December 16, 1998

To: Board of Directors (Communications and Legislation Committee--Action)

From: General Manager

Submitted by: Izetta E. Birch
Director of Human Resources

Subject: Request Authorization to Oppose Mandatory Social Security Coverage for Newly Hired Public Employees

RECOMMENDATION(S)

It is recommended that the Board authorize staff to oppose federal efforts to approve mandatory Social Security coverage for newly hired public employees.

EXECUTIVE SUMMARY

Because experts predict that the Social Security program will face a funding crisis by year 2032, a comprehensive Social Security reform is currently being explored and is expected to be heavily discussed in the 106th Congress which convenes on January 6th. This issue may also be brought up in the President's State of the Union address on January 19th. Several bills were introduced in the last congress to help balance the fiscally troubled Social Security program. Almost every program reform proposal to date recommends a mandatory Social Security program taxation on newly hired public employees and their employers. Because of the additional cost to Metropolitan and to newly hired employees, it is recommended that Metropolitan adopt a position opposing mandatory Social Security coverage for newly hired public employees. Board action will enable Metropolitan to join the California Public Employees' Retirement System (CalPERS) coalition in opposing this proposal and engage in direct lobbying.

Mandatory coverage for newly hired public employees and their employers will require paying a combined 12.4 percent of newly hired public workers' compensation (6.2% of payroll each for employer and employee). Being subject to additional costs of paying Social Security contributions will certainly place a financial burden on many governmental agencies. Additionally, many employers, including Metropolitan, would be required to establish multiple tiers within their existing retirement systems for current and newly hired employees, some public employers will not be in a position to maintain multiple pension plans, and others would be required to eliminate their defined benefit plans such as CalPERS. Metropolitan will confront similar challenges in the event that newly hired employees are mandated to participate in Social Security.

When the Social Security program was established in 1935, it was intended to exclude public employees. State and local employers and their employees were not allowed to participate in the program. State and local government employers were encouraged to established their own retirement systems, and most did. Those employers who did not establish their own system were allowed into the Social Security program in 1951. However, beginning in 1955, employers who were already in established retirement systems were also allowed to voluntarily participate in Social Security. While some public sector groups joined Social Security, others set up their own retirement plans and some have various combinations which could include Social Security and defined benefit plans.

The California Public Employees' Retirement System (CalPERS) is one of these established retirement plans. CalPERS provides retirement and health benefits to more than 1 million State and local public employees, retirees, and their families, from more than 2,400 employers. In 1945, Metropolitan joined CalPERS to provide retirement and health benefits to its employees.

Because experts predict that the Social Security program will face a funding crisis by year 2032, a comprehensive Social Security reform is currently being explored by the administration and the U.S. Congress. Almost every program reform proposal to date recommends a mandatory Social Security program taxation on newly hired public employees and their employers. In addition to the report issued by the Federal Advisory Council on Social Security advocating for this initiative, several bills were introduced in the 105th congress which would have required newly hired public employees to participate into Social Security. Such bills include S. 1792 by Senator Moynihan (D-NY), S. 2313 by Senators Gregg (R-NH) and Breaux (D-LA), H.R. 2768 by Representative Sanford (R-SC), H.R. 3082 by Representative Smith (R-MI), H.R. 4256 Reps. Kolbe (R-AZ) and Stenholm (D-TX).

If the mandatory coverage is included in the reform package, newly hired public employees and their employers will be required to contribute a combined 12.4 percent of newly hired public workers' compensation (6.2% of payroll each for employer and employee). Statistics estimate a 10-year cost of $5.7 billion to California public agencies (not including school districts). It is anticipated that the universal Social Security coverage of newly hired public employees would raise approximately $12 billion in new revenues over five years.

Representatives from Governor Wilson's office, CalPERS, California State Teachers' Retirement System, the City of Los Angeles, and the League of California Cities met with White House staff and outlined the adverse impacts on employers, new employees and labor management relations, public education and public employee retirement systems. For example, many employers, including Metropolitan, would be required to establish multiple tiers within their existing retirement systems for current and newly hired employees, some public employers will not be in a position to maintain multiple pension plans, and others would be required to eliminate their defined benefit plans such as CalPERS. Being subject to additional costs of paying Social Security contributions will certainly place a financial burden on many governmental agencies. Metropolitan will confront similar challenges in the event that newly hired employees are mandated to participate in Social Security. In addition to having to pay the additional employer cost to Social Security, having to manage a multi-tier retirement benefit will result in an administrative burden and it is predicted that the union and employee associations will press for equal benefits and equal contributions by the Metropolitan for all employees.

Because the mandated option has serious ramifications for many government agencies nationally, as well as in California (approximately 1,500 public employers), CalPERS has established a California coalition to oppose mandatory Social Security for new employees. Other states opposing this issue include Colorado, Massachusetts, Ohio, Nevada, Louisiana and Texas.

CalPERS is encouraging a grass roots effort for public agency employers to register their concerns through its California coalition. Staff requests that the Board adopt a position in opposing federal efforts to approve mandatory Social Security payments for newly hired employees. This will authorize staff to work within the CalPERS Coalition, as well as engage in direct lobbying.

In the event that this legislation is passed, staff will return to the Board with the estimated financial cost to Metropolitan. Costs will depend on the number of new employees hired each year, and these costs will be funded through Metropolitan's general fund.

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