



Concept for a State Based Social Security Supplement

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Federal Social Security

- 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
- ✓ ERISA and other federal regulations don't apply
- ✓ Longevity risk borne by plan
- ✓ Robust benefit
- ✓ Portable in-state
- ✓ Universal
- ✓ Investment risk borne by plan
- ✓ No "leakage"