
Are New Directions Needed in State Retirement Policy?

The Brookings Institution

Discussant on W. Gale, S. Holmes, and D. John -
“Social Security for State and Local Government Workers:
A Reconsideration”

Dr. Jason J. Fichtner

Senior Research Fellow

Mercatus Center

October 7, 2015

Framing My Comments

- Only have 10 minutes
- Not going to get bogged down on methodological issues
- Focus on policy relevant issues for discussion
- Identify opportunity costs / trade-offs

General Thoughts

- Authors are approaching this paper with their motives in the right place – improving retirement security for SLGW.
- Normative values are there!
- What about the empirical evidence?
 - Yes & No
- Will policy goal of requiring all SLGW to participate in Social Security lead to a better & more secure retirement?
 - Depends



MERCATUS CENTER
George Mason University

Pros of Including All or New SLGW

- Mandatory coverage would be fairer
 - Share in “legacy costs”
 - Share in cost of socio economic benefits
 - Social Security progressive benefit formula
 - No WEP/GPO
- Mandatory coverage would result in better quality benefits
 - Inflation adjusted benefits
 - Addition of survivor & disability benefits
 - Improved retirement security as SS benefits cover entire work history – good for those with only a few years in state/local gov’t
- Remove a moral hazard problem



MERCATUS CENTER

George Mason University

Cons of Including All or New SLGW

- Would Social Security provide more “secure” benefits in retirement?
 - Trade one under-funded pension plan for another
 - State/local gov’t funds for current pensions would go to Social Security, worsening the already under-funded state and local pension plans
 - Higher state and local taxes regardless?
 - Workers will likely bear cost of transition – possible via lower wages over time
 - What will adding these workers due to retirement security of existing workers already covered by Social Security? Higher payroll taxes? Lower Benefits?
 - How do we pay for shortfall in the long-run of newly covered SLGW when we haven’t covered the shortfall for existing workers?

Note on Costs

- Authors rightly discuss trade-off of those advocating for mandatory inclusion in Social Security highlighting better benefits and those arguing against due to higher costs
- I'd point out that "costs" to state and local governments have been under-stated for a long time, hence why the plans are underfunded
- So maybe we need a more realistic discussion of "costs."

Constitutionality

- Authors state constitutional question is resolved
- Is it?
- Authors point to mandated payroll taxes for Medicare and for SLGW without a pension plan
- What about ACA and Medicaid expansion?
- We're in a hyper-partisan environment – best to convince the state / local governments (and employees) that this is best for them
- Voluntary participation is better than mandatory – reduces opposition

Public Policy and Further Research

- Need to demonstrate transitioning to Social Security for new SLGW is financially better for both workers and employees (state and local governments)
- Similar research needed if we decide to transition existing current SLGW
- Again, keep in mind that “costs” to state/local governments have likely been under-estimated for a long time. “True” costs are becoming evident and will only grow larger over time
- Equity (fairness) is in the eye of the beholder – both from an individual standpoint and an inter- / intra-generational viewpoint
- For state / local government: Trade-off of upfront costs for long-term benefits
- For Social Security trust funds: Trade-off of upfront financial gain for long-term costs
- Burden of any change will likely fall on workers (increased payroll taxes or reduction in benefits). Whether you pay now or pay later...you’re gonna pay!
- From a political standpoint, voluntary participation is preferred to mandatory

Thank You!

JASON J. FICHTNER

jfichtner@mercatus.gmu.edu



MERCATUS CENTER

George Mason University