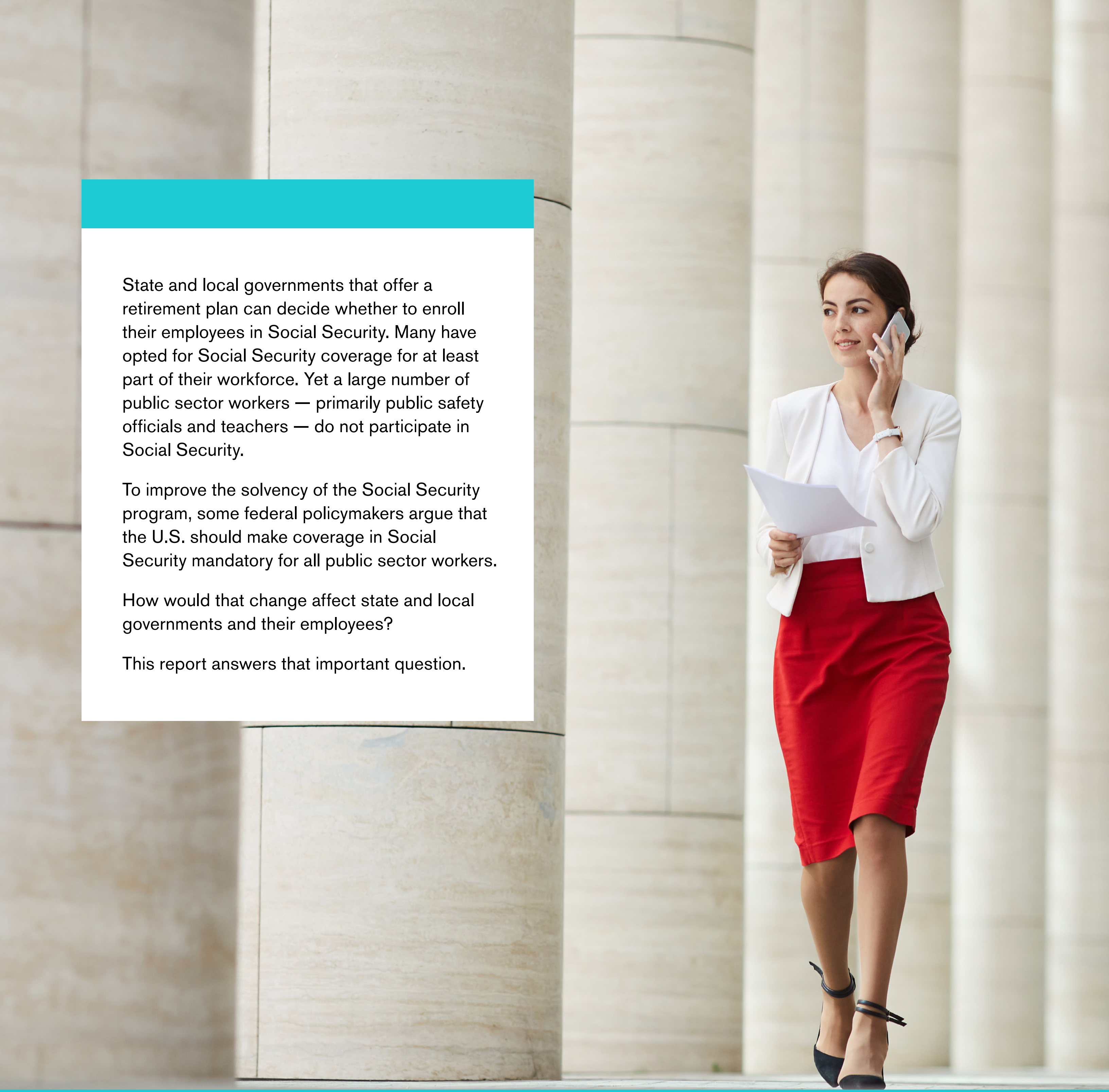
The Cost of Mandating Social Security Coverage on the Public Sector

The Negative and Unintended Consequences for State and Local Employees and Their Employers

CPRS Segal



State and local governments that offer a retirement plan can decide whether to enroll their employees in Social Security. Many have opted for Social Security coverage for at least part of their workforce. Yet a large number of public sector workers — primarily public safety officials and teachers — do not participate in Social Security.

To improve the solvency of the Social Security program, some federal policymakers argue that the U.S. should make coverage in Social Security mandatory for all public sector workers.

How would that change affect state and local governments and their employees?

This report answers that important question.

Coalition to Preserve Retirement Security

The Coalition to Preserve Retirement Security (CPRS) is the leading voice and preeminent organization in Washington, DC 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.

Report highlights

Mandatory Social Security participation would affect state and local governments and new employees. This report estimates the cost for the first five years.

The estimated cost is at least $35 billion. It could be as high as $50 billion.

Every state would experience this increased cost in payroll taxes.

For public retirement plans, the impact would be significant. A mandate would likely:

- Raise the cost of maintaining current benefit levels
- Result in reduced benefits
- Limit the ability of employers to replace retiring baby boomers
- Affect current workers

Moreover, mandatory Social Security coverage ignores the diverse workforce requirements of the public sector.

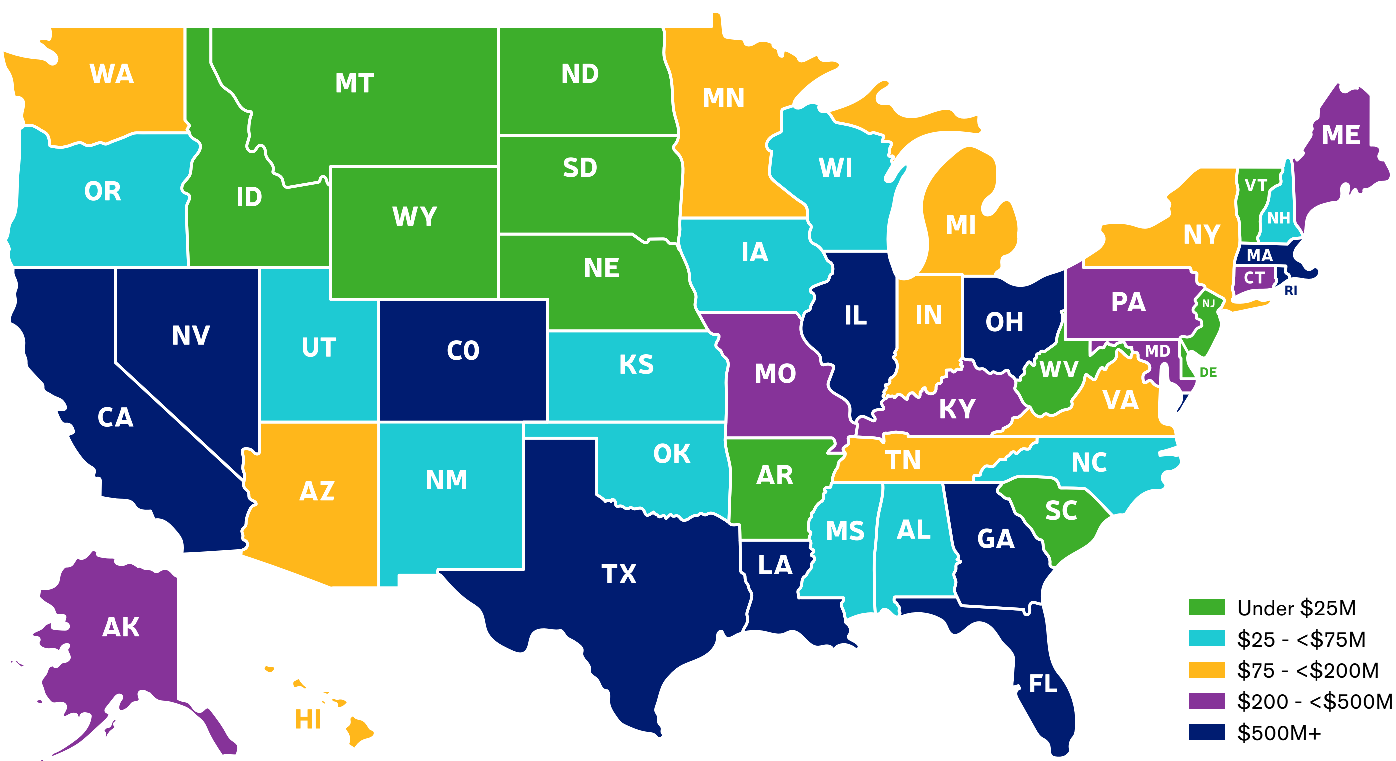
High cost for short impact on Social Security solvency

Mandatory Social Security coverage would be costly for states, localities and public workers. The estimated cost of this unfunded federal mandate is $35 billion over the first five years.

The Social Security Administration (SAA) reports there are currently 4.2 million uncovered employees. Table 1 on the next page notes the state-by-state cost for those employees. Table 2, which begins on page 5, shows the costs for each year.

The map illustrates the relative impact that a Social Security mandate would have on each state.

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



Source: Segal for the Coalition to Preserve Retirement Security (based on the number of uncovered workers in each state reported by the Social Security Administration), April 2021

Table 1: State-by-State Cost Analysis of Mandatory Social Security Five-Year Cumulative for 2021–2025

State	Employees Not Covered by Social Security	Five Year Cumulative
Alabama	5,973	$40,051,328
Alaska	33,102	$303,253,183
Arizona	13,352	$99,075,694
Arkansas	3,888	$23,433,254
California	1,037,904	$10,654,964,694
Colorado	234,454	$1,822,667,683
Connecticut	50,744	$469,047,490
Delaware	1,803	$14,803,297
Florida	69,203	$498,408,818
Georgia	105,687	$725,630,276
Hawaii	13,205	$102,629,011
Idaho	2,186	$13,291,374
Illinois	284,585	$2,274,070,711
Indiana	14,355	$86,892,921
Iowa	4,583	$31,364,481
Kansas	4,493	$27,601,571
Kentucky	58,168	$371,542,021
Louisiana	178,340	$1,180,226,901
Maine	36,345	$223,244,265
Maryland	21,716	$201,275,853
Massachusetts	318,805	$2,865,963,708
Michigan	16,913	$124,317,799
Minnesota	10,813	$83,124,917
Mississippi	4,298	$26,222,293
Missouri	68,406	$417,810,961
Montana	1,593	$9,403,461
Nebraska	3,602	$24,976,259
Nevada	99,595	$839,102,373
New Hampshire	10,858	$74,772,617
New Jersey	21,212	$207,184,198
New Mexico	9,522	$63,733,052
New York	7,429	$76,625,371
North Carolina	5,087	$35,644,214
North Dakota	1,808	$11,197,661
Ohio	549,531	$3,957,290,603
Oklahoma	9,974	$61,932,206
Oregon	3,438	$26,818,272
Pennsylvania	23,950	$200,241,930
Rhode Island	10,463	$95,243,099
South Carolina	1,069	$7,213,001
South Dakota	577	$3,220,202
Tennessee	17,631	$115,931,307
Texas	799,298	$5,889,743,147
Utah	10,296	$64,819,461
Vermont	284	$2,062,175
Virginia	10,630	$77,445,156
Washington	20,655	$196,819,634
West Virginia	4,129	$24,232,227
Wisconsin	7,753	$51,645,604
Wyoming	796	$5,589,285
Total	**4,224,501**	**$34,803,801,018**

Source: Segal for the Coalition to Preserve Retirement Security (based on the number of uncovered workers in each state reported by the Social Security Administration), April 2021

Table 2: State-by-State Cost Analysis of Mandatory Social Security for 2021–2025 for Each Year and the Five-Year Cumulative

State	Employees Not Covered by Social Security	First Year Number of Employee Terminations (9%)	Avg. Annual Pay for State and Local Governments	First Year Employer SS Tax	First Year Employee and Employer	Two Year Cumulative	Three Year Cumulative	Four Year Cumulative	Five Year Cumulative
Alabama	5,973	538	$42,844	$1,427,948	$2,855,896	$8,419,754	$16,555,401	$27,137,609	$40,051,328
Alaska	33,102	2,979	$58,535	$10,811,872	$21,623,744	$63,751,123	$125,351,100	$205,475,489	$303,253,183
Arizona	13,352	1,202	$47,411	$3,532,341	$7,064,683	$20,828,097	$40,953,394	$67,130,793	$99,075,694
Arkansas	3,888	350	$38,509	$835,465	$1,670,930	$4,926,234	$9,686,244	$15,877,688	$23,433,254
California	1,037,904	93,411	$65,593	$379,880,981	$759,761,961	$2,239,930,214	$4,404,278,731	$7,219,492,496	$10,654,964,694
Colorado	234,454	21,101	$49,672	$64,983,490	$129,966,979	$383,168,648	$753,408,082	$1,234,986,322	$1,822,667,683
Connecticut	50,744	4,567	$59,060	$16,722,929	$33,445,858	$98,605,080	$193,882,940	$317,812,863	$469,047,490
Delaware	1,803	162	$52,459	$527,781	$1,055,563	$3,112,010	$6,119,011	$10,030,281	$14,803,297
Florida	69,203	6,228	$46,017	$17,769,747	$35,539,495	$104,777,538	$206,019,581	$337,707,240	$498,408,818
Georgia	105,687	9,512	$43,869	$25,870,864	$51,741,728	$152,544,962	$299,942,617	$491,665,856	$725,630,276
Hawaii	13,205	1,188	$49,658	$3,659,028	$7,318,055	$21,575,090	$42,422,174	$69,538,417	$102,629,011
Idaho	2,186	197	$38,849	$473,877	$947,754	$2,794,167	$5,494,051	$9,005,847	$13,291,374
Illinois	284,585	25,613	$51,057	$81,077,342	$162,154,683	$478,064,437	$939,997,602	$1,540,843,814	$2,274,070,711
Indiana	14,355	1,292	$38,676	$3,097,989	$6,195,979	$18,266,985	$35,917,589	$58,876,103	$86,892,921
Iowa	4,583	412	$43,727	$1,118,236	$2,236,473	$6,593,569	$12,964,653	$21,251,655	$31,364,481
Kansas	4,493	404	$39,252	$984,078	$1,968,155	$5,802,515	$11,409,237	$18,702,018	$27,601,571
Kentucky	58,168	5,235	$40,812	$13,246,571	$26,493,142	$78,107,082	$153,578,605	$251,746,008	$371,542,021
Louisiana	178,340	16,051	$42,284	$42,078,577	$84,157,154	$248,112,122	$487,852,226	$799,687,235	$1,180,226,901
Maine	36,345	3,271	$39,246	$7,959,318	$15,918,636	$46,931,322	$92,279,045	$151,263,786	$223,244,265
Maryland	21,716	1,954	$59,221	$7,176,079	$14,352,158	$42,313,032	$83,198,301	$136,378,632	$201,275,853
Massachusetts	318,805	28,692	$57,439	$102,180,076	$204,360,152	$602,494,601	$1,184,659,299	$1,941,893,200	$2,865,963,708
Michigan	16,913	1,522	$46,965	$4,432,297	$8,864,594	$26,134,596	$51,387,335	$84,234,105	$124,317,799
Minnesota	10,813	973	$49,119	$2,963,649	$5,927,298	$17,474,860	$34,360,067	$56,323,013	$83,124,917
Mississippi	4,298	387	$38,982	$934,902	$1,869,804	$5,512,557	$10,839,105	$17,767,459	$26,222,293
Missouri	68,406	6,157	$39,025	$14,896,196	$29,792,391	$87,833,927	$172,704,085	$283,096,489	$417,810,961
Montana	1,593	143	$37,717	$335,261	$670,522	$1,976,834	$3,886,964	$6,371,510	$9,403,461

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Table 2 *(continued from previous page)*

State	Employees Not Covered by Social Security	First Year Number of Employee Terminations (9%)	Avg. Annual Pay for State and Local Governments	First Year Employer SS Tax	First Year Employee and Employer	Two Year Cumulative	Three Year Cumulative	Four Year Cumulative	Five Year Cumulative
Nebraska	3,602	324	$44,304	$890,477	$1,780,955	$5,250,611	$10,324,052	$16,923,182	$24,976,259
Nevada	99,595	8,964	$53,832	$29,916,479	$59,832,959	$176,399,529	$346,846,830	$568,551,230	$839,102,373
New Hampshire	10,858	977	$44,000	$2,665,865	$5,331,730	$15,719,005	$30,907,606	$50,663,739	$74,772,617
New Jersey	21,212	1,909	$62,407	$7,386,729	$14,773,458	$43,555,109	$85,640,542	$140,381,954	$207,184,198
New Mexico	9,522	857	$42,766	$2,272,272	$4,544,543	$13,398,223	$26,344,350	$43,183,652	$63,733,052
New York	7,429	669	$65,903	$2,731,921	$5,463,842	$16,108,499	$31,673,450	$51,919,111	$76,625,371
North Carolina	5,087	458	$44,770	$1,270,822	$2,541,643	$7,493,272	$14,733,700	$24,151,477	$35,644,214
North Dakota	1,808	163	$39,572	$399,230	$798,459	$2,354,018	$4,628,605	$7,587,208	$11,197,661
Ohio	549,531	49,458	$46,012	$141,089,105	$282,178,210	$831,917,800	$1,635,764,297	$2,681,344,390	$3,957,290,603
Oklahoma	9,974	898	$39,674	$2,208,066	$4,416,132	$13,019,641	$25,599,962	$41,963,452	$61,932,206
Oregon	3,438	309	$49,841	$956,151	$1,912,301	$5,637,847	$11,085,456	$18,171,277	$26,818,272
Pennsylvania	23,950	2,156	$53,421	$7,139,217	$14,278,433	$42,095,677	$82,770,924	$135,678,076	$200,241,930
Rhode Island	10,463	942	$58,162	$3,395,698	$6,791,396	$20,022,393	$39,369,174	$64,533,939	$95,243,099
South Carolina	1,069	96	$43,112	$257,165	$514,330	$1,516,347	$2,981,527	$4,887,319	$7,213,001
South Dakota	577	52	$35,659	$114,810	$229,619	$676,964	$1,331,085	$2,181,915	$3,220,202
Tennessee	17,631	1,587	$42,013	$4,133,294	$8,266,587	$24,371,553	$47,920,740	$78,551,663	$115,931,307
Texas	799,298	71,937	$47,081	$209,986,750	$419,973,499	$1,238,165,870	$2,434,552,457	$3,990,717,724	$5,889,743,147
Utah	10,296	927	$40,225	$2,311,005	$4,622,011	$13,626,612	$26,793,423	$43,919,771	$64,819,461
Vermont	284	26	$46,395	$73,523	$147,045	$433,519	$852,410	$1,397,270	$2,062,175
Virginia	10,630	957	$46,550	$2,761,149	$5,522,297	$16,280,837	$32,012,312	$52,474,573	$77,445,156
Washington	20,655	1,859	$60,884	$7,017,202	$14,034,403	$41,376,228	$81,356,302	$133,359,229	$196,819,634
West Virginia	4,129	372	$37,498	$863,950	$1,727,901	$5,094,198	$10,016,502	$16,419,048	$24,232,227
Wisconsin	7,753	698	$42,562	$1,841,318	$3,682,637	$10,857,150	$21,347,948	$34,993,551	$51,645,604
Wyoming	796	72	$44,865	$199,275	$398,549	$1,175,002	$2,310,357	$3,787,136	$5,589,285
Total	**4,224,501**	**380,205**	**$2,347,507**	**$1,240,858,364**	**$2,481,716,729**	**$7,316,597,259**	**$14,386,311,452**	**$23,582,037,812**	**$34,803,801,018**

Source: Segal for the Coalition to Preserve Retirement Security (based on the number of uncovered workers in each state reported by the Social Security Administration), April 2021

Our 2015 study reported the number of uncovered workers was 6.5 million. Based on that number, the total first five-year cost of mandatory Social Security coverage would be higher. It could be as high as $50 billion.

Mandating Social Security coverage for public workers would improve the system's solvency. However, it would be a short-term extension. It is important to recognize that the short-term cash injection would create long-term liabilities for the system.

A mandate would also have an adverse impact on existing public employee retirement plans. It would disrupt the current funding and benefit structures.

Increased cost of maintaining current benefit levels

Mandatory coverage would raise the cost of maintaining current benefit levels.

Shifting contributions from current programs to Social Security could leave public plans with significant funding challenges. Investment returns earned on the assets contributed to a public plan to fund future benefits help cover the costs of future benefit obligations. Over a typical 25-year period, investment returns generate more than 60 percent of public plan assets.[1]

Reduced contributions would result in lower investment earnings. That would further compound funding concerns.

To maintain current benefit levels, governments would have to make up the difference.

Likely workforce challenges

Mandatory coverage would likely result in reduced public plan benefits. It would also limit the ability of employers to replace retiring baby boomers.

Communities would have to decide how to finance the increased new-hire payroll and pension costs. Options include tax increases, cuts in existing benefits and/or reductions in workforce and services. Unless taxes are increased or spending reductions made, it is highly likely that state and local governments would need to reduce benefit levels to accommodate this new cost. The taxpayers in each jurisdiction would be the ultimate decision makers about how to absorb the cost.

The cost estimate in this report is for new hires for the first five years of mandatory coverage. It assumes an annual turnover rate of 9 percent and an annual increase in average salaries of 2 percent.

As the working population ages and moves toward retirement, turnover rates are likely to increase. That would exacerbate costs over the next 10- to 25-year period.

New hires would not be the only employees affected

Mandatory coverage would affect more than newly hired public employees.

Nearly two-thirds of the states have restructured retirement benefits since 2010. For most, the process has been difficult and controversial.

A mandate would 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 would experience a reduction in employer and employee contributions.

Those contributions are an essential part of their actuarial funding. The result could be a destabilization of the existing plans that cover current workers and retirees. Lower funding could have an impact on more than retirement benefits. It could also affect disability and survivor benefits.

In addition, the cost of operating new plans or tiers would be a burden for governments. These costs would include:

- Member education
- Additional staffing and training
- Employee communications
- Actuarial reviews
- Plan complexities

That is not an exhaustive list. There could be other costs.

Another consideration is that investment earnings generally pay for administrative costs. Consequently, increased costs could further reduce plan assets.

Mandatory coverage ignores the public sector's diverse workforce requirements

Governments employ people in many job categories. A typical jurisdiction's workforce includes:

- Police
- Firefighters
- Corrections officers
- Teachers
- Judges
- Legislators

Some of these groups require retirement arrangements that fit unique career patterns. The example cited most often is public safety workers. Police, firefighters and corrections officers have physical, stressful jobs. The design and funding of retirement systems take into account and provide for these workers' highly specialized needs.

Public workers are guaranteed a minimum benefit

Public workers must by covered by Social Security if their pension coverage is not comparable. That is a requirement under a 1990 federal law. The effect is a minimum benefit guarantee for public workers.

Many jurisdictions established retirement plans when their workers could not participate in the Social Security program. Those plans may provide a benefit that is more than comparable to Social Security.

A Social Security mandate would have consequences beyond costs

Mandatory coverage would require public employers to:

- Restructure their retirement plans
- Divert necessary funding away from existing retirement plans
- Raise operational costs

It would also reduce plan design flexibility. Public employers need that flexibility to design retirement options for their diverse workforces.

Moreover, the $35 to $50 billion in new costs would compete with funding for necessary public services and programs and other constituent services.

Public employers already face fiscal challenges. Some are just starting to recover from the 2008 economic downturn. Many may never fully recover those losses. The COVID-19 pandemic has reduced state and local tax revenue.

Requiring new hire participation in Social Security would place additional demands on limited economic resources.

The study methodology

Segal prepared this report in April 2021 for the Coalition to Preserve Retirement Security.

In November 2020, the SSA released data for Old-Age, Survivors, and Disability Insurance (OASDI) and Medicare income by state. SSA split income data between wage/salary employees and the self-employed.[2] Public sector employees are in the wage/salary portion. For this study, Segal focused on that data.

Most people who participate in Medicare but not OASDI work in the public sector. Examples include public safety workers and teachers. For this study, Segal did not attempt to isolate the small number of non-public sector workers from religious institutions.

The SSA report also includes the District of Columbia, Puerto Rico and other individuals not in the states. Segal only included information for the 50 states.

More than 4.2 million state employees who participate in Medicare do not participate in Social Security. (The total public sector workforce is approximately 19.7 million.[3])

Medicare became mandatory for public sector workers on April 1, 1986. Thus, some still do not contribute to either program. To account for employees not in either system, Segal calculated a range of possible costs for potential mandatory OASDI.

A Social Security mandate for public workers would lead to 1.6 million more participants after five years. To calculate that figure, Segal assumed the number of positions currently held by nonparticipating workers would remain level. Segal also assumed that new hires who must participate in Social Security would replace 9 percent of the positions annually.

Segal calculated the additional Social Security tax required using:

- The number of new hires
- Social Security tax rates
- Average earnings of employees making Medicare (but not Social Security) contributions, assuming average earnings will increase by 2 percent each year

The cumulative 2021–2025 cost estimate for public employers and their new employees is $35 billion.

The SSA is the single most reliable source for OASDI data. However, the SSA estimates the number of uncovered participants using a sampling technique that may not reflect actual numbers.

Segal's prior study used 2008 data that estimated 6.5 million public sector works did not participate in OASDI. In that study, Segal's five-year cost estimate for covering those workers was $53 billion.[4]

References

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3. U.S. Census Bureau, 2011 Statistical Abstract, "Table 459. Governmental Employment and Payrolls."
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