

**TESTIMONY OF TERESA HARRISON  
CHAIRMAN, COALITION TO PRESERVE RETIREMENT SECURITY**

Before the U.S. House of Representatives  
Ways and Means Subcommittee on Social Security

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Chairman Shaw, Ranking Member Matsui and distinguished members of the subcommittee, my name is Terri Harrison and I am the director of government relations for the State Teachers Retirement System of Ohio. I am testifying today in my capacity as chairman of the Coalition to Preserve Retirement Security. On behalf of the Coalition, I thank you for the opportunity to appear before the subcommittee to discuss the issue of mandating Social Security coverage for public sector workers.

While this issue has been around for decades, most recently, the President's Commission to Strengthen Social Security made history by being the first commission to not recommend mandatory Social Security coverage in their report for Social Security reform.

The Coalition to Preserve Retirement Security (CPRS) is a non-profit organization composed of members representing state and local governments, public employee unions, and public pension systems throughout the United States. The purpose of our organization is to assure the continued financial integrity of our members' public retirement systems. By successfully opposing efforts to mandate Social Security coverage for all newly hired public employees we achieve the principle goal of our coalition.

Our 39 members are found in Alaska, California, Colorado, Florida, Illinois, Kentucky, Louisiana, Massachusetts, Missouri, Nevada, Ohio, and Texas and represent about 4.1 million public employees and retirees. They administer retirement benefits for nearly 12,000 public employers in these states.

In addition, our national associations and public pension unions represent more than 15 million public workers, five million of whom are outside of Social Security.

**The Problem**

Over the years, some have recommended bringing all public workers into the Social Security program. However, mandating that all newly hired public workers must participate in the Social Security system would create significant new cost pressures for the affected state and local government jurisdictions while providing only minimal benefit to the program.

These jurisdictions, with their own long-standing defined benefit retirement plans, would have to make difficult choices. Adding an additional 6.2 percent payroll tax per worker to the benefit costs of public employers could result in cutbacks to their existing defined benefit plans, cuts in government services, or even increases in taxes or fees to absorb the added costs. The disruption that would likely occur for these public jurisdictions and their workers seems a high price to pay for adding an estimated two years of solvency to the Social

Security program. It is estimated that mandatory Social Security coverage would cost the affected states and localities \$26 billion over 5 years. This additional financial burden on affected states could be an insurmountable budgetary hurdle particularly during these very difficult days of huge revenue shortfalls hitting virtually every state.

## **Background**

When the Social Security system was created in 1935, state and local government employees were not allowed to participate in the system. Beginning in the 1950s, state and local government employers could elect to have their employees covered by the Social Security program and were allowed to opt-in or -out of the system.

In 1983, there was a major revision of the Social Security and Medicare laws, triggered primarily by a concern about the long-term solvency of these two trust funds. Congress decided not to require state and local employees who were outside the system to be covered, but did end the opt-out for public employees who had chosen to be covered.

In 1986, as part of the Consolidated Omnibus Budget Reconciliation Act of 1985 ("COBRA"), Congress required universal participation in the Medicare system on a "new hires" basis, but chose to leave public employee retirement plans in place, and did not change the law with respect to Social Security.

In 1990, Congress enacted a law requiring that all public employees, not covered by a state or local retirement plan meeting specified standards, must be covered by Social Security. That law, adopted as part of the Omnibus Budget Reconciliation Act of 1990 (the "1990 Act"), ensures that all public employees will be covered either under Social Security or under a public retirement plan that provides comparable benefits. Today, about one-third of all state and local government employees, about five million public servants, are outside the Social Security system because they are covered by their employer's public retirement plan. In addition, millions of current retirees from non-Social Security public pension plans depend on those plans for a significant share of their retirement income.

From 1994 to 1996, the Advisory Council on Social Security examined the mid-term and long-term solvency of Social Security and the Social Security Trust Fund. The panel submitted its report in January 1997 but there was no majority on the council for any single set of recommendations. Three proposals were put forth by different groups of members. However, a majority of the Advisory Council recommended mandatory Social Security coverage of public employees, although the three labor members of the council opposed this proposal "because of the financial burden that would be placed on workers and employers who are already contributing to other public pension systems."

There is some evidence that the 1994-1996 Advisory Council had not fully considered the ramifications of such a dramatic change on state and local workers. In an April 1997 speech before the National Conference of Public Employee Retirement Systems, Edith Fierst, a member of the Advisory Council, said of the mandatory coverage proposal, "We did it primarily because it would be good for Social Security, not because it would be good for the employees. Our interest was that if people came into Social Security and began to pay the

Social Security tax, that helps the Social Security's trust fund, and they won't start to draw benefits based on those contributions for some years."

In 2001, as mentioned earlier, the President's Commission to Strengthen Social Security decided not to include mandatory coverage in its final report. This is particularly remarkable, since the late New York Senator Daniel Patrick Moynihan, a vociferous proponent of forced coverage, co-chaired the Commission.

Based upon the assumptions in the 2003 Social Security trustees' annual report, if left unchanged, the program will be insolvent—that is unable to pay all benefits owed—beginning in 2042. However, some experts warn that Social Security reform is needed soon. As so-called baby boomers begin retiring over the next decade, there will be increased pressure on the solvency of the program and by 2018 costs will exceed revenues, according to the trustees' report.

Accordingly, forcing newly hired state and local public workers outside of the Social Security program to participate is seen by some as an attractive way of generating additional revenues for the program in the short term. This position is flawed and, for the reasons discussed below, mandatory coverage should not be included in any Social Security reform package.

### **The Myth of Covering Just New-Hires: Covering Only New-Hires is Still Harmful**

Proponents of mandatory coverage contend that applying the mandate only to newly-hired workers would make it less onerous for public employers - nothing could be further from the truth. Public sector defined benefit plans rely on a constant and reliable revenue stream in order to meet actuarial goals and provide a retirement benefit for plan participants at affordable contribution levels.

Proponents of this solution fail to understand that the normal cost of the existing retirement plan will increase as a percentage of payroll as younger members are eliminated from the plan. Thus, employers and new workers will not only have to add an additional 6.2 percent for the new payroll tax, but employers may also have to increase contributions to the existing plan or cut benefits. When states and localities are under extreme fiscal stress as they are currently, this added expense will create enormous burdens with negligible, if any, positive outcomes.

### **Mandatory Social Security Coverage Will Only Extend Social Security's Solvency by Two Years, But Could Destabilize Public Pension Systems Nationwide**

According to a 1998 report by the General Accounting Office, "Social Security: Implications of Extending Mandatory Coverage to State and Local Employees," bringing newly hired non-federal public workers in the program would only "reduce the program's long-term actuarial deficit by about 10 percent and would extend the trust funds' solvency by about 2 years."

According to a 1999 study by The Segal Company, mandatory Social Security coverage could cause a reduction in employee and employer contributions to existing defined benefit plans, "which are an essential part of their actuarial funding. This could destabilize the

existing plans on which current workers and retirees depend.” The report continued, “Lower funding would not only have an impact on retirement benefits, but could affect disability and survivor benefits as well,” which are often more generous than those offered by Social Security.

### The Costs of Mandatory Coverage Greatly Outweigh the Benefits

As noted above, mandatory coverage would only add two years of solvency to the 75-year projection for the Social Security program. But, it would cost public employees, their employers and ultimately taxpayers nationwide more than \$26 billion over the first five years, according to the Segal report. Mandatory Social Security would be felt in all 50 states and over time would add new beneficiaries to the program who would draw down benefits like other Social Security recipients, increasing financial pressures on the system.

The chart below illustrates how mandatory coverage would affect the home state of each member of the Ways and Means Social Security Subcommittee.

Congressman	Home State	Employees Affected	5-Year Cost to Employees, Employers and Taxpayers
Clay Shaw (Chair)	Fla.	61,817	\$340,002,664
Sam Johnson	Texas	515,751	\$2,647,073,158
Mac Collins	Ga.	102,120	\$512,375,928
J.D. Hayworth	Ariz.	11,908	\$71,247,564
Kenny Hulshof	Mo.	59,992	\$307,459,512
Ron Lewis	Ky.	64,120	\$359,832,512
Kevin Brady	Texas	515,751	\$2,647,073,158
Paul Ryan	Wis.	46,579	\$309,713,918
Robert Matsui (Ranking Dem.)	Calif.	903,027	\$4,103,961,329
Ben Cardin	Md.	28,126	\$194,296,602
Earl Pomeroy	N.D.	7,831	\$41,640,094
Xavier Becerra	Calif.	903,027	\$4,103,961,329
Stephanie Tubbs Jones	Ohio	921,404	\$3,974,734,068
<b>Subcommittee Totals<sup>1</sup></b>		<b>2,722,675</b>	<b>\$12,862,337,349</b>
<b>National Totals</b>		<b>4,803,876</b>	<b>\$26,021,562,331</b>

Source: “The Cost Impact of Mandating Social Security for State and Local Governments,” The Segal Company, 1999

<sup>1</sup> Duplicate figures not included.

## **Mandatory Coverage: Tough Choices for States and Localities**

If all newly hired state and local employees are forced to participate in the Social Security program, their employers—state and local government entities— and policy makers will have to make difficult decisions on how to offset these new taxes.

According to the Segal report, these taxes would likely be absorbed through “tax increases, cuts in existing benefits and/or reductions in workforce and services,” none of which are particularly popular and which would be met with strong resistance by the affected constituencies. In light of the recent downturn in the economy, states and localities are already facing huge deficits. Mandating Social Security coverage would severely exacerbate already troubled financial landscapes for jurisdictions across the country.

### **Hidden Impacts**

Mandatory coverage could also undermine other benefits of public pension plans. These plans, in addition to offering sound and secure retirement benefits for public workers also provide valuable benefits that reduce pressure on federal government programs. These benefits are overlooked by mandatory coverage proponents.

For instance, certain classes of public sector workers have special needs that would not be met by the Social Security program. Safety workers, like police and fire, because of working conditions and job qualifications, retire earlier than other workers, often before age 62, the earliest age to receive a Social Security benefit. Consequently, if these workers no longer had their traditional defined benefit public retirement, they could be forced to retire from their public safety job but have face little or no retirement benefits until reaching 62.

Public retirement plans also offer partial disability benefits, unlike Social Security. These disability benefits go a long way towards providing an income stream so partially disabled workers do not have to depend on public assistance programs.

Most plans provide pre-retirement survivor benefits. For children, Social Security's survivor benefits cease when the child turns 18. Many public plans provide benefits after that age has been reached if the child is a full-time student.

Early retirement, partial disability and survivor benefits are among the benefits specifically tailored to meet the needs of public workers that would be threatened by mandatory coverage.

### **Conclusion**

Mandating Social Security coverage for all public sector workers would only create huge costs and burdens for public employers without contributing significantly to the solvency of the Social Security program. The least disruptive and most cost-effective solution would be to allow the well-established public sector retirement system to continue in its current form. It has proved to be a stable and financially sound system that ensures the retirement security of millions of public sector workers.