

CALIFORNIA STATE TEACHERS' RETIREMENT SYSTEM

BILL ANALYSIS

BILL NUMBER: Senate Joint Resolution 15 (Dutton) – As Introduced 6/21/05

SUMMARY:

Senate Joint Resolution 15 requests the President and Congress of the United States support legislation currently before Congress, which repeals the Government Pension Offset (GPO) and the Windfall Elimination Provision (WEP) of the Social Security Act.

PURPOSE OF THE BILL:

SJR 15 communicates the California Legislature's direct support of federal legislation, H.R. 147 (McKeon) and S. 619 (Feinstein), by requesting Congress and the President enact legislation that removes the burdensome effects of the GPO and WEP, thereby relieving the financial penalties these provisions place on retired members of the California State Teachers' Retirement System (CalSTRS).

BOARD POSITION:

Support. The Teachers' Retirement Board (Board) believes California would be better able to recruit and retain both workers from other professions into second careers as teachers, and teachers from other states, if these workers did not face reductions to the Social Security benefits they have already earned.

LEGISLATIVE HISTORY:

H.R. 147/S. 619 (McKeon/Feinstein), amend the Old Age, Survivors and Disability Insurance provisions of the Social Security Act to repeal (1) the GPO 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 (2) the WEP with respect to computation of the primary insurance amount of an individual.

Resolution Chapter 65, Statutes of 2003 (AJR 29—Pavley), requests the President and Congress of the United States enact legislation that removes the negative effects of the GPO and the WEP of the Social Security Act on public employees.

Resolution Chapter 66, Statutes of 2001 (AJR 3—Leonard), requests the President and Congress enact legislation to repeal the GPO and the WEP from the Social Security Act.

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

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 two-thirds of the pension.

Public Law 95-216—1977, effective 1982, 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, if the spouse was not eligible for retirement as of 1982.

PROGRAM BACKGROUND:

Social Security provides benefits to retired workers and under certain circumstances, their spouses, former spouses, surviving spouses and surviving former spouses. 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 participation, CalSTRS members elected, at a rate of 4 to 1, not to participate in the system in 1955. Since then, public school educators have contributed only to CalSTRS for their retirement, disability and survivor benefits.

Currently, 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 and therefore, do not earn Social Security benefits for such 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 under one or both of the Social Security offset provisions. CalSTRS does not reduce the retirement benefit paid to a person who receives a Social Security benefit; however, CalSTRS 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. Specifically, the percentage of the first \$627 in average indexed monthly earnings for a worker turning age 62 in 2005 is reduced from 90 percent to 40 percent. However, there are exceptions and limitations to the application of the WEP; the percentage in the benefit formula for the first \$627 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 \$16,725 in 2005), 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.

Spouses, former spouses, surviving spouses and surviving former spouses of Social Security recipients 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; however, 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 as of January 1977.

ANALYSIS:

SJR 15 requests the United States Congress and the President pass the Social Security Fairness Act of 2005, which would repeal the GPO and WEP from the Social Security Act. The repeal act was introduced this year by Representative Buck McKeon and Senator Dianne Feinstein (both of California) in H.R. 147 and S. 619, respectively. According to the sponsor, the GPO and WEP penalize individuals who move between employment in the private sector and public sector by reducing the Social Security benefits to which these individuals would otherwise be entitled. These reductions result in difficulty recruiting qualified individuals out of the private sector into the teaching profession at a time when California is experiencing a shortage in teachers.

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. The Board has previously supported similar repeal resolutions, such as Resolution Chapter 65 of 2003 (AJR 29—Pavley), because the pension offsets 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 previously worked for a school district that provided a retirement benefit coordinated with Social Security.

FISCAL IMPACT:

Benefit Program cost/savings: None

Administrative costs/savings: By itself, passage of this resolution would have no effect on administration of the Teachers' Retirement Plan. If the pension 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 is currently requested to determine whether or not an offset will be applied.

SUPPORT/OPPOSITION

Support: CRTA (Sponsor); Teachers' Retirement Board, CTA; UTLA; CFT; CTA/NEA Retired

Opposition: None known.

ARGUMENTS

Pro: SJR 15 enhances school districts' ability to recruit and retain educators from other states and workers from private industry employment.

Con: SJR 15 would impose additional cost pressures on the Social Security benefit program.