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The Case for State Supplemental Social Security

While Social Security provides sufficient income to keep most seniors above the federal poverty level, alone it is not enough to retire with a comfortable standard of living and cover the increasing health care and other costs associated with aging. Employer-sponsored retirement plans fill the gap between barely scraping by and economic security for only a shrinking percentage of workers. Over half of workers have no access to an employer-sponsored plan; many approach retirement with little to no retirement savings.

A number of states have enacted or proposed new policies to help overcome barriers and provide access to retirement savings accounts for more private sector workers. Washington's Retirement Marketplace and the OregonSaves auto-IRA program are two approaches. These offer an incremental improvement for some workers, but they do not go far enough. They are built on defined contribution plans, where the more you make, the more you can save, and individuals invest in speculative asset markets. There is little protection for people retiring during a long market downturn; and survivor and dependent benefits are limited.

A state Supplemental Social Security program could be designed with a number of policy advantages over existing state retirement policies, including:

- universal coverage,
- auto-enrollment with no opt-outs,
- full portability from job to job,
- participation by both employees and employers,
- an ability to provide progressive and dependent benefits, and
- professionally-managed assets that are pooled to minimize both fees and risk.

The operational parameters of such a program are fairly straightforward:

- **Revenue Collection:** Use a system similar to Washington's Family and Medical Leave Insurance to collect a small payroll premium (shared between employer and employee).
- **Coverage and Benefits:** Every worker (including sole proprietors and the self-employed) would contribute, and every worker contributing would be covered. Lifetime benefits could begin one to two years after revenue collection starts, with retirees receiving a monthly payment equivalent to a fixed percentage of their federal Social Security check for their lifetime, based on a formula accounting for their years of participation in Washington's program.
- **Management and Oversight:** Like Social Security, assets would be pooled. This fund would be managed and overseen by the Washington State Investment Board, which has long experience managing public funds, and investing in public equity, fixed income, and alternative markets.

In addition to improving economic security for retirees, Supplemental Social Security would provide economic benefits for local economies, and surplus funds accumulated during the program's start-up phase could be used for public investments throughout the state.

While Washington already has many of the administrative tools necessary to operationalize state Supplemental Social Security, important policy design choices remain, including:

- **Balancing individual equity and social adequacy of benefits:** Individual equity is the degree to which benefits payable are based on a participant's contributions. Social adequacy is the degree to which benefits payable are based on a participant's need. The federal Social Security benefit formula assigns higher benefits for workers with a history of higher pre-retirement salaries (though not on a one-to-one basis, and benefits are effectively capped) while also providing a proportionately greater benefit for lower-income workers.

  By calculating state Supplemental Social Security benefits as a percentage of federal benefits, that particular balance of individual equity and social adequacy is maintained. However, benefits can be calculated in other ways. For example, Washington's Family and Medical Leave Insurance program utilizes a more progressive benefit structure but does not provide dependent benefits.

- **Establishing survivor's benefits:** When a wage earner eligible for benefits dies, some or all of their benefit goes to their spouse, former spouse or dependent children.

- **Determining premium rate, wage base, and cost-sharing:** The premium rate and wage base directly influence revenue collection – and by extension, scheduled benefits. The premium itself is usually collected via payroll deduction, and the cost is shared between the employee and employer, though the ratio varies. For example: Social Security and Medicare premiums are split equally; premiums for Washington's Family and Medical Leave Insurance are split 37 percent employer/63 percent employee; and up to one-half of Workers' Compensation premiums may be paid by employee contribution. These programs only tax income below an established level ($132,900 in 2019), but Medicare taxes all wages.

- **Developing program forecasts and tracking beneficiaries:** The Social Security Trustees and actuaries review the program's projected finances annually. They prepare decade-by-decade projections of life expectancy and birth rates, wage growth, inflation, labor force growth, interest rates, and other relevant variables – along with careful explanations of how these numbers are derived and the sensitivity of the calculations to each assumption.

  Washington will need to develop a similar forecast (including baseline, optimistic and pessimistic economic scenarios) for Supplemental Social Security. The state's Office of Financial Management, Economic Revenue and Forecast Council, and Employment Security Department are potential resources. A partnership with the Social Security Administration could provide additional insights, and help ensure benefits reach eligible residents who move out of state.

Lawmakers should begin working with government, community, labor and business partners to determine answers to these and other policy design questions. After a lifetime of hard work, aging shouldn't beget economic hardship. Establishing and operating a state Supplemental Social Security program will make Washington a better place for every resident to live, work and retire.