



Mandatory Social Security for
State and Local Public Employees:

Establishing The Facts

History

The Social Security Act of 1935 excluded state and local workers from participating in the program. As a consequence, state and local governments – many of which had preexisting pension programs – designed their own retirement plans in reliance on that exclusion. As Congress expanded Social Security coverage to new groups of private sector workers, it also passed legislation in the 1950s that allowed states to elect voluntary coverage for their employees. Many states chose not to participate in Social Security because their pension plans were well funded and provided secure retirement, disability and survivor benefits that had been tailored to the needs of their employees.

The question of mandatory Social Security coverage as opposed to voluntary coverage first surfaced in the Congress in the 1960s and has been raised periodically since then. In 2010, a recommendation for mandatory coverage was included in the President's Debt Commission report and a recent CBO report projected that it would raise \$96 billion over a 10-year period. Over the years, the Congress in its wisdom has consistently found that mandatory coverage for state and local public employees is bad public policy.

Nonetheless, the issue of mandatory coverage does surface from time to time. In recent years proponents have advanced a new strategy. Rather than calling for extending mandatory coverage to all non-covered workers, they have shifted to the idea of extending coverage to new hires only. Further, proponents say that because coverage would be extended to new hires only, there would be little or no impact on either costs to the states or on benefits for current employees or retirees. Proponents fail to take into consideration the significant fiscal impact that would be levied on taxpayers in all 50 states. This in itself is an issue because advocates for mandatory coverage contend that only a few states are involved.



Myth: There would be little impact on state and local taxpayers and current employee and retiree benefits would not be affected.

Fact: Extending mandatory coverage only to new hires would cost taxpayers in all 50 states more than \$53 billion over the next 5 years.

An independent study done by the Segal Company in August, 2011, shows that the cost to the 50 states over a five-year period would be in excess of \$53 billion. Interestingly, this is an increase of nearly 21% from the last study done in 2005 and a 100% increase from the first study done in 1999.

Mandatory coverage would result in separate or restructured tiers for new hires. As a consequence the existing defined benefit plans would experience a reduction in employer and employee contributions, which are an essential part of their actuarial funding. Reduced contributions will result in lower investment earnings and will further compound funding concerns. The end result would be a destabilization of the existing plans on which current workers and retirees depend for their retirement security. Lower funding would not only have an impact on retirement benefits, but could affect disability and survivor benefits as well as healthcare.

Extending coverage to new hires only would not solve the funding crisis for the Social Security Trust Fund. A study by the General Accounting Office (GAO) concluded that adding new hires would ONLY ADD TWO YEARS at the most to Social Security solvency. The same report stated that moving to mandatory coverage would be very costly to the states involved. Worst of all, mandatory coverage provides no long term solution to Social Security, but it creates a huge unfunded mandate on state and local governments.

Myth: Mandatory coverage would only affect taxpayers and public employees in a few states.

Fact: There are non-covered employees in all 50 states.

Proponents of mandatory coverage typically seek to minimize its negative impact by suggesting that there are only 13 states that have non-covered employees. However, the Segal Study identified non-covered employees in all 50 states using data from Social Security. In fact, it's estimated that 75% of all public safety officers (police, fire, and corrections personnel) are exempt from Social Security. Based on data from the Social Security Administration, the Segal Company report shows that the number of non-participating public employees has held steady at 6.5 million. Thirteen states have large numbers of non-covered employees. These states are California, Texas, Massachusetts, Ohio, Colorado, Illinois, Maine, Louisiana, Kentucky, Nevada, Connecticut, Alaska, and Missouri.

Any discussion of mandatory coverage must acknowledge that it represents an unfunded federal mandate that will likely raise taxes, reduce services and/or undermine the retirement security of millions of public workers throughout all 50 states.



Myth: Mandatory coverage will improve benefits for new hires and not harm benefits for current employees or retirees.

Fact: Benefits for new hires, current members, and retirees would be significantly harmed.

State and local pension systems, as contrasted with Social Security, are pre-funded defined benefit programs that guarantee retirement security for their members. These plans provide disability benefits (including critical protection for public safety officers), death benefits, options that protect spouses and dependent children, and almost all provide annual cost-of-living adjustments. In addition, many plans provide healthcare for retirees until they reach Medicare eligibility and supplementary healthcare insurance after that. Public employees pay Medicare taxes as a result of a 1986 law.

Non-covered systems depend heavily on investment income to provide retirement benefits and ancillary service such as healthcare. National studies show that on average, investment income provides approximately 70% of the retiree benefit. The loss of contributions from employees and employers that would be diverted to Social Security, together with the loss of investment income on those funds, would not only be catastrophic over time but would also result in an unfunded Federal mandate on state and local governments that would ultimately further destabilize public plans that by and large are securely funded. State and local pension plans would have no choice but to reduce benefits not only for new hires but possibly for current members and retirees as well. Healthcare benefits would virtually be eliminated in some plans.

Millions of public employees in non-covered systems have placed their faith and their future in their pension plans, and planned their retirement accordingly. It is absolutely critical to maintain the stability, confidence, security, and trust of those public employees who have served so well.



Coalition to Preserve Retirement Security

The Coalition to Preserve Retirement Security (CPRS) is the leading voice and preeminent organization in Washington, D.C., dedicated to opposing efforts to force public employers and their workers to participate in the Social Security program. CPRS members include major public employee retirement systems and national, state and local employee, employer and retiree organizations. Our mission is to protect the current structure of public sector retirement plans.

The Bottom Line

- Mandatory coverage will cost taxpayers \$53 billion in the first five years to buy only a short-term extension of Social Security solvency.
- Mandatory coverage will raise the cost of maintaining current benefit levels.
- Mandatory coverage will affect more than newly hired public employees.
- It would be a horrible mistake to destabilize public pension plans that are pre-funded and providing excellent retirement security for their members.

