



## INSTITUTE FOR WOMEN'S POLICY RESEARCH

1400 20th Street, NW, Suite 104  
Washington, DC 20036

CELEBRATING OUR TENTH ANNIVERSARY

### MAKING SOCIAL SECURITY WORK FOR WOMEN

Heidi Hartmann, Economist, Ph.D.  
President and Director, Institute for Women's Policy Research, and  
Chair, Working Group on Social Security  
National Council of Women's Organizations

Social Security is a women's issue. Sixty percent of Social Security recipients are women. Women are not a side issue in the debate over how best to finance the current system and whether to replace it partially or totally with a system of individualized private accounts. Women are central to the debate. Women's views on financing and benefits are critical to the President's and Congress's ability to pass legislation changing Social Security in 1999 or any other year.

#### Why Individual Private Accounts Won't Work for Women

Women are extremely skeptical that individual private accounts will work for them to provide security in retirement. Women have lower earnings and live longer than men on average; therefore they have to stretch a smaller income over more years. They save less and have much less access to employment pensions. The security of Social Security as it's presently configured--the life-time guaranteed benefits, the higher returns for lower earning workers, the cost of living adjustments, and the spousal benefits (including benefits for widows and divorced women)--is critical to women. None of the privatization plans put forward provide all these assurances to women.

Moreover any transition to a system of pre-paid retirement benefits (saving while working to pay for retirement later) while the current pay-as-you-go system is still in place (today's workers pay for today's retirees' benefits), *requires the transition generations to pay for two systems at once*. This either requires more taxes or other sources of revenue to support both plans or requires that benefits be reduced for the existing plan. This double payment will be particularly disadvantageous to women, since they earn less and have less with which to make the payments. The benefit cuts will affect women disproportionately as well, since they are more dependent on Social Security benefits than are men and since more women than men are in or near poverty even with the current benefit levels.

“Carving out” a portion of the payroll tax to create a parallel structure of private individual savings accounts alongside the current insurance-based system is completely unnecessary since there are already many vehicles available for saving and since it can't be done without great sacrifice on the part of many. If what is desired is to achieve a higher return on part of the payroll taxes being collected, that can be done through investing part of the Social Security trust fund in equities; collective investment by the government is also much more cost effective administratively than administering millions of private accounts, many of them very small.

Both insurance-based systems and savings-based systems are valid forms of facing risk and financing retirement. Most families use both insurance and savings to protect against risks and provide for “rainy days.” Most do so now in planning for retirement, and there is no reason to think that our present societal balance between insurance and savings is wrong.

### **How to Reform Social Security to Better Meet Women’s Needs**

Despite the many protections in Social Security that meet women’s needs, there are still ways in which the system’s rules, which are gender-neutral on their face, disadvantage women:

- o using 35 years of earnings to calculate benefits, when far fewer women than men have that many years of paid work--proposals to increase the number of years of earnings used will disadvantage women further;
- o not providing earnings credits for years taken away from paid work to provide family care;
- o inequities between one- and two-earner couples such that, for couples with the same total pre-retirement income, those who shared the responsibility for earning more equitably have lower retirement benefits from Social Security than more traditional families in which the husband worked for pay substantially more than the wife;
- o a drop of between 33 percent and 50 percent in the surviving spouse’s Social Security benefits relative to the couple’s benefits when both were alive, even though research shows the surviving spouse needs all but 20 percent of the couple’s previous income to maintain the same standard of living; the surviving spouse is most typically a woman and the drop in benefits is largest when she worked enough to contribute substantially to the family income.
- o the application of the “earnings test” (which requires benefit reductions when retirees earn more than the allowed amount) indiscriminately, regardless of how much prior work history the retiree has; some women who began work late may wish to keep working as long as they can to increase their future Social Security benefits;
- o the application of the “pension offset” rule indiscriminately, regardless of the size of the government pension and Social Security payments received; many female retired civil servants have small government pensions and small Social Security payments, yet Social Security payments are reduced accordingly. This gender-neutral rule affects women more adversely than men because women’s benefits are likely to be much smaller because of life-time low earnings; the loss of even these small benefits hurts them disproportionately. Also private pensions are not required to be offset against Social Security; men are more likely to hold private pensions than are women.

Few reform proposals on the table address any of these issues that affect the size of the benefits women receive. Improving women’s benefits is critical to reducing poverty among elderly women. Women over 65 are nearly twice as likely to be poor as men over 65 (13 percent vs. 7 percent), even though without Social Security women’s poverty rate would be exceptionally high, 52 percent. Social Security has worked well for women, but it could work even better.



# INTERNATIONAL ASSOCIATION OF FIRE FIGHTERS®

ALFRED K. WHITEHEAD  
General President

VINCENT J. BOLLON  
General Secretary-Treasurer

## STATEMENT OF THE INTERNATIONAL ASSOCIATION OF FIRE FIGHTERS ON REFORMING THE SOCIAL SECURITY SYSTEM

The International Association of Fire Fighters represents more than 225,000 professional fire fighters and emergency medical personnel across the nation. We are deeply committed to helping create a Social Security system that provides for the retirement security of all Americans. We firmly believe that people of diverse viewpoints can achieve a consensus on reforming Social Security in a way to assure the solvency of this vital program for generations to come.

We bring to this debate two very different vantage points. First, we represent tens of thousands of middle-income workers who have paid into the Social Security system for many years. These fire fighters and emergency medical personnel are counting on Social Security to provide a sizable piece of their retirement income. The safety and security of the system is vitally important to them and their families. Second, we represent thousands more workers who are not covered by Social Security, and instead solely pay into state and local government pensions that operate outside the Social Security system. We believe the integrity of the Social Security system must be maintained in a way that protects the retirement security of both of these groups.

For the group who are covered by Social Security, we believe the current basic structure of this worthwhile system must be maintained. For more than 60 years, Americans have benefited from this unique defined benefit system which guarantees workers and their dependents a lifetime annuity benefit. We believe proposals to privatize Social Security are misguided, and would wreak havoc with the retirement security of millions of Americans. We are well aware of the coming funding shortfall in the Social Security Trust Fund, but we firmly believe these funding issues can be addressed without sacrificing the basic premises of the existing system.

Two other proposals that have been offered are also troubling to America's fire fighters. We are particularly opposed to the notion of raising the retirement age. Because of the nature of their profession, most fire fighters retire at much earlier ages than most other workers. They already wait several years after their retirement from the fire service before becoming eligible for Social Security benefits. Increasing the length of this wait would be patently unfair to this dedicated group of American heroes. Moreover, the Labor Department and medical statistics show that the lifespan of fire fighters is significantly shorter than the general population. The years of demanding and traumatic physical work, stress and exposures take their toll, and lead to death at a younger age. For too many fire fighters, raising the retirement age would mean that they will never be able to collect benefits from a system that they paid into for many years.

The second proposal of concern is one shared by virtually all organizations representing working Americans. The 6.2% FICA tax is high enough already, and should not be increased. Middle income Americans simply should not be asked to shoulder any more of our nation's tax burden.

There are better ways to address the shortfall in the Trust Fund than dismantling the system, cutting benefits, or raising taxes on low and middle-income Americans. One option is to raise the payroll tax earnings cap. This regressive cap results in moderate and low income workers paying a higher percentage of their wages into the Social Security system than more affluent individuals. Raising the cap would be a fair way to generate additional revenue for the system.

Another option that we believe deserves serious consideration is allowing the Social Security trustees to invest a portion of the trust fund. Our experience with pension funds demonstrates that it is possible to abide by fiscally prudent investment principles and still realize significant returns. Having the Social Security trustees, rather than individual beneficiaries, invest the funds ensures that the risk is spread among a large pool of people so that no individual retiree need be adversely affected. Losses in a particular investment option or at a particular point in time are offset by gains in other investments and other times. We appreciate the concerns of those who fear investing retirement savings in the stock market, and we do not say that such investments should be undertaken lightly. Nevertheless, we believe that a conservative investment plan can add much needed revenue to the Trust Fund without appreciable risk to beneficiaries.

### **Universal Social Security Coverage**

Equally important to protecting the retirement security of those workers who are included in Social Security is protecting the retirement security of those who are covered by state and local government pension plans that operate outside of the Social Security system. Due to their historic exclusion from Social Security, states and local governments were forced to establish separate pension plans that take into account the absence of Social Security benefits. Even when most public employees were allowed to join the system in the 1950s, thousands of fire departments were legally denied the option to join the system until 1994. As a result, more than 70% of the nation's public safety officers are not covered by Social Security, but are covered by state and local pension plans developed by their government employer. These public sector pension plans have been tailored to meet the unique needs of their employees. For example, plans covering public safety employees are crafted to account for the early retirement ages and high rates of disability common to fire fighting and law enforcement work.

Mandating Social Security coverage of public sector employees would force local governments to either abandon their specialized plans in favor of Social Security or retain their existing systems in addition to Social Security. Both options are untenable. Abandoning existing systems would jeopardize the retirement security of fire fighters who retire far too early to receive Social Security benefits. It could also threaten the health and safety of fire fighters who are forced to remain on the job after sustaining a serious injury since they would no longer have access to the disability pensions that take into account the unique physical demands of their job.

Retaining existing systems in addition to Social Security would cause even more disruption. It would result in a 6.2% pay cut for fire fighters and a 6.2% cut in fire department budgets. In addition to the fundamental unfairness of salvaging the Social Security trust fund on the backs of the public sector, imposing costs of this magnitude would also have severe consequences for the security and safety of fire fighters. Many fire departments are already struggling to comply with minimum health and safety requirements. This added burden could force them to reduce spending on equipment and training that is necessary to protect fire fighters' lives.

Neither option is feasible. States and localities must be allowed to maintain their unique retirement systems. For America's fire fighters, mandatory Social Security coverage is simply unacceptable as an option to salvage the Social Security Trust Fund.



December 3, 1998

Investment Company Institute  
Statement on Social Security Reform

The Investment Company Institute is the national association of the American investment company industry. Its mutual fund members have assets of about \$4.5 trillion, accounting for approximately 95% of total industry assets, and have over 62 million shareholders. About 35% of these assets under management are held in retirement savings vehicles, including Individual Retirement Accounts (IRAs), 403(b) accounts and 401(k) plans.

The nation's retirement income policy rests on three programs – the Social Security system, individual savings (including traditional and Roth IRAs) and employer-sponsored retirement plans. These programs are designed to work in concert to enable Americans to enjoy a reasonable standard of living in retirement. Lawmakers should continue this three-pillar approach, ensure that each program continues to be effective and consider ways to increase the effectiveness and reach of each program. Assuring that Americans have available all necessary tools and avenues to save for their retirement is especially important in light of our nation's changing demographic profile. As a result of increases in longevity coupled with the aging of the baby boom generation, it is vital that the retirement needs of the population be adequately addressed.

The number one goal of lawmakers should be to ensure the long-term health of Social Security. The program's status as a universal system should be maintained, because it assures a floor benefit to the many Americans who have not had the benefit of an employer-sponsored retirement plan nor the ability to accrue substantial individual savings. Moreover, the restoration of fiscal soundness and fairness will renew Americans' faith and support of the program.

Many Social Security reform proposals would include an "individual savings account" component. Among the reasons offered in support of such an approach are that it would (1) increase the benefit the system could deliver to many individuals, and (2) introduce many individuals to the basic principles of savings and investing, which could have positive effects on the two remaining retirement income program -- individual savings and employer-sponsored plans.

If lawmakers determine that individual accounts contribute to the overall fiscal stability of the Social Security system and to improved retirement income and thus includes them as part of Social Security reform, they also should ensure that appropriate investor protections, similar to those found in the securities laws, are put in place. In addition, many participants in the Social Security system may have little or no experience with long-term investing. Thus, the creation of an individual account program needs to be preceded and accompanied by a significant public education campaign about the principles of investing, markets and risks, and product disclosure.

To assure an orderly transition to a new system, all individuals upon entering the system should first have their individual accounts invested in a government-sponsored fund or funds.<sup>1</sup> At some designated point in time, however, individuals should be given the option of electing investments in addition to government-run funds.” There are several reasons why this is an important feature. First, and perhaps most importantly, the additional choices will enable participants to select investments that meet their own objectives, taking into account factors such as age, income, and risk tolerance. Second, in the absence of such an option, government-managed pools quickly would become extremely large and, as a result, have unintended impact on the markets. Third, private managers would compete against the government funds on cost, performance and service, thus improving the system. Fourth, many private managers already have well-established infrastructure to handle similar accounts. It is important that the system be designed at the outset to accommodate privately managed accounts and that additional legislative or regulatory action not be required to permit them as options.

Finally, in considering Social Security reform in the context of improving retirement security, lawmakers also should assure that the other retirement programs are expanded and the rules governing them are simplified. The success of these programs, such as IRAs and employer-sponsored plans, will reduce the strains placed on Social Security. Enhancing these programs would be even more important if lawmakers determine not to establish an individual account component to Social Security.

---

<sup>1</sup> Such a system, might, for instance, be modeled upon the Federal Thrift Savings Plan, which offers a limited number of government-managed investment options.

<sup>2</sup> Such an option could be made available after, for example, an individual has participated in the system for a specified number of years, has worked for a specific number of consecutive quarters, or has accumulated a specific minimum dollar amount in his or her account.



# National Organization for Women, Inc.

1000 16th Street, NW, Suite 700, Washington, DC 20036-5705 (202) 331-0066 FAX (202) 785-8576

## **STATEMENT OF NOW PRESIDENT PATRICIA IRELAND** **ON SOCIAL SECURITY REFORM**

**presented to the White House Conference on Social Security**  
**December 8, 1998**

The question before the president and Congress is simple: As we cross the bridge into the 21<sup>st</sup> century, are we willing to leave seniors -- especially older women -- behind?

The Republican Congress has already turned its back on the working poor by refusing to increase the minimum wage and pulled public assistance out from under the unemployed poor. Now conservatives in Congress are turning their attention not only to the elderly, but also to people with disabilities, widows and orphans. And we have no reason to believe that Social Security will survive a revamp by Livingston and Lott . . . unless our campaign to educate and mobilize the public is successful.

A chicken-little atmosphere has been created by the millions of Wall Street's dollars pushing for privatization of Social Security. (With the Social Security system taking in some \$1.5 billion a day, the possible fees for managing even a fraction of that amount are quite an incentive.) But what we are facing is not a crisis; it's a scam. The threat our families face is not the imminent collapse in Social Security funding, but a possible shortfall after 2032.

Congress created the current Social Security Trust Fund (financed by the excess of current payroll taxes over current payments to beneficiaries and currently growing by more than \$100 billion a year) to help the system meet the challenge of supporting baby boomers who will begin to retire in 2010. By 2032, when the Trust Funds may be drawn down to zero, the system will be purely pay-as-you-go -- as it was from the 1940s through the 1960s.

And those projections are based on a cautious economic forecast. The Social Security Trustees project an annual increase in GDP, adjusted for inflation, of only 1.6% from 1997 to 2029. Growth from 1960 to 1974 averaged 4.1%; from 1975 to 1996, it averaged 2.7%. Maintaining current levels of growth would sustain Social Security through the next century without any changes in the program.

Women must be particularly wary of the remedies proposed to "fix" Social Security. After a lifetime of work, women often find ourselves in dire economic straits during what was supposed to be our golden years. Women are a majority of all Social Security recipients, and roughly three out of four of the recipients over 85 are women. Older women are twice as likely as men to live in poverty. And senior women are twice as likely to depend on Social Security as their sole support.

Privatizers want Generation X to join their attacks against Social Security, but young people should beware. Seniors aren't the only ones who benefit from Social Security. Three million children and their sole caretaker parents depend on Social Security's death and disability benefits to survive. Indeed, Social Security's safety net is wide; without it, vulnerable people of all ages will suffer.

Under the cover of a fantasy funding crisis and in the name of reducing government, conservatives want to revise or even eliminate Social Security in ways that will essentially eliminate the safety net. We must use this opportunity to strengthen and make Social Security more equitable, especially for women.

There are many important benefits under the current program that would not be available under privatization. For instance, 63% of women on Social Security receive benefits based on their husband's earnings (wives or widows' benefits), while only 1.2% of men receive benefits based on their wife's earnings; 37% of these women had no earnings history and 26% had a higher benefit as a wife or widow than as an earner. Under a private plan, the progressive aspects of Social Security that provide a buffer for the poor would be lost, i.e. Social Security replaces a higher proportion of low-wage workers' income when they retire.

In addition, lifelong benefits are especially important to women, who after reaching 65 have a life expectancy of 19.2 years compared to 15.6 for men. What are older women supposed to do if they exhaust their assets before death? Adjustment for increases in cost of living under Social Security is also crucial to saving older women from poverty. Without such protection even a modest 3% inflation rate cuts the purchasing power of a \$100 benefit to \$74 over 10 years and to \$55 after 20 years. Inflation adjusted private annuities are non-existent in this country, and lifetime annuities, if available, would be prohibitively expensive.

As the economy fluctuates, so will the yields of privatized plans. Between 1965 and 1978 the market lost 45% of its value. Seniors need a steady income they can count on, not the booms and falls of the market. The impact on women would be disastrous.

While Social Security is an important program to seniors, the disabled and children who survive the death of a parent, there is a lot of room for improvement. Gender neutral language does not mean equality; women currently receive an average of only \$621 in monthly benefits, while men receive \$810.

We challenge Congress and the president to change the distribution of spousal and primary earner benefits to make them equitable so that homemakers are no longer penalized for choosing to work in the home instead of the paid workforce. We want the cap on social security taxes raised to remove the extra tax burden on secondary wage earners. And we want to establish earnings sharing that will allocate 50% of both spouses' combined earnings to each individual spouse, at long last allowing both spouses to have benefits in her or his own right. In other words, we want women's work – in and out of the home – to be counted and compensated.

NOW endorses the principles of the New Century Alliance for Social Security and the National Council of Women's Organization's committee on Social Security. NOW is a member organization of both coalitions.



**Statement from the Joint Center for Political and Economic Studies on  
*Social Security Reform: What Proposed Changes Mean for African Americans***

Proposed changes in the Social Security system are of special concern to black Americans. In general, blacks are more dependent on Social Security payments for their retirement income than whites, since they are less likely to have private pensions and private savings to complement these payments. Proposals currently under consideration vary tremendously, as do their likely effectiveness and implications for black Americans.

The projected shortfall in Social Security funds can only be met by reducing benefits or increasing revenues-or a combination of the two. Proposals to reduce benefits include:

Proposals to increase taxation involve **taxing Social Security benefits** received by each individual in excess of the amounts paid into the system via FICA payroll deductions for the individual. This change would make the taxation of Social Security benefits comparable to that of other contributory defined-benefit pension plans. Their generally lower lifetime earnings and, therefore, greater likelihood of receiving benefits in excess of their contributions into the system suggest that this change might constitute a disproportionate burden on African Americans and other groups with lower-than-average lifetime earnings.

Speeding up the scheduled **increase in the eligibility age** would have a disproportionate impact on groups with shorter than average life expectancies, which again includes African Americans. Currently, the age of eligibility for benefits is scheduled to rise by the year 2022 from 65 years to 67 years for normal retirement and from 62 years to 65 years for early retirement. Any increase in eligibility age for Social Security benefits is more likely to hurt African American males, whose life expectancy from birth is only 65 years, than white males, whose life expectancy is 73 years.

Proposals to **reduce benefit payments** to the disabled would also put African Americans at a greater disadvantage. In 1995, although African Americans were only 12 percent of the U.S. population, they constituted 18 percent of disabled workers receiving Social Security benefits. On the other hand, making Social Security a means-tested program would make African Americans and other disproportionately poor populations more likely to receive benefits than wealthier subpopulations.

The alternative to reducing benefits is increasing revenues. Proposals to meet the shortfall by increasing revenues include:

**Payroll tax revenues can be increased** in two ways-by increasing the earnings base that is taxed (and keeping the tax rate unchanged), or by increasing the tax rate (and keeping the earnings base unchanged). The argument for increasing the taxable earnings base above the 1998 maximum of \$68,400 hinges on the fact that this current base results in taxing only 84.5 percent of all the wages from covered employment, a lower share than the historic high of 90 percent.

Keeping the maximum earnings base at \$68,400 and raising the payroll tax rate above the current 6.2 percent is the alternative way to increase the yield from FICA taxes. Increasing the earnings base would cause less of a tax bite for African Americans and other disproportionately poor populations than would raising the tax rate.

**Expanding coverage** to include all workers would primarily capture the 25 percent of full-time state and local government employees who are not covered today. Proposals for expanding coverage usually include a phase-in period to reduce the employer's cost. The implications for African Americans and others employed in jobs that become covered by Social Security in the near future depends on whether the FICA tax is subtracted from gross income in addition to the existing set of deductions, or whether it replaces another retirement plan for which contributions had been deducted previously from worker salaries.

The 1994-96 Advisory Council on Social Security, appointed by Donna Shalala, Secretary of the Department of Health and Human Services, to examine long-term financing for the system, made two main **privatization proposals**. Under one, the government would invest in the stock market a portion of all FICA taxes paid. Under the other, a private savings account would be established for each covered individual, and the funds in these accounts would be invested in equities held in mutual funds managed by the government. Other privatization proposals vary in the amount of FICA payments to be invested in the stock market, the nature and management of the private market investment accounts and the types of equities in which investments are made.

All of the numerous proposals to privatize part or all of the Social Security system involve potentially significant costs for transition and administration or management. No matter how these costs are borne within the system, they would reduce the net yields from stock market investments. In addition, proposals that create individual accounts but do not make private investment mandatory would enable lower-wage earners to tap into their nest eggs before retirement. This could result in some individuals not having adequate income upon retirement. Even if private investment is mandatory with private savings accounts, those who are very skilled at managing funds and timing withdrawals, or simply lucky, will have high incomes upon retirement; others not so skilled or lucky will have low retirement incomes.

The privatization of the Social Security program could transform all three categories of retirement income-Social Security, pensions, and private savings-into defined-contribution plans, that is, those in which the return is determined primarily by the contribution and how it has fared in the stock market. This would mean that the amount of one's monthly retirement income would depend entirely on the fluctuations of the market, with no guaranteed payment minimums. The greater the degree of privatization, the greater the uncertainty created for African Americans.

---

*Excerpted from an issue brief on the subject by Wilhelmina A. Leigh and Cecilia A. Conrad.*



## The Shortcomings of Individual Accounts

Kilolo Kijakazi

Senior Policy Analyst

Center on Budget and Policy Priorities

Approaching demographic changes and the subsequent long-term shortfall in the Social Security trust funds have prompted a number of policymakers and analysts to propose diverting some part of Social Security payroll taxes into individual accounts. Proponents of this approach typically extol the potential for higher rates of returns on savings in these accounts in comparison to the rate of return to assets in the Social Security trust funds. When the shortcomings of individual accounts are understood, however, it becomes clear that individual accounts are problematic for workers in general and for low-wage workers in particular.

**Transition Costs.** Social Security is largely a “pay-as-you-go” system; the payroll taxes of workers currently in the labor force pay the benefits of current retirees. Thus any payroll taxes that would be diverted into individual accounts would have to be replaced in the Social Security trust funds by raising taxes, increasing the federal debt, or reducing benefits more than would otherwise be necessary. This is illustrated by the depth of the reductions in Social Security benefits required under one of the most painstakingly and thoughtfully designed partial privatization proposals — a bill developed by a private panel known as the National Commission on Retirement Policy and introduced by Senators Gregg and Breaux and Reps. Kolbe and Stenholm. The proposal shifts two percentage points of the Social Security payroll tax from the Social Security trust funds to individual accounts. By removing these payroll tax revenues from the trust funds, the plan deepens the shortfall in the trust funds from 2.19 percent of payroll to about four percent of payroll. To close this gap, the plan necessitates a reduction of 33 percent in the guaranteed Social Security benefit for the average-wage earner by 2025 and a 48 percent reduction by 2070.

**Risk.** Beneficiaries would receive income from their individual accounts to supplement their Social Security benefits. For some beneficiaries, this might offset the Social Security benefit reductions. But that would not be the case for other beneficiaries. How much a beneficiary would receive from his or her individual account would be uncertain. While Social Security provides a “defined” — or guaranteed — benefit, individual accounts are “defined contribution” plans in which the income the accounts generate is *not* guaranteed and is subject to market risk. How much income an individual would receive from an account would depend on how the markets performed, how lucky or wise the individual was in his or her investments, and on what portion of the account was consumed by administrative costs.

**Administrative and Annuity Costs and Complexity.** These costs cover the expense of managing individual accounts and of converting accounts to annuities when workers retire. Based on data from 401 (k) accounts, Henry Aaron of the Brookings Institution and Peter

Diamond of M.I.T. have estimated that the administrative costs for retirement accounts that are like IRAs or 401 (k)s would reduce the savings in these accounts by about 20 percent. Also, leading research shows an additional 15 to 20 percent of the value of an account is consumed by the cost of converting it to an annuity. Taking all of these costs into consideration, Aaron estimates that at least 30 percent and as much as 50 percent of the accumulated savings in privately managed individual accounts would be consumed. Another problem with individual accounts is that they could be difficult to administer, especially for small businesses. The Employee Benefit Research Institute warned that individual accounts cannot be administered like 401(k) plans, with contributions made each pay period through payroll deductions, without adding significant employer burdens, especially on the small-business sector.

**Political Sustainability of Social Security with Individual Accounts.** Plans that replace part of Social Security with individual accounts risk destabilizing Social Security over time. Under these plans, retired workers generally would receive considerably lower Social Security benefits than under current law. Because people would seem to be paying substantial payroll taxes to Social Security and getting back lower benefits from it, Social Security would likely appear to much of the middle class and more affluent segments of the population to be a bad deal. It would seem to provide them a poor rate of return compared to what their private accounts were paying. These disparate rates of return would, in substantial part reflect the fact that the Social Security trust funds would bear all of the burden of financing the benefits of workers who had already retired or worked for many years when the individual accounts were established. The trust funds also would bear all of the burden of providing more adequate benefits to low-income retirees, low-earning spouses and divorced women, and covering widows, the disabled and the children of disabled and deceased workers. Although not obvious to many workers, a sizeable portion of the Social Security payroll tax is essentially an insurance premium for the disability and life insurance protection that Social Security provides. The private accounts, by contrast, would bear *none* of these burdens, which would enable them to appear to be a better deal to the average worker. For these reasons, the broad-based support for Social Security would lessen and generate strong pressure to shift more payroll contributions from Social Security to individual accounts. Over time, such pressures would likely prove irresistible.

**Low-Wage Workers.** For several reasons, low-wage workers would be likely to receive lower rates of return from individual accounts than other workers. Some administrative costs are fixed dollar expenses and would consume a greater proportion of small accounts than large ones. Also lower-wage workers generally would not be able to afford as good investment advice, would have less investment experience, and would be more likely to preserve their limited savings by investing conservatively. It appears that claims individual accounts would lead to wealth accumulation for low-wage workers are not well founded.

**Conclusion.** Upon first glance, individual accounts may appear to be a potential solution to the long-term imbalance in the Social Security. A more in-depth understanding of individual accounts, however, brings to light inherent problems that could result in a lessening of retirement security for workers and their families. (See also “The Strengths of Social Security and the Best Course of Action for Preserving this System” by Wendell Primus of the Center on Budget and Policy Priorities.)

# The New Century Alliance for Social Security

## Statement of Liz Kramer

Deputy Director - Institute for America's Future; Policy Associate - 2030 Center

Attached is the list of signers of the Statement of Principles for the **New Century Alliance for Social Security**. For more information, see the statement by Roger Hickey, Director of the New Century Alliance for Social Security and Co-Director of the Institute for America's Future or visit [www.ourfuture.org](http://www.ourfuture.org).

Hans Riemer, **2030 Center**; Norman Hill, **A. Philip Randolph Institute**; John Rother, **AARP**; Steve Kest, **ACORN**; John J. Sweeney, **AFLCIO**; Norman Lear, **Act III Communications**; Mike Farrell, **Actor, Producer**; Edith Fierst, **Advisory Council on Social Security, 1994-96**; Janice Weinman, **American Association of University Women**; Bobby L. Harnage, Sr., **American Federation of Government Employees**; Gerald W. McEntee, **American Federation of State County and Municipal Employees**; Sandra Feldman, **American Federation of Teachers**; Richard Foltin, **American Jewish Committee**; Joni Fritz, **American Network of Community Options and Resources**; Moe Biller, **American Postal Workers Union**; Robert Kuttner, **American Prospect**; Amy Isaacs, **Americans for Democratic Action**; Alicia Munnell, **Boston College**; John B. Williamson, **Boston College**; Robert Reich, **Brandeis University**; James H. Schulz, **Brandeis University**; John G. Guffey, **Calvert Social Investment Foundation**; Roger Hickey, **Campaign/Institute for America's Future**; Sharon Daly, **Catholic Charities USA**; Msgr. George Higgins, **Catholic University of America**; Alan W. Houseman, **Center for Law & Social Policy**; Linda Tarr-Whelan, **Center for Policy Alternatives**; Leslie R. Wolfe, **Center for Women's Policy Studies**; Rev. James E. Hug, SJ, **Center of Concern**; Robert Greenstein, **Center on Budget and Policy Priorities**; Wendell Primus, **Center on Budget and Policy Priorities**; David Liederman, **Child Welfare League of America**; Marian Wright Edelman, **Children's Defense Fund**; Kay Hollestelle, **Children's Foundation**; Ann K. Delorey, **Church Women United**; Richard Kirsch, **Citizen Action of New York**; Gloria Johnson, **Coalition of Labor Union Women**; Stuart Campbell, **Coalition on Human Needs**; Charles Knight, **Commonwealth Institute**; Morton Bahr, **Communication Workers of America**; Jerome Grossman, **Council for a Livable World**; David Langer, **David Langer Co. Actuaries**; Kelly Young, **Democrats 2000**; Amy L. Domini, **Domini Social Investments**; Thomas J. Downey, **Downey Chandler, Inc.**; Jeff Faux, **Economic Policy Institute**; Dean Baker, **Economist**; Ken Cook, **Environmental Working Group**; Michael McCloskey, **Environmentalist**; Ron Pollack, **Families USA Foundation**; Eleanor Smeal, **Feminist Majority**; Tom Schlesinger, **Financial Markets Center**; Sumner Rosen, **Five Boroughs Institute**; Msgr. Charles Fahey, **Fordham University**; Ruth Messinger, **Former Manhattan Borough President**; Berkley Bedell, **Former Member of Congress (IA)**; Ned Stowe, **Friends Committee On National Legislation**; Brent Blackwelder, **Friends of the Earth**; Roger Wilkins, **George Mason University**; Amitai Etzioni, **George Washington University**; Peter Edelman, **Georgetown Law Center**; Tim Fuller, **Gray Panthers**; Rabbi Michael Feinberg, **Greater NY Labor-Religion Coalition**; Elaine Bernard, **Harvard University**; James Medoff, **Harvard University**; Michael Sandel, **Harvard University**; Juliet Schor, **Harvard University**; Theda Skocpol, **Harvard University**; William Julius Wilson, **Harvard University**; Jack O'Connell, **Health & Welfare Council of Long Island**; Mimi Abramovitz, **Hunter School of Social Work**; Heidi Hartmann, **Institute for Women's Policy Research**; Clavin Fields, **Institute of Gerontology, UDC**; Timothy Smith, **Interfaith Center on Corporate Responsibility**; Thomas Buffenbarger, **International Association of Machinists**; Stephen Viederman, **Jessie Smith Noyes Foundation**; Bert Seidman, **Jewish Labor Committee**; Fred Azcarate, **Jobs with Justice**; Rev. Peter Laarman, **Judson Memorial Church**; Justin Dart, **Justice for All**; Peter D. Kinder, **Kinder, Lydenberg, Domini & Co.**; Brent Wilkes, **League of United Latin American Citizens**; John Mueller, **Lehrman Bell Mueller Cannon**; Rev. Robert L. Pierce, **Long Island Council of**

**Churches; Rev. Russell Siler, Lutheran Office for Governmental Affairs, ELCA; Elisa Maria Sanchez, MANA, A National Latina Organization; Peter Diamond, MIT; Richard Medley, Medley Global Advisors, L.L.C.; Jackie Kendall, Midwest Academy; Heather Booth, Midwest Academy, Founder; Julian Bond, NAACP; Kweisi Mfume, NAACP; Kathy Thornton RSM, NETWORK: National Catholic Social Justice Lobby; Eleanor Litwak, NY State Council of Senior Citizens; Robert Ball, National Academy of Social Insurance; Jean Daniel, National Association of Area Agencies on Aging; Toby Weismiller, National Association of Social Workers; Samuel Simmons, National Caucus and Center on Black Aged; Susan Bianchi-Sand, National Committee on Pay Equity and Chair, National Council of Women's Organizations; Max Richtman, National Committee to Preserve Social Security and Medicare; Rev. Dr. Joan Brown Campbell, National Council of Churches of Christ, USA; Raul Yzaguirre, National Council of La Raza; Dr. Jane Smith, National Council of Negro Women; Steve Protulis, National Council of Senior Citizens; Michael Beattie, National Council of Students with Disabilities; Gertrude S. Goldberg, National Jobs for All Coalition; Curtis W. Ramsey-Lucas, National Ministries, American Baptist Churches USA; Loretta Putnam, National Multiple Sclerosis Society; Patricia Ireland, National Organization for Women; Bente E. Cooney, National Osteoporosis Foundation; Patricia M. Smith, National Parent Network on Disabilities; Donna Lenhoff, National Partnership for Women and Families; Dr. C. Delores Tucker, National Political Congress of Black Women; Burton D. Fretz, National Senior Citizens Law Center; Hugh Price, National Urban League; Nancy Duff Campbell, National Women's Law Center; Anthony Wright, New Jersey Citizen Action; Sen. Fred R. Harris, New Mexico Democratic Party; Stanley Sheinbaum, New Perspectives Quarterly; Barney Olmsted and Suzanne Smith, New Ways to Work; Edward Wolff, New York University; Marc Caplan, Northeast Action; Rev. Robert J. Wilde, Northside Common Ministries; Robert Wages, Oil Chemical and Atomic Workers; Deborah Briceland-Betts, Older Women's League; Charles Sheketoff, Oregon Center for Public Policy; Karen Ferguson, Pension Rights Center; Mike Lux, People for the American Way; Mark Weisbrot, Preamble Center; Herb Gunther, Public Media Center; Jesse L. Jackson, Rainbow/PUSH Coalition; Sheara Cohen, Rural Organizing Project; Philip Harvey, Rutgers School of Law; Dr. Joel Blau, School of Social Welfare, S.U.N.Y.; Andrew Stem, Service Employees International Union; Robert Myers, Social Security Administration; Martin Carnoy, Stanford University; Eric Kingson, Syracuse University; Paul Marchand, The Arc and Chair, Consortium for Citizens with Disabilities; Harriet Barlow, The Blue Mountain Center; Richard Leone, The Century Foundation; Vivien Labaton, Third Wave Foundation; Tom McCormack, Title II Community -AIDS National Network; Joseph White, Tulane University School of Health and Tropical Medicine; Jay Mazur, UNITE!; Stephen P. Yokich, United Auto Workers; Pat Conover, United Church of Christ; Douglas H. Dority, United Food and Commercial Workers; Jane Hull Harvey, United Methodist Church; Bishop Felton Edwin May, United Methodist Church; Anthony Samu, United States Student Association; George Becker, United Steelworkers of America; Chuck Collins, United for a Fair Economy; Robert Pollin, University of Mass-Amherst; Eugene Feingold, University of Michigan; Martha Byam, University of New Hampshire; Teresa Ghilarducci, University of Notre Dame; Arlene Stein, University of Oregon; James K. Galbraith, University of Texas; Ray Marshall, University of Texas; Nelson Lichtenstein, University of Virginia; Donald E. Wightman, Utility Workers Union of America; Susan Shaer, WAND - Women's Action for New Direction; Merton C. Bernstein, Washington Univ. in St. Louis; Doug Fraser, Wayne State University; Larry Marx, Wisconsin Citizen Action; Rep. Nan Grogan Orrock (GA), Women Legislators' Lobby; Anna Rhee, Women's Division, United Methodist Church; Peter Barnes, Working Assets; Deborah Kaplan, World Institute on Disability; Theodore R. Marmor, Yale School of Management**

**The New Century Alliance for Social Security** is a coalition of citizen leaders who have all signed a Statement of Principles to guide Social Security reform. It is a project of the **Institute for America's Future**.



## **“Impact of Mandatory Coverage of State and Local Workers on Public Education in California”**

Presentation by William S. Lambert  
United Teachers Los Angeles

I am here to express the very grave concern of the California public school system and its teachers over a possible proposal to impose mandatory Social Security coverage on new State and local government workers as part of the current effort to restore the long-term solvency of the Social Security trust fund.

Such a proposal would have a devastating fiscal impact on the California school system and would seriously undermine the State’s pending effort to achieve the very class-size reduction that the President and the Vice President have been advocating as a national policy.

I represent the United Teachers of Los Angeles, the 40,000 teachers who work for the Los Angeles Unified School District (LAUSD), the largest school district in California. Statewide, California has over 400,000 active teachers working for 1,100 school districts.

Mandating our teachers into Social Security will have a harsh impact on both school districts and teachers. School districts will have to respond to the mandate in one of a number of ways, all of which negatively impact teachers and the cost of public education:

- 1) Pay an additional 6.2% of payroll for Social Security on top of employer costs required to fund the retirement benefits provided by the California State Teachers’ Retirement System (CalSTRS).

This scenario would cost LAUSD alone \$440 million in the first 10 years. On a statewide basis, this alternative is projected to cost school districts \$3.8 billion dollars in the first 10 years. If the school district has to absorb the cost of the employee’s 6.2% tax, this cost to the district could double.

- 2) Reduce CalSTRS benefits to a level that when combined with Social Security benefits would equate to the current level of benefits provided by CalSTRS.

If Social Security is substituted for a large portion of the current State pension benefit, contributions to the State plan will have to increase substantially in order to fund the same level of benefits as currently provided to California teachers. CalSTRS has calculated these costs at over 7% of payroll. Based upon California’s estimated current teacher payroll of \$16 billion, the increase in total cost would be \$1.1 billion per year, and increasing over time with growth in payroll. If the employer is required to absorb these costs, the impact to school districts would be doubled. If employees were required to share these increased costs, the impact of mandating Social Security would mean a reduction in salary of nearly 10 percent (6.2% SS tax plus 3.5% increased retirement costs).

- 3) Reduce CalSTRS benefits to that which can be funded within current contribution levels after funding mandatory Social Security contributions.

Employers cannot provide an adequate benefit with the funds remaining after paying mandatory Social Security contributions. Staying within current contribution cost levels leaves only a 1.8% of compensation sliver to fund CalSTRS retirement benefits. You are then requiring teachers to reduce their standard of living in retirement. How are employers suppose to attract qualified and talented teachers into a profession that can't provide adequate retirement benefits? Schools will not be able to achieve its goal of educating our children.

In any scenario, school districts and their teachers will be harmed permanently. For what? To extend the solvency of the Social Security trust fund for a mere two years. Two years. Certainly this does not justify the decimation of school districts in California. It will be our school children who will suffer. There will be decreased money for textbooks, library services, athletic programs, music programs. The list goes on.

California's budget outlook for the near future has just been released and the forecast is grim. With current projections showing a \$1 billion shortfall in the budget beginning July 1, 1999, Governor-elect Gray Davis has recently announced that the aggressive education reform he campaigned on must be scaled back. In addition, California school districts are already attempting to implement its broad-ranging new class-size reduction programs. Mandatory coverage is certain to impede if not halt school districts' ability to fully implement class size reduction and other education reforms.

In addition to the impact that will be felt by teachers as a result of the increased employer costs, there are the real hard dollar costs that will hit teachers. At a minimum, teachers will have a reduction in their take home pay of at least the 6.2% Social Security contribution and potentially as much as 10% with the increased State retirement plan cost. Teachers in Los Angeles can't afford to achieve the American dream of buying a house now on their current salaries. How can they ever hope to with a loss in take-home pay of these proportions? If school districts are required to increase salaries to offset the impact of the Social Security tax on employees (as I can assure you UTLA will make every effort to do); the harsh fiscal impact on school districts will be just that much greater.

Proponents of mandatory coverage argue that mandating uncovered public employees into the Social Security system is only a matter of fairness and equity. UTLA takes exception with that argument. Where were these arguments before Social Security reached crisis mode? Mandatory coverage would not be proposed at this time if not for the condition of the Social Security trust fund. So let's call this what it really is - a bailout of the Social Security trust fund on the backs of school teachers and other state and local workers who did not create the problem.

UTLA is opposed to mandatory Social Security on the basis that it is blatantly unfair to now mandate into Social Security employees originally prevented from participating and instead told to fend for themselves. Public employees did just that and now will be penalized for it. I ask you - where is the fairness and equity in that?

**Personal Statement of  
Kamal Imhotep Latham  
President and CEO, Harvard University NAACP**

President Franklin D. Roosevelt called Social Security “some measure of protection.. .against poverty-ridden old age.” In my opinion, it is one of the few massive government programs to have successfully achieved an honorable objective. Unfortunately, two major problems exist with the current system. It places an unfair financial burden on young people and it is on course to run a cash flow deficit early in the next century. The question of today is whether or not national policymakers will take the difficult step of reforming the system to resolve those problems while maintaining a safety net for the low-income elderly.

There are only two ways to save Social Security. The U.S. Congress and President William J. Clinton must either reduce benefits or increase revenue. The decision to reduce benefits is politically untenable and it would have dire consequences for low-income persons, especially if inflation rises. At first glance, increasing revenue sounds unpalatable because the assumption is that payroll taxes would have to be raised drastically. I believe there is another way. Individuals must be allowed to invest a portion of their retirement assets in the stock market. In short, the system must be partially privatized. It will not only promote intergenerational fairness and save the system from insolvency, but it will increase the national savings rate, allow individuals to earn more money, and put young people’s confidence back in the federal government.

Young people are very skeptical of Social Security because they know that it is not a retirement planning system but merely an income transfer from themselves to retirees. Furthermore, they do not believe that it will be there for them in their old age. These sentiments should not be ignored nor taken lightly. The future of this nation looks very bleak if young people, whom President John F. Kennedy considered America’s greatest natural resource, do not believe that the federal government is serious about having a system that will adequately provide for them in their retirement years.

Generation X shares a disproportionate amount of the financial commitment from society that is currently required to fully fund Social Security. Employees and employers each pay 6.2% in Social Security taxes up to an earnings threshold of \$68,400. The overwhelming majority of young people earn less than that and the FICA tax is automatically deducted from their paychecks. Although employers must contribute the same percentage, many economists believe that they pass on almost all of their tax to employees in the form of lower wages. In essence, young people are actually paying a FICA tax of nearly 12%. That is simply unfair.

If the current system is left unchanged, by the year 2013, the tax receipts coming into the Social Security Trust Fund will not meet the disbursements being paid out of it. Technically, the system can be financially engineered to cover all beneficiary payments through the year 2032. However, the 40 million Americans that belong to Generation X will be retiring

around that time and millions of them will fall through the crack because there will only be enough money to meet three-fourths of mandated benefit payments. It is wrong that what young people get in return for their FICA taxes is an empty promise of future financial security.

Lawmakers have a hard task ahead of them. They must have the political will to reform a system that places an unfair financial burden on young people and is on course to run a cash flow deficit in almost fifteen years. My desire to see the system changed does not stem from a conservative nor liberal ideology. Ensuring that all Americans have adequate retirement security in their old age, in my opinion, is just the right thing to do.

T H E  
**TWENTIETH CENTURY FUND**  
 FOUNDATION

STATEMENT OF RICHARD C. LEONE  
 PRESIDENT OF THE CENTURY FOUNDATION

Societies everywhere are converging in a belief that high rates of economic growth and long-term prosperity are possible only with free markets, but they also continue to learn and relearn lessons about the risks that accompany free enterprise. These risks underscore the abiding importance of building strong, democratic governmental institutions to enforce the rules of the game and to deal with the abuses of the marketplace. Moreover, even in strong economies, individuals confront unavoidable uncertainty about the long-term outcome of a lifetime of work, savings, and investment. Experience everywhere confirms the indispensability of a reliable social safety net, especially for our youngest and oldest. Reform of Social Security should reflect this hard won knowledge about the workings of capitalism and democracy.

The choices that we make about the future of social insurance will go a long way toward answering basic questions about America: What is the proper role of government in an overwhelmingly private-sector economy? How can we create fairness and opportunity for all our citizens? How can we reduce inequality and poverty? Thus, we can and should assess each proposal for change in Social Security in terms of its potential effect on economic growth, inequality, fairness, and efficiency. Until recently, Social Security has operated with relatively little controversy, routinely and efficiently accomplishing the task for which it was created--reducing poverty among the elderly. Today, without it, more than half of Americans over age 65 would fall below the poverty line. With the retirement of America's largest generation--the baby boomers--in sight, however, both Social Security and health programs for the elderly have moved to center stage in political and policy debates.

At one extreme, some argue that America will be doomed to a sharply diminished future unless extreme steps are taken to change the way we support the aged. They claim that the system is near collapse and that "privatizing" it will give everybody better protection in old age. But the evidence suggests, instead, that moderate adjustments in burdens and benefits can solve foreseeable problems within the framework of the existing system.

Too often, Social Security reform is discussed as though the program were merely another savings or investment program whose purpose was to yield the biggest return. Social Security is more; it is a disability and life insurance policy that provides vital protections to virtually every member of our society. Currently, seven million survivors of deceased workers and four million disabled Americans receive income support. The Social Security Administration calculates the value of the disability insurance as the equivalent of a \$203,000 policy in the private sector; for a 27-year-old average-wage worker with two children, Social Security provides the equivalent of a \$295,000 life insurance policy. The total value of these two policies nationally is about \$12.1 trillion, more than all the private life insurance currently in force.

tel. 212.535.4441

41 E. 70th Street, New York, NY 10021 fax 212.879.9190

web: <http://epn.org/tcf.html>

email: [xxthfund@ix.netcom.com](mailto:xxthfund@ix.netcom.com)

Social Security also provides a lifetime retirement annuity whose benefits rise with inflation. Many corporate pensions run out after 20 years, and most are not adjusted for inflation. The notion that these basic protections would be unnecessary if we all saved more money is simply false. The truth is that neither of these protections are available in the private market at a price that the vast majority of Americans can afford.

Social Security works because virtually all of us belong to it and pay into it. Social Security, after all, does not consist of a bunch of piggy banks with our names on them. Our pooled contributions insure that almost every senior citizen receives a minimum income. Although some of us need the protection more than others, all of us get some benefits. It is the nature of such pooled plans that both the most fortunate among us (the wealthy) and the least fortunate (those who die young and without a family) get the least from the program.

It is a fallacy that everyone can do better than average if we take control away from the Government. Averages exist because some of us do worse and some of us do better. Moreover, to the extent that higher market returns are sought--for example, by investing Social Security surpluses in higher yielding investments--they can be achieved less expensively and with less risk within the **framework** of the existing system. Privatization advocates wish away the reality that individual accounts can mean high costs and risks. They also often ignore enormous transition costs--one plan requires increased taxes of \$6.5 trillion during the next 72 years.

In the end, of course, there is no magic formula that will sweep away all the issues raised by the aging of the boomers. For all but a few fortunate individuals, as well as for the nation as a whole, many questions (like life's risks in general) cannot be wished or legislated away. Given the long-term nature of the implicit contract involved in a retirement program (perhaps sixty years from the start of work to the end of life), such risks are inevitable. Over such a span, birthrates and medical progress are unpredictable, securities markets are sure to experience immense volatility, and even the most stable democracies are likely to experience sweeping transformations in politics and policy. In other words, the future development of society will remain complex and uncertain. Ultimately, the inevitability of risk, when combined with the uncertainties intrinsic to the careers and health of individual workers, makes the strongest case for a safe and conservative social insurance program.

## LAPERS

Yvonne E. Richardson  
*Executive Director*  
*Sheriff's Pension and Relief Fund*  
*President*

Graig A. Lurcombe  
*Assistant Director*  
*Teachers' Retirement System of Louisiana*  
*Vice President*

Virginia Freshwater  
*Administrative Assistant*  
*Municipal Employees' Retirement System*  
*Secretary*

Dainna S. Tully  
*Benefits Administrator*  
*Parochial Employees' Retirement System*  
*Treasurer*

### **Mandatory Coverage of Public Employees is a Bad Idea and Offers No Real Solution to Fix the Social Security Problem**

Social Security was formed during the Roosevelt Administration as a social "safety-net" to offer supplemental income for retirees and to provide a means of support for those members of society who were incapable of earning that means of support themselves. At the time, the Federal government told public employees that there were 10<sup>th</sup> Amendment Constitutional concerns and that they were not going to even be offered the opportunity to share in the government's generosity. If a retirement and safety-net was desired by public employees, then the only alternative they had was to form their own retirement system.

So that's what they did. And those defined benefit systems progressed with the times, while Social Security remained stagnant. Now, almost 70 years later, the gulf between the two is so great that there is no longer any comparison. Now proponents of this provision are willing to overlook the ethical and Constitutional concerns in what is becoming apparent as a grab for this last source of untapped income for Social Security. The sad truth is, however, that the SSA has already reported bringing all of the public employees not now currently paying Social Security into the system will only extend solvency two years. Upon further examination, the 10<sup>th</sup> Amendment concerns are still intact. Furthermore, there is a question of ethics when public officials try to force over 5 million citizens nationwide and 250,000 citizens from the State of Louisiana from retirement systems that provide far better benefits into a system that is universally recognized as broken and headed toward collapse.

One of the misconceptions about mandatory Social Security coverage is that the benefits are comparable or similar. But the chart at the bottom of this statement shows how the retirement systems in the State of Louisiana now offer almost twice as much in benefits for retirees as Social Security can. It is possible to obtain 100% of your salary in retirement benefits if you spend an entire career in public service. But the maximum anyone can draw from Social Security is approximately \$17,500 per year. This fact means that people who would have enjoyed comfortable retirements would be **shifted** to a category of earnings slightly higher than the poverty level. Additionally, these people could become potential burdens for the other Federal and state social safety-nets since their Social Security benefits would place them in such a low income bracket. If new hires were allowed to enter their respective retirement systems, then the dangers of that are far less since their retirement income would be significantly higher.

This brings us to one of the biggest misconceptions in this debate. It is assumed by proponents that the imposition of mandatory coverage upon new hires at some point in the future will only affect those new hires. The reality is that forcing Social Security upon new hires would effectively close

existing retirement systems and thereby eliminate the ability to offer additional benefits for retirees, like cost-of-living allowances and health care. So these changes would have severe long term impacts by destabilizing the retirement and disability security of current and future retirees in these systems.

Mandatory Social Security coverage has significant impacts on the ability of the employers - public agencies - to perform the services they are charged with providing. The additional expenses placed upon these employers would mean that they would have to restructure budgets and pick and choose between services. Education, public safety, government services and the taxpayers would all suffer if this unfunded Federal mandate were to be imposed upon the States and their political subdivisions. For example, in Louisiana alone, the additional cost to the taxpayers in the first five years is estimated to exceed \$750 million dollars.

There is an additional burden on the State of Louisiana, where mandatory Social Security coverage could not be simply substituted for existing retirement benefits. The State Constitution and laws dictate that employees in public service MUST belong to their respective retirement system. Until the laws are repealed and the Constitution modified, employees and employers are faced with, on average, a payroll tax of 12-16% each! Such a burden becomes impossible for many on the already low salaries found in many public service sectors.

Mandatory Social Security coverage is a bad idea because it would cause significant financial harm to present and future retirees, new hires, the employers and public agencies and the taxpayers who would be faced with this additional burden if implemented. Forcing people who would belong to viable and healthy retirement systems offering far superior benefits into Social Security is simply bad public policy. Instead, policy makers should be examining these retirement systems and use their success as a model for reforming the broken Social Security system.

<b>Retirement System</b>	<b>Retirement Benefit</b>	<b>Retirement Age</b>	<b>Cost of Mandatory Coverage Employer/Employee 1<sup>st</sup> Five Years</b>
Social Security	\$ 805.00	Age 65 (rising to 70)	
School Employees	\$ 1,393.33	Any Age w/30 years	\$ 3,993,782.00
State Employees	\$ 1,275.00	Any Age w/30 years	\$ 155,000,000.00
State Police	\$ 1,500.00	Any Age w/20 years	\$ 2,469,930.00
Teachers'	\$ 1,250.00	Any Age w/30 years	\$ 573,000,000.00
Firefighters	\$ 1,665.00	Any Age w/25 years	\$ 569,160.00
Sheriffs'	\$ 1,625.00	Age 50 w/20 years Age 55 w/12 years	\$ 50,000,000.00
Municipal Police	\$ 1,665.00	Any Age w/25 years	\$ 8,788,500.00
Parochial Employees	\$ 1,500.00	Any Age w/30 years	\$ 158,196,285.00