STATE TEACHERS' RETIREMENT SYSTEM

BILL ANALYSIS

Assembly Joint Resolution 9	**Assembly Member Correa (Amended 3/22/99)**
Position:	**Co-sponsor**
Proponents:	**CFT, CRTA, CSBA, CTA, FACCC, UTLA**
Opponents:	**None Known**

SUMMARY

AJR 9 memorializes the President and the Congress of the United States not to require mandatory Social Security coverage on noncovered state and local government employees in any Social Security reform legislation.

HISTORY

AB 147 (Chapter 743, Statutes of 1988) required CalSTRS to develop and submit to the Legislature an actuarially sound and funded alternative retirement plan which, when combined with Social Security benefits, would provide a member of CalSTRS with adequate retirement benefits.

S.21 (Moynihan), the Social Security Solvency Act of 1999, as introduced, would require Social Security coverage for state or local government employees hired into a position after 2001 that is not currently covered by Social Security.

CURRENT PRACTICE

Currently, CalSTRS members do not pay into Social Security and do not receive Social Security as a result of CalSTRS covered service. Members hired into a position after April 1, 1986 must participate in Medicare.

DISCUSSION

This resolution urges the President and Congress not to mandate coverage of state and local public employees in Social Security in any federal legislation intended to provide financial stability to the Social Security program. CalSTRS has been working with state legislators, members of Congress and teachers and their representatives in an effort to educate teachers and employers and inform elected officials on the impact of mandatory coverage on CalSTRS members and California public schools. The conclusions of numerous studies and analyses indicate that the current CalSTRS plan produces a much greater benefit than a plan coordinated with Social Security, for the same level of contribution. If Social Security is substituted for a large portion of the current CalSTRS pension benefit, contributions by employers and/or teachers would have to increase substantially in order to fund the same level of benefit as is currently provided to California teachers through CalSTRS.

The provisions of AJR 9 are consistent with the views of the Board on this issue. Specifically, this resolution observes that:

- State and local government employers were initially precluded from participating in the Social Security system when it was established in 1935 because it was considered unconstitutional for the federal government to tax state and local governments. In response to this decision, many public employers established their own retirement plans in lieu of Social Security. CalSTRS, however, was established in 1913, twenty years prior to the start of Social Security. In addition, in 1954, the Social Security program was amended to allow coverage voluntarily by public employees – even if they were covered by a state pension plan. CalSTRS members voted on this option in 1955 and elected not to participate in Social Security.

- There are over one million noncovered public employees in the State of California, most notably public school teachers, faculty and administrators and, public safety employees, as well as numerous city, county and special district employees. CalSTRS, the largest teacher’s retirement system in the world, has almost 400,000 active members working for 1,100 school districts that would be affected by mandatory Social Security. In response to the major costs resulting from mandating Social Security participation (discussed below), mandatory Social Security probably would reduce benefit levels for all of these employees. This is because employers would not be able to provide adequate benefits, such as health care, with the funds remaining after paying their share of mandatory Social Security coverage.

- Mandatory Social Security coverage would have a devastating impact on California’s ability to implement education reform measures such as class size reduction. The increased payroll tax from mandatory Social Security coverage would most likely come at the direct expense of education programs, benefits and services for students and employees in California. It would also impede California’s effort to address its school-related infrastructure needs, which are being expanded to handle class size reduction.

- Reducing the current retirement structure in response to mandated Social Security coverage, as well as reducing the take home salary of workers, would have an adverse impact on employee morale. This would further impede recruitment and retention of teachers. Not only are additional teachers needed for programs such as class size reduction, the need for replacement teachers will continue to grow. As noted above, California has almost 400,000 active teachers working in the elementary and secondary schools. 140,000 of these teachers are 50 years of age or older. Because the average retirement age is 60, tens of thousands of teachers will have to be replaced over the next ten years. If the cost of hiring new teachers became higher and benefits lower than what is offered today, replacement teachers would become more expensive, and recruitment would become more difficult.

- As introduced, the current congressional proposal to mandate public employee participation in Social Security applies to employees hired after a specified date, including existing CalSTRS members who transfer to a new employer. If the CalSTRS plan is modified to reflect Social Security participation, different members will have very different retirement benefits: current members who remain in their current job will receive the current CalSTRS benefits, current members who change jobs will pay substantially more for Social Security benefits, and new members will likely have significantly reduced total retirement benefits.

The Teachers' Retirement Board voted on September 11, 1997, to oppose mandatory Social Security. Therefore, AJR 9 is consistent with the Board's position.

FISCAL IMPACT

Passage of this resolution would, in and of itself, have no direct fiscal impact on CalSTRS benefit programs or administrative operations.

However, as noted in this resolution, estimates indicate that mandating Social Security coverage on California's state and local government employers, primarily school districts and newly hired workers, would cost at least $12.5 billion over the first 10 years of implementation. These estimates include substantial new costs to current CalSTRS employers and all future CalSTRS members. The State's 1,026 school districts, 71 community college districts and 58 county offices of education, would be required to pay billions of dollars over the next ten years, which would create a financial burden for California public schools and newly hired teachers. Specifically, mandatory Social Security would increase the cost for new members by 12.40% (6.20% for the employer plus 6.20% for the new member) if no changes were made to the retirement system. Without changes to the current benefit formulas, **the total additional costs to employers and certificated employees would be almost $7 billion over the first ten years of mandated Social Security coverage**.

The average annual new cost for a new hire would be at least $1,600 each for the employer and employee. Statewide, the employer portion of the cost for new hires would, in the first year, be at least $24 million a year and, increase each year as new teachers are hired. The additional required member/employer contribution of 12.40% approaches the normal cost of the current CalSTRS program of 17.54%, leaving little room for the design of a supplemental retirement tier unless new funding can be found.

If mandated coverage resulted in a second CalSTRS plan that combined reduced CalSTRS benefit and a Social Security offset, actuarial estimates indicate that the total annual cost to employers and members would increase 7.05% of payroll under the new retirement plan. **Total additional costs to employers and certificated employees would be approximately $3.7 billion over the first ten years of mandated Social Security coverage.** That amount will increase as current teachers retire and new teachers are hired under the Social Security program. In this scenario, there would be a 70% reduction in CalSTRS benefits if the total retirement costs, including Social Security contributions, were maintained at the current cost of CalSTRS benefits.

POSITION

Co-sponsor. CalSTRS is strongly opposed to the mandatory coverage of teachers under Social Security, as proposed by S.21. California teachers would be required to forego retirement benefits developed since 1913, and future teachers would be forced into a system with reduced benefits and higher costs. Moreover, mandating Social Security would have a devastating fiscal impact on the California school system, seriously undermine the State's effort to achieve school class-size reduction, and dramatically increase the cost of hiring tens of thousands of teachers that will be needed in the next ten years to replace teachers that will be retiring.