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Retirement
Study
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Analysis

H.C.R. 19
130th General Assembly
(Rep. Schuring)

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ORSC RECOMMENDATION

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House Concurrent Resolution 19 urges Congress to oppose any legislation that requires Social Security coverage for members of any of Ohio's state retirement systems.

Background

Social Security will deplete its trust fund by the year 2033, at which time it will only be able to provide approximately 75% of benefits.[1] While the various proposed reforms have differed widely over the years, most of the proposals, if not all, have required Social Security coverage for all state and local government employees who are not otherwise required to contribute to Social Security.

In 2011, the Congressional Research Service estimated that approximately 6.6 million state and local government employees are not covered by Social Security.[2] Seven states – California, Colorado, Illinois, Louisiana, Massachusetts, Ohio, and Texas – account for approximately 70% of the noncovered employees.[3]

Staff Comments

Ohio's public retirement systems provide comprehensive, secure benefits through effective management and oversight: Because the State of Ohio is the ultimate guarantor of the five statewide public pension systems, the Ohio General Assembly must ensure and oversee the adequate funding and maintenance of the systems. With over $170 billion in combined assets as of January 1, 2013, Ohio's five public retirement systems provide comprehensive retirement, disability, survivor, and health care coverage to over 1.5 million members, retirees, and beneficiaries. Ohio's public retirement systems are actuarially funded to meet their long-term obligations, well-managed by their respective boards, and effectively monitored by the legislature through the Ohio Retirement Study Council (ORSC) – one of the first permanent, bipartisan, and independent pension oversight commissions in the nation. The recent bipartisan pension reform bills demonstrate Ohio's commitment to maintaining a stable and meaningful benefit for Ohio's public employees, even when necessary changes are unpopular and difficult.

Ohio's public retirement systems are funded on an actuarially sound basis: The laws governing Ohio's five public retirement systems require public employers and employees to contribute the money to cover the benefits earned. As a consequence, reserves are accumulated and invested by the systems to pay future benefits that have been promised to members and their beneficiaries. Investment income constitutes the primary source of revenue for all five systems. For example, the Ohio Public Employees Retirement System's (PERS) investment returns fund approximately two-thirds of its

[1] Social Security Administration, "A Summary of the 2013 Annual Reports," available online at: http://www.socialsecurity.gov/OACT/TRSUM, accessed October 29, 2013.
[2] Congressional Research Service, *Social Security: Mandatory Coverage of New State and Local Government Employees* (Washington D.C.: CRS, 2011), 1.
[3] Ibid., 3.

benefit costs.[4] Under this funding methodology, contributions are expected to remain relatively stable from generation to generation. In contrast, Social Security requires significant increases in future Social Security taxes in order to only maintain the current benefit levels.

Mandatory social security coverage would impose significant tax increases on Ohio's public employers and employees and would likely cause significant reduction or elimination in benefits, including retiree health care: If Social Security were made mandatory for Ohio's public employees, two undesirable choices would be laid before the General Assembly:

> 1) If contribution rates were not equalized to adjust to Social Security coverage, public employees and employers would be forced to pay significantly more in payroll taxes. Mandatory Social Security coverage would impose an additional 6.2% of payroll tax on the employee as well as 6.2% on the employer.[5] For PERS and the School Employees Retirement System, this means members would pay 16.2% of the employee's salary (up from 10%) and employers would pay 20.2% of employee payroll (up from 14%).[6]
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> 2) If contribution rates were equalized to adjust to Social Security coverage, the systems' funding would quickly become unbalanced and in response, would be forced to reduce benefits and most likely eliminate health care. For example, the State Teachers Retirement System found that it would have to make the following severe cuts to maintain benefits if their funding stream were reduced: 1) eliminate health care for current and future retirees; 2) eliminate death, disability, or survivor benefits; 3) reduce the annual cost-of-living increases; 4) reduce the service multiplier.[7]

Social Security provides no comparable benefits for public safety officers: Ohio's public retirement systems are tailored to meet the direct needs of its public employers and employees. This is especially true in the case of Ohio's law enforcement and public safety officers who are provided early retirement, expansive disability, and survivor coverage due to the physical demands and hazardous conditions of their employment. Social Security makes no distinction among occupations and, therefore, provides no comparable coverage.

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[4] Ohio Public Employees Retirement System, "About OPERS: History and Background," available online at: https://www.opers.org/about/history, accessed October 28, 2013.
[5] Social Security Administration, "How is Social Security Financed?" available online at: http://www.ssa.gov/pressoffice/factsheets/HowAreSocialSecurity.htm, accessed October 28, 2013.
[6] School Employees Retirement System, "Contributions," available online at: http://www.ohsers.org/contributions-1, accessed October 28, 2013 and Ohio Public Employees Retirement System, "Member and Employer Contributions," available online at: https://www.opers.org/members/faq/contributions.shtml, accessed October 28, 2013.
[7] The Segal Company, "The Cost Impact of Mandating Social Security for State and Local Governments," available online at: http://www.retirementsecurity.org/segal.pdf, accessed October 28, 2013, pg. 14.

Mandatory Social Security would create significant costs with little, if any, benefits: The estimated increased payroll cost of mandating Social Security for public employers and their employees for the first five years is $53 billion.[8] According to a 1998 study by the General Accounting Office, mandating Social Security would extend the Social Security trust fund solvency by approximately 2 years.[9]

Punitive penalty of the Windfall Elimination Provision: For those members with many years in a state retirement system, the forced inclusion into Social Security would result in a particularly punitive financial penalty.

The Windfall Elimination Provision (WEP) primarily affects those retirees receiving pensions from employment for which Social Security taxes were not withheld and who additionally worked long enough in other employment to qualify for Social Security benefits. Because Social Security generally provides a higher payout to those earning less, before 1983, employees covered by both a state retirement system and Social Security received a greater Social Security payout than reflected by their actual lifetime earnings. Congress passed WEP in response.[10] Under the provision, a modified benefit formula is used to calculate the amount of a retired or disabled employee's benefit if the worker also receives a pension from employment in which the employee did not contribute to Social Security. If a worker contributes to Social Security for 30 years, the provision does not affect the worker's Social Security benefit at all.

If the members of Ohio's retirement systems were forced into Social Security, many existing employees who do not have sufficient working years to achieve 30 years of Social Security credit would be subject to WEP. Therefore, they would be contributing 6.2% of pay for a benefit that could be completely eliminated through WEP. This would be a particularly harsh, punitive, and unfair consequence of being included in Social Security.

Voluntary participation should continue for states: Historically, Ohio has opposed mandatory Social Security coverage for public employees. When the Social Security Act was adopted by Congress in 1935, state and local government employees were excluded from coverage.[11] During the 1950's, Congress allowed state and local government employees to become eligible for Social Security coverage for the first time, provided the state entered into a voluntary agreement with the Social Security Administration.[12] States had the option to terminate these agreements up until 1983 when Congress, in the face of several states seeking to withdraw from Social Security, unilaterally decided to make these pre-1983 agreements permanent as part of an effort to save Social Security from impending financial insolvency.[13] In 1990, Congress continued

[8] Coalition to Preserve Retirement Security, "The Cost of Universal Social Security Coverage of State and Local Worker," available online at: http://www.retirementsecurity.org/Segal%202011.pdf, accessed October 28, 2013.
[9] General Accounting Office, "Social Security: Implications of Extending Mandatory Coverage to State and Local Employees," (GAO/HEHS-98-196).
[10] United States Code, 1320a-6.
[11] Social Security Act of 1935
[12] Public Law 81-734 (1950)
[13] P.L. 98-21 (1983)

its pursuit by mandating Social Security coverage for state and local government employees not covered by a public pension system.[14] Because Ohio has consistently opposed mandatory Social Security coverage for public employees, the legislature enacted H.B. 382 (eff. 6/30/91), which required retirees who become reemployed in the public sector to contribute to a public retirement system in lieu of Social Security.

Ohio needs to remain steadfast in its opposition to proposals of mandatory Social Security coverage for public employees. These proposals ignore the negative impact upon the financial stability of public retirement systems and the financial security of public employees and their families.

Recommendation

The ORSC staff recommends that the 130th General Assembly approve H.C.R. 19.

[14] P.L. 101-508 (1990)