Written Testimony
Presented by Speaker William G Batchelder, Ohio House of Representatives
Presented to the House Committee on Ways and Means
Congressman Dave Camp, Chairman
Subcommittee on Social Security
Congressman Sam Johnson, Chairman
Hearing on Social Security Finances
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Mr. Chairman and Members of the Subcommittee on Social Security:

When The Social Security act of 1935 was first passed, it excluded state and local workers from participation in its benefits. As a consequence, state and local governments-many of which had pension plans already in place (including Ohio)-designed, or re-designed, their own retirement plans with a reliance on that exclusion.

In the 1950's Congress passed legislation that amended the Social Security Act to allow states to elect voluntary coverage for their employees, should they so choose. Ohio, along with many other states, chose not to join as they felt their plans provided secure retirement, as well as survivor and disability benefits that had been tailored to the needs of their employees.

The question of imposing mandatory coverage in Social Security has been raised from time-to- time over the years and in 1990 the Congress did mandate Social Security coverage for state and local workers who had no other retirement plan options. However, even then the Congress maintained its long standing position of not extending mandatory coverage to non-covered public employees who were already participating in pension plans like those in Ohio and many other states, which were still self-reliant.

While it is true that many states are non-covered states, it is important to note that there are exempt plans in all 50 states. This is due primarily to the fact that nearly 75% of police and fire pension plans are outside of Social Security.

In recent years proponents of mandatory coverage have used a new strategy to try and implement their goals. Rather than calling for extending mandatory coverage for all non-covered workers, they have shifted to the idea of extending coverage to new hires only with the belief that there would be little or no costs to the states and little impact on benefits for current employees or retirees. They are mistaken on both counts.

The reality is quite the opposite; an independent study by the Segal Company in 2005 showed that the costs to the states over a five year period would be in excess of $ 44 billion. The cost to Ohio alone would be nearly $5 billion. It is without questions that that number would be much higher in 2011; I have been informed that a new study will be available soon which will show that costs have increased 60% from the first study in 1999.

It is no secret that Ohio and most other states are facing enormous fiscal challenges. It is also true that many states, including Ohio, are engaging in important reforms of their public pension plans. We are making the changes necessary to insure not only the financial stability of our plans, but also to reflect changing demographics and to insure that promised benefits will be delivered well into the future.

What would be extraordinarily detrimental to that effort would be a $5 billion dollar mandatory Social Security cost shift from the Congress on top of the financial pressures already being felt within Ohio. I believe that this would cause unnecessary strain on the other states as well. It is also my firm belief that federal intrusion in state pension plans is unnecessary and unwarranted at this time. These plans are the responsibility of the states, and it is our duty to ensure their fiscal health.

The reason that federal intrusion into state pension plans will cause such a large fiscal burden is that pension systems like those in Ohio and other states depend primarily on investment income to pay for benefit. Investment income also primarily pays for healthcare in those states, such as Ohio, that provide such services.

Mandatory coverage would significantly divert both employer and employee contributions to Social Security; as a result our pension plans would have far less money to invest, hence, returns would be reduced, and the results would be catastrophic over time. In Ohio, on average, investment income provides the funds for 70% of retiree benefits. At the same time the number of people retiring continues to grow each year. Also, the ability to provide health care would be impacted almost immediately in many plans, as that is likely the first area to be cut. Most state and local pension plans would have to cut benefits for new hires and eventually would have to consider reducing benefits for current members and retirees as well.

As was stated previously, we are moving forward on pension reforms, and will be able to do it in a way that reflects what is best for both the state and the systems. Mandatory coverage would not only destabilize our pension plans, but it would essentially destroy the pension reforms that are currently underway.

Reflecting on the history of the Ohio Congressional delegation over the years, I can tell you that they have always maintained unanimous bipartisan opposition to mandatory coverage. I hope that other states will continue to join us in that effort.

Thank you for your time and for allowing me to submit this testimony before the House Committee on Ways and Means.

Sincerely,

William G. Batchelder, Speaker
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