

meeting the small but numerous and regular claims for sick benefits and was an attempt to create a permanent capital fund.

III. OLD AGE AND DISABILITY ANNUITY ASSOCIATIONS

New York City and Brooklyn teachers were the organizers which brought about the establishment of voluntary annuity associations. The first organization, the New York City Teachers' Mutual Benefit Association, was established in 1887. During the next ten to fifteen years similar organizations were set up in other large cities.

Benefits from these mutual organizations were granted principally for permanent disability and were based upon years of service. Some paid very small stipends for sickness or death. Qualifications for benefits depended upon years of service and varied from thirty-five years for females to forty for males. Maximum annual annuity payments varied from one-third annual salary to $600. Yearly contributions by teachers differed from $5 to 2 per cent of the salary. Such contributions never met the cost of the annuities. As a result the fund was augmented by donations and bazaars.[6] In many cases this latter technique was required to pay for more than 50 per

[6] Ibid., p. 710.

cent of the benefits.

The first annuity association to find its disbursements greater than its receipts was in Brooklyn. New York City and other groups were soon caught in the same dilemma. Younger teachers immediately dropped out while a few of the older members remained with the hope of receiving some early benefits. Such actions killed much of the enthusiasm for voluntary mutual aid groups and stimulated attention towards compulsory retirement legislation.

IV. EARLY RETIREMENT LEGISLATION

The task of securing legislation for teacher retirement was slow. Early proposals were initiated in several legislatures around 1879, but none were approved until 1894. This first law was passed by the New York Legislature over the objections of the New York City Board of Education.[7] New York's law provided for the establishment of a fund, the sole resources of which were to come through deductions made from the pay of teachers because of absence. This law prescribed a pension not to exceed $1000, set up service requirements, and delegated complete powers of administration to a board of education. The establishment of the New York fund was the spark that set off

[7]Paul Studensky, Teachers' Pension Systems in the United States (New York: D. Appleton and Company, 1920), p. 17.

teachers clamoring for legislative action in many parts of the country.

V. CONCLUSIONS

The history of teacher retirement in the United States passed through several stages prior to the opening of the twentieth century. Mutual aid associations marked the beginning of cooperative action in 1869. Voluntary annuity and aid associations, as organized in New York in 1887, pointed out the need felt by teachers for financial security in cases of age or disability. The action of the New York Legislature in 1894, which recognized the needs of teacher retirement, set off a long series of legislative actions in all forty-eight states. The results of their actions played a major role in the public acceptance and support of the broadening welfare policies recognized today.

CHAPTER III

EARLY CALIFORNIA HISTORY OF TEACHER RETIREMENT

The development of early retirement and assistance plans for California teachers was a slow process. San Francisco was the first and only known district to establish a mutual aid society. No other plans were developed until after the Enabling Act of 1895 became a law, which permitted the formation of retirement plans in local districts and counties. Then only three counties took advantage of its provisions, namely, San Francisco, Alameda, and Lake.

I. MUTUAL AID SOCIETY OF SAN FRANCISCO

On May 10, 1873, a group of teachers under the leadership of Lizzie Kennedy Burke, principal of the old Columbia School, met and organized the San Francisco Teachers' Mutual Aid Society. Those participating at that first meeting were Mary Prag, Agnes M. Manning, Caroline L. Hunt, Nellie Owens, Mary Donnelly, Jessie Smith, Mary E. Haswell, Nellie C. Haswell, Lou Classen, Helen Starr, Emily Lindberg, Dorothea Tiedimann, Ida Kervan, Mary Mayborn, Ada Goldsmith, Mary Fay, Celine Pechin, Sophia Hobe, and Sarah Miller.[1]

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[1]San Francisco Teachers' Association, Early History of Teachers' Organization and First Year Book, a Report Prepared by the Year Book Committee (San Francisco: San Francisco Teachers' Association, 1928), p. 46.

It was not until March 13, 1889, in the office of Judge Sawyer, that the articles of incorporation were signed. The object of the society was "to care for properly and to give pecuniary aid to the members when sick and unable to attend to their duties as teachers."[2]

Since its inception the society has been in charge of a board of eleven directors elected annually. Each director represented one of the eleven districts into which the city school system had been divided. Up to the time of the fire in April, 1906, meetings were held in the old Lincoln School, the Girls' High School, Bush and Hyde Streets, and the old Franklin School, Eighth and Harrison Streets.[3]

Dues were $1 per month. Benefits began at $12.50 per week until $400 was reached. Then, at the discretion of the society, a weekly allowance of $5 was granted which could be extended indefinitely if necessary. At death the sum of $75 was appropriated for the payment of funeral expenses.[4]

The need of sufficient funds for the organization was always a problem. The collection of dues was difficult and it became necessary to augment the treasury by other means.

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[2] Ibid., p. 46.

[3] Ibid.

[4] Ibid., p. 47.

The following programs are fair samples of how the money was raised:[5]

1882 -	May 13.	Picnic at Woodward's Gardens
1886 -	Dec. 7.	Concert in Odd Fellows' Hall by Mrs. Norton
1888 -	Jan. 27.	Concert, Oakland Harmonic Society
1889 -	May 4.	Recital; readings by George Riddle
1890 -		Major Dane's lecture on "A Summer in Greece"

At the turn of the century growth of the society began to decrease. Interest in insurance policies, investments, and a local retirement system became the chief deterrents. In 1921, "the Amelia Goldstein Fund" was established by Alexander Goldstein to give additional relief to those members who had received the maximum of benefits and were still in need.

Today the San Francisco Mutual Aid Society is still active but the present rate of new membership has declined to zero. From its peak of one thousand members there are now 172 members and over one-half of these are retired. Thanks to many bequests, excellent management, and an excellent local retirement system, the San Francisco Mutual Aid Society had a cash balance of over $20,000 on June 30, 1957. The Society shall long be remembered as a savior to the sick and disabled, and as the first organization of teachers in San Francisco.[6]

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[5] _Ibid._

[6] Statement by Miss Nellie Sullivan, Secretary of San Francisco Mutual Aid Society, personal interview.

II. EARLY RETIREMENT LEGISLATION

On March 26, 1895, Assembly Bill No. 736 was signed by the governor and marked California's approval of teacher retirement systems.[7] This historic bill was termed the Enabling Act of 1895, an act to create and administer a public school teachers' annuity and retirement fund in the several counties and cities of California. This bill permitted the organization of a board of administrators terms the Teachers' Annuity Fund Trustees. Teachers who voluntarily became members and who taught twenty to twenty-five years and became incapacitated could expect to receive an allowance of $45 per month, while those with twenty-five years or more of service, would receive $50 per month. Revenue was provided by a levy of 1 per cent of the member's salary plus donations and any legacies bequeathed to the respective fund.[8]

Though this law brought about a condition which seemed like paradise, it had some grave weaknesses which in retrospect are rather humorous. If ever there were insufficient cash in the fund, the treasurer was to register such warrants and mark on their backs: "Presented for payment this day and year and not paid for want of funds. Signed, Treasurer of____

[7] Statutes and Amendments to the Code - California 1895, Chapter CLXVI, p. 170.

[8] Ibid., p. 171.

County. Such warrants shall be paid in order of registration and bear interest at 5 per cent per annum."[9]

Two years later the Enabling Act of 1895 was amended and somewhat liberalized by A. B. 63.[10] This Retirement Act of 1897 permitted member teachers to retire after thirty years of service with an income of $30 per month in counties and $50 per month in consolidated cities and counties.[11] Teachers who became incapacitated and contributed for at least five years were entitled to a proportionate amount on the basis of the number of years served to thirty.

Revenue for the fund was raised by collecting $12 per year from each teacher member, from gifts and legacies, and from salaries forfeited by teachers due to absence.[12]

Upon retirement, teachers could expect some benefit each month from the fund. If ever there were insufficient funds to pay all claims, the county treasurer would pro rate the existing cash to all beneficiaries and this would be the full payment for each annuitent to date.[13]

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[9] Ibid.

[10] Statutes and Amendments to the Code - California, 1897. Chapter CLXIX, p. 225.

[11] Ibid., p. 228.

[12] Ibid., p. 229.

[13] Ibid., p. 228.

III. ALAMEDA COUNTY SCHOOL TEACHERS' RETIREMENT FUND

Under the State Law of March 26, 1895, entitled "An Act to create and administer a public school teachers' annuity and retirement fund in the several counties and cities and counties in this state," the Alameda County School Teachers' Retirement Fund Commissioners met on April 10, 1895, and organized as a Board.[14] The membership consisted of the President of the Board of Supervisors, Hiram Bailey, County Treasurer O. M. Sanford, and the County Superintendent of Schools, J. P. Garlock. Their second meeting was held on October 19, 1895, and no important business was transacted.

From the record book, no further meetings were apparently held until April 17, 1897.[15] On that date the commissioners met and organized the "Alameda County Board of Trustees of the Public School Teachers' Annuity and Retirement Fund." This meeting apparently followed the new state law which became effective March 29, 1897, and had amended the Act of 1895. From this time until December 27, 1913, regular quarterly meeting were held by the trustees.

Alameda County's first teacher deductions were made in May of 1897. Teachers became eligible for membership by

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[14] Alameda County School Teachers' Retirement Fund Commissioners, Minute Book (Alameda County, 1895).

[15] Ibid.

applying to the clerk of their school district and subsequently having the approval of the Public School Teachers' Retirement Fund Commissioner.[16]

The law required the County Superintendent of Schools, as Secretary of the Retirement Fund, to report annually to the Board of Supervisors the standing of the fund in the County Treasury. In July of 1898, there was a total credit of $2,245.[17]

In March, 1903, a state law was passed which permitted teachers to withdraw from the fund. As a result it was reported on July 16, 1903, that fifty-four teachers had applied to have their names withdrawn. The claims of these teachers were ordered paid.[18]

The first annuity was granted to Elizabeth Powell in October, 1903. She had taught in California for nearly thirty-one years and had been subject to the burdens of the Retirement Act for sixty-two months. The findings of the Board resulted in an entitlement of 62/360 or $360, or $62 a year, to be paid quarterly.[19]

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[16] *Ibid.*

[17] *Ibid.*

[18] *Ibid.*

[19] *Ibid.*

In July, 1905, the minutes stated that 228 was the original number of subscribers to the Fund. Eighty-three had withdrawn in 1903 and 72 had either died, lapsed, or been removed. This left 73 members, 3 of whom were annuitants.[20]

In October, 1912, the amount paid to the annuitants in Alameda County was reduced 50 per cent due to shortage of income by the Fund.[21]

On August 15, 1913, a state teachers' retirement system was established and all local systems under the Act of 1897 were automatically abolished. Subsequently, on December 27, 1913, a resolution was passed by the Alameda County Retirement Fund Commissioners abolishing the local fund and transferring all assets and liabilities to the state treasurer. The assets included $13,188.18, while the liabilities were comprised of 10 annuitants and over 60 members.[22]

IV. LAKE COUNTY SCHOOL TEACHERS' RETIREMENT FUND

Lake County authorized a retirement fund under the Act of 1895, but it was either very small or most of the membership terminated their relationship before 1913.

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[20] *Ibid.*

[21] *Ibid.*

[22] *Ibid.*

On January 15, 1914, a representative of the Lake County Teachers' Retirement Fund Commissioners appeared at a meeting of the California Public School Teachers' Retirement Salary Fund Board in Sacramento. He stated that Lake County had a balance of $11.51 under the law of 1895 and wished to transfer one annuitant by the name of Hughes.[23] Apparently, the eligibility for Hughes' retirement was questioned and action was postponed until an investigation could be made.

In March of the following year a Lake County representative again appeared at the State Board meeting. The Board accepted a transfer of $11.51 from the Lake County Treasurer but rejected the transfer of the lone annuitant.[24]

V. SAN FRANCISCO SCHOOL TEACHERS' ANNUITY AND RETIREMENT FUND

San Francisco, a very progressive community, was quick to organize a school teachers' annuity and retirement fund in 1895.[25] In June of 1897 the records show that $3,090 had been

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[23] Minutes of the California Public School Teachers' Retirement Salary Fund Board, September, 1913, to December, 1918, p. 19.

[24] *Ibid.*, p. 21.

[25] Public Schools of the City and County of San Francisco, *Annual Report: 1895*, p. 13.

paid in annuities while the fund had received over $9,000.[26]

The growth of the fund was irregular which was evident by a few of the annual reports. In 1908 the income was $71,332.52 and the expenditures were $15,975.70.[27] The receipts and expenditures of the fund showed that the membership increased steadily as did the number of annuitants. The report further pointed out that the payments for annuities were increasing more rapidly than the contributions by teachers. Such conditions could only lead to a bankrupt fund or to its reorganization.

Two years later the income of the fund including the carry forward balance was $74,236.84, while the expenditures were $19,082.50 as shown in Table I. The financial report of 1910 pointed out that the current expenditures exceeded the current income excluding the carry forward balance.

As a result of this report it was again evident that some action must be taken immediately if bankruptcy was to be averted. During the year 1911 San Francisco's Board of Commissioners recognized the financial weakness of the fund and

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[26] Public Schools of the City and County of San Francisco, Annual Report: 1897, p. 18.

[27] Public Schools of the City and County of San Francisco, Annual Report: 1908, p. 91.

TABLE I

ANNUAL REPORT OF SAN FRANCISCO SCHOOL TEACHERS' ANNUITY AND RETIREMENT FUND

June 30, 1910

Receipts:	
Balance in fund 6-30-09	$55,383.44
Contributions by teachers	12,315.50
Absence money granted by Board of Education	3,000.00
Interest on Investments	2,200.00
Interest on an Annuity Fund	246.50
Payments from teachers on arrears	1,091.40
Total	$74,236.84
Disbursements:	
Paid to annuitants	$19,002.70
Clerical Service	50.00
Printing	29.50
Total	$19,082.20
Balance in fund 6/30/10	$55,154.64

Public Schools of the City and County of San Francisco, Annual Report: 1910, p. 45.

passed a resolution limiting annuity payments to 50 per cent.[28] This practice was continued through the remaining life of the system.

Not only did the San Francisco Board cut the payments of their annuities but promoted state action. They advocated passage of the Williams' Bill,[29] a retirement measure. This bill passed both houses of the legislature but was vetoed by the Governor. The Williams' Bill provided an annuity to teachers with thirty years of service equal to 1½ per cent of their average annual salaries times their years of service not to exceed $900 per year nor less than $360 per year. Costs were to be defrayed from that part of the inheritance tax not used for any other purpose.

Following the decrease in the rate of annuity payments in 1911 the financial condition of the fund did not improve. In 1912 the income remained the same as in 1910, but the expenditures increased $1,000.[30] In the following year the income decreased $2,000 from 1910 while the expenditures increased $3,000.[31]

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[28] Public Schools of the City and County of San Francisco, Annual Report: 1911, p. 94.

[29] Ibid., p. 85.

[30] Public Schools of the City and County of San Francisco, Annual Report: 1912, p. 25.

[31] Public Schools of the City and County of San Francisco, Annual Report: 1913, p. 400.

San Francisco's School Teachers' Annuity and Retirement Fund came to a close in 1913. From its system established under the provisions of the Act of 1895, it certified seventy-four annuitants to the State of California[32] and transferred $44,000 to the State Treasurer[33] on March 9, 1914.

VI. CONCLUSIONS

Welfare projects for California teachers began in an organized manner with the Mutual Aid Society of San Francisco. This gave assistance to the sick and infirm but was of little help for the teacher who retired. Under the Enabling Act of 1895, three local retirement systems were established. Only two of these had any real development and they clearly demonstrated that no system can survive unless based upon actuarial principles. This understanding was enhanced by the Governor's veto of the Williams' Bill which based retirement payments upon a part of state inheritance taxes that might not be used for any other purpose.[34] Further breakdown of the local funds came when both Alameda and San Francisco had to decrease payment of the annuities due.

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[32] Minutes of the California Public School Teachers' Retirement Salary Fund Board, September, 1913 to December, 1918, p. 10.

[33] _Ibid._, p. 21.

[34] Public Schools of the City and County of San Francisco, _Annual Report: 1911_, p. 85.

The period of mutual aid societies and the Act of 1895 was the beginning of California's teacher retirement system. The passage of the Williams' Bill by the Legislature marked the first recognition by that body that the state had a responsibility in the welfare of its teachers.

CHAPTER IV

FIRST CALIFORNIA STATE TEACHER RETIREMENT ACT

As no progress was made in improving the Retirement Act of 1895, a cry was set up from many parts of the state for a sound retirement plan. Mutual aid societies had been found inadequate in other states and had never achieved any degree of popularity in California. Critics pointed out the inherent weaknesses of the local retirement funds, which were operated only in a few counties and were approaching a point of diminishing returns. This was the welfare situation of California teachers as the legislature met in 1913.

I. FLAT PENSION SYSTEM OF 1913

The first statewide retirement system was approved by the Legislature in 1913.[1] This action repealed the Enabling Act of 1895 and its amendments of 1897. The three existing local systems in Alameda, Lake, and San Francisco counties were terminated and their assets and liabilities in toto transferred to the state.

Cost of membership to the California retirement plan for the individual teacher amounted to $1 per month while the

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[1] Statutes and Amendments to the Code - California, 1913, Chapter 694, p. 1423.

cost to the state was set at 5 per cent of the inheritance tax collections.[2] These funds were to be placed in the California Teachers' Permanent Fund. Benefits were scheduled at $500 annually to a retired teacher who had completed 30 years of service, 15 of which must have been in California, including the last 10 years.[3] Disability benefits were paid to those who became permanently disabled and who had served a minimum of fifteen years in California.

The treasury of the fund was augmented by the denial of any refunds to teachers who resigned or died before retirement. To many teachers who did not make a career of teaching, the $1 per month charge was really a tax.

Membership in the system was mandatory for all teachers who began teaching after July 1, 1913. Teachers employed in the spring of 1913 had the option of exemption and approximately 3,500 elected such an exemption.[4]

Thus the first statewide retirement system was passed in 1913 and continued in almost its original form until 1935.

One of the first annuitants of this 1913 law is still living and receiving benefits. She was born December 25, 1858,

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[2] *Ibid.*, p. 1424.

[3] *Ibid.*, p. 1427.

[4] *Ibid.*

and retired July 1, 1914. For contributions amounting to approximately $700, she has received over $30,000 in benefits to June 30, 1957.[5]

II. WILLIAM LESLIE ACTUARIAL REPORT

By 1919 it was apparent even to the untrained that the system was financially unsound. The original law was passed without any study as to the anticipated rates of contributions from members or the state to meet future requirements. Through June 30, 1919, total receipts of the permanent fund were $1,883,000 while expenditures totaled $910,000. The cash surplus was insufficient to fund the service after 1913 without regard to service rendered prior to 1913. In the 1918-19 year, total receipts amounted to $388,000 while expenditures approximated $275,000 or approximately 70 per cent.[6] To investigate this situation a complete study was to be made by a competent individual.

William Leslie, an actuary of national repute, was employed to conduct the investigation. Each teacher in the

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[5]California State Teachers' Retirement System, Department of Records (Sacramento, 1957).

[6]Survey of Retirement Systems State of California Part 1, A Report Prepared by the Legislative Auditor to the Joint Legislative Committee (Sacramento: State Printing Office, 1954), p. 34.

state for the year 1919 was required to file a report showing age, sex, and teaching experience. This information was used by Leslie in developing his report, which he completed in 1921 for the year ending December 31, 1919. His evaluation showed a deficiency of $25,613,707.67 due partially to the insufficient contributions of new members and partially to the heavy liabilities for prior service of members at the inauguration of the system. Leslie pointed out that revenue was only sufficient to meet one-third of the promised payments.[7]

Referring to the need of a revision in the retirement law, Mr. Leslie wrote in his conclusion:

> Two courses may be followed in this matter of reorganization of the pension system, one to continue as at present until the current pension payments exceed the current income, beyond which time the issue cannot be dodged; and the other to immediately prepared a reorganization plan for submission to the next legislature in order to forestall the inevitable insolvency. The first course is improper because it is unfair to both the teachers and the state. The longer reorganization is postponed, the greater become the liabilities to existing pensioners and consequently the more difficult the problem of financing reorganization. The continuation of inadequate contributions means either extremely heavy burdens upon present teachers after reorganization or the shifting of what they should have been paying in the past upon the state. If pensions are to be granted and paid, the necessary funds must be raised and

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[7] Report of the California Public School Teachers' Retirement Salary Commission, A Report Prepared by the Commission to the Members of the Legislature (Sacramento: State Printing Office, 1929), p. 9.

postponement of the problem only adds to the difficulty.[8]

III. FAILURE OF SENATE BILLS 454/21 AND 127/23

As a result of the findings from the Leslie study, the teachers through their associations presented retirement bills in 1921 and 1923.[9] Provisions in both bills were identical and as follows:[10]

1. Each teacher was required to make an annual contribution of $24.

2. The state was required to match the contribution of each teacher.

3. The annual retirement salary was to be increased to $720.

4. Forfeiture of payments was to be made should the teacher leave the service by resignation or death.

5. Disability benefits remained the same as in the original act of 1913, except payment was based upon $720 rather than $500 as a retirement salary.

Senate Bill No. 454/21 was overwhelmingly passed by both houses of the Legislature but vetoed by Governor Stephens. In preventing the passage of this bill, Governor Stephens made

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[8] *Ibid.*, p. 10.

[9] Roy W. Cloud, "Retirement Legislation in California" (paper read at a meeting of the California Teachers Association Retirement Committee, San Francisco, 1931).

[10] California State Legislature, *S. B. 454* (Sacramento State Printing Office, 1921).
California State Legislature, *S. B. 127* (Sacramento State Printing Office, 1923).

the following statement:

> An increased benefit would induce the voluntary retirement of many teachers eligible to retire, who under prevailing benefits, will continue in the active service of the schools. It is a question, therefore, whether the cash deficiency now threatening the system would not be hastened rather than postponed by the operation of this bill.
>
> No promise of future benefits, even if partly supported by increased contributions, can insure the realization of the benefits unless it is founded upon sound financial principles. Arbitrarily increased contributions, so far as ameliorating the condition of the fund, would merely tend to hasten its exhaustion and would ultimately result in the bitter disappointment of those who had made additional sacrifices. To the state, the measure would mean the addition of over $400,000 biennially to the present contribution made to the Retirement Fund, and while this amount may seem small when compared with the magnitude of its financial operations, it is nevertheless prohibitive at this time when the expenditures of the state government must be curtailed in order to keep within available revenues.[11]

In 1923, S. B. 127 was entered and met a similar fate by Governor Richardson as its predecessor of 1921.[12] However, the Legislature did amend the existing law to raise the teachers' payments from $1 per month to an annual payment of $12.

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[11] Survey of Retirement Systems State of California Part 1, A Report Prepared by the Legislative Auditor to the Joint Legislative Committee (Sacramento: State Printing Office, 1954), p. 35.

[12] Ibid., p. 35.

IV. GUNDELFINGER'S ACTUARIAL REPORT

In 1924 Governor Richardson, to justify his veto, employed Actuary S. Gundelfinger to make an analysis of the fund. The study was based largely on the findings of Leslie plus the additional annuities granted.[13]

Gundelfinger reported that the commitments of the state in respect to the retirement law exceeded present and future resources by a sum not less than $32,848,453.05. He added that nearly $2,000,000 over and above what was then on hand would be required in contributions to meet the liability of those already retired. Mr. Gundelfinger's report made the following charge:

> The continuing ability of the system to meet its currently maturing obligations is being maintained solely at the expense of and at a practically total loss to the great majority of the present force of approximately thirty-two thousand public school teachers.[14]

In 1925 no requests were forwarded to the legislature due to the unfriendly attitude of the governor.[15] Continuing

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[13] Report of the California Public School Teachers' Retirement Salary Commission, A Report Prepared by the Commission to the Members of the Legislature (Sacramento: State Printing Office, 1929), p. 10.

[14] Ibid.

[15] Roy W. Cloud, "Retirement Legislation in California," read at a meeting of the California Teachers Association, Retirement Committee, (San Francisco, 1931).

efforts were made by teacher groups with the expectation of more favorable action in 1927.

V. GOVERNOR'S COMMISSION ON RETIREMENT

In 1927 the California Teachers Association asked the Legislature for the appointment of a commission to study retirement salary conditions.[16] The governor appointed a California Public School Teachers' Retirement Salary Commission of five members consisting of two members of the Public School Teachers' Retirement Salary Fund Board, the chairman of the State Board of Control, and two other citizens. An appropriation for expenses was made by the state and the California Teachers Association appropriated a sum to be added to the amount from the state to guarantee a thorough investigation.

At a meeting of the Commission held in December, 1927, A.H. Mowbray, Professor of Insurance at the University of California, was employed as a consultant for the investigation.[17] Mr. Mowbray, in turn, recommended the employment of Barrett N. Coates as a consulting actuary of the firm, Coates and Herfurth, San Francisco. Mr. Coates with his staff

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[16] Ibid.

[17] Report of the California Public School Teachers' Retirement Salary Commission, A Report Prepared by the Commission to the members of the Legislature (Sacramento: State Printing Office, 1929), p. 15.

outlined a plan of procedure to gather data which was the most thorough in the history of California's teacher retirement.

The report of the Commission, which was made to the Legislature of 1929, showed that both Leslie and Gundelfinger had been correct in their estimates of the deficit which faced the State of California in its retirement fund. This report concluded that no permanent solution of the teachers' retirement problem in California could be reached until a system was adopted that met the following principles:[18]

1. That new teachers should be automatically placed upon a sound retirement plan with greater benefits than the existing plan.[19]

2. That teachers with less than ten years of service should be treated as new teachers to preclude the state from accepting a staggering obligation.[20]

3. That deficits met by the retirement system in their obligations to teachers with ten or more years of service should be largely met by the state. The balance should be met by the teachers but only during their active service.[21]

4. That for teachers with over ten years of service a sliding scale of benefits should be developed.[22]

5. That teachers should pay $30 henceforth for the existing retirement of $500 per year. In addition teachers should pay the cost of a savings bank

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[18]*Ibid.*, p. 33.

[19]*Ibid.*, p. 28.

[20]*Ibid.*, p. 29.

[21]*Ibid.*, p. 30.

[22]*Ibid.*, p. 31.

> deposit sufficient to give a life income of $200 per year at age 60. The state should match this additional deposit giving a total retirement salary at age 60 of $900 per year. If service were to continue, the retirement allowance would increase to a maximum of $1,058.98 at age 65.[23]

The Commission further stated that the teachers of California were not ready for such a system and that it would be folly to force upon the teachers a system to which they were opposed. The Commission, therefore, did not prepare any legislation designed to carry their beliefs into effect, but did present their statistical findings, and asked for committee study on the facts of their findings from both the Legislature and the teachers.[24]

VI. ROY W. CLOUD'S PROPOSALS

As a member of the Governor's Commission on Retirement, Roy W. Cloud, Executive Secretary of the California Teachers' Association, opposed the findings of the Commission and submitted a minority report. He claimed that he had joined the Commission with the understanding that a definite legislative program would be recommended to the Legislature and this had not been done. He further charged that the program had been so delayed that it reached the Legislature too late to assist

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[23] *Ibid.*, p. 31.

[24] *Ibid.*, p. 33.

in making any new bills. His action may have been precipitated by the pressures of his own organization for the introduction of some measure which would at least temporarily meet the situation.[25]

Mr. Cloud vaguely outlined a proposal that would allow young teachers to enter a new retirement system which he hoped would become actuarially sound. Until that time the older teachers would be allowed all the benefits and privileges of the present law upon the payment of $48 per year. He suggested that part of this payment would be returned to them if they left the service before retirement, or to their estates if they should die.[26]

Mr. Cloud informed the Legislature that at this late date no satisfactory proposal based upon actuarial principles could be submitted to the present session. He, therefore, recommended a system of retirement be submitted to the present Legislature along purely social lines similar to the pending Senate Bill No. 673, introduced by Senator G. W. Rochester of Los Angeles. Mr. Cloud further stated that this bill more adequately met the needs and desires of the teachers

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[25]*Ibid.*, p. 35.

[26]*Survey of Retirement Systems, State of California, Part 1*, A Report Prepared by the Legislative Auditor to the Joint Legislative Committee (Sacramento: State Printing Office, 1954), p. 36.

than any other plan thus far proposed.[27]

VII. FAILURES OF SENATOR ROCHESTER'S BILLS IN 1929 AND 1931

As the California Public School Teachers' Retirement Salary Commission was studying the total California teachers' retirement situation, the California Teachers Association had decided to present no bill until after the findings of the Commission had been reported. It had further decided that after the Commission had made its recommendations the teachers would be asked to reject or endorse them.[28]

During the 1929 session of the Legislature a group of teachers put forward a bill requesting considerable increase in the teacher retirement fund. This bill was brought to the California Council of Education where it was amended and accepted by that group in December, 1928.[29] The group further

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[27] Report of the California Public School Teachers' Retirement Salary Commission, A Report Prepared by the Commission to the Members of the Legislature (Sacramento: State Printing Office, 1929), p. 15.

[28] Roy W. Cloud, "Retirement Legislation in California" (Paper read at a meeting of the California Teachers Association, Retirement Committee, San Francisco, 1931).

[29] California Teachers Association, State Council of Education, Minutes, December, 1928.

instructed the executive secretary to make a determined effort to have this measure passed.

The bill was known as Senate Bill No. 673 and was introduced by request through Senator Rochester.[30] It provided that on the completion of 33 years of service, at least 18 years of which must have been in California, a retirement salary of $910 should be paid. Each individual teacher under the terms of the bill would have been required to pay $36 per year. Should the teacher leave the service before the completion of the retirement fund, a refund of two-thirds of the amount paid was to be returned. In case of the death of a teacher the refund was to be made to the teacher's estate.

The state's contribution in this proposed legislation was to match the combined contribution of all of the teachers and was to remain in the fund irrespective of whether the teacher withdrew from the service.

The legislation was opposed by Governor C. C. Young who claimed that the measure was unsound and too costly to be passed by the Legislature, that there were disagreements amongst the teachers, and that the proposition should be submitted by constitutional amendment to the people.[31] The

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[30] California Legislature, Senate Bill No. 673, January 18, 1929 (Sacramento: State Printing Office, 1929).

[31] San Francisco Examiner, April 16, 1929, p. 1.

Rochester Bill successfully passed the Senate but died in committee in the Assembly.

Upon the close of the 1929 session, the California Teachers Association began the study of a new measure. Questionnaires were distributed to different teachers' organizations for suggestions. Committee meetings on the state level were held and finally an idea known as a "modified percentage plan" was adopted. In order that the proposal might be properly prepared and based upon sound consideration, George B. Buck, a nationally known actuary of New York City, was employed to prepare the bill.[32]

Mr. Buck's proposals were that the state should deposit a normal contribution for each teacher in the service during each year of service, and in addition the teacher should be required to deposit 4 per cent of her salary. In order that elderly teachers who would have very few years to teach might be allowed to retire on a fair salary, Mr. Buck added an amount from the state to take care of the accrued liability for past service. Under the provisions of this recommendation no teacher would have retired on less than $900 per year. In the future, those retiring would receive

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[32] Roy W. Cloud, "Retirement Legislation in California" (Paper read at a meeting of the California Teachers Association, Retirement Committee, San Francisco, 1931).

approximately half of their annual salary.[33]

At a meeting in December, 1930, the State Council of Education felt that the cost of Mr. Buck's plan was too high and several amendments were made to reduce the cost.[34] The changes were incorporated in a bill during the 1931 session of the Legislature.

The bill was known as Senate Bill No. 260 and was introduced by Senator Rochester.[35] It failed to pass largely due to the financial depression which was widespread throughout the state and nation.

VIII. CONCLUSIONS

The first state teacher retirement system was established in 1913 and met with little change for twenty-two years. As the years passed, the need for a more adequate retirement system became more widely recognized as did the need for sound financial organization. Those teachers who persisted in their study and efforts for improvement of the system met defeat after defeat but continued their campaign.

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[33] *Ibid.*

[34] California Teachers Association, State Council of Education, *Minutes*, December, 1930.

[35] California Legislature, Senate Bill No. 260, January 19, 1931 (Sacramento: State Printing Office, 1931).

This era of California teachers' retirement might be described as a period of groping. Both teachers and the public had to become informed on the costs of retirement, the necessity of financial soundness, and the mutual responsibility toward each other.

CHAPTER V

FIXED INCOME PLAN AUGMENTED BY ANNUITIES

The many studies and attempts to change the 1913 retirement laws increased the understanding of the problems involved by both legislators and the public. Probably no other pattern could have served as well. The people of the nation were becoming more social conscious under the Roosevelt Administration, and although national financial conditions were still in a depressed cycle, the California legislature was ready to assist the teachers in obtaining a better plan of retirement. In this spirit the 1935 session of the Legislature convened.

I. PASSAGE OF ASSEMBLY BILL 794

At the December meeting of the California Teachers Association in 1934, the State Council of Education approved a new measure for teacher retirement.[1] This was a compromise to the 1931 bill and recognized the Legislature's desire to help teachers by its unwillingness to appropriate large sums of money.

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[1] California Teachers Association, State Council of Education, Minutes, December, 1934.

The measure was proposed as Assembly Bill No. 794 and was introduced by John G. Clark of Long Beach. The bill was subject to many amendments and as finally enacted provided the following:[2]

1. Teachers' contributions for current service were increased from $12 to $24 annually.

2. Payments for prior service were increased as of June 30, 1935, from $12 to $24.

3. The amounts in items 1 and 2 were refundable without interest if a member terminated service before qualifying for benefits.

4. Benefits were increased to $600 per year after 30 years of service, with the same pro rata allowance if the person retired for disability with less than 30 years.

5. Benefits from the Permanent Fund (Item 4) were payable in full after 30 years of service, regardless of age at which the retirement was effective.

6. A state allocation of 5 per cent of the inheritance taxes was not changed.

7. Each school district was hereafter obliged to pay $12 per year for each member employed by the district.

8. An annuity was established which was mandatory to all new employees after July 1, 1935 and optional to old employees who were not contributing to a local system. The annuity was called the Annuity Deposit Fund. Members would contribute 4 per cent of their salary, of which $24 a year would be credited to the permanent fund.

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[2] California Legislature, Assembly Bill No. 794, January 24, 1935 (Sacramento: State Printing Office, 1935).

9. Deposits would be accumulated at interest and would provide an annuity upon a member's retirement. Neither the state nor the local district were to contribute to the fund.

10. A retirement investment board was established in lieu of the existing exclusive authority of the Department of Finance. The new board consisted of the Superintendent of Public Instruction, the State Controller, the Director of Finance, and two teachers who were appointed by the Board of Education.

11. The State Board of Education continued to have exclusive control on the administration of the fund.

The legal changes in 1935 were a distinct advance in the retirement system, but were not the final solution. The establishment of an annuity fund was a step forward from the traditional fixed income plans. Likewise, the shifting of a part of the burden on the local district had its advantages, particularly in obtaining their understanding of the costs of retirement.

II. ORGANIZATION OF A TEACHER RETIREMENT SYSTEM

From its origin in 1913 through 1935, the retirement system was a part of the State Board of Education. By action of the Legislature in 1937 certain legislation was enacted which altered these conditions as follows:

1. A teachers' retirement system was set up as an entity separate and apart from the Department of Education.[3]

[3] Statutes and Amendments to the Codes, California, 1937, Chapter 626, Section 5.810.

2. The system was to be managed, except for investment of funds, by the Teachers' Retirement Board. Membership was to be composed of members of the State Board of Education and the appointive members of the Retirement Investment Board.[4]

III. FINANCIAL INSTABILITY

In 1939 a bill was introduced in the Assembly which would have increased the members' contributions to $60 per year but would not have changed the status of either the state or district contributions. The bill provided for an allowance of $100 monthly for thirty years of service. It was tabled in committee as it was opposed by all authorities on this subject, including the California Teachers' Association.[5]

During this period many groups had divergent views on the topic of retirement though each had one objective in common, increased benefits. In the preceding paragraph is a typical example of a plan submitted without much thought to its validity. To understand better what was happening, several sets of tables should be examined and their ramifications explored. Table II shows a compilation of income and disbursements under the Permanent Fund for the three years of 1937 through 1939. The total income of the Fund for each of the

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[4] Ibid., Section 5.820.

[5] California Teachers Association, State Council of Education, Minutes, Retirement Committee, 1939.

TABLE II

INCOME AND DISBURSEMENTS UNDER THE PERMANENT FUND

I. INCOME	1937-38	1938-39	1939-40
1. State's contribution--5% of inheritance tax	$287,199.05	$523,976.22	$418,597.47
2. Interest on investments	393,096.49	432,558.65	458,442.80
3. Interest on contributions in arrears	2,935.79	4,830.43	3,528.14
4. Districts' contributions	545,051.78	581,822.75	580,236.40
5. Members' contributions	1,110,088.61	1,141,980.15	1,152,807.41
6. Total income	$2,338,371.72	$2,685,168.16	$2,613,594.22
II. DISBURSEMENTS			
7. Retirement allowances	$1,230,642.14	$1,439,676.12	$1,823,506.99
8. Refund of contributions upon resignation	28,327.53	46,079.64	64,870.40
9. Death benefits	8,948.50	11,354.52	16,621.32
10. Administrative costs	28,863.61	31,942.71	33,877.36
11. Total disbursements	$1,296,781.78	1,529,053.00	1,938,876.07

TABLE II (Continued)

12. Excess of income over disbursements	$1,041,589.94	$1,156,115.16	$ 674,718.15

Survey of Retirement Systems, State of California, Part 1, A Report Prepared by the Legislative Auditor to the Joint Legislative Committee (Sacramento: State Printing Office, 1954), p. 37.

years exceeded the total disbursements by a sizeable margin. However, the instability of the Fund was made cognizant by the fact that this margin of difference was decreasing rather than increasing. The excess of income over disbursements in 1937 was $1,041,589.94, while in 1939 it had decreased to $674,718.15.

Table II also pointed out that income based on inheritance taxes was a fluctuating and irregular factor. The range of income in this category increased by nearly 200 per cent from 1937 to 1938 and then decreased almost 20 per cent from 1938 to 1939.

By the evidence shown in Table III it was apparent that the rate of retirement was accelerating. This was probably due to the fact that many people had deferred retirement because of unsatisfactory benefits and had reached a time when they were being released from service by application of tenure law. At the close of the 1939 school year the Los Angeles School District terminated the services of 350 teachers because they had reached age 65.[6]

For the first time the retirement law required a periodic evaluation of the system's financial structure. Such a survey was made as of June 30, 1940, from experience data

[6]California Teachers Association, State Council of Education, Minutes, Retirement Committee, 1940.

TABLE III

NUMBER AND ANNUAL PERCENTAGE INCREASE
OF RETIRED TEACHERS
1929-1940

	Number on Retired Roll	% of Increase Over Prior Year
1929-30	1417	6.6
1930-31	1504	6.1
1931-32	1587	5.5
1932-33	1674	5.4
1933-34	1766	5.5
1934-35	1892	7.1
1935-36	2040	7.8
1936-37	2290	12.2
1937-38	2456	7.2
1938-39	2875	17.1
1939-40	3676	27.9

California State Teachers' Retirement System, Department of Records (Sacramento, 1957).

derived from the five preceding years' experience, and probably was the first accurate evaluation ever made of the retirement system. The previous evaluations of Leslie, Gundelfinger, and Coates were necessarily made on the basis of some assumptions as regards separations and deaths. Before refunds, and death benefits were paid it was impossible to compile any statistics in regards to these matters.

The actuarial balance sheet prepared at that time is reflected in Table IV. This showed that the outstanding liability of the Permanent Fund was the present value of service retirement allowances to be granted in future years. This item, totaling over $119,000,000, was to a large extent unfunded. The same criticism mentioned in earlier actuarial reports was applicable, namely, that no provision had been made to fund the prior service of persons still active.

One of the contributing factors to the inevitable insolvency of the Permanent Fund can be found in the comparisons of active and retired teachers in Table V. This table reflected varying percentage rates for five year periods of the increases of active and retired teachers. ~~The percentage of~~ teachers retiring each year compared to the teachers already retired was far greater than the percentage rate of new teachers compared to active teachers.

Since the principal source of funds at this time was teachers' contributions and since retired members were

TABLE IV

ACTUARIAL VALUATION BALANCE SHEET
SHOWING ASSETS AND LIABILITIES OF THE CALIFORNIA
STATE TEACHERS' PERMANENT FUND AS OF JUNE 30, 1940

ASSETS

Assets now held by the Permanent Fund.	$12,306,978
Present value of members' contributions to be made after July 1, 1940, other than contributions in arrears.	16,416,175
Present value of active members' contributions in arrears.	3,997,854
Present value of retired members' contributions in arrears.	771,137
Present value of contributions to be made by school districts after July 1, 1940, for present members.	8,208,087
Present value of contributions to be made by the State after July 1, 1940, for present members.	6,388,628
Total assets.	$ 48,088,859
Unfunded deficit.	135,294,815
Total assets and deficit	$183,383,674

TABLE IV (Continued)

LIABILITIES

Present value of all benefits payable after July 1, 1940 to active members

a.	Withdrawal benefits.	903,172
b.	Death benefits.	1,535,045
c.	Disability retirement allowance.	40,137,031
d.	Service retirement allowance.	119,180,426

Present value of all benefits (gross) payable after July 1, 1940, to members retired prior to that date

e.	Disability retirement allowance.	5,166,963
f.	Service retirement allowance.	16,461,037
	Total liabilities.	$183,383,674

Survey of Retirement Systems, State of California, Part I, A Report Prepared by the Legislative Auditor to the Joint Legislative Committee (Sacramento: State Printing Office, 1954), p. 37.

TABLE V

NUMBER AND PERCENTAGE INCREASE
OF ACTIVE AND RETIRED TEACHERS
1915 - 1940

Year	Active Teachers	% of increase over preceding years	Retired Persons	% of increase over preceding years
1915	17,112	--	151	--
1920	24,039	40	740	390
1925	36,010	50	977	32
1930	47,965	33	1417	45
1935	46,381	-3	1892	25
1940	48,353	4	3676	94

California State Teachers' Retirement System, Department of Records (Sacramento, 1957).

increasing at a much higher rate than active members, there was a strong trend to hasten the time when expenditures could be expected to exceed revenues.

Several bills were proposed separately in the 1941 Legislature by the California Teachers Association, Oakland Teachers Association, and other groups asking for increased benefits, but all of these measures were defeated. The Legislature felt that none of the bills provided any remedy for the problems facing the system and that there was a lack of unanimity among the teachers.

IV. LOCAL RETIREMENT SYSTEMS

In some districts of the state there was a strong feeling that since the state retirement benefits were inadequate, local districts must take the initiative. This action began in San Francisco. By charter action in 1925 the certificated and non-certificated employees of that school district were taken into the San Francisco Employees Retirement System.[7] The certificated employees paid into both the state and the local retirement funds and received benefits from each.

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[7] _Survey of Retirement Systems, State of California, Part I_, A Report Prepared by the Legislative Auditor to the Joint Legislative Committee (Sacramento: State Printing Office, 1954), p. 37.

It was illegal for practically all other district to organize a local retirement system unless they had special charter dispensation. To bring about equality on this situation the Legislature in 1929 approved a measure, Chapter 854 of the 1929 Statutes, that permitted school districts to establish local systems.[8] The law was very specific with respect to contributions and benefits and was greeted with little enthusiasm, for no additional local systems were established under the act.

Through the 1930's teacher groups in the larger cities were pressuring their legislators for assistance in the repeal of Chapter 854. This was finally accomplished in 1937 by the passage of Chapter 59, which gave more independence to local districts in creating local retirement systems.[9] As a result the Los Angeles District established a local system of retirement five months after the passage of the bill and was followed by San Diego two years later. Both of these districts, as well as San Francisco, had systems which provided for

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[8] Statutes and Amendments to the Codes, California, 1929, Chapter 854.

[9] Statutes and Amendments to the Codes, California, 1937, Chapter 59.

benefits for prior and current service.[10]

By the same act Oakland established a system in 1947 for the purpose of providing prior service benefits for service rendered before July 1, 1944.[11]

Little difficulty was discerned when the first local retirement system was established. For example, San Francisco teachers each paid an annual twelve dollar contribution to the state in addition to their local contributions. However, difficulties were envisioned very quickly when more and more pressure was placed on the Legislature for a state system with increased benefits and the accompanying increased contributions. As a result Senate Bill No. 260 was introduced in 1930 by Senator Rochester but failed to pass. This bill would have exempted teachers who belonged to a local system from participating in the state system, unless a majority of the members of the local voted to do so.[12] In the 1935 law it was made optional as to whether members of a local system participated in the annuity fund,[13] because that fund was composed entirely

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[10] Survey of Retirement Systems, State of California, Part I, A Report Prepared by the Legislative Auditor to the Joint Legislative Committee (Sacramento: State Printing Office, 1954), p. 38.

[11] Ibid., p. 38.

[12] California Legislature, Senate Bill No. 260, January 19, 1931 (Sacramento State Printing Office, 1931), Section 5.1430.

[13] California Legislature, Assembly Bill No. 794, January 24, 1935 (Sacramento: State Printing Office, 1935).

of teachers' contributions.

In 1943 Assembly Bill No. 1107 was passed by the Legislature but vetoed by Governor Warren that would have presented a new concept of the relationship between state and local retirement systems.[14] This bill provided that members of a local system pay into the Permanent Fund $42 per year while their district contributes $12. It provided a benefit of $50 per month after thirty years of service. Members of a local system could also make special contributions to the annuity fund and receive any additional annuity derived from their contributions. The non-local members paid actuarial rates that ranged from 4.69 to 7.71 per cent. Their benefits were to be derived after thirty years of service as follows: $30 per month, an annuity amounting to the actuarial equivalent of their contributions, and a state current service pension of one-quarter of the annuity from the state pension fund.[15]

> Governor Warren in vetoing the bill stated: It is my considered opinion that Assembly Bill No. 1107 should be disapproved, principally for the reason that neither the Legislature, nor the public in general, or myself,

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[14] California Legislature, Assembly Bill No. 1107, January 18, 1943 (Sacramento: State Printing Office, 1943).

[15] Survey of Retirement Systems, State of California, Part I, A Report Prepared by the Legislative Auditor to the Joint Legislative Committee (Sacramento: State Printing Office, 1954), p. 39.

have a clear picture of all its complications. No thorough study on behalf of the state has been made to determine the relative financial responsibility of the teachers, the local districts, and the state. There are in the act what appear to be inequalities between the contributions of the teachers in the smaller and larger communities. If this is true, the teachers in the smaller districts which usually pay lower salaries will, throughout their lives, be carrying a heavier burden than those in the larger districts with higher salaries and local retirement districts. To have one group of teachers paying more and receiving less and another group paying less and receiving more eventually again would disrupt the system because no group will permanently carry a portion of the load of another without eventually becoming dissatisfied.

Local retirement systems were established to assist teachers in obtaining an adequate retirement allowance. From soon after their inception until the 1943 Legislature convened, these local systems plagued the groups who were attempting to develop a state system that was both adequate and equitable for all teachers.

V. CONCLUSION

In 1935 great strides had been made when the State Teachers' Retirement System was made a separate entity and an Annuity Savings Plan was adopted. Nevertheless, frequent attempts by many teacher groups throughout the state were vainly made to improve this system. Growth in the number of retired teachers emphasized the financial instability of the plan. Segments of teachers through local systems supplemented their benefits by belonging to both the state and local funds and had little toleration for the many teachers who were confined to the state plan alone.

Indeed, in eight short years the teachers retirement system again faced a crisis of evergrowing problems that required solution.

CHAPTER VI

COMPULSORY ANNUITIES

When Governor Earl Warren vetoed the retirement bill of 1943, he felt that the teachers' retirement situation should be studied by all interested parties. Warren promised to call a special session of the Legislature in 1944 for the sole purpose of dealing with this knotty problem. As a result of this promise several groups in conjunction with the California Teachers Association began to reevaluate the situation. Their objective was to study possible solutions that would bring together members of local systems with those in the state system and that would meet the approval of the Legislature.

I. FINANCIAL CONDITION OF THE STATE SYSTEM

That the time for a serious reappraisal of the State Retirement System was needed can be quickly understood by comparing the income of the Permanent Fund with the record of disbursements. This comparison is illustrated in Table VI where it was shown that the income in 1941 exceeded expenditures by over $400,000 while in 1943 this difference had decreased to less than $19,000.

The report of the retirement system given in Table III (page 51) shows that in the year 1937-38 disbursements were

TABLE VI

INCOME AND DISBURSEMENTS UNDER THE
PERMANENT FUND
1940 - 1943

	I. Income	1940-41	1941-42	1942-43
1.	Inheritance tax	$ 526,498.26	$ 572,473.78	$ 402,044.98
2.	Interest	475,823.77	480,521.05	477,900.98
3.	Teachers' contributions	1,181,260.11	1,133,869.23	1,254,182.14
4.	District contributions	591,055.56	612,094.60	614,207.20
5.	Total income	$2,774,637.70	$2,798,958.66	$2,748,334.96
	II. Disbursements			
6.	Operation	$ 36,165.79	$ 39,539.40	$ 42,001.60
7.	Equipment	374.30	652.84	1,021.70
8.	Refunds	75,284.64	122,423.56	104,382.45
9.	Death benefits	18,854.23	19,380.05	23,429.30
10.	Retirement allowance	2,224,825.54	2,342,213.80	2,559,076.89
11.	Total disbursements	$2,355,504.50	$2,524,209.65	$2,729,911.94

Survey of Retirement Systems of California, Part I, A Report Prepared by the Legislative Auditor to the Joint Legislative Committee (Sacramento: State Printing Office, 1954), p. 39.

equivalent to 55 per cent of the income, which was considered a rather safe margin. In Table VI it was shown that during the year 1942-43, the margin had dropped and expenditures were over 99 per cent of the current income. At this rate income would soon be exploited to pay off prior claims without provision for the active membership.

II. RETIREMENT LAW OF 1944

The Assembly appointed a committee in 1943 under the chairmanship of Assemblyman Bayshore[1] to prepare suitable legislation for the teacher retirement problems. This was done with the assistance of many of the teachers in the state and particularly of Louise Beyer Gridley, a strong leader for teacher retirement interests. Assemblyman Bayshore's bill was passed in the Fourth Extraordinary Session of the Legislature in 1944 and signed by the governor. The principles in this measure were followed almost in toto until 1955.

Leading provisions of this measure, as incorporated in Chapter 13 of the Statutes and Amendments of the California Code in 1943, were as follows:[2]

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[1] Survey of Retirement Systems of California, Part I, A Report Prepared by the Legislative Auditor to the Joint Legislative Committee (Sacramento: State Printing Office, 1954), p. 39.

[2] Statutes and Amendments to the Codes, California, 1943, Chapter 13.

1. The Teachers' Annuity Deposit Fund was retained but permitted no new deposits. Upon a teacher's retirement such deposits plus interest would be used to provide an additional annuity.

2. The Permanent Fund was continued. Members' contributions were to be increased from $24 to $60 per year. District contributions were to remain at $12 per year. In lieu of the inheritance tax, the state was required to appropriate annually the amount of money necessary to pay the Permanent Fund allowances of that year as were not provided by the annuity of the individual retired members contributions after 1944 and by the district contributions. Three million dollars were appropriated to meet the state's obligation of 1944-45. Benefits were to be paid any member after 30 years of service at the rate of $50 per month or prorated if the member retired with disability in less than 30 years of service. Monies from the Permanent Fund were to be used for certain increases to teachers who had already retired prior to July 1, 1944.

3. A Retirement Annuity Fund was organized. Participation was mandatory for all teachers employed in the public school except members of a local retirement system. Teacher contributions ranged from 2.53 per cent to 4.85 per cent dependent upon age and sex. Such rates were based upon their ability to provide an annuity equal to one half of the benefit for current service. Contributions were required on the first $3,000 of annual salary. Benefits were limited to that ceiling.

   The state was to make annual contributions sufficient to pay the total allowances of the current year that would not be provided for funding purposes from the members' accumulated contributions for current service. The sum of $60,000 was appropriated to meet the estimated state cost for 1944-45.

   Benefits for service after July 1, 1944, hereafter called current service, were an allowance of $.75 per $100 of earned salary not to exceed $3,000 in any one year. Prior service benefits, service rendered before July 1, 1944, and not including any service under a local retirement plan were based on rates dependent upon years of service rendered after July 1, 1944. Table VII explains the procedure used for determining rates for these prior service benefits.

Credit for prior service was limited not to exceed 40 years.

Credit for both prior and current service was payable in full if a member retired at age 63 or over. A discount factor was applied to such service if a member retired before 63.

4. Minimum benefits were guaranteed to any member retiring after July 1, 1944, of an amount totaling 120 per cent of his Permanent Fund Allowance.

5. Optional modifications of allowances as an insurance for a member's survivors were offered subject to the election of the member.

6. Refunds of all contributions were payable to members upon separation from membership by resignation or death. Permanent Fund contributions were refundable without interest, while contributions to the Retirement Annuity Fund were refundable with interest.

7. Out-of-state teaching service towards retirement was granted only to those members who had been members of the retirement system prior to July 1, 1944, and whose out-of-state service was rendered prior to July 1, 1944.

The chief opposition to Chapter 13 of the 1943 California Statutes was posed by those districts with local retirement systems. These districts were faced with a problem of double taxation. They received no share of the monies appropriated by the state for the Annuity Fund or the minimum allowance from the Permanent Fund. Such costs for benefits to teachers already retired under a local system had to be contributed entirely by that local system. If was agreed that

TABLE VII

PRIOR SERVICE ALLOWANCES FOR ANNUITANTS

Service Rendered After July 1, 1944	Annual Annuity per year of credited service
Less than 6 months	$3.00
6 months or more but less than 2 years	4.00
2 years or more but less than 4 years	5.00
4 years or more but less than 6 years	6.00
6 years or more but less than 8 years	7.00
8 years or more but less than 10 years	8.00
10 years or more	9.00

<u>Statutes and Amendments to the Codes, California, 1943</u>, Chapter 13.

this problem would be worked out in the 1945 Legislature where the law was amended to provide for equitable subventions to districts maintaining local retirement systems.[3]

III. AMENDMENTS OF 1947, 1949, 1951

With the increasing costs of living during World War II and the decreasing value of the dollar, retired teachers were faced with some serious financial difficulties. The increased allowances of the 1944 law were not sufficient for people with a fixed retirement income to meet this era of inflation. Almost immediately retired teachers through their state organization and active teachers through the California Teachers Association began planning for increased allowances.

The first of a series of amendments to increase the allowances of the State Teachers' Retirement System was the enactment of Chapter 803 in 1947.[4] Some of its major provisions were as follows:

1. Allowances for prior service benefits were to be increased to $20 for each year of prior service rather than varying amounts based upon years of service after July 1, 1944 as shown in Table VII.

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[3] Survey of Retirement Systems of California, Part I, A Report Prepared by the Legislative Auditor to the Joint Legislative Committee (Sacramento: State Printing Office, 1954), p. 41.

[4] Statutes and Amendments to the Codes, California, 1947, Chapter 803.

2. Such increases given to retired teachers would be based upon their ages at retirement.

3. Benefits from the Permanent Fund were limited to $600 per year or were prorated, depending upon years of service rather than using the fund to make a guaranteed minimum retirement allowance.

4. The maximum earnable salary on which contributions and benefits for the Annuity Fund were based was raised from $3,000 to $5,000 per year.

The law as stipulated in Item 3 above caused a decrease in payment from the Permanent Fund. However, the change wrought in Item 1 resulted in sizeable increases to all retired teachers.

The system was further changed in 1947 by the addition of Chapter 1503. The provisions of that chapter made the following changes:[5]

1. All members of the system with 10 or more years of service, including 10 of the last 11 in California, were eligible to retire for service or disability and receive benefits from all funds.

2. To qualify for service retirement the member had to be at least 58 years of age. He was then eligible to file an application at any future date if his last day of service was on or after October 1, 1947. If his last day of service was before that date, he was required to file his application within two years. Failure to apply within that period required a member to return to service for two years to reinstate his rights to a benefit.

3. The privileges of the member to withdraw his contributions were not changed if he disqualified himself by this law.

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[5] Statutes and Amendments to the Codes, California, 1947, Chapter 1503.

Prior to the meeting of the Legislature in 1949, the California Teachers Association had developed further requests for increased retirement allowances and benefits. Costs of these increases would almost double the current rate of contributions made by teachers. Grave doubt was felt by many members of the organization's retirement committee as to whether teachers would be willing to assume such responsibility. Members of the State Council were asked to bring the reactions of their districts to the December meeting. Their poll showed that an overwhelming majority of teachers from all parts of the state were in favor of the increased benefits and allowances.[6]

The Legislature of 1949 gave a real boost to the benefits and allowances of the teachers' retirement system when it added Chapter 1158 to the Statutes. This chapter provided major changes as follows:[7]

1. Prior service benefits were raised from $20 to $35 per year, an increase of 75 per cent.

2. Current service benefits were increased from $.75 to $1.25 for each $100 of salary earned or an increase of 66 2/3 per cent. Limitations on the salary for which benefits were based remained at $5,000.

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[6]California Teachers Association, State Council of Education, Minutes, 1948.

[7]Statutes and Amendments to the Codes, California, 1949, Chapter 1158.

3. The age at which full benefits were payable from the Retirement Annuity was changed from 63 years to 60.

4. The qualifying age for service retirement was reduced from 58 years to 55 years.

5. Qualified members could apply at any future date if the last day of service was rendered after July 1, 1935, instead of October 1, 1947. If no service had been rendered after July, 1935, the member had to return to service for two years to reinstate his eligibility.

6. Death benefits were also included for active teachers before retirement as follows:

   a. Permanent Fund payments since 1935 were returned without interest.

   b. Annuity Fund payments were returned plus interest.

   c. A benefit was given by the state equal to 1/12 of a year's salary for each completed year of membership service not to exceed six years.

These added benefits brought a 90 per cent increase in the teachers' contributions.[8] These rates became effective July 1, 1950. Some teachers felt this increased deduction from their monthly warrant a hardship. This was true particularly with younger married teachers who were on the beginning salary schedule and whose financial needs were greatest with a growing family. These teachers frequently introduced and proposed arguments for social security that resulted in

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[8] Survey of Retirement Systems of California, Part I, A Report Prepared by the Legislative Auditor to the Joint Legislative Committee (Sacramento: State Printing Office, 1954), p. 42.

many heated discussions within teacher groups for the next several years.

Chapter 1157 was also added to the statutes in the legislative session of 1949. This chapter dealt with legislation concerning local systems and the optional modification of retirement allowances.[9] It guaranteed benefits to any member of a local system equal to what he would have received if he had been a member of the state system. This was approved by the Legislature because that body had increased the prior service payments in 1947 and again in 1949. Chapter 1157 further provided for optional modification of the retirement allowance from the Permanent Fund as well as the Annuity Fund. These elections could only be made at the time of retirement.

Two main issues were taken to the Legislature in 1951 by the California Teachers Association.[10] This organization had a bill introduced to raise the limits of earned salary upon which members' benefits and contributions were based and another bill to assist San Diego in securing legislation to dissolve its local retirement system.

The first of the two bills was of particular interest to administrators and teachers in the higher salary brackets.

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[9] Statutes and Amendments to the Codes, California, 1949 Chapter 1157.

[10] California Teachers Association, State Council of Education, Minutes, 1950.

Both groups had been studying the California State Employees Retirement System. This system based its retirement benefits on the total salary earned by an employee rather than on a limited share of the salary earned. Consequently, an inequity was involved between the benefits of the two systems, since members of the teachers' system were limited to benefits based upon an annual salary of $5,000.

With the increasing costs of living and the inequity mentioned above, members of the California Teachers Association Retirement Committee realized that the allowances of their plan had to be increased. As a result of this need, legislation was introduced and enacted that removed the $5,000 ceiling. This was changed to a no-limit ceiling on salary earned after July 1, 1952, upon which contributions and benefits were based for the Annuity Fund.[11]

The second bill proposed legislation whereby a local retirement system could be dissolved without penalizing its members. This need had been discussed for several years, since the benefits of the state system were rapidly improving and in some cases surpassing those of the local systems. As a means to facilitate such a dissolution, Chapter 713 of the 1951 Statutes was enacted[12] and provided that no teacher would

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[11] Statutes and Amendments to the Codes, California, 1951, Chapter 194.

[12] Ibid., Chapter 713.

suffer in the dissolution of any local system.

As a result of the act, the San Diego system was dissolved on January 1, 1952. The members were immediately covered by the State Teachers' Retirement System and the non-certificated employees by a contract with the State Employees' System as a local agency. Contributions were transferred and the members' excess contributions were refunded directly to the members themselves.

IV. GUARANTEED MINIMUM BENEFITS

For a number of years discussion had centered around expansion of the retirement system for increased maximum benefits. This discussion came from teachers employed in the wealthier districts and particularly from the metropolitan areas. The per capita assessed valuations of such districts were relatively high as was the size of their teacher group. The resultant income permitted the payment of high salaries and the large number of teachers brought about strong pressures. In 1951, the combination of these forces had removed the ceiling of earnings for the Annuity Fund upon which benefits were based.

Following the 1951 Legislature considerable pressure was exerted by the Retired Teachers Association and other teachers' organizations that a suitable minimum retirement salary should be enacted into the laws of the retirement system.

Recommendations were made for such legislation by the California Teachers Association.[13] As a result, in 1953 the Legislature passed legislation which gave the teachers a $170 per month minimum retirement salary for those credited with 30 years of service at age 60 or more,[14] and liberalized the benefits for disability retirements.[15]

V. CONCLUSIONS

From the beginning of the compulsory annuity on July 1, 1944, through the next decade, considerable progress took place in California's approach to teacher retirement. The financial stability of the system was established so that at no time would the expenditures be greater than the income. Benefits had been increased so that it was no longer essential for local districts to form systems of their own. Limits had been removed upon the ceilings for which the contributions and benefits of the retirement annuity had been based. Minimum retirement salaries had been established as had disability retirement payments. It had been a period of tremendous growth in benefits fixed upon a strong foundation of financial stability.

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[13] California Teachers Association, State Council of Education, *Minutes*, 1952.

[14] *Statutes and Amendments to the Codes, California, 1953*, Chapter 1779.

[15] *Ibid.*, Chapter 935.

CHAPTER VII

CURRENT TEACHER RETIREMENT PLAN

No sooner had the limit been removed for the salary base of the retirement annuity in 1951 than a number of organizations felt that the entire retirement system should be reorganized. Many of these critics thought the existing system had become too complicated for the average teacher to understand. They looked at the State Employees' System whose benefits were computed simply from a base period of earned salary and whose average benefits were greater than the teachers' plan and wanted a change. So strong was the feeling for a reorganization of the teachers' retirement system that it was brought to the attention of every teacher in the state for the next several years.

I. PLANS A AND B

Early in the fall of 1953 the State Retirement Committee of the California Teachers Association met in the California Hotel in San Francisco under the chairmanship of J. Allen Hodges to determine the course to follow for the future of the California Teachers' Retirement System.[1] The committee was divided into two groups, one to develop and improve the benefits

[1] Observation by author, San Francisco, 1953.

based upon the existing system to be known as Plan A, and the second, to develop an entirely new plan to be known as Plan B. The two groups then convened on the same day and developed tentative plans.

These two plans were further studied by the whole retirement committee preceding the December State Council meeting of the California State Teachers Association. At the Council meeting both plans, plus the addition of several amendments, were approved for study.[2] It was further recommended by the Council that these plans be submitted to the Legislative Interim Budget Committee for complete study to determine costs and benefits. The California Teachers Association was to appropriate such money not contributed by the Interim Committee as was necessary to determine the comparative costs and benefits for both the state and the members. The Council also formulated a resolution that after these costs had been ascertained such information must be submitted to the membership and a poll taken that read:

1. Is a change desirable? Yes _____ No _____
2. If yes, which plan is preferred?

   Plan A _____ Plan B _____

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[2]California Teachers Association, State Council of Education, Minutes, December, 1953.

During the following year many comparative studies were made on the relative merits of the two plans. The California Association of School Administrators distributed a comparative study on various retirement systems and enthusiastically supported Plan B.[3] The Retirement Committee of the California Teachers Association developed many such comparisons but made no decision on which plan to accept until the facts had been gathered. At times there were heated arguments over the two plans. Teachers frequently called Plan B the Administrators' Plan because they seemed to be the ones who would benefit most.

As the year 1954 drew to a close no report had been received from the actuaries nor had any poll been taken for the teachers' opinions. With the opening of the 1955 Legislature, two skeleton bills were introduced, one supporting Plan A and the other Plan B.

On January 21, 1955, Lauren C. Haight, Actuary for the State Teachers' Retirement System, released, in a letter to the California Teachers Association, the actuarial studies of

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[3]California Association of School Administrators, _A Comparative Study of Retirement Systems_, A Study Prepared by William S. Briscoe, Professor of Education, U. C. L. A., (Los Angeles: California Association of School Administrators, 1954), pp. 1-49.

the existing plan compared with proposed Plans A and B.[4] The letter showed that Plan A would increase the retirement costs to be met by state contributions by more than $836,000,000 while Plan B would reflect an increase of nearly $681,000,000. His letter also described the member contribution rates, which were a decided increase over the rates in the old plan and are shown in detail in Table VIII.

By January 25 the California Teachers Association had assembled this material into an analysis of the proposed plans[5] and transmitted it to every member in the organization. The study was then reviewed and discussed through the various local organizations with the assistance of members on the Retirement Committee. Following this period of study, ballots were distributed to survey the reaction of the membership to a change in the existing retirement plan and whether Plan A or Plan B was favored. The returns of that poll were officially reported at the State Council Meeting early in April as follows:[6]

[4]Lauren C. Haight, "Statement for California Teachers Association of Costs Under California State Teachers' Retirement System" (Sacramento: State Teachers' Retirement System, 1955), Schedule D.

[5]An Analysis of Current Proposals for Teacher Retirement, A Study Prepared by the California Teachers Association (San Francisco: California Teachers Association, 1955), pp. 1-8.

[6]California Teachers Association, State Council of Education, Minutes, April, 1955.

TABLE VIII

MEMBER CONTRIBUTION RATES FOR EXISTING AND PROPOSED PLANS AS A PERCENTAGE OF COMPENSATION CALIFORNIA STATE TEACHERS BASED ON 1954 MORTALITY TABLES

Age	Present Plan*		Plan A*		Plan B	
	Male	Female	Male	Female	Male	Female
20	5.77%	6.25%	8.07%	8.75%	9.53%	9.71%
21	5.82	6.32	8.15	8.85	9.53	9.75
22	5.88	6.39	8.23	8.95	9.53	9.78
23	5.94	6.46	8.31	9.05	9.53	9.83
24	5.99	6.54	8.39	9.16	9.53	9.88
25	6.06	6.62	8.48	9.26	9.53	9.94
26	6.12	6.70	8.57	9.38	9.53	10.00
27	6.18	6.78	8.66	9.49	9.53	10.07
28	6.25	6.86	8.75	9.61	9.54	10.14
29	6.32	6.95	8.84	9.73	9.56	10.22
30	6.39	7.04	8.94	9.86	9.57	10.31
31	6.46	7.13	9.04	9.98	9.59	10.39
32	6.53	7.22	9.14	10.11	9.61	10.48
33	6.60	7.31	9.25	10.24	9.64	10.58
34	6.68	7.41	9.35	10.37	9.67	10.67
35	6.76	7.50	9.46	10.50	9.70	10.77
36	6.84	7.60	9.57	10.64	9.74	10.87
37	6.92	7.70	9.68	10.78	9.78	10.96
38	7.00	7.80	9.80	10.91	9.83	11.16
39	7.08	7.90	9.92	11.05	9.88	11.16
40	7.17	8.00	10.04	11.20	9.94	11.26
41	7.26	8.10	10.16	11.34	10.01	11.36
42	7.35	8.20	10.29	11.48	10.08	11.47
43	7.44	8.31	10.41	11.63	10.16	11.57
44	7.53	8.41	10.54	11.78	10.24	11.67
45	7.63	8.52	10.68	11.93	10.33	11.78
46	7.72	8.63	10.81	12.08	10.43	11.89
47	7.82	8.74	10.95	12.23	10.53	12.00
48	7.92	8.85	11.09	12.39	10.64	12.10
49	8.02	8.96	11.23	12.54	10.75	12.21

TABLE VIII (Continued)

Age	Present Plan*		Plan A*		Plan B	
	Male	Female	Male	Female	Male	Female
50	8.12	9.07	11.37	12.70	10.87	12.33
51	8.23	9.19	11.52	12.86	10.99	12.44
52	8.33	9.30	11.67	13.03	11.12	12.56
53	8.44	9.42	11.82	13.19	11.26	12.68
54	8.55	9.54	11.97	13.36	11.40	12.80
55	8.66	9.66	12.12	13.52	11.54	12.93
56	8.77	9.78	12.27	13.69	11.69	13.06
57	8.88	9.90	12.43	13.87	11.83	13.21
58	8.89	10.00	12.58	14.04	11.98	13.35
59 & over	9.10	10.15	12.74	14.22	12.13	13.52

* $5.00 per month to Permanent Fund also required under present plan and under "Plan A," but not under "Plan B".

Lauren C. Haight, "Statement for California Teachers Association of Costs Under California State Teachers' Retirement System" (Sacramento: State Teachers' Retirement System, 1955), Schedule E.

Favoring change	54,884
Opposing change	6,352
Favoring Plan A	11,227
Favoring Plan B	49,076

The results were a nine to one victory for a change and a four to one vote in favor of Plan B over Plan A. At that time the California Teachers Association withdrew its support from Plan A and endorsed Plan B.

II. AMENDMENTS AND APPROVAL BY THE LEGISLATURE

Plan B had been introduced into the Legislature by Senator Dilworth at an earlier date as Senate Bill No. 1445 and was duly passed by the Legislature and signed by the Governor with practically no change from its original form. The effective date of the new provisions was postponed to July 1, 1956, to give time for the orderly adjustment of over 14,500 outstanding allowances and the orderly performance of all other tasks required by the change. The revolutionary provisions marked a great improvement in the scope of the retirement system. The new plan not only provided larger benefits, but provided a system with benefits that would increase with an inflationary economy.

The main provisions of Plan B were as follows:[7]

1. Service retirement would be optional with members upon the attainment of age 55 with ten years of service.

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[7]<u>Statutes and Amendments to the Codes, California, 1955</u>, Chapter 1395.

2. The total allowance upon service retirement at age 60 would be 1/60 (1.666%) of the average contract salary for the highest three consecutive years multiplied by the years of service. Service credited under a local system was limited to service rendered in the school district supporting the system. Such service was also credited under the state system but was credited there only in the Permanent Fund.

3. The resulting allowance would be discounted actuarially upon retirement below age 60 and increased actuarially upon retirement above age 60. Such increases would be level beginning at age 65.

4. Of the resulting service allowance an amount equal to $600 for 30 or more years of service would be paid from the Permanent Fund to be discounted actuarially below age 60 and increased above age 60. For service credited in local systems, an amount at the rate of $600 for 30 years of service would be the sole state allowance to be discounted actuarially below age 60 and increased above age 60.

5. The minimum annual service retirement allowance would be $70 multiplied by the years of service not to exceed 40 years, discounted actuarially at retirement below age 60 but not increased at retirement above age 60. No retirement allowance under this minimum, effective after June 30, 1956, would exceed 75 per cent of the average annual salary during the highest three consecutive years.

6. The allowance upon disability retirement below age 60 would be 90 per cent of 1/60 (1.50%) of the average salary for the highest three consecutive years of service. Upon retirement at age 60 or over, the allowance would be the same as for service retirement. The minimum allowance for disability retirement below age 60 would be 25 per cent of such average salary, with relatively rare exceptions. Disability retirement was permitted regardless of age, but only after 10 years of service, all in California with minor exceptions.

7. Service rendered for one year or fractional parts thereof would be credited on the basis of ten months or 215 days put in during a fiscal year by members

employed on a monthly or per diem basis, respectively, and with normal tours of duty extending through the year. One year of service would be credited on the basis of a minimum of 145 days put in during a fiscal year by members whose normal tour of duty extends only through the school term. Fractional years would be aggregated to make complete years.

8. Members' rates of contributions for service not credited under a local system were increased as shown in Table VIII. These rates were continued being based on the nearest age at July 1, 1944, or at later entrance into the system. Sixty dollars of the resulting contributions would be for the Permanent Fund. For service credited under a local system, this $60 per year would be the only contribution required.

9. A $400 benefit was provided from state contributions upon death after retirement.

10. Members were permitted to make additional contributions to provide additional benefits, without further state contributions. Such contributions could be terminated at any time, but could be withdrawn only as provided for other contributions.

11. The retirement allowances of persons already retired were adjusted to the new plan.

Only one major change was made in the retirement laws by the 1957 Legislature.[8] This dealt with certain benefits at death before retirement. All other amendments were technical changes to aid in the clarification and administration of the laws made in 1955.

The major change in the benefits at death before retirement in 1957 was brought about by two forces. The first was a

[8]Statutes and Amendments to the Codes, California, 1957, Chapter 2296.

lack of any survivorship benefits for the active teacher other than the return of contributions and approximately a half year's salary to the beneficiary. The second force was based on the first that a teacher at fifty-five years of age and qualified to retire was gambling on the protection of his beneficiary. Such a teacher if retired could have provided his survivor with benefits at his death that were far superior than if he remained teaching. This technicality was untenable, when the state was in need of teachers.

To solve this situation, the Legislature enacted Chapter 2296 to the 1957 Statutes, which provided the following:[9]

1. Upon the death of a member before his retirement and within four months of his termination of employment, there would be paid to his beneficiary in one payment an amount equal to his contributions plus certain interest plus an amount provided by the state equal to approximately one-half the member's annual salary. If the spouse were the sole beneficiary, he or she might elect to receive a monthly life income actuarially equivalent to this amount.

2. If the benefit described in Item 1 were payable, a monthly allowance for life income to dependents was payable in lieu thereof, if, at death, the member could have qualified for service retirement. The amount of the allowance would be equal to one-half of the service retirement allowance that would have been payable to the member had the member retired on the day of his death. This allowance would be payable to the member's widow or dependent widower. The payment of the allowance would stop upon the remarriage of the spouse. If there were no qualified spouse, or if a qualified spouse dies, or

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[9] Ibid.

remarries, the allowance would be paid to any unmarried children under 18 years of age until that age is attained.

The legislation guaranteed that the total payments made would at least equal the amount of the basic death benefit described in Item 1.

3. A member who qualified to retire could make an irrevocable election with respect to certain options for modified allowances of retirement benefits prior to his actual retirement. This election could not be changed in any manner, such as changing the beneficiary because the one originally nominated died. At retirement the member's allowance would be reduced under the option elected, irrespective of whether the beneficiary nominated was then living. At death following retirement, payments under the option would be made to the surviving beneficiary. If the member dies prior to retirement, payments will be made to the beneficiary in amounts equal to what would have been paid if the member had retired immediately prior to death and the option had been in effect.

III. CONCLUSIONS

In four short years the California Teachers' Retirement System had been changed from a design that developed from a fixed income plan, with the addition of a voluntary annuity savings arrangement, plus a series of compulsory annuity laws, to a complete annuity system. Several provisions had been made that marked a definite approach to survivorship benefits. The system further provided a flexibility to adjust retirement benefits if salary increases were influenced by any trend of inflation near the time of a member's retirement. This was in contrast to the old system that paid benefits from its annuities on the member's accumulated earnings, rather than on the average earnings of the highest years. The system also incorporated a technique of paying actuarial premiums to those members who continue to teach beyond 60 years of age. During the 1950's, the California Teachers' Retirement System made tremendous growth.

CHAPTER VIII

THE UNDERLYING FORCES IN RETIREMENT CHANGES

Public employees' retirement systems have become commonly accepted businesslike plans enacted into law. They have improved public employment by helping aged or disabled public employees to retire from active service with a reasonable but assured income for life.

Public acceptance of retirement systems has not been sudden. The public concept has been influenced by many forces to bring about the results in existence today. These forces consist of social, economic, political, health, educational, and other factors. To understand the present, the foregoing forces should be analyzed.

I. PHILOSOPHY OF MUTUAL AID

Mutual aid associations might be defined as cooperative emergency organizations. Their sole purpose was to offer sickness and death benefits. These aids were of a temporary nature and were always limited both in benefits and duration. Such associations were slowly developed by individuals and organizations.

During the popular era of mutual aid associations, the public had offered support for welfare purposes only to the army, navy, police, and firemen because they were in hazardous occupations that were beneficial to the public. No other group of public employees had ever been given comparable aid.

Reasons for this public attitude were varied. Rugged individualism was the prevailing philosophy of the American pioneers. Family care for their own had been the practice from the beginning of time. Lack of mobility of population kept the majority of families contained in a relatively small geographical area. Poorhouses had been constructed in many of the more populous areas and were considered to have solved the remaining problems. But finally and probably the major cause had been the lack of need.

This lack of need can best be explained by an understanding of life expectancy in the United States. In Table IX is illustrated the life expectancy at birth for the white race in this country over a period of years. Of particular note is the difference of 23 years greater life expectancy at birth in 1954 than in 1900. At present life expectancy at birth in the United States is about 70 years, while in 1900 it was 48 years. These statistics clearly point out that longevity was not a major factor in the need for a retirement plan during the nineteenth century.

Mortality tables for the periods 1843-1858 and 1949-51 are shown in Table X. These tables help to confirm the findings

TABLE IX

EXPECTATION OF LIFE AT BIRTH IN THE UNITED STATES
1910-1954
WHITE

Year	Male	Female	Both Sexes
1900	46.6	48.7	47.6
1910	48.6	52.0	50.3
1920	54.4	55.6	54.9
1930	59.7	63.5	61.4
1940	62.1	66.6	64.2
1948	65.5	71.0	68.0
1949	66.2	71.9	68.8
1950	66.6	72.4	69.2
1951	66.5	72.4	69.2
1952	66.6	72.7	69.4
1953	66.8	72.9	69.6
1954	67.4	73.6	70.3

<u>Life Insurance Fact Book</u>, A Publication Prepared by the Division of Research (New York: Institute of Life Insurance, 1956), p. 97.

TABLE X

MORTALITY TABLES

Age	American Experience (1843-1858) Deaths per 1000	U. S. Total Population (1949-1951) Deaths per 1000
0	154.70	29.76
1	63.49	2.30
2	35.50	1.39
5	13.60	.76
10	7.49	.53
15	7.63	.87
20	7.80	1.35
30	8.43	1.79
40	9.79	3.68
50	13.78	8.76
60	26.69	19.77
70	61.99	42.49
80	144.47	98.41
90	454.55	212.49
95	1000.00	295.82
100	--	389.04

<u>Life</u> <u>Insurance</u> <u>Fact</u> <u>Book</u>, A Publication Prepared by the Division of Research (New York: Institute of Life Insurance, 1956), pp. 98-99.

of the life expectancy tables. At no age level do the mortality tables show that the death rate was as high in the 1949 period as it was in the earlier period.

II. PRIVATE INSURANCE COMPANIES

Prior to 1929 there was a very positive philosophy of individualism in the United States. It was the responsibility of the individual to work and save for a rainy day. Most Americans felt that the strength of their country was based upon this aggressive spirit of self reliance. A man was supposed to do his own saving for his future welfare.

This spirit gave birth to the growth of life insurance companies. The first company was organized in 1759 with the following expressed purpose: "The Corporation for Relief of Poor and Distressed Widows and Children of Presbyterian Ministers."[1] The first general company to issue life insurance policies was the Pennsylvania Company in 1812. Others followed slowly until the movement caught hold and from 1875 began to grow rapidly. By 1900 there were $7,000,000,000 of insurance in force. From that date to the present, with the exception of three years during the thirties, the amount of life insurance in force in the United States grew steadily to the

[1] Life Insurance Fact Book, A Publication Prepared by the Division of Research (New York: Institute of Life Insurance, 1956), p. 102.

staggering sum of $372,332,000,000 in 1955.[2]

III. AROUSING SOCIAL RECOGNITION

In 1875 the management of an American corporation inaugurated the first private pension plan on a tentative basis.[3] Their management thought that it would be a good business practice to make provisions for the economic security of their employees who were no longer able to work. This program provided for retirement at the discretion of the board of directors at any time after age 60 and the completion of 20 years of service. The pension amounted to 50 per cent of the average pay received during the last 10 years of service, not to exceed $500 per year.

During the next twenty-five years eleven other companies are known to have established formal pension plans.[4] This movement became popular with a series of changes in the Federal Revenue Acts in 1921, 1928, and 1938, which increased tax deductions to companies with bona-fide pension plans. In 1943 there were approximately 2,500 pension plans in force and by 1953 this number had grown to over 20,000.

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[2] *Ibid.*, p. 8.

[3] *Economic Security for Americans*, A Report Prepared by the American Assembly (New York: Graduate School of Business, Columbia University, 1954), p. 17.

[4] *Ibid.*, p. 19.

Labor unions had been interested for many years in welfare and pension coverage for their members by the employers. It was not until 1948 that the National Labor Relations Board ruled in the historic Inland Steel Case that pensions were a part of compensation and, therefore, within the employers' legal obligations in collective bargaining.[5] When this decision was upheld by the Supreme Court in 1949, the number of pension plans increased to over 6,000 in the next three years.

The advent of the depression in 1929 was the decisive event in American history, which brought about a desire for security. The depression dashed the hopes of untold millions who had labored long and diligently and set aside their savings for a rainy day. Men and women who believed in a policy of hard work and rugged individualism found that these traits had little value when a factory or business had to be liquidated.

With the beginning of industrialization had begun a process of urbanization. Fewer families lived on self sufficient farms. In this process smaller homes were built. With this change in the size of living quarters there came another change to the American mores. It no longer seemed reasonable for members of different adult generations to live under the

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[5]*Ibid.*, p. 20.

same roof. As a result, when the unemployed or old people lived as separate economic units, the need for economic security loomed larger.

The increased mobility of the population probably received its impetus with the severe droughts in the Southwest. during the early thirties. The migration of these peoples hastened the separation of families. This movement was stimulated further by World War II with the increased industrialization of the Pacific Coast.

Public education concerning the welfare and security needs of public school teachers began with the program of the National Education Association in 1884.[6] This action was furthered by the many local and state teachers' organizations as well as by those of retired teachers.

Such organizations in New York and New Jersey were some of the pioneering groups in this field and many of the basic principles for teacher retirement were developed in those states. Likewise, the California Teachers Association continually carried on a program to enlighten the people of the state concerning the needs of teachers and the ensuing benefits that eventually accrue to the public.

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[6] Advance of the Teacher Retirement Movement, A Research Bulletin Prepared by the National Education Association (Washington, D. C.: National Education Association, May, 1928), p. 152.

Finally, the statistical facts that people live longer as shown in Table IX pointed out that there was a growing number of old people. The victories of medicine over disease increased the number of these aged and at the same time aggravated their economic problems.

Thus from all sides did the public develop an increasing awareness of the needs for security to the aged.

IV. GOVERNMENTAL AGENCIES

The role of government established itself strongly in economic welfare during the past twenty-five years. Its interests were focused particularly in four fields: old age, death of the family breadwinner, disability and sickness, and unemployment. The first workmen's compensation legislation dates back to 1912, federal old age pensions and unemployment insurance to 1935, and survivors' benefits to 1939.[7] The results of these programs are felt and treasured by millions of individuals and families.

The impetus given to the welfare program was undoubtedly inspired from the dreaded conditions of the depression in 1929. From that time government welfare activities opened the way and educated the people to an entirely different social philosophy from that of individualism.

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[7] *Ibid.*, p. 24.

V. CONCLUSION

The existence of a teacher retirement system in California was not the result of a single force in the state or the nation. Neither was it the result of action by a single individual or body. California's Teacher Retirement System has been the result of an interaction of many forces--social, economic, political, health, and educational--in this state and throughout the nation.

CHAPTER IX

SUMMARY AND CONCLUSIONS

I. SUMMARY

This study was concerned primarily with the history of teacher retirement in California. Background material was developed by reviewing the early American mutual aid societies, sick benefit associations, and old age and disability annuity associations. Likewise, a review was made of early American retirement legislation. The evolution of a mutual aid movement in California was traced to permissive local retirement systems. The thesis included the history and development of the many California teacher retirement laws that were passed and amended and described the conditions that brought about the present state system from its inception in 1913.

The development of a public school teachers' retirement system in California has been slow and steady. Yet its progress has been aggressive in growth, financial structure, and benefits compared to similar systems in other states.[1]

From the beginning problems encountered in California were present in other states. The era of the mutual aid society

[1] Survey of Retirement Systems of California, Part I, A Report Prepared by the Legislative Auditor to the Joint Legislative Committee (Sacramento: State Printing Office, 1954), pp. 70-74.

in San Francisco began in 1873, just four years after the inception of a similar plan in New York City. California's Enabling Act in 1895, permitting the organization of local retirement systems, followed similar action taken by the New York Legislature in 1894. Likewise did California's first statewide system in 1913 follow closely those of New Jersey, Maryland, Rhode Island, Virginia, New York, Wisconsin, Arizona, and Massachusetts respectively.[2]

Following the organization of California's first statewide flat pension fund in 1913, there were several major changes in its evolution to the Annuity Fund of 1955. The year 1935 saw the addition of an annuity savings plan. This plan consisted of teachers' deposits without any participation from local or state sources. In 1944 the annuity savings plan was abolished and was replaced by the organization of another annuity. The second annuity required participation from both the individual and the state, and imposed limits upon the salary for which a teacher would be required to make payments. This ceiling on salary upon which the teacher could make contributions was gradually raised and finally eliminated in 1952. Three years later the present annuity plan was established.

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[2]Paul Studensky, _Teachers' Pension Systems in the United States_ (New York: D. Appleton and Company, 1920), p. 31.

With the addition of the 1957 amendments concerning survivorship benefits, this plan is in existence today.

The present annuity plan brought many advantages to the members of the retirement system. Increased participation was required of local districts. Benefits were based upon the earnings of the three highest consecutive years of teaching rather than upon the accumulated earnings of a teacher. Actuarial premiums were paid to those who taught beyond 60 years of age. Recognition was made and some options granted for survivorship benefits.

Each of the major changes in the California retirement plan was preceded by considerable study and activity. This was evidenced from the number of laws which were added with each change in order to improve benefits and eliminate inequities.

An item of particular significance has been California's relationship to retired teachers. California has consistently increased the allowances of retired teachers in direct proportion to the increased benefits for active teachers.

The achievement of developing a retirement system in California during the past fifty years required great individual sacrifice of time and effort. The fortitude that inspired the leaders in this movement to return to the Legislature time and again, through victory or defeat, was the measure of true dedication. It was through people of this calibre that the California Teachers' Retirement System achieved its present standing in the eyes of teachers, legislators, and the citizens of California.

Data were collected from a variety of sources. Those data which pertained to laws, legal aspects, and financial conditions of the California state system were readily available from official records. Documented records or minutes of early teachers' organizations, which pertained to retirement, were rarely found and to a large extent have become extinct. Subcommittee records of the California Teachers Association failed to record important dates and the contributions of individuals and organizations. Former members of the C. T. A. Retirement Committee are the best sources of information pertaining to personnel who influenced the improvement of California's teacher retirement.

Specific references to California retirement movements were found in C. T. A. publications. Early copies are scarce and are privately owned with the exception of those in the association's library. Even this collection is lacking in some areas. State Council minutes of the C. T. A. are well preserved and contain the general actions on retirement that were either discussed or recommended by that body.

II. NEED FOR FURTHER STUDY

This investigation does not cover every facet of retirement history in California. There are several areas which should be explored.

Many individuals who have contributed to the study of retirement plans should be identified and their contributions recorded. Much of this will have to be done in interviews with retired teachers. Information during the later years can be found from the files of the California Teachers Association and from interviews with active teachers.

Certainly, the teacher interest in social security and how it can become part of the California Teachers' Retirement System should be analyzed for future study. Some of these data can be obtained from minutes of a social security subcommittee of the California Teachers Association Retirement Committee and from the Retirement Committee itself. Other data may be obtained from organizations that have made proposals to the California Teachers Association for their support in connection with social security.

Next, additional information should be assimilated on survivorship benefits. Many groups in the various state retirement systems have discussed and shown a keen interest in this question.

Also, one might include the history of the various local teacher retirement systems in California. Considering the number of people they have served, their importance is significant.

Finally, the extension of this project will have increasing value as the future creates changes in the existing system.

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