Coalition to Preserve Retirement Security

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Mandatory Social Security for
State and Local Public Employees:



The Cost of Universal Social Security Coverage of State and Local Worker

The purpose of this report is to assess the initial five-year cost of universal Social Security participation to state and local governments and their new employees. The report estimates the employer and employee cost of Social Security coverage for newly hired workers for the first five years of coverage will reach $53.5 billion. This increased cost in payroll taxes will be felt in every state.

The Social Security Administration (SSA)[1] estimates that the number of nonparticipating state and local workers was 6.5 million in 2008. If state and local governments are required to have newly hired employees participate in Social Security, then after five years an estimated 2.4 million of the 6.5 million employees would be participating. This figure is based on the assumption that the number of positions currently held by nonparticipating state and local workers will remain level and that annually 9 percent of the positions will be replaced with new employees required to participate in Social Security. The additional Social Security tax required was calculated using the number of new hires, the Social Security Tax Rates, and the average earnings for state and local government employees[2] (assuming average earnings will increase by 2% each year). The cumulative cost of $53.5 billion for public employers and their new employees was determined for the five-year period 2010 through 2014. Table 1 provides a state-by-state cost estimate.

An earlier estimate, done in 2005, resulted in a five-year estimate of $44 billion.[3] The key driver of the increased cost is due to using the average earnings for state and local employees as proxy for salaries at the time of hire. Although state and local government workforce levels have been reduced over the past two years as a result of the economic downturn, and may remain below the 2008 figure for some period into the future, the total workforce in the public sector is approximately 19.7 million.[4] The 6.5 million of public sector workers not participating in Social Security has held steady over the past few years and is near the 6.6 million mark reported in 2005. It should be noted that the SSA estimates the number of uncovered participants using a sampling technique, which may not reflect actual numbers.

A state-by-state review of the number of uncovered reported by the SSA for 2008 differs from the 2005 data, however, the national total of uncovered participants remains nearly the same. Regardless of the differences, the SSA is the single most reliable source for this data.

What impact will mandatory coverage have on existing public retirement plans and public workers?

- **Mandatory coverage will cost states, localities and public workers $53.5 billion in the first five years to buy only a short-term extension of Social Security solvency.** It must be recognized that this short-term cash injection results in long-term liabilities to the Social Security system. Moreover, this mandate could disrupt the current funding and benefit structure of existing public employee retirement plans as employers and employees adjust to paying the Social Security contribution. Public employers are already challenged by the economic downturn and slow recovery. Requiring new hire participation in Social Security would put additional demands on or divert limited economic resources from constituent services or funding of existing retirement arrangements. It should be noted that many of these plans were established either prior to Social Security or during the period after its establishment when states and localities were prohibited from participation.

- **Mandatory coverage will raise the cost of maintaining current benefit levels.** Shifting contributions to Social Security and away from current programs could leave public plans with significant funding challenges. The assets contributed to a public plan to fund future benefits are invested. The investment returns earned on these assets help in a major way to cover the costs of future benefit obligations. Reduced contributions will result in lower investment earnings and will further compound funding concerns (over a 25-year period ending in 2009, over 60 percent of public plan assets were generated from investment returns).[5] As contributions to the public plans decrease, the associated investment earnings will be lower, requiring governments to make up the difference in order to maintain current benefit levels.

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- **Mandatory coverage will likely result in reduced public plan benefits and limit the ability of employers to replace retiring baby boomers in the workplace.** Communities will have to decide how to finance the increased new hire payroll and pension costs through tax increases, cuts in existing benefits and/or reductions in workforce and services. The taxpayers in each jurisdiction will be the ultimate decision makers as to how to absorb the cost. It is highly likely that unless taxes are increased or spending reductions made, benefit levels will be reduced to accommodate this new cost. The cost estimate contained in this report is for new hires for the first five years of universal coverage using an annual turnover rate of 9% and an annual increase in average salaries of 2%. As the working population ages and moves toward retirement turnover rates are likely to increase exacerbating costs over the next ten to twenty-five year period.

- **Mandatory coverage will affect more than newly hired public employees.** Nearly two-thirds of the States have restructured retirement benefits since 2010. The process for most has been difficult and controversial; this mandate will require making additional benefit and/or funding adjustments. If mandatory coverage results in separate or restructured tiers for new hires, the existing defined benefit plans will experience a reduction in employer and employee contributions, which are an essential part of their actuarial funding. The end result could be a destabilization of the existing plans on which current workers and retirees depend. Lower funding would not only have an impact on retirement benefits, but could affect disability and survivor benefits as well. In addition, governments will be burdened with the cost of operating new plans or tiers. These costs include employee communications, actuarial reviews and plan complexities. As administrative costs are generally paid out of investment earnings, these increased costs could eat further into plan assets.

- **Mandatory coverage ignores the diverse work-force requirements of the public sector.** Governments employ individuals in job categories that are unique to the public sector. An average jurisdiction's workforce includes police, firefighters, corrections officers, teachers, judges and legislators, along with many other job categories. Some of these groups require retirement arrangements that fit their unique career patterns. The most often cited example is public safety workers—police, firefighters, corrections officers. The retirement systems for these workers have been designed and funded to provide for their highly specialized needs.

Table 1

State-by-State Cost Analysis of Mandatory Social Security For Years 2010–2014

State	Employees Not Covered by SS	First Year No. of Employee Terminations (9%)	Avg. Annual Pay for State & Local Governments	First Year Employer SS Tax	First-Year Employee & Employer	Two-Year Cumulative	Three-Year Cumulative	Four-Year Cumulative	Five-Year Cumulative
Alabama	30,300	2,727	$ 40,956	$ 6,924,672	$ 13,849,344	$ 40,830,637	$ 80,283,531	$ 131,600,743	$ 194,224,354
Alaska	22,300	2,007	$ 55,864	$ 6,951,436	$ 13,902,873	$ 40,988,449	$ 80,593,829	$ 132,109,383	$ 194,975,037
Arizona	18,200	1,638	$ 50,192	$ 5,097,254	$ 10,194,507	$ 30,055,446	$ 59,096,735	$ 96,871,352	$ 142,968,614
Arkansas	19,600	1,764	$ 37,007	$ 4,047,372	$ 8,094,745	$ 23,864,926	$ 46,924,581	$ 76,918,761	$ 113,521,370
California	1,405,500	126,495	$ 68,492	$ 537,165,262	$ 1,074,330,524	$ 3,167,341,252	$ 6,227,807,286	$ 10,208,620,007	$ 15,066,500,284
Colorado	297,700	26,793	$ 51,420	$ 85,416,703	$ 170,833,405	$ 503,651,046	$ 990,307,454	$ 1,623,311,709	$ 2,395,781,831
Connecticut	79,400	7,146	$ 60,757	$ 26,918,680	$ 53,837,359	$ 158,723,303	$ 312,090,825	$ 511,579,194	$ 755,019,589
Delaware	4,000	360	$ 51,914	$ 1,158,723	$ 2,317,446	$ 6,832,295	$ 13,434,049	$ 22,021,089	$ 32,500,058
Florida	131,900	11,871	$ 47,616	$ 35,045,471	$ 70,090,942	$ 206,642,117	$ 406,311,533	$ 666,025,754	$ 982,961,184
Georgia	188,500	16,965	$ 41,656	$ 43,814,804	$ 87,629,608	$ 258,349,611	$ 507,981,762	$ 832,683,566	$ 1,228,924,886
Hawaii	35,300	3,177	$ 50,522	$ 9,951,599	$ 19,903,198	$ 58,678,610	$ 115,377,234	$ 189,126,330	$ 279,124,104
Idaho	8,900	801	$ 41,950	$ 2,083,333	$ 4,166,666	$ 12,284,165	$ 24,153,826	$ 39,592,946	$ 58,433,670
Illinois	441,000	39,690	$ 52,798	$ 129,923,442	$ 259,846,884	$ 766,080,584	$ 1,506,311,403	$ 2,469,145,242	$ 3,644,114,235
Indiana	49,500	4,455	$ 43,081	$ 11,899,426	$ 23,798,853	$ 70,163,778	$ 137,960,028	$ 226,144,040	$ 333,757,084
Iowa	31,700	2,853	$ 48,097	$ 8,507,729	$ 17,015,459	$ 50,164,976	$ 98,637,241	$ 161,686,138	$ 238,626,205
Kansas	23,300	2,097	$ 40,752	$ 5,298,395	$ 10,596,789	$ 31,241,454	$ 61,428,730	$ 100,693,958	$ 148,610,248
Kentucky	97,300	8,757	$ 39,437	$ 21,411,675	$ 42,823,350	$ 126,251,800	$ 248,243,501	$ 406,920,678	$ 600,558,206
Louisiana	233,100	20,979	$ 40,783	$ 53,046,560	$ 106,093,121	$ 312,783,738	$ 615,013,252	$ 1,008,129,554	$ 1,487,858,712
Maine	55,300	4,977	$ 41,791	$ 12,895,592	$ 25,791,185	$ 76,037,570	$ 149,509,414	$ 245,075,791	$ 361,697,710
Maryland	44,300	3,987	$ 57,432	$ 14,196,826	$ 28,393,652	$ 83,710,165	$ 164,595,708	$ 269,805,240	$ 398,194,929
Massachusetts	459,400	41,346	$ 55,262	$ 141,660,752	$ 283,321,504	$ 835,288,458	$ 1,642,391,878	$ 2,692,208,318	$ 3,973,324,246
Michigan	91,800	8,262	$ 54,176	$ 27,751,296	$ 55,502,593	$ 163,632,744	$ 321,744,048	$ 527,402,757	$ 778,372,961
Minnesota	34,300	3,087	$ 53,906	$ 10,317,189	$ 20,634,379	$ 60,834,275	$ 119,615,826	$ 196,074,229	$ 289,378,234
Mississippi	20,200	1,818	$ 36,171	$ 4,077,003	$ 8,154,005	$ 24,039,638	$ 47,268,110	$ 77,481,873	$ 114,352,445
Missouri	129,100	11,619	$ 39,632	$ 28,549,951	$ 57,099,901	$ 168,341,929	$ 331,003,516	$ 542,580,873	$ 800,773,746
Montana	9,800	882	$ 41,580	$ 2,273,761	$ 4,547,521	$ 13,407,003	$ 26,361,615	$ 43,211,951	$ 63,774,817

- **Current law contains benefit guarantees for public-sector employees.** Public sector employees have a minimum benefit guarantee under existing federal law. In 1990, Congress required Social Security participation for all public employees NOT covered by a comparable state or local government pension plan. The result of this law is that public employers, at a minimum, must maintain plans that produce a benefit that is comparable to Social Security

Universal coverage will require public employers to restructure their retirement plans, divert necessary funding away from existing retirement plans, raise operational costs and reduce the flexibility that public employers need to design retirement options for their diverse workforce. Moreover, the $53.5 billion in new costs will compete with the funding of necessary public services and programs.

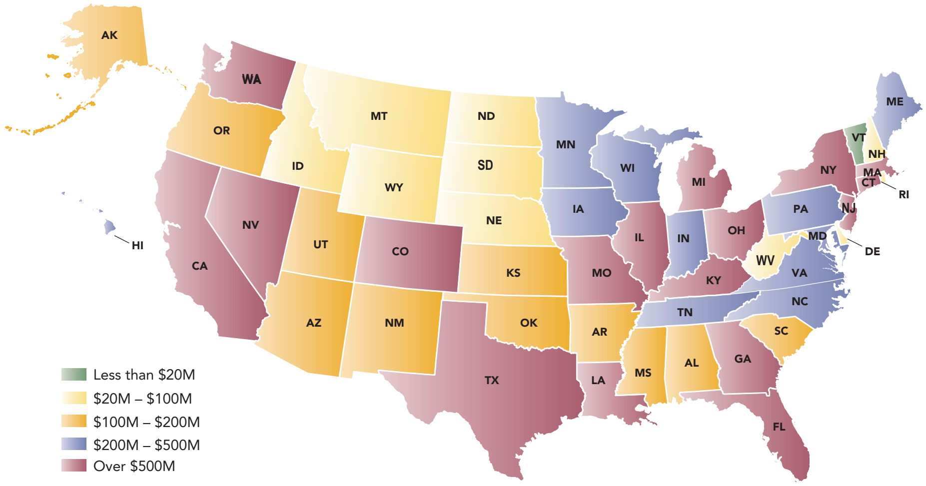
References: 1. Social Security Administration, Office of Research Evaluation and Statistics, Social Security and Medicaid Coverage of Workers from their State and Local Government Employment in 2008. 2. Source: U.S. Census Bureau, *2011 Statistical Abstract,* "Table 464. State and Local Government Employment and Average Monthly Earnings by State." 3. The Segal Company, *Report on Universal Social Security Coverage of State and Local Workers*, July 2005. 4. U.S. Census Bureau, *2011 Statistical Abstract,* "Table 459. Governmental Employment and Payrolls." 5. The National Association of State Retirement Administrators, NASRA Issue Brief: Public Pension Plan Investment Return Assumptions, March 2010.

Mandatory coverage will raise the cost of maintaining current benefit levels. Shifting contributions to Social Security and away from current programs could leave public plans with significant funding challenges.

State	Employees Not Covered by SS	First Year No. of Employee Terminations (9%)	Avg. Annual Pay for State & Local Governments	First Year Employer SS Tax	First-Year Employee & Employer	Two-Year Cumulative	Three-Year Cumulative	Four-Year Cumulative	Five-Year Cumulative
Nebraska	9,100	819	$ 44,113	$ 2,239,987	$ 4,479,974	$ 13,207,858	$ 25,970,046	$ 42,570,092	$ 62,827,522
Nevada	130,600	11,754	$ 58,744	$ 42,809,573	$ 85,619,145	$ 252,422,363	$ 496,327,269	$ 813,579,524	$ 1,200,729,984
New Hampshire	12,100	1,089	$ 47,282	$ 3,192,386	$ 6,384,772	$ 18,823,585	$ 37,012,009	$ 60,670,074	$ 89,540,574
New Jersey	55,000	4,950	$ 63,457	$ 19,475,025	$ 38,950,050	$ 114,832,537	$ 225,790,293	$ 370,115,386	$ 546,238,725
New Mexico	18,700	1,683	$ 40,897	$ 4,267,469	$ 8,534,938	$ 25,162,703	$ 49,476,345	$ 81,101,611	$ 119,694,674
New York	57,100	5,139	$ 58,776	$ 18,727,184	$ 37,454,369	$ 110,422,970	$ 217,119,951	$ 355,902,964	$ 525,263,170
North Carolina	58,300	5,247	$ 43,296	$ 14,084,836	$ 28,169,673	$ 83,049,828	$ 163,297,317	$ 267,676,917	$ 395,053,821
North Dakota	9,400	846	$ 43,823	$ 2,298,595	$ 4,597,190	$ 13,553,436	$ 26,649,540	$ 43,683,918	$ 64,471,375
Ohio	827,900	74,511	$ 48,803	$ 225,455,747	$ 450,911,493	$ 1,329,377,264	$ 2,613,897,511	$ 4,284,700,088	$ 6,323,620,141
Oklahoma	27,300	2,457	$ 38,188	$ 5,817,331	$ 11,634,662	$ 34,301,309	$ 67,445,194	$ 110,556,143	$ 163,165,458
Oregon	24,300	2,187	$ 51,479	$ 6,980,208	$ 13,960,416	$ 41,158,098	$ 80,927,402	$ 132,656,176	$ 195,782,026
Pennsylvania	60,400	5,436	$ 48,797	$ 16,446,053	$ 32,892,106	$ 96,972,508	$ 190,672,885	$ 312,550,941	$ 461,281,626
Rhode Island	10,900	981	$ 56,597	$ 3,442,319	$ 6,884,639	$ 20,297,292	$ 39,909,694	$ 65,419,960	$ 96,550,743
South Carolina	27,400	2,466	$ 41,047	$ 6,275,826	$ 12,551,653	$ 37,004,783	$ 72,760,918	$ 119,269,677	$ 176,025,421
South Dakota	5,800	522	$ 38,379	$ 1,242,082	$ 2,484,164	$ 7,323,813	$ 14,400,500	$ 23,605,295	$ 34,838,126
Tennessee	47,500	4,275	$ 40,942	$ 10,851,625	$ 21,703,251	$ 63,985,524	$ 125,811,992	$ 206,230,983	$ 304,368,187
Texas	939,000	84,510	$ 43,083	$ 225,736,817	$ 451,473,634	$ 1,331,034,569	$ 2,617,156,198	$ 4,290,041,726	$ 6,331,503,655
Utah	21,000	1,890	$ 47,621	$ 5,580,268	$ 11,160,536	$ 32,903,491	$ 64,696,724	$ 106,050,852	$ 156,516,277
Vermont	1,300	117	$ 45,936	$ 333,220	$ 666,439	$ 1,964,797	$ 3,863,296	$ 6,332,714	$ 9,346,203
Virginia	40,100	3,609	$ 47,086	$ 10,535,763	$ 21,071,526	$ 62,123,073	$ 122,149,935	$ 200,228,140	$ 295,508,827
Washington	68,500	6,165	$ 58,622	$ 22,407,148	$ 44,814,296	$ 132,121,509	$ 259,784,857	$ 425,839,267	$ 628,479,406
West Virginia	13,100	1,179	$ 37,162	$ 2,716,485	$ 5,432,970	$ 16,017,483	$ 31,494,489	$ 51,625,758	$ 76,192,424
Wisconsin	60,000	5,400	$ 49,901	$ 16,706,856	$ 33,413,712	$ 98,510,306	$ 193,696,590	$ 317,507,397	$ 468,596,665
Wyoming	7,400	666	$ 45,879	$ 1,894,433	$ 3,788,866	$ 11,170,336	$ 21,963,752	$ 36,002,976	$ 53,135,375
Total	6,493,900	584,451	$ 2,383,155	$ 1,905,902,144	$ 3,811,804,289	$ 11,237,961,404	$ 22,096,721,620	$ 36,220,940,058	$ 53,457,059,162

Number not covered: From Social Security and Medicare Coverage of Workers from their State and Local Government Employment in 2008.
Assumptions: We assumed a 9% termination rate which includes retirements, death and job turnovers and a 2% salary increase over the 5 year period.
Salary Rates: Fromthe 2011 statistical Abstract of the United States Government, Table 464. State and Local Government Employment and Average Monthly Earnings by State.

Exhibit 1
Cost of Social Security for States, Localities, and New Employees for the First Five Years of Mandatory Coverage



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.

Table 2
State-by-State Cost Analysis of Mandatory Social Security For Years 2010-2014

State	Employees Not Covered by Social Security	Five-Year Cumulative Employee & Employer SS Tax
Alabama	30,300	$ 194,224,354
Alaska	22,300	$ 194,975,037
Arizona	18,200	$ 142,968,614
Arkansas	19,600	$ 113,521,370
California	1,405,500	$ 15,066,500,284
Colorado	297,700	$ 2,395,781,831
Connecticut	79,400	$ 755,019,589
Delaware	4,000	$ 32,500,058
Florida	131,900	$ 982,961,184
Georgia	188,500	$ 1,228,924,886
Hawaii	35,300	$ 279,124,104
Idaho	8,900	$ 58,433,670
Illinois	441,000	$ 3,644,114,235
Indiana	49,500	$ 333,757,084
Iowa	31,700	$ 238,626,205
Kansas	23,300	$ 148,610,248
Kentucky	97,300	$ 600,558,206
Louisiana	233,100	$ 1,487,858,712
Maine	55,300	$ 361,697,710
Maryland	44,300	$ 398,194,929
Massachusetts	459,400	$ 3,973,324,246
Michigan	91,800	$ 778,372,961
Minnesota	34,300	$ 289,378,234
Mississippi	20,200	$ 114,352,445
Missouri	129,100	$ 800,773,746
Montana	9,800	$ 63,774,817
Nebraska	9,100	$ 62,827,522
Nevada	130,600	$ 1,200,729,984
New Hampshire	12,100	$ 89,540,574
New Jersey	55,000	$ 546,238,725
New Mexico	18,700	$ 119,694,674
New York	57,100	$ 525,263,170
North Carolina	58,300	$ 395,053,821
North Dakota	9,400	$ 64,471,375
Ohio	827,900	$ 6,323,620,141
Oklahoma	27,300	$ 163,165,458
Oregon	24,300	$ 195,782,026
Pennsylvania	60,400	$ 461,281,626
Rhode Island	10,900	$ 96,550,743
South Carolina	27,400	$ 176,025,421
South Dakota	5,800	$ 34,838,126
Tennessee	47,500	$ 304,368,187
Texas	939,000	$ 6,331,503,655
Utah	21,000	$ 156,516,277
Vermont	1,300	$ 9,346,203
Virginia	40,100	$ 295,508,827
Washington	68,500	$ 628,479,406
West Virginia	13,100	$ 76,192,424
Wisconsin	60,000	$ 468,596,665
Wyoming	7,400	$ 53,135,375
Total	6,493,900	$ 53,457,059,162

Source: Prepared by The Segal Company for the Coalition to Preserve Retirement, September 2011

Source of statistics on number of uncovered workers in each state based on Social Security Administration, Office of Research Evaluation and Statistics, Social Security and Medicare Coverage of Workers from their State and Local Government Employment in 2008.

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