Social Security for State and Local Government Employees

By A. J. Altmeyer*

Of the workers excluded from old-age and survivors insurance by the Social Security Act in 1935, employees of State and local governments had more protection through their own retirement systems than some other excluded groups—for example, domestic and farm workers. But the denial of coverage to all State and local employees was due primarily to legal problems involved in taxing their pay rolls rather than to the protection which some of them already had. The legal problem no longer appears insurmountable. What role, therefore, could the basic social security system play in strengthening existing provisions for this group of our working population?

In the decade since the Social Security Act became law, retirement systems for State and local government workers have continued to grow. Almost a million and a half State and local government workers and their dependents, however, still lack any systematic protection against the risks of loss of earnings through old age or death. A somewhat larger group of public employees—about one and two-thirds million—who are now members of State and local retirement systems have some protection, widely varying from system to system in type and effectiveness. Under even the best systems, however, the protection may be completely wiped out by a single change in employment.

Retirement systems for public employees have developed unevenly in different areas and in different occupations. They fail to include many of the government employees who have the greatest need for them. Those who are not members of retirement systems are generally the lower-paid workers—those least able to achieve security individually. In January 1942 the average monthly pay of State and local employees who were not members of retirement systems was only $89, as compared with $155 for those covered by retirement systems. This difference is due in part to the concentration of retirement plans in the States where salaries of public employees are higher, but within States and even within government departments which maintain retirement systems the average pay of the members of retirement systems exceeds the average pay of the workers who are not covered.

Furthermore, the workers most likely to need social insurance because they are married and have families dependent upon their earnings are probably underrepresented in the covered group. About 70 percent of all school department employees—who include an unusually high proportion of single women—are members of retirement systems, as compared with only 43 percent of all nonschool State and local government employees. Even within retirement systems for school department employees, this difference is accentuated in that membership is frequently open only to teachers, while custodial and other nonteaching employees are excluded.

It is an indisputable fact that State and local government workers who do not belong to retirement systems have an urgent need for social insurance. Many of them have expressed their desire for coverage under the Federal system in letters to the Social Security Board or through spokesmen for their organizations. Three States, Utah, Vermont, and Washington, have already passed legislation to enable their employees to participate in the Federal system if the Social Security Act is amended to permit such participation. Resolutions favoring the extension of old-age and survivors insurance coverage to all public employees have been passed by the legislatures of Alaska, Delaware, Montana, Oklahoma, South Carolina, and Texas; and in Arkansas and Oregon similar resolutions have been passed with respect to specified groups of public employees. The legislatures of Idaho and New York have approved resolutions favoring the extension of old-age and survivors insurance to occupations not now covered, among which is public employment. Local governments in a number of States, including Arizona, Colorado, Connecticut, Florida, Missouri, Nevada, New Jersey, North Carolina, Pennsylvania, and Washington, have petitioned Congress to extend social insurance to public employees or have passed resolutions in favor of such an extension.

Existing Protection

The advantages of coverage under the national system are obvious for State and local employees now without retirement provision. These advantages for members of existing retirement systems also are apparent when the character of their present protection is examined.

Because a primary function of State and local systems is to provide an orderly and humane method of retiring employees who have served the public so long that they have grown too old to perform their work efficiently, most systems have relatively stringent eligibility requirements of age and years of service. Until a member has worked for a particular governmental unit for many years, his stake in his retirement system is generally tenuous at best and it may be lost completely if he changes jobs. Transfers between governmental units in a State may be effected without loss of retirement rights if the employee is in an occupation covered by a State-wide system (a type most common for teachers) or if the retirement system has a provision for crediting service performed for another governmental unit. The latter provision is relatively rare and is, of course, completely ineffectual if the worker leaves public service to shift to private employment. Although such a shift may bring him within the scope of old-age and survivors insurance, he must undergo a period during which he is unprotected while establishing eligibility for benefits, and if he eventually receives a benefit, it will be relatively low because his governmental employment is not credited in determining the benefit.

The seriousness of the loss of protection may be gauged by the number of former members of State or local retirement systems whose contributions are refunded; during the fiscal year 1940–41, for example, refunds were made to more than 82,000 persons. Many of these lost rights they had built up over years. The number

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of former members who thus received refunds represented about 6 percent of the membership of contributory systems in January 1942; in some types of plans, the rate of withdrawal ran as high as 16 percent. These figures understate the size of the problem in that some contributory plans do not refund contributions of any employees who leave the system, while others do not make refunds if the employee is discharged with prejudice or has contributed for less than a stated number of years. The figures also do not measure the loss of coverage under noncontributory systems. More important, in that fiscal year the full impact of shifts from public employment to war industries had not been felt. The amount of contributions refunded in 1942–43 was 80 percent greater than in 1940–41. A report of the National Education Association shows that approximately 65,000 teachers left school employment for jobs in war plants or other industries between December 1941 and the end of the school year 1943–44.

Many of the State and local employees who have been drawn away by the higher pay or greater urgency of private jobs will return to public employment. Some will go back to the same governmental unit and may be permitted to regain retirement credit for their earlier government service by redepositing their contributions. But, because they will receive no credit for their intervening employment, some will fail to qualify for retirement benefits and others will suffer a reduction in benefit amounts.

Usually State or local retirement systems are designed primarily for retirement after many years of service; many systems make little provision for the family of a public servant who dies in service. Most plans covering policemen and firemen recognize the need to provide for survivors of employees who die in service; but plans covering workers in less hazardous occupations commonly make no provision for survivors except to return, in a lump sum, the amount which the employee contributed to the system. Some systems provide monthly benefits for the survivors of a public employee who dies after retirement but usually only if the member chooses to take a reduced retirement benefit during his lifetime.

It has been argued that this type of provision for survivors serves the needs of State and local government workers because many of them do not have dependents. This argument does not fit the facts for even the segment of public employment in which women predominate—teaching. The National Education Association reports that 13 percent of the Nation's teachers are married men and that nearly half of all women teachers are responsible for the full support of one or more other persons.

Advantages of Coordination With Federal Program

The comments above must not be taken as a suggestion that State and local retirement plans be scrapped and social security coverage substituted. The Social Security Board has long recognized that workers covered by State and local retirement systems should have more than the minimum furnished by the Federal social insurance system. The objective of the Board is to increase, not decrease, the protection available to workers and their families. Both types of systems have definite roles to play in achieving this objective.

Briefly, the roles of the two systems in a coordinated plan may be described as follows: The basic social insurance system would provide continuing protection, crediting all service no matter where or in what occupation, and would assure that the worker and his family or his survivors receive a benefit sufficient to provide the essentials of life when earnings cease because of old age or death. The State and local retirement plan would supplement this basic protection. It would continue to make public employment attractive by rewarding the employee who spends much of his working life in government service with a benefit in addition to the basic benefit of the Federal system.

Under such a plan, the limitations of a special system are balanced by the strength of an underlying program. The fact that State and local retirement systems do not provide adequately for workers who move in and out of government service becomes less serious when all governmental as well as nongovernmental employment can be credited under the basic system. The higher average benefit of the usual State and local plan, heavily weighted by years of service, supplements the lower social security benefit, which is heavily weighted in behalf of lower-paid and short-time workers. Retirement benefits under the social insurance system are increased if the beneficiary has eligible dependents; under the State and local system, they are usually decreased if the retired worker wishes to provide monthly benefits for his dependents after his death. The monthly benefits which the social insurance system pays to the families of workers who die before retirement age might continue long after the family had used up the lump-sum refund of contributions—usually the only survivor payment made by State and local systems in such cases.

This teamwork could also be carried over to permanent disability insurance, which the Board recommends for inclusion in the social security program. Most of the State and local retirement systems require relatively long periods of service as a condition for receipt of ordinary disability benefits, and in many cases the amount of the benefit is reduced if disability occurs much below normal retirement age. In general, the period required to establish eligibility under the social security system would be shorter, and although basic benefits might be lower for some persons, additional allowances would be made for dependents.

The type of coordination proposed for State and local employees is similar to that which is now being used in private industry. The successful adaptation of industrial retirement systems which were in operation when old-age and survivors insurance began refutes the argument that existing State and local retirement systems would be destroyed if coverage of the Federal system were extended to public employees. On the contrary, the rapid expansion of industrial retirement systems in recent years indicates that we can expect new State and local retirement systems to be established once the social security system provides basic protection on which they can build.

Practical Considerations

Can public employees and can the governmental units for which they work afford the costs of this coordinated plan? Because the costs of social insurance are distributed among large groups of the population and over a long period of time, they do not fall heavily on any individual. A few examples of old-age and survivors insurance will illustrate the value of the present benefits in relation to the amount the employee now contributes.

Bill Brown has been a clerical worker for a manufacturing company at an average monthly wage of $150 since old-age and survivors insurance became effective at the start of 1937. Now, 8 years later, he reaches age 65 and chooses to retire. He will receive regular monthly payments of $32.40 for the rest of his life, and his wife, on reaching age 65, will receive half as much, to bring their total up to $48.60 a month. If Mr. Brown dies, the benefit which his widow receives will be increased to three-fourths of his benefit amount, or $24 30 a month.

Or assume that Bill Brown is a younger man who dies after receiving $150 a month during 8 years of covered employment and leaves a widow and two children, 1 and 4 years old. Mrs. Brown's benefit will be three-fourths of her husband's primary benefit amount, or $24.30, and each of the children will receive $16.20 a month. The total family benefit of $56.70 will be paid monthly for 14 years, until the older child is 18. Then his payments will stop and the family's total will fall to $40.50. Three years later, when the younger child reaches 18, the monthly benefits will be discontinued but, unless Mrs. Brown remarries, her monthly benefit of $24.30 will be resumed when she is 65 and will continue until her death.

These monthly amounts are not large. Old-age and survivors insurance benefits are not intended to provide more than a basic minimum. It is expected that, over and above this basic security, families like the Browns will have built other sources of security through savings, through private insurance, or through membership in supplementary pension systems. The small cost of old-age and survivors insurance permits families to build such additional security. In either of the examples above, at current contribution rates, Bill Brown himself paid less than $150 in contributions, a very good investment. In the second example, if Mrs. Brown lives to 75, his family will receive, over the years, almost $14,000.

The 1 percent of wages which covered employees and their employers each pay now for old-age and survivors insurance is scheduled to rise to 3 percent each. If State and local government workers were covered under an expanded Federal social insurance system including not only old-age and survivors insurance, but also permanent total disability insurance, unemployment compensation, and medical and hospitalization benefits for themselves and their families, the contribution rate which they and their employing governmental units would pay would, of course, be higher than what they would pay for old-age and survivors insurance alone. This social insurance contribution, however, would not represent an entirely new and additional claim on the worker's pay check; it could, instead, be an orderly method of paying in advance part of the costs which he has formerly met in other ways—through individual sacrifice to pay medical and hospital bills, for instance.

State and local employees covered by contributory retirement systems in 1940–41 were contributing, on the average, a little more than 4 percent of their pay to their retirement systems; this proportion varied, of course, from system to system and from member to member—depending in part on the type of protection they were buying and the age at which they started to purchase it. The average contribution of the governmental units to the same systems ran somewhat higher, between 5 and 6 percent of the pay roll of covered employees. Existing retirement plans could be amended to provide benefits which would supplement those of the Federal system. The combined basic and supplementary benefits could be at least as high as benefits now paid by State and local systems. If the State or local retirement system has funded all recognized earned liabilities, it would thus be possible to provide additional protection and continuity of protection at little or no increase in over-all cost.

Comprehensive social insurance provision for public employees could include protection against the risk of unemployment. State and local government employees are now excluded from coverage under the Federal provisions relating to unemployment compensation. Unfortunately, even though many States have gone beyond the coverage of the Federal act in other respects, practically every State has followed the Federal act on this point and has excluded State and local government workers from coverage. The job security attached to public employment is commonly overrated. One of every 11 government workers was reported unemployed in the census of March 1940. While civil-service laws give them some security in their jobs, not all jurisdictions have such laws. Even in those which do, certain groups are outside the system; in addition, functions needed at one time become obsolete and are discontinued, or appropriations are cut and staff reduced. Another indication that these workers need protection is given by the fluctuations in the level of government employment within a year.

At the present time, many workers in public employment, as in private industry, are temporary employees replacing servicemen. The group in public employment, however, will have no protection against unemployment when demobilization and reconversion come. Comprehensive social insurance provision, including an orderly method of compensating wage loss due to unemployment, can soften the impact of the demobilization and reconversion period for employees of State and local governments and can provide continuing future protection.

The problems of taxation which were primarily responsible for the initial exclusion of State and local employees from the national system relate to the legality of levying the Federal social insurance tax on State and local governments in their role of employer. During the early days of the program, when the principle of social insurance was on trial with workers and employers throughout the country, it seemed advisable to avoid additional problems of administration and constitutionality. Now that Federal old-age and survivors insurance has been functioning for 8 years and many administrative problems have been solved, there is no excuse for continued exclusion. The Social Security Act could be amended to permit employees of State and local governments to be covered by means of voluntary compacts with the Social Security Board. Because payment of the employer tax would be voluntary, questions of sovereignty and constitutionality need not arise.

Extension of coverage by this method might be slow, but it would be a notable step in the right direction. As the basic social security program is broadened and improved and as coordination with supplementary State and local systems proves feasible and desirable, workers and their employing governmental units will become increasingly aware that they cannot afford to do without the basic social security system.

Almost fifty million workers in 1944 earned wage credits under Federal old-age and survivors insurance. That system already has more than a million persons on its benefit rolls. It can serve as a foundation on which to build social insurance against other risks and for other groups of the population. Through the extension of the existing social insurance program, State and local government workers, too, can obtain maximum social security protection for themselves and their families at minimum cost.

Human Aspects of the Transition From War to Peace

By Ewan Clague*

THE PRODUCTIVITY OF the American economy in wartime has been astonishing. We have raised and equipped an immense army, built and manned the world's greatest navy, created an air corps which encompasses the earth; we have supplied munitions of war to the armed forces of our Allies in all parts of the globe; we have built a vast merchant marine to carry our goods to all countries in the world; and we have supplied industrial equipment, food, and other supplies to improve the war output of our Allies.

Yet, in spite of all these things, we have not, as a people, suffered severe hardships through a shortage of consumer goods. It is true that we cannot now buy new automobiles, new radios, new tires, and many other kinds of commodities; but we have maintained a reasonably satisfactory output of current consumer goods even at the peak of war production. The American people as a whole are eating more and better food than before the war, buying more clothes, and living better generally. This war has demonstrated as nothing else could how much idle and unused productive power there was in the American economy during the depression of the 1930's. The basic economic problem which faces the American people is whether we can capture for the post-war world the high productivity of the war.

How did we achieve our present high productivity? Spectacular industrial processes which have increased output with decreased time and effort have been brought to public attention. The creative genius of the inventor, the ingenuity of the businessman, and the skill and effort of the American worker have been combined as never before in the attainment of the maximum possible national output of goods and services. Yet these striking individual illustrations have served to obscure somewhat the more basic reasons for our success. It is the tried and established methods of the average business firm which have brought forth these spectacular results in wartime. We are producing what we are today because we have put capital and labor to work as we did not do before.

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Mobilization of the Labor Force

At the time of the decennial census in April 1940, approximately 53 million persons in this country were recorded as "gainful workers." They constituted the Nation's labor force at that time. About 45 million of them were then at work or had jobs, including self-employment, and some 8 million were unemployed. The standard workweek was 40 hours, with some industries working less, and with much short-time and part-time work.

Exactly 4 years later, in April 1944, there were again, according to estimates of the Bureau of the Census, approximately 53 million persons in the civilian labor force, of whom less than a million were out of work. During this same period, however, a net total of about 11 million persons had been withdrawn for service in the armed forces, nearly all of whom would otherwise have held or been seeking jobs in the labor market.

The New Workers

In general, the withdrawals have been counterbalanced in two ways: first, by the natural growth in population, and, second, by the addition to the labor force of emergency workers who would not normally be workers at all. At the present time, some 2¼ million children reach age 16 every year. Not all of them normally seek jobs; some continue in school and others—girls, primarily—remain in the home. Yet the number who enter the labor market each year far exceeds the number of persons who retire because of old age or drop out of the labor force for one reason or another in middle life. The normal labor force continues to grow. It is this factor which partly explains why, even after 7 years of recovery from the spring of 1933, there were still 8 million unemployed in the spring of 1940.

The Emergency Workers

The second source of labor has been the emergency workers who have been induced to enter the labor market during the war, or persuaded to stay there beyond their normal time. According to calculations of the Bureau of Labor Statistics, the number of emergency workers in the labor force in the spring of 1944 was about 6.7 million. These emergency workers may be broadly classified as follows:

	(In thousands)
Young workers, boys and girls, who normally would have been in school	3,270
Workers, aged 65 and over, who would have retired	450
Marginal workers	1,180
Married women, including service wives	1,800

Thus, almost half these workers are young people—about two-thirds of them boys—who would have been in ordinary times in high school or in college. A very large proportion of these youngsters would have eventually entered the labor market anyway; during the war they got in much earlier than usual, either by speeding up their education or by dropping out of school.

Most of the aged workers (nearly 95 percent) are men. Some of them have returned to the labor market after a period of retirement, but most have simply stayed on beyond the normal retirement age.

The marginal workers include some three-quarters of a million men from