

total amount of the combined monthly Social Security benefit (before reduction) and monthly pension exceeded \$1,200.

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

Public Law 98-21—1983 reduces 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.

Public Law 95-216—1977 reduces 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.

CURRENT PRACTICE

Calculating Social Security Benefits

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

Social Security bases the benefits paid to a retired worker on the average monthly earnings, indexed for inflation, subject to Social Security payroll taxes during the 35 highest years of indexed earnings. For individuals who first become eligible for the Social Security old-age benefit in 2003, the primary insurance amount (PIA), or full benefit, is the sum of:

- 90 percent of the first \$606 of the average indexed monthly earnings, plus
- 32 percent of the averaged indexed monthly earnings over \$606 through \$3,653, plus
- 15 percent of the average indexed monthly earnings above \$3,653

For example, the PIA for a person turning age 62 in 2003 and whose average indexed monthly earnings was \$4,000 would be:

90 percent of the first \$606	\$ 545.40
+ 32 percent of the amount over \$606 through \$3,653 (\$3,047)	\$ 975.04
+ <u>15 percent of anything over \$3,653 (\$347.00)</u>	<u>\$ 52.05</u>
	PIA—\$1,572.49

Spouses and eligible former spouses of retired workers also can receive a Social Security benefit based on the earnings of the retired worker. The full benefit paid to a spouse or eligible former 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 former spouse's own covered earnings. In the example above, the spouse or eligible former spouse would receive a monthly benefit of \$786.25.

Finally, surviving spouses and eligible former 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 former spouse's own earnings.

These three benefits reflect an objective of providing a floor of benefits to people with lower earnings. Social Security replaces a lower percentage of earnings as the worker's wages increase. For the lowest paid workers, Social Security replaces up to 90 percent of the average indexed monthly earnings. Similarly, if a worker's spouse or surviving spouse has limited earnings that cause him/her to receive little or no Social Security benefits of his/her own, 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 Social Security-covered employment or by being the spouse or surviving spouse of a person covered by Social Security, the Social Security benefit paid to that government worker may be reduced. CalSTRS does not reduce the retirement benefit paid to a person who receives a Social Security benefit. However, the System does reduce family allowances paid under Coverage A by the amount of Social Security benefits paid to the spouse and/or dependent children.

The WEP is responsible for the reduction in Social Security benefits paid for a worker's own earnings, by modifying the Social Security benefit formula described earlier. Specifically, the percentage of the first \$606 in average indexed monthly earnings for a worker turning age 62 in 2003 is reduced from 90 percent to 40 percent.

There are exceptions and limitations to the application of the WEP. First, at the percentage in the benefit formula for the first \$606 in average indexed monthly earnings is increased to 45 percent for those workers with 21 years of "substantial earnings" covered by Social Security (equal to \$16,125 in 2003), and increases at 5 percent intervals up to 85 percent for a worker with 29 year of substantial earnings. If the recipient has more than 30 years of substantial earnings, the WEP is not applied at all. In any case, 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.

Spouses, former spouses, surviving spouses and surviving former spouses who receive a pension from another qualified pension system, such as CalSTRS, for work not covered by Social Security receive a reduced Social Security benefit due to the GPO. The GPO reduces Social Security benefits by two-thirds of the retirement allowance received from other pension systems. For example, 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

Originally, the Social Security system excluded state and local government employees from coverage. In 1954, 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, CalSTRS members elected not to participate in the program in 1955.

The WEP and GPO provisions of the Social Security Act affect more than 125,000 California retirees who are mostly police officers, firefighters and public educators. In addition, these provisions affect California's ability to recruit teachers from other professions in which they pay Social Security taxes and where many have Social Security benefit eligibility. School districts in California have found that workers from private industry employment are reluctant to begin second careers as teachers because of the reduced Social Security benefits they will receive after retirement. Districts have also claimed that teachers from other states often will not transfer to a California teaching position because they worked for a school district coordinated with Social Security.

The 108th Congress introduced H.R. 594 and S. 349, which would amend the Old Age, Survivors and Disability Insurance provisions of the Social Security Act to repeal the pension offset provisions applicable to husband's and wife's benefits, widow's and widower's benefits, and mother's and father's benefits with respect to Old-Age and Survivor benefit payments and the Windfall Elimination Provisions with respect to computation of the primary insurance amount of an individual. According the sponsor, AJR 29 directly supports H.R. 594 by requesting that Congress and the President enact legislation that removes the onerous effects of the GPO and WEP, thereby relieving the burden that these provisions place on CalSTRS retired members.

CalSTRS staff evaluated 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. 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 restructure the WEP and GPO so they do not affect workers who retire under other pension programs, the Social Security benefits paid to CalSTRS members would not be decreased. However, CalSTRS members are subject to these offset provisions because they are

not required to participate in Social Security and therefore, do not pay the Social Security payroll tax. 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 became mandatory for all public employees. A May 1, 2003 hearing of the House Ways and Means Subcommittee on Social Security concerning Social Security provisions affecting public employees identified a clear link in many officials' minds between relief from the offset provisions and the mandatory coverage of state and local employees in Social Security.

FISCAL IMPACT

Benefit Program Cost – None

Administrative Costs – By itself, passage of this resolution would have no effect on system administration. If the offsets were restructured to reduce the effects on CalSTRS retired members, 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.

BOARD POSITION

Support. California would be better able to recruit and retain workers from other professions into second careers as teachers, and teachers from other states, if these professionals did not face reductions in their Social Security benefits after retirement. Removing the burdensome effects of the WEP and GPO on CalSTRS retired members would cause the Social Security benefits paid to members to not be decreased, which is consistent with the Board's policy to secure financially sound retirement benefits for California's educators.

Staff notes concern that proposals to repeal the offsets could result in CalSTRS members being required to participate in Social Security. Such mandatory coverage would have a greater negative impact on CalSTRS members than would relief from the offsets. However, according to the sponsor, if Congress took steps under H.R. 594 to mandate Social Security on all public employees as a consequence of that bill, then the author of H.R. 594 would rescind the bill.