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# Facing Pension Woes, Maine Looks to Social Security

By MARY WILLIAMS WALSH

Lawmakers in Maine have found an unusual tool for tackling their state's pension woes: [Social Security](#).

Just as workers in the private sector participate in Social Security in addition to any pension plan at their companies, most states put their workers in the federal program along with providing a state pension.

Maine and a handful of others, however, have long been holdouts, relying solely on their state pension plans. In addition, most states have excluded some workers — often teachers, firefighters and police — from the national retirement system and its associated costs, 6.2 percent of payroll for the employer and an equal amount for the worker.

Now, Maine legislators have prepared a detailed plan for shifting state employees into Social Security and are considering whether to adopt it. They acknowledge it will not solve their problem in the short term but see long-term advantages.

Some variation on this idea could ultimately appeal to other states grappling with their own exploding pension costs and, in extreme cases, quietly looking for help from Washington. In troubled states,

some employees have wondered whether they might be allowed to begin paying in and collecting from the federal system even before they have contributed a career's worth of taxes.

The potential effect on the Social Security program is hard to estimate. Maine's proposal would mean new members and a small additional source of payroll tax revenue for the federal system.

Even if it fully embraces the proposal, Maine will have to come up with a considerable sum to sustain its existing pension plan, presumably through some combination of taxes and service cuts. After a phase-in period, Social Security would cover part of state retirees' benefits, with the state pension as the remainder. Many pension plans in corporate America coordinate their benefits in this way.

The proposal has the advantage of not reducing promised benefits, guaranteed by the constitution in many states. The change would not be cheap, but it would reduce the role of Maine's pension fund and thus the risk of having to suddenly cover giant losses down the road.

A Social Security spokesman said the agency did not expect many of the holdout states to join, citing the cost of participation. The only other state known to have talked recently about adding Social Security is Louisiana.

More than six million public employees work outside the Social Security system, including roughly 1.7 million teachers in California, Illinois and Texas, and nearly two million employees of all types in Alaska, Colorado, Massachusetts, Nevada and Ohio, as well as Louisiana and Maine. For years, these and other states have insisted they could provide richer pensions at a lower cost, both to workers and taxpayers, because of investments.

Some of those states' pension plans now have shortfalls so large that they need outsize contributions. Virtually all state pension funds have had big losses in the last two years, but the go-it-alone states appear especially vulnerable.

Not only are these states trying to provide richer benefits with smaller contributions than the payroll tax for Social Security, but they have promised to do it for workers who can retire 10 and sometimes 20

years younger.

With pension costs ballooning and taxpayers lashing out, many workers in states with deeply underfunded plans fear their benefits will be cut. Those being asked to put more into their pension funds complain they feel caught up in **Ponzi schemes**. Some wish they had been part of Social Security after all.

“Had I known back then, I would not have stayed in Illinois,” said John Gebhardt, a university employee in that state, which keeps teachers and university personnel out of Social Security. He has even offered to pay both his own and his employer’s payroll tax to join Social Security, but was told no.

Maine lawmakers who support shifting state workers into Social Security say they believe it would be fairer. Social Security may not be sexy, but it is portable.

A recent study in Maine underscored the penalty paid by the mobile work force. Only one in five state employees stays around long enough to get a full pension. The majority leave, taking neither a pension nor any Social Security credits with them. This practice, not investment gains, has sustained the state’s pension system.

“The current system is immoral,” said Peter Mills, who, as a state senator, started the push to join Social Security. “It takes younger people and feeds off of them. You can withdraw from teaching at age 40 and realize you’ve got nothing to look ahead to for your old age.”

Dallas L. Salisbury, president of the Employee Benefit Research Institute, said he was surprised by how few public workers ever got pensions in Maine, where he provided advice on a pension overhaul. He said he checked and found similar turnover in other states.

Whether Maine joins Social Security or not, painful choices must be made. The state pension fund lost \$2.25 billion in 2008, and taxpayers will have to replace the lost money. But they have less time to do so than most states, thanks to tough financing rules in the constitution. Projections show that Maine

will not have enough money to do much else in the coming years if it adheres to those rules.

“It’s going to rip the guts out of our budget,” said Mr. Mills. “I don’t think you can find a budgetary parallel in my lifetime, and I’m 67.”

Unlike laggard states, including Illinois and New Jersey, Maine had in recent years been making its required pension contributions annually, and it avoided the common mistake of sweetening benefits when markets were strong.

Its looming fiscal crisis stems primarily from investment losses, points out Sandy Matheson, executive director of the state plan. “Maine is almost like a petri dish,” she said, showing how things can go awry even if a state is responsible.

Mr. Mills, a Republican, initially envisioned shifting workers into Social Security and a [401\(k\)](#) plan. But he now views Social Security combined with a traditional pension as a safer option. That puts him on common ground with Democrats in the statehouse.

The proposal may meet resistance, however, because it does not fill the gaping hole in the state’s pension fund.

A shift into the federal program is also hard to plan because Social Security has a financial imbalance — one that will worsen as the population ages. At some point, Congress is expected to either raise taxes or cut benefits.

Still, Social Security’s future is easier to predict than that of a state pension fund, because its pressure stems from broad demographic trends, not the vagaries of the stock market. Social Security keeps its reserves in conservative [Treasury securities](#).

“You’ve got reviews taking place all over the country,” said Mr. Salisbury. Most places are asking painful questions about their investment strategies. But what Maine has discovered, he said, is just how expensive it really is to provide a guaranteed retirement benefit.



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