Social Security Coverage and Teacher Retirement

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Very Brief History: Public Employees’ Inclusion in Social Security

Major legislation:
- 1950: Section 218 allowing voluntary entry of states and local governments.
- 1990: Require Social Security inclusion if not offering a qualifying pension system.
Today: About 40% of teachers are not covered

Kan and Aldeman, “Uncovered: Social Security, Retirement Uncertainty, and 1 Million Teachers”
Overview of discussion about mandating participation (reports by GAO, Brookings, and many others....):

- Social Security would benefit from including new workers. Potential longer-run cost when benefits are paid.
- Some public employers have resisted, stating they can offer their employees better benefits.
- Short-career public employees would greatly benefit, longer-career workers may or may not.
Background on Public Sector Workers

- Mostly DB pension plans, but movement toward DC plans
- Fewer than half of teachers ultimately collect monthly annuity benefits
  - Limited portability, short tenures (teachers), and long vesting periods
  - Backloaded compensation
- Ongoing concerns about inadequate funding levels
  - High assumed investment returns (discount rate)
  - Rising life expectancies
  - Historic underfunding
- Windfall Elimination Program (WEP) and Government Pension Offset (GPO)
  - WEP: Own SS payments from covered earnings reduced
  - GPO: Spousal/widow benefits reduced
  - GAO reports: Mandatory inclusion to allow their elimination.
  - Complicated to administer and often misunderstood

State and local pension plans not currently part of Social Security may choose to join in the future.
Case Study: Kentucky Teachers’ Retirement System (KTRS)

- S&P FY15 rated KY worst-funded at 37% (Median 75%)
- KTRS funded at 55% w/ unfunded liability of $14.5 billion
- Typical structure and benefits, history of underfunding
- Retirement: Any age with 27 YOS; Age 55 + 5-10 YOS
- Kentucky teachers are not in Social Security

- **Current path is not sustainable.**
  - Consulting company released third report August 28, 2017: “Recommended Options.”
  - Subsequent bill proposed to implement some of these recommendations met with statewide protests.
Change is Difficult

Dusti Moore, a teacher in the Bath Co. Ky. school system shouts at the Kentucky Senate chamber in protest of Kentucky Senate Bill 1, a bill that proposes changes to the state funded pension system for teachers, Friday, March 9, 2018, in Frankfort, Ky. (AP Photo/Timothy D. Easley) The Associated Press
Public Employees’ Inclusion in Social Security

KTRS’ proposed changes:
- **Current workers/retirees:** *Inviolate contract* limitations
  - Establish NRA of 65
  - Eliminate “enhanced benefit features”
- **New Hires:** Combined SS participation and DC benefit

Lessons from case study of KTRS:
- State/local employers joining Social Security:
  - Reduce employers’ risk exposure
  - Address teacher retirement security and guarantee COLA’s
  - Offer more portable benefit, employer cost 6.2% payroll
  - Current path is not sustainable
Social Security Influences Retirement Timing

- Prior evidence that individuals time retirement around Social Security eligibility (e.g., Coile and Gruber 2007)
- Non-coverage provides an opportunity to measure how Social Security impacts retirement timing
- Public sector employers joining Social Security:
  - Impacts on labor supply: recruitment and retention?
  - Shifts in retirement ages?
  - Reduced responsiveness to employer-provided retirement benefit parameters?

The Role of Social Security in Retirement Timing: Evidence from a National Sample of Teachers

Melinda Morrill and John Westall, North Carolina State University
Preliminary Evidence: National Sample of Teachers

Separation Rates for Female Teachers

Authors’ calculation from the 2010-2016 American Community Surveys

- Workers time retirement around Social Security eligibility.
Workers time retirement around Social Security eligibility.
Public workers retire at younger ages than private sector.
Many public employees are not currently covered by SS. Public pension plans are in crisis due to lower investment returns, historic underfunding, and rising life expectancies. Plans (e.g., Kentucky) are contemplating transitioning to a DC plan plus Social Security.

Key Questions:
- What can we learn from non-covered public workers?
- Should all public employers join Social Security?
- Which public employees will benefit and which may not?
- What are the labor supply impacts of pension reforms?
- What are the implications on costs for Social Security?
Evidence from North Carolina Teachers

- Workers are responsive to DB pension incentives.
- “Excess” retirements at Social Security eligibility ages.

Preliminary Evidence: National Sample of Teachers

Age-Specific Separation Rates for Female Teachers

- Workers time retirement around Social Security eligibility.

Authors’ calculation from the 2010-2017 Current Population Survey