

CALIFORNIA STATE TEACHERS' RETIREMENT SYSTEM

BILL ANALYSIS

<u>Assembly Bill 2767</u>	Assembly Member Pavley (As amended 4/24/02)
<u>Position:</u>	Support (Staff recommendation)
<u>Proponents:</u>	California State Parent Teacher Association
<u>Opponents:</u>	None known

SUMMARY

Assembly Bill 2767 requires the Legislative Analyst's Office (LAO) to conduct a study of the impact of the federal Windfall Elimination Provision (WEP) and the Government Pension Offset (GPO) on current and retired public employees, including teachers in California, who are eligible to receive Social Security benefits. The bill requires the LAO to recommend specific actions that the State can take to mitigate and reduce the impact of the WEP and GPO on teachers and retired teachers in California. The LAO would complete the study and report its findings and recommendations to the Legislature and the Governor on or before July 1, 2004.

HISTORY

Resolution Chapter 66, Statutes of 2001 (AJR 3—Leonard) requests that Congress repeal the GPO and WEP on Social Security benefits.

Resolution Chapter 94, Statutes of 2001 (SJR 4—Soto) requests that Congress eliminate the application of the GOP and the WEP on Social Security benefits.

CURRENT PRACTICE

California State Teachers' Retirement System (CalSTRS) members, and other government workers representing about 4 percent of the total national workforce, do not pay Social Security payroll taxes on earnings for their government service. If these workers receive a Social Security benefit, either due to other employment that was covered by Social Security, or by being a spouse or surviving spouse of a person covered by Social Security, the Social Security benefit paid to that government worker may be reduced. CalSTRS, however, does not reduce the retirement benefit it pays to a person who receives a Social Security benefit. CalSTRS does not have statistical data on member eligibility for Social Security or on those retired members whose Social Security benefit is reduced due to their receipt of a pension from CalSTRS. The Social Security Administration has not released such information to CalSTRS.

The reduction in Social Security benefits that are paid for a worker's own earnings is referred to as the WEP. Under the WEP, the percent of income replaced in the first tier is reduced from 90

percent of the first \$592 of covered earnings to 40 percent of the first \$592, for persons first eligible for a benefit in 2001. This means that a recipient's Social Security benefit can be reduced by up to \$296 per month.

There are exceptions and limitations to the application of the WEP. First, the WEP does not apply if the member was eligible to retire from CalSTRS before 1986. In addition, if the recipient has more than 20 years of what are considered "substantial earnings" covered by Social Security (equal to \$15,750 in 2002), the reduction is not as large. For example, if the recipient has 21 years of substantial earnings, the first tier percentage is 45 percent, and that percentage increases by five percentage points for each year of substantial earnings. After 30 years of substantial earnings, the WEP is not applied at all to a person who also receives a pension from work not covered by Social Security. In addition, the amount of the reduction in the Social Security benefit as a result of the WEP cannot exceed 50 percent of the governmental pension. For example, if the governmental pension was \$500 per month, the adjustment in the monthly Social Security benefit due to the WEP could not exceed \$250.

Social Security benefits also are reduced for spouses, ex-spouses, surviving spouses and surviving ex-spouses who receive a pension, such as from CalSTRS, for work not covered by Social Security. This reduction is referred to as the GPO. Under the GPO, the Social Security benefit is reduced by two-thirds of the CalSTRS retirement allowance. If two-thirds of the CalSTRS allowance equals or exceeds the amount of the member's benefit from Social Security, the member will not receive a benefit from Social Security. (This does not affect the member's eligibility for Medicare benefits). Individuals are exempt from the GPO if they were eligible to retire from CalSTRS prior to December 1982 and met the Social Security spousal benefit requirements in effect in January 1977. Given the demographics of the CalSTRS population, and the size of the reduction under the GPO compared to the WEP, the GPO probably has a greater general impact on CalSTRS members than does the WEP.

DISCUSSION

AB 2767 would have no direct impact on CalSTRS current practice. However, the study would analyze the impact of the federal WEP and GPO on public employees in California, including teachers and retired teachers. The study would advocate specific actions that the State could implement to reduce the impact of the WEP and GPO on retired public employees. The study will determine and report on the number of current retirees and future retirees that will receive reduced Social Security benefits as a result of the WEP and GPO. The study will also find whether the federal WEP and GPO deter a private sector worker from entering the teaching or public safety professions because of the impact such service has on the member's Social Security benefits.

This bill is intended to find ways to mitigate the impact that provisions of the Social Security Act is believed to have on limiting the ability of school districts to recruit teachers, particularly those who have been employed elsewhere. The author believes that there is a range of actions the State could take reduce the impact of WEP and GPO on teachers' retirement benefits such as

providing additional funding for increased benefits, setting up 401(k)-type accounts for teachers, or providing additional opportunities for teachers to join or change their coverage to the California Public Employees' Retirement System. The author hopes that the study will address a wide range of options and associated costs.

FISCAL IMPACT

Benefit Program Costs – None

Administrative Costs – Minor and absorbable

RECOMMENDATION

Support. The study will evaluate and recommend federal actions that the State may implement to mitigate and reduce the WEP and GPO on public employees and retirees. Specifically, the study will analyze the impact of the federal WEP and GPO on teachers and retired teachers in California.