Concept for a State Based Social Security Supplement

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• Strong, but inadequate base for retirement

• $15,528 average retirement benefit for 41 million retired workers and dependents

• Over one-third of men and half of women over age 65 rely on Social Security for 80 percent of the retirement income.

• The most effective anti-poverty program in US history
Social Security Works: Can we Improve it?

• Proposals from Senators Warren and Harkin

• Staunch opposition from Republican Congressional leadership

• Distortion of Social Security’s financing

• Washington gridlock
A Role for the States: Supplemental Social Security

• Combine features of Social Security with traditional pension design

• Target benefits to equal half of initial Social Security benefits for most workers
  ➢ Approximately 15 percent to 20 percent of final pay
  ➢ Currently: approximately $8000 annual benefit

• Target cost to 4 percent of payroll
Design Features

• Prefunded state administered trust
  ➢ Invested prudently as in PERS (SWIB)
  ➢ Assume more conservative rate of return
    ✓ 3.5 percent real return

• Not an “Employee Benefit Plan”
  ➢ Not covered by ERISA
  ➢ No “unfunded” obligations
  ➢ Any “deficit” addressed through political system
Design Features

• Benefits based on “Average Indexed Monthly Earnings” (AIME)

• Benefits accrue at rate of approximately .75 percent multiplied by years of service multiplied by AIME

• Benefits are annuitized and survivorship options should be available
Design Features

• Full benefits at age 65; reduced by 20 percent available at 62

• COLA and Disability optional but will add to cost

• Administration to ensure adequate funding
  ➢ Recommend corrective actions as necessary

• Design must be studied and tested
Advantages of Social Security Supplement

✓ Can accept employer money
✓ Longevity risk borne by plan
✓ Portable in-state
✓ Investment risk borne by plan
✓ ERISA and other federal regulations don’t apply
✓ Robust benefit
✓ Universal
✓ No “leakage”