OFFICE OF THE MAYOR

CITY OF CHICAGO

RICHARD M. DALEY
MAYOR

September 28, 1995

The Honorable William V. Roth, Jr.
Chairman
Committee on Finance
United States Senate
104 Hart Senate Office Building
Washington, D.C. 20510-0801

Dear Mr. Chairman:

I am writing in strong opposition to the Finance Committee's proposal to impose a mandatory Medicare tax on pre-1986 employees of state and local governments.

While I realize that reform of the Medicare system is a vital national issue, this proposal is a direct assault on the taxpayers of the City of Chicago. It would require the spending of $17 million in 1996 alone directly out of the City's corporate budget for the cost of the City's share of these employee's Medicare taxes. The Chicago Board of Education will also be taxed $14.7 million for these costs just at a time when it has made great progress in balancing the Schools budget for the first time in many years. Other local government bodies in Chicago, including Cook County, the Chicago Transit Authority, City Colleges and the Chicago Park District face increased costs of $12.6 million. The total impact on Chicago taxpayers is over $44 million, and when the requirement of matching individual contributions is taken into account, the total Medicare tax increase is over $88 million for the Chicago area alone. This also represents a tax increase on those individual employees who are currently exempt from the Medicare tax. While I know that these amounts do not sound like a lot to the federal government, this additional tax on local government will have to be paid by Chicago taxpayers or we will have to make cuts in essential services.

Senator, not only is this a new tax on local government, but it is just the kind of mandate on local officials which Congress has said it is no longer going to pass on to local government. In fact, I believe that it would be subject to a point of order under the mandates legislation passed just this year but not formally in effect until January 1st of next year. I am disappointed that Congress would see fit to so quickly abandon its commitment to stop imposing new mandates. This proposal also represents a reneging by the Congress on an agreement made in 1986 to only impose mandatory Medicare taxes on a prospective basis.

As Mayor of Chicago, it is my responsibility to defend the interests of the taxpayers of my city. I ask that the Finance Committee rethink its proposal, keeping in mind all the discussion in Congress earlier this year about how the time has passed when Washington can simply impose new costs and mandates on local government in order to raise its own revenues.

Sincerely,

Richard M Daley

Mayor

Issue: What impact would requiring all employees to pay the Hospital Insurance tax have?

Background:

- Since the 1950's. States have had the option to elect whether State and local employees. teachers. police officers. and fire fighters would be covered under Social Security and pay OASDI and HI taxes.

- Under the Social Security Amendments of 1983. once a State opted to cover the State and local employees, teachers, police officers. and fire fighters under Social Security, the State could not opt out of covering those employees in the future. Further. once a State or locality opted into Social Security they could not opt out.

  - The States of Louisiana. Maine, Massachusetts. Nevada, and Ohio were outside of Social Security. Colorado State employees and teachers were outside of Social Security. The teachers in Missouri. Kentucky. Illinois, Connecticut. and California were not covered under Social Security. Additionally. almost half of the teachers in Texas were not covered under Social Security.

  - After the Social Security Amendments of 1983 no States have opted to cover all employees under Social Security. although some localities might have.

  - Alaska and Los Angeles County opted in and then out again of Social Security. The Social Security Amendments of 1983 would prohibit States from imitating these jurisdictions.

- Under the Social Security Amendments of 1983 non-profit organizations must pay FICA tax and therefore their employees would be covered under Social Security and Medicare.

  - Non-profit employees that retired before April 1. 1983 <u>might</u> be affected by a change in statute now.

- Under COBRA 1985. Medicare coverage was extended to newly hired State and local employees. teachers. police officers, and fire fighters.

  - COBRA 1985 also included an option for States to cover current State and local employees. teachers. police officers. and fire fighters under Medicare.

  - No States utilized the COBRA option to cover current employees under Medicare. However. California did allow individual teachers to elect whether or not to pay the I tax and thus be covered under Medicare.

Persons Affected:

- If adopted by Congress. 1.95 million State and local employees. teachers. police officers, and fire fighters nationwide would be affected by the extension of the Medicare tax in 1996. Most of these workers live in the following 14 states: Alaska. California. Colorado. Connecticut. Illinois. Kentucky. Louisiana. Maine. Massachusetts. Minnesota. Missouri. Nevada. Ohio. and Texas.

  - In almost all states. some fire fighters and police officers are not paying the Medicare HI tax.

  - 35 out of 50 states have at least 10.000 public employees that are not covered by Social Security and thus, not paying the Medicare HI tax.

- Eighty to ninety percent of the 1.95 million will be covered under Part A because of their own work record or because of a spouse. Thus, even though they will not be paying Medicare HI tax in their current employment, they will ultimately receive Medicare Part A. Approximately, 195,000 to 390,000 state and local employees, teachers, policemen and firemen ultimately will not be covered under Part A.

Present Law

In 1983, Congress raised the eligibility age for Social Security old-age cash benefits from age 65 to age 67, over a transition period from 2003 to 2027. However, the age of entitlement for Medicare remained unchanged at age 65.

Proposed Change

The proposal will raise the age of eligibility for Medicare to the same as that for Social Security old age cash benefits.

Effective Date: January 1, 2003.

Extension of Hospital Insurance (HI) Tax to All State and Local Government Employees. Lori

Present Law

Under current law, State and local government employees hired after March 31, 1986, must pay the Hospital Insurance tax (HI tax) and qualify for Medicare Part A coverage. State and local government employees hired before April 1, 1986, do not pay the HI tax and do not directly qualify for Medicare unless their government employer elects to extend Medicare Part A coverage to them.

The total HI tax rate for Medicare-covered employees is 2.9 percent of wages. One-half of the HI tax is imposed on the employee and one-half on the employer.

Proposed Change

Medicare coverage is extended to State and local government employees not otherwise covered under current law. These employees and their employers would become liable for the HI tax and the employees would earn credit toward Medicare eligibility. In addition, the service of State and local government employees prior to January 1, 1996, would be considered covered employment for purposes of determining eligibility for Medicare coverage.

Effective Date: January 1, 1996.

MEDICAID REFORM PROPOSAL

BRIEF SUMMARY

The current Medicaid program (Title XIX of the Social Security Act) is an open-ended individual entitlement program that pays for health care and long-term care items and services on behalf of low-income persons who are aged, blind, disabled, or members of families with pregnant women or children. Each state designs and administers its Medicaid program within Federal guidelines. Current law includes requirements that states must meet with respect to eligibility, covered services, provider payments and delivery systems.

Under the Chairman's Mark, the current Medicaid program would be completely replaced by a new, simplified program to provide payment for health and long-term care services on behalf of low-income persons who are aged, blind, disabled, or members of families with pregnant women or children. Under the new program, states would be given much broader flexibility to determine eligibility, covered services, and payments to providers. Financing of the new program would remain a joint responsibility of the Federal government and the states. States would be able to receive Federal matching funds, up to a maximum amount for each state.

DESCRIPTION OF PROVISIONS

ELIGIBILITY

Present Law

In General

Medicaid is a means-tested entitlement program. Applicants' income and resources must be within program financial standards that vary among states. Medicaid recipients are poor and either aged, blind, disabled, or are specified cc Iris

July 27, 1994

TO: Bob
FR: Pauline
RE: Social Security and state and local government employees

You asked Paul about the number and location of state and local government employees who are not paying into Social Security (i.e. they are not "covered" although they may still qualify for benefits from other employment in covered jobs or their spouses' jobs).

The states that would be most heavily affected by legislation mandating Social Security and Medicare coverage of state and local government employees have formed a coalition, called OPPOSE, to lobby against mandatory coverage. These states are:

California	Alaska
Louisiana	Colorado
Massachusetts	Illinois
Ohio	Kentucky
Texas	Minnesota
	Nevada

The five in the column on the left would be especially heavily affected. D.C. and Idaho are the only states that do not have any uncovered employees.

OPPOSE estimates that nationwide about 5 million state and local government employees are not covered by Social Security (see attached tables).

Attached:

- CBO background information and estimates of the revenue from expanding Social Security and Medicare coverage to state and local employees.

- Nearly illegible tables from OPPOSE on the number and location of public employees not covered by Social Security and the cost to state and local governments of covering them. **n.b. OPPOSE's estimate of the cost of covering all <u>new</u> employees does not jibe with CBO's revenue estimate.** look into this

Please let me know if you would like me to pursue this further.

OPPOSE

1300 LOGAN STREET DENVER, CO 80203
Telephone: (303) 832-9550

Current Membership of OPPOSE

OFFICERS

Frank V Toulli
President

William A. Dorsey
Vice President

Robert J. Scott
Secretary/Treasurer

ORGANIZATIONS

Alaska Public Employees' Association

Alaska Supplemental Benefits System

City of San Diego Employees' Retirement System

United Teachers of Los Angeles

Public Employees' Retirement Association of Colorado

Colorado Association of Public Employees

Colorado Association of School Executives

Colorado Classified School Employees' Association

Colorado Education Association

Colorado Retired School Employees Association

Denver Public Schools Employees' Pension and Benefit Association

Fire and Police Pension Association of Colorado

Illinois Education Association

Teachers' Retirement System of Illinois

Kentucky Teachers Retirement System

Employees' Retirement System of Baton Rouge

Louisiana State Employees' Retirement Fund

Teachers Retirement System of Louisiana

Massachusetts Teachers' Association

Minneapolis Police Relief Association

Minnesota Police Pension Council

Las Vegas Police Protective Association Civil Employees, Inc.

Nevada Public Employees' Retirement System

School Employees Retirement System of Ohio

State Teachers Retirement System of Ohio

Ohio Education Association

Organization for the Preservation of the Public employee retirement industry