



Uncovered:

Social Security, Retirement Uncertainty, and 1 Million Teachers

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TeacherPensions.org

FIXING AN UNFAIR AND INSECURE SYSTEM



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About TeacherPensions.org

Teacherpensions.org provides high-quality information and analysis to help stakeholders—especially teachers and policymakers—understand the teacher pension issue and the trade-offs among various options for reform. We believe there is a need for additional analysis of and communication about teacher pensions—an issue that has not yet gained sufficient traction nationally, despite its seriousness and immediacy. We aim to make the issues around teacher pensions more accessible and relevant to the general public, more compelling to policymakers, and more understandable for current teachers.

Teacherpensions.org focuses on questions affecting public policy choices; it is not personal or institutional investment advice. You should consult a qualified financial professional before making consequential financial decisions.



About Bellwether

Teacherpensions.org is a project of Bellwether Education Partners, a nonprofit dedicated to helping education organizations—in the public, private, and nonprofit sectors—become more effective in their work and achieve dramatic results, especially for high-need students. To do this, we provide a unique combination of exceptional thinking, talent, and hands-on strategic support.

Introduction

A teacher in Chicago probably doesn't spend much time thinking about what isn't on her paystub. But for all her years teaching in Illinois, she won't have access to the retirement or disability protections offered by Social Security. And even if she leaves and begins employment that is covered by Social Security, she'll never get benefits for those years she taught in Illinois.

Today, nine out of 10 Americans age 65 and older depend on Social Security benefits to lead a comfortable and secure retirement. Among middle-class Americans, Social Security makes up more than 40 percent of an individual retiree's income.¹ And yet not all workers can participate in Social Security, a fact few people realize.

Nationwide, approximately 1.2 million teachers (about 40% of all public K–12 teachers) are not covered by Social Security.

While the system includes all private sector workers, many local and state government employees lack the retirement and social safety net offered by Social Security. Teachers constitute one of the largest groups of uncovered workers.² Nationwide, approximately 1.2 million teachers (about 40 percent of all public K–12 teachers) are not covered.³ Those teachers are concentrated in 15 states—Alaska, California, Colorado, Connecticut, Georgia, Illinois, Kentucky, Louisiana, Maine, Massachusetts, Missouri, Nevada, Ohio, Rhode Island, and Texas—and the District of Columbia, where many or all public school teachers neither pay into nor receive benefits from the system. They do not have the same essential income protection in their old age as nearly every other American worker does.

These teachers are at a severe retirement savings disadvantage. Retirement savings are often described as a three-legged stool: Social Security, employer retirement plans, and personal savings. The extent of employer-provided benefits will vary by job, and personal savings are a function of financial circumstances, investment returns, and planning foresight. For many American workers, Social Security is the most consistent portion of the three-legged model, providing a minimum threshold and solid plank of social insurance. Without this, teachers lacking Social Security face substantial uncertainty and must rely more heavily on their employer retirement plans (state pensions) and personal savings.

Unfortunately, state pension plans leave too many teachers unprotected. According to an analysis of state pension plans' own actuarial assumptions, half of today's new teachers will not stay in a single pension system long enough to meet the minimum service requirements to qualify for a pension when they retire.⁴ What's more, state pension plans in states without Social Security coverage are in worse financial shape than pension plans in other states, leaving uncovered teachers vulnerable to future benefit cuts or increases in their employee contributions.⁵ The subsequent reality: many teachers not covered by Social Security are left with just one wobbly leg of retirement savings from their time in the classroom.

States acting alone or the federal government could ameliorate this gap in coverage by extending Social Security to all teachers, an action that would provide portable retirement benefits for all teachers as well as improve the Social Security program itself.

At a time when an increasing number of states struggle with teacher recruitment and policymakers are concerned about retirement security more generally, states should look for ways to provide all teachers with secure retirement benefits. Social Security is not sufficient as a stand-alone retirement program. Teachers, however, would benefit from it as one component of a comprehensive retirement plan.

Social Security and Public Sector Workers

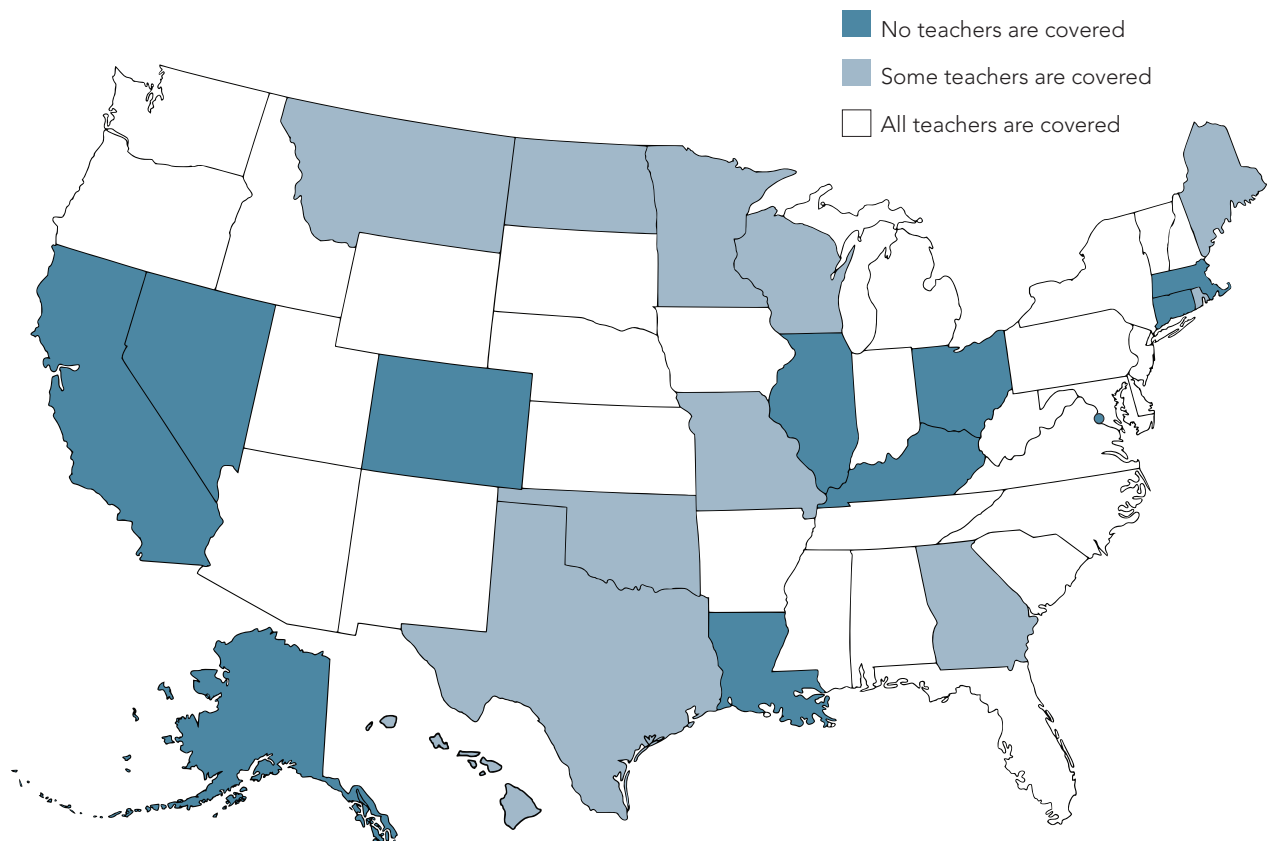
President Franklin Delano Roosevelt signed the Social Security Act into law in 1935 to combat extreme poverty among the elderly, which at the time affected half of the elderly population.⁶ At the time of enactment, the law excluded federal, state, and local government employees because of concerns over the federal government's authority to tax local and state governments. As a result, the initial law covered only private sector workers.

In the 1950s, growing concerns about retirement security for government workers led Congress to pass a series of amendments to the Social Security Act. In 1950, Congress extended the law so that state and local governments could voluntarily extend coverage to their employees. Until 1983, state and local governments that elected Social Security coverage for their employees could revert and opt out of offering coverage. After 1983, however, states were no longer able to reverse their decisions; since then, any state that opts into Social Security must remain in the program.⁷

The result of these subsequent amendments is an uneven distribution of Social Security coverage among and even within individual states, with some states blocking all or only certain employees from accessing this benefit (see Figure 1). Each state, however, is permitted under the Social Security Act to modify what is called a Section 218 agreement, so that any state or local retirement can join the program at any time under federal law.⁸

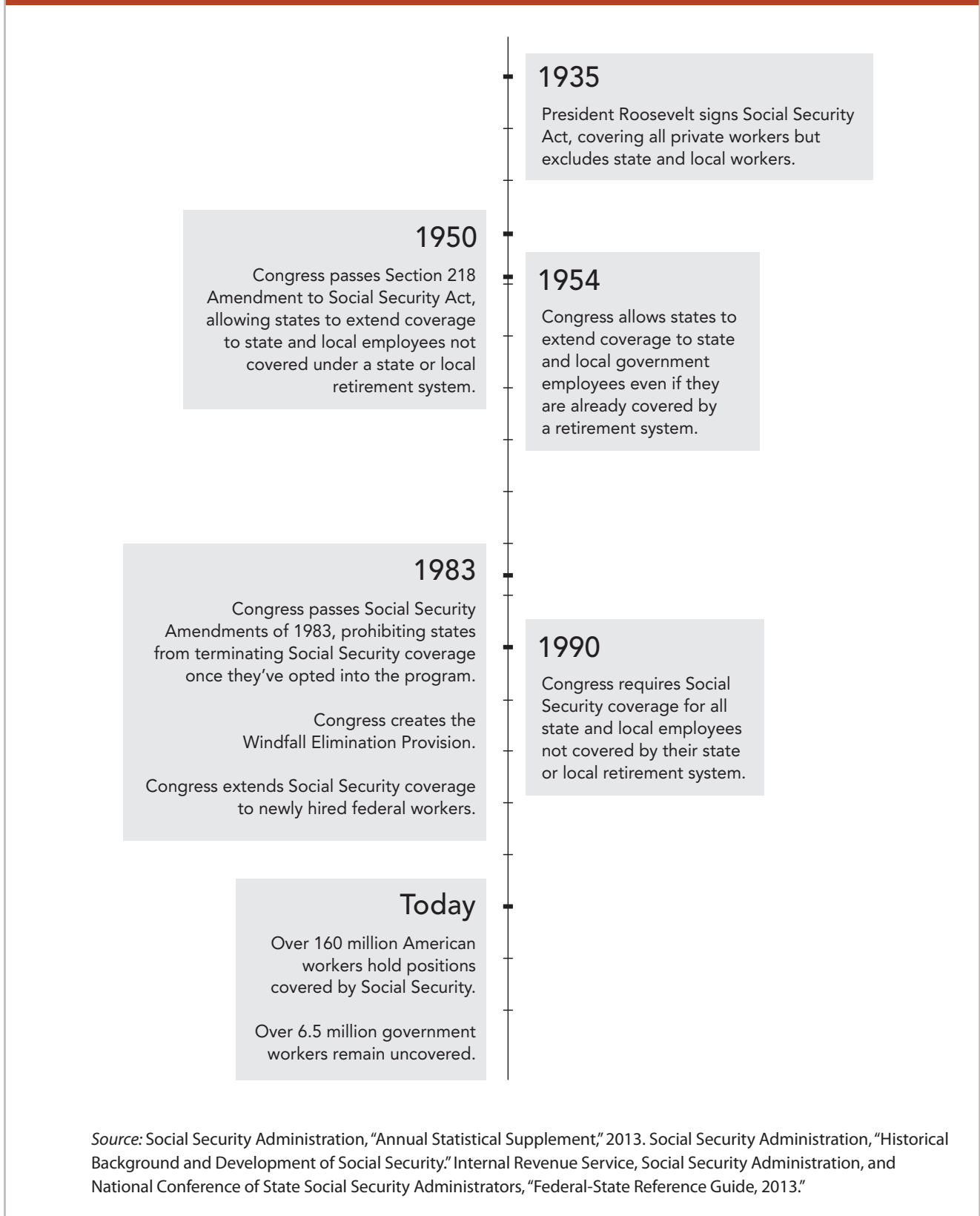
Among those currently without coverage are 40 percent of public school teachers. Their states either failed to elect Social Security coverage for teachers when first given the chance in the 1950s or revoked Social Security coverage before the 1983 ban on reversals. In 1990 Congress extended mandatory Social Security coverage to state and local government employees who were not enrolled in a public retirement system. But teachers remain excluded from Social Security in the 15 aforementioned states and many others because they are almost universally covered by their state or local retirement system.

Figure 1 Social Security Coverage for Teachers Across the States



Source: National Education Association, "Characteristics of Large Public Education Pension Plans," 2010.

Figure 2 Key Dates in the History of Social Security



Social Security coverage even varies within California schools and districts—superintendents and district employees tend to be covered by Social Security, whereas classroom teachers tend to be uncovered.

Social Security coverage varies even within states. For example, in California, most state and local government employees enrolled in the California Public Employees Retirement System (CalPERS) are covered by Social Security. Almost all state government employees, state

legislators, and judges are covered by CalPERS and Social Security. In contrast, teachers enrolled in the California Teachers State Retirement System (CalSTRS) are not covered by Social Security and must rely solely on their pension. Social Security coverage even varies within California schools and districts—superintendents and district employees tend to be covered by Social Security, whereas classroom teachers tend to be uncovered.⁹

These divergences have no particular policy justification other than historical precedent. According to the Bureau of Labor Statistics, teachers have nearly twice the annual turnover rate as state and federal government workers.¹⁰ The same pattern holds true in California, where teachers are far less likely than other state and local government workers to remain in a job long enough to qualify for even a minimal pension.¹¹ In other words, teachers in particular would benefit from the portability of Social Security.

Pensions Are Often Out of Reach

Teachers who lack Social Security are in a precarious situation: they must rely upon their pensions as their primary source of retirement income. But because of high mobility in the teaching profession and rules that penalize young and mobile workers, roughly half of all teachers nationwide will not qualify for even a minimum pension benefit.¹²

To qualify for a pension today, a teacher must teach a minimum number of years to meet what is called a “vesting requirement.” Under federal regulations, public sector pensions are allowed to set vesting requirements that far exceed what’s required in the private sector. Over the years, states have increased their vesting requirements, making it more difficult for teachers to earn pension benefits. Today, most states require a minimum of five years for a teacher to qualify for a pension, and 17 states require 10 years. As a result, a significant population of teachers—more than half of new teachers in the 15 uncovered states—will not qualify for a pension during their years of teaching.¹³ Even for teachers who do earn a pension, the structure of the traditional system offers minimal benefits to many who stay for 10, 15, or even 20-plus years. A study conducted by the Urban Institute found that many teachers will leave the system with less than their own employee contributions. In half of all plans covering public school teachers, teachers must wait at least 24 years before their pension is finally worth more than their own contributions.¹⁴ Many teachers put more into the pension system than they get back.

The traditional pension system favors the small percentage of teachers who stay for an entire career, and the vast majority of their pension wealth is accumulated in the last few years of service (usually after about 30 to 35 years).¹⁵ For all but a few teachers, pension wealth is modest; in many cases, it is nonexistent. In Illinois, a teacher with 10 years of service will receive an annual pension of \$15,000 (and no Social Security). A teacher with less than 10 years will receive zero dollars in pension benefits or employer-provided retirement contributions. Recent reforms have further whittled away at pensions by cutting benefits and imposing greater restrictions for new hires in an attempt to pay down liabilities accrued over years of inadequate funding and poor returns in the stock market.

States that do not offer Social Security to public workers must abide by IRS regulations and provide uncovered workers with a baseline annual retirement benefit that is theoretically comparable to or more generous than Social Security retirement benefits.¹⁶ Those regulations, however, ignore participants who fail to meet vesting or service-year requirements and therefore do not qualify for a pension.¹⁷ The fact that a given pension plan meets the IRS requirements offers little consolation to the significant portion of teachers who will not stay long enough in the teaching profession to qualify for it. Non-vested teachers without Social Security remain overlooked by local and federal retirement systems.

Social Security can act as an equalizer, extending retirement coverage to 100% of employees rather than less than half.

Teachers who aren't covered by Social Security are left with a one-legged retirement stool. The added security and savings for teachers participating in Social Security is significant, especially for teachers who do not meet pension vesting requirements. Social Security can act as an equalizer, extending retirement coverage to 100 percent of employees rather than less than half. The result would be greater retirement security for all teachers.

The Teaching Profession Needs a Portable Retirement Benefit

American workers overall have become increasingly mobile, making Social Security so valuable in part because of its national portability. The Bureau of Labor Statistics followed a representative sample of Baby Boomers throughout their working careers and found that the average Boomer held 11.3 jobs between the ages of 18 and 46.¹⁸ The median U.S. worker has less than five years of experience with his or her current employer. Although the recent recession slowed employee movement, labor markets are dynamic, and over the past few decades, more workers have voluntarily switched jobs than in previous decades.¹⁹ A highly mobile workforce calls for a retirement system that can flexibly travel with its workers.

Traditional pensions, which presume that a teacher will stay in a single retirement system for an entire career, have not kept up with changes in the teaching workforce. Fitting with national trends, teachers frequently move across state or district lines and change positions within and across sectors. The most common number of years a teacher has served in the profession has dropped from 15 years in 1988 to five years today.²⁰ A person might start out as an English teacher and then move to publishing, or likewise might begin as an engineer and switch careers to teach.

Within education, national charter networks have expanded across state lines, opening the door for more teachers to work for the same employer but in different states and, thus, in different pension plans.²¹ While states often fast-track licenses for experienced out-of-state teachers, there's currently no similar reciprocity for pensions. A teacher who moves to another state cannot easily transfer her service years from one state to another. Instead, she can split her pension across states, significantly decreasing her benefits (or worse, not qualify for any

retirement benefits at all). Alternatively, she can purchase service credit from her new state or local retirement system in order to build a larger pension, but in almost all cases, states impose rules or penalties to reduce her benefits. A career teacher who moves from one system

Teachers with Social Security carry their benefits with them, regardless of whether they move across states or professional sectors.

to another can lose more than half her net pension wealth, resulting in hundreds of thousands of dollars in lost retirement savings.²²

Teachers with Social Security carry their benefits with them, regardless of whether they move across states or professional sectors. Under Social Security, teachers accrue credit for their time in and outside

the classroom. Social Security bases its benefit formula off a worker's 35 highest-earning years of contributing to Social Security, and workers must work and contribute for at least 10 years to receive any benefit. However, teachers working in uncovered states cannot purchase credits or transfer any of their years in the classroom toward Social Security.

On top of all this, teachers in uncovered states are subject to complicated benefit reductions for working and receiving pension benefits from positions not covered by Social Security. Social Security is based on a progressive benefit formula, meaning lower-income workers receive a greater proportion of benefits relative to their income than higher-income workers do. Career teachers in an uncovered state will not have Social Security coverage in the classroom, but may qualify for Social Security benefits either through other covered work positions or their spouse. They will have less Social Security covered earnings to report and therefore will appear to have a lower income and receive a greater proportion of benefits, despite having a state pension. The Windfall Elimination Provision (WEP) seeks to eliminate the gain or windfall in benefits by reducing individual Social Security benefits, and the Government Pension Offset (GPO) reduces spousal benefits.²³ Extending Social Security coverage to all teachers would eliminate the need for these complicated rules.

What's clear is that even for teachers with pensions, exclusion from Social Security coverage negatively impacts their retirement benefits. Uncovered states can improve their own offerings to workers, but they'll never be able to offer the national portability and reliability that Social Security provides.

Case Studies of Hypothetical Chicago Teachers

To illustrate how Social Security could benefit teachers, let's consider three hypothetical teachers working in the Chicago Public Schools, each in two scenarios: without Social Security, since teachers in Illinois are not eligible for these benefits, and with Social Security. We chose teachers with varying years of experience to examine the consequences of vesting and other career milestones.

To estimate the effects in current dollars of joining Social Security, we assume each version of a hypothetical teacher works the same number of years at the same salary levels; the only difference is whether she participates in Social Security during her teaching years or not. To determine a “net” return of Social Security participation, we used the current contribution rates for employees and employers (6.2 percent each) and the Social Security Administration's estimates of its rate of return after adjusting for inflation and life expectancies.²⁴ Although Social Security retirement benefits are not directly tied to an individual's contributions, this method allows us to estimate what a teacher would gain from participating in Social Security over a career without any gaps in coverage.

Under current rules, middle-class workers like Chicago teachers could expect an inflation-adjusted annual return of 2.8 percent on both their own and their employer's contributions. Social Security's rate of return is positive for workers of all ages and incomes, and it is progressive, meaning it rewards lower-income individuals a higher benefit relative to their contributions. The Social Security Administration has also modeled alternative scenarios where Congress increased contributions or reduced benefits. Even under those alternatives, the rate of return remains positive, although slightly lower.

We chose to focus on female public school teachers in Chicago, Illinois as an illustrative and concrete example, but all of the 1.2 million teachers who currently do not participate in Social Security could expect similar positive gains.




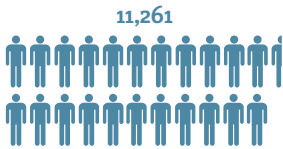
Ms. Young Nine Years of Experience

TEACHER PROFILE

Ms. Young has taught middle school music for nine years but has decided she would like to work as a director for an after-school music program. She leaves the classroom and continues working in various roles in the nonprofit sector before eventually retiring. Unfortunately for Ms. Young, however, a teacher who works for nine years in Illinois and then leaves will not qualify for a pension.²⁵ Teachers who withdraw before vesting receive their individual contributions back, but do not receive interest or the contributions their employer made on their behalf.²⁶ Based on the current 10.6 percent employer contribution rate, Ms. Young must forfeit more than \$56,000 in employer contributions.²⁷ Ms. Young and all other Illinois teachers with less than 10 years of service leave with zero dollars in employer-provided retirement benefits. Ms. Young is hardly unusual. Over half of all Chicago Public School teachers—more than 12,000 individuals—have less than ten years of experience.²⁸

If Ms. Young were covered under Social Security, she and her district employer would each make Social Security contributions during her time in the classroom. At retirement, Ms. Young would have a full career of earnings and contributions without any gaps. Under Social Security, Ms. Young and the Chicago Public Schools would each pay 6.2 percent of her salary. Subtracting out these contributions, Ms. Young would net an additional \$88,000 more in total retirement benefits over a lifetime if she were covered for her time in the classroom.

These earnings would be portable and stay with her, even if she moved to a different state or professional sector. While Ms. Young still does not earn a pension benefit from the City of Chicago, she would at least have Social Security benefits for her time in the classroom if coverage were extended to teachers.

 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?	<p>11,261</p> 

Note: Benefits are rounded and do not include a teacher's personal savings. Based on the number of teachers in the Chicago Public Schools in 2012 - 2013.

 = 500 Teachers



Ms. Middle Fifteen Years of Experience



TEACHER PROFILE

Ms. Middle begins teaching high school history for the Chicago Public Schools at age 25. After 15 years teaching in Chicago, she accepts another job in a neighboring state and continues working until retirement. Because Ms. Middle does not pay into and is not covered by Social Security, her only retirement benefit from the classroom is her district pension. With 15 years of experience, Ms. Middle will qualify for an annual pension worth a third of her final teaching salary. But critically, because Ms. Middle is not eligible for pension benefits until age 67 and her final salary remains frozen in time, her pension will actually be worth far less, in real dollars, by the time she retires.

Currently, Ms. Middle can receive Social Security outside the classroom if she works in a covered position for at least 10 years before or after teaching. She can also receive Social Security benefits if she is married and her partner works in a covered position. However, because of her pension, the GPO and WEP provisions reduce any spousal benefits by an amount equal to two-thirds of her teacher pension and individual benefits by up to half her pension, respectively. As a result, Ms. Middle is left with a mediocre pension and reduced Social Security benefits at retirement. Over 4,000 Chicago Public Schools teachers have between 10 and 15 years of experience.

Now consider Ms. Middle with Social Security coverage for her time in the classroom. At retirement, she will have a full career's worth of contributions, earnings, and work credits. The hypothetical Ms. Middle would earn over \$140,600 more in lifetime benefits than today's uncovered Illinois teachers with similar years of service, even after subtracting out her and her employer's contributions.²⁹

Because the hypothetical Ms. Middle would have no gaps in Social Security coverage, she would not be affected by WEP or GPO. She would retain her individual and spousal benefits according to standard rules, regardless of any career or locale move.

 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?	<p>4,383</p> 

Note: Benefits are rounded and do not include a teacher's personal savings. Based on the number of teachers in the Chicago Public Schools in 2012 - 2013.

 = 500 Teachers



Ms. Career 35 Years of Experience



TEACHER PROFILE

Ms. Career has devoted 35 years of service to teaching kindergarten and first grade in the Chicago Public Schools.

As a teacher with 35 years of service in the Chicago Public Schools, Ms. Career has more years of service than 97.5 percent of Chicago teachers. In 2012–13, only 555 teachers had 35 years or more of experience. Given her lengthy service, Ms. Career also qualifies for a substantial pension. Calculating her pension with the current “frozen” contributions and benefits, she is eligible for an annual pension worth \$69,000, or an estimated total lifetime benefit worth \$1.2 million.

Although Ms. Career’s pension benefits and return will far exceed Social Security, she still has much to gain under coverage. She would receive a net lifetime benefit of \$214,000 after subtracting out her and her employer’s contributions. Her benefits would be a low-risk safety net, fully protected against inflation. Unlike state pension plans, which usually have fixed or ad hoc cost-of-living adjustments (COLAs), Social Security benefits automatically adjust for inflation and do not lose their purchasing power over time. This is a significant advantage, given that many state and local pension plans (including the Chicago Teachers’ Pension Fund) have considered or implemented reductions in COLAs during budget crises.³⁰

Moreover, with Social Security coverage, Ms. Career will not be affected by WEP or GPO.³¹ She would pay into Social Security for the entirety of her career, and therefore she would retain any individual benefits she may have earned or spousal benefits according to normal rules.

 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?	<div style="text-align: center;"> 555  </div>

Note: Benefits are rounded and do not include a teacher’s personal savings. Based on the number of teachers in the Chicago Public Schools in 2012 - 2013.

 = 500 Teachers

Extending Social Security Coverage to All Teachers

Under the current Social Security Act, each state has the ability to enter portions or all of its state and local workers into Social Security. Uncovered states can initiate a referendum vote among affected public employees and move for a modification of the state's plan. States have flexibility in deciding what constitutes a retirement system and which coverage groups are eligible for referendum. Some states explicitly bar teachers from holding a referendum and therefore would need to enact specific legislation lifting those bans.³² Most states, however, do not have legislative prohibitions and allow teachers to initiate coverage through the referendum process at any time; all states retain the right to expand coverage under federal law.

When states first had the opportunity to offer state and local workers coverage, in 1951, most states elected coverage. In the 15 states that did not, local opposition toward the program prevented Social Security. Teachers felt that they could receive better coverage through their state pension system than through Social Security and/or feared that Social Security might completely replace pensions.³³ States have occasionally revisited whether to extend coverage to state and local workers.³⁴ But the decision to extend coverage often faces opposition from public sector unions over similar fears that coverage will lead to undesirable changes to the existing pension system.

Social Security would set a floor of retirement benefits and guarantee a steady stream of retirement income for all teachers.

Today, teachers' unions' views on Social Security coverage are partly conflicted. The unions tend to praise the program at the national level but oppose mandatory coverage at the state level because they prefer more generous pensions over a combination of less generous pensions and Social Security coverage.³⁵ For example, the National Education Association officially describes

Social Security as the “cornerstone of economic security,” and Randi Weingarten, president of the American Federation of Teachers, describes Social Security as “the healthiest part of our retirement system, keep[ing] tens of millions of seniors out of poverty.” It could, she says, “help even more if it were expanded.”³⁶ Yet the unions' primary action on Social Security has been advocating for the elimination of the WEP and GPO provisions. Ironically, these provisions are actually a product of inconsistent Social Security coverage and would not exist if all workers were covered under Social Security.³⁷ Extending Social Security to all state and local workers would simplify the system by eliminating the need for cumbersome rules as well as management oversight to ensure accurate reporting and implementation of benefits for covered versus non-covered workers.

Other roadblocks toward extending coverage have been objections over administrative and implementation costs. But retirement researcher Alicia Munnell explains that administrative requirements should not be significant; state and local governments already withhold money from employees' payroll, and, once established, the administrative costs for payroll tax deductions would be minimal.³⁸ The Government Accountability Office estimates that it would take states only a few years to manage the administrative transition and develop, legislate, and implement changes.³⁹

The largest costs would come from funding the benefits themselves. Employees and employers participating in Social Security each contribute 6.2 percent of employee salaries and also inherit the program's “legacy” or start-up costs, which make up 3 percentage points of the current Social Security tax.⁴⁰ But rather than simply adding these costs onto current pension systems, states could reduce and restructure current pension benefit levels in coordination with Social Security. That step would contain costs and more equitably distribute retirement benefits. Studies by Munnell and several government commissions estimate that an integrated plan that preserves benefits comparable to the state's original pension benefits would cost an additional 5 to 7 percent of payroll, split between the employer and employees. By reducing and redistributing current pension costs to Social Security, states could extend the benefits of Social Security to employees at a modest cost.⁴¹

Many opponents of Social Security expansion assume that states would retain their current pension benefit levels and tack Social Security on top.⁴² But pension systems in uncovered states were designed to provide participants with a primary source of retirement income without any additional social insurance benefit in mind. Teacher pensions in uncovered states tend to offer more generous pensions (with higher contribution rates) and higher accrual rates, perhaps to compensate for the lack of Social Security.⁴³

While undoubtedly a complex task, integrating Social Security into a state's retirement system would allow states to provide more equitable benefits for teachers.

Indeed, this is one of the primary arguments against universal Social Security coverage—pension plans or individuals with time, expertise, and initiative can attain a higher rate of annual investment return. Pension plans take advantage of this by offering benefits to full-career workers—like Ms. Career—that far exceed the value or investment return of Social Security. That arrangement works out well for those who remain for a full career

and qualify for a sizable pension but not at all for the majority of teachers. Teachers who don't vest into their state's pension system or who qualify for only a modest pension lose out. Social Security would set a floor of retirement benefits and guarantee a steady stream of retirement income for all teachers.

The solution is not to simply add Social Security on top of an existing pension system—which would inevitably increase employer and employee contribution rates significantly—but instead to restructure existing pension systems to work with Social Security. Social Security could be integrated into a restructured pension system in such a way to maintain secure benefits for career teachers while also extending retirement security to the rest of the teaching workforce. The federal government took exactly this step when it began offering Social Security as part of a suite of retirement reforms in the 1980s (see Sidebar: What's Good for Federal Workers Is Good for State Workers Too).

While undoubtedly a complex task, integrating Social Security into a state's retirement system is worthwhile and manageable and would allow states to provide more equitable benefits for teachers.

What's Good for Federal Workers Is Good for State Workers Too

Like state and local workers, federal workers were excluded from Social Security when the law was first established in 1935. Up until the early 1980s, federal workers received only a traditional defined-benefit pension plan. In response to a fiscal crisis and to ensure greater retirement security, Congress passed legislation in 1983 to include federal workers in Social Security. President Ronald Reagan signed the Federal Employee Retirement System Act into law in 1986, which automatically applied to newly hired federal employees and continues to be the retirement system for federal employees today.⁴⁴

The law created a three-part model, with federal workers participating in Social Security, a less generous pension plan, and a new 401(k)-style plan called the Thrift Savings Plan (TSP). Because the pension was no longer the sole stream of retirement savings, legislators were able to significantly reduce the pension component while simultaneously boosting retirement security. Additionally, retaining the pension component lessens the employee's investment risk while increasing benefits for mobile workers and reducing funding uncertainty.

The TSP is a voluntary tax-deferred investment plan that functions like a private sector 401(k) plan. Employees choose what percentage of their salary to contribute, and their federal government agency makes matching

contributions, with an automatic contribution of 1 percent regardless of employee contributions.⁴⁵ Government workers indicate high levels of satisfaction with the TSP on employee surveys.⁴⁶ This three-part model, known collectively as the Federal Employees Retirement System (FERS), provides federal employees with a three-legged stool of retirement savings. The transition to FERS was relatively short: within a few months of the law's enactment in 1987, FERS was fully operational with 600,000 covered employees and \$180 million deposited into TSP accounts. By 1988, 700,000 federal employees were covered by FERS. In addition to newly hired federal employees, 20 percent of employees covered by the preexisting pension system chose to make contributions to the TSP (totaling more than 1 million accounts valued at more than \$1.6 billion).⁴⁷

Although FERS only applies to federal agencies and workers, states can use FERS as an example for reforming their own public retirement systems. In doing so, they would 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. Indeed, a report from the Society of Actuaries describes FERS as "a model for revision of other larger public employee retirement systems."⁴⁸

The Federal Government Could Force State Action

Today, Social Security provides millions of Americans with secure, inflation-protected retirement benefits. The program, however, has been the cause of heated debates, particularly regarding its solvency and future. Beginning in 2021, the cost of the program is projected to exceed income including interest, and the Social Security Administration projects that its reserves will be depleted within the next 20 years if no reforms are made.⁴⁹ Many viable reform options exist, however, as long as lawmakers act to ensure that the program remains solvent in the future.⁵⁰

Throughout the course of Social Security, Congress has commissioned several committees to investigate the efficacy of extending the program to all government workers. Multiple studies affirm that extending coverage to all state and local workers would reduce the program's deficit.

Studies conducted by the Social Security Administration, the Government Accountability Office, and the 2010 Simpson-Bowles Commission have found that extending coverage to all newly hired state and local workers (including teachers) alone would reduce the long-term Social Security shortfall by 8 to 10 percent.⁵¹ The Congressional Budget Office estimates that the proposed plan would increase net federal revenues by \$24 billion over five years and \$96 billion over 10 years.⁵²

That's one reason why nonpartisan budget analysts have recommended expanding Social Security coverage to all state and local workers, including teachers. The Simpson-Bowles Commission, for example, found that doing so would be enough to help eliminate the existing long-term funding shortfall. This policy change in itself would be sufficient to push off the deficit for another two to three years. The Advisory Council on Social Security estimates that current workers and employers pay 0.22 percent more in taxes than they need to because not all workers are covered. Extending coverage to all state and local workers would reduce the current tax burden that workers and employers pay for the program's unfunded liability.⁵³

In addition to the benefits to individuals and Social Security itself, the Simpson-Bowles Commission argued, Social Security coverage for all state and local workers would alleviate pressure on the ailing pension systems. The commission concluded that "relying entirely on this pension model has become riskier for both government sponsors and for program participants, and [is] a potential future bailout risk for the federal government."⁵⁴ Although its plan was not enacted, the commission represents the bipartisan federal concern that action is needed to address underfunded state pension systems and protect the future of Social Security.

Conclusion

The odds are stacked against teachers without Social Security coverage. Of the approximately 1.2 million public school teachers who do not receive Social Security coverage, roughly half will not receive employer- or government-provided benefits for their time in the classroom. The teaching workforce has become increasingly mobile, and teachers need a retirement system that can provide them with secure and portable benefits. Rather than continue a system that inequitably distributes benefits, states must develop a system that enables all their workers to enjoy a secure retirement. Providing all teachers with Social Security coverage would be a positive first step.

Endnotes





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