Agenda

- Windfall Elimination Provision Overview
- WEP Reform Or Repeal Proposals
  - H.R. 711, the Equal Treatment of Public Servants Act of 2015
  - H.R. 973 & S. 1651, the Social Security Fairness Act of 2015
- Government Pension Offset Overview
- GPO Reform or Repeal Proposals
  - H.R. 973 & S. 1651, the Social Security Fairness Act of 2015
- Recap & Questions
Windfall Elimination Provision (WEP) Overview

• What is the WEP?
  ○ Reduces the Social Security (SS) benefits earned from SS-covered employment (e.g. private-sector jobs) for local, state and federal retirees who receive a government annuity from their non-SS covered government employment.

• Who does WEP affect?
  ○ Federal retirees covered by the Civil Service Retirement System (CSRS).
  ○ State and local government retirees who likewise did not pay Social Security payroll taxes in connection with their government employment, similar to CSRS.
    ▸ Notably, applies to following state systems (generally): CA, TX, IL, OH, MA, LA, others.
  ○ Survivors of the above.
  ○ More than 1.6 million people total.
How Social Security Benefits Are Determined

- Based on earnings history in SS-covered employment (subject to SS payroll taxes)
- Qualify with 10 or more years in SS-covered employment.
- Annual earnings are indexed to wage growth to bring early years up to a comparable, current basis.
- A “High 35,” or the highest 35 years of earnings are identified, averaged, and divided by 12 to determine a monthly amount, called the Average Indexed Monthly Earnings (AIME).
  - Zero earnings (including noncovered earnings) translate as zeros in the “High 35” if you have less than 35 years of covered earnings.
How Social Security Benefits Are Determined

• Your AIME is used to determine your monthly benefit, using a progressive formula.

• In 2015, the benefit formula was as follows:
  • 90 percent of the first $826 of AIME, plus
  • 32 percent of AIME over $826 and through $4,980, plus
  • 15 percent of AIME over $4,980.

• WEP reduces the 90 percent factor to 40 percent
  • $413 maximum reduction in benefits for 2015
How WEP Alters Social Security Benefits

- WEP reduces the 90 percent factor to 40 percent
  - $413 maximum reduction in benefits for 2015

- WEP phases out by 5 percent for each year of "substantial" covered earnings over 20 years.
  - E.g., with 22 years of SS earnings, the 90 percent factor is only reduced to 50 percent (instead of 40 percent)

- Problem! This results in a lower replacement of income than government retirees deserve!
## Example: Constructing AIME

### Two examples, same AIME:

<table>
<thead>
<tr>
<th>Norm</th>
<th>Cliff</th>
</tr>
</thead>
<tbody>
<tr>
<td>Worked 35 years in SS-covered employment.</td>
<td>Worked 15 years in non-covered employment, with an average salary of $63,000, or $5,250 per month.</td>
</tr>
<tr>
<td>Average salary (indexed for inflation): $36,000 = $3,000 / month</td>
<td>Worked 20 years in SS-covered employment, with an average salary of $63,000, or $5,250 per month.</td>
</tr>
<tr>
<td>AIME = $3,000</td>
<td>$5,250<em>20+$0</em>15)/35 = $3,000.</td>
</tr>
</tbody>
</table>
# How WEP Alters Social Security Benefits

- Example of SS benefits with and without WEP for someone with an AIME of $3,000, filing in 2015.

<table>
<thead>
<tr>
<th>Regular Formula</th>
<th>WEP Formula</th>
</tr>
</thead>
<tbody>
<tr>
<td>90% of first $826</td>
<td>40% of first $826</td>
</tr>
<tr>
<td>$743.40</td>
<td>$330.40</td>
</tr>
<tr>
<td>32% of $826 through $4,980</td>
<td>32% of $826 through $4,980</td>
</tr>
<tr>
<td>$695.68</td>
<td>$695.68</td>
</tr>
<tr>
<td>15% over $4,980</td>
<td>15% over $4,980</td>
</tr>
<tr>
<td>$0</td>
<td>$0</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>Total</strong></td>
</tr>
<tr>
<td><strong>$1439.80</strong></td>
<td><strong>$1026.08</strong></td>
</tr>
</tbody>
</table>
WEP Reform & Repeal

- **H.R. 973 & S. 1651, the Social Security Fairness Act of 2015**
  - Repeals WEP & GPO completely
  - **NARFE supports**
  - Passage unlikely

- **H.R. 711, the Equal Treatment of Public Servants Act of 2015**
  - Reforms WEP.
  - Introduced by Rep. Kevin Brady, R-TX-8, chairman of the House Committee on Ways and Means, which has jurisdiction over the bill.
  - Good chance this will advance this year.
  - Bill does not have a cost (does not increase deficits)
  - Currently has 71 bipartisan co-sponsors
    - Thank your representative for co-sponsoring or ask them to co-sponsor on NARFE’s Legislative Action Center, [here](#).
H.R. 711

- **For individuals who turn(ed) 62 prior 2017:**
  - Reduce the current WEP penalty on their Social Security benefits by a certain percentage, not to exceed 50 percent.
  - Exact amount will be determined by the Social Security Administration (SSA) actuary, based on other savings created by the bill.
  - This penalty reduction would not be retroactive, but only be for Social Security payments going forward starting in 2017 (assuming passage this year).
H.R. 711

- For individuals turning 62 in or after 2017:
  - New, fairer formula to determine WEP penalty.
    - AIME and Monthly Benefit (PIA) calculated using covered and noncovered earnings
    - This monthly benefit amount is then multiplied by covered AIME over total (covered and noncovered) AIME
  - The SSA actuary estimated that about 83 percent of those affected by WEP would see an average increase in benefits of $77 per month.
  - About 17 percent would see an average decrease in benefits of $13 per month.
New Formula Example

Assumptions:
- Cliff worked 15 years in non-covered employment (e.g. postal supervisor under CSRS), and 20 years in SS-covered employment (i.e. private-sector), both with an average salary of $63,000, or $5,250 per month.

Calculation:
- Total AIME (covered and noncovered): $5,250
- Monthly Benefit based on Total AIME: $2,113.08
- Multiplied by covered AIME ($3,000), divided by covered and noncovered AIME ($5,250) = $1,207.47

Comparisons:
- Without WEP: $1439.80
- With WEP: $1026.08
Enforcement Component:

- Directs SSA to use available data to improve enforcement of the WEP penalty for individuals who have underreported their government employment earnings.

- SSA is already enforcing the WEP provision fully for federal retirees through use of data provided by OPM.

- Thus, we do not expect WEP penalties to increase for federal retirees as a result of this increased enforcement.
Enforcement Savings → Rebates

- The amount of money saved through improved enforcement of WEP will determine the amount of the reduction in the WEP penalty for individuals who turn(ed) 62 prior to 2017.

- The SSA actuary will make the final determination of how much money has been saved, and how much of a reduction in the WEP penalty will occur, after bill passage.

- The current estimate from SSA is that there would be a 50 percent reduction in the WEP penalty.
Talking Points for H.R. 711

- Provides much needed relief for government retirees who have been harmed by an unfair law / formula.

- Rebates for current retirees, fairer formula for future retirees.

- No cost to the bill – does not increase deficits.

- Has bipartisan support.
President’s FY17 Budget

- Includes WEP & GPO reform proposals

- WEP Reform
  - Same formula for future beneficiaries as H.R. 711
  - But would not go into effect until 2027
  - Would not provide ANY rebates for current beneficiaries (over age 62)
  - NARFE opposes the proposal because it does not help current retirees, and only goes into effect 10 years from now.

- WEP Enforcement
  - Differs from Brady bill
  - Relies on enhanced state and local government reporting
**Government Pension Offset Overview**

- **What is the GPO?**
  - Reduces the Social Security (SS) spousal and survivor benefits based on spouse’s work history due to own pension from non-covered government work.

- **Who does GPO affect?**
  - Federal retirees covered by CSRS.
  - State and local government retirees who likewise did not pay Social Security payroll taxes in connection with their government employment, similar to CSRS.
    - Notably, applies to following state systems (generally): CA, TX, IL, OH, MA, LA, others.
  - More than 614,000 total people affected
    - 341,000 spouses
    - 273,000 widow(er)s
Social Security Spousal and Survivor Benefits

- **Spousal benefit** = 50 percent of a retired (or disabled) worker’s benefit.
  - Intended for individuals financially dependent on a working spouse.
- **Survivor benefit** = 100 percent of deceased worker’s benefit
- **Dual entitlement rule**
  - Reduces spousal or survivor benefit by individual’s own benefit based on own work history (in private-sector)
  - GPO intends to approximate the dual entitlement rule
    - Assumption is that two-thirds of a government pension is equivalent to worker’s own Social Security benefit.
      - Imprecise and unfair. One-third or one-half is probably a better equivalent.
      - No clear justification / rationale for this
# Dual Entitlement Rule Example

<table>
<thead>
<tr>
<th></th>
<th>Jack</th>
<th>Diane</th>
</tr>
</thead>
<tbody>
<tr>
<td>SS monthly <strong>worker</strong> benefit (based on own work)</td>
<td>$2200</td>
<td>$900</td>
</tr>
<tr>
<td><strong>Max</strong> SS monthly <strong>spousal</strong> benefit (50% of spouse’s benefit)</td>
<td>$450</td>
<td>$1100</td>
</tr>
<tr>
<td><strong>Actual</strong> SS spousal</td>
<td>$0</td>
<td>$200</td>
</tr>
<tr>
<td>Total (worker and spousal) SS benefit</td>
<td>$2200</td>
<td>$1100</td>
</tr>
<tr>
<td>Private pension?</td>
<td>???</td>
<td>$900?</td>
</tr>
</tbody>
</table>
### GPO Example

<table>
<thead>
<tr>
<th></th>
<th>Jack</th>
<th>Diane</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>SS monthly worker benefit (based on own work)</strong></td>
<td>$2200</td>
<td>N/A</td>
</tr>
<tr>
<td><strong>Non-SS covered monthly pension</strong></td>
<td>N/A</td>
<td>$1200</td>
</tr>
<tr>
<td><strong>Max SS monthly spousal benefit (50% of spouse’s benefit)</strong></td>
<td>N/A</td>
<td>$1100</td>
</tr>
<tr>
<td><strong>Reduction in SS spousal benefit due to GPO (2/3 of non-SS covered pension)</strong></td>
<td>N/A</td>
<td>$800</td>
</tr>
<tr>
<td><strong>Actual SS spousal benefit paid</strong></td>
<td>$0</td>
<td>$300</td>
</tr>
<tr>
<td><strong>Total monthly retirement benefit (SS + government pension)</strong></td>
<td>$2200</td>
<td>$1500</td>
</tr>
</tbody>
</table>
GPO Repeal & Reform Proposals

- **H.R. 973 & S. 1651, the Social Security Fairness Act of 2015**
  - Repeals WEP and GPO fully.
  - **NARFE supports.**
  - Passage unlikely.

- **President’s FY17 Budget Proposal**
  - Reforms GPO
    - Better mimics dual entitlement rule.
    - Works similar to WEP proposal, as it determines an AIME and monthly benefit for the government pensioner based on both covered and noncovered work history, and then reduces spousal and survivor benefits based on those amounts (not 2/3 of a pension).
  - Would not go into effect until 2027
  - Would not apply to current beneficiaries.
  - **NARFE does not support for two reasons:**
    - Does not help current beneficiaries
    - Unclear how it would affect total benefits (increase or decrease) – no data or analysis done yet.
Recap

- WEP reduces an individual’s SS benefit based on their own work history due to noncovered government employment.
  - Reduces survivor benefits based on a WEP-affected individual’s SS benefit, too.

- GPO reduces an individual’s spousal or survivor benefit based on his/her spouse’s work history due to their own noncovered government pension.

- NARFE supports full repeal of WEP and GPO.

- But H.R. 711 – WEP reform – may have a chance to pass, and NARFE is supporting this effort.
  - Thank your representative for co-sponsoring or ask them to co-sponsor on NARFE’s Legislative Action Center, here.

- NARFE will pursue possible GPO reforms, but not unless they help current beneficiaries.
Questions?