

Restoring Retirement Security:

SUPPLEMENTAL SOCIAL INSURANCE FOR WASHINGTON

BY JOHN BURBANK

Executive Summary

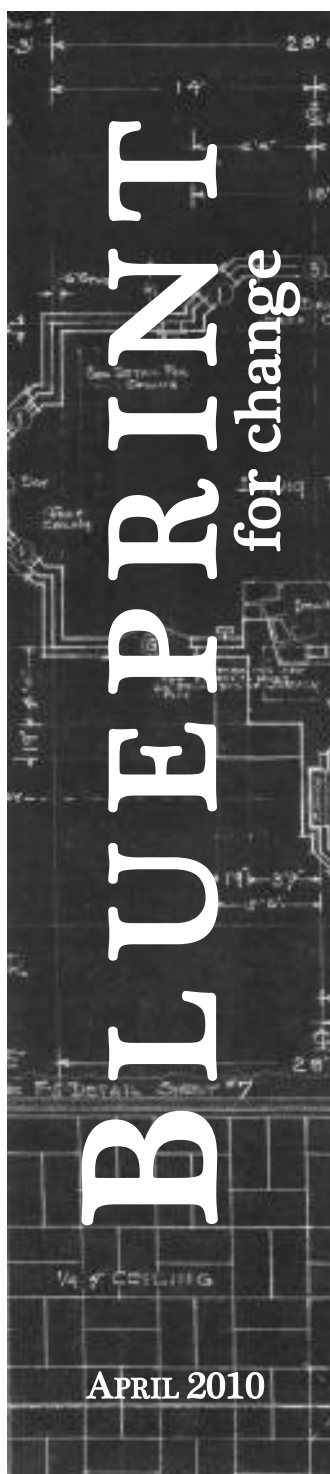
Americans were once able to rely on a “three-legged stool” of Social Security, pensions, and savings to ensure a secure and dignified retirement. Today, that stool is broken. Yes, Social Security remains as a solid pedestal for our retirement. But pensions are shrinking or non-existent and workers are more apt to have debts than savings. As a result, more and more Americans face poverty and insecurity as they age into retirement.

This hardship of aging, imposed by private and public policy-making, can be overcome by creating and embedding multiple supports for economic security for all workers and retirees. First, build on the pedestal that remains – Social Security – by augmenting federal benefits. Second, advance universally accessible voluntary retirement accounts. Third, as this brief outlines in more detail, develop a progressive state-level supplemental social insurance system.

While enhanced Social Security benefits and universally accessible voluntary retirement accounts will improve economic security for low- and middle-waged retirees, their retirement income will still be substantially reduced, compared to their pre-retirement compensation. This lack of money will impinge on their lives and life choices, on their health care and health outcomes, and on their quality of life.

Now is the moment for states to take the lead in creating, re-creating or enhancing state social insurance programs that solve this poverty of retirement. This proposal will both augment retirement security and fund other key social insurance programs such as family leave insurance and temporary disability insurance.

In Washington State, with a workforce of 2.9 million workers, and an average annual wage of \$46,400,¹ a 1% payroll premium would raise approximately \$1.3 billion a year. Of this, \$158 million, or .12% of payroll (less than 2 cents per hour per low-wage worker), would provide universal family leave benefits (about 35,000 recipients a year) and temporary disability benefits (about 40,000 participants a year) of \$250 a week for 8 weeks. 0.88% of payroll, almost \$1.2 billion, would be devoted to the state supplemental social security system.² The program will immediately benefit over one million Washington residents, and over time will generate benefits for over two million participants annually.



HISTORICAL PRECEDENT

In the 1920's and early 1930's, states led the way in creating old-age pension programs. These programs were not only the precedent for federal Social Security; they also provided enhanced Social Security benefits. In 1940, Washington State voters passed into law by initiative the Senior Citizens Grants Act, which provided a minimum monthly stipend of \$40 (the equivalent of \$588 in 2009 dollars) to people over the age of sixty five.³

In the immediate post-war period, federal administrators who were stymied by federal politics succeeded in encouraging several states to implement universal temporary disability insurance (TDI). Today, these are an important part of the social fabric of California, New York, New Jersey, Rhode Island, Hawaii, and Puerto Rico. More recently, two states – California and New Jersey - built on these TDI programs to establish universal family leave insurance (FLI).

In 1948 Washington state voters, reversing a legislative act, passed Initiative 172, providing a minimum monthly stipend of \$60 (the equivalent of \$538 in 2009 dollars) to people over the age of sixty five.⁴ Currently, both Colorado and Alaska continue to fund and administer old age pension programs.⁵

Washington State also passed family leave insurance in 2007. However, since the program lacked a funding source; implementation is now scheduled for 2012. Part of the difficulty of agreeing on a funding source is that the beneficiaries at any one time compose a relatively small part of the citizenry. But there is a solution: place family leave insurance and temporary disability insurance in the much bigger envelope provided by a state social insurance program.

SMALL PREMIUMS WILL YIELD BROAD BENEFITS

The power of this concept is that a very small universal premium of one percent can create an envelope of social insurance benefits for all workers. Including supplemental social security benefits, at least one-fifth of the state's entire population would directly benefit. The program will also create a funding source for immediate economic stimulus that includes infrastructure development, job creation, and financial services.

Family Leave Insurance (FLI)

FLI would enable all working parents, both mothers and fathers, to receive family leave insurance benefits of \$250 a week for eight weeks upon the birth or adoption of a child, or to care for a seriously ill family member. The benefit would allow time off from work to care for a child, with the guarantee of employment upon return to work. As the program matures, and more parents become aware of it and choose to participate, the Legislature has estimated 34,700 annual participants.⁶

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All working parents of newborn and newly adopted children, as well as those that need to care for seriously ill family members would receive eight weeks of family leave insurance benefits at \$250 a week. **Beneficiaries:** new mothers and fathers, and workers taking time off to care for seriously ill family members.

Temporary Disability Insurance (TDI)

TDI provides insurance benefits for workers suffering from a non-work-related illness or injury. At a take-up rate of slightly less than 1.5%, it would be utilized by about 40,000 workers (out of a total workforce of 2.8 million workers).⁷ All workers suffering a non-occupational illness or injury would receive eight weeks of temporary disability benefits at \$250 a week for eight weeks. By 2060, paralleling anticipated growth rates in Washington State's labor force, the FLI/TDI program would cover an estimated 125,000 workers.^{8,9} **Beneficiaries:** Workers that experience off-the-job injury or illness.

Supplemental Social Security (SSS)

A state supplemental social security program would benefit both current Social Security beneficiaries and future retirees. All current recipients of Social Security (more than one million people) would immediately begin receiving an annual lump sum payment of \$250, for an approximate \$252 million outlay per year. New and future retirees, accumulating at approximately 71,000 a year (estimated as 2.5% of the workforce), would receive annual payments ranging from \$350 a year to \$1500 a year, with increased payments a function of how long the worker paid into the SSS/TDI/FLI fund. (This takes into account expected mortality and growth in the workforce and retiree cohorts.)

Paying into the fund for up to one year would result in a \$350 annual benefit, for between one year and two years a \$450 annual benefit, for between two years and three years a \$550 annual benefit, etc. Once a worker has paid in the fund for twenty-two years or more, upon retirement, they would receive quarterly payments of \$375, for as long as they live. **Beneficiaries:** All current retirees receiving Social Security; all other beneficiaries receiving Social Security; and all future retirees.

Economic Stimulus and Jobs

The proposed revenue structure would accumulate more than \$893 million in surplus in the first year, \$1.8 billion in the second year, \$2.7 billion in the third year, and \$3.6 billion in the fourth year. The surplus would peak in year 24 at \$14.4 billion, and fall to \$1.8 billion in Year 50.^{10, 11} This surplus could:

- Fund infrastructure development, school construction, and rapid transit throughout the state of Washington
- Fund a state-based tuition loan program, with interest rates for Washington residents at below-market rates
- Expand the Housing Trust Fund by an order of magnitude, greatly accelerating the development of affordable housing

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- Be used for a non-profit payday loan system

Beneficiaries from these investments would include:

- Construction and transportation sectors, and construction workers, in particular
- Students in higher education
- Low and middle income home seekers
- Low-wage unbanked workers

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CONCLUSION

Any proposal to improve retirement security and establish family leave insurance and temporary disability insurance is much more likely to enjoy public support as it is built upon a proven model that already enjoys the public’s trust. That model that is right in front of us: our nation’s Social Security program.

Like any policy innovation, there are important details that still need to be determined. For example:

- Size of the premium: should it be .5%, 1%, 1.5%, 2%, or 2.5%?
- Who pays the premium: workers, employers, or shared between workers and employers?
- Who qualifies for the benefits (work history, work hours, etc.)?
- Is there an age floor to receive supplemental social security benefits? 60? 62? 65?
- What is the best and most responsible way to ramp up benefits for retiring workers?

Expanding, enhancing and strengthening Social Security and initiating needed and new social insurance programs does not create a promise to make citizens wealthy. It **does** embed in law a guarantee to all workers that they will be secure both during their working life and in their retirement. This isn’t a cornerstone of life in America today – but it can be, and should be, a reality in the future.

Appendix

FAMILY LEAVE INS. /TEMPORARY DISABILITY INS. BENEFICIARIES, COST, PREMIUMS, AND FUND SURPLUS

Year	FLI/TDI Participants (1)	Cost @ \$250/week for eight weeks	Revenue: .12% payroll premium (2)	Surplus	Interest on Trust Fund (3)	Total FLI/TDI Trust Fund Surplus
2010	75,000	\$150,000,000	\$158,264,696.16	\$8,264,696.16	-	\$8,264,696
2011	75,375	\$150,750,000	\$159,644,526.91	\$17,159,223.07	\$247,941	\$17,407,164
2012	75,752	\$151,503,750	\$161,036,387.72	\$26,939,801.68	\$514,777	\$27,454,578
2013	76,888	\$153,776,306	\$162,440,383.47	\$36,118,655.59	\$808,194	\$36,926,850
2014	78,041	\$156,082,951	\$165,487,034.08	\$46,330,932.88	\$1,083,560	\$47,414,493
2015	79,212	\$158,424,195	\$168,590,826.15	\$57,581,123.58	\$1,389,928	\$58,971,052
2016	80,400	\$160,800,558	\$157,440,095.44	\$55,610,588.98	\$1,727,434	\$57,338,023
2017	81,606	\$163,212,566	\$160,392,963.15	\$54,518,419.43	\$1,668,318	\$56,186,737
2018	82,422	\$164,844,692	\$163,401,213.37	\$54,743,258.40	\$1,635,553	\$56,378,811
2019	83,247	\$166,493,139	\$165,645,855.84	\$55,531,527.83	\$1,642,298	\$57,173,826
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2059	123,943	\$247,885,597	\$246,901,320.41	\$62,071,116.37	\$1,836,553	\$63,907,669

(1) Projected annual overall occupational job growth of .5% from 2009-2012; 1.5% from 2013-2017; 1% from 2018-2060. Estimates for 2009 – 2017 are from Washington State Department of Employment Security, Workforce Explorer. Estimates for 2018-2060 are the author's.

(2) In 2059, the payroll premium is .095%.

(3) Assumed 3% annualized interest

SUPPLEMENTAL SOCIAL SECURITY BENEFICIARIES, PAYMENTS, REVENUE, AND FUND SURPLUS

Year	SSS Beneficiaries (1)	SSS Payments	SSS Revenue (2)	Surplus w/o Interest	Interest on Trust Fund @ 3% (3)	Total Surplus
2010	1,080,885	\$277,429,477	\$1,170,726,531	\$893,297,053	-	\$893,297,053
2011	1,131,285	\$304,437,591	\$1,180,933,510	\$1,769,792,972	\$26,798,912	\$1,796,591,884
2012	1,181,698	\$338,642,120	\$1,191,229,479	\$2,649,179,243	\$53,093,789	\$2,702,273,032
2013	1,232,465	\$380,374,095	\$1,213,571,583	\$3,535,470,520	\$79,475,377	\$3,614,945,897
2014	1,283,600	\$429,742,408	\$1,236,332,725	\$4,421,536,215	\$106,064,116	\$4,527,600,330
2015	1,324,103	\$484,107,533	\$1,259,520,764	\$5,303,013,561	\$132,646,086	\$5,435,659,648
2016	1,365,589	\$546,485,412	\$1,297,724,884	\$6,186,899,119	\$159,090,407	\$6,345,989,526
2017	1,408,043	\$616,988,157	\$1,322,064,363	\$7,051,065,732	\$185,606,974	\$7,236,672,705
2018	1,450,475	\$695,076,829	\$1,340,225,561	\$7,881,821,437	\$211,531,972	\$8,093,353,409
2019	1,492,889	\$780,734,477	\$1,358,636,239	\$8,671,255,171	\$236,454,643	\$8,907,709,814
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2059	2,188,075	\$3,283,166,139	\$2,384,370,195	\$1,727,637,251	\$75,819,575	\$1,803,456,825

(1) Projected annual overall occupational job growth of .5% from 2009-2012; 1.5% from 2013-2017; 1% from 2018-2060. Estimates for 2009 – 2017 are from Washington State Department of Employment Security, Workforce Explorer. Estimates for 2018-2060 are the author's. The beginning cohort is composed of the number of Social Security recipients in Washington as of December 2008. Assumes that 2.5% of workforce retirees annually. Assumes mortality rates of retirees of 2.11%, 3.29%, 5.28%, 9.89%, 13.25% in five year increments, up through year 20 of retirement; Source: http://www.cdc.gov/nchs/data/nvsr/nvsr57/nvsr57_14.pdf Deaths: Final Data for 2006, National Vital Statistics Report, V 57 #14, Table 3

(2) Revenue starts at .88% of payroll, increasing to .89% in 2016, to .90% in 2040, and to .9045% in 2053.

(3) Assumed 3% annualized interest.

BENEFIT AND PREMIUM CALCULATIONS FOR STATE SUPPLEMENTAL SOCIAL SECURITY

INDIVIDUAL WORKER EARNING MEDIAN WAGE, RETIRING AT AGE 65

Years contributing	Annual benefit	Total benefit (1)	SSI/FLI/TDI premiums during working life (2)	SSI total benefit to total premium ratio (3)
1	\$350	\$6,650	\$370.86	1793%
2	\$450	\$8,550	\$741.73	1153%
3	\$550	\$10,450	\$1,112.59	939%
4	\$650	\$12,350	\$1,483.46	833%
5	\$750	\$14,250	\$1,854.32	768%
6	\$850	\$16,150	\$2,225.18	726%
7	\$950	\$18,050	\$2,596.05	695%
8	\$1,050	\$19,950	\$2,966.91	672%
9	\$1,150	\$21,850	\$3,337.78	655%
10	\$1,250	\$23,750	\$3,708.64	640%

(1) With average life expectancy at age 65 (19 years)

(2) 1% of median wage

(3) The benefit to premium ratio is significantly understated, as it includes the full 1 % premium, but does not calculate the value of family leave and temporary disability insurance. (Does not include FLI/TDI benefits.)

Endnotes

- ¹ Bureau of Labor Statistics, May 2008 State Occupational Employment and Wage Estimates Washington, http://www.bls.gov/oes/2008/may/oes_wa.htm#b00-0000.
- ² Author's calculations, based on data from Workforce Explorer, Washington State Department of Employment Security.
- ³ Initiative Measure No. 141, State of Washington, 1940: http://www.sos.wa.gov/library/docs/OSOS/voterspamphlet/voterspamphlet_1940_2006_001790.pdf
- ⁴ Initiative Measure No. 172, State of Washington, 1948: http://www.sos.wa.gov/library/docs/OSOS/voterspamphlet/voterspamphlet_1948_2006_002743.pdf
- ⁵ http://www.cdhs.state.co.us/AAS/adultfinancial_pension.htm; <http://www.larimer.org/seniors/oap.htm>
- ⁶ Washington State Legislature, Multiple Agency Fiscal Note, E2SSB 5659, March 28, 2007, p. 34 and 35; Washington State Legislature, Multiple Agency Fiscal Note, SSB 6158, April 24, 2009, p. 15.
- ⁷ California's temporary disability program has a take-up rate of about 3% of the employed workforce each year. Compared to this proposal for Washington, California's weekly benefits are almost double and average weeks per claim are also almost twice as many.
- ⁸ Workforce Explorer, Department of Employment Security, State of Washington https://fortress.wa.gov/esd/lmea/countydashboard/IndProjDetails.aspx?area=53_01_000000&qtype=0&comp=&ind1=&ind2=&ind3
- ⁹ The premium would decrease to .11% in 2016, to .10% in 2022, to .10% in 2040, and to .0955 in 2053, with comparable increments shifted and added to the state social security trust fund.
- ¹⁰ Author's calculations.
- ¹¹ After year 50, increasing the premium to 1.4% of payroll would sustain the program into the indefinite future, with full payments.