



March 2021

REPORT
On the Cost of Universal Social Security Coverage of State and Local Worker
for
The Coalition to Preserve Retirement Security

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 \$35 billion and possibly as high as \$50 billion. This increased cost in payroll taxes will be felt in every state.

In November of 2020, The Social Security Administration (SSA) released Publication No. 13-11784, “Earnings and Employment Data for workers covered under Social Security and Medicare, by State and County, 2018”. The report provides data for Old-Age, Survivors, and Disability Insurance (OASDI) and Medicare income by state splitting income between wage and salary and self-employed. Public Sector employees are in the wage and salary portion, we focused on that data for this study. Workers that pay Medicare but not OASDI are primarily in the public sector (e.g. public safety and teachers) with a small number from some religious institutions. For this study, we did not attempt to isolate the small number of non-Public Sector employees. The SSA report also includes the District of Columbia, Puerto Rico and other individuals not in the states. We included only information for the 50 states. The report estimates that over 4.2 million employees in the 50 states do not participate in Social Security that did participate in Medicare. Medicare became mandatory for public sector employees on April 1, 1986. Thus, there will be some employees who still do not contribute to either program. A prior study based on 2008 data estimated that 6.5 million public sector employees did not participate in OASDI. To account for the employees not in either system we provide a range of possible costs due to potential mandatory OASDI.

If state and local governments are required to have newly hired employees participate in Social Security, then after five years an estimated 1.6 million of the 4.2 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 employees making Medicare but not Social Security contributions (assuming average earnings will increase by 2% each year). The cumulative cost of \$35 billion for public employers and their new employees was determined for the five-year period 2021 through 2025. If the actual number not covered is closer to 6.5 million

as in the prior study, the total cost impact will be about \$50 billion. Table 1 provides a state-by-state cost estimate using the 4.2 million number of current uncovered employees.

The 2011 estimate using 6.5 million uncovered employees, resulted in a five-year estimate of \$53 billion¹. The total workforce in the public sector is approximately 19.7 million². It should be noted that the SSA estimates the number of uncovered participants using a sampling technique, which may not reflect actual numbers. Regardless, 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 \$35 billion (and maybe as high as \$50 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 impact of COVID on tax revenues and are just starting to recover (many may never fully recover) from the 2008 economic downturn. Requiring new hire participation in Social Security would put additional demands on and 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 typical 25 year-period ending over 60 percent of public plan assets are generated from investment returns³). 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

¹ The Segal Company, Report on Universal Social Security Coverage of State and Local Workers, July 2005

² U.S. Census Bureau, *2011 Statistical Abstract*, "Table 459. Governmental Employment and Payrolls"

³ The National Association of State Retirement Administrators, *NASRA Issue Brief: Public Pension Plan Investment Return Assumptions*, March 2010.

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 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 but are not limited to, member education, additional staffing and training, employee communications, actuarial reviews and plan complexities. As administrative costs are generally paid out of investment earnings, these increased costs could further reduce 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 \$35 to \$50 billion in new costs will compete with the funding of necessary public services and programs.

Report prepared by The Segal Company:

Leon F. (Rocky) Joyner, Jr., FCA, ASA, MAAA, EA, Senior Vice President and Actuary, Public Sector Retirement Practice Leader
Andrew Sherman, National Director, Public Sector Market

Table 1
State-by-State Cost Analysis of Mandatory Social Security
For Years 2021-2025

State	Employees Not Covered by Social Security	First Year Number of Employee Terminations (9%)	Average 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	\$ 52,549	\$ 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
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

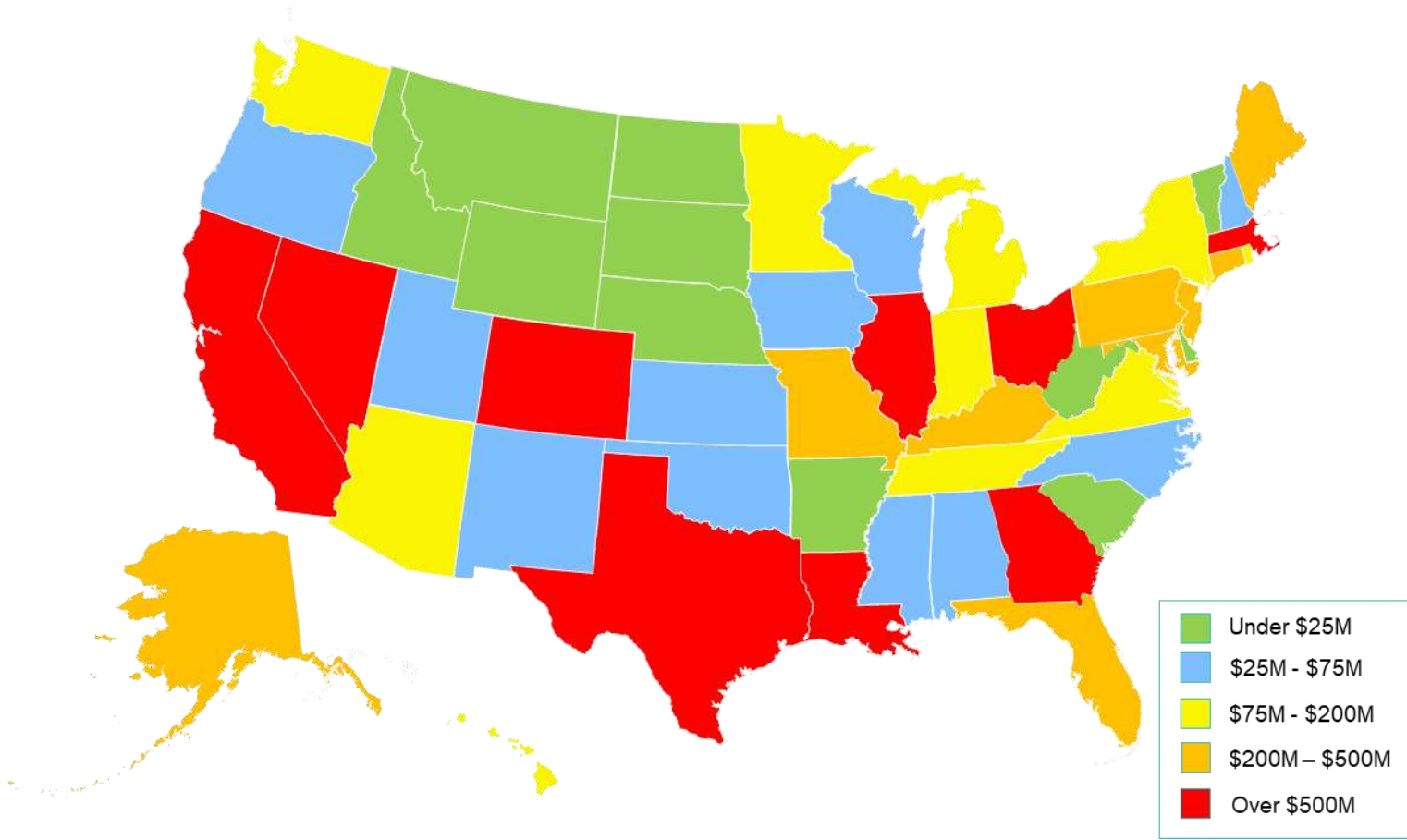
Table 2
State-by-State Cost Analysis of Mandatory Social Security
For Years 2021-2025

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

Source: Prepared by Segal for the Coalition to Preserve Retirement, January, 2021

Source of statistics on number of uncovered workers in each state based on Social Security Administration, Publication No. 13-11784, "Earnings and Employment Data for workers covered under Social Security and Medicare, by State and County, 2018".

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



Source: Prepared by The Segal Company, January 2021.