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) 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 (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. 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. 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). 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.
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 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.
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:
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.

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