

Uncovered:

Social Security, Retirement Uncertainty, and 1 Million Teachers

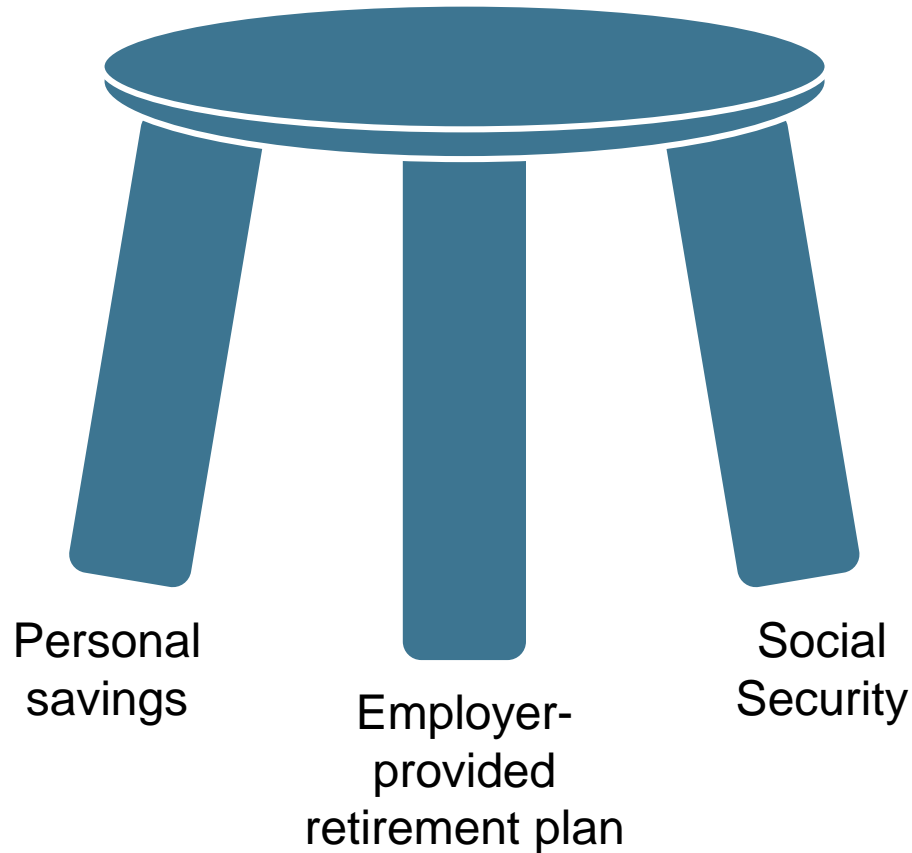
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Executive summary: More than 1 million teachers lose out by not participating in Social Security

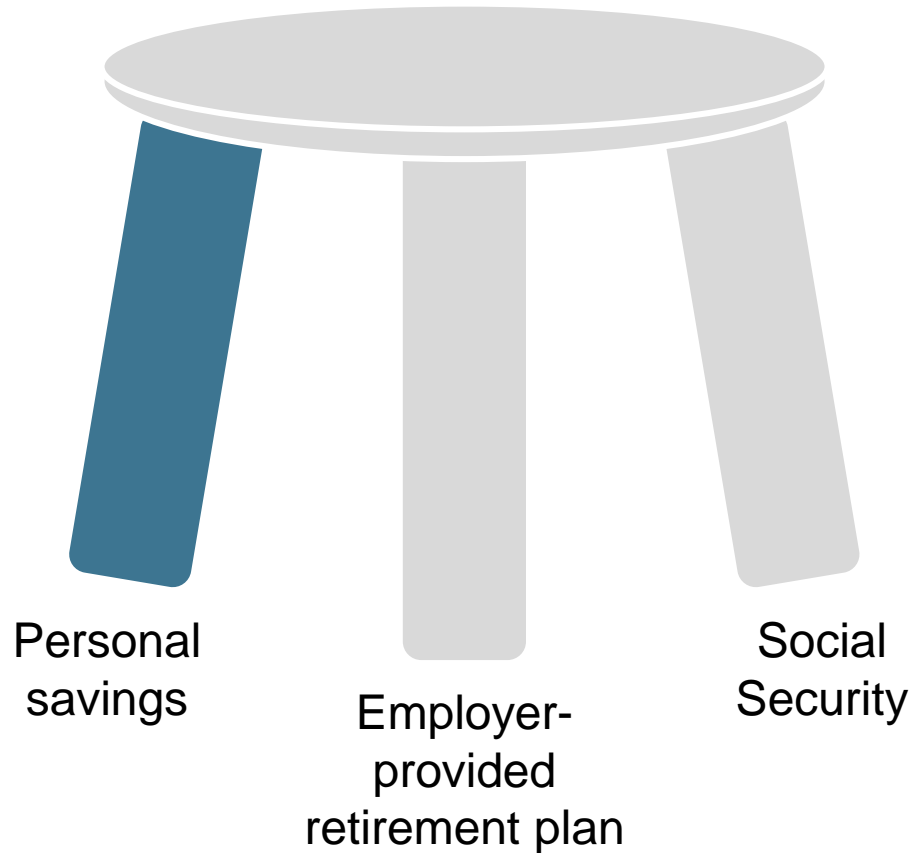
- Most American workers rely on a three-legged stool of **Social Security, employer-provided retirement plans, and personal savings**
- Social Security provides a **portable, secure, inflation-protected** retirement benefit
- However, approximately **1.2 million** public school teachers (40% of all public school teachers), are **not covered** by Social Security
- This is a **relic** from decisions made long ago, on the premise that state pension plans alone could offer better benefits than pensions + Social Security
- State pension plans, unfortunately, leave too many teachers with **inadequate savings**
- In addition to benefits for individual teachers, universal coverage would **improve the Social Security program** itself

Social Security is not enough as a stand-alone benefit. But it would provide a solid, secure base of retirement saving for all teachers.

Most Americans rely on a “three-legged stool” for financial support



But many teachers lean on personal savings alone because of poorly-structured pensions and lack of Social Security



Pension rules limit teachers from accessing secure retirement benefits



Long vesting requirements

Most states require a **minimum of five years** for a teacher to qualify for a pension, and 17 states require **ten years**.

Minimal benefits for mid-career teachers

In the median state, teachers must **wait at least 24 years before their pension is finally worth more than their own contributions**.

No portability

Pension plans impose penalties on teachers who leave before reaching the normal retirement age. Even a career teacher who moves from one system to another can **lose more than half her net pension wealth**.

These limitations make Social Security critical for teachers



Benefits of Social Security to workers

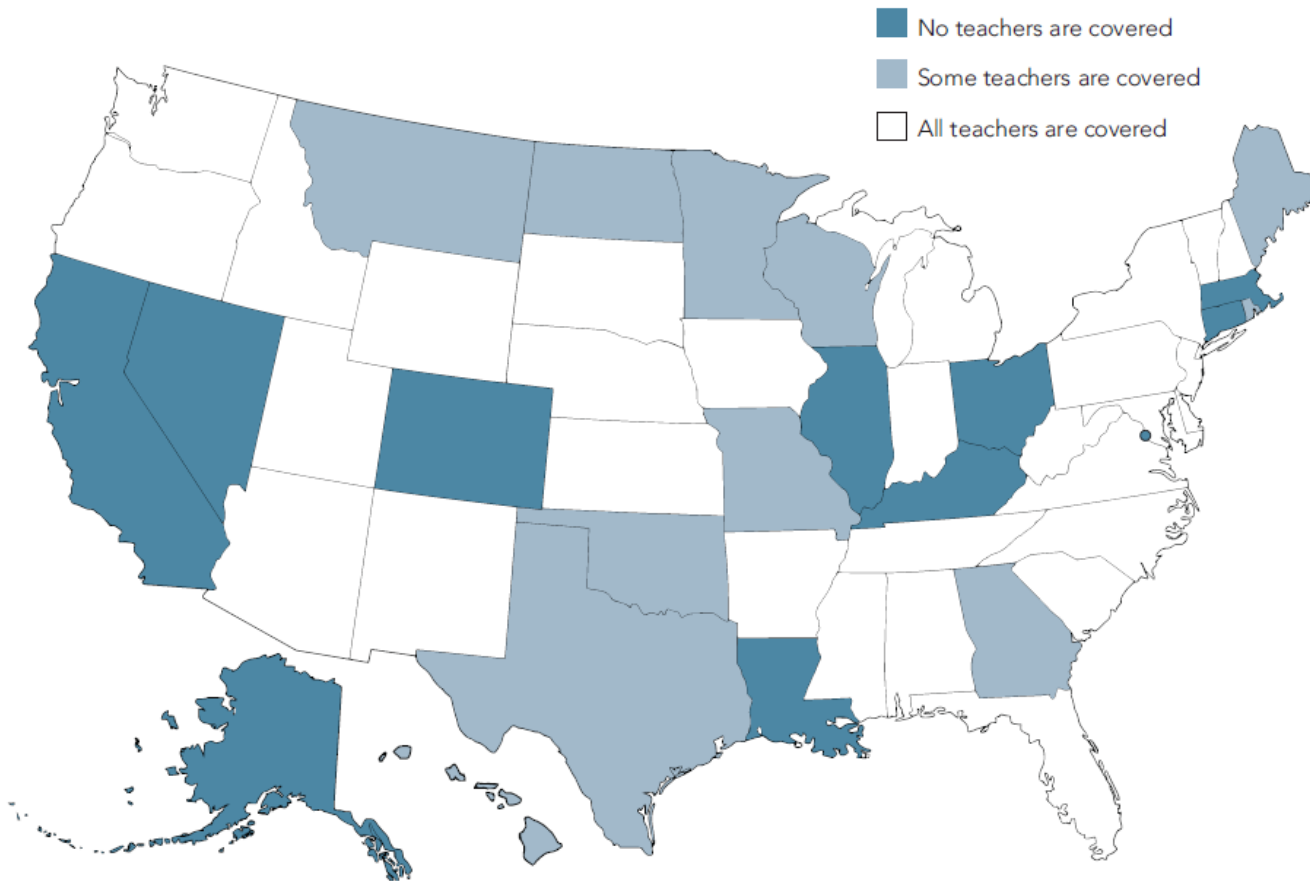
- ✓ Portable
- ✓ Inflation-protected
- ✓ Progressive benefit formula
- ✓ Low risk
- ✓ Lasts a lifetime

Social Security covers 160 million American workers (over 95% of all workers)

Over 6.5 million government workers, including 1.2 million teachers, remain uncovered



But many states have chosen not to offer teachers Social Security benefits



Nationwide, 40% of public school teachers are not covered by Social Security

Those state decisions are relics from over half a century ago and do not reflect today's modern world



1935: Social Security Act covers private workers, but excludes federal, state, and local workers



1954: Congress allows states to extend coverage to all state and local workers



1983: Newly-hired federal workers begin receiving Social Security coverage



Today:
95% of workers covered by Social Security

To ensure progressive benefits, even for workers with split coverage, Social Security applies two complicated provisions

Social Security's progressive formula gives disproportionate benefits to lower-income workers. Because teachers with mixed coverage do not participate for a full career, they appear to be lower-income than they really are. Two provisions—that can confuse beneficiaries—help preserve Social Security's progressivity.

For teachers with split coverage (who appear low-income to Social Security), the **Windfall Elimination Provision (WEP)** reduces Social Security benefits by up to half her pension.



For non-covered teachers with covered spouses, the **Government Pension Offset (GPO)** reduces spousal benefits by an amount equal to two-thirds of her pension.

There would be no need for these provisions if all teachers participated in Social Security.

What would coverage look like for individual teachers?

Case studies: Teachers at all experience levels would gain from Social Security coverage

To illustrate some specific challenges facing teachers in uncovered states, here are three examples of (fictional) teachers in Chicago, IL



Ms. Young: 9 years of experience



Ms. Middle: 15 years of experience



Ms. Career: 35 years of experience

Ms. Young would net \$88,000 in lifetime benefits from participating in Social Security

Ms. Young leaves the classroom after 9 years to work in an after-school program. In Illinois, she would not qualify for a pension and must forfeit all of the contributions her employer made on her behalf. She leaves with \$0 in employer-provided retirement benefits.



Ms. Young: Nine years of experience

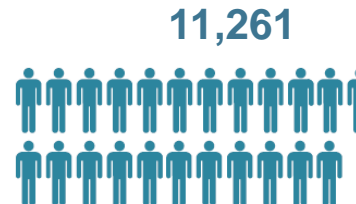
What are her current retirement benefits?

None. She does not qualify for employer-provided retirement benefits or Social Security.

How much would she gain if covered by Social Security during her time in the classroom?

She gains **\$88,000** in net lifetime Social Security benefits.

How many Chicago teachers are like her?



Ms. Middle would net \$140,600 in lifetime benefits from participating in Social Security

Ms. Middle teaches in Chicago for 15 years before moving to teach in a neighboring state. She qualifies for only a mediocre pension and will face Social Security reductions from her future earnings because of her split in coverage.



Ms. Middle: Fifteen years of experience

What are her current retirement benefits?

She qualifies for a pension benefit, but it is likely worth less than her own contributions. She does not receive Social Security for her time in the classroom.

How much would she gain if covered by Social Security during her time in the classroom?

She gains **\$140,600** in net lifetime Social Security benefits.

How many Chicago teachers are like her?



Ms. Career would net \$214,000 in lifetime benefits from participating in Social Security

Ms. Career has devoted **35 years** to teaching in Chicago, which gives her more years of service than 97.5% of Chicago teachers. She qualifies for a **substantial pension** of \$1.2 million over her lifetime, but would still **gain from Social Security coverage**.



Ms. Career: 35 years of experience

What are her current retirement benefits?

She qualifies for a pension worth 77 percent of her final average teaching salary.

How much would she gain if covered by Social Security during her time in the classroom?

She gains **\$214,000** in net lifetime Social Security benefits.

How many Chicago teachers are like her?

555

So, how can states and the federal government help these teachers?

States could follow the example of the federal government

What was good for federal workers would be good for state workers, too

- Federal workers were excluded from Social Security when the law was first established in 1935.
- In the 1980s Congress created a new **Federal Employee Retirement System**, which continues to be the retirement system for federal employees today.
- Federal workers now have a **three-part retirement plan**: A less-generous pension plan, **Social Security**, and the **Thrift Savings Plan (TSP)**, which functions like a private-sector 401(k).
- Government workers indicate **high levels of satisfaction** with their retirement benefits.



States can use the FERS example to transition from a single unstable pension system to a hybrid plan offering **greater portability and retirement stability** for workers and **greater funding predictability** for employers.

Federal law allows states to opt-in to Social Security coverage for their workers at any time.

Or the federal government could compel states to enroll all newly hired workers in Social Security

Why would the government do this?

- The cost of Social Security is expected to exceed revenue beginning in 2021
- The Social Security Administration (SSA) projects that its reserves will be depleted within the next 20 years if no reforms are made
- Unstable state pension plans could eventually need federal support
- Congress could decide millions of teachers with inadequate retirement savings is a national priority

How would this plan help?

- By bringing in additional tax revenue and providing a base of retirement savings for all workers, extending coverage would help address these issues
- Studies by the GAO and the 2010 Simpson-Bowles Commission found that extending coverage would reduce the long-term Social Security shortfall by 8-10%

Expanding Social Security would present challenges, but there are viable ways to address them

Common concerns	Solutions
Benefit costs would be too high	<ul style="list-style-type: none">• By restructuring current pension plans to work in coordination with Social Security, states could improve employee benefits at a modest cost
Administrative and implementation costs would be substantial	<ul style="list-style-type: none">• State and local governments already withhold money from staff payroll, minimizing additional administrative work• The GAO estimates that it would take only a few years for states to manage the transition and implement changes• Universal coverage simplifies the program and reduces the complications of having covered and uncovered workers
Pension benefits would be rolled back, reducing teacher's overall retirement benefits	<ul style="list-style-type: none">• Pension systems could be restructured to work with Social Security, maintaining attractive benefits for career teachers while extending retirement security to the rest of the teaching workforce

In summary, the benefits of including all teachers in Social Security would be widespread

Teachers

Gain access to a secure, inflation-protected, nationally portable retirement benefit

States

Lessen the reliance on state pension systems as the sole retirement savings benefit

Federal

Simplify administrative complexities and reduce long-term Social Security shortfall

**How can I learn more about this
issue?**

Please read our paper, visit the TeacherPensions.org website, or contact the authors directly

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To read the full paper on which this presentation is based, please visit: <http://www.teacherpensions.org/resource/uncovered-social-security-retirement-uncertainty-and-1-million-teachers>