

CALIFORNIA STATE TEACHERS' RETIREMENT SYSTEM

BILL ANALYSIS

Assembly Joint Resolution 3

Assembly Member Leonard (As introduced 2/16/01)

Position:

No Position (Staff recommendation)

Proponents:

CRTA

Opponents:

None known

SUMMARY

AJR 3 requests that the President and Congress of the United States enact legislation to repeal the Government Pension Offset (GPO) and the Windfall Elimination Provision (WEP) from the Social Security Act.

HISTORY

Originally, the Social Security system excluded state and local government employees from coverage. In 1954, however, state and local employees were given the opportunity to elect to participate in the Social Security system. Although many groups of public employees elected to participate in Social Security, California State Teachers' Retirement System (CalSTRS) members elected not to participate in the program in 1955.

Public Law (P.L.) 95-216—1977 – Reduced the Social Security benefit paid to a spouse by the amount of the spouse's government pension from work not covered by Social Security, effective 1982, if the spouse was not eligible for retirement as of 1982.

P.L. 98-21—1983 – Reduced Social Security benefits to workers who also receive a pension from work not covered by Social Security. Also changed the reduction in the Social Security benefit paid to a spouse from 100 percent of that person's pension from work not covered by Social Security to 2/3 of such a pension.

Resolution Chapter 40, Statutes of 1999 (AJR 9—PER&SS) encouraged the U.S. Congress and the President to exclude state and local employees from mandatory Social Security.

H.R. 1217/ S.717 (Jefferson/Mikulski), introduced in the 106th Congress, would have modified the reductions in Social Security benefits that are made to benefits paid to spouses and surviving spouses who are also receiving other government pensions, to the amount by which the total amount of the combined monthly Social Security benefit (before reduction) and monthly pension exceeded \$1,200.

H.R. 860 (Frank), introduced in the 106th Congress, would have eliminated the reduction in Social Security benefits paid to individuals whose combined monthly income from Social Security benefits on their own earnings and other government pension payments was less than \$2,000, with a graduated implementation of the reduction on amounts above \$2,000.

H.R. 664 (Jefferson), introduced February 14, 2001, is a reintroduction of H.R. 1217 from the prior Congress.

SJR 4 (Soto), introduced February 21, 2001, requests that Congress limit the application of the GPO and the WEP on Social Security benefits.

CURRENT PRACTICE

Calculating Social Security Benefits. Social Security provides benefits to retired workers and, under certain circumstances, their spouses, ex-spouses, surviving spouses and surviving ex-spouses. Although CalSTRS members do not pay Social Security payroll taxes for CalSTRS-covered service and, therefore, do not earn Social Security benefits for such service, many CalSTRS members are eligible for Social Security benefits, due either to other employment that was covered by Social Security or by being married to a Social Security benefit recipient.

The Social Security benefits paid to a retired worker are based on the average monthly earnings, indexed for inflation, that were subject to Social Security payroll taxes during the 35 highest years of indexed earnings. The average indexed earnings is divided into three tiers. For individuals who first become eligible for the Social Security old-age benefit in 2001, the primary insurance amount (PIA), or full benefit, is the sum of

- 90 percent of the first \$561 of the average indexed monthly earnings, plus
- 32 percent of the averaged indexed monthly earnings of the next \$2,820, plus
- 15 percent of the average indexed monthly earnings above \$3,381

For example, the PIA for a person whose average indexed monthly earnings was \$4,000 would be

	90 percent of \$561	\$ 504.90
+	32 percent of \$2,820	\$ 902.40
+	15 percent of the remaining \$619	<u>\$ 92.85</u>
		\$1,500.15

Spouses and eligible ex-spouses of retired workers also can receive a benefit based on the earnings of the retired worker. The full benefit paid to a spouse or eligible ex-spouse equals 50 percent of the PIA paid to the retired worker, if that amount is less than the benefit that would be paid based on the spouse's or ex-spouse's own covered earnings. In the example above, the spouse or eligible ex-spouse would receive about \$750.

Finally, surviving spouses and eligible ex-spouses receive a benefit equal to the amount paid to the deceased workers, if that amount is greater than the benefit that would be paid based on the surviving spouse's or ex-spouse's own earnings.

These three benefits reflect an objective of providing a floor of benefits to people with lower earnings. The more money a worker earns, the lower the percentage of those earnings that is replaced by Social Security. For the lowest paid workers, Social Security replaces up to 90 percent of the average indexed monthly earnings. The percentage of earnings replaced declines as earnings increase. Similarly, if the spouse or surviving spouse has limited earnings, and therefore receives little or no Social Security benefits from his or her own earnings, the spouse or surviving spouse receives an additional amount based on the earnings of the worker.

Social Security Benefits for CalSTRS Members. As indicated earlier, 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.)

The reduction in Social Security benefits 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 \$561 to 40 percent of the first \$561, for persons first eligible for a benefit in 2001. This means that a recipient's Social Security benefit can be reduced by up to \$280.50 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 \$14,925 in 2001), 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

Several legislative proposals were introduced in the 106th Congress that would have reduced these offsets. Similar legislation is anticipated in the current Congress. These proposals generally exempt people from the offsets if their Social Security benefit and governmental pension are less than a specified amount. Many organizations are urging Congress to enact legislation this year to reduce if not eliminate the impact of the GPO and WEP on state and local government retirees, particularly those who have earned lower uncovered government pension benefits or partial benefits. AJR 3 is requesting that Congress and the President enact legislation to repeal the GPO and WEP.

CalSTRS staff have been evaluating the impact of the offset provisions on CalSTRS members, whether there is sufficient basis for such reductions to take place and what, if any, modifications to the provisions would be appropriate. The preliminary assessment by CalSTRS staff is that reducing Social Security benefits for workers who receive a pension for work not covered by Social Security has an appropriate basis, given the nature of the Social Security benefit. At this time, however, it does not appear that the specific reductions applied are consistent with the policy objective of the reductions.

If Congress were to repeal the WEP and GPO, this could significantly increase the Social Security benefits paid to CalSTRS members who would otherwise receive reduced benefits. However, the reason why CalSTRS members are subject to these offset provisions is because they are not required to participate in Social Security. Proposing that the offset provisions be repealed could have the unintended consequences of enhancing the prospects of Social Security being mandated for future public employees as part of an overall Social Security reform effort, including repeal of the offset provisions. Although the application of the offsets does affect many CalSTRS members, the impact on CalSTRS benefits, employers and CalSTRS members would be greater if Social Security was mandated for all public employees.

FISCAL IMPACT

Benefit Program Costs – None

Administrative Costs – By itself, passage of this resolution would have no effect on system administration. If the offsets were repealed, there may be modest savings in staff time because CalSTRS would no longer have to respond to requests from Social Security for pension information that currently is requested to determine whether or not an offset will be applied.

RECOMMENDATION

No position. Although repeal of the WEP and GPO would significantly increase the Social Security benefits paid to CalSTRS members, staff are concerned that proposals to repeal the offsets could result in CalSTRS members being required to participate in Social Security.